



Corporate Social Responsibility Report 2004

the Year
the Facts
the Future

Principles and Behaviours

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 (no spin)
- 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 procedure 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

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Message from the Chairman and CEO

We have made a public commitment to build trusted relationships with all of our stakeholders – our customers, our people, our shareholders, our regulators, our communities and our suppliers – as part of our corporate social responsibility strategy.

We are at the beginning of a journey that will take some time. In 2003, we began by publishing a Stakeholder Scorecard as part of our Concise Annual Report, and we reported against 30 key performance indicators.

The unauthorised foreign currency options trading losses in January 2004 rocked our stakeholders and released a public backlash against the National and its culture. Our stakeholders asked for greater transparency and accountability, and told us we need to rebuild trust with them.

We had reached a strategic inflection point that was challenging but also brought opportunity for change. Many changes have been made to the Board and senior management. We are also changing our leadership teams, our structures, our culture and our strategies. This is part of our ongoing process to embed key principles of corporate social responsibility throughout the organisation.

Our new Corporate Principles outlined in this report articulate our beliefs and our commitment to the foundations on which we will take the organisation forward. These Principles are also endorsed by the Board. Our Principles were developed by our employees during an extensive dialogue process, and we have all agreed to be personally measured and rewarded in the 2005 performance year on delivering business outcomes according to these Principles – from the branch teller to the CEO. The performance of the Board will also be evaluated according to the Principles.

The Board, management and employees all believe it was totally unacceptable that employees of the National would breach policies and controls. We are deeply committed to changing our culture in line with our new Corporate Principles. You will read in this report how we are elevating the importance of culture and governance as part of our revitalisation and renewal programs. We have already started to

implement a series of actions to enhance our policies and systems.

Customers are central to our universe – we need to do the right thing by them ... and keep doing it! Customer complaints are the most important information we can have – we will not sweep them under the carpet but will take ownership of the customers' problems. You will read how we are responding to their needs. We also know that customers value speed, simplicity and efficient execution of our promises in delivering service to them every day. In early calendar 2005, we will make our commitment to customers in a publicly disclosed Customer Charter and will measure and report our performance against these promises in our 2005 Corporate Social Responsibility (CSR) report.

You will also read in this report about our commitment to broader stakeholder dialogue programs with our communities



This report is a tangible demonstration that we will continue to strengthen our business practices and lift the level of transparency and accountability of the National on issues that are important to our stakeholders.

to ensure that we remain informed and are responding to issues of concern.

This report is based on the Global Reporting Initiative (GRI) framework, the global standard for reporting on issues of concern to stakeholders, and is a tangible demonstration that we will be open, honest, transparent and accountable. It is our first stand-alone report and contains over 50 key performance indicators from our operations in Australia, New Zealand, United Kingdom and Ireland and outlines our management and business response to issues that are important to stakeholders.

The data, representations and commitments made in this report have also been externally verified and audited in Australia, New Zealand, United Kingdom and Ireland. This report establishes the baseline against key performance indicators. In our 2005 report, we will set

targets for some indicators to benchmark our progress in 2006.









We value and expect teamwork across our organisation for the benefit of all stakeholders. Their view of us is the litmus test for measuring the organisation's sustainable success. Our long-term commitment to corporate social responsibility will be the lens through which we will assess our business practices and impacts. It is not a distraction but fundamental to creating long-term shareholder value.

We are committed to getting the basics right: to have 40,000 employees focused on the real task of delivering sustainable value for all of our stakeholders consistent with our Corporate Principles.

Graham Kraehe **Chairman**
John Stewart **CEO**

Scope

This report covers the operations of the Group for the year 1 July 2003 to 30 June 2004 in Australia, New Zealand, United Kingdom and Ireland. Operating business units for this period included:

Financial Services Australia		Financial Services Australia provides personal, business and agribusiness financial solutions for Australia, including cards, payments, leasing and customer service and operations in Australia.
Financial Services Europe	   	Financial Services Europe provides European-based consumer, business and agribusiness banking, together with cards, payments, leasing and customer service and operations. The brands are Clydesdale Bank, Yorkshire Bank, Northern Bank and National Irish Bank.
Financial Services New Zealand (Bank of New Zealand)		Bank of New Zealand provides financial solutions in New Zealand to all market sectors.
Wealth Management		Wealth Management partners with financial advisers to provide quality financial planning services and a range of wealth creation, wealth protection, and private banking, superannuation and retirement solutions. They also provide corporate and institutional customers with outsourced investment, superannuation and employee benefit solutions.
Corporate and Institutional Banking		Corporate and Institutional Banking (CIB) manages the Group's relationships with large corporations, financial institutions, supranational and government bodies. They operate in Australia, New Zealand and Europe. CIB also has operations in the United States of America and Asia and, with the exception of Corporate Community Investment and total loans and acceptances, data from these regions has not been included.
Key Performance Indicators		Key Performance Indicators from the Global Reporting Initiative 2002 guidelines have formed the basis of our reporting framework. We have also reported against indicators from: <ul style="list-style-type: none"> ■ EPI – Environment Performance Indicators for the Finance Industry ■ SPI – Social Performance Indicators for the Finance Sector ■ VfU – Direct environmental indicators All performance data included in this report is for the year 1 July 2003 to 30 June 2004 unless otherwise stated.
New Business Structure		In October 2004, the Group moved from a divisional model to a regional business model. This means that the National is now organised around three regional businesses: Australia, Europe and New Zealand. In addition, Corporate and Institutional Banking is now known as Institutional Markets and Services. The CSR Report in 2005 will reflect this new structure.
Auditors' Exclusions		The National has a small number of operations in Asia and the United States of America. The auditors have not verified these sites, although Group employee numbers include 127 people in New York and 663 in Asia. These sites have not been audited.

CSR Performance Overview

New Corporate Principles and Behaviours to guide our journey

Inside cover

Global Commitment to the OECD Guidelines for Multinational Enterprises

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Surveyed 117,000 customers for satisfaction with relationship manager

Page 8

Surveyed 95,000 customers for satisfaction with branch service

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Investing in our people with more than 900 learning programs

Page 15

Employees in Australia donating sick leave days into a 'Bank' for employees with serious illnesses

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National Australia Group and Global Unions Engagement Strategy, respecting rights of workers to collective bargaining

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Environment Procurement Policy for our suppliers launched 1 October 2004

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Global alignment of Environmental Management System consistent with ISO 14001

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Carbon Disclosure Project – Climate Leadership Index, top 50 for managing carbon and climate change risks

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Various successful community investment programs in United Kingdom and Ireland

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Reduction of 1500t of CO₂-e through green energy in branches in the United Kingdom

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Commitment to international benchmarks for environment and social standards in Project Finance

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Global Reporting Initiative aligned report externally audited in United Kingdom & Ireland, New Zealand and Australia

Pages 3336

Our CSR Governance

As a major financial institution, we take corporate social responsibility (CSR) seriously and are committed to integrating it as a fundamental element into all aspects of our businesses.

We have established processes and systems to ensure that we can be responsive to our shareholders, regulators, customers, employees and communities.

Our CSR strategy is to pursue a balanced approach with all our stakeholders as we build trusted relationships with them. We aspire to ensure that the impact of business decisions on all stakeholders is a factor that is considered from the outset.

In 2004, we have undertaken many community, environment and business initiatives consistent with delivering our CSR strategy.

CSR governance framework

To successfully embed CSR within our organisation, we have established a CSR Global Council that consists of nominees of senior executives and meets every quarter. Its role is to:

- facilitate agreement on the National's CSR strategy and policies;
- set and align Group priorities in regard to implementing the National's Balanced Stakeholder Management strategy;
- discuss key risks affecting the organisation's reputation and management of social and environmental issues and the ways in which these risks may be mitigated;
- be informed of contentious and controversial issues, especially those that will affect the organisation's reputation as a corporate citizen; and
- determine the content and facilitate delivery of the National's Corporate Social Responsibility Report.

The CSR Global Council is responsible to the Group Executive Committee and the Board. In Australia there is a Regional Council, and the Region's Executive Leadership Teams in Europe and New Zealand determine regional CSR priorities and implementation of initiatives.

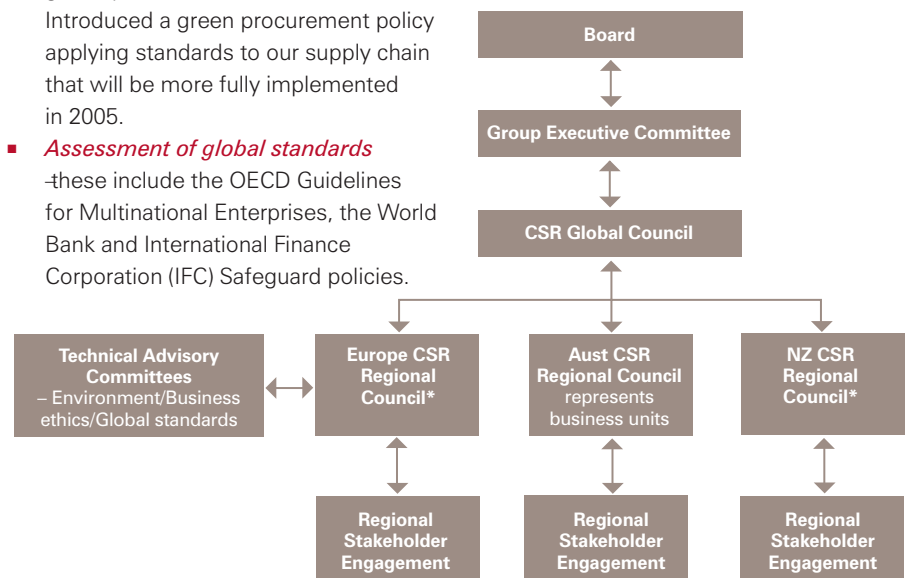
The CSR Global Council has sponsored internal advisory committees on specific issues to develop, implement or review policies and programs, as required. The following committees addressed some high priority issues.

- **Business ethics** -examined existing ethical and values processes and facilitated the development of the behaviours for the Corporate Principles.
- **Environment** -developed, and in the process of embedding, the National's environment management system globally, consistent with ISO 14001. Introduced a green procurement policy applying standards to our supply chain that will be more fully implemented in 2005.
- **Assessment of global standards** -these include the OECD Guidelines for Multinational Enterprises, the World Bank and International Finance Corporation (IFC) Safeguard policies.

Responsible transnational behaviour

As a major global financial institution, we are responsive to emerging standards for corporate conduct. In 2004, we made a public statement of support for the OECD Guidelines for Multinational Enterprises. The OECD Guidelines articulate good corporate practice for companies operating in different jurisdictions and are supported by the governments in each of the countries in which we operate. Our statement can be found on our website. ★

When considering financing proposals, an assessment of country risk is conducted.



* In Europe and New Zealand, the Leadership Teams carry out function of CSR Council.

Anti-money laundering

Our operations are required to comply with laws and regulations directed at preventing money laundering and terrorist financing in all countries in which it operates. These laws and regulations were strengthened after the 11 September 2001 terrorist attacks on the USA, and in some countries (United Kingdom and Hong Kong), the laws have just undergone further amendment. The Australian Government plans to enact new laws during 2005. Our business procedures have been upgraded whenever the laws have changed and will continue to be upgraded where required in each country as the laws and regulations undergo more change.

Managing sensitive issues

Since July 2003, there have been several issues we have responded to where past or current business practice has not met regulatory or community standards. In response, we are working with regulators and other stakeholders to make fundamental changes to our culture, processes and business practices. That process will continue throughout 2005.

Unauthorised foreign currency options trading losses

In January 2004, we discovered unauthorised foreign currency options trading by four traders. This resulted in a loss of \$360 million. This matter was investigated by the National's own internal audit team and external reviews were undertaken by accounting firm PricewaterhouseCoopers and the Australian Prudential Regulation Authority (APRA). The findings of these external reviews and our response to the issues that were raised are available on our website. ★

At all times we sought to keep all stakeholders advised of actions being taken to rectify the issues raised. Our Corporate Principles commit us to continued transparency.

Board

Following the release of the PricewaterhouseCoopers and APRA reports, the Chairman, Graham Kraehe, and the Board committed to fundamental Board renewal. In April 2004, Graham Kraehe announced a program to revitalise the Board and help drive major cultural change within the organisation. The review examined the composition of the Board and resulted in the appointment of non-executive and executive directors with local and international banking, finance, regulatory, governance and broad community expertise. There have also been significant changes to our senior management team.

Details of director appointments and retirements, the independence of directors and the membership and responsibilities of Board committees can be found in the Corporate Governance sections of the 2004 Annual Financial Report and the 2004 Concise Annual Report.

Detailed protocols have also been established to ensure that matters raised by regulators are promptly acknowledged and responded to and that the matters are brought to the attention of the Board and its committees. In December 2004, the Board will participate in an externally facilitated workshop to understand the Corporate Principles.

National Irish Bank

In July 2004, the Irish High Court Inspector's Report into the activities of a subsidiary, National Irish Bank Limited, was released following a six-year investigation that examined allegations first raised in 1998 of improper charging of interest and fees and selling offshore insurance.

Over the last six years, the National Irish Bank has cooperated with inspectors and has introduced processes to prevent a recurrence of these activities. Our full response to this issue and a link to the full High Court Inspector's Report can be found at www.nib.ie

Northern Bank

In August 2003, Northern Bank was fined £.25 million by the UK Financial Services Authority for deficiencies in account-opening procedures. Northern Bank admitted shortcomings in implementing account-opening regulations. No actual instances of money laundering occurred as a result of these shortcomings. Northern Bank has subsequently put in place a program of remedial action and worked cooperatively with the UK Financial Services Authority to ensure compliance.

Political donations

The National's policy is to not make donations to any political party, as we believe that our commitment to a balanced approach to stakeholders can best be fulfilled by supporting the community directly. However, representatives of the National may attend political functions, where the price charged is not in excess of the commercial value to the organisation of attendance at the function. This policy can be viewed on our website ★ and was adhered to during 2004.

Confidential Alert Line

In August 2004, we undertook a review of our Confidential Alert Line, also known as the 'whistleblowers' policy, to ensure that our people can report issues of concern, including unacceptable or undesirable conduct.

This review sought to examine where there were recent changes to legislation and to gain feedback and identify areas for improvement. This is part of our commitment to continual improvement.

Changes to the policy are currently being implemented to take account of legislative differences in the Asian region, to enable the policy to be extended to that region.

Valuing our Customers

Serving customers' financial needs is the primary purpose of any financial services company.

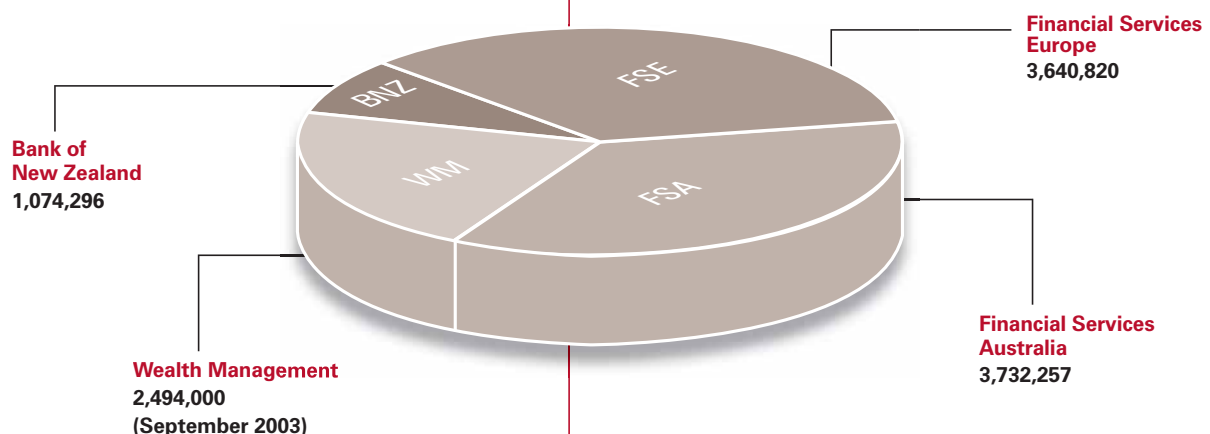
Central to this purpose is the need for us to take responsibility for the way that customers experience our organisation. Through our global businesses we want to treat customers with fairness and respect, recognising that a 'one size fits all' approach does not recognise customers' diverse and complex needs. We need to be consistently listening and responding genuinely to customer feedback.

Customer Numbers: The facts

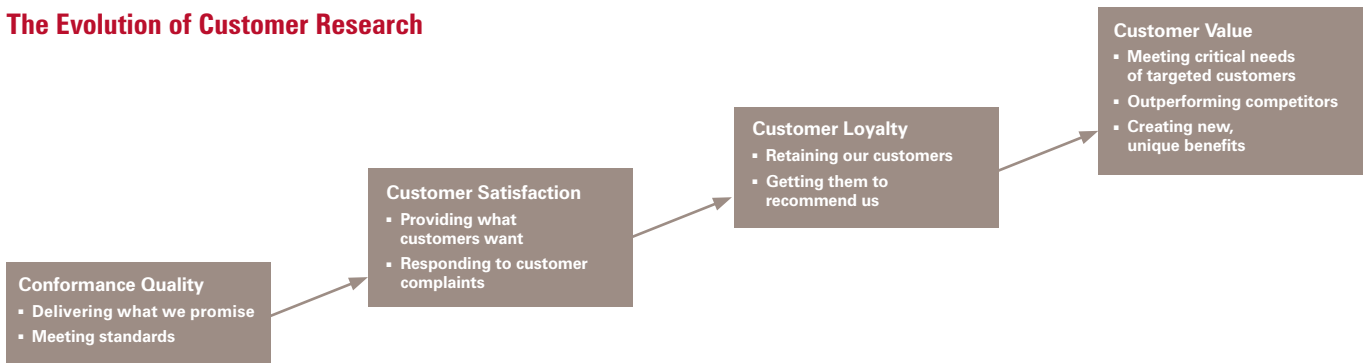
Customer Satisfaction

Each year globally, our retail banking businesses ask approximately 95,000 customers to rate the service they receive from our branches, and approximately 117,000 to rate the service they receive from their relationship manager. These ratings are used by relationship managers and business leaders to drive improvement at individual branch levels, as well as improve relationship management for customer delivery.

It is not enough to understand our performance without reference to industry standards. Therefore, we regularly commission industry satisfaction research by external third parties so that we can understand and analyse our performance relative to our peers.



The Evolution of Customer Research



Source: Dr. Bradley T. Gale, President, Customer Value, Inc.

The two primary sources by which we do this are via monitoring customer satisfaction and customer complaints.

Measuring customer satisfaction has had a long tradition in financial service companies. However, monitoring monthly or annual satisfaction scores is not the full story, as it only partly contributes to our understanding of what is important to customers.

Customer satisfaction surveys focus on understanding how to satisfy existing customers better. This is important, but a satisfied customer is not necessarily a loyal one. We are also seeking to understand why our customers leave us for a competitor's offer. The past year provided challenges for the business in all regions, as we experienced some negative impact on the National's brand and reputation following the unauthorised trading in foreign currency options.

In Australia, our share of home loan lending declined, and there was a decrease in the likelihood of non-National customers choosing the National when selecting a new financial institution. To drive business growth and development, Financial Services Australia focused on improving customer experience.

In both Europe and New Zealand, we are facing challenges of customer attrition in some market segments.

Our ability to engender customer loyalty is enhanced if we know what it is that customers and non-customers value.

Customer value drivers

Our retail banking businesses conduct specialised research designed to determine the key drivers of value for our customers. We then measure the perceived value our customers get from us compared with our competitors.

Insights from this research not only identify our performance relative to the market but also help us focus on the most important drivers for our customers. These results are discussed below.

Our results

In New Zealand, we survey both personal and business banking customers. External research has indicated a five per cent increase in overall customer satisfaction from first quarter calendar 2004 and an overall rating of 63 per cent as at 30 June 2004. This is the highest result in seven years.

In the United Kingdom and Ireland where specialised value-driver research has been used for over 12 months, an

external survey of personal customers indicated an overall satisfaction score that has increased by four per cent in the six months since December 2003.

Action plans for improvement have been developed on the basis of these valuable insights. These include the launch of the 'Managing your Mortgage' program for personal customers and a review of customer calls and communications to ensure customer experience is maximised. Other responses include the launch of an internet term deposit product in Great Britain, various product and service training programs and the in-branch, real time feedback tool 'Scores on the Board' (refer page 26).

In Financial Services Australia, initial results have highlighted strengths as well as key areas on which we should focus our improvement efforts.

Our Wealth Management business will start using this research approach over the next year to monitor both external adviser and consumer drivers of value.

We believe our research delivers us stronger insights into our customers' expectations. Individual results for each of our retail banking brands can be found on pages 22, 26 and 28.

Listening and responding to our customer complaints

Customer feedback is not just about hearing the good news. Building trusted relationships with our customers requires us to take ownership and hold ourselves accountable for our products and services. Analysing and responding to customer complaints is part of building better service outcomes and treating customers with fairness and respect.

In each of our retail businesses, complaints are managed by dedicated complaint service areas and by customers' direct relationship contacts. Customer resolution teams compile monthly reports detailing significant issues and trends that are reviewed and analysed by management teams to inform improvements in service delivery.

Some examples include:

- FSA provides information to customers via statements and the internet to help prevent them from overdrawing accounts and incurring charges;
- In response to customer feedback, Wealth Management in Australia has made monthly deduction information easier in the welcome kits and introductory letters for one of its business superannuation products;
- In response to customer complaints, a special project is currently underway in the UK's corporate banking area to reword Tailored Business Loans' contracts to explain contract break costs more clearly; and
- BNZ is undertaking a review of the process and management of joint account separations, to ensure both parties are treated equitably and individual relationships are maintained.

For more customer complaints details, see pages 22, 24, 26 and 28.

Transparency on customer fees and charges

There have been many studies on the needs of our communities in general to understand the complex concepts and language of managing financial matters, known as financial literacy. Financial literacy has become the catch-cry for many banks globally, as they seek to respond to stakeholder concerns.

We respect and acknowledge that our customers need clarity and transparency on fees and charges to ensure that they are able to make informed choices and decisions on products to meet their financial needs.

Our approach is to ensure that customer information is readily available and presented in a language that is easy to understand.

Various bank codes of conduct and policies exist in regions and require the provision of an explanation of fees and charges and terms and conditions. When customers purchase a product, we take time to explain issues and answer their questions. Furthermore we commit to continue to keep our customers informed of prospective changes to fees and charges at all times.

Some examples include:

- We meet the legal requirements as a minimum across all our businesses; when introducing fee changes, our customers are made aware of these changes via direct mail communications and regular account advices;
- For new customers, our Wealth Management businesses in Australia, New Zealand, United Kingdom and Ireland all advise on fees and up-front commissions via product offer documents. Ongoing charges are either formally agreed between adviser and customers and/or disclosed in any product offer documents before any contract is entered into. This ensures customers

know exactly what they are paying for. Refer to pages 24 and 25 for further details; and

- Institutional and corporate banking clients actively negotiate terms and conditions for all deals and these are outlined clearly in offer letters and contracts.

Enabling customers to take control of their finances requires us to move beyond the legislative baseline. Some examples of this are:

- In Australia, online fee calculators are available on www.national.com.au website so that our customers can better understand the impact of transaction fees. In Australia, Wealth Management also includes a range of educational calculators on www.mlc.com.au to assist customers in understanding their savings and investment goals;
- In Australia and the United Kingdom, retail banking businesses offer Life Event Guides'. These guides are produced by a third party and aim to provide quality information that can help customers plan for their homes, families, career, leisure, finances, retirement and business;
- In the United Kingdom and Ireland, a business analysis and planning toolkit is available to Agribusiness customers free of charge. The toolkit provides: succession planning advice on tape, financial planning software, including balance sheet management, cash flow and profit and loss spreadsheets; and a business strength and weakness analysis.

As we embrace a culture of greater openness and honesty in embedding our new Corporate Principles in 2005, we will deliver a more extensive program to present customer information in a plain and easy to understand language.

Providing for customer diversity

The global spread of our customer base challenges our business models to deliver on customers' specific needs.

Customer diversity

The facts

# of customers globally	10,941,373
# of branches & service centres, globally (September 2004)	2,218
# of ATMs, globally (including non-National-branded ATMs)	3,154
# of salaried financial advisers, globally	740
# of aligned financial advisers, globally (within businesses partly owned by the National)	2,468
# of small business customers, globally	765,701

Financial inclusion

We recognise that not all customers are the same. Some of our customers have low or vulnerable incomes, or are existing on aged, health or unemployment government pensions. We treat these customers fairly and with respect by providing a range of products that are affordable for those sectors of the community.

In Australia, the United Kingdom and Ireland, we have developed a series of products that respond to these communities. These include a range of:

- No or low fee accounts;
- Micro financing for these customers in partnership with community groups;
- Concession card accounts for customers who are receiving specified government benefits.

In the United Kingdom and Ireland, there are 173,125 customers benefiting from no-fee accounts with unlimited transactions through our Cashmaster, Cashmaster Basic and ReadyCash accounts.

In Australia, we have 1,038,902 customers who benefit from accounts with no monthly account keeping fee through our National Concession Card Account and the National Flexi Direct Account. The Concession Card Account rebates customers up to \$40 per month for transactions carried out and can be used for both electronic and branch withdrawals. The Flexi Direct Account rebates customers up to \$6 per month for electronic transactions.

In July 2004 in Australia, we demonstrated our ongoing commitment to these types of accounts by introducing two new low fee accounts that assist customers to manage their banking needs in a more cost effective way. Our Smart Access Account has a \$5 monthly account-keeping fee with unlimited customer transactions. Our Smart Direct Accounts have a monthly account-keeping fee of \$3 and unlimited electronic transactions.

In Australia and New Zealand, we also offer low fee accounts to charitable organisations and registered not-for-profit organisations. In New Zealand, we have 20,311 non-profit organisation accounts. In Australia, we have 31,635 community accounts.

Challenges of locations

Remote and regional areas in Australia, the United Kingdom, Ireland and New Zealand

are serviced by a diverse infrastructure of branches, Automatic Teller Machines (ATMs) and financial advisers. We have committed to making banking and wealth management services accessible for rural and isolated communities and customers with unique needs.

In Australia and New Zealand, selected outlets operate on reduced hours as a means of servicing remote communities, where a full-service operation is not feasible.

Clydesdale Bank and Northern and National Irish Banks operate branches and sub-branches in small, rural communities and, in some locations, are the last bank in town. Clydesdale Bank also operates three mobile bank vans, all based on the islands of Mull, Skye and Shetland. The vans tour these islands and their isolated communities, allowing customers to perform most banking services.

Challenges of locations

The facts

# of Agribusiness customers, globally	169,990
% of branches in rural & regional communities, Australia	53%
# of branches in rural areas in Australia that charge reduced transaction fees (these branches are typically where there is not an ATM within 25km)	182
# of customers who use rural and regional branches with reduced transaction fees in Australia	312,000
Fees forfeited across branches in rural areas that charge reduced transaction fees in Australia (estimated for 1 October 2002 – 30 September 2003)	\$2.4m
# of GiroPost outlets throughout Australia	3,022
# of mobile vans supplying mobile services to remote Scottish islands	3

In Australia, 29 per cent of Wealth Management’s salaried advisers and 30 per cent of aligned advisers are based in regional locations to ensure that our customers have access to financial advice.

Financial Services Australia adopted a policy that where we are the last bank in an Australian rural town, we will not close the branch. This will be reviewed in 2005.

Australia has been affected by long periods of drought, which has impacted on many of our Agribusiness customers. We have therefore responded with a range of solutions and options that include restructuring loans, waiving fees and providing additional finance to help customers through to the next season.

We have invested heavily in developing a team of specialist Agribusiness bankers and farm financial analysis software to help farmers understand the financial performance of their business. This partnership approach that we adopt with customers, in an environment where 10 per cent of Australian farmers leave the land each year, is critical in the early identification of financial difficulties and maximising long-term viability.

In Australia, 29 per cent of Wealth Management’s salaried advisers and 30 per cent of aligned advisers are based in regional locations to ensure that our customers have access to financial advice.

Accessibility – more than location

In recent years, there has been a revolution in financial services technology that has resulted in ATMs and internet banking being used by many of our customers. Unfortunately, this new technology has not been readily available to customers who may be visually impaired or have physical disabilities. We recognise these channels need to be accessible to service those customers with special needs. Our responses are set out in the table below.

Businesses in the United Kingdom have implemented a rolling program of modification to buildings and services in accordance with the Disability Discrimination Act (DDA 1995). By 1 October 2004, this will be 90 per cent

complete and an approved action plan will be in place to address the remainder of the program which continues to be implemented.

The design guidelines for ATM access in the United Kingdom were issued in 2002. These guidelines are voluntary but the standards have been acknowledged under DDA. National Australia Bank Group Europe (NAGE) also made a financial contribution to the Centre for Accessible Environments to assist in the production of the guidelines. Since this time, all new and replacement ATMs have been installed to these guidelines, unless prevented by structural or planning restrictions.

FSA also has a comprehensive disability and discrimination plan available on their website www.national.com.au

Accessibility is more than location

The facts

# of audio-enabled ATMs in Australia 2004	582
% of ATMs allowing wheelchair access in UK & Ireland	31%
% of ATMs allowing wheelchair access in Australia	75%

Supporting our People

We rely on highly skilled and dedicated employees to deliver quality services and products to our 10 million customers globally. We acknowledge our employees are the most important source of future competitive advantage. Internal surveys and external reviews show that employee engagement is low and we need to change our culture to build a strong teamwork and customer focus.

Our new Corporate Principles represent deeply held values that we share, values that will connect our people working in all regions and bring greater meaning and recognition of individual efforts. Our culture in the past had been too closed, too hierarchical and too prone

to filter out bad news.

Shared values are the foundation to building an inclusive and constructive culture. More importantly we need to recognise and reward employees who consistently model these behaviours in the course of their work.

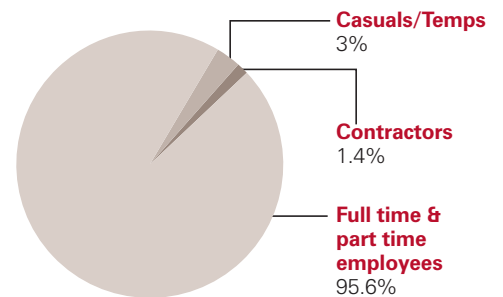
Behaviours and reward

In 2004, the performance of some of our upper level management was assessed, based on the scorecard approach. This approach reflects the four key aspects of our business performance: employees; customers and community;



Workforce Profile[#]

[#] Based on number of Full Time Equivalents (FTEs)



Health and Safety		1 July 2003 – 30 June 2004
The facts		
Lost Time Injury Frequency Rate*, Aust		5.7
Lost Time Injury Frequency Rate*, UK		0.64
Lost Time Injury Frequency Rate*, NZ		1.5
<i>*injuries per 1 million hours worked</i>		
<p>The notable variance in the Lost Time Injury Frequency Rate (LTIFR) between regions, particularly Australia, is in part due to the differing legislative reporting requirements for injuries. Certain injury types are excluded in the United Kingdom as they are not reportable as work related. We have complied with the regional standard in each case. The European business has improved the focus on occupational health and safety management and consequently has seen improved LTIFR results. The Australian result indicates a need for a greater focus and leadership accountability in relation to health and safety performance. This will be the focus of the Australian regional strategy over the coming year.</p>		

Our People		1 July 2003 – 30 June 2004
The facts		
Graduate recruits		224
Staff turnover		15.1%
Maternity Leave (Aust)		1,084
Career break (Aust)		163
Full Time/Part Time transitions (Aust/NZ only)		1,296

financial outcomes and process quality; and capability leverage.

Assessing an individual's performance has two elements – business outcomes and observed behaviours.

In 2005, all management performance plans will have the same format and include performance measures known as a Quality Gate overlay. The Quality Gate overlay ensures behaviours and compliance are measured as part of performance, so that all our policies and procedures are taken seriously. Living the Corporate Principles is also the licence' to work for the organisation. If either behaviour or compliance is rated as

unsatisfactory, the individual will lose any potential variable reward, such as a bonus. In addition, the manager of an individual who fails to comply may also have their performance rating affected. This is supported by a global reward strategy that promotes fair and consistent rewards across the organisation, thereby further embedding the Corporate Principles.

To reward employees fairly, we review fixed remuneration annually against the relevant market for each position not covered by a collective agreement. We also regularly review our incentive plans so that they are competitive with equivalent positions within the broader marketplace.

It is fundamental to equal opportunity that there is no gender bias in reward levels for the same roles. Therefore, all positions are matched according to market data and individual target reward levels are based on skills and experience. Further remuneration increases are based on individual and business performance, taking the market data into consideration.

Employee satisfaction and engagement

In our 2003 Concise Annual Report, we included data from our biennial Employee Opinion Survey (EOS). During the course of 2004, we continued our commitment to employee feedback through Pulse Check Surveys. These surveys go beyond satisfaction to measure the level of engagement of our people. They are conducted twice yearly. Engagement is a tough measure and gauges whether employees are intellectually and emotionally connected to their work and committed to the organisation.

The table below shows the results against the key drivers that most influenced engagement in the March 2003 EOS and the August 2004 Pulse Check. The results shown are averaged across the Group. The regional and global lines of business results varied. Some areas found that their results had

Our Steps to Engagement



Employee Opinion Survey results						
Key drivers for engagement	EOS 2003			Pulse Check 2004		
	Somewhat Agree	Agree & Strongly Agree	Total Agree	Somewhat Agree	Agree & Strongly Agree	Total Agree
Policies: Our processes and procedures help to make this a good place to work	28%	26%	54%	25%	31%	56%
Organisational purpose: I am excited about my part in the future of the organisation	29%	34%	63%	27%	35%	62%
Valuing people: Our organisation's leaders do an excellent job of addressing employee issues	28%	22%	50%	30%	24%	54%
Career opportunities: My future career opportunities here look good	26%	34%	60%	26%	37%	63%
Senior leadership: I see strong evidence of effective leadership from my organisation's top leaders	26%	34%	60%	28%	34%	62%

improved while others had results that were unacceptably low. Action plans are being developed at a Group and regional level to improve overall engagement.

Developing employees professionally and personally

Across the organisation, we recognise the importance of developing our people and generally providing them with the right skills – not just for today, but for the future. Tomorrow’s leaders need to think more strategically, make long-term decisions and, most importantly, think globally. They need to understand not only the business they work in, but also the businesses of others.

We are encouraging employees to speak up and actively share ideas and information across the organisation.

In 2004 we continued to strengthen relationships between managers and their staff by encouraging more open and honest conversations. Activities included: communications, coaching and skill building around the fundamentals of people management: role clarity, objectives, regular feedback, linking performance to pay and realising people’s potential through development.

In addition to this, a range of over 900 learning programs exists. These cover areas such as product knowledge, career planning, computer skills, and leadership and management

development. These are delivered using a blended learning approach, including face-to-face workshops, e-learning and self-paced modular learning. Financial service employees find themselves in an increasingly regulated industry and, as such, we place particular emphasis on compliance training. These regulations exist to protect the rights of customers, including their privacy, and to ensure they are given correct advice in regard to their financial choices. At the National, we see compliance training as essential to the building of trust with our customers and the broader community.

To enable the Group to effectively manage its investment in learning, a global Learning Management System is being implemented across the organisation. The Learning Management System becomes a one-stop-shop for employees to manage their role-specific capability development. In addition to this, it allows for business unit, regional and enterprise-wide management of the learning investment.

It is recognised that our leaders also need to think more strategically and make long-term decisions. Building on the success of leadership programs such as

Executive Coaching, we have launched Leadership Essentials (a program for first time leaders) and a world-class, on-line Masters of Business Leadership, in conjunction with Charles Sturt University. Development is underway for new National Leadership Programs for senior and executive leaders.

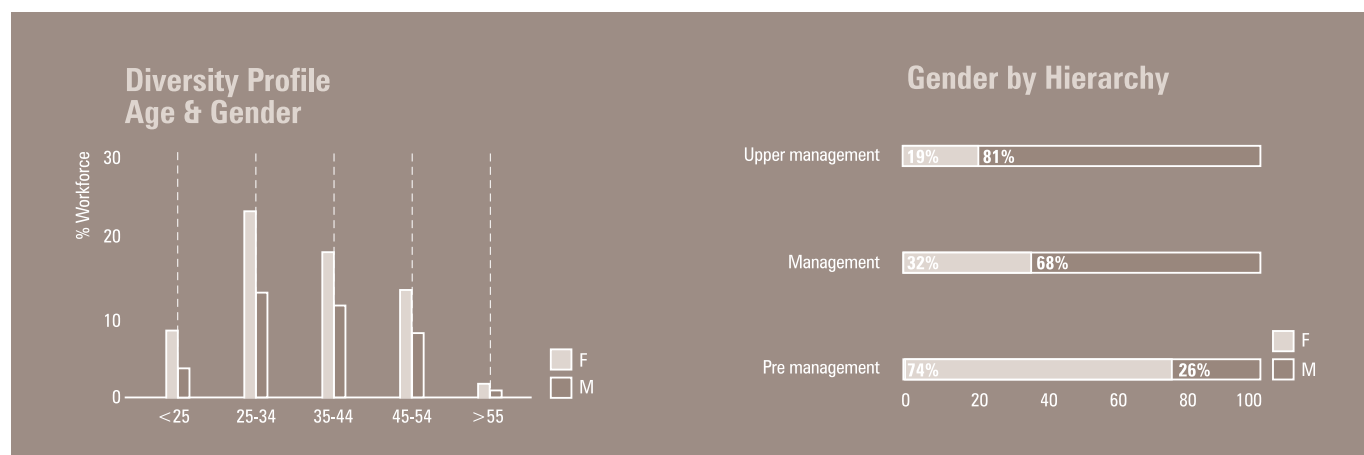
Our Performance Strategy requires that all employees have an individual development plan that they review on a quarterly basis with their immediate manager. Opportunities for professional development and career advancement are based on merit, open to all, dependent on the ability, performance, behaviours and contribution to the organisation’s success.

Diversity

We value a diverse workforce and believe that each employee has a unique contribution to make to the organisation. This reflects our approach to treat people with fairness and respect.

The dominant approach to increasing diversity has been to concentrate efforts on removing structural barriers to the entry and advancement for women and key marginalised groups.

We value a diverse workforce and believe that each employee has a unique contribution to make to the organisation. This reflects our approach to treat people with fairness and respect.



Having the best policies and procedures is only part of the solution to achieving a family-friendly workplace. It involves changing attitudes and behaviours.

Our policies and practices on recruitment and selection of employees in Australia include indigenous employee initiatives and employment for people with disabilities. A number of specialist companies assist us in the recruitment of these groups.

The Indigenous Employment Initiative pilot has provided 26 indigenous people with permanent, temporary, cadet and trainee positions as at June 2004. As part of the National's graduate recruitment program, roles are advertised in specific media read by members of the indigenous community and our employment activity is supported by workforce expertise aligned to business and community needs.

Disability Works Australia (DWA) assists the National with the attraction, selection and retention of employees with a disability, including graduate recruitment. As at June 2004, we had provided permanent, temporary and work experience to 45 people with disabilities, with the assistance of DWA. To ensure that we respect the privacy of employees, we are unable to accurately determine the number of people employed with disabilities outside of the DWA program.

We have also set targets for women in senior roles and introduced flexible work practices that are available to all employees.

Family friendly workplace

To demonstrate our commitment to family-friendly work practices and support the attraction and retention of a high performing talent base, we would like to improve our return-to-work statistics following parental leave and assist employees with their parental responsibilities. We recognise that some of the benefits of these programs are

increased employee loyalty and enhanced employee engagement.

Child care

Since 2000, many Wealth Management employees in Australia have benefited from a child care facility located on the campus MLC site. Forty children have been cared for over the last year and the centre has a waiting list. We recognise that there is a growing need to extend the availability to all employees.

To address this growing demand, we embarked on a project to investigate the provision of high quality, commercially competitive and convenient work-based child care. It involved a survey of employees to determine the needs and requirements for child care centres within the National in Australia. The findings have provided us with a clear framework to progress forward.

Having the best policies and procedures is important to achieving a family-friendly workplace. We recognise that it is only part of the solution and we are paying attention to it as part of our broader cultural change agenda. Accordingly, it is embedded in our Corporate Principles.

Flexible work practices

In Australia, we committed to trial 'Pay Averaging' within agreed locations of financial services in Australia.

'Pay Averaging' allows employees up to four weeks' unpaid leave in addition to their standard four weeks' annual leave in one year. In order to accommodate this additional leave, pay is averaged over the year to ensure that they receive a consistent salary throughout the year.

Already in place within Wealth Management in Australia, is a trial in the FSA Technology area which began in April 2004 and will finish in March 2005. Fifty applications were approved as at 30 June 2004. At the end of the Technology pilot, a review will be conducted to assess the success of the scheme in offering viable work-life balance outcomes for employees.

Working longer hours in a sensible manner – 12 hour shift

This year we entered into a 12 hour shift environment at one of our four data processing centres in Australia. This enables greater flexibility in terms of work structure, as well as providing employees with more leave to compensate for the additional hours worked on any single day. The majority of employees at the site voted in favour of the change in work arrangements and the Australian Industrial Relations Commission commended the parties for their handling of this change.

Staff Resilience Workshops

Corporate & Institutional Banking in Australia ran a series of workshops to assist employees dealing with stress and to improve their health and quality of life to enable them to reach their full potential. Topics included Health Awareness, Stress Mastery and Integrated Practices. We are implementing a plan around resilience issues for the division for the next 12 months.

Health, safety and well-being

We actively promote the health and well-being of our employees. In June 2004, we held a Group-wide Occupational Health and Safety (OH&S) strategy workshop. The outcome of the workshop was agreement on the design and development of a consistent and standard

framework for health, safety and well-being, applicable across the Group. The framework aims to achieve high levels of health and safety management performance and leadership. It is proposed that 10 key health and safety principles underpin the strategic framework and these may be customised to suit regional differences in legislative requirements and operational conditions.

The 10 health and safety principles support the following three main aims:

1. The development of a culture where the health, safety and well-being of our employees is a fundamental right that will be achieved by adopting a systematic approach to occupational health.
2. Running a measurable OH&S management system that is accessible, relevant, understood and integrated as normal business practice.
3. Focusing on prevention, wellness and partnering with employees to promote health and well-being, believing that injuries are preventable.

Sick Leave Bank

Sometimes employees or their families are impacted by serious or critical illness that requires them to take extended absences beyond their normal sick leave allowance. A staff member suggested that healthy employees should be able to donate any excess sick leave to those in need rather than accumulating them. This has now been implemented in Australia and employees can donate up to two sick leave days each year to those in greater need. To date, 2,800 days have been donated and 1,255 days have been allocated to employees battling life-threatening illness and injury.

“The practice adopted by the National in respecting fundamental rights of employees to belong to a trade union and to bargain collectively accords with international best practice.”

Paul Schroder **National Secretary, Finance Sector Union**

Our employees’ fundamental rights

In 2004, our workplace relations practices remained strong and we continued to give our people a voice through union representation. The National hosted a global conference of its financial services unions – the first of its kind. In attendance were the Irish Bank Officials Association (IBOA), AMICUS UNIFI from the United Kingdom, Finance Sector Union (FSU) from Australia and Finsec from New Zealand.

The outcome of this conference is a set of principles – ‘National Australia Group and Global Unions Engagement Strategy’. We are the first and only financial institution globally to have signed agreed principles with our unions. The parties have committed to an annual meeting involving senior representatives of union members and the Group to strengthen dialogue between the parties at a global level. This meeting will be supported by the Group and will achieve:

- A shared understanding of the Group’s vision and strategies and how this impacts on the ‘people strategy’.
- A shared understanding of union members’ priorities and issues of importance to our people.
- Enhanced outcomes for all stakeholders.

The full statement is available on our group website. ✨

These highlight the strength of our union relationships and the commitment by all parties to constructive and consultative processes.

In Australia, approximately 43 per cent# of employees are members of the FSU, approximately 30 per cent# of BNZ employees are members of Finsec and in Europe 50–60 per cent* are members of IBOA and AMICUS UNIFI.

In all regions, consultative forums are in place to provide the opportunity for issues or concerns to be resolved quickly and fairly. Policies and procedures have been developed to provide employees and their representatives with the opportunity to engage in meaningful consultation when there are changes in the organisation’s operations, particularly where it impacts on them directly. Entitlements and consultation mechanisms are clearly documented in the National’s collective agreements with the unions.

In Australia, the National has experienced no lost time due to industrial action during the reporting period. Employees who are not covered by enterprise agreements are equally respected and the same opportunities for assistance and communication are delivered through embedded management processes.

The future of the National relies on cultural change and living the Corporate Principles in everything that we do. In this way, we believe we will create the organisation we all wish to work for, that truly delivers the best service to our customers.

Based on direct salary reductions
* Based on information provided by the unions

Our Environmental Responsibility

As a global financial institution, we consider the direct and indirect environmental impacts of our decisions. Our broader community stakeholders in particular want us to listen to their concerns and act responsibly.

Managing our direct impacts

In 2004 we began the process of aligning our Environmental Management System globally. This work was guided by an Environmental Technical Advisory Committee that specifically focused on achieving comparable management programs, whether in Australia, United Kingdom and Ireland or New Zealand.

Some of the achievements this year have included:

- Alignment globally under a single environmental management system consistent with ISO 14001;
- Environment Procurement Policy and Procedures as an integral part of assessment of the capability of suppliers of goods and services to our businesses globally (launched 1 October 2004 in New Zealand and Europe). It was operational in Australia for new suppliers in September 2004 and will be rolled out in New Zealand and Europe in 2005. The policies will be progressively introduced for existing suppliers on contract renewal;
- Working with property managers globally to develop management systems that would ensure

credible data for assessment of our environmental footprint;

- Quarterly reports and management reviews.

In this first year, we were unable to accurately measure our waste stream. For example, in Australia for 2004,

we were only able to report general waste for 47 per cent of sites. In some regions, data have been extrapolated to give an annual figure. Extrapolations have been audited for reasonableness. Improved collection systems have ensured more accurate recording of data for this period.

Environment Resource Use

	Australia	UK & Ireland	New Zealand
Energy (mWh)	207,184	110,387	22,789
mWh/FTE	9.28	8.27	5.23
Water (m ³)	702,359	153,063	n.a
m ³ /FTE	31.47	11.47	n.a
Copy paper (t)	1,309	654	238
Sheets/FTE	11,734	9,824	10,916
Recycled paper (t)	1,189	2,030	553
General Waste (t)	5,889	2,827	n.a

CO₂ emissions

	Australia	UK & Ireland	New Zealand
Energy			
tCO ₂ -e	248,073	27,256	9,799
tCO ₂ -e/m ²	0.35	0.08	0.07
tCO ₂ -e/FTE	11.11	2.04	2.25
Vehicles			
No. 'tool of trade' vehicles	799	290	n.a
tCO ₂ -e/vehicle	6.94	8.03	n.a

Differences in environment data may exist for the following reasons:

Building efficiency levels may differ; Energy consumption differs according to climate;

Country conversion rates for tCO₂-e varies according to type of energy mix. e.g. coal/hydro/wind.

*n.a = not available; t = tonnes; FTE = Full Time Employee; tCO₂-e = tonnes of CO₂ equivalents.

National @ Docklands – more than words

National @ Docklands is our new flagship building. It is designed as a tangible demonstration of our commitment to our employees on social and environment issues.

Sustainability as a key design theme

The building has been designed to achieve a four-star energy rating, under the Australian Building Greenhouse Rating Scheme, which will be verified in 2005. With a four-star building energy rating, National @ Docklands features a number of innovative, sustainable design features that are unique to the building. Mixed mode ventilation is a key sustainability initiative, where outside air replaces ventilated air in parts of the building.

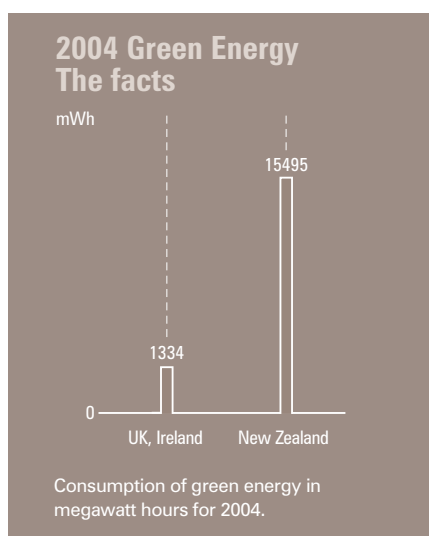
Sunlight is able to penetrate the building through a saw-tooth roof, reducing the reliance on conventional lighting. Traditionally a key area of energy consumption, the building lighting has been specifically designed to almost halve the lighting load compared to similar size buildings. The use of flat panel technology instead of Cathode Ray Tube (CRT) monitors also greatly reduces energy consumption.

We are implementing water sensitive urban design principles to capture, treat and reuse stormwater via bio-retention cells, which will provide for 'Docklands Parks' irrigation needs.

Indirect environmental impacts

Since 1992, the National has had comprehensive environmental risk assessment policies and processes that assess environmental impacts as a relevant consideration for business lending purposes. The current assessment includes:

- Requirement for expert third party reports and EIS;



- Inclusion of performance covenants in lending contracts with annual reviews;
- The mandatory notification of breaches against environment licence conditions;
- Specific acknowledgment of community concerns and values, as an assessment criteria.

In 2004, the National benchmarked its environmental credit risk policies against the World Bank and International Finance Corporations (IFC) Safeguard policies. The full story on our management of indirect impacts can be found on pages 30 and 31 of this report.

Carbon Disclosure Project

This year we participated in the Carbon Disclosure Project, a global assessment by 85 institutional investors on the extent to which the *Financial Times* (FT) 500 most valuable companies are taking carbon risk and climate change risk into consideration as part of their core business. Within our Group, responsibility has been allocated for management of climate change related issues for both direct and indirect impacts of our business. We were included in the 'Climate Leadership Index' by being in the top 50 companies globally in managing climate change risks. The Carbon Disclosure report can be found at www.cdproject.net

United National Environment Statement for Financial Institutions (UNEP FI)

In 2002, we become signatories to the UNEP FI, a collaboration between the United Nations and 240 financial institutions globally working together for improved outcomes through lending and investment. We have seriously pursued that commitment globally and it has been more than a 'tick the box' exercise.

As a member of the UNEP FI/Global Reporting Initiative (GRI) working group, we are working to develop the environment indicators for the Environmental Finance Sector Supplement to the GRI guidelines. The standard has been developed through an international multi-stakeholder process, including a range of environmental groups. The supplement includes the development of key performance indicators for direct and indirect impacts, including lending and asset management. The National, with other Australian financial companies, has hosted a series of non-government organisations and business feedback days on the draft standard to ensure that the key performance indicators are meaningful. This draft standard can be found at www.unepfi.net

As part of the UNEP FI global outreach program coordinated by the Victorian Environment Protection Authority (EPA) in Australia, we actively participate in the Risk Committee and the Operational Performance and Reporting Committee.

In 2004, we became members of a global working group, which consists of seven international banks that are working together to develop the global best practice management toolkit for measuring and reporting direct impacts of finance institutions. This benchmark standard is called VfU and is currently open for comment and can be found at www.epifinance.com

Stakeholder Dialogue

Building trusted relationships with our stakeholders, actively listening and responding appropriately to their needs, are all fundamental to ensuring our business practices and presence in local communities remain relevant.

Multi-stakeholder dialogue – globally

We are organisational stakeholders of the Global Reporting Initiative – a UN-sponsored program based in Amsterdam. As members, we participate in many forums to develop guidelines for stakeholder dialogue and reporting frameworks on environmental, social and economic impacts for companies.

Dialogue with stakeholder groups is an important mechanism to build social capacity and sustainable solutions to community issues and also enables stakeholders to gain insights into our business thinking and processes.

External Stakeholder Forum

For the last four years, National’s Australian businesses have facilitated an External Stakeholder Forum. The External Stakeholder Forum has representatives from prominent environment, community service and consumer groups, and indigenous and rural communities. Since 1998 Tim Costello, CEO of World Vision Australia, has been the Chair.

The Forum has influenced the establishment of programs and facilities that seek to address financial services for low or vulnerable income members of the community. Products such as ‘Step Up’, the micro credit initiative and accounts for people receiving certain government benefits, are examples that the Forum is delivering tangible outcomes.

Green Capital

As a sponsor, we support the Total Environment Centre Green Capital Programs in Australia. The program aims to stimulate debate and raise awareness in Australia between environmental groups, community groups and business on environmental consequences of business operations and legislation. This year the topics for discussion have included the environmental footprints of corporations, pricing and market signals on carbon emissions and community expectations on transparency and accountability through triple bottom line reporting.

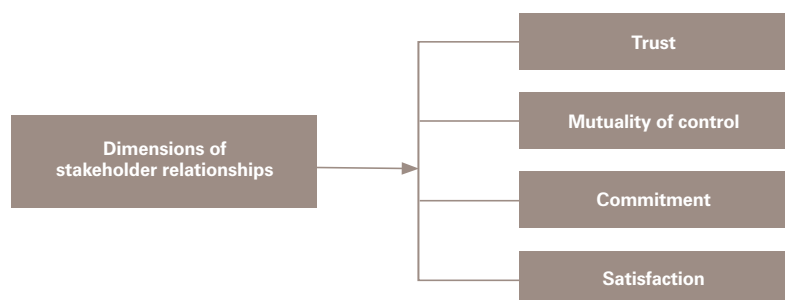
Quality of relationships

In 2004, we undertook external independent research in Australia to gauge the views of stakeholders who included media, opinion leaders, community groups, government and regulators. The aim of this research was to receive an external verification of the quality of our relationship with our external stakeholders.

The methodology used assessed the quality of the relationship and looked beyond satisfaction to also include elements of trust (integrity, dependability and competence), mutuality of control and commitment to relationships. The results demonstrate that our Australian stakeholders have understood that we are actively seeking to repair recent damage and focus on establishing a better quality of relationship with them. The results have given us key insights and will be used to improve our stakeholder programs in 2005.

Benchmark comparisons

We actively pursue a range of ways to communicate with our stakeholders to ensure we keep abreast of emerging community views and are able to respond to them in our business practices. Each year we participate in surveys that assess our performance against other global and Australian companies. These include the Dow Jones Group Sustainability Index globally and RepuTex® in Australia.



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Community Involvement

Across our businesses globally, our employees are passionate about being part of the community. It is something that we support without hesitation. Now and in the future it will keep us connected.

Community involvement

Generating profits brings with it responsibilities to our communities and other stakeholders. The National has had a long-standing and established commitment to creating and delivering value to our communities.

Active community engagement, not just through charitable donations, assists us in building strong communities. It is also a unique opportunity for both our people and the community to work in partnership and collaborate in finding solutions for many social issues.

Financial literacy and financial and social inclusion are two major platforms that have particular relevance for us as a financial institution. Many of our programs are helping to build social capital and empower local communities.

There is a wide spectrum of programs and activities that we support through donations, developing community partnerships, facilitating fundraising

appeals, enabling employees to donate to charities via direct salary deductions, paid and unpaid volunteering, forgoing interest, supporting not-for-profit organisations and cause-related marketing and sponsorships.

The chart below shows the breakdown of our 2004 Corporate Community Investment (CCI).

Volunteering

Our 40,000 employees globally interact with a diverse range of customers across different communities. We encourage our people to volunteer for a variety of programs. In Australia, this includes an entitlement for every employee to two days volunteer leave. The variety and breadth of programs are profiled in the following pages. Other key initiatives include:

Public Interest Legal Clearing House (PILCH)

Group Legal and Wealth Management in Australia support the Public Interest Legal Clearing House (PILCH), a community-

based organisation that facilitates pro-bono legal services to people who may be socially or economically marginalised, as well as a range of not-for-profit organisations.

A particular initiative supported by Group Legal in Australia is the Homeless Persons' Legal Clinic Project, which involves providing free legal assistance and advocacy by firms and companies to the homeless or those at risk of becoming homeless in Melbourne. Lawyers also provide a range of services for not-for-profit organisations who approach PILCH.

Ovarian Cancer Research Foundation

In Australia, we support the Foundation's work in the identification and early detection of the disease by encouraging staff to sell silver ribbons, in addition to providing cash donations. For further details of our community involvement, refer to our community booklet on www.national.com.au

Kiwi Recovery Trust

Refer to page 29 to read about Bank of New Zealand's support in saving the plight of the kiwi.

Garvan Institute of Medical Research

Refer to page 25 to learn about Wealth Management's association with the Garvan Institute.

Money Talks

Refer to page 27 for Northern Bank's financial literacy program, in addition to other initiatives for FSE.

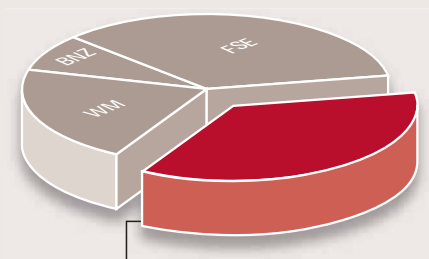
Corporate Community Investment (CCI) 2004

	\$
Charitable gifts	1.4m
– Intermittent support to charities that is not linked to the Group's community or commercial strategies	
Community investment	2.6m
– Long-term strategic investment in community partnerships to address specific issues.	
Includes fees foregone on accounts for not-for-profit organisations	
Eco projects	0.8m
– Support for bio-diversity (including green commercial)	
Commercial initiatives in the community	3.3m
– Activities in the community to directly support the success of the Group	
In-kind/Volunteering	2.4m
Management costs	1.5m
– Costs incurred in developing and sustaining CCI initiatives	
Total	\$12m

*Data from BNZ is from 1 August 2003 to 30 September 2004

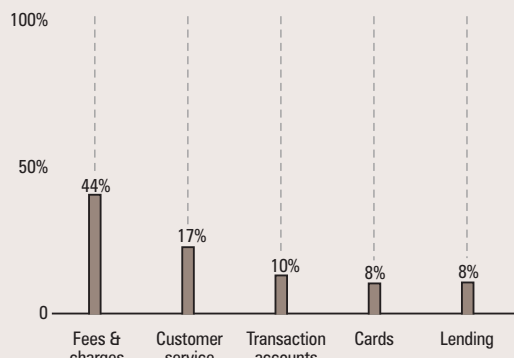
Financial Services Australia

We operate in nearly 1,000 Australian communities. We believe the key to our success and future in these communities is through building trusted relationships with all our stakeholders. That means understanding the issues, responding to them genuinely and empowering our people to make a difference.



Financial Services Australia
3,732,257 customers

Top 5 complaint themes



- Average of 4,031 complaints received per month.
- 92% of complaints are resolved within five working days.
- Average of 58 complaints received from Banking & Financial Services Ombudsman per month.

This data is from February 2004 until July 2004 (as a new system was introduced in February 2004).

Customer research

	What our customers value	Strengths	Weaknesses
Personal customers	Avoid hassles & associated costs	Everyday banking	Fees & charges
Business customers	Overall relationship	Everyday banking	Fees & charges

Improving complaints management over the last 12 months

Staff who receive customer feedback or queries immediately record these as a 'Service Request' into a central complaints system (Siebel) so that this information can be recorded on the customer's file.

Our aims are to:

- identify systemic analysis and resolution opportunities;

- assist in an holistic view of the customer while reviewing their complaint;
- improve the resolution process where more than customer account or transactions are involved.

Responsible lending

To ensure we provide credit facilities to customers responsibly, we need to be certain that they have the ability to repay their loans. Customers who apply for credit cards and personal loans have to meet strict approval criteria, which includes income, statement of position and capacity to repay.

Our people

All staff are provided with two days paid leave to undertake voluntary activities in order to support local needs. During the year 4,416 volunteer days were used by staff. Staff undertook activities such as planting trees in areas of environmental significance, preparing Christmas hampers for the disadvantaged and one-on-one computer based training for community workers.

Financial inclusion

Community

In Australian society, without a bank account it is difficult to secure employment or accommodation. Financial Services Australia (FSA) is beginning to understand its role and responsibility in ensuring that financial services are accessible for all parts of the community. We share our learning experiences with not-for-profit organisations who support disadvantaged Australians.

In 2003 and 2004, FSA sponsored the national No Interest Loans Scheme NILS® Forum. NILS® is a micro-credit network run by community organisations. Micro-credit refers to small amounts of credit for people on low incomes. Individuals unable to access mainstream credit are able to secure a loan for up to \$800 for the purchase of white goods, interest free.

One of the key issues raised at the 2003 NILS® Forum was the need for products that bridged NILS® and mainstream credit. In response to this

need, the National, together with Good Shepherd Youth and Family Services Inc, has developed Step UP loans. Step UP loans are similar to commercial personal loans but are designed for individuals who do not typically meet bank criteria for credit. Customers are charged reduced interest at approximately 50 per cent of the normal interest rate on personal loans and are mentored throughout the life of the loan by a micro-credit worker. The loan allows individuals to develop a credit history and thus an opportunity to enter mainstream banking. Step UP loans are being piloted for two years at five locations, in Collingwood (Vic), Hastings (Vic), St Albans (Vic), Winmalee (NSW) and Bathurst (NSW).



Rural and Regional Customers

Approximately 53 per cent of the National's network of branches and outlets service customers in rural and regional Australia. Initiatives undertaken include:

- Recognising that financial services need to take into consideration the impact of such things as the recent drought. Where possible, Agribusiness bankers have offered customers a range of options, including restructuring loans, waiving fees and additional finance to help customers get through to the next season.
- Our credit ratings for farmers are based on an approach that looks through the peaks and troughs of commodity prices and seasonal conditions to identify the farm's sustainable performance. This has reinforced a long-term perspective in supporting farmers and ensures the risk margins on loan interest rates and access to credit remain unchanged.
- We are researching and testing the use of weather derivatives by farmers so that they can better manage the impact of droughts and adverse seasonal conditions.

- We offer reduced transaction fees at 182 "designated rural branches" (typically where there is no National ATM within 25km of the branch). Over the counter transactions are priced at the same cost as ATM transactions. This is also the case for business deposits where an Express Business Deposit facility does not exist. This service benefits customers by around \$2.4 million each year. More than 300,000 customers transact at designated rural branches each year.
- We committed to maintain all rural and remote outlets where we have only one outlet in the area until at least 2005.
- We have increased the number of transaction points. Since 2002 the National has introduced giroPost transactional banking services in conjunction with Australia Post. Customers in rural and regional areas now have 1,336 additional locations that provide access to National transactional services.
- We represented the rural interests in the debate around government reforms to water allocation.

Environment

Staff are able to self-nominate as Environment Champions. These are people who are passionate about the environment and seek to make a difference in the workplace by taking responsibility and advocating improvements in the workplace.

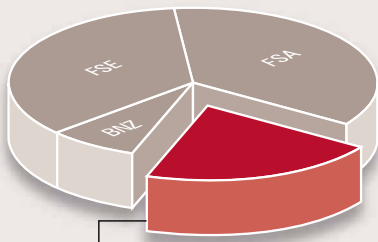
Achievements include:

- A reduction in the paper distribution of *The Star*, the internal staff magazine, from 22,000 copies to 11,500 copies – by seeking staff feedback.
- Reduction in the water used in cleaning the exterior of the Brisbane office through revising property management procedures.



Wealth Management

Our support for, and commitment to, our communities is part of Wealth Management's investment in the future. By promoting innovation and personal growth in our people and continually raising the bar in delivery of quality financial advice and products, we aim to assist as many people as possible in achieving their financial and lifestyle goals, and provide a sustainable benefit to our communities.



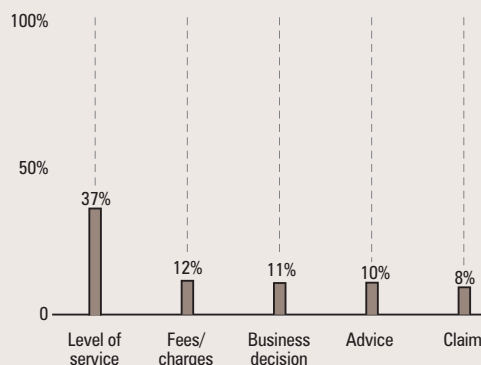
Wealth Management
2,494,000 customers
(September 2003)

Fees and charges

Wealth Management in Australia has adopted a transparent approach to disclosure of the three key fee components – administration fees, fund manager fees and advice fees. A prospective investor in either of MLC's MasterKey investment platforms can see these components clearly set out in the product disclosure statements so that they are able to make an informed decision about their choice of investment product.

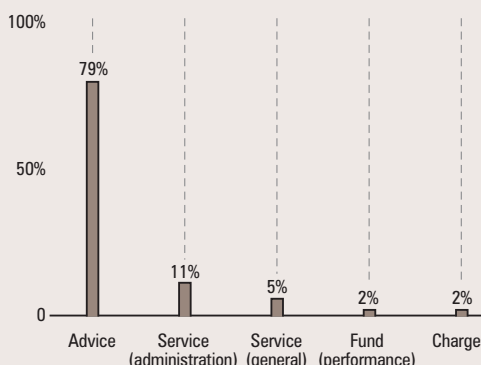
All third party fund manager payments and rebates received on MLC MasterKey platforms are passed directly to the customer in the form of a reduction in fees. Product disclosure statements are made available to all Wealth Management customers from their financial planner and via our websites. During the past few years, Wealth Management has progressively removed remuneration practices for financial planners that could be perceived as influencing financial advice. Wealth Management has made the decision to remove several preferential remuneration payments for use of in-house platforms from all of our advice businesses, where they may have influenced the advice provided to individual clients.

Wealth Management Australia Top 5 complaint themes



- Average of 482 (includes non-regulated complaints) complaints globally received per month.
- Wealth Management endeavours to exceed industry requirements whenever possible. Over the past 12 months we have met or exceeded the timeframes in 82% of cases. Our objective in 2005 is to improve on this result through the implementation of enhanced controls and monitoring of our service standards, ensuring our complaint handling teams are appropriately resourced and providing the assistance and training that our complaints handling personnel require.

Wealth Management Europe Top 5 complaint themes



- Over the last 12 months, complaints against the UK financial services industry have increased. This is due, in part, to customers complaining about the endowment policy they were advised to buy to repay their mortgage and it not being on target to repay the loan at the end of its term. Any potential shortfall can usually be attributed to the poor stock market performance in recent years. There has also been a substantial increase in third party complaints-handling firms assisting clients concerning the sale of these policies, such that they are now involved in around 20% of all industry cases.
- In WME, 86 of the total 2,013 reportable complaints were referred to the UK Ombudsman.
- 15% of complaints were resolved within 4 weeks

Proxy voting in Australia

In Australia, Wealth Management represents unitholders and policyholders in matters of corporate governance through the proxy voting process. This process is designed to protect and enhance the investment value of our funds' assets, recognising the strong link between good governance and investment value.

Wealth Management's policy in Australia is to vote all proxies in equity funds managed by our Australian equity managers. Wealth Management assesses every resolution for every Australian company that we hold as investments. Resolutions considered contentious are then referred to the Proxy Voting Committee (PVC) for consideration on the exercise of the vote. This represents a serious commitment to encouraging Australian companies to be accountable for their actions and uphold good corporate governance.

In accordance with an Australian Securities and Investments Commission exemption, Wealth Management does not exercise its voting rights on shares it holds in the National.

Our people

In Australia, a new integrated advice platform, AdviserCentral, was launched in early calendar 2004 and Wealth Management will soon undertake consumer research to test the quality of processes and materials customers receive through the AdviserCentral platform. Advisers are now able to spend more time with their customers to enhance their understanding of how the financial advice process can help them achieve their lifestyle goals.

Wealth Management is committed to the delivery of quality financial advice, to enhance our advisers' businesses. Initiatives include recruitment and induction of new salaried advisers and provision of training programs to advisers through Wealth Management's ThreeSixty business unit. In addition, a quality advice accreditation program has been established for our advisers.

All new advisers are required to submit their written advice to the ThreeSixty Paraplanning unit for vetting, prior to presentation to customers, ensuring that the correct processes and fundamental issues are covered from the beginning of the customer relationship. Other initiatives include the *Know Your Adviser Program*, a program for Practice Development Managers to review the advisers' advice processes and identify and resolve any risks; and *Annual Audits* conducted by our Business Review Group of all self employed, aligned and salaried advisers.

Community

In the last 12 months, more than 1,500 Wealth Management employees from around the world took a day away from normal business to volunteer their time, skills and services across a range of team-based local community activities.

Community Day – Global Snapshot

- More than 900 Australian employees invested almost 6,000 hours in volunteer activities for local community groups.
- Across the UK, more than 400 people took part in 25 community events.
- In Hong Kong, 130 employees visited 100 disadvantaged children from the

Hong Kong Society for the Protection of Children.

- Around 150 employees in Indonesia visited the SLB Tri Asih school for children with disabilities.

Wealth Management's People and Community Trust (PACT) is a global employee-elected team sponsoring programs and initiatives that focus on engagement with local communities. PACT has been supporting Wealth Management's community volunteering efforts since its inception. It has approximately \$12 million invested in a 'trust' designed to fund Wealth Management employees' community involvement into the future.

Workplace Giving

In early calendar 2004, Wealth Management introduced its Workplace Giving Program. This enables employees to donate directly to their preferred charitable organisation via their fortnightly salary.

Wealth Management currently matches all employee donations given under its Workplace Giving Program.

Garvan Institute of Medical Research

The National has had a 10-year association with the Garvan Institute of Medical Research. In 2004, Wealth Management renewed the association with the Garvan Institute, with a pledge of a further \$1 million over five years. We are also exploring further opportunities for our two organisations to come together in activities of mutual value to our people including business networking and knowledge sharing.



Socially Responsible Investment (SRI)

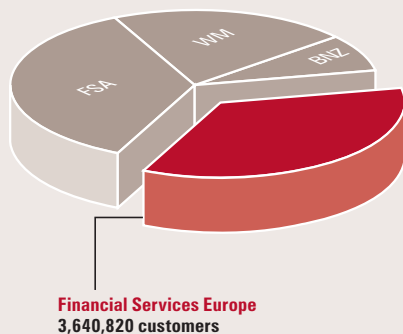
SRI Funds, Australia	\$51m
New Zealand funds with SRI content	\$163m
Total SRI funds/Funds with SRI content	\$214m
Superannuation Funds, globally	\$26,655m
Funds under administration (including Funds under Management)	\$74,033m

Our customers are increasingly investing their money in a sustainable future – not just their own future, but in the future of their community and the environment.

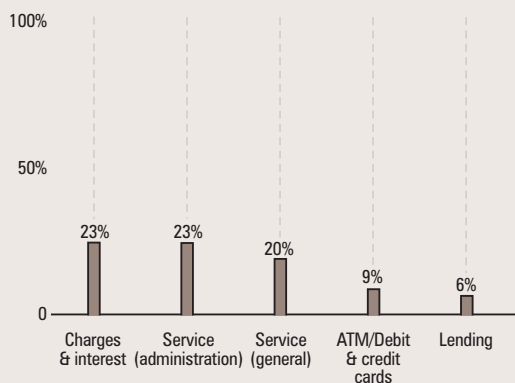
In Australia, Wealth Management offers seven ethical or SRI products via its MasterKey and MasterKey Custom platforms in Australia. Wealth Management in New Zealand offers two funds with SRI content.

Financial Services Europe

We are committed to embedding corporate social responsibility within our day-to-day operations across the UK and Ireland. During 2004, key initiatives included an innovative customer feedback program and award-winning community programs.



Top 5 complaint themes



Total percentages reflect Financial Services Authority reportable complaints with Clydesdale, Yorkshire and Northern Bank and all complaints for National Irish Bank, which are not governed by the Financial Services Authority.

- In the UK, 5,784 reportable complaints were received by Clydesdale, Northern and Yorkshire Banks. 90% of these were resolved within four weeks. (Reportable complaints are defined by the regulator as meeting pre-defined criteria including being resolved outside a 24 hour period.)
- In Southern Ireland (where reportable complaints are not defined by the regulator) there were 806 total complaints received by National Irish Bank.
- In the UK, the Ombudsman (Financial Ombudsman Service) only receives a customer complaint after the financial institution has had an opportunity to investigate it. Complaints resulting in no resolution after either full investigation or after 56 days may, at the customer's request, be referred to the Ombudsman for further investigation. In 2004, FSE had 240 banking complaints referred to the UK Ombudsman and seven referred to the Irish Ombudsman.

Customer research

	What our customers value	Strengths	Weaknesses
Yorkshire Bank Personal customers	Image & reputation	Relationship team interaction	Branch performance
Yorkshire Bank Business customers	Minimise other costs	Relationship manager performance	Branch performance
Clydesdale Bank Personal customers	Minimise other costs	Relationship team interaction	Fees & charges
Clydesdale Bank Business customers	Reputation & relationship	Relationship team interaction	Branch performance
Northern & National Irish Banks Personal customers	Other costs & benefits	Relationship manager performance	Fees & charges
Northern & National Irish Banks Business customers	Minimise other costs	Relationship manager performance	Overall costs & benefits

Enabling our people to act on customer feedback

In Great Britain, the Group has successfully rolled out an innovative Customer Feedback mechanism in all branches. This is known as 'Scores on the Board'. Each week, branches set a vision and goals for a perfect customer experience. The team then works to identify and develop action plans to close any performance gaps. During the week, customers are randomly questioned on how the branch is performing against its goals, and asked to respond on a scale from poor through to excellent.

To date, an average of 17,000 customers per week are providing feedback in Great Britain branches.

Recent feedback from employees within two of our Glasgow areas, illustrates the positive effect they believe this initiative is having:

- "It makes sure that we are always on our toes and give the customer top service."
- "Customers like it and it gives quick feedback to staff."

Our people

Volunteering continued to be a focus for Financial Services Europe (FSE), as elsewhere in the Group, providing opportunities to share professional skills through mentoring or to make a difference through team challenges in the community. As well as corporate volunteering opportunities, the Staff Grants program launched in Europe this year enabled employees to apply for grants of £500 or €600 for a charity or community group with which they volunteer in their own time.

Community

In our European businesses, the award-winning community involvement program developed in Northern and National Irish Banks began to be extended to Clydesdale and Yorkshire Banks during 2004, as the Group sought to create more similarity across the four brands with a view to a more integrated program in the coming year. The program seeks to support issues that matter equally to the community and to our business, with a primary focus on numeracy as a core life skill and its relationship to financial capability.

Our community investment programs operate across four platforms – community partnerships; employer-supported volunteering; charity partner; and corporate donations. These are designed to engage the enthusiasm and skill of our people, and make a difference to individuals and groups in the communities in which we live and work.

Money Talks

Having worked consistently with the education sector since the launch of its Community Investment Program, Northern Bank was keen to demonstrate community leadership through supporting the introduction of personal finance into the Northern Ireland curriculum in calendar

2003. The Money Talks collaboration with Citizens Advice builds on the bank’s support for numeracy as a core skill, developed through its projects ‘Maths in a Bag’, ‘Time 2 Count’ and ‘Let’s Count on Numeracy’, to address the challenge of consumer debt and financial confidence.

A comprehensive resource to support personal finance not only in schools, but also the wider community, Money Talks equips young people for employability, work and managing finances. Its delivery in schools is supported by trained volunteers from both Northern Bank and Citizens Advice.

Number Partners

Yorkshire Bank launched its participation in Number Partners and Right to Read, supporting essential skills through volunteering in the classroom. Number Partners will also be developed as a pilot in Clydesdale Bank in the coming year. Northern Bank celebrated four years of the award-winning Time 2 Count Numeracy Volunteering program, recently introduced as a pilot in National Irish Bank also.

‘Money and Me’ and The National Children’s Home

The National Children’s Home (NCH) is one of the largest children’s charities in the United Kingdom, and each year, supports some 98,000 clients. Developed in conjunction with the education authorities, ‘Money and Me’ is a resource pack designed to raise financial awareness, confidence and capability. The program includes topics such as savings, banking and budgeting for independent living. Originally developed in Yorkshire Bank, ‘Money and Me’ was launched in Clydesdale Bank in 2004.

Barnardos Ireland

National Irish Bank works with children’s charity Barnardos to support confidence with numeracy through its After Schools Program. Games and resources encourage a fun approach to this essential skill, supported by a local bank volunteer.

Charity Partner Program

Currently operating in Ireland, the program combined corporate investment, staff fundraising and a charity bond, with Northern Bank raising £83,000 for Action Cancer and National Irish Bank raising €47,000 for the ISPCC (Irish Society for the Prevention of Cruelty to Children). The program will be launched in Clydesdale and Yorkshire Banks next year.

Environment

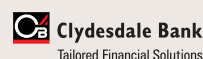
All Clydesdale and Yorkshire Bank branches and the majority of Northern Bank branches are now supplied with ‘green’ electricity generated by wind farms or hydro electric power stations.

This initiative resulted in an estimated reduction of 1,500 tonnes of greenhouse gases being released.

Awards

Clydesdale Bank collected the Arts & CSR Award for a project with the Glasgow School of Art at the Arts & Business 2004 Scottish Awards. The project ‘Art for All’ promoted the arts as being inclusive and accessible to all. Clydesdale Bank also scooped the top award at the Scottish Sports Sponsorship Awards for its youth basketball program, with basketballscotland winning Best Sponsorship for Young People category as well as the overall Sponsorship of the Year Award 2004.

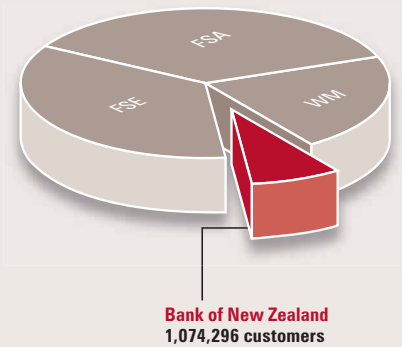
National Irish Bank was awarded the Judges Special Recognition Award at the Business 2 Arts Awards 2004, for a community arts program with the Irish Museum of Modern Art. ‘Branching Out’ brought out the magic of the national collection to communities across Ireland.



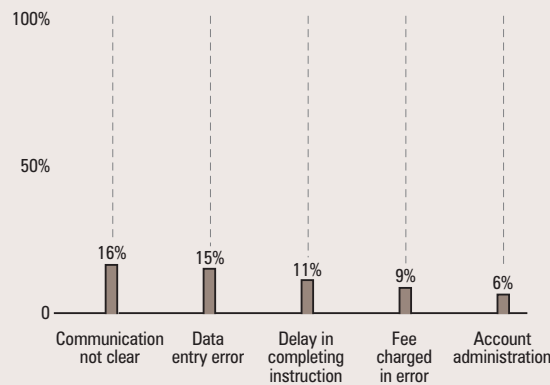
Bank of New Zealand

Bank of New Zealand plays an important role in the community as an employer and a provider of high-quality goods and services.

Our obligations as a responsible corporate citizen are shown in initiatives like the Kiwi Recovery Program and the Farm First Growth Program.



Top 5 complaint themes



- Average of 1,183 complaints received per month.
- 88% of complaints are resolved within 4 weeks.
- Average of 9 complaints received from Ombudsman per month.

Customer research

	What our customers value	Strengths	Weaknesses
Personal customers	Reputation & relationship	Branch	Fees & charges
Business customers	Reputation & relationship	Everyday banking	Fees & charges

Customer feedback

An independent survey undertaken in the first quarter of calendar 2004 reported Bank of New Zealand offered the best branch service of all major banks, with 75 per cent of customers rating the bank's branch service as 'excellent' or 'very good'. (ACNielsen)

These are some of the key initiatives we began to roll out this year and will continue in 2005:

- reintroducing the branch manager role in all our branches;

- focusing staff on products that are most important to customers' 'everyday' banking;
- introducing a new NZ\$25 million tellers' system that puts customer service at tellers' fingertips, removing manual processes;
- reducing queueing by developing a model to ensure we have the right number of tellers working at the right time. This model is being expanded to cover more bank roles.

Our people

Bank of New Zealand staff were invited to participate in a half-day workshop, Achieving Your Balance. Workshop topics covered diet and exercise, health issues, managing balance between work and home and managing stress. The sessions were followed by optional 15-minute individual health checks. Excellent feedback was received on the sessions, including participants' views on ways that could assist them to achieve balance. These comments will be used for planning future work/life balance initiatives.

Customers

Recognising today's farmers are running dynamic and complex businesses, Bank of New Zealand developed the Farm First Growth Program, a series of hands-on, two-day workshops that focus on helping successful farmers further develop their business skills.

To date, Bank of New Zealand Farm First Growth Program has helped more than 1,100 farmers build a strategy for further success through identifying their long-term goals, focusing on getting the best out of specific elements of their business, and helping turn those goals into reality.

Run by external industry experts, Farm First Growth Program covers areas such as strategic planning, leadership and performance management, equity creation and off-farm investment, and succession planning.

Participants have enjoyed the interactivity of the workshop, which encouraged new and innovative business approaches not considered before.

Environment



Bank of New Zealand Kiwi Recovery Trust (the Trust) is a collaboration with the Department of Conservation to save New Zealand's national icon, the kiwi.

For many years the kiwi has been in serious decline. Only 10 per cent of kiwi

chicks survive to six months of age and less than five per cent survive to adulthood. The kiwi population has plummeted from five million birds in the 1920s, to around 70,000 today.

Bank of New Zealand, with support from its staff and customers, has contributed more than NZ\$5 million over the past 13 years towards the vigorous efforts to save the kiwi. This contribution has been provided by way of an annual sponsorship fee, revenue from kiwi-related products (cheque books and debit cards), bank-related donation channels (branch and ATM network) and donations from staff-driven activity. Bank of New Zealand also provides a significant investment in promotional campaigns to raise awareness of the plight of the kiwi.

Working with communities, businesses, scientists, researchers and field workers, the Trust is responsible for increasing awareness of the plight of the kiwi through marketing, education, fundraising and fund allocation for kiwi recovery projects. Its mission is to enable the kiwi to flourish in its natural habitat.

The Trust allocates funds towards research, predator control, breeding programs, surveys and monitoring, as well as diversity maintenance of kiwi species and sub-species.

Community

As a sponsor, Bank of New Zealand contributed NZ\$100,000 towards 'Rewarding Learning Minds' – a competition run by the newspaper, the *New Zealand Herald*, to foster literary and creative talent among New Zealand youth.

Over a 10-week period, secondary students get a chance to submit literary and creative works on various themes through the *College Herald* competition, while primary and intermediate pupils are encouraged to create and submit a newspaper through the 'Make a Newspaper' program. Since launching four years ago, *New Zealand Herald* readers have been delighted by a surge of quality

school talent in the form of articles, photographs, artwork and cartoons.

In 2004, Bank of New Zealand was proud to be part of week seven of the *College Herald* supplement, aptly named 'The Future of Money', and sponsor the 'Kiwi Culture' page of the 'Make a Newspaper' program.

Celebrating leadership in literature: Katherine Mansfield awards

Established in 1958, the Bank of New Zealand Katherine Mansfield Awards are one of New Zealand's longest running creative writing sponsorships, named in honour of one of New Zealand's most famous writers.

The Awards are New Zealand's premier short story competition, aimed specifically at helping New Zealand writers achieve recognition and be published in New Zealand.

Katherine Mansfield's father, Sir Harold Beauchamp, was a Director of Bank of New Zealand for 21 years and its Chairman for 17 years.

From Gold Fields To Gold Cards: Bank of New Zealand Museum

In the 1860s, while Central Otago was in the grip of gold fever, Bank of New Zealand began to build its future. Located in central Wellington, the Bank of New Zealand Museum plays a vital role in preserving an important part of New Zealand's heritage – the history of banking – through an extensive display of artefacts, photographs and personal recollections dating back to 1861. The exhibits cover Bank of New Zealand's early days on the goldfields, the role of people in banking, the development of banking as a career, technological advances, bank architecture, and the Bank's support of the New Zealand community.



Corporate & Institutional Banking

As a major lender to corporations globally, we take environmental and social sustainability issues seriously. We are all custodians for future generations, and increasingly, the ability of any company to manage sustainability issues is linked to its financial success.

Managing environmental risk

The National implemented environmental risk assessment policies and procedures in 1992. These guidelines (the Group Environmental Risk policies) were reviewed in 1995, 1998 and most recently in 2003. The policies and procedures apply the same standard to all of our business lending operations globally.

The National imposed standard goes beyond legislative compliance. Our policy requires the consideration of a number of factors including:

- addressing the link between environmental performance and economic viability of the borrower;
- considering communities' values and concerns as a legitimate risk assessment criteria;
- supporting the adoption of best available proven technology above minimum compliance with regulation;
- requiring specific loan covenants on performance monitoring of environmental licence conditions; and
- annual environmental management plans of sensitive environmental issues.

Our approach to Project Finance

Increasingly, community stakeholder groups are developing new benchmark standards that call for greater transparency and accountability of financial institutions globally in regard to the indirect impacts of their lending. Some of these standards include The Global Compact and Collevocchio Declaration.

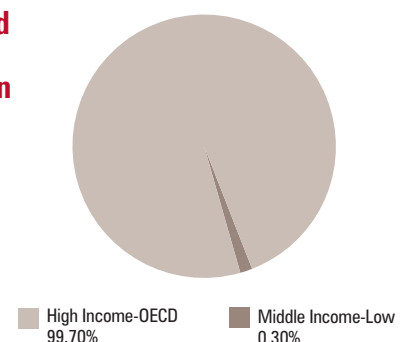
The main concerns of community stakeholders are in regard to large financial institutions that finance or invest in projects in developing or emerging countries, where the environmental and social risk assessment can be below acceptable standards.

In 1998, the World Bank and International Finance Corporation (IFC)

developed a series of Safeguard Policies to serve as the baseline environment and social consideration for awarding of funding to projects in developing countries. Some of these guidelines form the foundation for the Equator Principles, a set of environmental and social risk guidelines that some banks have adopted for project financing in excess of \$US50 million. Under these Principles it is possible to comply with the World Bank and IFC Safeguard Policies but not comply with the compendium standards of the Pollutants Prevention and Abatement Handbook. Importantly, our requirement for an Environmental Impact Assessment also applies to all projects, not just Category A projects (defined as

Total Project Finance exposure and Project Finance lending exposures based on World Bank classification of economies (www.worldbank.org)

As at 30 September 2004, [99.7%] of the National's global project finance loan exposures were in High Income-OECD countries (as classified by the World Bank). The Project Finance loan portfolio accounts for less than 1% of the Group's total loans and acceptances.



significant environmental impacts that are irreversible) under the IFC and World Bank Standard.

During 2004, the Project Finance team at the National reviewed the Group Environmental Risk assessment policies and procedures against the IFC and World Bank Safeguard Policies as an example of one international benchmark. This analysis showed that the National's risk assessment policies and procedures applied the same standards to all project finance regardless of the loan value.

Our approach to assessing and managing environmental and social risk in project financing is based on independent expert due diligence, active risk management and continual review of policy specifically applicable to Project Finance. Current Project Finance policy on environmental and social issues requires projects to incorporate:

- engineering design that meets current environmental standards and practices, and employs appropriate technology with the ability to adapt to improving environmental standards;
- specific environmental guidelines for total emission load and concentrations;
- consideration of stakeholder requirements on social and heritage issues;
- known environmental impacts on land use with appropriate mitigation measures;
- high standard environmental impact studies with quality baseline data and full impact assessment;
- environmental performance measurement on a regular basis with demonstrated mitigation and improvement measures.

We have had, and will continue to have, discussions with a range of external stakeholder groups on the National's approach to environmental and social risk assessment in Project Finance.

Commitment to international environmental and social benchmarks for Project Finance

The National commits to the application of the IFC and World Bank Safeguard Policies in developing nations as a minimum standard. Specifically, where there are concerns that environmental habitats, indigenous peoples and communities' rights may not be protected, the National will apply these standards, regardless of the monetary value of the project.

We also commit to the ongoing review of our environmental and social risk assessment policies for Project Finance in light of new and emerging best practice of global standards. These reviews will continue to be informed by global dialogue with all interested stakeholder groups. We recognise that our performance on environmental and social issues in Project Finance will continue to be monitored and judged by our external stakeholders.

The future and renewable energy

Increasing evidence of climate change and its detrimental impacts on communities is driving innovation and commercialisation of many forms of renewable energy sources. We are delighted to be involved with many projects that will deliver alternate energy from projects such as windfarms and engineered landfills.

This year, our Corporate & Institutional Banking Division financed the construction of Cathedral Rocks Wind Farm near Port Lincoln in South Australia. The Cathedral Rocks site is a remote coastal area located near the southern tip on the

Eyre Peninsula. A joint venture project between Hydro Tasmania (Hydro) and the Spanish renewable energy group Corporacion Energia Hideoelectricia de Navarra, through their local subsidiary EHN (Oceana) Pty Ltd, the farm output will link to the South Australian electricity grid early in 2005. It will have the capacity to generate 66 megawatts of renewable energy, supplying green energy sufficient for 25,000 homes per year. Erection of the 33 two megawatt Vesta wind turbines is expected to be completed in 2005.

Both joint venture parties have track records in renewable energy. Hydro Tasmania is producing 60 per cent of Australia's renewable energy from wind and hydro power. Corporacion Energia Hideoelectricia de Navarra installs and operates wind farms around the world, and is currently responsible for six per cent of the world's wind energy generation.

At the opening ceremony held on 30 September, Hydro CEO Geoff Willis said, "The project involved extensive environmental and cultural surveys and studies to assess impacts to the Barnjarla and Nauo people, cultural heritage, local flora and fauna and a public consultation program involving key stakeholders and community groups to ensure their interests in the area were considered and respected."

Furthermore, Paul Orton, Head of Corporate Banking Australia said, "A critical consideration from the National Australia Bank's perspective was the importance that the joint venture partners placed on consultation with local community groups."

2004 Financial Performance Summary

The Group's financial performance in the 12 months to September 30, 2004 was disappointing with declining margins and cost growth driving a poor result.

Net profit attributable to members of the Company \$3,177 M

Net profit attributable to members of the Company of \$3,177 million in 2004 decreased \$778 million or 19.7% in comparison to 2003. Net profit attributable to members of the Company before significant items of \$3,561 million in 2004 decreased \$394 million from 2003.

Full year dividend 166 cents

On November 10, 2004, a final dividend of 83 cents per full-paid ordinary share, fully franked, was declared in respect of the year ended September 30, 2004. This brings the full year dividend to 166 cents (fully franked) up 1.8% from 2003.

Diluted earnings per share (after significant items) 196 cents

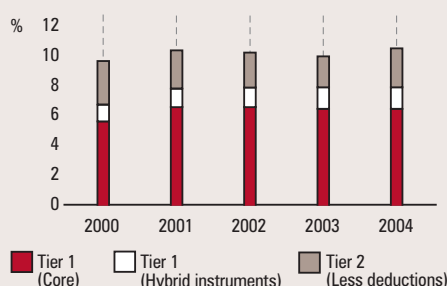
Diluted earnings per share (after significant items) decreased 19.7% from 244 cents to 196 cents.

Economic Value Added (EVA®) (1) \$1,617 M

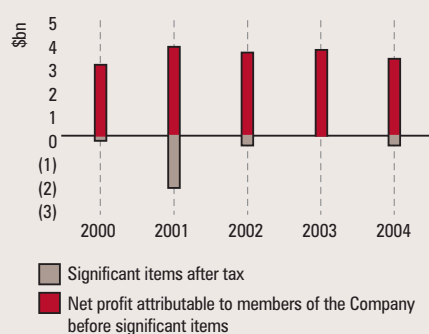
Economic Value Added (EVA®) decreased 28.4% from \$2,259 million to \$1,617 million.

⁽¹⁾ Economic Value Added (EVA®) is a registered trademark of Stern Stewart & Co. EVA® measures the economic profit earned in excess of the Group's cost of capital.

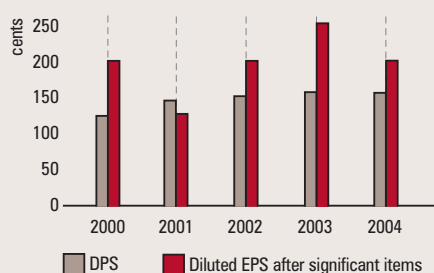
Total capital ratio



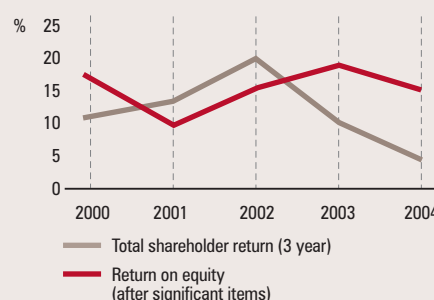
Net profit & significant items



Diluted earnings per share & dividends per share



Return on equity & total shareholder return (3 year)



2004 value generated in the community

Distribution of value	\$M
Shareholder ⁽²⁾	\$3,177
Government ⁽³⁾	\$1,388
Employees ⁽⁴⁾	\$3,418
Depreciation & goodwill	\$544

⁽²⁾ Net profit attributable to ordinary shareholders.
⁽³⁾ Includes income tax relating to ordinary activities, payroll tax and fringe benefits tax. Excludes net GST and VAT payments.
⁽⁴⁾ Salary related costs, excluding payroll tax and fringe benefits tax.

Generation of community value

	\$M
Year to September 30, 2004	
Net interest income	7,191
Fee income	4,080
Trading income	575
Net life insurance income	1,012
Other income	176
Net operating income	13,034
Significant revenue	993
Total net income	14,027
Other costs ⁽⁵⁾	(3,688)
Movement in excess of net market value over net assets of life insurance controlled entities	(137)
Significant expense	(1,675)
Gross value add in the community	8,527

⁽⁵⁾ Excludes salary related costs, income tax relating to ordinary activities, payroll tax, fringe benefits tax and depreciation & goodwill and includes outside equity interest.

Internal & external audits – 2004

	No.	Time taken
Internal group audits *	585	10,312 (days)
Internal occupational health & safety	2	-
External occupational health & safety	182	-
External financial audits [†]	1,828	50,298 (hrs)

* estimate only
[†] estimate of Group statutory audits and prudential supervision reviews, and audits of superannuation funds (including self managed superannuation funds) where a Wealth Management company is the responsible entity.

For further details on the 2004 financial results, please refer to the 2004 annual financial report.

Independent auditors' report

Report of factual findings to the directors of National Australia Bank Limited

Scope

We have performed the procedures agreed with you in our engagement letter dated 3 November 2004 and described below with respect to specific financial information contained on page 32 of the Corporate Social Responsibility Report ("CSR Report") of National Australia Bank Limited (the "National") for the year ended 30 September 2004 to which the agreed-upon procedures have been applied.

Our engagement was undertaken in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of the National. The procedures were performed solely to assist the National in preparing the CSR Report. The procedures conducted are summarised as follows:

1. Agree the following balances contained on page 32 (excluding internal and external audits data – 2004) of the CSR Report to the National's 2004 Annual Financial Report and 2004 Full Year Results ("the National's 2004 Results"):
 - Net profit attributable to members of the Company;
 - Full year dividend;
 - Economic value added (EVA);
 - Net interest income;
 - Fee income;
 - Trading income;
 - Net life insurance income;
 - Movement in excess of net market value over net assets of life insurance controlled entities;
 - Significant items;
 - Other income/costs;
 - Dividends, distributions and outside equity interest;
 - Taxes;

- Salary related costs; and
 - Depreciation and goodwill.
2. Check the mathematical accuracy of information disclosed on page 32 of the CSR Report.
 3. Check the mathematical accuracy of percentage increases/decreases disclosed on page 32 of the CSR Report.
 4. Check that commentary in relation to the financial information in the CSR Report agrees with the National's 2004 Results and our understanding of the business.
 5. Agree the accuracy of graphical information provided in the CSR Report to the financial data and/or graphical information contained in the National's 2004 Results, including net profit and significant items, diluted earnings per share and dividends per share, return on equity and total shareholder return (3 year) and capital ratios.

Because the above procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, we do not express any assurance on the specific financial information contained on page 32 of the CSR Report. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of our report. We disclaim any assumption of

responsibility for any reliance on this report for any other purpose. This report relates only to the items specified above and does not extend to any financial report of the National, taken as a whole.

Findings

We report as follows:

1. With respect to 1 above, we agreed the above balances contained on page 32 (excluding internal and external audits data – 2004) of the CSR Report to the National's 2004 Results. No exceptions were noted.
2. With respect to 2 above, we checked the mathematical accuracy of information disclosed on page 32 of the CSR Report. No exceptions were noted.
3. With respect to 3 above, we checked the mathematical accuracy of percentage increases/decreases disclosed on page 32 of the CSR Report. No exceptions were noted.
4. With respect to 4 above, we checked that commentary in relation to the financial information in the CSR Report agreed with the National's 2004 Results and our understanding of the business. No exceptions were noted.
5. With respect to 5 above, we agreed the accuracy of graphical information to the financial data and/or graphical information contained in the National's 2004 Results. No exceptions were noted.



KPMG
Melbourne
25 November 2004

Independent verification statement

The Reassurance Network was commissioned by the National Australia Bank Ltd (the National) to provide external verification of their Corporate Social Responsibility (CSR) report (the Report) covering the period 1st July 2003 to 30th June 2004. We have conducted our work for the National in accordance with the terms of reference agreed with the National's management and do not accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any third party may place on information in this statement is entirely at its own risk.

Scope

The verification scope examined the accuracy and reliability of the data and statements contained in the Report and the reliability of systems used to generate reported data. It did not include information disclosed by the National on websites or by other means, or previously submitted external submissions mentioned in the Report i.e. Australian Greenhouse Gas Challenge, Carbon Disclosure Project submissions.

The following areas were not included in the scope:

- financial data on page 32,
- Global Reporting Initiative (GRI) Indicator List and references on page 35,
- alignment with or conformance to external standards mentioned in the Report, namely the OECD Guidelines for Multinational Enterprises, GRI and ISO14001.

Verification was carried out at head office locations in Australia, New Zealand and the United Kingdom. The National's operations in Asia and America were not included within the scope. This was felt to

be reasonable based on the relatively small size of these operations.

It was not possible to assess the overall materiality or completeness of Report content or the responsiveness of the National to stakeholders' interests.

Method

Verification assessed the definition, scope, consistency and accuracy of both qualitative and quantitative data across the business. Our evaluation took into consideration the prior work of the National's Group Internal Audit and included tracing a significant amount of data back to source in order to confirm a reliable baseline of verified data against which the National can report comparative performance in the future. Verification planning included developing interview briefs covering both the quantitative and qualitative information contained in the draft Report. The verification process included over 80 auditor days and 126 people were interviewed. Interviews were predominantly with the direct owners of data or processes and their managers and included reviews of supporting documentation and source data. We also interviewed the Chief Executive Officer and three members of the Group Executive Committee. Non-executive board members were not interviewed.

The verification process led to several indicators being re-defined and to several methods of calculation being improved. As a result, several of the indicators reported in the 2003 Concise Annual Report are no longer comparable.

Verification findings and improvement points based on working drafts of the Report were graded and communicated to the National's management team. Responses to all major findings were incorporated in the Report.

Statement of independence

The verification fees for the National constitute less than 20% of The Reassurance Network's projected turnover for 2004. We confirm that neither The Reassurance Network nor the individual auditors have any other financial or non-financial interests in National Australia Bank Ltd or its controlled entities. For further information please contact us at www.re-assurance.co.uk or informatin@re-assurance.co.uk

Conclusion

On the basis of the scope and process described, we are satisfied that the information and data contained within the Report provides a fair representation of the National's activities during the reporting period.

In terms of coverage, we feel that the National has allocated reasonable weighting to its main business areas, impacts and stakeholders.

Lin Bartlett
Malcolm Guy
25th November 2004

THE REASSURANCE NETWORK LTD

Independent monitor's statement

The scope, methodology, findings and recommendations of The Reassurance Network audit team and responses from the National were reviewed by an independent monitor, not involved with the verification.

The work was found to be conducted in a way that gives reasonable assurance that the statements in The National's CSR Report 2004 are free from material misstatement.

Jenny Rayner
25th November 2004

Key Performance Indicators

Key performance indicators in this report have been sourced from the following global standards – Global Reporting Initiative (GRI), Social Performance Indicators for Finance 2002 (SPI), Environment Performance Indicators Finance 2000 (EPI) and VfU Internal Environmental Performance Indicators for the Financial Industry (VfU).

		Page No.	GRI	SPI	EPI	VfU
CSR Governance	Corporate Principles	Inside cover, 13	♦			
	Chairman & CEO's message	2-3	♦	♦	♦	
	Scope of CSR Report	4	♦	♦	♦	
	CSR governance framework	6	♦		♦	
	Responsible transnational behaviour	6	♦			
	Anti-money laundering	7	♦	♦		
	Managing sensitive issues	7		♦		
	Political donations	7	♦	♦		
	Confidential alert line	7		♦		
	Commitment to International Environment and Social Benchmarks	7,19	♦	♦	♦	
	Internal & external audits	32				
Customers	Customer numbers	8				
	Customer satisfaction	9, 28	♦	♦		
	Customer value drivers	9	♦	♦		
	Customer value results	9, 22, 26, 28	♦	♦		
	Customer complaints	10	♦	♦		
	Australia	22, 24		♦		
	Europe	24, 26		♦		
	New Zealand	28		♦		
	Transparency on fees and charges	10, 24		♦		
	Financial inclusion	11, 23		♦		
	Challenges of location	11, 23		♦		
	Customer diversity	11		♦		

Key Performance Indicators

		Page No.	GRI	SPI	EPI	Vfu
Employees	Corporate Principles	Inside cover, 13	♦	♦		
	Behaviours and rewards	13, 14	♦	♦		
	Employee satisfaction and engagement	14, 15	♦			
	Employee profile	13	♦	♦		
	Employee turnover	13	♦	♦		
	Employee development	14	♦	♦		
	Diversity profile	15	♦	♦		
	Work/life balance	16		♦		
	Health and well-being	16	♦	♦		
	Collective bargaining	17	♦	♦		
Environment	Environmental policy and management	18	♦		♦	
	Direct environmental impacts	18	♦		♦	
	Indirect environmental impacts	19	♦		♦	
	Energy	18				♦
	Water	18				♦
	Paper	18				♦
	Waste	18				♦
	CO ₂ -e	18				♦
	Managing environmental risk	19, 31	♦		♦	
	Project Management segmentation	30				
	Carbon Disclosure Project	19			♦	
	Renewable energy	19			♦	
	Supply chain management	18	♦		♦	
	Stakeholders	Measuring quality of relationships	20	♦		
Community programs		21, 23, 25, 27, 29	♦	♦	♦	
Environmental dialogue		20			♦	
External Stakeholder Forum		20	♦	♦		
Corporate Community Investment		21	♦	♦		
Economic	Net profit and significant items	32	♦			
	2004 value generated in the community	32	♦	♦		
	Generation of value	32	♦			
	Total capital ratio	32	♦			

Contact Us

We welcome any feedback you may have on National's 2004 Corporate Social Responsibility Report. Please email us at corporate_social_responsibility@national.com.au or write to us at Corporate Social Responsibility, Level 26, 500 Bourke Street, Melbourne Vic 3000, Australia.

This report is also available at www.nabgroup.com and additional copies can be obtained by telephoning the National's Share Registry on 1300 367 647 or outside Australia on +61 3 9415 4299.

In 2004, the National was assessed among the top 10 most socially responsible companies in Australia, according to independent rating agency Reputex®.



Our share price is **included in:**



FTSE4Good

We are **members of:**



And **support:**



