



Corporate Social Responsibility Report  
2005

our  
**principles**  
in practice

**governance social environment economic**

# highlights

## Making balanced decisions

- Implemented a new business structure to make us a less complex, more nimble and customer-focused organisation  
Page 4
- Aligned our CSR governance structure with our new regional business model  
Page 10
- Reviewed our Performance Management System and implemented Balanced Scorecards for management-level employees, including CSR-related performance objectives  
Page 29
- Over 70% of employees participated in our biannual Employee Opinion Survey  
Page 28
- Developed a group-wide diversity strategy and action plan  
Pages 30-31
- Improved our systems for environmental data management and reporting  
Page 50
- Developed and implemented our Commitment to Fair International Workforce Standards policy  
Page 46
- Developed a group-wide set of principles to guide the development of Customer Charters by each of our regional businesses and Institutional Markets & Services. Each Charter outlines our commitment to customers on service quality and delivery  
Page 39
- Developed a plain English program for Australian employees to improve our customer communication so it is easy to understand and to assist financial literacy in the community  
Page 42
- Extended the implementation of our environmental procurement policy to the UK and New Zealand  
Page 46

## Building trust

- Released our first Corporate Social Responsibility Report in December 2004. This report was externally verified in the three key regions in which we operate  
Page 4
- Completed our 2005 CSR Report in accordance with the Global Reporting Initiative's 2002 Sustainability Reporting Guidelines  
Page 3
- Completed the Relationship Index survey in Australia, the United Kingdom and New Zealand to engage with our stakeholders and find out their views  
Page 15
- Completed a review of our corporate community investment (CCI) and developed a Group-wide CCI framework. This framework includes five key objectives and 10 principles to guide and grow our future CCI  
Page 19
- Invested \$17.7 million in the communities in which we operate through corporate community investment activities, matched giving and over 6,000 employee volunteering days  
Page 19

## Benchmarking and measuring our performance

- Improved our benchmarking result in the Dow Jones Sustainability Index  
Page 60
- Maintained our AA rating in the RepuTex Social Responsibility Rating and ranked equal second on the new RepuTex SRI Share Index of companies listed on the ASX S&P300  
Page 60
- Ranked third in sector for environmental performance of the Yorkshire Bank in the Business in the Community regional Yorkshire and Humber Environment Index 2005  
Page 60
- Maintained our listing in the FTSE4Good Index series  
Page 60
- Our Australian headquarters — National@Docklands, won the Leadership in Buildings category of the Banksia Environmental Awards. We won in conjunction with building owners – General Property Trust, designer – Bligh Voller Neild, developer – Bovis Lend Lease/Lend Lease, property manager – Jones Lang LaSalle and our facilities managers, United Group Services  
Pages 53, 60
- Bank of New Zealand's customer contact centres won the Diamond Award as New Zealand's best customer contact centre  
Page 60

## How to read this Report

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

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

References to 2004 and 2005 are references to the CSR reporting year for non-financial information ended 30 June 2004 and 30 June 2005 respectively, unless otherwise stated.

All references to the Group website – [www.nabgroup.com](http://www.nabgroup.com) are represented by the symbol ★ throughout the text. Other websites operated by Group entities include: [www.cbonline.co.uk](http://www.cbonline.co.uk); [www.ybonline.co.uk](http://www.ybonline.co.uk); [www.national.com.au](http://www.national.com.au); [www.bnz.co.nz](http://www.bnz.co.nz)

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

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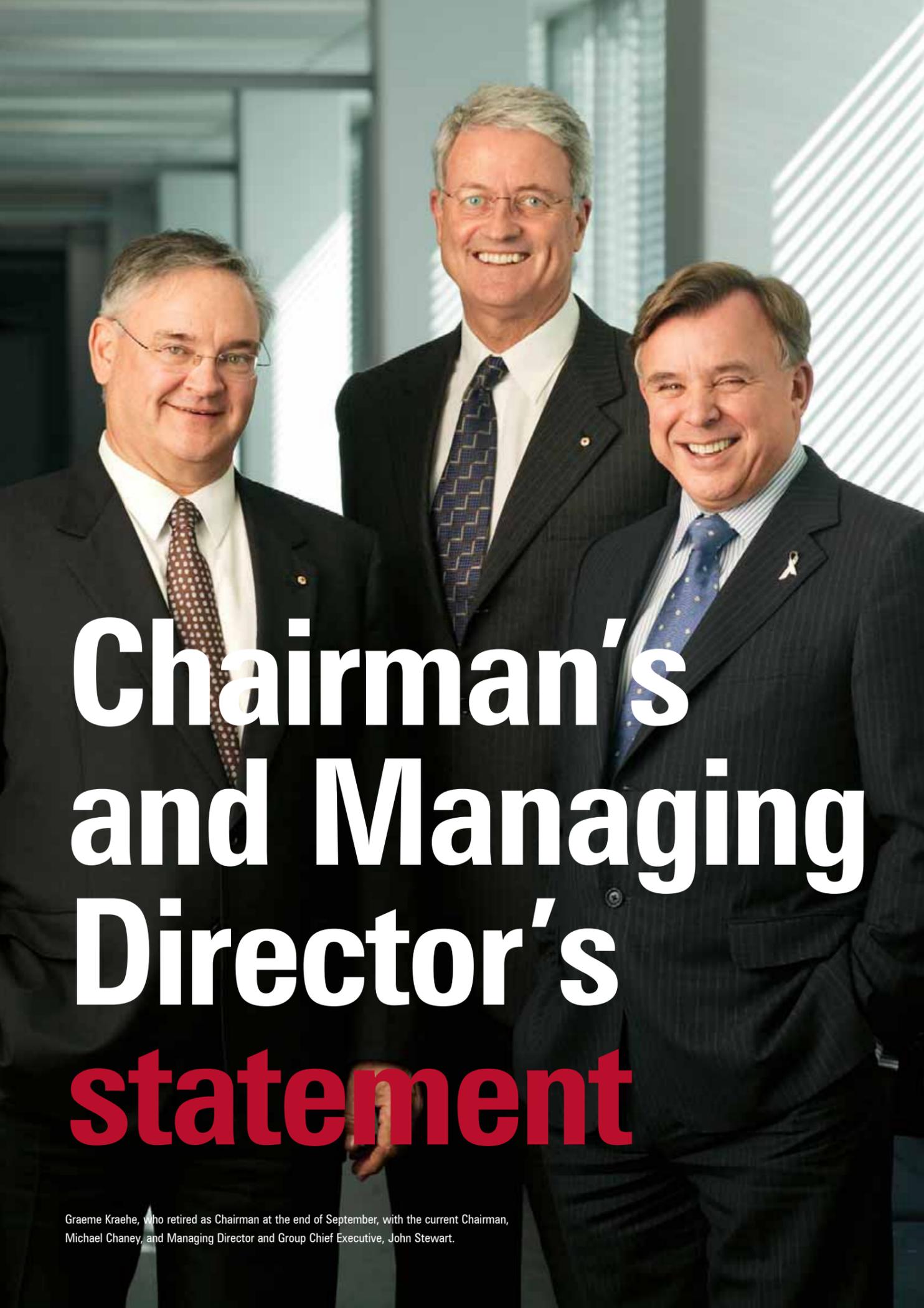
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The preparation of this Report has been guided by our Corporate Principles, particularly our commitment to be open and honest and 'tell it like it is'. For the National Australia Bank, corporate social responsibility means putting our principles into practice. In summary they are:

- We will be open and honest
- We take ownership and hold ourselves accountable (for all 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.

## John Stewart, Managing Director and Group Chief Executive

Refer to the inside back cover of this report for a full copy of our Corporate Principles and the behaviours that underpin them.



# Chairman's and Managing Director's statement

Graeme Kraehe, who retired as Chairman at the end of September, with the current Chairman, Michael Chaney, and Managing Director and Group Chief Executive, John Stewart.

In the last year, we have worked to strengthen the foundations for the long-term sustainability and value of our business. The highlights of this year are featured on the inside front cover of this Report and further information on aspects of our performance is also provided in our 2005 Annual Financial Report, which is available on our Group website [\\*](#).

Over the last year we have been through a challenging period following the losses arising from unauthorised trading in foreign currency options in January 2004 and the subsequent Board dispute. These incidents revealed shortcomings in our culture and management systems and our efforts have been focused on addressing them.

Among other things, these experiences have shown us the value of taking a balanced and more focused approach to stakeholder engagement. As a result, we have made a firm commitment to Corporate Social Responsibility (CSR) and it is now an integral part of our approach to delivering future value for all our stakeholders.

Culture change is now a high priority. In 2004, we developed a new set of Corporate Principles and behaviours as a first step in changing our culture. We are in the process of embedding these Principles into the way we do business every day. This has included incorporating them into individual performance scorecards.

Culture change has been reinforced by leadership change at Board and senior management levels. We have a good mix of directors and a senior management team dedicated to making this change for the long term. We would like to take the opportunity, at this point, to recognise the leadership and efforts of Graham Kraehe, our Chairman during this period of transformation.

We have introduced a new business structure, which is explained in more detail within the Report. This includes three regional businesses – the United Kingdom, New Zealand and Australia – and a global business – Institutional Markets & Services (IMS). This structure makes us a less complex, more nimble and customer-focused organisation, providing products and services tailored to meet our customers' needs.

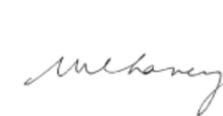
Our Group strategy provides a framework for each of our businesses to develop its own strategic agenda tailored to meet its stage of development, local operating context and regional challenges. In each business this has entailed a renewed focus on the customer and the provision of improved customer service. During the year we developed a Group-wide framework for customer charters, which will be rolled out within each region and business.

The restructure also brought with it integration of some support operations and consolidation of our branch networks and business centres. This included redundancies across the Group, primarily in Australia and the United Kingdom. The restructure has helped us to improve our services, increase the efficiency of our operations and match our branch network to the changing needs and habits of our customers, who are now choosing different ways to do their banking. We now provide our products and services through an increasingly diverse range of channels including the Internet, ATMs, call centres, post offices and branches. As a result, we have had to manage difficult issues such as branch closures in the United Kingdom.

We recognise the significant value that our non-financial performance can contribute to creating long-term value and a sustainable business. We look forward, therefore, to finding better ways to engage our people and to working with our stakeholders to find solutions to key social and environmental issues where we, as a financial services provider, can make a difference. This includes tackling issues as diverse as financial disadvantage and responding to climate change.

This report has been prepared in accordance with the Global Reporting Initiative 2002 Sustainability Reporting Guidelines. It represents a balanced and reasonable presentation of our economic, environmental and social performance. It records the efforts of our people and our performance across a range of areas including governance, stakeholder engagement, environment and social aspects such as customer service, workplace practices and corporate community investment. We have also provided an update against the promises and commitments made in last year's CSR Report.

We hope you will read our 2005 CSR Report with interest and we encourage you to give us feedback on the Report via our website [\\*](#) or via email to [corporate\\_social\\_responsibility@national.com.au](mailto:corporate_social_responsibility@national.com.au).



**Michael Chaney**  
Chairman



**John Stewart**  
Managing Director and  
Group Chief Executive

# Our Group profile

The National Australia Bank Limited (NAB) traces its history back to the establishment of the National Bank of Australasia in 1858. Since then, it has grown to become one of Australia's largest listed financial services institutions. We now have total assets of \$420 billion and serve around 7.8 million banking clients and 2.3 million<sup>1</sup> wealth management customers and policy holders globally.

NAB is a public limited company, incorporated on June 23, 1893, in Australia. It is the main holding and operating company for the Group. The company's headquarters is in Australia. Our registered office is Level 24, 500 Bourke Street, Melbourne, Victoria, 3000, Australia. The Company operates under the requirements of the *Banking Act 1959* (Cth) and the *Corporations Act 2001* (Cth) and its fully paid ordinary shares are quoted on the Australian Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange, the New York Stock Exchange and the New Zealand Stock Exchange.

We offer an extensive range of funding, risk management and investment solutions to institutions, corporates, agribusiness, small and medium-sized business and retail customers. NAB's financial strength and market presence underpins our business and enables us to use the resources of the Group for the benefit of our customers and the communities in which we operate.

We have implemented a new business structure that will make it easier for our customers to do business with us, break down bureaucracy and speed up decision-making. We are now organised around three regional businesses – Australia, the UK and New Zealand – and a global business – IMS – serving over 10,000 large government and business customers across Australia, the UK, New Zealand, the United States of America (USA) and Asia (see Figure 1). Each of our four businesses is structured to include customer service, product development and support functions. Further detail is provided in our 2005 Annual Financial Report on our Group website \*.

Each of our businesses provides a range of financial products and services. These are listed in Figure 1.

Our Corporate Centre is responsible for representing the interests of the investor, working with all our businesses to set performance targets and policies and identifying business development opportunities. It also plays an important role in driving innovation, sharing best practice across the organisation, developing our CSR strategy and policies, managing the Group's senior talent, optimising project investment and fulfilling shareholder and prudential activities and obligations, such as regulatory and reporting requirements.

## Report scope

This Report covers the operations of the Group for the year 1 July 2004 to 30 June 2005. In some instances we may refer to developments that occurred after the reporting period. Such instances are included if they are considered material. This is our second CSR report. Our first report was published in December 2004, and covered the period 1 July 2003 to 30 June 2004.

## Report boundaries

The Group has operations in Asia and the USA associated with our IMS and Australian region businesses. Data for our operations in Asia and the USA has been excluded from the scope of this Report, except where noted. We are implementing and embedding our CSR reporting in our three main operating regions — Australia, the UK and New Zealand, before we consider reporting on our operations in locations where we have a smaller presence.

## Significant changes in size

On 28 February 2005, we completed the sale of Northern Bank Limited and National Irish Bank Limited to Danske Bank A/S. The Group will provide transitional services to the Danske Bank A/S in respect of the Northern Bank Limited and National Irish Bank Limited for a period of up to 18 months to assist in the transition of ownership of these businesses. Due to the sale, information on the Irish banks is not included in the scope of this Report, except in the case of some environmental data, where we are still providing transitional services. This is noted where relevant on page 51.

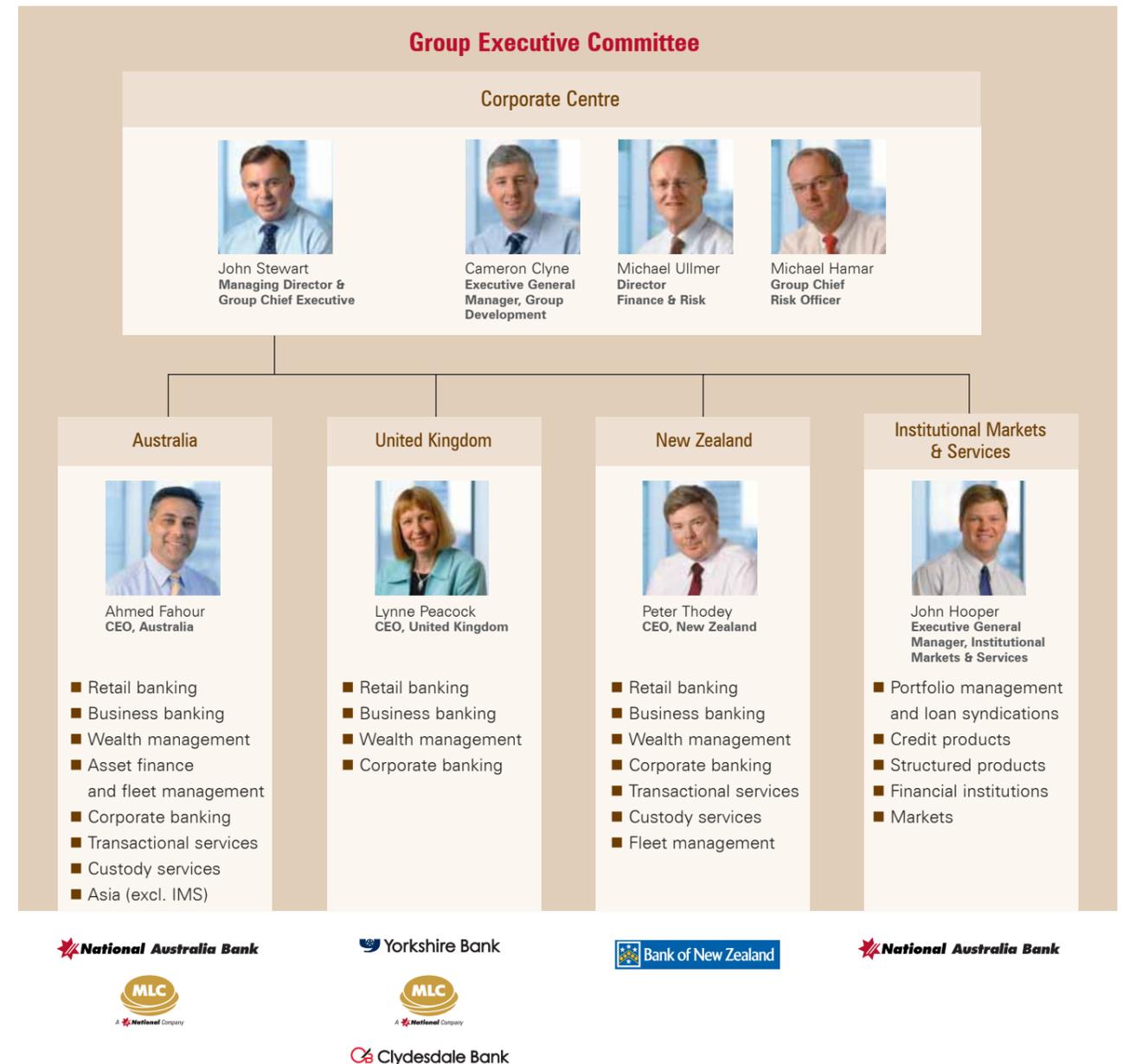


Figure 1: Our operating structure, Group Executive Committee, our products, service and regional brands

Key group facts	
Customers retail and business banking customers globally	7.8 million (excluding IMS)
Wealth management customers globally	2.3 million
Small business customers, globally	829,340
Branches & service centres, globally	1,936
ATMs, globally (including non-NAB branded ATMs)	2,869
Salaried financial advisers, globally	664
Aligned financial advisers, globally <sup>2</sup>	2,612 as at 30 September 2005

<sup>2</sup> The number for aligned financial advisers, globally includes advisers based in Asia.

<sup>1</sup> Global wealth management customer numbers are based on those provided in our 2005 Annual Financial Report for the period ending 30 September 2005 and includes information from Australia, Asia, UK and NZ.

## Basis for reporting on subsidiaries and joint ventures

This Report covers our operation of controlled entities, excluding operations in the USA and Asia, except as noted. This Report does not report on the operations of any joint ventures.

## Re-statements of information

Re-statement of information is identified in the context of this Report and is accompanied by an explanation as to the reason for the nature and effect of the re-statement. In particular, 2004 data has been re-stated where possible for our UK activities to remove the data previously included for the Irish banks and ensure we have comparable data for our UK banks from 2004 to 2005.

## GRI principles and protocols

The Global Reporting Initiative's (GRI) 2002 Sustainability Reporting Guidelines and the social and environmental finance sector supplements have been used in developing the content for this

Report. We have applied the GRI reporting principles to the selection of content (refer to [www.globalreporting.org](http://www.globalreporting.org)) and used the GRI protocols to guide our response to indicators. Where we have varied from GRI protocols it is noted in the body of the Report.

## Changes to measurement methods

Any significant changes to measurement methods from last year for social, economic or environmental information is noted where appropriate in the Report.

## Accounting criteria/definitions

Criteria and definitions used for any accounting for economic, social and environmental costs and benefits are explained in the body of the Report, referenced, footnoted or included in the glossary, as appropriate. Refer also to our 2005 Annual Financial Report on our Group website \*.

# Sustainability overview

Several years ago we began a journey to embed CSR into the way we do business. CSR is a key element of our strategy to grow long-term shareholder value. We are still in the early stages of this journey. We recognise this is a journey we cannot make on our own, and it will involve engagement and collaboration with our customers and other key stakeholders along the way.

For NAB, CSR is about making a contribution to society through creating value, both short and long-term, for our shareholders, customers, employees and other key stakeholders, and it reflects our understanding of the role financial institutions play in the strength and sustainability of the communities in which we operate. We believe CSR makes good business sense and it provides a framework for helping us to operate in a manner that is efficient, customer-focused and ethical, and in which our employees are motivated and feel valued. CSR is also important because our people think it is important. We understand that people want to work for a company of which they can be proud.

We believe that CSR must be embedded in our culture and day-to-day business practices. It is the shared responsibility of all businesses and employees within the Group. However, we understand that this is not an easy goal to achieve, that it will take time, and that we may make mistakes along the way.

CSR at NAB means putting our Corporate Principles into practice (see inside back cover) and considering not only the economic but also the social and environmental impacts of our decisions.

Our CSR strategy is a key part of our overall Group strategy to:

- simplify the business
- deliver sustainable revenue growth
- drive cultural change
- improve risk management and compliance.

It consists of three key components – making balanced decisions, building trust and developing a great reputation. These strategy components, and the corresponding delivery elements, are illustrated in Table 1.

As part of our commitment to CSR we have become signatories to, or made public statements of commitment in support of, key finance sector and business programs. These programs include the United Nations Environment Program Finance Initiative, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multi-national Enterprises and the Carbon Disclosure Project. Our commitment to these programs has provided a driver for the development of new policies and programs within the Group. We are also organisational stakeholders of the Global Reporting Initiative (GRI), whose sustainability reporting guidelines and finance sector supplements have been used in the preparation of this Report. We are active participants in the stakeholder processes used for ongoing development of the GRI 2002 Guidelines and the finance sector supplements.



We have identified a number of CSR-related issues of importance to our business and our stakeholders. These include disclosure, governance, climate change, indirect impacts of our lending practices, human rights in the supply chain, fees and charges,

financial literacy and financial inclusion. Working with customers and other stakeholders to address these issues can identify new or improved ways of doing things and provide new opportunities to develop new markets, products and services.

In the past year, we have undertaken significant work to improve our governance structures, practices and disclosure. The release of our first CSR Report in 2004 was a significant step in our disclosure of non-financial performance. This year's Report builds on that platform.

We see our commitment to environment, human rights and fair workforce practices as a key component of long-term value creation. We believe that management of social and environmental risks and issues is good business practice. This is backed up by our Corporate Principles and behaviours which state that we will consider social and environmental impacts in all our decisions (see inside back cover).

Climate change is becoming an increasingly important issue for us as a finance provider, and it ties together a number of other environmental issues including water scarcity and biodiversity. Consequently, it presents a range of risks and opportunities for us through our customers, and we are working to improve our understanding in this area. This is of particular importance to us because we provide significant finance to the agribusiness sector, which may face increased exposure to risk as a consequence of extreme weather events and potential long-term loss of species.

In two of the regions in which we operate, governments are signatories to the Kyoto Protocol and this means that we are operating in environments where our customers either currently experience, or will soon experience, a market price for carbon. In the European Union the Emissions Trading Scheme commenced in January 2005, and in New Zealand introduction of a carbon tax is planned for 2007. We have commenced work to better understand these environments, to talk with our customers and stakeholders and understand their views and to look at how we might help them to respond to climate change issues going forward.

As our stakeholders have become increasingly knowledgeable, there has been a growing awareness of the indirect impacts or influence that the finance sector can have through both its supply chain and lending practices. We have therefore been increasing our focus on supply chain management (refer to pages 44 to 47). This has included implementation of an environmental procurement policy in each regional business and the development of a new Commitment to Fair International Workforce Standards (refer to our Group website \*). We have also taken time to develop our understanding of stakeholders' interests in the indirect impacts of our lending practices and to develop better ways to report on these issues (refer

to pages 55-56). We acknowledge this area is one where there is still significant discussion to be had and work to be undertaken.

Improving levels of financial literacy and dealing with financial exclusion are also issues on our agenda. Every day people use and spend money and make decisions in relation to financial matters. They go shopping, get a loan, read a bank statement, buy shares, and plan for retirement. Financial literacy is the basis from which they are able to make these decisions and effectively use financial products and services. Research shows that the level of financial literacy in our communities is not good and that it is exacerbated by the complexity of financial products and services. Therefore, in response, we are working to simplify our customer communications (refer to page 42) and give people basic skills in managing their finances (refer to page 40). Our approach varies from region to region in response to local needs.

Financial exclusion occurs where people don't have access to appropriate financial products and services, and may not have the opportunity and ability to make informed decisions about financial matters. This includes issues ranging from disability access to ATMs to the provision of services in remote areas, or the ability to gain access to financial products when on a low income. Each regional business has incorporated locally relevant activities to address financial exclusion through its products, services and specific aspects of our CSR programs (refer to pages 40 to 41).

Benchmarking and monitoring performance is also an important part of our CSR strategy (refer to page 6). It allows us to view our performance through the eyes of our stakeholders and independent analysts. It also helps us to identify gaps in our performance and to identify areas for future improvement.

We will continue to develop our CSR strategies and to further embed CSR into the fabric of our business.



Motuora Island in the Hauraki Gulf, New Zealand where a kiwi chick was released as part of the work of the Kiwi Recovery Trust.

**Table 1: Our CSR strategy elements at a glance**

CSR strategy components	CSR strategy delivery elements
Making balanced decisions	Governance
	Compliance
	Monitoring risks and opportunities
	Managing our social, environmental and economic performance through policies, systems, business processes and programs
Building trust	Stakeholder engagement
	Disclosure and accountability
	Meeting our public commitments
	Reporting on our performance
	Assurance
Growing a great reputation	Benchmarking and measuring our performance

# Governance and management systems

Effective governance is of vital importance for NAB. It is a fundamental part of our culture, policies and business practices and is undertaken with due regard to our stakeholders and our role in the community.

It is clear from recent experience, both our own and that of the wider business community, that good governance in both financial and non-financial areas is integral to managing a successful corporation and to ensuring its good reputation. This is also reflected by the growing interest of civil society, regulators and the investment community in our non-financial performance.

This section outlines our integrated approach to governance in general, including corporate governance, risk management, and key policies, management systems and business practices related to CSR. The 'Progress on our promises' highlighted below provides an update on our performance against the promises we made in our 2004 CSR Report in relation to our governance processes and management systems.

## Corporate governance

The Board of Directors is responsible for the corporate governance of NAB and oversees the strategies, policies and objectives of the Group. Our directors are committed to meeting high standards for corporate governance.

This year we completed our Board renewal program. A total of eight new directors have been appointed to the Board since September 2004. At the end of the financial year on 30 September 2005, the Board consisted of 13 directors (see photographs opposite), 10 of whom are independent non-executive directors, including the Chairman, Michael Chaney, who took over from Graham Kraehe on 28 September 2005. The three executive directors include the Managing Director and Group Chief Executive – John Stewart, the Director, Finance & Risk – Michael Ullmer, and the Chief Executive Officer, Australia – Ahmed Fahour. Our Board directors have a broad range of expertise, skills and experience from a diverse range of backgrounds (refer to our 2005 Annual Financial Report on our Group website \*). On 1 December 2005, Patricia Cross and Kerry McDonald took up their appointments on the Board, taking the total number of directors to 14.

## Progress on our promises

Promises	Comments
We will continue to upgrade our business procedures in each country in which we operate as the laws and regulations change.	We have been making changes to business procedures across the Group to meet the requirements of the Basel II Capital Accord, s404 of the US Sarbanes-Oxley Act of 2002, International Financial Reporting Standards, and Anti-money Laundering legislation. In response to the March 2004 APRA report in respect of the foreign currency options trading losses, significant progress has been made in addressing risk systems and procedures in accordance with the APRA remedial actions and the ASIC enforceable undertaking. A key outcome was the re-opening in May 2005 of the foreign currency options trading desk.
We will operate with greater transparency and embrace a culture of greater openness and honesty.	Over the past year, we have reviewed our voluntary disclosure practices, resulting in approval of new decision-making processes to help embed a culture of openness and honesty. We have also undertaken extensive internal communications to reinforce our Corporate Principles and behaviours and to develop a culture of openness and honesty. This will continue to be a priority. Our disclosure policy covering continuous disclosure was reviewed during the year, and the revised policy was implemented in September 2005.
Matters raised by regulators will be promptly acknowledged and responded to, and when appropriate, brought to the attention of the Board.	New protocols have been developed to ensure that matters are examined, escalated and appropriate action taken in a timely manner. We will continue to work on proactive engagement with our regulators.
Changes to our Whistleblower's Policy to account for differences in the Asian region and enable the policy to be extended to the region.	Our Whistleblower's Protection Policy has now been extended to our business operations in Asia, with regional amendments to take into account local requirements.

## Board of Directors



Michael Chaney  
Chairman



Graeme Kraehe  
(Retired Sept 27)



John Stewart  
Managing Director &  
Chief Executive



Peter Duncan



Robert Elstone



Ahmed Fahour  
CEO, Australia



Daniel Gilbert



Paul Rizzo



Jillian Segal



John Thorn



Geoff Tomlinson



Michael Ullmer  
Finance & Risk Director



Malcolm Williamson



Patricia Cross  
(commenced 1 Dec)



Kerry MacDonald  
(commenced 1 Dec)

## Independence of directors

Having a majority of non-executive independent directors on the Board and standing Board committees is an essential element of governance at NAB. Our Board has adopted independence standards to assist it in making decisions about director independence. These standards reflect the independence requirements of applicable laws, rules and regulations, including the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the corporate governance standards of the New York Stock Exchange, and the US Sarbanes-Oxley Act of 2002.

The fundamental premise of the standards is that an independent director must be independent of management and free to exercise his or her unfettered and independent judgement. Directors are required to provide all relevant information to allow a regular assessment of independence. More detailed information on our standards and definition of independence is available on our Group website \*.

## Responsibilities of the Board

The Board has a formal charter that details its functions and responsibilities. This is available on the Group's website \* and is detailed in our 2005 Annual Financial Report and Concise Annual Report in the Corporate Governance Statement.

The most significant Board responsibilities in relation to CSR are to:

- consider the interests of all stakeholders
- approve and monitor corporate strategy
- review business results, monitor budgetary control and necessary corrective actions and processes
- establish and monitor the risk management processes and compliance with prudential regulations and standards and other regulatory requirements

- approve key executive appointments and monitor executive succession planning
- monitor the performance of the Managing Director and Group Chief Executive and senior management
- approve executive remuneration
- monitor and influence the culture, reputation and ethical standards of the Group
- monitor Board composition, director selection, Board processes and performance.

Full details of the responsibilities of our Board are available in our 2005 Annual Financial Report on our Group website \*.

The Board provides the highest level of governance and oversight for our CSR strategy. Refer to the CSR governance framework on page 10.

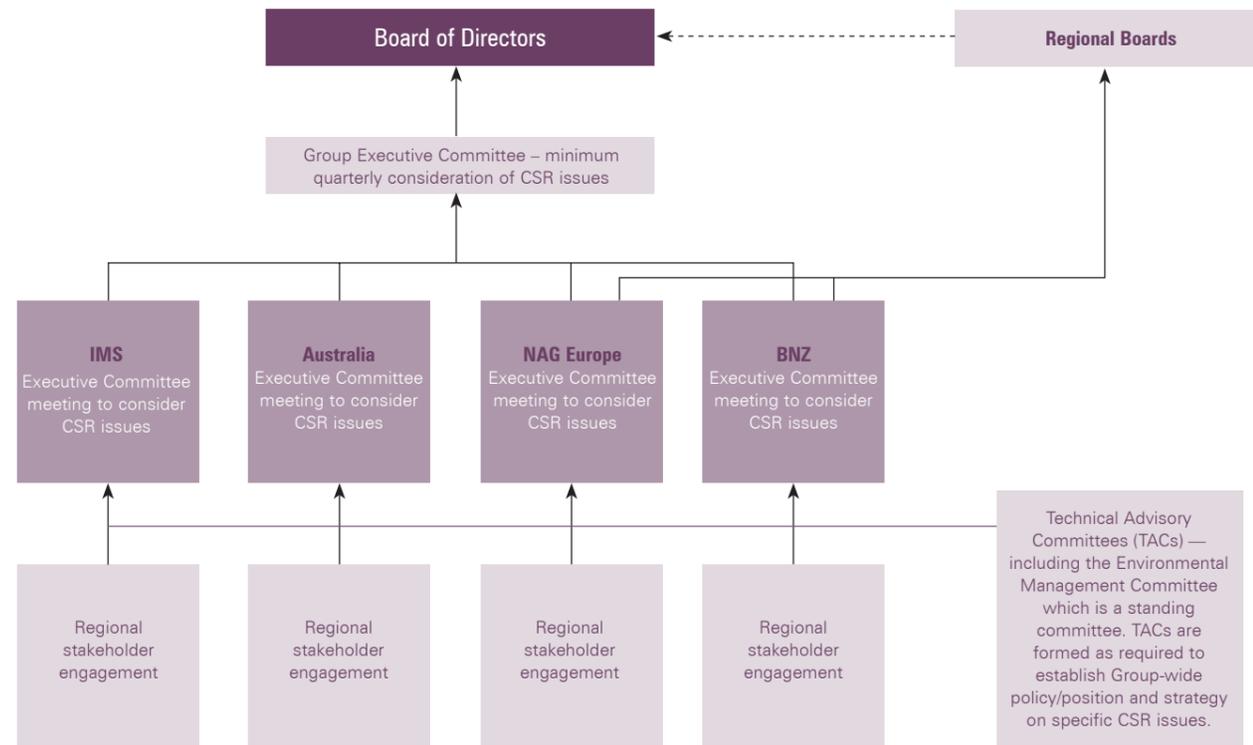
## Board committees

The Board has established four committees to assist it in meeting its responsibilities. These include the:

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

Information on the roles and responsibilities, the composition and membership of Board committees and copies of committee charters can be found on our Group website \*.

This year, a number of the directors actively participated in a review of the Group's corporate community investment strategy.



**Figure 2: NAB's CSR governance framework**

## CSR governance

In line with the our regional business model and our strategy to simplify the way we do business, we have revised our CSR Governance Framework to give regional business executive committees a clear line of sight and accountability on CSR strategy implementation and regional delivery. The new CSR Governance Framework is illustrated in Figure 2.

Over the past 12 months, the regional and Group Executive committees have considered CSR issues such as our corporate community investment strategy and the development of our customer charters. This change in structure will facilitate the ongoing evolution of the Group's CSR strategy and the implementation of CSR policies and related programs.

The Corporate Centre and each regional business have personnel specifically dedicated to coordinating and facilitating engagement on CSR issues. We also establish Group-wide internal Technical Advisory Committees (TACs) on an ad hoc basis to support the development, implementation and review of specific CSR issues. The TACs consist of representatives from across the business, as relevant and appropriate to the CSR issue under consideration.

This year we had three operational TACs. One to conduct a review of our corporate community investment (refer to page 19), another to assist in the development of Customer Charters across the Group (refer to page 39) and the third to develop our Commitment to Fair International Workforce Standards Policy.

In 2005, the new Group Operational Risk and Compliance Committee (GORCC) was given responsibility for oversight and review of CSR frameworks and policies. Matters raised by the GORCC in regard to CSR-related risk issues may in turn be brought to the attention of the Group Risk Management Committee and the Board Risk Committee, (refer to Figure 3 on page 12).

## Our policies and management systems

### Our principles, standards and Code of Conduct

All employees have responsibility for ensuring that we adhere to our Corporate Principles, Compliance Standards and Code of Conduct. They are embedded into our performance management system to create a platform for cultural change. Our Code of Conduct, Conflict of Interest policies and Group Fraud and Corruption Policy provide a framework to minimise the potential for corruption and bribery across the Group.

Our Corporate Principles (inside back cover), Compliance Standards and Code of Conduct are available on our Group website [\\*](#).

### Whistleblower protection

Creating an environment of openness, trust and accountability is part of NAB's commitment to all employees and to being a responsible corporate citizen. We want our culture to be one that promotes good ethical behaviour and also enables us to meet compliance responsibilities in all area of our business. This is built into performance management and reward policies and processes. When this doesn't occur, then we want to ensure that our people feel comfortable raising concerns.

To facilitate this, NAB has had a Whistleblower Protection Program in place since 2003. This program incorporates a Confidential Alert Line for employees to raise concerns regarding undesirable business conduct. In addition, a protocol has been established whereby matters can be brought to the attention of the Board Audit Committee and, if the circumstances warrant, to the attention of the full Board. In the past year, following a review of our Whistleblower Program, we have:

- further educated senior management in regard to whistleblower concepts and implementation
- held workshops for our people leaders
- initiated a staff awareness campaign
- improved guidelines, training and reporting.

We also received assurance that our program complies with the Australian Standard AS 8004:2003 Whistleblower Protection Programs for Entities.

## Our policies

Our Board and Group Executive Committee have approved a wide range of policies that guide our day-to-day business processes, practices and behaviours. Some of these policies specifically address key aspects of our approach to the economic, social and environmental dimensions of CSR. The breadth of these policies is illustrated in Table 2. This list is not exhaustive but highlights some key CSR-related policies.

Our policies are reviewed, as appropriate, to consider best practice, emerging issues and the changing regulatory environment. In 2005, we reviewed our environmental policy, developed and published a new policy on Fair International Workforce Standards and commenced a review of our environmental procurement policy to incorporate considerations of our Commitment to Fair International Workforce Standards.

## Political donations

NAB's policy is not to make donations to any political party, as we believe that our commitment to a balanced approach to stakeholders can be best fulfilled by supporting the community directly. However, representatives of NAB may attend party conferences and political functions. This attendance is for strictly commercial reasons and only where the price charged is not in excess of the commercial value, in terms of access, to attendance at the function. This policy can be viewed on our Group website [\\*](#) and was adhered to in 2005. In Australia, we support bipartisan political debate through our sponsorship of the National Press Club and support for the Australian Future Directions Forum.

## Management systems

The Group has a range of systems to help us manage our day-to-day business. Key management systems are focused on issues such as risk management and compliance, customer service, product development, credit risk assessment and people management. Further information on our systems is provided in the following sections on people management (pages 24 to 33), occupational health and safety (page 32), and environmental management (pages 49-50).

**Table 2: Key policies of CSR relevance**

Environmental policy
Environmental procurement policy
Commitment to fair international workforce standards
Code of conduct
Statement of corporate principles
Statement of compliance standards
Conflict of interest policies
Occupational health and safety policy
Equity in employment policy
Harassment and bullying policy
Sexual harassment policy
Workplace management and injury rehabilitation policy
Electronic communications policy
Third-party risk policy
Credit risk policy
Fraud and corruption policy
Whistleblower protection policy
Disclosure policy
Insider trading policy
Remuneration policy
Performance management policy
Media policy
Privacy policy
Customer due diligence policy
Trade practices compliance policy

## Risk management

Effective management of risk is a key capability for a successful financial services provider, and is fundamental to NAB's strategy.

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

- all business decisions include the consideration of risk
- business managers use our risk management framework to appropriately balance both risk and reward
- all employees are responsible for risk management in their day-to-day activities
- risk management is a core competency area for all employees.

The Group manages risk within a 'three lines of defence' framework. Control is exercised through clearly defined delegations of authority and clear communication channels. The first line of defence comprises the business units managing risks associated with their activities. The second line is our Group and regional risk functions, which are accountable for independent monitoring and oversight. The third line of defence is Internal Audit, which independently reviews, monitors and tests compliance with risk policies and procedures and regularly assesses the overall effectiveness of our risk management framework.

Consistent with our move to a regional model, we completed a review of our Risk Governance Framework and risk management function in January 2005. The new Risk Governance Framework is designed to identify, examine and escalate problem areas so appropriate action can be taken in a timely manner. Our risk management function is structured to align risk management with the new regional structure. This has provided clear accountabilities at both a regional and Group-level and improved risk management within the Group through benchmarking against best practice. The revised framework was approved by the Board in April 2005.

There are now four regional risk management teams: Australia, the UK, New Zealand, and IMS (managed on a global basis). Regional teams independently monitor and assess their business risk profiles against established risk appetite parameters. They also assist the 'front line' businesses in the design and implementation of appropriate risk management policies and strategies, and work with the businesses to promote awareness of risk management practices. Together with the Group risk management function, they are working to embed our Corporate Principles and behaviours (see inside back cover) into organisational culture.

During the year, significant changes in key risk positions have occurred, with new risk professionals recruited to fill many positions. Our new risk leadership team has brought significant global perspective to the design of the revised Risk Management Framework and effective management of risk throughout the Group.

As part of the review of the risk management function, a new Group Risk Management Committee has been created. This Committee is composed of key senior executives, including

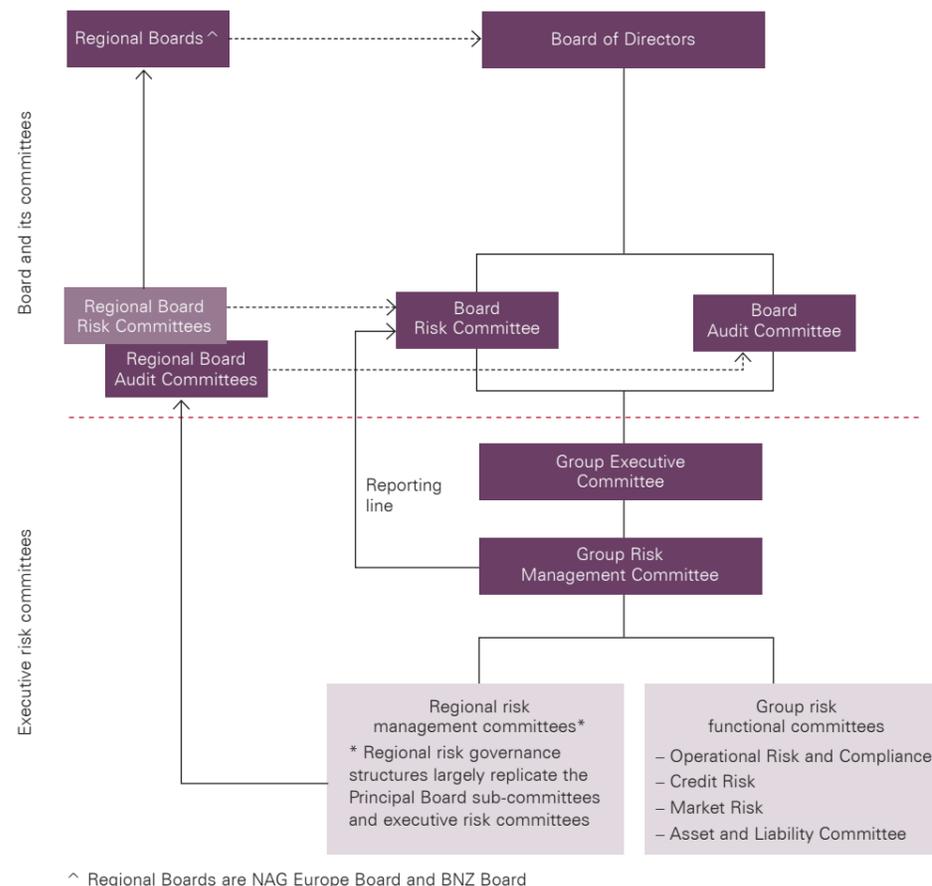
the Managing Director and Group Chief Executive, the Director – Finance and Risk and Group Chief Financial Officer, the Group Chief Risk Officer, each of the regional Chief Executive Officers, and the Executive General Manager, IMS. It serves as the principal risk strategy and policy decision-making body within the Group.

This committee is supported by the following four sub-committees, each with a specialised focus:

- Group Credit Risk Committee
- Group Market Risk Committee
- Group Operational Risk and Compliance Committee
- Group Asset and Liability Committee.

The Group risk management function supports the regions, executive management, and the Board through the creation of Group-wide risk principles and policies, and provides aggregated reporting of risk issues, mitigation strategies and policy changes to Group Risk Committees, the Board Risk Committee and ultimately the Board.

Figure 3 illustrates our new Group risk governance framework, its delegations and reporting lines.



**Figure 3: Group risk governance framework**

Each of our four businesses also has a senior executive Risk Management Committee, which serves to provide a leadership focus on key risk issues from a regional perspective.

The Risk Committee of the Board reviews the Group's risk appetite and oversees the overall Risk Management Framework. This Committee focuses on key elements of risk, including regulatory compliance risk, market risk, credit risk, balance sheet management, interest rate risk, and operational risk. CSR issues are included as part of operational risk.

For further information on our Board Risk Committee including its members, responsibilities and charter, refer to page 75 of our 2005 Annual Financial Report on our Group website \*.

### Independent review

Internal Audit is an integral component of our risk management structure, independently reviewing, monitoring, and testing business unit compliance with risk policies and procedures, and regularly assessing the overall effectiveness of the Risk Management Framework. Our Internal Audit function is guided by a Charter, which sets out the objectives, responsibilities and operation of Internal Audit within the Group.

This year, Internal Audit played a key role in the review of this Report. Table 3 shows the number of internal and CSR-related audits completed by internal and external auditors in 2005

### External audit

External audit is undertaken in a number of areas ranging from financial statements, certain legislative compliance, occupational health and safety management, environmental management to our annual financial and CSR reporting. Details of the audit and non-audit services provided by our external auditor are described in our 2005 Annual Financial Report on pages 18 and 222-223 on our Group website \*.

### Responding to regulators and regulatory change

Both within the financial services industry and more broadly, businesses are working within a changing regulatory environment. APRA is the prudential regulator of the Australian financial services industry. The Bank for International Settlements (BIS) has released a revised regulatory framework known as the Basel II Capital Accord (Basel II). This sets out international benchmarks for assessing banks' capital adequacy requirements. APRA has released draft prudential standards for conformity with Basel II. Consistent with

APRA requirements, the Group has submitted its application for Basel II accreditation. This forms part of an accreditation process that will continue through to calendar year 2007.

The work undertaken during 2005 in preparation for NAB's accreditation application in September 2005 underpins efforts to enhance our internal risk processes. The Group continues to monitor developments and is working with its key regulators in Australia and overseas to ensure that the Group's Basel II program aligns with regulatory requirements.

We have made significant progress in response to the March 2004 APRA report in respect of the unauthorised foreign currency options trading losses. This Report identified deficiencies in our market risk systems, governance processes, and organisational culture. We continue to implement actions regarding our risk systems and procedures in accordance with the remedial actions specified by APRA and the ASIC enforceable undertaking. A key outcome of this work was the re-opening in May 2005 of our foreign currency options trading desk. The group is also progressing with its internal market risk model re-accreditation. The business continues to focus on a proactive approach to risk management and regulatory compliance. For further information refer to the 'report of the directors' on page 101 and information on risk pages 58 to 64 and the changing regulatory environment pages 16 to 17 of the 2005 Annual Financial Report on our Group website \*.

### Anti-money laundering

In most countries in which the Group operates, measures have been adopted to combat use of the financial system for money laundering, as well as to restrict the financing capacity of terrorists and their organisations. The Group continues to develop its business practices and systems for the detection and prevention of transactions that may involve prescribed terrorists or money laundering. We have also been involved in discussions with the Australian Government around the content of its draft regulations.

### Moving forward

Planned actions for 2006 include:

- streamlining CSR governance processes to reflect our regional model
- aligning the CSR Report with the annual financial reporting process.

**Table 3: Internal and external CSR-related audits completed between 1 July 2004 and 30 June 2005**

	Number	Time taken (days)
Internal audits	389	20,534
Internal credit risk audits	16	709
Internal CSR reporting audits	1	48
Internal occupational health and safety audits	5	20
External occupational health and safety audits	217	117
External environmental audits	1	12
External CSR reporting audits	1	85



We will be open and honest and treat everyone with fairness and respect. We will actively listen and respond appropriately to our stakeholders, with the goal of building trusted relationships.

# Stakeholder engagement

World Vision Australia Chief Executive Officer and Chair of NAB's Australian External Stakeholder Forum, Rev. Tim Costello, at NAB's Docklands building.

## stakeholder

To build and grow a sustainable business over the long term, it is important that we understand the mutual dependence that a company has with its stakeholders. NAB recognises the importance of these relationships and is committed to understanding the views of, and engaging with, our stakeholders so we can build relationships based on trust.

Stakeholder relationships based on trust assist in proactively identifying and understanding current and emerging issues, avoiding risks and reputational blind spots, and moving 'beyond compliance' into value creation. Building trust in relationships takes time, effort and demonstrated commitment to meeting expectations. NAB is committed to improving its stakeholder relationships in this way.

This section provides an overview of our key stakeholders and their interests. It also highlights some activities we have undertaken in 2005 to monitor the current state of our stakeholder relationships and to build our understanding of key stakeholders' views. The 'Progress on our promises' highlighted below provides an update on stakeholder-related commitments and promises from our 2004 CSR Report.

### Our approach to stakeholder engagement

Over the past few years, NAB has been criticised for its lack of transparency and engagement with external stakeholders. In response, we are being more rigorous in facilitating meaningful stakeholder engagement, and will continue to make it a priority.

Table 4 (page 16) provides an overview of our key stakeholders, which we have identified on the basis of mutually shared interests. The table also highlights the ways in which we seek to engage with these stakeholders. Feedback from stakeholders is valued within the organisation. Throughout this Report, we have highlighted areas where we have adopted stakeholder suggestions, engaged with stakeholders to develop better understanding of an issue, or worked with them to achieve a mutual goal.

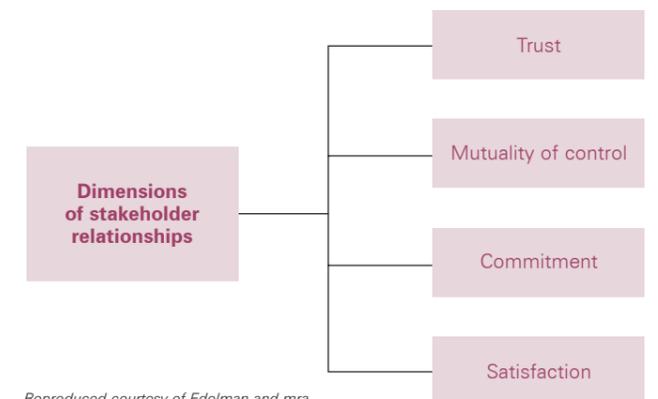
### Responding to stakeholders' views

Following the release of our first CSR Report in 2004, we wanted to understand our stakeholders' views about its usefulness, and the relevance of the issues that we covered. We did this by engaging a number of our key stakeholders in one-on-one feedback sessions and have incorporated many of their suggestions into this Report.

This year, for the first time, we have also asked our external auditors to review our processes for stakeholder engagement and consultation (refer to page 61). This is to provide an independent view of how we have taken stakeholders' views into account and identify further opportunities for improving stakeholder engagement.

### Measuring the quality of our relationships

In June 2004, we measured the quality of our relationships with key external stakeholders in the Australian region. We commissioned independent researchers (mra) to undertake a qualitative and quantitative survey using the Relationship Index. This Index measures the quality of our relationships with our stakeholders on four key dimensions – trust, mutuality of control, commitment and satisfaction, as illustrated below in Figure 4.



Reproduced courtesy of Edelman and mra

**Figure 4: Dimensions of relationships measured by the Relationship Index**

Key findings of this research became available early in the 2005 reporting period and showed us that:

- the events (foreign currency options losses and governance issues) that occurred in 2004 impacted negatively on the quality of our relationships, but stakeholders recognised our genuine efforts to address our problems and rebuild trust and the quality of our relationships with them
- stakeholders had not always felt fully engaged by the organisation but in more recent times they believed we were becoming more considerate of stakeholder opinions
- initiatives such as the production of the CSR Report were seen as evidence of our a long-term commitment to transparency and accountability
- there were opportunities for more open and honest communication.

### Progress on our promises

#### Promises

We are committed to broader stakeholder dialogue with our communities to ensure we understand and are responding to issues of concern.

The results of research will be used to improve stakeholder programs in 2005.

#### Comments

In 2005, we have met this commitment through our Australian Stakeholder Forum, participation in industry consultation processes, our regional stakeholder survey and a number of other stakeholder engagement activities.

The results of stakeholder surveys and research undertaken in mid-2004 have been used to inform our stakeholder engagement in 2005.

The 2004 Relationship Index results have been used to establish a baseline measure of the quality of our stakeholder relationships in Australia. They have also influenced our stakeholder engagement strategies for 2005. We are committed to continuing to improve our stakeholder relationships. In June 2005, we commenced a second round of external stakeholder research using the Relationship Index and we expanded the survey to include stakeholders in New Zealand and the UK. We will use these results to monitor the effectiveness of our stakeholder engagement processes to date and to make further improvements in our strategies for 2006.

## Australian External Stakeholder Forum

Our Australian business formally liaises with Australian opinion leaders through its External Stakeholder Forum, which is hosted by our Australian region CEO, Ahmed Fahour, and chaired by Rev. Tim Costello, CEO, World Vision Australia. The Forum, which has operated since 1998, consists of 10 community and opinion leaders who have expertise covering a range of areas from environment and agriculture to consumer affairs, small business, social policy and community services.

The Forum met four times in the 2005 reporting period. Issues that have been discussed by the Forum include MLC's investment practices, credit risk policies, with a specific focus on how environmental and social risks are treated, project finance and the Equator Principles, executive remuneration, indebtedness and our collections process, and our CSR strategy and activity within the region.

The Forum continues to give our Australian business a better understanding of the needs and concerns of the local community. It has also provided the participating community leaders with an understanding of the issues that the NAB must grapple with in its day-to-day activities.

## Industry consultation and engagement

We actively participate in industry and business forums both on a global and regional level to progress issues of common interest and concern to our industry peers and stakeholders. We are both a signatory and respondent to Carbon Disclosure Project 3, and members of a range of industry bodies (see Table 5) and the United Nations Environment Program Finance Initiative.

In 2005, the Group made a number of submissions to government and regulators. This included a pre-budget submission to the Australian government.

We also contributed to a number of industry submissions made by the Australian Bankers Association (ABA), including submissions to the Attorney General on proposed anti-money laundering legislation; the access submission to Human Rights and Equal Opportunity Commission; the Senate inquiry into possible links between household debt, demand for imported goods, and Australia's current account deficit; APRA's proposed prudential regulations on governance and fitness and propriety of officers; the Reserve Bank of New Zealand on its proposed outsourcing policy; and a submission to the Trans-Tasman Council on prudential regulation.

## Communicating with shareholders

Shareholders are an important group of stakeholders for our business. Information is communicated to shareholders regularly through a range of forums and publications. These include our annual general meeting, notices and explanatory memoranda of annual general meetings; our annual reports; disclosures to relevant stock exchanges and to ASIC and the US Securities and Exchange Commission (SEC); letters from the Managing Director and Group Chief Executive or the Chairman on specific matters of shareholder interest; and the Shareholder Centre on the Group's website. Shareholders are also encouraged to attend the annual general meeting and ask questions of the Chairman, directors, senior management and the external auditor. For those shareholders who are unable to attend the meeting we provide a webcast.

**Table 5: Key industry memberships**

American Australian Association
Asian Bankers Association
Association of Payments and Clearing Systems (UK)
Association of Super Funds of Australia
Australasian Financial Markets Association
Australasian Investor Relations Association
Australia & New Zealand Chamber of Commerce, Japan
Australian Bankers' Association
Australian Chamber of Commerce Hong Kong
BACS Payment Scheme (UK)
British Bankers' Association
Business Council of Australia
Chartered Institute of Bankers Scotland
Committee of Scottish Clearing Bankers
Council of Mortgage Lenders (UK)
European Australasian Business Council
Finance and Treasury Association
Financial Planners Association of Australia
Hong Kong Association of Banks
Institute of International Bankers
Institute of International Bankers (USA)
International Bankers Association, Japan
International Swap and Derivatives Association
Investment and Financial Services Association (Aust)
New Zealand Bankers' Association
Overseas Bankers Association of Australia
Scottish Financial Enterprise
The Committee for Melbourne
The Global Foundation

Our Investor Relations team plays a key role in effectively communicating to, and engaging with, the investment community. This is achieved via results briefings, domestic and international investor road-shows and other access to management. NAB also participates in a biannual survey to measure and monitor institutional investor confidence. This tests the perception and opinions of analysts and other relevant opinion leaders and the results are reported internally to senior management and the Board and form part of our action plans to improve investor relations.

## Moving forward

Planned actions for 2006 include:

- finalising discussions with Finsec, the financial services union in the UK, on a revised Recognition Agreement, which reaffirms their importance as a key stakeholder
- repeat the Relationship Index Survey in Australia, the UK and New Zealand in 2006.

**Table 4: Our internal and external stakeholder relationships**

Stakeholder	Area of interest and engagement	Approaches to stakeholder communication and engagement
Boards	Governance; key risks and opportunities; emerging strategic issues; compliance	Monthly Board meetings and ad hoc workshops; director education; briefings by management
Employees and contractors	Workplace policies and practices; Support programs such as employee assistance, child care, and health and fitness	Biannual employee opinion surveys and 'pulse checks' Intranet, staff newsletters and internal TV Employee feedback processes Focus groups Confidential alert line
Customers	Product and service improvement; fees and charges; access and inclusion; transparency; debt	Customer and product development and research – surveys and focus groups Quarterly Australian Stakeholder Forum Customer reputation measurement
Shareholders and the investment community	Return on investment; forward strategies; growth and sustainability of returns; disclosure	Annual shareholder survey; annual general meeting; investor relations website; investor presentations; continuous disclosure; half yearly and special analyst briefings; participation in analysts' surveys
Governments	Legislation; Parliamentary committees; draft regulatory proposals, especially policy development such as anti-money laundering	Regular meetings and briefing sessions Participation in government consultation processes
Regulators	Compliance; performance and reporting	Regular meetings and briefing sessions and improvements in quality of reporting
Suppliers	Procurement standards and requirements, environmental and social performance	Supplier surveys On-going relationship management
Media	Transparency and disclosure	National Press Club sponsorship Regular and special media briefings
Unions	Enterprise bargaining; workplace practices; organisational change such as the move to our regional business model, branch closures and consideration of offshoring; restructuring and redundancies	Our Global Union Engagement Strategy Regular consultative meetings and processes – at least fortnightly
Non-government organisations	Financial inclusion and accessibility, and other issues of environmental and social responsibility	Stakeholder surveys; development of shared projects; one-to-one consultation and engagement
Industry groups and associations	Anti-money laundering; environmental credit risk and performance; corporate social responsibility	Participation in industry associations and like organisations
Local, regional and global communities	Corporate social responsibility; corporate community investment	Sponsorship and staff involvement in, and support of, local community projects and activities across our global operations



It matters to our employees that they can contribute to, and be connected with, the diverse communities in which they work and live.

# Supporting our local communities

NAB staff members, Sarah Woodley and Philippe Jacquot, help care for some of the Collingwood Children's Farm's new arrivals, Melbourne.

NAB has a long-standing and established commitment to creating and delivering value in the communities in which we operate. We believe that generating profits brings with it broader responsibilities and that our long-term success will depend on their prosperity and sustainability. Therefore, we are committed to working together with our community partners to improve the quality of people's lives and the environment.

This section of our report provides an overview of our approach to community investment, and key community investment programs including case studies on a number of initiatives. The 'Progress on our promises' highlighted below provides an update on community investment commitments and promises from our 2004 CSR Report.

### Community investment – our approach

Across the Group, our regional businesses have chosen one or more primary areas of focus for their corporate community investment. The major themes in each region are as follows: the UK – financial literacy, Australia – alleviating disadvantage and community-based sport, and New Zealand – environmental conservation, with a focus on biodiversity. Other themes include developing business enterprise, health, education and the arts.

Through our Corporate Community Investment (CCI) programs we aim to leverage our people and skills, along with our financial and other resources, to help meet community needs. That said, we believe that our CCI should be aligned with our business strategy and objectives and therefore create maximum value and benefit for both the community and our business.

We are now reviewing our key areas of focus for CCI to ensure that they are aligned with our business objectives and community needs. Being a large and global company provides us with an opportunity to share best practices that emerge across the Group, as well as learning from global benchmarks in the external environment. We have taken time over the last year to undertake this review. We formed a Group-wide Technical Advisory Committee for this purpose. The Committee was given the task of undertaking a stock-take and evaluation of our current strategies, developing objectives and a framework for improving our management of CCI, and establishing a target for our investment. This Committee has reported the outcomes of its work to the Board.

To date, the Board has endorsed five key objectives for CCI across the Group as well as a framework of ten principles to guide our CCI investment (see our Group website [\\*](#)). They have also approved a medium-term objective that we will move towards a CCI target of 1% of pre-tax profit. The next stage of our review is to confirm future themes, initiatives and partnerships.

### Contribution to the community

The Group's total community investment contribution in 2005 was \$17.7 million (see Table 6). The regional breakdown of this expenditure is shown in Figure 5 (overleaf).

**Table 6: The NAB's 2005 total Corporate Community Investment expenditure<sup>#</sup>**

	Total expenditure 2005 \$ ('000)	Total expenditure 2004 \$ ('000)**
Charitable gifts	2,754	1,241
In-kind: volunteering	1,816	1,739
In-kind: foregone revenue	5,423	2,400*
Community investment	2,253	2,879
Commercial initiatives in the community	4,319	3,253
Management costs	1,174	1,245
Total	17,739	12,757
% of pre-tax profit <sup>^</sup>	0.37	0.23

<sup>#</sup> We used the Australian Benchmarking Group (ABG) methodology as a guide for measuring our CCI.

<sup>\*\*</sup> 2004 figures have been restated to exclude CCI from the Irish banks. We have also changed our measurement methodology for in-kind volunteering. These changes have reduced the value of volunteering in 2004 by \$640,000. Improved application of the ABG methodology has seen a shift in CCI allocation from the community investment category to commercial initiatives in the community.

<sup>\*</sup> This figure does not include foregone revenue in NZ and the UK.

<sup>^</sup> This is percentage profit from ordinary activities before income tax expense using the available profit figures as at 30 June of the reporting period. 2003 pre-tax profit of \$5,628 million was used to calculate the 2004 figure. 2004 pre-tax profit of \$4,741 million was used to calculate the 2005 figure.

### Progress on our promises

#### Promises

Explore opportunities for NAB's Australian business and the Garvan Institute to come together in activities of mutual value.

Integration of community involvement programs in the UK, to increase similarity across the brands.

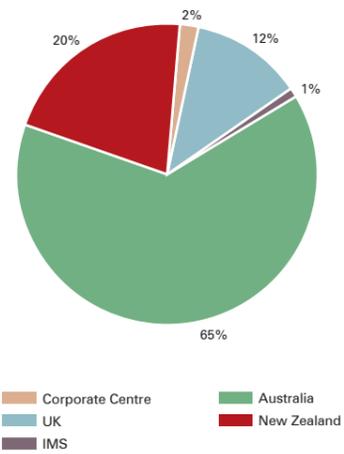
Launch of the Charity Partner Program in Clydesdale and Yorkshire Banks.

#### Comments

Our Australian business held a financial planning seminar for 60 of the Garvan Medical Institute's young scientists. Three of our Garvan advisers were in attendance. We also provided employee volunteers to assist with the Institutes charity golf day. The Garvan Institute presented a lunchtime information session to our employees at our Docklands location in Melbourne.

Community involvement programs have now been integrated across the Clydesdale and Yorkshire banks under three key themes: numeracy, financial capability & enterprise.

Our Charity Partner Program with the British Heart Foundation was launched in January 2005.



**Figure 5: Corporate Community Investment distribution by business area**

This year, we reviewed the way we account for, and report on, our CCI. We have elected to use the Australian Benchmarking Group's (ABG) methodology to account for our community investment. There is a growing awareness of the need to report on CCI in a standard manner to ensure proper accounting and enable comparison between companies. ABG is recognised, along with the London Benchmarking Group as best practice for standardised CCI reporting.

The standard ABG methodology allows inclusion of gifts of products from inventory and gifts of written-down products. However, as a financial institution, we don't have the physical products that are assumed by these inclusions in the methodology. Therefore, we have made one significant variation from this methodology to enable us to account for, and report on, foregone revenue, which is a significant part of our CCI as a financial institution. We forego revenue in the form of fees for some accounts to charities and to those customers who would otherwise suffer disadvantage. Additionally, in some cases, we provide interest on accounts to financially assist charities.

We believe these are valid and important contributions we make to the community and therefore we have included them in this year's reported CCI figures and recalculated our 2004 figures on this basis. In undertaking our assessment of this foregone revenue, we have assumed that 100% of the customers receiving these benefits would have remained NAB customers whether or not we provided the financial assistance.

### Our community investment programs

NAB's community investment programs vary across our businesses, but all include aspects of volunteering, charitable giving and financial support, community partnerships and commercial initiatives in the community.

In each of our businesses, we have dedicated people, both full and part-time, who manage our CCI programs. This year, we appointed a Group CCI Manager to support our CCI review and implementation of the strategy going forward. In Australia, we have also begun a program to give local branch managers greater responsibility for direct community donations and support.

### Helping homeless people

**"NAB has made a significant difference to PILCH by providing lawyers and funding including funding a consumer legal information series for homeless people."**

**John Corker, Director, National Pro Bono Resource Centre**

Our legal team is a member of the Public Interest Law Clearing House (PILCH), an organisation that provides pro bono legal assistance for public interest work in Victoria. Since 2001, we have assisted PILCH's Homeless Persons Legal Clinic (HPLC). Our lawyers have been giving their time and skills to help provide free civil and administrative legal assistance to, and advocacy on behalf of, people who are homeless or at risk of homelessness. This helps these members of our community to get back on their feet and to become productive members of the community again.

As part of this work, we proposed, organised and funded a series of monthly consumer legal information sessions for the homeless from September 2004 through until May 2005. These information sessions were run at the Lazarus Centre, a centre run by Anglicare providing emergency assistance such as clothing, washing machines and dryers and bathroom facilities, for use by the homeless of Melbourne. The consumer legal information sessions were aimed at providing homeless people with information on their rights and included sessions such as: how to access legal services; dealing with social security and Centrelink debt; and mental health: know your rights.

The Human Rights and Equal Opportunity Commission (HREOC) of Australia presented PILCH with a 'High Commendation' when presenting its 2004 Human Rights Medal & Awards for its "proven track record in the promotion and advancement of human rights in Australia". NAB's legal team received a copy of the award for their contribution.

### Volunteering

We support and encourage our employees to volunteer their skills and expertise in the community. Our businesses offer a range of volunteering opportunities that are developed with local organisations to support activities that fit within our CCI themes. This ensures a strategic fit with our business, improves the volunteer experience for our employees and provides a greater opportunity for us to leverage our skills for the benefit of the community and provide employee development opportunities. Sometimes volunteering is also used as a team-building exercise. In 2005, over 6,000 volunteer days were used across the Group.

In Australia, we provide our employees with an entitlement of two days volunteer leave, with the option of selecting business-led volunteering activities or nominating their choice of community activity.

Since 2003, our Australian business has been working with Conservation Volunteers Australia (CVA) to provide organised employee volunteer days with an environmental conservation and biodiversity focus. Outcomes from the 476 volunteer days undertaken for CVA during this year included planting of 16,530 grass stems and trees, weeding and revegetating an area equivalent to 17,327m<sup>2</sup>, and mulching an area of 150m<sup>2</sup>.



Nancy Spreckley delivering a presentation at St Andrews High School in Dumbartonshire.

In the UK, our employees have been involved in volunteering that supports financial literacy and numeracy with adults and in schools. In New Zealand, they have volunteered to help with the Kiwi Recovery Trust (see case study in this section) and to raise funds for charity organisation – Heart Children.

### Asian Tsunami Relief

Following the devastating consequences of the Asian Tsunami Disaster, NAB, along with many other organisations and individuals, used its resources both financial and in-kind to assist in providing emergency relief for those affected by the disaster.

On 28 December 2004, NAB announced it would establish an Asian Tsunami Relief Fund, with all its Australian, UK and New Zealand bank branches accepting public donations for a range of charities. More than \$500,000 in public donations was raised on the first day of the fund in Australia. NAB contributed approximately \$1.2 million in direct donations in Australia and New Zealand. The total donations collected by our bank branches globally was \$17.1 million.

In keeping with our corporate volunteering program, on Saturday, 8 January 2005, NAB provided more than 1,200 people (about 900 employees plus friends and family) at our Melbourne call centre to take donations over the telephone for World Vision's 'Reach out to Asia' telethon. The call centre received 67,751 calls and received 51,618 donations totalling \$6.4 million. The overall telethon raised a total of \$20 million. We also assisted a number of charities by volunteering to help them with activities such as mail-room duties, data entry and administration. In total, over 1,400 volunteers were involved.



To further assist with fund raising efforts NAB also:

- provided a facility to accept online donations
- waived fees for Australian customers making credit card cash advances into our accounts for charities assisting with relief efforts
- waived merchant fees for a number of charities collecting credit card donations in NZ and Australia.

A temporary financial relief package was also established for customers and staff who were stranded or who suffered loss as a result of the tsunami.

## Charitable giving

Across the Group, we provide charitable donations to the community in a number of ways.

Each region has one or a number of specific charity organisations with which we work to help further their cause and raise funds, as well as giving our own direct donations. In January 2005, our UK business announced a new association with the British Heart Foundation. This involves a direct donation from each of our UK banks and a matched giving program where fundraising by staff will be matched pound for pound by the banks. At 30 June 2005, our staff had raised around £22,000. This, together with the bank donations and matched funding had grown to £100,000 by 30 September 2005.

In New Zealand, our key charity in 2005 was Heart Children. In Australia, we support a number of charities including the Ovarian Cancer Research Foundation, the Garvan Medical Institute and the Australian Red Cross Blood Service. A more comprehensive list of the charities we support is available on our Group website [\\*](#).

IMS has supported the Financial Markets Foundation for Children for a number of years. This has included involvement in fundraising initiatives including the Foundation's annual dinner to which we invite employees and clients. Our Group Managing Director and Chief Executive, John Stewart, is a member of the Foundation's Board and for the next two years IMS will be responsible for coordinating the Foundation's fundraising activities.

In Australia, and in Clydesdale Bank in the UK, we provide staff with access to a payroll-giving scheme, which offers a tax-efficient way for employees to support a limited range of nominated charities.

Separately, in Australia, we also provide a community sponsorship program. Through this program each NAB location and branch can donate an average of \$1,000 to local community organisations. This year, a total of around \$780,000 was provided via this program to community organisations.

## Community partnerships

No single business or industry sector can address the challenging social issues that our society currently faces. Working together is the only effective way to find solutions to these issues. Our community partnerships involve us working directly with community-based organisations to achieve shared outcomes, addressing local needs and social issues across our three key business regions. Figure 6 shows the key areas of focus we have selected for our community partnerships. In 2005, we invested \$2.19 million in our community partnerships, one type of our CCI activity. The large environmental wedge in the figure shows the significant investment by the Bank of New Zealand in the Kiwi Recovery Trust.

Financial literacy and financial disadvantage are important social issues we have selected for focus through our community partnerships. In Australia, we have been working with the community organisation, Good Shepherd Youth and Family Services to pilot the stepUP Loan Scheme. This project is focused on addressing the issue of financial disadvantage, and giving those who would typically be excluded access to small no-interest loans to purchase items of necessity for their households. Further information on this work is provided on page 40.

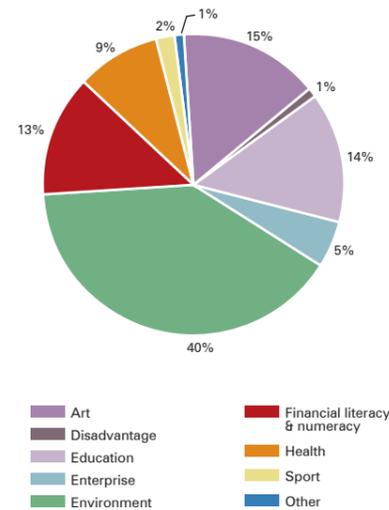


Figure 6: Community partnerships by area of focus

In the UK, we are working with community-based organisations to deliver several financial literacy projects across England and Scotland. These programs aim to support financial literacy in the community from pre-school through adulthood and include activities focused on assisting with the development of numeracy skills. Examples of these projects include the following activities.

- **Count Me In** is a pre-school numeracy program delivered through 14 local libraries in City of Dundee. The program also operates in Manchester under the title of **Maths in a Bag** and in Newcastle as **Fun with Numbers**. A total of 582 bags have been produced and over 30 story time sessions have been run in local libraries using the bags. Employees volunteered their time to deliver some of the story time sessions. The program is now being expanded in Scotland and England.
- **Count & Grow** is a numeracy program aimed at children aged 6–8 years. It was delivered in 130 primary schools across Scotland. This project involves children improving their maths skills through activities such as weighing and measuring while making observations about the growth of potatoes. Over 4,000 children participated in the Count & Grow project this year. An independent evaluation paid for by the Scottish Executive's Education Department commented that "without doubt the project has been rated an overall success". The program is now being expanded in Scotland and England.
- **Money and Me** is a program focusing on financial awareness for young people and adults who are clients of NCH, formerly known as National Children's Homes, a national children's charity. Originally launched in January 2004, the training pack was delivered this year through 500 NCH projects across Scotland, England and Wales.
- **Industrial Trust** is a numeracy program targeted at children aged 10–11 years. It is offered to primary schools located in the East Midlands and South Yorkshire areas. This program uses workbooks to bring numeracy to life through banking activities. It will be extended in 2006 to secondary schools and target 500 pupils in total.

- **Learning Buddies** is a numeracy project delivered in Edinburgh for adults. It seeks to use existing learners as ambassadors to encourage new participants in learning opportunities. Six ambassadors were trained over the year and delivered sessions to 36 groups. Resources and materials were also developed to assist the ambassadors in delivering their message. The project is to be expanded next year.

A full description of our community partnerships in each region is provided on our Group website [\\*](#).

## Commercial initiatives in the community

Commercial initiatives in the community are community development activities included as part of broader sponsorship activities. In this area, we have supported activities aligned with each of our eight themes for CCI. Major initiatives have included:

- supporting the Junior Games in Australia and encouraging the participation of children in grass-roots sport as part of our Commonwealth Games sponsorship
- supporting education programs and development schools for ballet in regional Victoria, as part of our Australian Ballet sponsorship.

A full description of our community initiatives in the community is provided on our Group website [\\*](#).

## Charitable trusts

NAB has a Charitable Trust operating in each of the three key geographies in which we operate. These trusts are run as stand-alone entities and have particular charters under which they operate. They include the People and Community Trust in Australia – which serves to support charities that are important to our employees, the Yorkshire Bank Charitable Trust in the UK, and the Kiwi Recovery Trust in New Zealand – which supports biodiversity. The case study opposite provides detail on the work of the Kiwi Recovery Trust. Further information on the activities of each of our regionally based Trusts is provided on our Group website [\\*](#).



Martin Pallet, Managing Partner, IFS Newcastle (left) number crunches with Ethan Ord and Judith Walker during a 'Fun with Numbers' session.

## Kiwi Recovery Trust – looking after our biodiversity



Bank of New Zealand Kiwi Recovery Trust is a partnership between Bank of New Zealand and the Department of Conservation (government agency) that commenced in 2002. The Trust helps to fund efforts by the Department of Conservation and community groups to save kiwi in their wild habitat in New Zealand.

The kiwi is regarded as an endangered species. Numbers have reduced to about 70,000 birds in New Zealand. The major objectives of the Trust are to:

- increase the number of kiwi chicks that survive in captivity and after release into selected habitats
- increase the number of natural habitats where the kiwi can live
- eliminate the kiwi's predators
- maintain the genetic diversity of the kiwi species.

Bank of New Zealand contributes to Kiwi Recovery Trust in four key ways:

- acting as a channel for fund raising by collecting public donations and producing cause-related products (see <http://www.kiwirecovery.org.nz/Home/>). Total funds donated in 2005 were: \$NZ 224,000.
- financial contributions and in-kind administrative and infrastructure support such as office accommodation (2005: \$NZ 575,777)
- raising awareness of the Trust and its activities through advertising and marketing (2005: \$NZ 236,667)
- employee volunteering to undertake activities such as stoat and predator trapping, kiwi and kiwi chick release, vegetation and habitat planting and assisting with fundraising activities.

This year the work of the Trust has achieved the successful hatching of 104 chicks throughout New Zealand. While the total nationwide kiwi population, including birds in the wild, is falling, managed kiwi sites in the North Island are showing population growth of around 20% per annum.

## Moving forward

Planned actions for 2006 include:

- complete our CCI review and confirm future themes, initiatives and partnerships
- improve our systems globally for collecting data, monitoring and reporting on our CCI activities
- raise our employees' awareness of the group-wide impact of CCI
- extend customer communications to explain our CCI activities.



We value a diverse workforce and each employee's unique contribution to the team.

# Our people

A selection of NAB staff outside the Australian headquarters at Docklands, Melbourne.

Our people help us connect with our customers and other stakeholders, and are a valuable source of ideas and innovation. With this in mind, we are focused on making the NAB a great place to work and an employer of choice for talented people.

The unauthorised foreign exchange options trading in early 2004 acted as a catalyst for change. We recognised that we needed to think and behave differently. As a result, we re-evaluated our culture, and developed a new set of Corporate Principles and behaviours (see inside back cover) which we reported in 2004. In the past year, we have been working on embedding the corporate principles and behaviours and have invested significant time and energy in developing a high-performance culture.

While we are pleased with our progress, we still have some way to go. Cultural change takes time, but we believe our focus on developing our people, simplifying the way we do things and improving customer service will ensure we keep heading in the right direction. We believe that if our people are satisfied and engaged with us, then our customers and other stakeholders will be too.

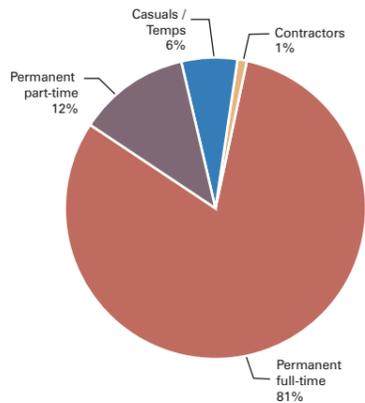
The following section provides a profile of our people for 2005 and outlines some of our people management practices and initiatives. The 'Progress on our promises' highlighted below provides an update on our performance against the promises we made about our people and culture in our 2004 CSR Report.

## Progress on our promises

Promises	Comments
We are changing our leadership teams, our structures, our culture and our strategies to embed key CSR principles.	New leadership teams and structures have been put in place in every region. Leadership forums have been held in each region on the Corporate Principles (refer to page 28).
The Board will participate in a workshop on the Corporate Principles.	The Board participated in a workshop on the corporate principles early in the 2005 calendar year.
We will recognise and reward employees who consistently model the Corporate Principles.	Recognition of employees who provide good demonstration of the Corporate Principles is also now included in our performance management processes. For example, our Group Finance and Risk Management team introduced 'Living the Corporate Principles' awards.
All management performance plans will include a quality gate overlay.	The Corporate Principles are embedded in all employee performance plans via quality gates (refer to page 29).
We will continue our commitment to feedback through employee surveys.	We conducted an Employee Engagement Survey (EOS) in May 2005 (refer to page 28).
We are encouraging employees to speak up and actively share ideas and information.	We communicated the importance of raising issues and concerns and provided a number of ways for employees to contribute their ideas (refer to pages 11 & 33).
A global learning management system is implemented.	An updated version of our online Learning Campus was launched in Australia in March 2005. This will now be rolled out in New Zealand and the UK (refer to page 30) during 2006.
A new NAB leadership program will be developed for senior and executive leaders.	An enhanced Leadership Journey Program was launched in November 2004. To date 140 senior leaders from Australia and New Zealand have commenced the training.
Remove structural barriers for women and marginalised groups.	This year we developed and commenced implementation of a new diversity strategy (refer to page 30). We continued to participate in indigenous and disability work placement programs (refer to page 31).
Targets for women in senior roles.	With the development of our new diversity strategy during the year, these targets were assessed as no longer being appropriate. We are now reviewing our options for facilitating the increased participation of women in management. This will include benchmarking our participation rates in relevant market places.
We will continue to participate in the indigenous employment initiative.	The NAB currently works with the Department of Workplace Relations (DEWR) to provide employment and training opportunities for indigenous Australians (refer to page 31).
We will work to improve our return-to-work statistics following parental leave & assist employees in their parental responsibilities.	A new project has commenced in Australia to understand the experiences and needs of employees who have previously taken parental leave and either left employment or returned to work.
Progress on child care survey results.	Implementation of action plan from survey has been deferred.
Review of 'pay averaging' pilot.	Pilot in was completed in March 2005 (refer page 29).
Group-wide framework for health, safety and well-being.	A group-wide framework was planned in 2004. However, with the implementation of the new regional business model, each region is now developing a regional health and safety strategy.
Annual meeting of senior representatives of unions and the Group.	The annual global union engagement meeting has been deferred to March 2006 by agreement between all parties (refer page 33).
BNZ and IMS will implement work/life balance and resilience initiatives.	In May 2005, BNZ Corporate Banking and IMS employees in New Zealand participated in a Resilience Program run by the Resilience Institute. In June 2005, a new role was created in within the People and Culture team, to focus on well-being and work/life balance initiatives and development of a wellbeing strategy commenced.

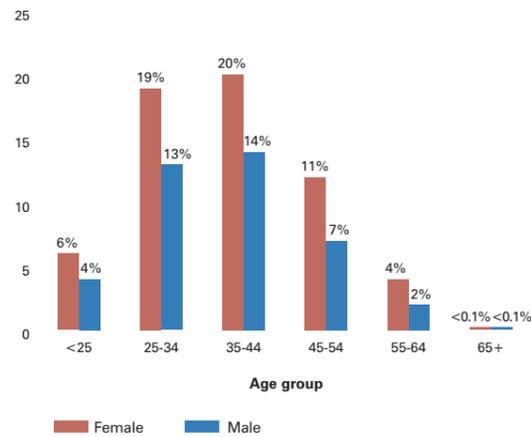
**Our people – the facts**

NAB employs a large and diverse workforce. Figures 7, 8, 9 and 10 provide a picture of our workforce profile. At 30 June 2005, we employed 39,328 full time equivalent employees (FTEs) in our operations globally. This is a 7.4% decrease in FTEs since 30 June 2004 and is primarily due to the sale of our Irish Banks, and the impacts of business restructuring, including a total of 1,460 redundancies across the Group, over the past year.

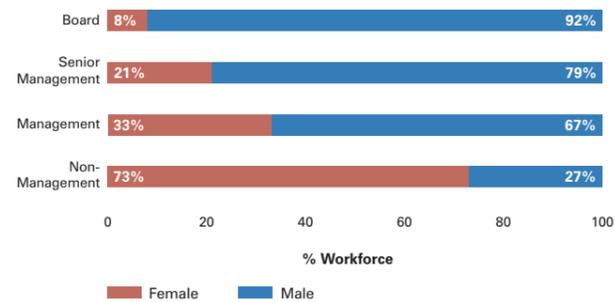


**Figure 7: NAB's workforce by employment type<sup>3</sup>**

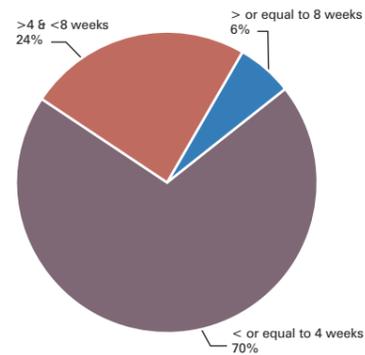
Of our total workforce, 60% is female. The percentage of women in middle management and senior management and executive roles is shown in Figure 9. Women in senior management positions have increased from 19% in 2004 to 21% in 2005. The number of permanent employees has decreased from 95.6% of our workforce in 2004 to 93% of our workforce in 2005. This has been accompanied by a corresponding increase in the number of casual or temporary employees.



**Figure 8: Percentage of total workforce by age and gender<sup>3</sup>**



**Figure 9: Workforce breakdown by gender and management level<sup>3</sup>**



**Figure 10: Annual leave accumulated (excl. UK)<sup>3</sup>**

**Table 7: General workforce statistics for 2005**

Global indicator	Australia	UK	New Zealand
New hires <sup>4</sup>	3,612	1,754	763
No. of graduate recruits <sup>5</sup>	92	28	11
Career breaks taken (exc. New Zealand)	223	34	0 <sup>6</sup>
Maternity leave (weeks taken)	5,472	9,452	N/A <sup>6</sup>
Annual leave (days taken)	295,905	N/A <sup>6</sup>	79,524
Sick leave (days taken)	170,252	146,134	22,427
Percentage of eligible staff doing overtime	52%	N/A <sup>6</sup>	28.6%
Overtime worked as a % of standard hours	1%	N/A <sup>6</sup>	3.1%
Average staff turnover	18%	N/A <sup>6</sup>	16.3%
Number of full-time/part-time transitions	886	707	291

<sup>4</sup> New Hires into the Group. This figure does not include those employees that were previously with the Group and that were re-hired, promoted or changed status; eg. casual to permanent.  
<sup>5</sup> Graduate recruits figure does not include graduates who may have applied for job vacancies not classified specifically as graduate roles or roles not part of a graduate program.  
<sup>6</sup> System constraints – Information not gathered or recorded centrally.

**Managing and developing our people**



Elizabeth Hunter  
Executive General Manager,  
People & Culture

We are developing and supporting our people to create a culture that delivers business success for all our stakeholders.

Throughout 2005 we have continued to introduce processes and procedures to build integrity and honesty in all that we do. We have focused on equipping leaders to make informed decisions to grow our business and role model the Corporate Principles throughout the organisation.

We have communicated clearly with our people about the organisation and their role — and are working with them to develop the skills and tools they need to do their job. Our leaders have been focused on embedding these changes and setting the direction for the future. A key element of our approach is to build an environment where people feel connected to the organisation.

We recognise that changing our behaviours is a core part of making NAB a great place to work. Highlights of these initiatives are provided on the following pages.

**Culture development**

This year, as we continued to change our culture, we have emphasised the importance of creating a culture that focuses on the way employees behave — not just the results that they achieve. This is being facilitated by our Corporate Principles (see inside back cover), which we are embedding into the way we go about our business day to day. The Corporate Principles are given effect and made measurable by accompanying behaviours that explicitly state what is required of people when working for NAB.

**Restructuring our business**

Due to changes in our business strategy and structure, NAB announced, in May 2005, that 4,200 positions were expected to become redundant over the 24 months to March 2007. In our full year announcements in November 2005, it was announced that this is expected to be approximately 2,250 redundancies in Australia by September 2007 — an increase of around 250 on the May announcement. The majority of these redundancies will be in back-office, non-customer-facing roles. This total also includes 1,700 positions previously announced in the UK, 400 in IMS and 100 redundancies in other areas including the Corporate Centre. Our Corporate Centre is being restructured as a consequence of the wind-down of Group-wide projects and devolution of functions to the regions as part of our new business structure.

Where specific roles are made redundant, NAB has a robust redeployment process. Union consultation has occurred in each regional business where job reductions are expected. Union consultation has occurred in the UK and all UK redundancies are covered by our existing Job Security Agreement with the Union.

All redundancies in the Australian business were made in accordance with our 2002 Redundancy, Redeployment and Retrenchment Agreement with the Finance Sector Union. Under this Agreement, NAB and the Union jointly commit to maximising job security of staff by minimising retrenchments as a result of organisational restructuring.

The key thrust of the Agreement is to encourage and maximise redeployment opportunities for employees displaced as a result of organisational restructure. NAB commits to open and honest communication with affected employees, to dealing in good faith to meet their redeployment preferences, and to various notice periods, benefits and other support. For example, in Australia, 499 employees were successfully redeployed into other roles within the organisation during 2005.

<sup>3</sup> These figures cover our entire global operations, including the US and Asia.

Our Corporate Principles are also being reinforced through our performance management system (refer page 29) and through reward and recognition of employees who consistently model desired behaviours in the course of their work. The photograph at the beginning of this Report section (page 24) features a number of employees who have been recognised for their demonstration of the Corporate Principles in practice.

Further cultural change activities focused on embedding our Corporate Principles included a series of senior leadership workshops in Australia, New Zealand and the UK. These workshops, held in early 2005, were forums for open discussion that resulted in 470 of our managers across the Group making personal commitments in regard to how they would demonstrate the principles in action. These commitments were then communicated to other staff in team meetings. We also continued our work to strengthen relationships between managers and their direct reports by encouraging more open and honest communications. Activities this year included coaching and skill building around role clarity, setting objectives, giving regular feedback, linking performance to pay, and realising people's potential through development.

In late June 2005, a Cultural Transformation Program office was established within our Corporate Centre reporting directly to the Managing Director and Group Chief Executive with responsibility for cultural governance and capability development. This office is dedicated to working with our managers and executives to improve our culture. We will report on the work of this office in 2006.

**Employee satisfaction**

Monitoring employee satisfaction is an important source of information for us. It helps us to monitor the impacts of workplace changes and the effectiveness of the processes and programs that we have put in place to achieve cultural change.

NAB conducts a Group-wide satisfaction survey every two years, with a smaller pulse check every other year. In May 2005, we conducted our most recent full census. Every NAB employee was invited to complete the survey for which we had a record of 30,329 responses, which represents approximately 70% participation.

Since 2003, we have found that our staff satisfaction (total agree) and engagement scores (agree and strongly agree) have remained steady. The overall satisfaction score was 71% in 2005 and 71% in 2003, despite this being a difficult period for us with a large number of changes, restructuring and uncertainty.

The survey results help us to identify the issues that we need to work on to make NAB a better place for our people and our customers. In 2004, our leadership group made a commitment to focus on building a customer-focused organisation and to simplify our policies and processes. Table 8 shows that our people describe themselves as more customer-focused than in 2003 and that we have made some progress in simplifying our policies.

Our priorities going forward, as a result of the survey, are to:

- communicate our long-term goals as clearly as our short-term goals
- continue to improve and simplify our systems and processes to change the things that are frustrating our people and our customers
- further recognise and value the contribution of our people
- make sure that our actions match what we are saying.

**Performance management**

Effective performance management ensures that our employees' efforts and results are matched to our organisational goals and that we are all focused on achieving the same outcomes. All employees have Performance Scorecards to ensure they understand what is expected of them and how they contribute to Group outcomes.

In 2005, NAB's Performance Management System was reviewed and Scorecards were progressively implemented across approximately 6,000 employees in executive and management positions. In the performance planning process for 2006, this will extend to all employees Group-wide. Our Scorecards aim to align employee performance with the Group Strategy. This is achieved by cascading the outcomes that will deliver strategic goals through the organisation from top to bottom. In doing this, we provide employees with greater clarity on performance outcomes required.

All our Scorecards include behavioural and compliance requirements, known as 'quality gates', to ensure that performance results for staff take into account not only what was achieved, but also how those results were achieved. All employees are required to complete regular training to meet their compliance quality gate requirements. This includes training in our Code of Conduct, privacy, trade practices, occupational health and safety, discrimination, disability, and relevant consumer credit and financial services requirements. This training supports the implementation of the Code of Conduct, as well as Group and business-specific policies.

**Rewarding our people**

We believe that to attract, retain and motivate excellent people, we need to provide them with fair and appropriate reward and recognition. This includes financial and non-financial reward, recognition and benefits. Promotion is based on merit, which includes consideration of competence and performance.

At NAB, our remuneration philosophy is based on the concept of a total reward package. Our remuneration comprises both fixed and variable pay, plus any non-monetary rewards received through various recognition programs. In terms of variable pay, our revised incentive program is structured to reward employees' achievements against key individual, business and Group annual performance outcomes. If compliance and behavioural requirements have been achieved, an individual's performance determines their share of the available incentive pool.

Our policy is to appoint people to positions based on merit and we provide equal pay for equal work and responsibility. See Figure 11 for a comparison of male and female salaries across the Group. The underlying differences with the comparisons are mainly due to there being more males in senior management, with historically higher remuneration. Given the current policy, these differences are expected to reduce over time.

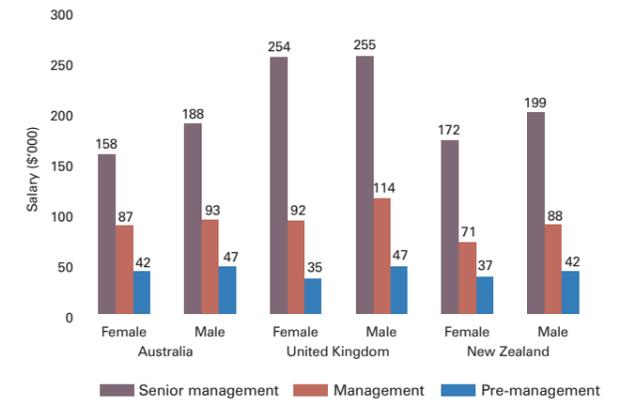


Figure 11: Male: female salary comparisons (average)

**Pay averaging**

Pay averaging allows employees to take extra leave each year. Employees receive a proportionate salary over a full 12-month period, which accounts for their extra unpaid leave in a year. Our pay averaging trial was completed in March 2005 in the technology area of our business in Australia. Employees involved in the pilot had very positive perceptions of the initiative and both they and their people leaders saw it as demonstrating NAB's commitment to improving work/life balance. Pay averaging will now be considered in the negotiation process for a new Enterprise Bargaining Agreement (EBA) for Australian employees, which is taking place in the second half of the 2005 calendar year.

**Remuneration of senior executives**

The Group's remuneration philosophy for senior executives is to reward high levels of sustained performance and contribution through a pay-for-performance model. Performance is also managed by Scorecards and quality gates. Senior executive remuneration comprises fixed components and variable, at risk short and long-term incentive components and is based on meeting agreed performance-based criteria, which include non-financial and financial objectives. In 2005, the non-financial objectives included performance measures in relation to CSR.

Our senior executives and executive directors receive additional long-term incentives to ensure they maintain a long-term focus when setting our strategic direction.

The Board reviews performance and sets the remuneration packages for our executive directors following recommendations from the Board's Remuneration Committee. In 2005, this Committee considered the role of long-term reward in helping to drive appropriate management behaviours and reinforcing cultural change. The Committee obtained external advice on remuneration best practice in the Australian and international markets to assist it in setting remuneration packages. The Managing Director and Chief Executive reviews the performance of the Executive team, in conjunction with the Board's Remuneration Committee.

Table 8: High-level employee opinion survey results

Employee Opinion Survey results over time	EOS 2005			EOS 2003		
	Slightly Agree	Agree/ Strongly Agree	Total Agree 2005	Slightly Agree	Agree/ Strongly Agree	Total Agree 2003
<b>Customers:</b> Within my business unit we are passionate about customer/client service	16%	75%	91%	20%	67%	87%
<b>Immediate Manager:</b> My manager/people leader provides the support I need to succeed	21%	59%	80%	24%	51%	75%
<b>Policies:</b> Our organisation's policies create a positive work environment for me	30%	31%	61%	28%	26%	54%
<b>Organisational Purpose:</b> I am excited about my part in the future of our organisation	31%	35%	66%	30%	34%	64%
<b>Career Opportunities:</b> My future career opportunities here look good	26%	34%	60%	26%	34%	60%
<b>Senior Leaders:</b> I see strong evidence of effective leadership from my organisation's top leaders	38%	30%	68%	26%	34%	60%
<b>Work Environment:</b> The physical work environment is appropriate for the type of work I do	16%	70%	86%	19%	64%	83%
<b>Personal Satisfaction:</b> I get a sense of accomplishment from my work	24%	61%	85%	24%	60%	84%
<b>Reward and recognition:</b> I receive appropriate recognition (beyond my pay) for my contributions and accomplishments	26%	32%	58%	27%	40%	67%
<b>Work/Life Balance:</b> The balance between my work and personal commitments is right for me	22%	52%	74%	21%	53%	74%

The Remuneration Report within our 2005 Concise Annual Report and Annual Financial Report includes further details on the Board's policy regarding remuneration of executive and non-executive directors and other executives, including information on performance rights, shares and performance options, as well as detailed information regarding remuneration paid to each specified executive and director. Refer to page 81 to 100 of our 2005 Annual Financial Report available on our Group website \*.

**Learning and development**

Across the Group, we recognise the importance of developing our people and providing them with the right skills – not just for today, but also for the future.

All employees are required to have individual development plans (IDPs). In 2005, our learning and development process was aligned with our performance management system to enable employees to frequently review their plans for professional development and career advancement with their immediate manager. This also aligns individual employee development with organisational needs. Opportunities for professional development are based on merit, open to all, and are dependent on the employee's ability, performance, behaviours and contribution to the Group's success.

Employee development also includes mandatory learning to provide employees with the appropriate knowledge and skills to meet all legal and regulatory requirements of doing their jobs. Our combined training and development spend, by region and across the Group is shown, in Figure 12.

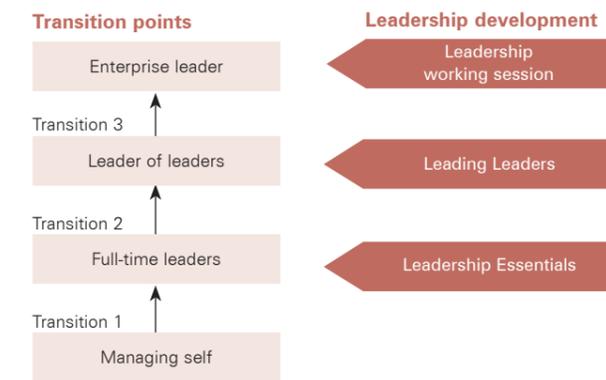


**Figure 12: Average training and development spend per FTE**

This year we have placed significant emphasis on compliance training across the Group. In Australia, we used our internal TV network, National Vision, to assist in raising employee awareness of compliance issues. We also launched a new online training facility in Australia. This enables employees to complete training courses and provides reporting functionality to enhance learning-related management decision-making. Since its launch in March 2005, there has been strong use of this system, with over 22,800 hours of training completed. A large component of this has been the completion of compliance training. We are now working towards making similar systems available in other regional businesses within the Group.

**Leadership development**

Our approach to leadership development aims to provide a consistent quality and level of leadership across the entire Group. Leadership development is planned, integrated and clearly aligned to NAB's overarching strategy. The leadership model in Figure 13, adapted from Stephen Drotter's Leadership Pipeline, shows where we have targeted our three core leadership development programs and when they are offered.



*Adapted from Stephen Drotter's Leadership Pipeline*

**Figure 13: Leadership development at NAB**

The transition into a new leadership role offers a great opportunity for learning as it can immediately be put into practice. These leadership development programs are available to employees as part of their IDP. In 2005, 926 employees participated in our Leadership Essentials suite of training programs, while 140 leaders of leaders had commenced our Leadership Journey program.

NAB embraces diversity of thought, style and working arrangements to ensure our workforce is representative of the community that we serve. We value the contribution of all our employees and recognise the benefits of having a diverse workforce. By truly valuing diversity, we will access a broader talent pool, which will lead to improved innovation and problem solving, stronger customer relationships and improved productivity.

We recognise that to develop a more diverse workforce, we need to provide flexible working arrangements to assist employees performing certain functions in balancing their work and personal responsibilities and to create opportunities that encourage the participation of particular minority groups that may otherwise be excluded or limited. Figures 7 and 8 on page 9, provide a picture of the diversity profile of our workforce.

**Diversity initiatives**

In 2005, we developed a new Group diversity strategy, which is focused on a range of activities to identify and build a diverse workforce. Some of these initiatives are discussed below.

Our Group Executive Committee has recently endorsed a series of diversity initiatives for implementation in 2006 to deliver on this strategy. One of the first actions implemented in September 2005, was the employment of two diversity specialists – one in the Australian region and one to work on a Group-wide basis within the

Cultural Transformation Program office. These specialists will be responsible for further developing, refining, and project-managing our diversity action plan.

In 2005, three diversity areas were highlighted for consideration prior to the development of our new strategy; women in management, flexibility and balance, and role distribution and gender. These areas formed the basis for development of qualitative diversity targets and are supported by our Corporate Principles, one of which provides a specific commitment to diversity.

Specific initiatives which underpin these diversity targets included significant senior management appointments of women: the Chief Executive Officer for our UK operation, our Group and Australian Executive General Manager – People and Culture, the Chief Information Officer – Australia and the Group General Manager – Cultural Transformation Program Office. In relation, to flexibility and balance, there were a number of initiatives undertaken including a 48/52 pay-averaging pilot (refer to page 29) within our Australian technology area. In the area of role distribution and gender, we have provided external executive coaches for women in senior management and conducted some targeted research into women's experience at NAB, which we will be considering in the coming year.

**Women in the workforce**

We are committed to addressing structural barriers to the participation and progression of women in our workforce. As part of our commitment to address this issue, in 2005 our Australian technology team has participated in a secondary student program through Monash University. This program is focused on attracting females into the traditionally male-oriented technology environment. Since our sponsorship began in September 2004, we have hosted three female students who have conducted relevant work experience at NAB over the course of their studies.

**Work/life – flexibility and choice**

Work/life – flexibility and choice is an Australian initiative focused on supporting and enabling flexible work practices that promote appropriate work/life balance, increase participation in the workforce, and maximise retention of skilled employees juggling the demands of priorities from within and external to the workplace. Some of our current flexibility options include our Career Break program, part-time work arrangements, job sharing, telecommuting, and our Parental Leave Toolkit. Detailed action plans are now being developed so that we can further address work/life flexibility and choice issues.

In New Zealand this year, we invited employees to complete a parents' survey run by the New Zealand Equal Employment Opportunity Trust. The survey explores the challenges that parents face in the workplace. The results will be available late in the 2005 calendar year and we will use them to further inform the development of our flexible workplace practices.

**Sick Leave Bank**

Our Australian Sick Leave Bank was created as a result of an employee suggestion that healthy employees should be able to donate their excess sick leave to those in need. As a result, employees now have the option to donate up to two sick leave days each year to those in need. In 2005, 1,390 employees donated 2,884 sick days (2003: 2,800 days) and 2,474 days (2003: 1,255 days) were allocated from the Sick Leave Bank to 67 employees.

**Indigenous employment**

NAB works with the Department of Employment and Workplace Relations (DEWR) in Australia to provide employment and training opportunities for indigenous Australians. To date we have employed five indigenous Australians through this program.

Our collaboration with DEWR is supported by our work with Mandala – Career Brokers, a consulting organisation that assists work placements for indigenous applicants. Mandala also facilitates a mentoring relationship between our indigenous employees and their people managers, and they act as a cultural mentor to both parties. Additional assistance from Mandala is provided in the form of cultural awareness training on an as-needs basis. The long-term aim of this program is to develop and implement systematic cultural change, create employment pathways and maximise the employment prospects of indigenous people within NAB.

In 2003, NAB, together with the Australian Government and the Melbourne Business School, endowed a new higher education scholarship for indigenous students. This annual scholarship is awarded to a student entering a full-time Masters of Business Administration at the Melbourne Business School. In 2005, Glen Brennan, PSM, was the recipient of this award.

**Disability employment**

NAB has an ongoing collaboration with Disability Works Australia (DWA) to help us attract, select and retain employees with a disability. In 2005, a total of 66 people were employed under our disability employment program and successfully placed in a range of roles across the Australian business. To ensure that we respect the privacy of employees, we are unable to report on the numbers of people employed with disabilities outside the DWA program.

In Australia, NAB is also a participant in the Willing and Able mentoring program for university students with a disability. Students are matched with a mentor who has a role in an area of interest to the student, and meet regularly across a semester. Mentoring activities involve assisting the students with networking opportunities, career information and advice and practical guidance on résumé writing and interviewing skills.

**Safety in the workplace**

NAB recognises that a preventative approach is the most effective means of managing a workplace health and safety program. Fundamental to our Health & Safety (H&S) strategy is the intent to provide a safe, secure and fulfilling workplace for our people and to comply with relevant H&S legislation and standards. It is also our intent to move beyond compliance and to embed not just H&S, but well-being, as a cultural value based on our Corporate Principles.

**Our health and safety management systems**

Each of our regional businesses has well developed H&S management systems in place, which are compliant with relevant regional legislation and standards and audited by independent bodies.

New Zealand has an accident insurance and compensation system, which is overseen by the Accident Compensation Corporation (ACC). Our health and safety management system is accredited to tertiary level under the ACC Partnership Program and we take part in an annual, comprehensive, random audit of our workplace safety management processes and systems, accident claims, and case management. This audit is conducted by an independent third-party provider.

In Australia, NAB is a workers compensation self-insurer in each State and Territory. To maintain self-insurer status we must demonstrate through annual audits that we have in place a H&S management system that meets the requirements of the self-insurer standards applicable in each jurisdiction. NAB was successful in maintaining self-insurance status in all Australian States and Territories in 2005.

In addition, we commissioned independent audits of the H&S management systems of four of our primary contractors to ensure their compliance with relevant standards.

In the UK, our H&S system complies with the HSE Guidance Note Document HSG(65) 'Successful Health and Safety management'. Compliance with HSG(65) is tested by random audit carried out by an independent auditor, National Britannia. Usually, about 10 audits are conducted in different sites each month.

Each of our regional businesses has at least one H&S Committee, which meets regularly to consider H&S matters. In Australia, we have a number of State-based H&S Committees. Employee, management, and union representatives make up the membership of these Committees and provide a regular consultation forum for discussion and resolution of workplace health, safety and well-being issues.

Our Board receives quarterly health and safety reports from all regions. These reports provide information to the Board on issues such as H&S governance, regulation, prosecutions, improvements, audit outcomes, health and safety performance and strategic initiatives. Table 3 on page 13, provides information on the number of H&S-related audits that have been undertaken in 2005.

**Our health and safety performance**

Through our H&S incident and injury reporting and management system, we are able to track our safety performance by analysing our incident and injury data. One measure of performance used is Lost-Time Injury Frequency Rate (LTIFR)<sup>7</sup>. LTIFR varies notably between regions and is in part due to differing legislative reporting requirements for injuries.

In Australia, lost-time injuries (LTIs) are recorded as soon as an employee misses one whole day of work. In New Zealand, an employee must be away from work for a period of five days before one LTI is recorded. In the UK, an LTI is recorded for each day away from work. However, because of the different compensation system, which requires employees to use common law litigation to make a claim for compensation, employees tend to use their sick leave rather than make a claim. This means that the number of recorded LTIs is much lower than actual and a key focus of our H&S program in the UK is to encourage employees to formally report and record their LTIs in incident reports. Also in the UK, certain injury types, such as stress, are not reportable under legislation.

The three main causes and types of injuries recorded as LTIs are common across all our businesses. These are manual handling activities resulting in sprain and strain type injuries — slips, trips, falls resulting in superficial injuries — and work-related stress resulting in psychological injuries.

Our LTIFR in Australia has reduced by 28% to 4.1 (2004: 5.7). Our Australian business has adopted a zero harm philosophy — which views all injuries as preventable. In keeping with this view, a goal has been set to achieve an LTIFR of 2 or less by 2008.

In New Zealand, our LTIFR has reduced by 20% to 1.2 (2004: 1.5). In the past year the New Zealand region has had an increased focus on early intervention strategies for the prevention of gradual process injuries. Occupational therapists have conducted work station assessments and provided advice to manage early symptoms. This has resulted in a significant reduction of work injury claims and associated costs.

This year, in the UK our LTIFR has increased by 25% to 0.8 (2004: 0.64). This may be attributable to the steady promotion of health and safety during the year. This promotion was undertaken to raise awareness particularly around the reporting of accidents and resulting lost time. This promotion has been achieved by an increased presence of OH&S representatives in the branch network and employee training. Currently in the UK, there are 30 live employer's liability insurance claims under common law, dating from the previous five years.

**Employee assistance programs**

We support employees and their immediate families experiencing personal difficulties through access to our Employee Assistance Programs (EAP). This service provides totally confidential psychological counselling to help resolve personal or work-related issues and operates in each of our regional businesses.

In Australia, we also provide employees with access to EapDirect. This is a confidential on-line service offering employees access to high-quality counselling support, self-assessment tools and reference material 24-hours per day. Additionally, people leaders have access to 'Manager Assist' through EapDirect. Manager Assist provides access to a psychologist to help people leaders with people management issues.

**Dibbs and Massie Foundation**

The Dibbs and Massie Foundation was established in 1907 to provide financial assistance in circumstances of financial hardship to permanent Australian-based employees. The Foundation is open to

current and retired employees and widows, widowers or dependant children of deceased employees. In 2005, \$36,768 was donated to assist employees. In August 2005, unallocated funds of \$52,497 were paid to our three designated charities for the relief of poverty in Australia. The three charities were St Vincent De Paul Society of Victoria, the Salvation Army and the Brotherhood of St Laurence.

**WORC Project**

In February and March 2005, NAB participated in the Work Outcomes Research Cost-Benefit (WORC) Project being conducted by the University of Queensland (UQ) in collaboration with Harvard University, and sponsored by the Australian Department of Health and Ageing. The objective of the project was to survey innovative health programs and improve the care of people at work for specific health issues, particularly early identification and intervention for depression. The results of the survey, completed by 7,000 employees, will provide a fair indication of the overall health of our Australian business. Outcomes of this research will be used in Australia to develop future employee health and well-being programs.

**Protecting our employees' rights**

**Preventing discrimination in the workplace**

NAB is committed to equality of opportunity in employment and providing a work environment free of all forms of discrimination, harassment and bullying. Our Group-wide policies on these subjects are provided to all new employees and are publicly available on our Group website ★. These policies are part of regular compliance training requirements, and form compliance gates in employee performance plans and Scorecards.

**Freedom of association and union engagement**

We recognise the right of our people to join, and be represented by, a union. The National Australia Group and Global Unions Engagement Strategy was developed as an outcome from a global conference of financial services unions we held in March 2004, as reported in our 2004 CSR Report, and has been put into practice across the Group. The next conference is planned for March 2006. The Engagement Strategy sets out NAB's commitment to working effectively with the individual unions that represent our employees.

In Australia, NAB has a strong and constructive relationship with the Finance Sector Union (FSU). Our relationship is maintained through frequent, open and honest dialogue across a broad range of issues. We welcome FSU support for employees where the member wishes to be represented or supported by an FSU official. Additionally, NAB Enterprise Bargaining Agreement (EBA) 2002 contains a consultation clause specifically referring to workloads, relief staff and overtime to allow our employees to raise concerns in conjunction with the FSU. The FSU currently represents around 40% of our employees in Australia.

In New Zealand, staff can be represented by the Financial Sector Union or "Finsec". Currently, Finsec represents approximately 29% of all BNZ employees. Pre-management employees who are Finsec members are covered by a collective employment agreement, which is negotiated annually. The BNZ engages with Finsec openly about issues that may impact on its members. This occurs in a variety of forums, including working groups.

In the UK, NAB has a strong and constructive relationship with Amicus, who represent approximately 70% of employees. We welcome Amicus support for employees where the member wishes to be represented or supported by an Amicus official.

**Employee consultation and feedback processes**

An Enterprise Development and Change Committee (EDCC) was established in Australia under NAB's EBA. This consultative committee of NAB and FSU representatives consults on major business initiatives and issues, and items arising out of the EBA. This forum is also used to share information on our people management practices and performance and to discuss, explore and consider development and change initiatives in a consultative manner. NAB also has an agreement to brief the FSU on proposed restructures, so it can meet with its members and have an opportunity to influence the outcome of any proposal.

Under New Zealand legislation, BNZ must consult with any relevant unions where their members may be adversely affected by restructuring proposals. In addition to this, we have an agreement with Finsec that we will engage with them when a restructure will occur that will result in redundancies.

In the UK, our regional business has a formal regime of consultation meetings with Amicus and those meetings take place at least fortnightly. These meetings discuss a variety of issues including H&S matters and are complemented by regular contact on an informal basis with union officials.

myVoice

myVoice is an Australian Intranet-based feedback tool developed in 2003 that enables our people to share their opinions, propose new ideas, suggest solutions and raise issues. In 2005, a total of 4,996 feedback comments and ideas were logged in myVoice, and 292 suggestions have been implemented during the year.

**Employee grievance processes**

In all businesses, NAB has dispute resolution procedures through which employees can raise disputes and issues of concern.

The Group also has informal and formal processes for dealing with complaints of harassment, discrimination and bullying. Where an employee is dissatisfied with the outcomes of an investigation or a complaint of discrimination, harassment or bullying, they can appeal the outcome with our industrial relations team or take formal steps under local laws and regulations.

**Moving forward**

Planned actions for 2006 include:

- placing greater emphasis on improving organisational leadership capability as part of our ongoing training and development program
- taking actions to further our diversity strategy
- continuing our program of cultural transformation, based on our Corporate Principles
- continuing our focus on improving health and safety outcomes through increased awareness and prevention strategies.

<sup>7</sup> The Lost Time Injury Frequency Rate (LTIFR) is calculated as reported lost-time injuries resulting in one day/shift or more off work per 1,000,000 hours worked.



We take responsibility for the way that customers experience the organisation.

# Delivering value to our customers

Christina Dionysopoulos, Mortgage Servicing Representative serving customers at the Rhodes call centre.

Satisfying customer needs is critical to the way NAB operates. This means providing high-quality financial advice and relevant products and services.

Active engagement with our customers helps us to meet their needs and understand their concerns. We do this through our customer feedback processes, research, and by involving a range of stakeholders in the product development process.

This section of our Report provides an overview of our customer base, our customer engagement processes and some specific customer initiatives we have implemented over the past year. It also demonstrates how we are responding to:

- **customer service** – our customers expect us to be more responsive and to make faster decisions (refer to page 37)

- **accessibility of financial services** – from physical location of our services to financial inclusion for the disadvantaged and isolated sections of the community (refer to pages 40-41)

- **financial literacy** – communicating with our customers and the wider community in plain English and helping our communities to develop financial skills (refer page 42)

- **equity** – in our fees and charges (refer page 42-43)

- **fraud and security** – protecting customers that use our banking services (refer page 43).

The 'Progress on our promises' highlighted below provides an update on our customer-related commitments and promises from our 2004 CSR Report.

## Progress on our promises

Promises	Comments
Develop a Customer Charter.	Customer Charters were developed prior to June 2005 and have been publicly released by Australia, the UK and IMS post 30 June 2005 (refer to page 39). New Zealand is scheduled to release charter in 2006.
Continued pilot of stepUP Loans in Australia.	The stepUP Loan pilot has been run in five locations and we are now reviewing the geographic spread and eligibility criteria for the pilot.
UK to reword 'Tailored Business Loan' contracts.	Clauses in our Tailored Business Loan documentation were reworded in June 2005 to simplify the documents.
Review of the process and management of joint account separations in New Zealand.	This project was deferred.
Customer information will be presented in plain and easy to understand language.	The plain English program began in Australia in early 2005 (refer to page 42).
Keep our customers informed of changes to fees and charges.	Communications were sent alerting staff and customers to identified overcharging errors (refer to page 43).
Review our Australian policy regarding closure of rural bank branches.	Target date is December 2005. This review will be undertaken before the end of the 2005 calendar year.
Making banking and wealth management services accessible.	A number of programs have been implemented across each region (refer to pages 40-41).
We will complete 90% of our program to modify buildings and facilities in accordance with the UK Disability Discrimination (DD) Act by October 2004.	It is anticipated that all sites in the United Kingdom will have had all DD Act works completed by the end of 2005.
Improving complaints management.	We have implemented a number of regional initiatives to improve our complaints management processes (refer to pages 38-39).
Commitment to provide banking and wealth management to rural and remote communities.	A number of programs have been implemented in New Zealand and Australia (refer to page 41-42).
Improve wealth management complaint management and provide further training for complaints management personal.	Complaints handling has been a key focus in 2005. New complaints procedures are being rolled out with improved procedures and training (refer to page 38).
Undertake customer research on wealth management products and services.	Customer satisfaction research is undertaken every six months.
Continue research and testing of weather derivative products in Australia.	We are continuing our development of weather derivative products to make them accessible to more customers (refer to page 42).
BNZ will reintroduce the Branch Manager's role, focus staff on products of importance to customers, introduce a new tellers' system and reduce queuing.	Branch Managers have now been appointed nationwide in New Zealand, re-introducing a specific role that was phased out in the 1990s. Branch Managers have been briefed to raise the local profile of the bank, and to provide a local focus for service in branches. A new NZ\$25 million tellers' system was implemented nationwide in New Zealand in 2004, allowing tellers to access the system more quickly and reach a wider range of services for customers.

## Our customers

The Group has a large and diverse customer base of around 7.8 million retail and business-banking customers globally. We also service over 2.3 million wealth management customers and policy holders<sup>8</sup>. In our Group profile (page 4) and the glossary, we describe the range of products and services we provide to our customers. This extends from personal and corporate banking to wealth management and project finance. In 2005, we implemented a new regional structure to make us a less complex, more nimble and customer-focused organisation. Figure 14 provides an illustration of the distribution of our banking customer base by region.

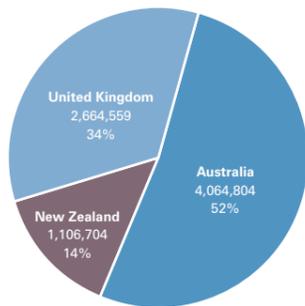


Figure 14: Distribution of retail and business banking customers by region



District Manager Neil Hodgetts and Branch Manager Sharon Bates admire the new banking hall at Fargate branch in Sheffield, United Kingdom.

To understand better the needs of our business customers, we also need to understand the industries in which they operate. Our business customers operate across a wide range of industry sectors. Figures 15 and 16 show the comparative distribution of our business customers across these industry sectors by customer numbers and footings respectively.

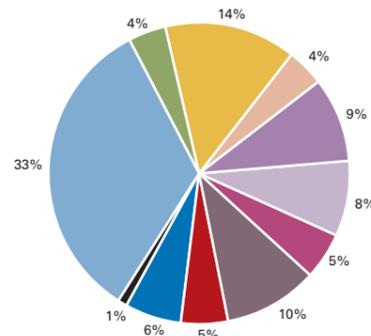


Figure 15: Business customer numbers by industry group<sup>9</sup>

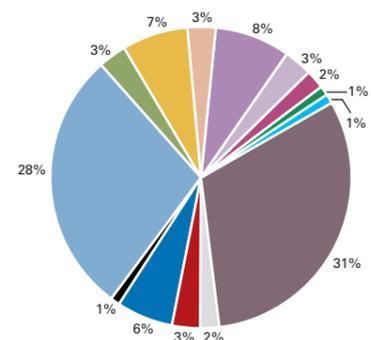
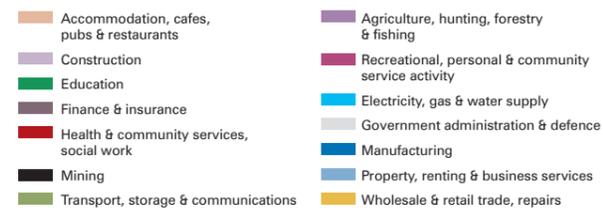


Figure 16: Business customer footings by industry group<sup>9</sup>



<sup>9</sup> Expressed as percentage of total business customers, where an industry group has been allocated. 8.25% of business customers did not have industry group allocated. To show an aggregated view of Australia, NZ and the UK, some industry groups have been merged therefore some industry groups may not follow the industry coding specific to each region.

Globally, the way our customers' want to use our services is changing. The highlighted case study (see below) from our Australian region illustrates these changes and how we have responded.

## The changing face of banking

Every day NAB processes more than 4.3 million transactions for customers in Australia. This figure has doubled in the past eight years.

## The way Australian customers want to use our services has also changed significantly

- Internet banking transactions have more than doubled over the past four years
- Since 1997, the number of transactions at branches has declined by more than 50%. The rate of this decrease has slowed in the past four years — transaction volumes are down 13% since 2001
- Since 2001, the volume of transactions at ATMs has declined by 12% while telephone banking transactions and enquires have increased by around 35%
- Direct debit transactions doubled between 1997 and 2001, but have since remained steady
- EFTPOS transactions increased by 40% between 1997 and 2001, and have since remained steady.

## How have we responded?

A number of recent changes by NAB reflect customers' changing needs:

- In June 2004 we introduced flat-fee banking accounts with unlimited NAB transactions, including Internet transactions
- Internet security has been improved, including the recent introduction of additional optional customer authentication, called SMS payment security
- 655 of the 1,550 NAB ATMs have been audio enabled for vision impaired and elderly customers
- More than half of NAB's banking outlets (excluding giroPost) are in rural and regional areas
- Transactional banking facilities have been introduced, adding more than 3,000 banking locations around the country through Australia Post giroPost outlets. As at June 30 we had 3,049 giroPost outlets, an increase of 27 outlets from the same time last year.

In the UK, a major review of our distribution strategy and branch network resulted in the decision to close approximately 60 Clydesdale Bank branches and 40 Yorkshire Bank branches over a 12–18 month period. This decision reflected the changing needs of our customers and the different ways they are banking. We are also building a network of Financial Solutions Centres (FSC). As at 30 June 2005, 11 new FSC's were opened and 39 existing business centres were converted to become FSC's. Along with the nine FSC's that were already in operation, there are now a total of 59 FSC's. Additionally, focus is being given to small-business banking and investment in direct channels including improving Internet and telephone banking services, the expansion of the ATM network and our alliance with the post office which includes more than 14,500 outlets.

## Learning from our customers

Customer feedback helps us provide service and develop products that meet customers' changing needs. We use a number of feedback channels, including customer research and formal complaints-handling processes, to better understand the views and needs of our customers.

## Customer research

In 2005, we conducted more than 75,000 interviews globally with customers regarding branch and customer service and in excess of 100,000 interviews with customers regarding service provided by personal or business relationship managers. Feedback from these interviews was provided to service delivery and product development teams and, where relevant, was incorporated into staff performance reviews.

For example, following customer feedback in the UK, new processes were developed for a product to allow existing customers to upgrade and open accounts via the telephone. This process includes the use of e-identity — an on-line personal identification tool, which allows us to check a customer's identity and comply with all legal requirements with minimal inconvenience to the customer.

In addition to these customer interviews, New Zealand and the UK also conducted customer value research to understand better the customer experience. Results from our research help to identify key customer issues. In short, our customers have told us they want us to be more responsive, make faster decisions and understand their needs better. Personal banking customers have made it clear they want to avoid hassles and unnecessary costs. Business customers place a high emphasis on the quality of their overall relationship with the Group. Further information on the views of our customers gathered through our complaints management processes is provided on pages 38-39.

Another important part of our customer research is consultation with key stakeholder groups such as peak consumer bodies and community-based organisations. These organisations help us to develop and provide products and services that are inclusive and able to meet the needs of all customers. Details of our stakeholder engagement approach are provided on pages 15-17.

<sup>8</sup> Global wealth management customer numbers are based on those provided in our 2005 Annual Financial Report for the period ending 30 September 2005 and includes information from Australia, Asia, UK and NZ.

## Complaints management

We have worked hard to improve the way we manage customer complaints. Each of our businesses has a specialised team focused on managing customer feedback and complaints. Complaints are a valuable source of feedback as they tell us how to improve our products and services, so we can meet our customers' needs and expectations more effectively.

In 2005, these complaints management teams have made changes and improvements to complaints-handling processes that include:

- improved management reporting and identification of systemic problems and complaint trends
- increased staff training to highlight the importance of prompt complaint resolution
- improved procedures for the escalation of complaints, including clear procedures for handling external dispute resolution complaints and the provision of financial remedies
- improved file review and monitoring processes in the UK.

## Banking complaints

Figure 17 highlights the top five banking complaint themes for each of our regional business. It shows us that complaints regarding 'customer service' and 'fees and charges' are common throughout all regions. We are pleased that complaints regarding charges have decreased in the UK, while in New Zealand complaint percentages have decreased across each of the top five themes. However, in Australia, the number of complaints has increased from 2004. This is in part due to improvements in our complaints management processes, which mean that we are capturing a greater number of customer issues. Our Australian data also shows that we received an increase in complaints as a result of a number of events that occurred during the year including overcharging of government taxes and Choice package fees. Our response was to openly admit our error and refund the fees collected (see case study page 43).

## Wealth management complaints

Figure 18 highlights the top five wealth management complaint themes for each regional business. In Australia, the 'quality of our service' and the clarity of our 'fees and charges' are of concern. In the UK, the main area complaint is associated with 'advice'.

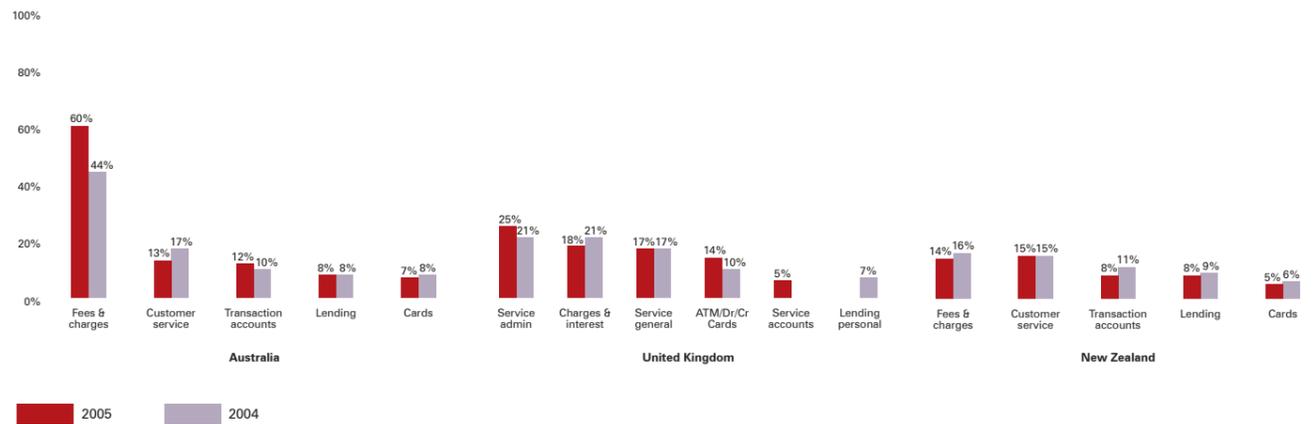


Figure 17: Top five banking complaint themes by region<sup>10</sup>

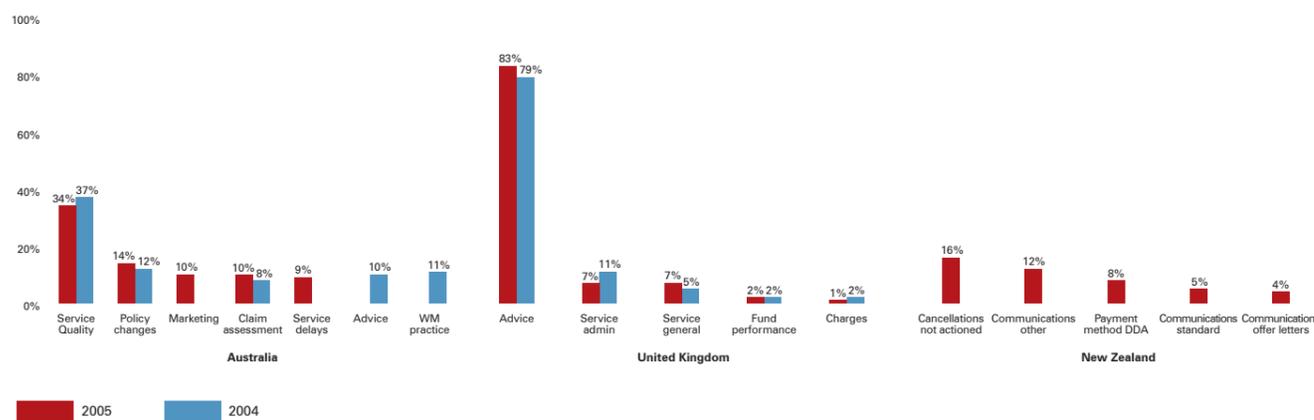


Figure 18: Top five wealth management complaint themes

<sup>10</sup> Banking and wealth management complaints recorded as 'Other' have not been included.

## Complaints to the Ombudsman

Another measure of our customer service performance is the number of complaints reported to the relevant industry ombudsmen.

Table 9 highlights the number of complaints referred to the banking ombudsmen and financial services (wealth management) dispute resolution bodies. We are pleased that complaints to ombudsmen and external dispute resolution bodies have decreased in the UK, across both banking and wealth management. New Zealand and Australian data show an increase in wealth management complaints to external dispute resolution bodies. In Australia, a majority of these complaints relate to the assessment of insurance and death benefit claims.

Table 9: Complaints referred by customers to the Ombudsman

Banking complaints referred by customers to Ombudsmen	2005	2004
Australia	642	736
United Kingdom	183	265
New Zealand (inc. wealth management complaint to Ombudsmen)	116	108
Wealth management complaints referred by customers to dispute resolution bodies	2005	2004
Australia	193	163
United Kingdom	67	168
New Zealand (inc. banking complaints to Ombudsmen)	116	108

## Privacy commissioner

Customer privacy is very important to us and this is reflected in our Customer Charters and in the privacy policies we publish on each of our regional businesses' websites. In 2005, a number of privacy cases were referred to the respective privacy commissioner in New Zealand and Australia. In the UK, there were no cases referred to the Privacy Commissioner.

In New Zealand, three cases were referred from the Privacy Commissioner. Two files were closed without further action and in the third matter, information has now been made available to the individual making the complaint and the file closed. In Australia, we received three complaints of privacy breaches via the Office of the Federal Privacy Commissioner. One of these complaints resulted in NAB changing a long-held practice of compulsorily collecting a customer's marital status in order to establish a new account. We worked with our customer who lodged the complaint and the Office of the Federal Privacy Commissioner to come to a more acceptable practice and it was decided that this information is no longer relevant or representative of social structures. The Commissioner was unable to come to a ruling regarding a privacy breach in the remaining two complaints.

## Customer service

In 2005, we have implemented a number of programs to help us respond to customers' needs and to improve our customer service. As these initiatives, described below, were implemented late in the reporting period, we will report against them in our 2006 CSR Report.

### Our commitment to customers

In our 2004 CSR Report, we made a commitment to develop a Customer Charter. In 2005, we established a Group-wide Technical Advisory Committee to develop Charter guidelines so that each regional business and IMS could develop a Customer Charter reflecting the specific needs of their customers. The guidelines were developed after benchmarking Charters produced by other organisations and some consultation with key external stakeholders.

Using these Group guidelines, Customer Charters have been developed. As a minimum, each Charter includes:

- commitments to same high standard of service at all times
- the type of service customers can expect to receive from us, how to contact us and provide feedback, particularly if things go wrong
- a commitment to publicly report each year on our performance in line with the Charters.

Weblinks for the Customer Charters released to date in Australia, the UK and by IMS are listed on the inside back cover of this Report. Bank of New Zealand is scheduled to release their charter in early 2006.

In New Zealand, 15-point codified service standards were introduced for all BNZ staff in April 2005. These set out the standards of service required of BNZ employees in responding to employees and customers, and covering five areas, which are 'accuracy', 'expertise', 'professionalism', 'relationship' and 'simplicity'. The service standards, which have been heavily promoted throughout the organisation, reflect internally, the commitments being made in BNZ's Customer Charter.

### Customer quality program

In 2003, we piloted a new customer quality program in New Zealand based on the six-sigma concept. Since late 2004, this has been rolled out in Australia and the UK. The purpose of this program is to increase customer and employee satisfaction, fuelling business growth and enhancing our reputation.

The core objective of the quality program is to embed a culture of 'getting it right first time, every time'. It will also help us to develop simple and effective organisational policies, systems and processes to enable our employees to achieve this goal. The program is clearly aligned to our strategy of simplifying the business and returning authority and responsibility to our branch managers and frontline employees.

## Inclusion and accessibility

Some people find it difficult to access financial services because of one or a combination of financial, physical, geographic and cultural factors. We recognise that our customers come from communities of diverse background and have made a commitment to treat all customers fairly and with respect. This means it is important to provide products and services to customers who traditionally may have been 'excluded' from financial services due to remote locations, or low or uncertain incomes, such as those who receive government benefits.

### Financial inclusion

We have developed a number of products and services designed to provide these customers with access to basic financial services and to assist in improving their quality of life. Some examples of these products include micro-credit and affordable banking services. We have also undertaken special training for employees so we can recognise customers who are experiencing financial hardship.

### Providing micro-credit

Micro-credit is the provision of small loans to individuals on low incomes who do not qualify for traditional mainstream bank products. Micro-credit is best known for its use in developing countries to facilitate wealth creation. In Australia, NAB has been promoting the use of micro-credit principles and practices as an effective mechanism for alleviating poverty. Over the last year, activities have increased because 2005 was declared as the United Nations International Year of Micro-credit.

In particular we have:

- engaged with government in areas where our micro-credit product, stepUP loans, is offered
- been an active representative on the Australian United Nations Year of Micro-credit Committee
- created opportunities for members of both State and federal governments to discuss micro-credit and its benefits and support micro-credit programs
- engaged the media on micro-credit
- sponsored micro-credit conferences.

### No interest loans

In Australia, we support a pre-existing community-based micro-credit scheme called the No Interest Loans Scheme (NILS<sup>4</sup>, an initiative of Good Shepherd Youth and Family Service [Good Shepherd]). NILS has successfully operated for over 25 years and involves a network of over 230 community groups around Australia. NILS offers small loans of up to \$800 to individuals on government benefits for the purchase of whitegoods. In 2005, NAB has continued to support NILS by sponsoring Good Shepherd's annual NILS conference (in particular travel costs to help community groups come together), as well as partially funding the administration costs of the network. In addition, NAB has been advocating the importance of NILS to government and other corporates.

### stepUP Loans

In 2003, our Australian business also worked with Good Shepherd to develop and deliver stepUP loans, a micro-credit product that compliments NILS by providing a product which bridges the gap between NILS and an unsecured personal loan. stepUP aims to migrate customers from NILS to mainstream financial products. The stepUP loan is a NAB product distributed by Good Shepherd. The loans are for \$800–\$3,000 and are for up to three years at a fixed interest rate of 7.15%, the current rate for new stepUP loans as at 30 June 2005. The program is currently being piloted in five NILS locations – three in Victoria and two in NSW. To qualify for a loan, a customer must be a recipient of government benefits and have lived at their current address for at least six months. The first loan was drawn down in October 2004 for a second-hand vehicle.

Although we have received over 170 inquiries for the loans, the conversion to loans has been slow with 15 stepUP loans as at 30 June 2005. Our experience suggests that this may be due to the following factors:

- the target market is not used to interacting with banks and does not use typical bank communication channels. Word of mouth is the most effective form of referral.
- many individuals have poor credit histories. Therefore, we have adjusted credit criteria so that individuals with small debts on their credit file may be eligible for a stepUP loan, providing they commit to clearing the existing debt over time.

In response, we have developed a community-based communication program in plain English, run several stories in the media profiling loan recipients and met with local government and other community-based organisations to get them involved in the program.

## Student card



Students sometimes experience difficulties meeting their financial needs. That is why BNZ has created a product called Campus Pack to assist in meeting this need. Campus Pack

offers a transactional account that is electronic, fee free and has no monthly base fee. It also provides lending facilities with discounted interest rates and no application fees. The bank decided to go one step further to assist students with their financial worries and in July 2003 started working with StudentCard New Zealand to develop a debit card version of its student discount card.

In February 2004, we launched a product called BNZ StudentCard debit card which is the only offer of a discounted student banking package with EFTPOS that doubles as a free StudentCard in New Zealand. StudentCard, which normally costs \$20, if bought directly from StudentCard, is free as part of BNZ Campus Pack. Campus Pack has been received well by students. We have experienced a 41% increase in these accounts in the last 12 months indicating the product is meeting students' financial needs. For further details, refer to: [www.studentcard.co.nz/](http://www.studentcard.co.nz/) or BNZ website: [www.bnz.co.nz/campuspack](http://www.bnz.co.nz/campuspack).

### Affordable transactional banking

In the UK, the Government has developed an initiative to ensure banks provide disadvantaged people with access to basic financial service products. In response, we have developed two accounts that allow these customers to deposit money and access direct payment facilities. We have also introduced a scoring system for credit products, which applies responsible lending principles to assess whether our customers can manage their debt.

In Australia, we offer a Concession Card Account that does not have any account-keeping fees or minimum balance requirements. It is offered to pensioners, health care cardholders and Veteran Affairs cardholders. The number of concession card accounts held at 30 June 2005 was 32,653. This represents an increase of 15.34% since 2004. This account allows \$40 of fees to be rebated each month. This is equivalent to approximately 13 over-the-counter transactions.

### Hardship training

NAB recognises that life is full of uncertainties and that customers' circumstances can change when they face adverse and unexpected situations. During the year, we provided call centre staff with training to help them identify signs of financial hardship more easily. More than 140 call centre staff in Melbourne have now completed the training, which was designed and provided by Good Shepherd Youth and Family Service.

In August 2004, we also sponsored a two-day conference on financial hardship in the Northern Territory. The conference focused on better understanding the financial issues faced by the area – particularly indigenous communities in remote areas. The head of our Collections team attended the conference and provided participants with an understanding of NAB's collection processes.

### Physical inclusion

Providing access to all our customers is important. We have a number of initiatives in place to assist those customers with physical disabilities, including the provision of audio enabled ATMs and making sure our buildings and facilities meet or exceed disability access requirements in UK and Australian legislation.

### Audio enabled ATMs

In Australia and the UK we are continuing to audio-enable our ATM networks to assist vision-impaired, dyslexic and elderly customers. In the UK, we were the first bank to deliver audio-enabled ATMs. At 30 June 2005, we had two audio-enabled ATMs in the UK, with 20 additional machines planned for deployment in 2006. In Australia, as at 30 June 2005, 650 ATMs were audio-enabled and by the end of 2006 all ATMs in the network will be audio-enabled.

### Disability access

In the UK and Australian regions, it is a regulatory requirement to have plans in place to ensure branches meet the needs of customers with a disability. In both regions, we have put disability action plans in place to meet these regulatory requirements and to ensure that the design of our branches and other facilities provide easy access for those customers with a disability.

In Australia, greater than 80% of our ATMs provide disabled access. In the UK, 61% of our ATMs are fully compliant with Disability Discrimination Act regulations. All new ATMs installed in each region support disabled access.

NAB is the first bank in Australia to create braille-encoded templates to assist vision-impaired customers to complete bank withdrawal slips, deposit slips and cheques. The templates are available at every NAB branch across Australia, and can also be requested through groups such as Blind Citizens Australia.

### Servicing rural and regional areas

Rural and regional communities have specific needs, often due to their remoteness and dependency on primary industry, in particular agribusiness. To ensure our customers in rural and remote locations have access to banking and wealth management products and services, we have a number of programs in place. In Australia, we reduce fees and charges for branch banking services where our customers are not within 25 km of an ATM. See the highlight box for some statistics on our services in rural and remote locations.

## The challenges of locations

Number of Agribusiness customers, globally	134,285
Number of rural branches charging reduced fees in Australia	173
Percentage of Australian branches in rural and regional	53%
Number of customers who use rural and regional branches with reduced transaction fees in Australia	90,000
Fees forfeited across branches in rural areas that charge reduced transaction fees in Australia	\$1.8m
Number of giroPost outlets in Australia	3,049
Number of postal banking outlets in United Kingdom	15,000+

NAB is a major provider of agribusiness financial services. In Australia, we have an agribusiness team of more than 530 people nationwide. This team is dedicated to providing individual financial solutions to primary producers, processors and service providers located in rural and regional Australia. In 2005, we have delivered a number of initiatives aimed at assisting these customers.

To address the need for competent agribusiness financial planning NAB has introduced a new regionally based specialist agribusiness team. The team is specifically focused on providing expert advice to meet the wealth creation needs of farmers.

### Drought relief

In Australia, drought has continued to cause significant hardship throughout 2005. In recognition of this, we have represented rural interests in State and federal advisory boards and received approximately 2,000 applications for increased or restructured funding due to the drought. The majority of applications were approved and customers were provided with a range of restructuring options with concessional fees.

<sup>4</sup> NILS is a trademark registered to Good Shepherd Youth and Family Service.

## Developing new products

In Australia, we experience significant variation in our weather and this variation is showing signs of increasing with climate change. This creates significant risk for a number of our customer segments including agribusiness, tourism, and utilities such as energy and water. In order to assist our customers to manage financial risks related to climate change and weather variations, we have undertaken research and developed a weather derivative product offering.

This product has now been taken up by a small number of large agribusiness customers and outdoor event organisers. We believe this is a product with significant potential to assist a larger segment of our agribusiness customers, and we are undertaking further work to develop a similar, simpler product for smaller customers.

## Cultural inclusion

The cultural diversity of our communities enriches us all, but we acknowledge that language can become a barrier for some customers in gaining access to financial services. On 23 October 2004, NAB launched a multicultural service within our Australian Call Centre. This service connects customers with bankers who speak the same language. Initial languages for this service include Arabic and Chinese.

## Financial literacy

The large range of financial products and services available can at times make choosing the right product confusing and difficult. This means that it is very important that we provide product and service information in a form that is simple, accurate and easy to understand. With this in mind, NAB has developed a number of programs to address the issue of financial literacy. These include our new Group-wide 'Plain English' program, the budgeting and financial advice and mentoring we provide as part of micro-credit products, and our financial literacy and numeracy activities in the UK.

A key focus of our Corporate Community Investment (CCI) in the UK is financial literacy. We have several projects operating across England and Scotland that support financial literacy, ranging from pre-school through to adulthood. For more information on these programs in the UK (refer to pages 22-23).

Financial literacy is also a skill required by some of our business customers where they are dealing with more complex financial concepts, products and services. We have developed some business assistance packages in New Zealand and Australia to help our agribusiness customers.

In New Zealand, we have developed the Farm First Growth Program. This is a business assistance program subsidised by BNZ and offered to farming clients to help them develop the skills to run their businesses better. Since it started in 2002, 1,600 New Zealand agribusiness clients have completed the program.

We have collaborated with a group of universities – Melbourne, Auckland and Massey – and the International Centre for Entrepreneurship – ICEHOUSE, that have developed a Trans-Tasman, 12-day, executive development program aimed at developing financial skills in regional and rural communities. NAB is subsidising participation of Australian farmers in this program. Since 2004, our agribusiness team has subsidised the participation of 21 Australian farmers in the course at a total cost of \$84,000.

## Plain English program

Providing information in plain English is critical to improving financial literacy in our community. Clear and simple communication will make financial products and services information more accessible and assist our customers in making informed financial decisions.

Our plain English program began in early 2005 in Australia. To date we have conducted research with customers and shareholders on the quality of our documents, developed plain-language tools and resources including an on-line version of a clear communication guide, and delivered our plain English training course to people working in communication roles within our Australian region and Corporate Centre.

As at 1 September 2005, 68 people in Australia had completed the course and more than 100 people will have completed the course by November 2005. The plain English program is ongoing and will be extended further in Australia throughout 2006. Roll-out of the program is soon to commence in the UK and we are also planning to introduce the program in New Zealand. An update will be reported in our 2006 CSR report.

## Fees and charges

Fees and charges continue to be a matter of concern for our customers. In relation to wealth management products and services, customers have expressed concern about advice and fee disclosure. In the area of banking services, customers and customer advocacy organisations have expressed concerns about the level and fairness of fees, particularly in relation to disadvantaged or isolated communities.

## Wealth management

Fee disclosure and conflicts of interest are important issues to customers using financial planning and wealth management services. This is particularly important in regard to the behaviour and remuneration of financial advisers.

NAB has recognised these issues and in 2005, as members of the Financial Planning Association of Australia (FPA), we took a lead role in the development of a set of principles to help manage the issue of conflicts of interest for financial advisers. These draft principles have been open to review and feedback from the industry for the past six months and the FPA will finalise and launch these principles in 2006. An expected outcome of these new principles is an improvement in client understanding and in the clarity and transparency of payment and remuneration practices in financial planning.

## Banking

The key issues around retail banking fees and charges relate to the level and fairness of fees, particularly for people and communities that are vulnerable or isolated. With this issue in mind, we have developed a range of no or low-fee products and services for people who are financially disadvantaged. These products are detailed in the Inclusion and Accessibility section on page 40-41.

We are committed to keeping all our customers informed in relation to fees and charges. In 2005, NAB demonstrated this commitment when we told our customers and other stakeholders about historical overcharging errors (see case study below).

## Communicating errors

In 2005, we announced errors in the way some customers had been charged package fees and Bank Account Debits Tax. These errors led to overcharging of some customers. NAB alerted ASIC, staff and affected customers.

Our Australian CEO, Mr Ahmed Fahour, openly communicated these errors, apologised to our customers and committed resources to address the errors to the satisfaction of our customers and regulators

The errors were as follows:

- Incorrect charging of package fees – This error relates to the incorrect charging of an annual fee related to certain financial package offers. Based on assessments of records back to 2000, and estimates for the period back to 1994 when these packages were introduced, approximately 55,000 financial packages have been incorrectly charged. Package fee clients who were overcharged are in the process of being reimbursed. Refunds commenced at the end of October 2005 and will continue until March 2006. Our processes have been revised in order to prevent these fees being overcharged in the future.
- Incorrect debiting of Bank Account Debits Tax (Debits tax) – NAB incorrectly collected Debits tax from approximately 140,000 accounts (this consists of 15,000 currently open accounts and 125,000 closed accounts). These are predominantly business customers. Since identifying the problem customers have been reimbursed.

## Fraud prevention

All banks and bank customers can be a target for fraud. The objective in a fraud attempt is usually to obtain cash. The attempt may occur via the use of bank-backed instruments such as bank cheques in apparently legitimate transactions to obtain goods or cash, or via electronic transactions.

Of the many transactions handled daily by our regional businesses, very few are made with the intent to defraud. However, constant vigilance must be maintained to detect the occasions where a request to open an account, cash a cheque, or provide some other service is not quite right and is an attempt to defraud us or our customers.

Our systems globally are designed to restrict the scope for fraud. NAB was one of the first organisations in the world to identify the security breach of around 40 million Visa and MasterCard credit cards. The problem was the result of a virus, which had infiltrated a data processing company. Our detection systems helped us to minimise any loss or inconvenience to our customers from this incident, and we reimbursed our affected cardholders for fraudulent activity on their accounts. Our detection systems operate 24 hours a day, every day of the year.

On 2 May 2005, we launched an improved payment security service for Internet banking customers. This security service uses Short Message Service (SMS) for transactions such as transfer of funds to third parties (eg. bill payments) and is provided free of charge. The optional SMS authentication service is designed to protect customer funds from Internet banking fraud. It works by sending a randomly generated, unique code via SMS to the customer's mobile phone within seconds of them commencing an on-line payment. The customer enters the code into the payment confirmation screen to complete the payment request.

NAB has a Cheque and Electronic Fraud Investigation Team that operates a fraud detection software program to identify irregular behavioural patterns on all NAB cheque accounts. This increases our chances of identifying fraudulent activity and reduces the risk of loss to NAB and its customers.

## Moving forward

Planned actions for 2006 include:

- continuing the implementation of our plain English program and extend it to the UK and New Zealand
- extending plain English-related initiatives for BNZ
- monitoring our customer service performance against our regional Customer Charters so we can report on our performance in our 2006 CSR Report
- reporting on process improvements resulting from our Customer Quality program.

We recognise that our supply chain can make a significant contribution to our CSR performance.

# Working with our supply chain

From left to right: Graeme Hum – UGS; Chris Chuah – NAB; David Mitchell – UGS and Simon LeGear – NAB, outside the office of our Australian facilities management supplier, United Group Services.

We are committed to being socially responsible and minimising our impact on the environment from our global operations, including our supply chain. We recognise that our supply chain can make a significant contribution to our CSR performance, and that our supply relationships can add to or detract from our reputation.

We believe that, by working with our supply chain to effectively manage our direct and indirect social and environmental impacts, we can make a significant, positive contribution to the communities in which we operate. As a minimum, in negotiating with significant suppliers, we require them to meet local legal requirements relating to the environment, human rights and other work practice standards. We also require them to behave in a way that is consistent with our Corporate Principles and behaviours and assist us to meet our commitment to the OECD Guidelines for Multi-national Enterprises and to the UN Declaration of Human Rights.

The following section outlines our performance in relation to supply chain management for the 2005 year. The 'Progress on our promises' highlighted below provides an update on our performance against the promises we made in respect to supply chain management in our 2004 CSR Report.

### Our supply chain – the facts

In 2005, NAB's supply chain involved over 52,000 suppliers globally. Our regional procurement teams were involved in more than \$1,663 million of the Group's external spend<sup>11</sup>, which represents around 42% of our estimated total spend for goods, materials and services which have the potential to be influenced by our procurement process.

Our supply chain covers a wide range of products and services from property management, IT and telecommunications, to travel, office products and uniforms for our front-line employees. Whenever possible, we aim to provide procurement opportunities to the local supply base in the regions in which we operate, to make a contribution to the local economy.

Our supply chain spending is quite concentrated, as is illustrated in Table 10. One service supplier, in each of Australia and the UK, accounts for more than 10% of our estimated total spend on goods, materials and services in each of these regions. In New Zealand, over 50% of total supplier spend occurs with 12 vendors.

### CSR in our supply chain

In the past two years we have been introducing CSR practices into our supply chain management. This includes involving procurement representatives in CSR governance, in particular environmental management. We are integrating CSR considerations into our procurement policies and processes, and undertaking activities to develop our procurement specialists' understanding of CSR issues.

### Governance and performance management

Our procurement activity covers significant amount of the materials, goods and services we purchase from external sources to conduct our business. This means that procurement has an important role to play in achieving our CSR performance. To ensure that our procurement teams play an active role in our CSR performance, we have representatives from each of our regional businesses participating in our Environmental Management Committee.

### Progress on our promises

Promises	Comments
Roll out the Environmental Procurement Policy in NZ and UK in 2005.	Environmental Procurement Policy in place and implemented as part of Request for Tender and Proposal processes in New Zealand and the UK.

Table 10: Our supply chain statistics

Region	Suppliers – Total (Number estimated)	Suppliers with spend within procurement area direct influence <sup>13</sup> – Total (Number)	Suppliers representing 80% of total spend (Number)	Top 10 suppliers – contribution to total spend (%)
Australia	40,608	162 <sup>12</sup>	225	35
New Zealand	3,075	50	44	61
United Kingdom	8,841	549	160	40

<sup>11</sup> Total procurement spend is defined in the UK as total procurement spend after deduction of staff expenses, intra-company and non-trade transactions. In Australia, total procurement spend includes intra-company transactions, but excludes staff expenses. Total spend is estimated from the total cost recorded for the supply of goods and services in our financial and management systems across the Group.

<sup>12</sup> This excludes technology, which is managed by a specialist procurement group.

<sup>13</sup> Suppliers with spend within procurement area direct influence means suppliers managed directly by the procurement function. Many small suppliers have no direct oversight by the procurement function.

**Table 11: Implementation of environmental procurement policy 1 July 2004-30 June 2005**

	Australia	New Zealand	UK
Number of RFTs/RFPs <sup>14</sup> undertaken in period	10	5	32
Number of RFTs/RFPs <sup>14</sup> requiring environmental checklist to be completed by supplier	3	4	2
Number of new supply contracts with specific clauses related to environmental performance	4	16	0
Value of contracts containing environmental requirements	\$270.7 m	\$11.1 m	0

<sup>14</sup> RFT/RFP means Request for Tender/Request for Proposal

### Environmental procurement

Last year we reported that we had developed a Group-wide environmental procurement policy and had implemented it within the Australian region of our business for non-IT procurement. We committed to extend our implementation to both our New Zealand and UK procurement operations. The environmental procurement policy has now been implemented in both these regions and we have seen a number of tendering exercises use the procedure and introduce environmental requirements into our supplier contracts. Table 11 shows the extent of our implementation in the reporting period.

### Human rights and workplace practices

We support the fair workforce standards contained in the OECD Guidelines for Multi-national Enterprises (MNEs) and the UN Declaration of Human Rights. Suppliers tendering for NAB contracts are required to provide information on a number of human rights issues including child labour, forced labour, occupational health and safety, freedom of association and rights to collective bargaining, discrimination, working hours, whistleblower policy and disciplinary policies.

In April 2005, we publicly released our human rights policy, which sets out our commitment to fair international workforce standards (see our Group website \*). This policy provides a guide for our labour practices when we engage in procurement, outsourcing and consideration of off-shoring. We want the working conditions for the production of the products and services we purchase to meet the standards that we have committed to meet under our Commitment to Fair International Workforce Standards Policy.

Following the release of this new policy, we commenced a review of our environmental procurement policy and procedures. During 2006, we will release a new policy, which will combine environmental and human rights considerations together in what will be our corporate social responsibility procurement policy. We have also been developing procedures to help implement this new policy and include human rights considerations into our tendering processes and procurement decisions.

Since April 2005, we have piloted a draft CSR procurement procedure with two purchasing exercises – one involving the tender process for employee uniforms and the other for the external assurance auditors for this Report.

### Managing supply chain relationships

Working with our suppliers so we can create mutual value and meet shared performance goals is an important part of the procurement process. We commence this process from the beginning of a supply relationship, at selection, and continue it through to our ongoing working relationship.

In the UK, our Strategic Sourcing and Vendor Management team hold Certification from the Chartered Institute of Purchasing & Supply (CIPS). This recognises 'Achievement of CIPS Certification Standard of Excellence in Purchasing Policies and Procedures' and is recognised as equivalent to ISO 9000.

### Selection

NAB operates a fair and equitable procurement process. Our supplier selection process aims to clearly inform potential suppliers of our expectations, policies and processes, and our requirements of them in relation to CSR. This process is our way of assessing whether our standards for environmental performance, occupational health and safety, product and service quality and human rights standards are met. In this process, supplier proposals are evaluated against a pre-determined evaluation matrix, which includes CSR criteria along with other commercial requirements.

### Monitoring performance

Performance monitoring of our suppliers is an important aspect of our ongoing supply relationships. We have dedicated category/vendor specialists who are responsible for managing relationships with our key suppliers. Supplier data are maintained and reported regularly to enable us to understand and track our supplier performance. We have a supplier management schedule for key suppliers against whom we carry out regular supplier evaluations, risk assessments and financial assessments. The timing of assessments depends on the scale and nature of the contract. For the majority of the suppliers, business units manage operational service levels, and report activity against the contracted performance measures on a regular basis, as required.

### Working with our suppliers

Our relationship with our facilities management contractors is critical to NAB's ability to manage its environmental performance. Over the past 12 months, we have worked with United Group Services (UGS) in Australia, to improve our ability to capture data on our resource consumption and energy use. We also worked together on the development of a tender for centrally managed waste services which will enable us to be able to capture reliable waste data and implement waste reduction strategies. The Waste Services Request For Tender incorporated our social and environmental procurement checklist and the responses were considered in the evaluation of bidders. In June, we undertook an environmental audit in Australia, as part of our plan to better manage environmental performance. This also provided NAB and UGS with an opportunity to benefit from sharing experience, resources and skills.

A highlight this year was working with UGS on our Banksia Award submission – which won the Sustainable Buildings category in June 2005 (see the National@Docklands case study on page 53). This demonstrates the benefits of working with our supply chain partners to improve our CSR performance.

### Terms of business

In the vast majority of cases, NAB awards contracts using standard conditions and templates. Contract terms require suppliers to meet minimum regulatory requirements, and other conditions relevant to the product and services being purchased.

Our current policy and practices concerning payment of trade creditors is to agree to terms of payment when negotiating supply contracts. This often means we are required to pay within 30 days of receiving an invoice or on a set date following receipt of the invoice. Table 12 shows our performance in meeting these terms. At times, payment may be slower due to timing of the receipt of the invoice or because of dispute about the quality of a product or service.

**Table 12: Payment performance<sup>15</sup>**

Region	Payment made within 30 days (%)
Australia	74.5
New Zealand	76
United Kingdom	73

<sup>15</sup> Based on data supplied by our strategic procurement management systems across the Group.

### Seeking suppliers views

Feedback from suppliers on what it is like to do business with NAB is sought as part of our day-to-day relationships with suppliers. The procurement team in the UK also invite suppliers to score NAB on its supply chain performance as a part of its supplier evaluation. This provides valuable insight into how the procurement process works from a supplier perspective.

### Developing understanding of CSR in the supply chain

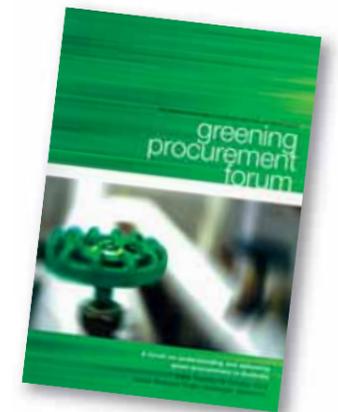
During 2005, we commenced a number of activities to raise awareness of CSR in the supply chain. These included the initial phase of CSR training for our procurement team in Australia and commencing a 12-month project on implementation of CSR in our supply chain in conjunction with the Australian Research Institute of Education for Sustainability (ARIES), which is based at Macquarie University, Sydney and funded by the Australian Government Department of Environment and Heritage.

Another key initiative in Australia, was a Green Procurement Forum we co-hosted with Telstra and Qantas. The goal of the Forum was to provide access for NAB's customers, suppliers and like-minded organisations to learn from industry leaders and share best practice. Over 100 procurement specialists attended the day and feedback from participants indicated that it was a valuable event that helped advance their understanding of good CSR procurement performance.

### Moving forward

Planned actions for 2006 include:

- releasing a new group-wide CSR procurement policy and implement regional procedures to give the policy effect
- continuing to provide CSR training for our procurement specialists
- educating our suppliers about the new CSR procurement policy
- continuing our participation in the ARIES project
- improving our systems for monitoring CSR performance requirements of our suppliers and developing a set of CSR performance metrics for our supply chain management.



As a global provider of financial products and services, we recognise the pivotal role financial institutions play in environmental management and the sustainability of the communities in which we operate.

# Managing our environmental impact

The new Docklands building in Melbourne, Australia, has been designed with features that encourage sustainable environmental practices, including succulents that act as air purifiers.

In addition to improving the eco-efficiency of our own resource use, we have an important role to play in facilitating sustainable development through our financial activities, business operations and engagement with the community. Our commitment to environmental sustainability is encapsulated in our environmental policy.

### Our environmental policy

Our environmental policy consists of six key elements that form a platform for our environmental programs. These elements are as follows:

- compliance with legislation
- reduction in our environmental footprint – through continuous improvement in our operations
- consideration of environmental risk – in our products and services and through provision of socially responsible investment products
- building environmental awareness – among our employees, key stakeholders and through support of community and industry activities
- public reporting and disclosure of our performance
- assurance of our environmental performance and reporting.

The following section outlines our environment-related performance for the 2005 year. The 'Progress on our promises' highlighted below provides an update on the promises we made about the environment in our 2004 CSR Report.

### Our environmental governance and management systems

To provide direction and oversight for management of both our direct and indirect environmental impacts we have in place a Group-wide environmental policy (see our Group website \*). Management of our direct environmental impacts is overseen via a Group-wide Environmental Management Committee (EMC) (refer to CSR Governance structure Figure 2 on page 10).

Management of our indirect environmental impacts is carried out by relevant business units in consultation with regional and corporate CSR functions. Further detail about how we manage our indirect impacts is provided on pages 54-55.

### Progress on our promises

Promises	Comments
Embedding our Environment Management System (EMS) into day-to-day business practices.	We have had our EMS audited in Australia and the process of embedding EMS procedures into day-to-day practices within our property and procurement areas across the Group is now underway.
Assessing our environmental footprint.	This year we have worked to improve the quality of our environmental performance data. We have also increased the range of environmental indicators on which we can report.
Verification 4-star energy rating for national@Docklands.	This is to be carried out following 12 months full operation of the building and is scheduled for early 2006.
Implementing water-sensitive urban design principles, which will provide for 'Docklands Parks' irrigation needs.	Although the Docklands building was developed with the capacity for water collected on its roof surface to be used for irrigation in the precinct space, this resource has not been used except for a small amount of irrigation for garden beds in a courtyard of the building. Irrigation of the parkland is now an issue for the Building owner and park manager.
Stakeholder engagement on our approach to social and environmental risk assessment in project finance.	A number of NGOs were consulted in the development of this Report. We have also discussed our approach to credit risk assessment in project finance with a number of stakeholders during the preparation of this Report. This dialogue will be ongoing over the next year.
Application of International Finance Corporation (IFC) and World Bank Safeguard policies to project finance in developing nations.	Our policies continue to apply the IFC and World Bank guidelines to our project financing in developing countries. However, in 2005 no new projects were financed in developing nations.
We will set targets for some indicators to benchmark our progress in 2005.	This year we have had to undertake further work to improve our ability to accurately capture data on our resource use, emissions and waste streams. This has meant that we have not yet set targets for improved environmental performance. We will set objectives during 2006 year for our performance going forward.

Our EMC meets every two months and includes CSR representatives from across the Group, as well as Property and Procurement and information technology, and our Australian facilities management contractor. This year the EMC has overseen:

- improvements in our ability to capture and report on environmental performance so that we better understand our environmental footprint
- extension of our environmental procurement policy to our businesses in the UK and New Zealand (refer to page 46)
- an audit of the alignment of our Environmental Management System (EMS) with ISO 14001 and between the environmental management systems of NAB's Australian business and its facilities management contractor. This has a particular focus on property management.

### Managing our direct impacts

Our major direct environmental impacts result from occupancy of commercial buildings, the equipment we use, and the activities we undertake as part of our day-to-day business. In this context, the key activities we undertake that have associated environmental aspects and impacts include:

- selection, fit-out and operation of buildings (including use of back-up generators, heating, cooling and ventilation)
- maintenance, cleaning, and waste disposal
- selection, operation and maintenance of equipment (electrical)
- travel (by land and air).

Our EMS documents these activities, and identifies our key environmental aspects and impacts. Our top three environmental impacts are summarised in Table 13. For a full list of our environmental impacts visit our Group website [★](#).

**Table 13: Summary of our top three environmental aspects and impacts**

Environmental aspect	Associated environmental impact
Energy usage for lighting, heating, ventilation and office electrical equipment.	Generation of greenhouse emissions contributing to climate change
Generation of non-hazardous solid waste produced by maintenance, cleaning and office activities (including paper, toner cartridges, packaging and general waste)	Reduction in landfill space and generation of greenhouse emissions contributing to climate change
Consumption of transport fuels as a result of travel – by air and ground transport	Generation of greenhouse emissions contributing to climate change

### Our environmental performance in 2005

This year we have invested considerable time in improving our systems for monitoring our environmental performance. Table 14 shows our environmental performance results.

#### Energy use, greenhouse emissions and green energy

We have implemented a number of energy efficiency initiatives in the UK this year and they have led to a decrease in energy consumption of around 10%. These initiatives have included changing technology used in heating, ventilation and cooling systems, replacing old boilers with high efficiency gas models, installation of energy efficient lighting, switching to instantaneous water heaters instead of storage heaters, and purchase of energy efficient office equipment.

In the past year, our UK operations have reduced their greenhouse emissions by approximately 32%. This is the result of energy efficiency initiatives and an increase in quantity of green energy purchased. In 2005 we began purchasing green energy for nine commercial buildings, in addition to that already purchased for all our UK branches. This represents a significant increase in our purchase of green energy in the UK.

In Australia, our energy use has increased by 1.8%. This has accompanied an increase in the building portfolio area of about 14%, and as our energy consumption per m<sup>2</sup> of property occupied illustrates, we have kept our energy intensity fairly constant. Our occupancy of the Docklands building has helped to achieve this result through the use of energy efficient design and equipment (see case study page 53).

**Table 14: Environmental performance summary 2005 (as at 30 June 2005)**

Environmental aspect	Australia <sup>##</sup>		New Zealand		United Kingdom <sup>^</sup>	
	2005	2004	2005	2004	2005	2004 <sup>***</sup>
FTE	23,803	24,524	4,755	4,719	9,988	13,351 (exc Irish banks: 10,902)
Property space occupied (m <sup>2</sup> )	764,881	699,225	141,218	143,194	259,184	354,531 (exc Irish banks: 270,140)
<b>Energy<sup>^^</sup></b>						
Total stationary energy consumption (MWh)	208,220 <sup>##</sup>	204,468	26,084	24,126 <sup>#</sup>	89,040	98,902
Total stationary energy consumption (GJ)	749,593	736,085	93,902	86,854	320,544	356,047
Stationary energy consumption GJ/FTE	31.5	30.0	19.8	18.4	32.1	32.7
Stationary energy consumption GJ/m <sup>2</sup> property occupied	0.98	1.05	0.66	0.59	1.24	1.32
Total green energy purchased (MWh)	0	0	17,075	15,495	36,483	1,334
Total stationary energy-related greenhouse emissions (tCO <sub>2</sub> -e)	243,969	242,341	4,755	3,592 <sup>#</sup>	16,303	24,045
Stationary energy-related greenhouse emissions (tCO <sub>2</sub> -e)/FTE	10.24	9.88	1.00	0.76	1.6	2.2
<b>Work-related transport</b>						
No. 'tool of trade' vehicles	819	799	465	496	283	293
Total travel – tool of trade vehicles (kms)	20,017,650	24,231,338	10,986,978	10,262,151	5,507,396	5,700,517
Total fuel-related greenhouse emissions (tCO <sub>2</sub> -e)	5,732	5,545	2,720	2,728	1,556	1,610
Greenhouse (tCO <sub>2</sub> -e) per vehicle	7.0	6.9	5.9	5.5	5.5	5.5
Total air travel (km)	39,205,781	NA	12,354,327	13,367,095	24,433,674	29,601,726
<b>Paper</b>						
Total A4 copy paper purchased (tonnes)	1,254	1,309	266	238	522	654 <sup>***</sup>
Total recycled content A4 copy paper purchased (tonnes)	1,130	NA	0	NA	0	NA
% A4 paper used with recycled content	90%	NA	0	NA	0	NA
% A4 paper used with ECF or ETF bleached pulp fibre	100%	NA	100%	NA	100%	NA
A4 paper use per FTE (kg/FTE)	52.7	53.4	56.0	50.4	52.3	49.0
<b>Water</b>						
Total consumption (kL) – estimated	718,498 <sup>###</sup>	702,359	NA	NA	134,974	153,063
<b>Waste</b>						
Total waste to landfill (tonnes) – estimated	4,861	5,889	NA	NA	2,288	2,827 <sup>***</sup>
Paper collected and recycled (tonnes) – estimated	5,938 <sup>###</sup>	1,189	1,051	1,060	1,932	2,030

\* NR means data not reported for 2004 \*\*NA means data not available.

\*\*\* 2004 energy and greenhouse data for the UK have been re-stated with the contribution of the Irish banks removed to allow for year-on-year comparison. Paper use and waste data for the UK in 2004 include Irish bank data. 2005 data exclude Irish data.

^ UK data for air travel and paper collected and recycled includes data for the Irish banks due to transitional arrangements in place as part of the sale of our Irish banks to the Danske Bank A/S.

# The New Zealand energy and greenhouse data for 2004 have been re-stated to reflect our better understanding of sources of electricity and heating energy use. We believe the 2004 figures presented are more representative of our actual energy use and greenhouse emissions, but that they are still likely to be slightly under-estimated. We believe the 2005 figure is true representation of our stationary energy use and greenhouse emissions.

## The Australian stationary energy figure is calculated using actual energy data for 95% of properties. For the remaining 5%, energy use is included in rental agreement outgoings. Therefore, energy use for these sites has been estimated based on average energy use per m<sup>2</sup>. Last year's Australian greenhouse gas figures included an estimate of greenhouse emissions attributable to paper sent to landfill. This has not been included in the re-stated greenhouse figures so the greenhouse emission figures are comparable across our three regional businesses for stationary energy.

### Australian water use is estimated based on a sample of 3% of the building portfolio for which water billing data were available. Water is often included in the rental costs and hence not separately invoiced by landlords. Waste data in Australia are based on extrapolation of waste data from a representative sample of 4.3% of the building portfolio. The data are obtained from waste disposal contractors.

^^ The definitions used for direct and indirect energy use have come from the Australian Greenhouse Office's Factors and Method's Workbook August 2004 rather than the GRI Energy Protocol. This is to enable consistent reporting of our energy data for a range of external reporting within Australia and to facilitate comparison between regions.

Our Australian greenhouse emissions have stayed relatively constant, despite the increase in energy consumption. This is primarily due to a change in the Australian greenhouse co-efficients applied for the purposes of calculating greenhouse emissions and is reflective of a change in the energy mix and efficiency in the electricity grid. We do not currently purchase green energy in Australia. However, we will investigate the opportunity for this in 2006.

This year in New Zealand, we have employed a contractor to help us better manage and monitor our energy use. This has helped us to fully capture all sources of energy use in New Zealand and to identify some sources of stationary energy use that were not included last year. On the basis of this new information, we have restated our 2004 energy figures (please see comments in footnote to Table 14, page 51). Moving forward, we now have a sound understanding of our energy use and we will begin to implement a number of energy efficiency initiatives in New Zealand.

In New Zealand, we have seen a large increase (approximately 30%) in total greenhouse emissions, which is primarily due to a switch in base load network supply from gas-fired to coal-fired generation during the year. A 10.2% increase in the quantity of green energy purchased has helped minimise this increase.

#### Water use

Water is the resource over which we have the least ability to influence consumption, unless we can influence the design or fit-out stages of the building, or building renovation. In commercial buildings, we are usually one of many tenants and therefore we are charged on a pro-rated basis according to our occupancy and must use estimation techniques rather than actual use to calculate our consumption. It is often difficult to get access to water data. This means we need to estimate our water use based on a small sample of buildings, where we are sole occupant and can obtain access to volumetric billing data.

In Australia, our estimated water use has remained relatively constant. We are currently unable to obtain metered billing data in New Zealand to allow us to estimate water use. In the majority of New Zealand's main centres, water is charged on a property-rate basis rather than a user-pays or measured-volume basis.

This year, our water use in the UK has decreased by around 12% due to changes in building water infrastructure such as toilet and tap fittings. In the UK, we have been implementing a program of water meter installation in our Yorkshire and Clydesdale bank sites. This has allowed us to more accurately measure our consumption and to implement water saving measures.

#### Paper use

Paper is one of the most significant material inputs for our operations. We use paper in the office and for providing customers with information about our products and services. In the UK and Australia we have implemented double-sided printing to reduce paper use. In Australia, a reduction of around 4% has been achieved. In the UK, the impact of this initiative cannot be calculated because the 2004 data set includes Irish bank data. In New Zealand, we have yet to implement similar initiatives and our A4 paper consumption has increased by 12%. This will be an area for improvement in 2006.

#### Waste management

This year, we have worked to better understand our waste stream in Australia. We tracked our waste generation for a 13-week period for 43 properties representative of our building portfolio to improve our estimation of all waste data. This included tracking general waste to landfill, co-mingled recyclables and paper and cardboard sent for recycle. The decrease in our quantities of general waste to landfill (14.6%) and increase in recycling (400%) is largely due to the improved methodology. However, there has been a small improvement in waste management and recycling practice which will have also contributed to these changes, but which we cannot quantify. We also commenced a tender process that will conclude in December 2005 that will help us to improve our waste measurement and management going forward.

In the UK, the change in our general waste to landfill is primarily due to the sale of the Irish banks. We were unable to remove the contribution of the Irish banks to the 2004 data. Therefore, we are unable to quantify the impact of our waste management activities this year. Paper recycling has remained relatively constant.

In New Zealand, our paper recycling has remained relatively constant.

#### Ozone depleting substances

During 2005, in the UK and Australia, we have improved our management of ozone depleting substances (ODS) that are associated with refrigerants in the cooling systems we use. These substances are found in small volume equipment such as water chillers or domestic refrigerators or in large chillers making up part of building cooling systems.

In Australia, we developed an inventory of ODS and we have estimated that around 7,724 kg of ODS are contained within our cooling and refrigeration equipment. We do not currently have data on recharge volumes to allow us to estimate the potential contribution to greenhouse emissions from this source. However, we are now planning a replacement and phase out program for refrigerant gases with the highest global warming potential. In the UK, we undertook phased replacement of some refrigeration and cooling equipment, which saw the reduction in our use of ozone depleting substances. We also expanded our preventative maintenance program to help early detection of refrigerant gas leaks.

#### Fines and penalties

No environmental fines or penalties were imposed on any member of the Group in the 2005 reporting period, nor in the previous year.

#### Other environmental initiatives

##### eTree



This year, NAB joined eTree, an environmental incentive for shareholders to receive communication such as our annual reports in an electronic format. This is part of our commitment to working with our stakeholders, in this case our shareholders, to reduce both our direct and indirect environmental impacts. For every shareholder that registers to receive their annual reports electronically, NAB donates up to \$2 to support revegetation and reforestation projects in Australia. At 30 June 2005, over 7,500

shareholders had registered for eTree and NAB had donated \$14,962, which has paid for planting of approximately 29,900 trees.

#### Getting to work

NAB encourages its employees in Australia and the UK to use public transport. In this way, our employees can reduce their personal contribution to greenhouse emissions caused by travel to work. We provide employees with access to a no-interest loan for annual public transport tickets. Employees are able to repay the loan from their salary. This year, at 30 June 2005, 1021 employees in Australia had taken up the option for this no-interest loan.

#### Participating in industry initiatives

Our commitment to environmental sustainability is demonstrated through our participation in global finance sector and industry-led initiatives. These include:

- being a signatory to the United Nations Environment Program Statement for Financial Institutions (UNEP FI) on the Environment and Sustainable Development in 2002. We are active members of three Australasian UNEP-FI working groups including the

Operational Environmental Management and Reporting Advisory Committee, the Credit Risk Advisory Committee, and the Asia Pacific Task Force Outreach Group.

- participation in the Carbon Disclosure Project, as both a signatory and respondent ([www.cdproject.net](http://www.cdproject.net)).

#### Increasing our understanding of climate change

This year, with the Victorian Department of Sustainability and Environment, we jointly supported research conducted by Innovest Strategic Value Advisors to better understand the carbon risks and opportunities being faced by the Victorian manufacturing industry. This research will help inform our work over the next year to further develop our response to climate change, as it shows us the areas where our customers may face climate change risk, and our opportunities to assist them in managing this risk going forward.

In June this year, we held a briefing on climate change and its relevance to the finance sector for IMS, corporate banking, economics and risk management employees. More than 40 employees participated and were addressed by a panel of experts from industry, government and environmental NGOs.

## National@Docklands



In June 2005, National@Docklands, the building for the National's Australian business headquarters, won the Leadership in Buildings category in the Banksia Environmental Awards (see [www.banksiafdn.com](http://www.banksiafdn.com)). Our entry was made together with the building owners, designers, developers and managers.<sup>16</sup>

The design, construction, fit-out and operation of National@Docklands have taken into consideration:

- reducing its overall eco-footprint
  - building social capital, supporting cultural change and creating a healthier work environment
- and in doing so, demonstrate that sustainability goals make good business sense.

When signed in 2001, National@Docklands was the largest tenancy pre-commitment in Australia's leasing history. The building, which has been fully occupied since the end of October 2004, has provided 59,346 m<sup>2</sup> of office space (the equivalent of a typical 50-story building turned on its side). In 2005, 3,522 employees were accommodated and have now made the transition from commissioning to full operational status.

The base building and fit-out features were designed to meet an overall building energy rating of 4.3 stars for energy efficiency. The building uses a combination of passive solar design, natural ventilation and technology to deliver this energy efficiency. Resource conservation, lifecycle implications and waste prevention were key considerations during the building fit-out. The building design includes recycling areas on each floor with signage to encourage sustainable waste behaviours by building occupants.

<sup>16</sup> Our entry was made together with General Property Trust (the building owners), Bligh Voller Neild (the designers), Bovis Lend Lease/Lend Lease (the building and project managers), Jones Lang LaSalle (the property managers) and United Group Services (the National's facilities managers).

Key environmental performance results to date, compared to our equivalent historical office space include:

- 64% of construction rubbish recycled or reused (14,984.7m<sup>3</sup> was recycled)
- 3,644 Liquid Display Crystal (LCD) screens installed as part of work stations providing an estimated energy saving of 30% per monitor per day and 875 kWh per day in electricity usage
- use of non-ozone depleting refrigerants in cooling and ventilation systems
- 25.6% reduction in total energy use during commissioning based on comparison with previously occupied large commercial buildings. A decrease from an average 1,276.5 MJ/m<sup>2</sup> to 949 MJ/m<sup>2</sup>
- 38.6% decrease in general waste to landfill from 347 tonnes to 213 tonnes pa
- reduction in paper usage was achieved through a printer strategy which halved the number of printers and replaced old printers with new ones with double-sided capability Our Docklands-based wealth management team (approximately 200 people) has reduced paper usage from 40 pages/day/person to 18 pages
- full utilisation of the 163 bike racks provided. It is estimated that a further 200 people commute to work by bike, given locker room usage
- planting of 2,768 mother-in-laws' tongues plants (*Sansevieria trifasciata*), which have the ability to absorb some volatile organic hydrocarbons (VOCs), and provide natural cleaning of the indoor air environment.

## Our approach to project finance

Project finance provides access to capital to facilitate economic and infrastructure development, which benefits both industry and communities. It involves consideration of social and environmental benefits and risks. In light of this, there is considerable stakeholder concern with regard to the indirect social and environmental impacts financial institutions may have through lending to such projects, and a number of benchmarks and standards have evolved which require greater transparency and accountability of financial institutions globally.

In response to this concern, NAB has committed to applying, as a minimum, the IFC and World Bank Safeguard policies to any projects we finance in developing nations. We have committed to applying these policies, regardless of the monetary value of the project, where there are concerns that environmental habitats, indigenous peoples and community rights may not be protected. We have also set an internal standard that the requirement for an Environmental Impact Assessment (EIA) will apply to all projects we finance in developing nations, not just those defined by the IFC and World Bank as Category A projects (see glossary).

We apply our specialised finance environmental risk policy to all project finance deals that we finance. Our approach to assessing and managing risk in project financing is based on independent expert due diligence, active risk management and continual review of policy specifically applicable to project finance. We undertake annual reviews of the performance of the assets in our project finance portfolios. Where appropriate, this review may include assessment of actual environmental performance of the financed asset against the required baseline performance, as generally provided in the finance agreement and referenced documents.

NAB operates its project finance activities from Australia. The majority of our global project finance portfolio (99.8%) is in high-income OECD countries. The total portfolio represents less than 1% of the Group's total loans and acceptances.

We require our project finance clients to take environmental compliance risks into account and encourage them to consider broader social and environmental risks and to seek and follow expert advice on these matters. We do this in a responsible way that balances our ability to influence improved environmental outcomes against the risk of being seen to become directly involved in a customer's business.

Wherever possible, we are supportive of clients who wish to invest in cleaner technologies, for example, wind power energy generation. We believe that our approach to project finance can make a positive contribution to improved industry environmental and social performance.

### Key indirect impacts

NAB has an important role to play in facilitating sustainable development through the indirect impacts of its day-to-day business operations. Our indirect impacts on the environment extend from core financial activities — that involve the use of environmental criteria when analysing lending risks associated with our lending portfolio — to the way we work with our supply chain, and the environmental conservation activities we support in partnership with our local community.

This section provides an overview of some of the activities we conduct that have indirect impacts on the environment. For further information about how we manage supply chain impacts and our community-based environmental initiatives (refer to pages 44-47 and 21-23 respectively).

### Managing environmental risk in lending

Our lending and investment policies and processes reflect our corporate principles, changing regulatory requirements, our approach to risk management and our commitment to meeting international benchmarks such as the International Finance Corporation (IFC) and World Bank Safeguard policies when providing project finance in developing countries. We also avoid lending to certain types of industry, such as those who engage in nuclear weapons development, pornography, and testing on animals. All lending transactions across the Group are covered by our environmental credit risk policies.

Our environmental credit risk assessment policies and processes have been in place since 1992 and reflect our commitment to balancing social and environmental impacts and risks with the need for economic development. Our project finance environmental risk policy was reviewed in 2004 against the World Bank and IFC Safeguard policies and is automatically applied if the credit is for specialised project finance transactions. All other general credit applications are screened to see if the environmental credit risk policies should be applied. They are applied if the credit is for a housing development or for a total value greater than \$500,000 and involving an industry with potentially high environmental risk, or in cases where a valuer has made adverse comment in regard to an environmental risk.

Key elements of our environmental credit risk assessment process include identification of potentially high environmental risk industries and sites, and where appropriate:

- expert third-party reports and Environmental Impact Assessments (EIA)
- review of a customer's environmental compliance record
- site visit(s) and assessment of a customer's environmental management policies and procedures
- assessment of liability transfer risk in regard to environmental issues
- inclusion of covenants in lending contracts with annual reviews
- mandatory notification of breaches against environmental licence conditions
- specific acknowledgment of community concerns and values.

In our corporate and business banking areas we use environmental checklists and questionnaires to assist bankers to assess whether customers meet our environmental credit risk requirements. We monitor customers' implementation of actions arising from the initial credit risk assessment, particularly loan covenants, through client relationships and through an annual review process.

Making a credit risk decision is not always an easy process. Where societal and regulatory standards change, our approach is to work with our customers to help them meet these standards and to improve their social and environmental performance. For example, we support the adoption of best available proven technology and have provided financing for customers in the energy sector to help them introduce new and less greenhouse intensive technologies for generating power or to use renewable energy sources. Credit and risk managers embedded in corporate and business banking units oversee credit quality and provide training and mentoring of our bankers to ensure they can properly apply the environmental risk policy.

### Assessing environmental or social impact and benefit in lending

Consultation with our stakeholders has indicated that they are interested in understanding how our lending may influence social and environmental outcomes. Therefore during 2004, and again this year, we have undertaken work to identify ways to meet our stakeholders' requirements for transparency in regard to the indirect impacts of our lending. This work involved staff from across our CSR, Group Economics, Project Finance and Corporate Banking areas. It led to the development of an internal guide for classification of industry type by potential environmental and social risk and benefits, so we could in turn try to apply this to our lending portfolio.

We came to the conclusion that a simple assessment by industry type is not adequate. Simple classification of lending by industry type does not allow recognition of the purpose of the lending. Lending to a traditionally polluting industry for cleaner technologies may actually result in a net environmental benefit, even though the industry may be regarded as having potentially high environmental risk.

Reviewing our lending is a retrospective and manually intensive process. For this reason, we have limited the scope of our reporting on the social and environmental impacts of our lending to our project finance portfolio. In the next year, we will investigate the viability of extending this assessment to report on other areas of our lending. We will also have further discussions with our stakeholders to reach a shared understanding of what constitutes high social or environmental impact and benefit in lending because of the value judgements embedded in these decisions.

Table 15 (overleaf) provides a summary of our current project finance lending portfolio, with commentary showing our assessment of associated potential social and environmental outcomes.

## Financing with environmental outcomes

During the 2005 year, NAB provided project finance to a range of projects that will lead to reduced environmental impact or net environmental benefit (as highlighted in Table 15 overleaf). Two of these projects include:

■ **EastLink tollroad** — We are part of a syndicated facility providing finance to ConnectEast for the construction of the EastLink tollroad to serve the east and south-east of Melbourne, one of Australia's fastest growing economic regions. Community stakeholders were concerned about the potential loss of nature reserve that could result from this project. In response to this issue, ConnectEast has preserved the unique local environmental values of the Mullum Mullum Valley through the inclusion of twin 1.6 km tunnels in the project.

■ **Woolnorth Bluff Point Wind Farm** — We provided more than \$90 million in project financing for this wind farm which is currently operated by Roaring 40s Renewable Energy in the north-west of Tasmania. Roaring 40s Renewable Energy is a joint venture between Australian renewable energy company Hydro Tasmania and Asian owner and operator – CLP Group. This is the first deal of its kind in Australia, where a wind farm has been financed on a project finance basis without the electricity being sold under a long-term fixed price contract. The project finance will allow Roaring 40s Renewable Energy to develop additional renewable energy projects in Australia and overseas. The provision of project finance for renewable energy projects such as Woolnorth Bluff Point Wind Farm is one way that we can contribute to a reduction in greenhouse emissions and the impacts of climate change. Construction of phase two of the Woolnorth Bluff Point Wind farm was completed in September 2004. Woolnorth is one of Australia's largest wind farms with a generating capacity of 64.8 megawatts. This means it generates about 2.5% of Tasmania's electricity supply and supplies power for more than 28,000 homes.



**Table 15: Project finance lending portfolio as at 30 June 2005**

Projects	Total Value (\$m)	Commentary
Road and public transport infrastructure	783.98	Projects in this category include public transport and road infrastructure projects. Tollways remove traffic congestion and they have a positive environmental and social benefit through reduced exhaust emissions and decreased travel time and delays. Additionally, public transport has net social and environmental benefits.
Water treatment & supply	124.18	Projects in this category include water supply treatment and have net social and economic benefit resulting from increased access to water of drinking standard.
Renewable energy development	364.41	Projects in this category include the development of new renewable energy generation that will have a net environmental benefit by reducing greenhouse emissions.
Coal mining	81.74	All coal mines have potentially high environmental risk, but they currently provide an essential commodity required for industry. Australian environmental regulations, in all states, govern the operation and impact of coal mining.
Power generation infrastructure	658.00	This sector is generally viewed as having potentially high environmental risk associated with climate change. However, the majority of these projects involve funding for technology which will improve generation efficiency and reduce greenhouse emissions, and will have a net environmental benefit.
Telecommunications infrastructure	72.94	Telecommunications infrastructure is important to support industry and the community, consequently it may contribute to net social benefit. This funding involves financing infrastructure which will contribute to improving the safety and management of train operations.
Port infrastructure	107.30	This is critical infrastructure to facilitate economic development. Development of this infrastructure does not necessarily present any net environmental harm, but environmental risks are still considered in the credit process.
Airport infrastructure	147.10	Critical infrastructure as above.
Gas transmission and petrochemicals	269.31	The gas projects in this category are helping pipe gas for energy production. Gas-fired power generation produces less greenhouse emissions and as such it has a net environmental benefit compared to coal. The petrochemical industry inherently has potentially high environmental risk. However, the petrochemical projects in this category involve adoption of latest technology to reduce pollutant emissions. Therefore, they will have a net environmental benefit.
Forestry	11.25	This category involves project finance of sustainable plantation forestry for domestic and export production.
<b>TOTAL</b>	<b>2,620.21</b>	

### Socially Responsible Investment (SRI)

The provision of SRI investment choices provides customers with an opportunity to make a contribution to a more sustainable society, and allows them to grow their wealth through investment aligned to their personal values. We have made a commitment in our environmental policy to provide customers access to SRI products. We currently do this by providing a small range of investment options, which are either positively screened as being 'green' or have a limited level of negative screening for tobacco, alcohol and gambling. We make these investment options available through MLC's licensees and on MLC's administration platforms,

MasterKey and MasterKey Custom. Our total SRI funds and funds with SRI content are shown in Table 16. Over the last 12 months our Australian SRI fund portfolio has grown by 32%.

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

**Table 16: NAB's SRI offerings**

Socially Responsible Investment (SRI)	\$m
<b>SRI Funds, Australia</b> ( <i>light and dark green funds</i> )	66.9
AMP Capital Investors Sustainable Future Australian Share Fund – Class A	
AMP Capital Investors Responsible Investment Leaders International Share Fund – Class A	
Australian Ethical Large Companies Share Trust (Retail)	
Hunter Hall Australian Value Trust – Class B Units	
Hunter Hall Global Ethical Trust – Class B Units	
Hunter Hall Value Growth Trust	
Perpetual's Wholesale Ethical SRI Fund	
<b>New Zealand funds</b> ( <i>with limited screening for tobacco, gambling and alcohol stocks</i> )	172.2
BNZ International Equity Trust	
Active International Equity Fund	
<b>Total SRI funds/funds with SRI content</b>	239.1
Superannuation funds, globally	32,743
Funds under administration (including funds under management)	85,110
Funds under management for which MLC holds proxy voting rights (MLC is a 'manager of managers'. MLC's proxy voting policy is to access and vote all proxies for every resolution in respect of holdings beneficially owned by MLC entities in companies publicly listed in Australia, excepting entities of which MLC has no discretion to vote. Responsibility for proxy voting on international holdings is delegated to the fund managers selected by MLC. International holdings represent approximately 50% of funds under management.)	100%

### Moving forward

Planned actions for 2006 include:

- continuing to improve our ability to measure and monitor our environmental performance
- implementing energy, paper and waste reduction initiatives
- investigating opportunities to increase our use of green energy
- investigating the viability of extending assessment of environmental and social impact or benefit to an increased proportion of our lending, and consulting with stakeholders to develop a shared understanding of what this means.

## Economic performance

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

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

The Group sources funds used for revenue generating activities, such as lending and investing, through the issue of both debt and equity. Debt is primarily deposit accounts, certificates of deposit, money market accounts, and other types of deposits made by individuals, businesses and other financial institutions and wholesale funding. In return for the use of these funds the Group pays interest to the depositor. Equity is raised primarily through the issue of shares and other capital instruments. The Group pays dividends to shareholders and distributions on its other capital instruments.

### 2005 Financial performance summary

Our financial performance in the 12 months to 30 September 2005 reflects our focus on making the operational changes required to stabilise the Group's performance. This process is largely complete, with the focus now on rebuilding the competitive position of each business and restoring the Group's profitability.

### Key financial highlights and achievements

The Group's performance was impacted by a range of factors:

- sale of the Irish banking operations
- one-off costs — notably the South Korea litigation, the Northern Bank robbery and reimbursements to customers of overcharged fees and taxes
- a deliberate change in strategy for the IMS business, which has resulted in a reduction in low-yielding assets unfavourably impacting cash earnings, but improving return on assets and return on equity
- continued pressure on costs, particularly due to one-off costs and regulatory and compliance projects including Basel, Sarbanes-Oxley and International Financial Reporting Standards (IFRS). Significant restructuring and investment plans have been developed across all of the Group's business units to address the cost pressures identified.

Business volumes and revenue in the banking businesses showed early signs of gathering momentum across all regions, albeit offset to some extent by margin compression in the first half of the year. In addition, the wealth management result reflected favourable investment markets. Asset quality remains sound with reductions in the overall level of impaired assets and past due loans.

### Net profit attributable to members of the Company **\$4,132 m**

Net profit attributable to members of the Company of \$4,132 million in 2005 increased \$955 million or 30.1% in comparison to 2004. Net profit attributable to members of the Company before significant items of \$3,761 million in 2005, increased \$200 million from 2004. Refer to Figure 19.

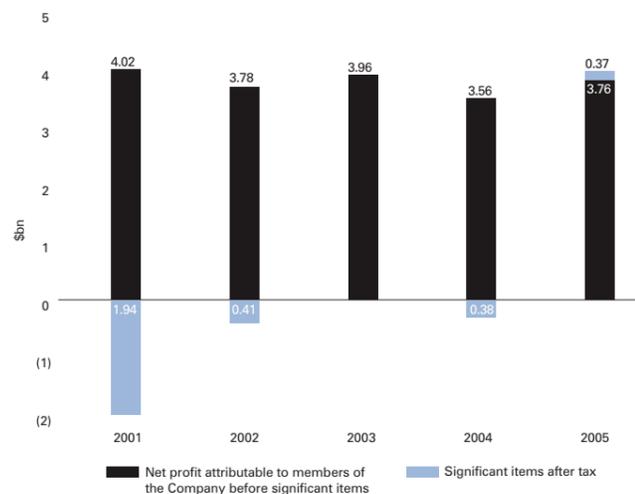


Figure 19: Net profit and significant items

### Total capital ratio

The Group's Tier 1 ratio increased during the year and is at the top end of the Group's stated target ranges at 30 September 2005. Capital ratios were positively impacted as a consequence of a deliberate strategy to reduce low yielding assets, the significant gain on sale of the Irish banking operations and the growth in contributed equity as a result of the issue of Trust Preferred Securities II on 23 March 2005. Restructuring charges negatively impacted the capital ratios in the year. Refer to Figure 20.

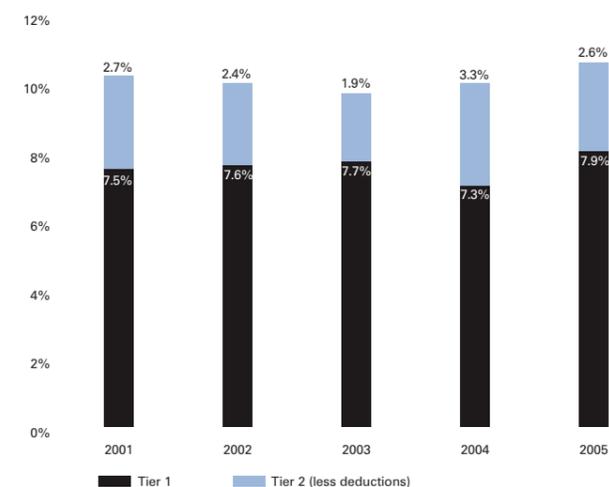


Figure 20: Total capital ratio

### Return on equity & total shareholder return (3-year)

Return on average ordinary shareholder funds increased from 14.0% for the September 2004 to 16.6% for the September 2005 year. Total shareholder return (3-year) decreased from 3.8% to 2.4% in 2005. Refer to Figure 21.

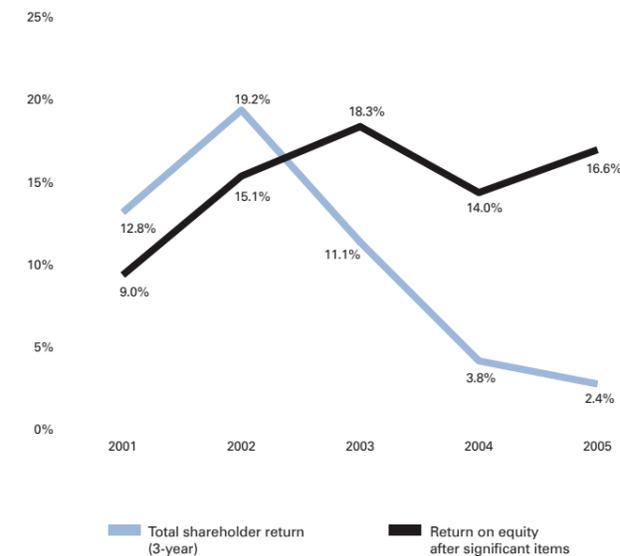


Figure 21: Return on equity and total shareholder return (3-year)

### 2005 value generated in the community

Through its business activities, the Group generates gross value add in the community by earning income (refer to Table 17) which is distributed to the local communities in which we operate through shareholders, governments and employees (refer to Table 18).

### Table 17: Gross value add in the community<sup>17</sup>

Year to 30 September 2005	\$m
Net interest income	7,082
Fee income	4,157
Trading income	656
Net life insurance income	1,672
Other income	289
Net operating income	13,856
Significant revenue	2,493
Total net income	16,349
Other costs <sup>18</sup>	(3,811)
Movement in excess of net market value over net assets of life insurance controlled entities	335
Significant expense	(2,209)
<b>Total</b>	<b>10,664</b>

<sup>17</sup> Gross value add in the community for the Group includes Australia, Europe, New Zealand, the United States and Asia.

<sup>18</sup> Excludes salary-related costs, income tax relating to ordinary activities, payroll tax, fringe benefits tax, depreciation and goodwill and includes outside equity interests.

### Table 18: 2005 distribution of community value

Distribution of community value	Australia \$m	Europe \$m	New Zealand \$m
Shareholder <sup>19</sup>	2,125	1,525	424
Government <sup>20</sup>	1,665	251	131
Employees <sup>21</sup>	2,348	1,205	325
Depreciation & goodwill	268	175	73

<sup>19</sup> Net profit attributable to ordinary shareholders.

<sup>20</sup> Includes income tax relating to ordinary activities, payroll tax and fringe benefits tax. Excludes net GST and VAT payments.

<sup>21</sup> Salary-related costs, excluding payroll tax and fringe benefits tax.

### Interest expense

Year to 30 September 2005	\$m
Deposits and other borrowings	10,401
Other financial institutions	1,780
Bonds, notes and subordinated debt	1,494
Other debt issues	115
<b>Total interest expense</b>	<b>13,790</b>

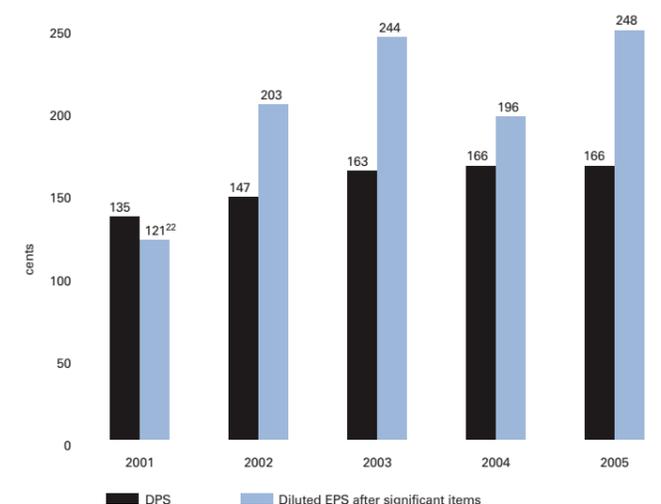
### Full year dividend **166 cents**

On 9 November 2005, a final dividend of 83 cents per full-paid ordinary share, 80% franked, was declared in respect of the year ended 30 September 2005. This brings the full year dividend to 166 cents (80% franked). Refer to Figure 22.

### Diluted earnings per share (after significant items) **248 cents**

Diluted earnings per share (after significant items) increased 26.5% from 196 cents to 248 cents. Refer to Figure 22.

For further details on our 2005 financial results, please refer to the 2005 Annual Financial Report on our Group website [\\*](#).



<sup>22</sup> The 2001 dilutive calculation has been restated to exclude certain anti-dilutive potential ordinary shares that were previously included, in order to comply with Australian Accounting Standard AASB 1027 "Earnings per share".

Figure 22: Diluted earnings per share and dividends per share

# Benchmarking and monitoring our performance

Benchmarking and monitoring our performance against external standards and the wider business community is an important way to identify our strengths and weaknesses and areas for performance improvement.

These benchmarking initiatives also provide information that can help fund managers and investment analysts when they screen investment targets on the basis of their CSR performance. More generally, benchmarking activities for which the results are made publicly available provide another means of independent assessment of our performance for our wider community of stakeholders.

In deciding which benchmarking and monitoring activities to undertake, NAB selected a range of initiatives to assess our performance at three key levels:

- **globally** – the Dow Jones Sustainability Index and FTSE4Good
- **regionally** – RepuTex in New Zealand and Australia and Business in the Community in the UK
- **in our relationships with stakeholders** – the Relationship Index Survey in all three regions (refer page 15).

The highlight box provides an update on our performance against the promises we made in relation to benchmarking in our 2004 CSR Report. Further information is provided below on our benchmarking activities and key awards we have received in recognition of our performance.

## **Dow Jones Sustainability Index (www.sustainability-indexes.com)**

NAB is one of 27 banks included in the 2006 Dow Jones Sustainability Index. The Index consists of more than 300 companies selected out of 2,500 global companies for their sustainability performance. It represents companies assessed from across 58 industry sectors and 34 countries. In this year's survey, our performance improved significantly in areas including our external reporting, customer relationship management and governance.

## **RepuTex (www.reputex.com.au)**

NAB maintained its RepuTex social responsibility rating of AA and has been ranked equal second on the new RepuTex SRI Index. At its launch, the Index comprised

44 companies spread across 14 industry sectors. A company must have a social responsibility rating of at least "A" and be listed in the S&P/ASX300 to be included in the Index.

 **FTSE4Good (www.ftse.com)**  
This year NAB has again met the FTSE4Good criteria and is included in that Index. This Index is designed to identify companies that are working towards environmental sustainability, developing positive relationships with stakeholders, and upholding and supporting human rights.

## **Business in the Community (BiTC) – Yorkshire & Humber Environment Index 2005**

The Yorkshire Bank ranked third in its sector, improving its position from sixth, on the regional BiTC Yorkshire & Humber – Environment Index in May 2005 (refer to [www.bitc.org.uk](http://www.bitc.org.uk)).

## **External recognition**

This year NAB won a number of awards and placed well in a number of key business surveys including:

- MLC won Insurance Company of the Year for the fourth year in a row in the Personal Investor Magazine Awards for Excellence in Financial Services 2005. MLC's Personal Protection Portfolio, Income Protection, also won Income Protection Product of the Year.
- National@Docklands, the building for NAB's new Australian headquarters, won the Banksia Environmental award for the Leadership in Buildings category in June 2005. See page 53 for case study and partners in the entry.
- Clydesdale Bank secured the title of UK's most improved bank for a second time, and achieved a top three placing in Britain's leading survey, by the Forum for Private Businesses, into how small businesses view their banks. Yorkshire Bank was rated number two according to the Forum of Private Business Survey.
- Bank of New Zealand's customer contact centres have won the Diamond Award as New Zealand's best customer contact centre (any industry) for the second consecutive year (refer to [www.crmconsulting.co.nz](http://www.crmconsulting.co.nz)).
- NAB ranked number one in Dealogics league table for project finance transactions in Australia for the six months to June 30, 2005 and remained at the top of Thomson Financials loan syndications league table at March 31 and June 30, 2005.

# Assurance – providing transparency and building trust

Assurance is an essential element of transparency and disclosure in our public reporting process. We are committed to providing high quality, relevant and credible information that can be trusted as a complete picture of our performance. This means providing coverage of issues of importance and responding to the views of our stakeholders. In preparing our 2005 CSR Report, we have used the principles of the AA1000 Assurance Standard – materiality, completeness and responsiveness – as one of the tools to determine its content. Further information about this standard can be found at: [www.accountability.org.uk](http://www.accountability.org.uk)

Independent assurance and audit not only adds credibility to the information we report, but the audit process itself provides a valuable opportunity for us to identify ways to improve our processes for data collection and management. This is the second Report we have produced and the second time we have undertaken the external audit process. Our external audit process has covered the full range of our performance included within the scope of this Report.

## Assurance statement

URS Australia Pty Ltd (URS) was commissioned by National Australia Bank Limited ("NAB") to provide an independent audit of its 2005 Corporate Social Responsibility Report (the "Report"). The Report covers the operations of NAB and its controlled entities (the "Group") in Australia, New Zealand and the United Kingdom. The Report relates to the 12 months to 30 June 2005, unless stated otherwise in the text.

## Objectives

The objectives of this independent audit were to provide an opinion on:

- a) data accuracy, capture processes and controls
- b) corporate processes and mechanisms in place for the preparation and delivery of the Report
- c) corporate social responsibility policies and strategies, via a high level review
- d) stakeholder engagement processes employed, via a review of output documentation and interviews with senior executives
- e) adequacy and relevance of information contained in the Report.

Our external auditors, URS Corporation, were requested to provide assurance and verification across the non-financial content and indicators in this Report. Specifically, they have been asked to provide an independent audit of NAB's 2005 CSR Report, including a review of processes for stakeholder consultation and feedback.

Ernst & Young were requested to audit the financial information used to represent key aspects of our financial performance in the Economic performance section of this Report on pages 58-59. We have drawn the financial information from the 2005 Annual Financial and Concise Annual Reports, which have been audited by Ernst & Young. Therefore, we requested that Ernst & Young undertake an audit and form an opinion as to whether, in all material respects, the amounts used to calculate the financial information disclosed for the year ended 30 September 2005 in the Economic performance section have been properly extracted from the financial statements and financial records of the Group.



## Scope of work

The URS audit of performance with respect to corporate social responsibility was addressed through interviews with more than one hundred personnel from the Group and relevant contractor organisations, covering the three main regions in which the Group operates. The following elements were audited:

- data collation, transcription and reporting processes in Melbourne, Australia; Auckland, New Zealand; and Glasgow and London, United Kingdom
- key statements made throughout the Report, including cross-checking of reported data
- processes and mechanisms in place for the preparation and delivery of the Report
- case study material contained in the Report
- data trails from regional retrieval to final Report for selected material parameters
- report drafts and the final Report for significant anomalies.

The three principles of the Assurance Standard, AA1000, namely completeness, materiality and responsiveness, were used as a basis, as were the URS Assurance Principles. The Global Reporting Initiative (GRI) Content Index was also reviewed to confirm that the Report has been prepared 'in accordance' with the GRI Guidelines. While the URS scope of work did not allow the detailed audit of all

## Progress on our promises

Promise	Comments
We will make submissions to Dow Jones Sustainability Index and RepuTex in 2005.	In 2005, we maintained our RepuTex ranking of AA and improved our overall score on the DJSI from 63 in 2004 to 71 in 2005, against a best in sector overall score of 84.

data sets contained in the Report, it was designed to provide a representative sample, as well as checking all key statements and discussion. The scope specifically excluded the verification of data and statements relating to regional and group-wide financial information.

**URS independence and impartiality**

The data and information in the Report audited by URS do not include any work with which URS has had substantial involvement. URS has not been involved in the design or compilation of the Report or decisions regarding its content (except by way of this audit).

URS, its parent companies and related companies have previously been engaged by NAB. The average annual value of work carried out by URS Corporation globally on behalf of NAB over the three year period to the date of this Statement was less than AUD \$200,000 per year. This represents less than 0.02% of annual URS Corporation gross revenue based on our 2004 reporting year.

**Findings**

On the basis of its audit, URS is of the opinion that the Report truthfully and fairly presents the performance of the Group with respect to corporate social responsibility for the 12-month period to 30 June 2005. URS is also of the opinion that the Report has been prepared in accordance with the GRI 2002 Sustainability Reporting Guidelines and the Financial Services Sector Supplements for Environmental Performance and Social Performance (Pilot Versions 1.0). In conjunction with this Statement, URS will provide a management report to NAB including more detail on the verification findings.

Minor inconsistencies were noted for less than 1% of the data audited. These inconsistencies were conveyed to, and corrected as far as possible by NAB's CSR team. They were not considered to have a material, or potentially material, impact on data and statements included in the Report.

In relation to the AA1000 Principle of Completeness, there are areas for improvement with respect to systems and data quality. At the strategic level, numerous policies have been developed and further consolidation would assist the achievement of consistency across the regions. A framework outlining the source of each data item in the Report would improve the reporting process, along with an explanation of responsibilities and accountabilities for data capture and collation. Regional variations are inevitable. However, there is

scope to improve communication where terminology or program names differ, to ensure that relevant data are captured from the UK and New Zealand. The approach to data capture and processing for environmental performance in Australia requires improvement. Data are relatively robust in some areas, such as electricity use, while others require a more substantive data set, such as water use.

In reviewing the AA1000 Principle of Materiality, through the interviews with senior executives and the review of stakeholder consultation outputs, it became clear that a culture change is underway within NAB. The Report confirms that corporate social responsibility has been placed firmly on the agenda at the highest level. It also discusses the risk management processes that have been developed within the organisation. In our interviews with selected personnel we found these processes to be driven from the top and well communicated. Furthermore, a genuine commitment to rebuilding stakeholder trust was evident.

Finally, with respect to the AA1000 Principle of Responsiveness, relationships with the community, customers, the regulators and employees have all been the focus of initiatives during the 2005 reporting period. The capture and reporting of Corporate Community Investment (CCI) data is substantial. Examples of NAB's responsiveness include information relating to the encouragement and facilitation of personnel to take up allocated volunteer days and the collection of related data in Australia. The Report also discusses initiatives that have been established in the UK with Scottish schools, such as "Maths in a bag", and the long established partnership with the Kiwi Recovery Trust in New Zealand. A notable change in focus to consider customer needs when developing products is included in the Report as demonstrated by the stepUP Loans and the No Interest Loan Scheme.

It has been noted that the organisation is willing to admit its mistakes and weaknesses externally and interviews with senior executives reaffirm the organisation's long-term commitment to developing a culture of openness and transparency.

**URS Australia Pty Ltd**  
**1 December 2005**  
**Melbourne, Australia**

# Independent Audit Report to the Members of the National Australia Bank Limited

**Scope**

We have audited the extraction of amounts used in calculating the numeric data and graphs for the year ended 30 September 2005, (the "Financial Information") disclosed in the Economic performance section on pages 58 and 59 of the Corporate Social Responsibility Report 2005 (the "Report") of National Australia Bank Limited (the "Company") in order to express an opinion on the extraction of the amounts to the members of the Company. The extraction of information disclosed for the financial years ended 30 September 2004 or before is not within the scope of our audit, which is shown for the purposes of comparison only. The Company is responsible for the preparation of the Financial Information.

We have also performed an independent audit of the financial reports of the Company and the Group for the year ended 30 September 2005 (the "Financial Reports"). The Group comprises both the Company and the entities it controlled during that year. Our audit report on the Financial Reports was signed on 1 December 2005, and was not subject to any qualification.

The Financial Information has been prepared based on information extracted from the Financial Reports and financial records of the Group. We disclaim any assumption of responsibility for any reliance on this Audit Report or on the Financial Information to any person other than the Company and the members of the Company or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included agreement, on a test basis, of the amounts used to calculate the Financial Information to the Financial Reports and financial records of the Group. These procedures have been undertaken to form an opinion whether, in all material respects, the amounts used to calculate the Financial Information have been properly extracted from the Financial Reports and financial records of the Group.

The audit opinion expressed in this report has been formed on the above basis.

**Independence**

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements.

**Audit opinion**

In our opinion, the amounts used in calculating the Financial Information for the year ended 30 September 2005 are properly extracted from the Group's Financial Report and financial records of that year.

**Ernst & Young**  
**1 December 2005**  
**Melbourne, Australia**

DISCLAIMER: It should be noted that the veracity of the information summarised in the Report is dependent upon the uniformity, consistency and thoroughness of staff reporting all relevant matters. Whilst URS identified a good appreciation of the NAB's corporate social responsibility initiatives at a corporate and Group level, URS did not and can not determine precisely the uniformity, consistency and thoroughness of reporting. URS has prepared this Statement for the use of NAB in accordance with the usual care and thoroughness of the consulting profession. The opinions provided are based on generally accepted practices and standards at the time they were prepared. No other warranty, expressed or implied, is made as to the professional advice included in this Statement. To the extent permitted by law, URS excludes all liability that may arise from the professional advice contained in this Statement. This Statement must be read in conjunction with the supporting document prepared by URS. No responsibility is accepted for use of any part or all of this Statement in any other context or for any other purpose or by third parties. No third party is entitled to rely on any matter contained in this Statement without URS's prior consent in writing. Neither URS's name nor the material submitted in this Statement may be included in any prospectus or offering circular without URS's prior consent in writing. URS owes no duty of performance to any party other than our contracted client.

## GRI and subject index

This Index provides a map to subjects and data of interest throughout the Report, as well as to the GRI indicators on which we have reported. The listing of GRI indicators is part of the requirements we must meet to report 'in accordance' with the GRI's 2002 Sustainability Reporting Guidelines. A full description of these requirements is available at: [www.globalreporting.org](http://www.globalreporting.org). To report 'in accordance' with the GRI Guidelines, we are required to give an 'if not, why not' response to any core indicator on which we have not reported. All core indicators are identified with a "C" in the GRI indicator status column in the Index. We have also taken this approach to our use of the finance sector social and environmental supplements. Finance Sector Supplement indicators are indicated with an "SS" for social indicators and "SE" for environmental indicators. Immediately following the GRI and Subject Index we have included an explanation of the reasons we have not reported on omitted indicators.

Key to GRI indicator status:	
GRI requirement fully complied with	● C
GRI partly complied with	▶
GRI indicator not included (see explanation of omission page 10)	■
Non-GRI indicator	▲
GRI Core indicator	C
Social Supplement indicator	SS
Environmental Supplement indicator	SE

Content	GRI indicator	GRI indicator status	Pg
Accounting criteria/definitions	2.18	● C	5
Additional information	2.22	● C	IBC
Anti-discrimination policy and processes	HR4	● C	33
Anti-money laundering		▲	13
Asset management policy	AM1	▶ SS	57
Assets under management with high social benefit	AM2	● SS	57
Assurance	2.20, 2.21	● C	13, 61
Audits – CSR	CSR3 F6	● SS ● SE	13 13
Awards for social, ethical or environmental performance	SO4	●	60
Basis for reporting	2.15	● C	5
Benchmarking		▲	60
Biodiversity – major impacts associated with activities	EN7	■ C	67
Biodiversity rich habitats – land owned/leased in	EN6	■ C	67
Board of directors		▲	9
Board expertise	3.3	● C	8
Board processes	3.4	● C	8, 9
Boundaries of report	2.13	● C	4
Bribery and corruption – policy and compliance mechanisms	SO2	● C	10
Businesses	2.4	● C	5
Carbon Disclosure Project	3.14	● C	53
Certification of systems	3.2	● C	32, 46, 50
Chairman's & Managing Director's statement	1.2	● C	3
Changes in operations	3.18	● C	4
Charitable trust		▲	23
Charter/principles – external & voluntary	3.14	● C	6, 45-46, 53
Child labour	HR6	■ C	67
Client engagement on environmental issues	F7 F8	■ SE	67

Content	GRI indicator	GRI indicator status	Pg
Client performance monitoring	F4	● SE	54-55
Code of conduct	3.7	● C	10, 29
Community – value generated in	SOC2	● SS	59
Community impacts and engagement	SO1	● C	16, 19-23
Complaints – banking		▲	38
Complaints – insurance	INS3	■ SS	67
Complaints – privacy policy	PR11	●	39
Complaints – wealth management		▲	38
Compliance standards	3.7	● C	10
Contact person	2.10	● C	IBC
Contracts paid in accordance with agreed terms	EC4	▶ C	47
Corporate community investment – type and value	EC10 SOC1	● C ● SS	19 19
Corporate principles	3.7	● C	10, 27-28
Cost of goods, materials and services purchased	EC3	● C	45-46
Credit risk – environmental assessment process	F2	● SE	54
Credit risk – policy	F1	● SE	54
Credit risk – thresholds for environmental risk assessment	F3	● SE	54
CSR Strategy	1.1	● C	6
Culture – organisational		▲	27-28
Customer health and safety	PR1	■ C	67
Customer charter		▲	39
Customer profile – insurance	INS2	■ SS	67
Customer profile – project finance	IB2	● SS	54
Customer satisfaction research	PR8	●	37
Customer statistics		▲	36
Diluted earnings per share		●	59
Director independence	3.2	● C	9
Disability access		▲	41
Disability employment		▲	31
Diversity – statistics	LA11	● C	26

Content	GRI indicator	GRI indicator status	Pg
Diversity – strategy	LA11	● C	30-31
Dividend – full year	EC6	● C	59
Economic impacts – indirect	EC13	●	58
Employee assistance programs		▲	32
Employee benefits	LA12	●	31-32
Employee consultation	LA4	● C	33
re: organisational changes	INT1	● SS	33
Employee feedback	INT1	● SS	33
Employee opinion survey		▲	28
Employee satisfaction	INT3	● SS	28
Employee turnover	LA2 INT2	▶ C ▶ SS	27 27
Energy efficiency initiatives	EN17	●	50
Energy use – direct	EN3	● C	50-52
Energy use – indirect	EN4	● C	50-52
Environmental credit risk assessment	3.16	● C	54-55
Environmental governance structure		▲	10, 49
Environmental impacts of activities	EN14	● C	50
Environmental products and services – weather derivatives	F12	● SE	42
Equal opportunity – policy	LA10	● C	11, 33
Executive compensation	3.5	● C	29-30
Fees and charges		▲	42-43
Financial inclusion		▲	40-41
Financial literacy		▲	42
Fines/penalties for environmental non-compliance	EN16	● C	52
Forced and compulsory labour	HR7	■ C	67
Fraud prevention		▲	43
Freedom of association	HR5	● C	33
Glossary		▲	65
Governance – structure corporate	3.1	● C	5, 8-10
Governance – CSR (organisation)	CSR2	● SS	10
Greenhouse emissions	EN8	● C	50-52
GRI guidelines	3.14	● C	3, 5
GRI Index	4.1	● C	64-65
GRI principles and protocols – application of	2.17	● C	5
Grievance processes	HR10	●	33
Hardship training		▲	41
HIV/AIDS	LA8	■ C	67
Human rights – policy	HR1	● C	11, 46
Human rights in procurement and investment decisions	HR2	● C	46, 54
Human rights in the supply chain	HR3	● C	46
Incentives – long-term	INT5	● SS	29
Independent review		▲	13
Independent review – current practice	2.20	● C	13, 61
Indigenous employment		▲	31
Indirect impacts of activities	3.17	● C	54, 58
Insurances with high social benefit	INS4	■ SS	67
Interest expense	EC6	● C	59

Content	GRI indicator	GRI indicator status	Pg
Internal CSR Policy	INT1	● SS	11
Investment policy – socially relevant elements	IB1	▶ SS	54-56
Job sharing/part-time employment	INT1	● SS	31
Kiwi Recovery Trust	EN27	●	23
Leadership development		▲	36
Learning and development	INT1 F5	● SS ● SE	30 30
Lending profile	RB2	● SS	36
Lending with high social benefit	RB3	● SS	40, 56
Locations of operations	2.5	● C	4-5
Lost time injury statistics	LA7	● C	32
Markets – geographic location of	EC2	● C	4-5
Markets served	2.7	● C	4-5
Materials use	EN1	▶ C	51-52
Measurement methods – change to	2.19	● C	5
Memberships	3.15	● C	17
Micro-credit		▲	40
Name of organisation	2.1	● C	4
Net income – total	EC1	● C	59
Non-compliance	CSR5	● SS	32, 39, 52
NOx, SOx, and other air emissions	EN10	■ C	67
OECD Guidelines for MNEs	3.14	● C	6, 46
OHS reporting	LA5	● C	32
OHS committees	LA6	● C	32
OHS management systems		▲	32
Ombudsman – referrals to	CSR5	● SS	39
Organisational profile	2.1-2.8	● C	4-5
Organisational and operational structure	2.3, 3.6	● C	5
Ownership – form of	2.6	● C	4
Ozone depleting substances – use and emissions	EN9	● C	52
Payroll and benefits expense	EC5	● C	59
Percentage weight of products sold reclaimable	EN15	■ C	67
Performance management		▲	29
Plain English program		▲	42
Policies	3.7 CSR1	● C ● SS	11 11
Political donations policy	SO3	● C	11
Precautionary approach	3.13	■ C	67
Previous reports	2.12	● C	4
Privacy policy	PR3	● C	39
Procurement policies		▲	45-46
Product information and labelling	PR2	■ C	67
Products and services	2.2	● C	5, 68
Project finance	3.16	● C	54-56
Project finance – portfolio value	F13	● SE	56
Proxy voting	F10	■ SE	67
Proxy voting – percentage assets where have right to vote	F11	● SE	57
Quality program		▲	39
Regional and rural services		▲	41

Content	GRI indicator	GRI indicator status	Pg
Remuneration – senior management	INT4	● SS	29
Renewable energy use	EN17	●	50-51
Reporting period	2.11	● C	4
Report scope	2.11-2.16	● C	4-5
Restatements of information	2.16	● C	5
Retail banking policy – social relevant elements	RB1	● SS	38, 43
Retained earnings	EC7	● C	59
Risk management		▲	11-12
Salary ratio: Male-Female	INT6	● SS	29
Scale of reporting organisation	2.8	● C	4, 58-59
Sensitive issues – management of	CSR4	● SS	various throughout Report
Shareholder communication	3.8	● C	17
Sick leave bank		▲	31
Sick leave taken	LA7	● C	27
Small to medium-sized customers – number	RB2	● SS	4
Spills	EN13	■ C	67
SRI fund screening	F9	▶ SE	57
SRI oriented shareholder activity	AM3	▲ SS	57
Stakeholder engagement	3.9	● C	15-17
	CSR6	● SS	15-17
Stakeholder engagement – use of information	3.12	● C	15-17
Stakeholders – list	2.9	● C	16
Strategy – CSR	1.1	● C	6

Content	GRI indicator	GRI indicator status	Pg
Subsidies received	EC9	■ C	67
Supplier breakdown	EC11	▲	45
Suppliers – satisfaction	SUP2	● SS	47
Suppliers – selection process	SUP1	● SS	46
Supply chain management policies	3.16	● C	45-47
Systems – certification of	3.20	● C	32, 46, 50
Taxes – total	EC8	● C	59
TBL programs and performance	3.19	● C	various throughout Report
Training – average spend per employee	LA9	● C	30
Transactions with high social benefit	IB3	▶ SS	56
Transport energy use and travel	EN19	●	51
UN Declaration of Human Rights	3.14	● C	45-46
Underwriting policy – socially relevant elements	INS1	■ SS	67
Union representation	LA3	● C	33
Verification	2.21	● C	61
Volunteering		▲	21
Waste	EN11	▶ C	51-52
Waste materials used	EN2	● C	51, IBC
Water – discharges to	EN12	■ C	67
Water use	EN5	▶ C	51-52
Whistleblower's policy	HR10	●	10-11
Workforce profile	LA1	● C	26-27
	INT7	● SS	26-27

## Explanation of indicator omissions

**3.13 – Precautionary approach:** NAB has not formally addressed the precautionary approach. However, in our day-to-day operations, we employ sound risk management practices, which are described on pages 11 to 12 of this Report.

**EC9 – Subsidies received:** This is described in the GRI 2002 Sustainability Reporting Guidelines as grants, tax relief, and other financial benefits that do not represent a transaction for goods and services. Having regard to the nature of the Group's businesses and having made limited internal inquiries, we do not believe that the Group is a significant or material recipient of subsidies other than deductions allowed by tax legislation for all relevant or qualifying tax payers. Therefore, on the basis of materiality, we have not reported this information.

**EN6 – Biodiversity-rich habitats – land owned/leased in:** NAB's operations are all located in urban built environments and therefore have no direct impacts on biodiversity-rich habitats.

**EN7 – Biodiversity – major impacts associated with activities:** There are no major direct impacts on biodiversity associated with the NAB's operations.

**EN10 – NOx, SOx, and other air emissions:** The only source of NOx from NAB's operations would be a small quantity emitted due to fuel combustion in our vehicle fleet. NAB has no direct sources of SOx. However, we would contribute indirectly to emissions of SOx through our purchase of electricity.

**EN12 – Discharges to water:** NAB does not have any material discharges to water as its operations are primarily based in urban built environments. Our primary discharges to water are stormwater discharges from the roof tops of buildings that we fully occupy.

**EN13 – Spills:** There have been no significant spills from any NAB storage facility in the reporting year, nor in the previous reporting year. NAB has a small number of diesel storage facilities, which are used for fuel in back-up power supply facilities.

**EN15 – Percentage weight of products sold reclaimable:** Banks do not have physical products, therefore this indicator is not relevant.

**LA2 – Job creation:** This indicator has not been reported as there has been significant redeployment throughout NAB in the reporting period as a result of a restructure, therefore the net job creation status is difficult to determine.

**LA8 – HIV/AIDS:** In Australia and New Zealand, NAB has no specific policy on HIV/AIDS. It is covered by our general H&S policies and processes and our EEO policy. In the UK, NAB has a specific policy on HIV/AIDS. In general, the Group deals with HIV/AIDS like any other long-term illness.

**HR6 – Child labour:** NAB employs an adult professional workforce in all countries in which it operates.

**HR7 – Forced and compulsory labour:** NAB does not engage in forced or compulsory labour. We employ a professional workforce in each country in which we operate.

**PR1 – Customer health and safety:** This indicator is not relevant to the financial services sector. However, we do provide 'health warnings' on our credit card-related direct mail and in branch brochures to help customers to manage their levels of debt.

**PR2 – Product information and labelling:** Our CSR reporting systems do not currently gather data on product and service information and disclosure. We will investigate this for 2006.

**AM3 – SRI oriented shareholder activity:** MLC has a 'manager of managers' approach to funds management. The majority of funds offered are funds under administration where investments are managed by third parties external to the Group. See also explanations for F10 below.

**INS1 – Underwriting policy:** Our wealth management products and services include insurance products. MLC observes the Australian Investment and Financial Services Association underwriting guidelines in relation to underwriting for HIV/AIDS, genetic testing, privacy and confidentiality and medical standards. These policies focus on preventing discrimination against individuals based on specific circumstances.

**INS2 – Customer profile:** NAB's insurance customers are included within our wealth management customer base and have not been listed separately in this Report. We distribute general insurance and underwrite life insurance products, including home and car insurance and protection for life, disability and critical illness.

**INS3 – Customer complaints:** Complaints from insurance customers are included in our statistics for wealth management complaints and have not been listed separately in this Report.

**INS4 – Insurances with high social benefit:** NAB does not offer insurance products and services applying specific ethical or sustainability criteria.

**F7 & F8 – Client engagement on environmental issues:** As part of our environmental credit risk process, NAB engages with specific customers on environmental issues where relevant. This particularly includes our project finance customers. We do not have systems to collect this information in a form that can be easily aggregated and reported.

**F10 – Proxy voting:** NAB, through its wholly owned subsidiary MLC, employs a 'manager of managers' approach in the provision of investment products. MLC does not refer specifically to SRI shareholder activity in its Proxy Voting Charter. However, all resolutions on Australian listed companies held by MLC are considered and voted accordingly (excepting entities which MLC has no discretion to vote). Resolutions not considered as contentious are voted according to standing instructions.

**Australian Greenhouse Office (AGO):** The lead Commonwealth agency on greenhouse matters — responsible for both the coordination of domestic climate change policy and delivery of major new and existing Commonwealth greenhouse programs.

**APRA:** Australian Prudential Regulation Authority

**ASIC:** Australian Securities and Investments Commission

**ASX:** Australian Stock Exchange Limited

**ATM:** Automated Teller Machine

**Basel II Capital Accord:** An international framework that sets out minimum capital and risk management requirements for banks and other financial institutions. The objective is to promote safety and soundness in the financial institutions by ensuring maintenance of sufficient capital levels, along with supporting policies and processes and robust governance practices to safeguard against credit, operational, market and interest rate risks.

**Carbon dioxide equivalents (CO<sub>2</sub>-e):** Carbon dioxide equivalents (CO<sub>2</sub>-e) are the unit for measuring the quantity of greenhouse emissions.

**Category A Projects:** Category A projects are defined by the International Finance Corporation as likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented.

**Cogeneration:** Cogeneration is a highly efficient way of simultaneously converting gas into a number of useable forms of energy. (eg. electricity and useful heat).

**Custody services:** Custody and related services to foreign institutions, superannuation funds, government bodies, fund managers, insurance companies and other entities. Key products include sub-custody, global custody, master custody, investment administration outsourcing, securities lending and cash deposit facilities.

**ECF/TCF:** Elemental chlorine free/totally chlorine free.

**EEO:** Equal Employment Opportunity

**EFTPOS:** Electronic Funds Transfer at Point of Sale.

**Energy – direct:** Direct energy is the energy consumed by an organisation to perform its day-to-day activities. It includes energy from fossil fuels, purchased electricity and renewable sources, but does not include energy sold by the organisation for use by others. It includes production of energy, heat steam and electricity from sources within the boundary of an organisation as a result of that organisation's activities.

**Energy efficiency:** Using less energy to achieve the same or greater levels of output.

**Energy – indirect:** The simplest definition of indirect energy is energy used to produce electricity consumed. It can also include energy generated in the wider economy as a consequence of an organisation's activities (particularly from its demand for goods and services) but which are physically produced by the activities of another organisation.

**Enterprise Bargaining Agreement (EBA):** Employment conditions agreement between the Group and a union.

**Environmental aspect:** An environmental aspect is the 'cause' of an environmental impact resulting from an activity, product or service.

**Environmental impact:** Any change to the environment, whether adverse or beneficial, wholly or partially resulting from an organisation's activities, products or services.

**Equator Principles:** An industry approach for financial institutions in determining, assessing, and managing environmental and social risk in project financing. Refer to [www.equatorprinciples.com](http://www.equatorprinciples.com)

**Financial services:** Business unit includes — personal, business and corporate banking, agribusiness, cards, payment processes and systems — particularly e-commerce — and asset finance and fleet management.

**Footings:** Combined total of deposit and lending volumes.

**FTE:** Full-time equivalent. A measurement for employee number.

**Green energy:** Energy from renewable energy sources.

**Greenhouse emissions:** Gaseous pollutants released into the atmosphere through human actions that amplify the greenhouse effect. The greenhouse effect is widely accepted as the cause of global climate change. Gases creating greenhouse pollution include water vapour, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.

**HREOC:** Human Rights and Equal Opportunities Commission

**IFC:** International Finance Corporation

**IMS:** Institutional Markets and Services

**Joule:** A unit of energy. A gigajoule GJ is 10<sup>9</sup> (1 billion) joules.

**kL:** Kilo litre or 1000 litres.

**Lost Time Injury Frequency Rate (LTIFR):** The Lost Time Injury Frequency Rate (LTIFR) is calculated as reported lost time injuries resulting in one day/shift or more off work per 1,000,000 hours worked.

**Market services:** Traded products and risk management solutions including foreign exchange, money market, commodities and derivatives.

**MWh:** Megawatt hour. A unit of energy used often in relation to electricity. A megawatt is one million watts. One megawatt hour is one million watts running continuously for 1 hour. 1MWh = 3.6 GJ.

**Natural ventilation:** A ventilation system that runs without the use of electrical energy or fossil fuels. It uses passive solar design principles to block the summer sun entry and have windows placed to catch cooling breezes and therefore maximise cross-ventilation in summer.

**NGO:** Non-government organisation

**Ozone depleting substance (ODS):** A compound that contributes to stratospheric ozone depletion. Ozone-depleting substances (ODS) include Chlorofluorocarbons (CFCs), Hydrochlorofluorocarbons (HCFCs) halons, methyl bromide, carbon tetrachloride, and methyl chloroform. ODS are generally very stable in the troposphere and only degrade under intense ultraviolet light in the stratosphere. When they break down, they release chlorine or bromine atoms, which then deplete ozone.

**Precautionary approach:** The precautionary approach was developed as part of the Rio Declaration of 1992, in which Principle 15 stated 'in order to protect the environment, the precautionary approach shall be widely applied by states according to their capabilities. Where there are threats of serious or irreversible damage lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation'.

**Renewable energy:** Energy that can be used without depleting its reserves. These sources include sunlight or solar energy and other sources such as wind, wave, biomass and hydro energy.

**Small-business customers/small-medium enterprise:** In this Report, small-business customers generally have a turnover less than \$10 million. To reflect regional market needs, customer classifications differ across Australia, the UK and New Zealand. Some small-business customers may be outside this range.

**Socially Responsible Investment (SRI):** Investments that use criteria to select a portfolio of socially and/or environmentally responsible companies.

**Specialised finance:** A range of financial solutions utilised in large-scale, complex transactions such as project finance, structured finance and acquisition finance.

**TAC:** Technical Advisory Committee

**Transactional services:** Cash management, e-commerce, merchant facilities, liquidity management and international payment services.

**Wealth management:** Wealth management products include financial planning services offered in conjunction with financial advisers – private banking, wealth creation (investment), wealth protection (insurance), superannuation and retirement solutions for retail customers; outsourced investment, superannuation and employee benefit solutions for corporate and institutional customers; asset management – providing investment management advisory services including research, selection and monitoring of investment managers under a 'manager of managers' approach which under pins all the Group's investment offerings.

**Work/life balance:** The ability of an employee to balance the demand of work and family responsibilities.

**Volatile organic hydrocarbons (VOCs):** A general term that refers to a large and diverse group of substances, including hydrocarbons, oxygenates and halocarbons that readily evaporate at room temperature.

## To create and deliver consistently superior value to our:

- Shareholders
- Customers
- Employees
- Communities

## Our core beliefs and values are based on the following principles:

- We will be open and honest
- We take ownership and hold ourselves accountable (for all of our actions)
- We expect teamwork and collaboration across our organisation for the benefit of all stakeholders
- We treat everyone with fairness and respect
- We value speed, simplicity and efficient execution of our promises

And we do not have room for people who do not live these principles

## We will be open and honest

- We tell it like it is
- We speak up and we are open to other points of view
- We have candid and constructive conversations based on facts
- We take time to explain issues and answer questions
- We aim to ensure that there are no surprises. Mistakes and non-delivery are communicated early

## We take ownership and hold ourselves accountable (for all of our actions)

- We acknowledge our mistakes and if we get it wrong we will put it right
- We all take responsibility for the way that customers experience the organisation
- We don't have a policy or procedures that we don't take seriously
- We consider the economic, social and environmental impacts of all our decisions
- We ensure our decisions are implemented

## We expect teamwork and collaboration across our organisation for the benefit of all stakeholders

- We actively share ideas and information across the organisation in order to capitalise on opportunities to achieve more for our stakeholders
- We have no room for people who put their personal agendas ahead of the organisation and its customers
- We value a diverse workforce and each employee's unique contributions to the team
- We actively support and 'speak up' for our colleagues, the organisation's decisions and the communities we work with

## We treat everyone with fairness and respect

- We build trusted relationships with all our stakeholders
- We actively listen and respond appropriately to our stakeholders
- Decisions are made in a reasonable and consistent manner
- Opportunities for professional development and career advancement are open to all and depend on ability, performance and contribution to the Group's success
- We actively promote the health and well-being of our employees with a balance between personal and work life

## We value speed, simplicity and efficient execution of our promises

- We do what we say we will do
- We make it easy for people to do business with us
- We actively challenge and eliminate practices and policies that don't add value
- We promote flexibility and a 'can do' approach
- We always look to do things better, generate new solutions and be more responsive

## Contact us

We welcome any feedback you may have on our 2005 CSR Report. Please email us at [corporate\\_social\\_responsibility@national.com.au](mailto:corporate_social_responsibility@national.com.au) with your feedback or write to us at Corporate Social Responsibility, National Australia Bank, Level 26, 500 Bourke Street, Melbourne. Victoria. 3000 Australia.

This report is also available at [www.nabgroup.com](http://www.nabgroup.com) and additional copies can be obtained by telephoning NAB's Share Registry on 1300 367 647 or outside Australia + 61 3 9415 4299.

### For further information on this Report contact:

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### Our Customer Charters can be found on the following web sites:

- [www.nabmarkets.com/newsinformation](http://www.nabmarkets.com/newsinformation)
- [www.cbonline.co.uk/0,,74455,00.html](http://www.cbonline.co.uk/0,,74455,00.html)
- [www.ybonline.co.uk/0,,74455,00.html](http://www.ybonline.co.uk/0,,74455,00.html)
- [www.national.com.au/community/0,,74855,00.html](http://www.national.com.au/community/0,,74855,00.html)

[www.nabgroup.com](http://www.nabgroup.com)

This Report is printed on Monza Satin Recycled paper. Pulp is 45% virgin wood fibre from sustainable plantation forests and 55% recycled (25% post-consumer waste and 30% pre-consumer waste) and the paper is manufactured using elemental chlorine-free (ECF) bleaching. The mill that produces the paper is ISO 14001 accredited. The ink used for this Report is Lotus-ECO Plus. This ink is based on vegetable oils and their derivatives.



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