

Supply Chain Dig Deeper



Making a positive impact with our purchasing decisions

As a global company, with more than 24,000 businesses supplying NAB with over \$4.7 billion of goods and services purchased annually, we know our sourcing decisions can have a positive impact on the environment and communities in which we work. We can also assist our suppliers in making environmental, social and governance improvements that can contribute to the success of their business.

This is our third year producing an integrated Annual Review on our business – combining our previously separate Shareholder Review with our Corporate Responsibility Review.

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

consumer advocacy groups, non-government organisations and business leaders on the most material issues to NAB. We then focus on including details on these issues in our Annual Review.

We understand, though, that we have a diverse range of stakeholders, with a wide range of interests in our business. Our *Dig Deeper* papers aim to provide extra performance commentary and data around our CR segments - allowing our Annual Review to be a succinct overview of performance against NAB's material issues.

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

Further information on how we manage key issues, along with program details and news stories can be found at www.nabgroup.com/cr.

If you have any feedback or want more information on our approach to CR please let us know by emailing corporate.responsibility@nab.com.au.

Supply chain issues

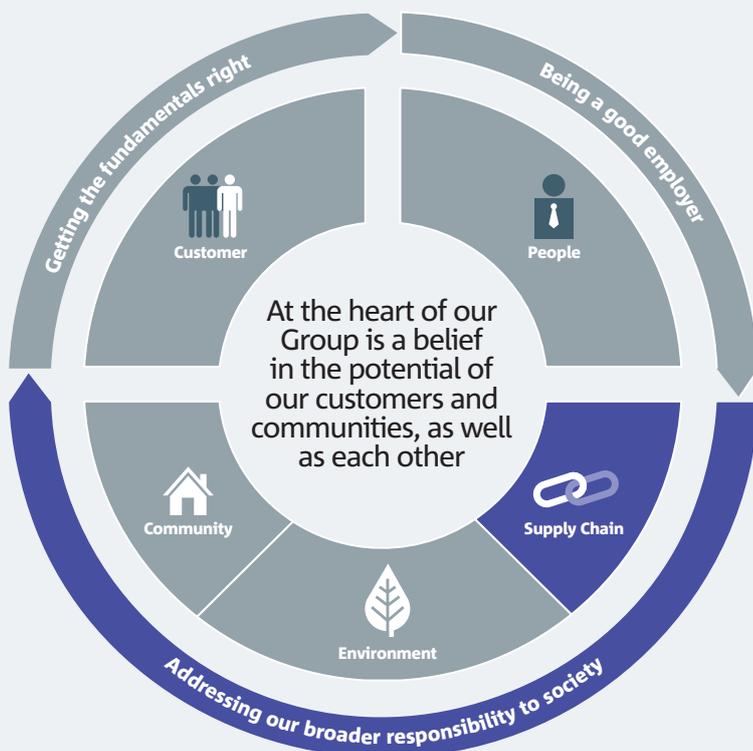
This year, the supply chain issues we identified as relevant to NAB through our materiality process were:

[Responsible procurement practices](#)

[Supplier selection](#)

[Managing purchasing impacts](#)

[Offshoring and outsourcing](#)



References to 'we', 'our', 'us', 'nab', 'NAB', the 'National', 'National Australia Bank' or the 'Company' are to National Australia Bank Limited ABN 12 004 044 937. The 'Group' refers to the National Australia Bank Limited and its controlled entities. All references are as at 30 September 2012, except where otherwise stated. Any references to changes (including an increase or decrease) relate to the previous year, unless otherwise stated. Forward-looking statements, including targets, are not guarantees of future performance.

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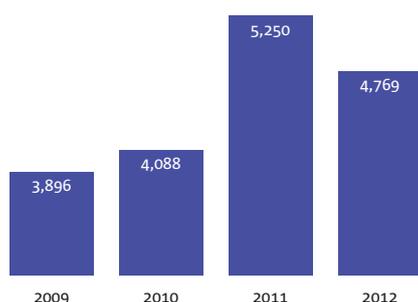
Our Corporate Responsibility commitments

In our 2011 Annual Review, we set out a series of commitments for the coming year. The 'Supply Chain' commitments for 2012, and our performance against these commitments is summarised below:

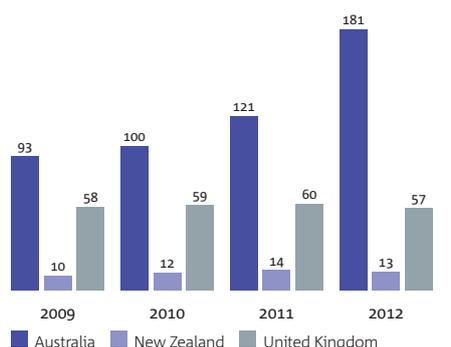
| Commitment | Performance |
|---|--|
| Develop a target percentage of total spend with signatories to the Australia and BNZ Supplier Sustainability Principles. | We've achieved this. See the 'Targets' section on page 3 for more detail. |
| Review and update United Kingdom procurement processes to capture requirements of new Group Diversity policies and the United Kingdom <i>Equality Act 2010</i> by September 2012. | We've achieved this. See the 'Supplier Selection' section on page 4 for more detail. |
| Implement NAB Diversity and Inclusion Service Provider Principles, which set clear expectations about supplier's commitment to diversity and inclusion. | We've achieved this. See our <i>People Dig Deeper</i> paper for more detail. |

About our supply chain

Total spend on suppliers
Group \$(m) AUD



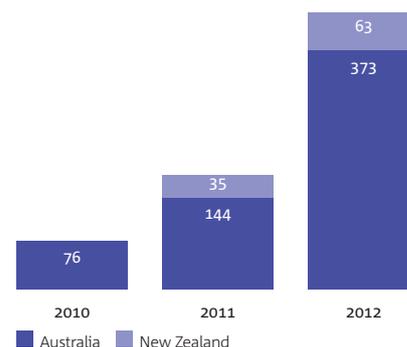
Number of significant suppliers



"Significant supplier" is a supplier in relation to whom the value of annual expenditure exceeds:

- in Australia: AUD\$5,000,000
- in United Kingdom: GBP1,000,000
- in New Zealand: NZD\$5,000,000

Total number of signatories to NAB's Supplier Sustainability Principles



Total number of signatories to Supplier Sustainability Principles incorporates all suppliers, including significant, strategic and all others. The principles have now been implemented across the Group (from 1 October 2012) and we will report on the number of signatories for all of our businesses in 2013.

HIGHLIGHTS

- We have consolidated our existing regional approaches to sustainable supply chain management, and launched our Group Supplier Sustainability Principles on 1 October 2012.
- We're still the largest Fair Trade accredited workplace in the world – a title we've held since 2009.
- We continue to participate in the Carbon Disclosure Project's Supply Chain Program in Australia and the United Kingdom, with the objectives of:
 - understanding the strategy, risk management and carbon performance of our suppliers so we can manage any subsequent risk in our supply chain; and
 - promoting disclosure and information sharing as we transition to a low-carbon economy.
- This year, we delivered training on supplier sustainability (including supplier diversity) and environmental, social and governance (ESG) risk to our Procurement team and key relationship managers in Australia.
- We also trained 19 key relationship managers in the United Kingdom on topics such as corporate governance, environmental management, health and safety, and human rights. Training also provided context on the benefits and reasons for having a Supplier Sustainability Program.
- We updated our Request for Proposal (RFP) and contract templates in Australia and the United Kingdom to reflect our evolving environmental agenda and to simplify the response process for our suppliers.
- We refined NAB's approach to Supplier Diversity in Australia, and commenced work to include diverse organisations in our supply chain.
- Our second Supplier Briefing and Awards ceremony was held in November 2011 in Australia, with over 200 suppliers and relevant employees attending.
- By the end of 2011, Bank of New Zealand (BNZ) had rolled out its Supplier Sustainability Principles to all its strategic and managed suppliers. During 2012, BNZ began annual reviews of sustainability compliance.
- BNZ created a resource pack to help suppliers understand more fully what is required to become compliant with its Supplier Sustainability Principles. They also worked directly with suppliers to assist them in becoming compliant.

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STRATEGY AND TARGETS

Strategy

Over the last 12 months, NAB has been leading a program focusing on the way we engage with, and subsequently govern, our supplier relationships in Australia. This has seen the development of two significant outcomes – the transformation of our procurement processes, and the development of an outsourcing control framework with an initial focus on material suppliers as notified to our regulators.

NAB has made good progress on both fronts, including the delivery of a consistent way to engage suppliers from sourcing to payment, and establishing an outsourcing control framework. This framework includes minimum standards for supplier relationship management, a Supplier Council and recognition across the organisation about the accountability

and challenges associated with effective supplier management.

In 2013, we will continue to focus on outsourcing and supplier management in Australia. To ensure we achieve our objective we will: embed the elements of the control framework; continue to run our due diligence and monitoring processes; and start to transform how we drive strategic and business value from our major supplier relationships.

Targets

Currently within Australia, we are working to deploy our supplier relationship management framework across all material and strategic suppliers.

In 2009, we set a target to have 200 of our suppliers as signatories to our Supplier

Sustainability Principles by 30 September 2013. By 30 September 2012, we already had 373 signatories in Australia and have now expanded our focus to increasing the number of strategic suppliers that are signatories to our Group Supplier Sustainability Principles. We've also put in place a regional target (for Australia and New Zealand) to have over 70% of our strategic suppliers as signatories to our Group Supplier Sustainability Principles by 30 September 2013 and we're enhancing the way we capture the spend representation of signatory suppliers.

Our UK operations launched their Supplier Sustainability Program in 2012 with 27 of their significant spend and critical suppliers. By the end of 2013, they will assess each of these suppliers for their compliance against set criteria under the Group Supplier Sustainability Principles.

OUR APPROACH

Sustainable supply chain management

We are committed to improving the sustainability of our supply chain. For us, this means applying and maintaining a Supplier Sustainability Program to monitor and manage sustainability risks and opportunities within our supply chain.

A key component of this program is the introduction of our Group Supplier Sustainability Principles – which were rolled out across our global operations on 1 October 2012. These principles will strengthen the program, and provide a consistent approach to managing the sustainability of our supply chain across the enterprise.

Having a shared framework to manage supplier performance will also provide us with consistency in implementation, reporting and supplier engagement.

Our Group Supplier Sustainability Program has been developed by combining the best elements of existing regional programs, along with a review of best practice. In Australia, we introduced a Supplier Sustainability Program in 2009 and have spent the past three years working to include the Supplier Sustainability Principles in supplier agreements at contract inception or renewal. In 2010, BNZ introduced a similar program, focusing on its strategic and managed suppliers outside of contract inception or renewal. In 2012, our UK business piloted the introduction of

Supplier Sustainability Principles with 16 suppliers, while our businesses in Asia and the United States began to formally introduce supplier sustainability into their procurement processes for the first time.

We have increased our focus on strengthening our supplier sustainability controls and compliance monitoring.

In Australia and New Zealand, we incorporated a supplier attestation of compliance to our Supplier Sustainability Principles in our annual supplier due diligence reviews. We also approached a panel of independent sustainability auditors to develop and implement an auditing process which will commence in late 2012 for a sample of key Australian suppliers. We will also continue to roll out our due diligence process to our strategic and managed suppliers in New Zealand.

Resource efficiency

Our New Zealand operations have been working with their print partner Konica Minolta to reduce the amount of paper and energy that their business consumes annually. Their printer and multi-function device (MFD) fleet is less than a third of its original size and printing has dropped by more than 25% in the last 4 years using swipe to release technology. The printers and MFDs have a sleep mode for periods of inactivity which has generated power savings of approximately 36%.

Responsible procurement practices

Our Group Procurement (available at: www.nab.com.au/groupprourementpolicy) and Group Outsourcing policies act as a global reference point for our procurement practices. The Group Procurement Policy covers our approach to procurement – including our commitment to suppliers to behave in a fair and ethical manner, to manage contracts responsibly, and to do it all sustainably. Our Group Outsourcing Policy requires that NAB will only outsource to suppliers with strong social and environmental performance, proven capability and a demonstrable track record in the relevant service.

NAB issues a Request for Proposal (RFP) to market to ensure fairness, integrity and transparency for all suppliers responding to the RFP. The RFP process permits bids to be compared and assessed in an objective and factual manner while granting NAB insight into industry best practice.

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Supplier selection

We believe that the business conduct and performance of our suppliers has a significant impact on our sustainability performance – and our reputation within the communities in which we operate. In 2012, our UK operations updated the sustainability checklist included in their RFP documents with additional requirements around fair and equitable work environments that respect diversity. Ensuring that we select suppliers whose business objectives are aligned to our own is important to us. See our ‘Ensuring fair workplace practices’ case study for an example of our approach in practice.

Supplier diversity

In April 2011, we piloted a Supplier Diversity Program in Australia with the aim of supporting sustainable enterprises and communities through the purchase of products from a diverse range of suppliers including indigenous (Australian Indigenous Minority Supplier Council), women-owned and disability businesses (Australian Disability Enterprises) as well as social enterprises. Including these suppliers in our supply chain helps increase their exposure to corporate procurement, while creating employment and training, sustainable growth and social and financial inclusion. It also helps NAB diversify its supply chain, increase competition and provide greater flexibility in delivery.

As NAB’s supply chain involves procurement at a national level, and as many diverse suppliers tend to be small to medium enterprises, direct procurement has been a challenge. Since January 2012, we’ve shifted our focus to Tier 2 procurement; that being to maintain our partnerships at a national level while encouraging our large supply chain partners to include diverse suppliers in their supply chains with positive results. To date, we have included diverse suppliers in our photography, print and design work as well as in our catering and event management with success.

Ensuring fair workplace practices

NAB recently reviewed the procurement of new marketing collateral for our stores across Australia – including printing and kit building costs – in an effort to deliver the marketing collateral in the most cost effective manner. The work was put out to tender to a number of suppliers, both on and offshore, and the most cost effective supplier was identified in an offshore location.

As part of the due diligence review, we commissioned an independent audit of the offshore factory to ensure compliance with our Supplier Sustainability Principles. The audit findings highlighted the existence of human rights violations including child labour and below legal levels of remuneration. These practices are unacceptable to NAB as signatories to the United Nations Global Compact and are in breach of our Supplier Sustainability Principles. Having identified these issues, we did not proceed with this supplier and awarded the contract to another supplier who is compliant with our Supplier Sustainability Principles.

Influencing and recognising our suppliers

We recognise the important role that our supply chain partners play in delivering quality products and services to our customers – and the contribution these businesses can make in the community. That’s why we’ve developed and run an event each year for the past two years in Australia, to recognise our suppliers for their efforts.

The event presents an ideal opportunity for us to reward our suppliers for their contributions, share our organisational strategy and highlight important initiatives for NAB. Given the success of this event, we will be hosting it again in November 2012.

Managing purchasing impacts

We’ve incorporated social and environmental considerations into our purchasing decisions through our Supplier Sustainability Program. It’s all about ensuring we do business with suppliers that have the same values as NAB.

Third party assurance or certification for products is also important to us, as it provides assurance that the product represents best practice.

Across the enterprise, our property portfolio represents a large portion of our annual procurement spend and gives us a real opportunity to influence our suppliers. When we fit out our commercial office spaces in Australia and New Zealand we work with our landlords, builders and their contractors to design and develop

workspaces that will achieve a minimum of a 5 star Green Star certification from relevant regional Green Building Councils. Our Harbour Quays office in Wellington has successfully achieved a 6 star Green star certification for its fit out. While our Customer Support Centre in Leeds has retained its ISO 14001 certification.

Once the construction is complete, we take the opportunity to install environmentally certified and sustainable furniture and fittings, such as Forest Stewardship Council (FSC) or ISO 14001 certified. We also provide sustainable office products such as recycled white board and permanent markers, and Carbon Neutral office paper for our employees.

Collaborating with our partners

In Asia, we’ve been working with our building management partner, Swire Properties, to improve the energy efficiency of our head office in Hong Kong. In 2012, we replaced our old light tubes with more energy efficient tubes which saved 22 tonnes of greenhouse gas emissions and \$4,200 worth of electricity which equates to 4.7% decrease in electricity usage for the office.

Due to the success of the initial partnership, Swire approached our Hong Kong office to join a voluntary energy audit program to analyse the energy consumption of our lighting, air-conditioning and electrical appliances. Recommendations for future initiatives are due in late 2012.

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HOW WE'RE MANAGING KEY ISSUES

Outsourcing and supplier governance

Outsourcing allows us to focus on our core business and capitalise on our supply chain partners' expertise.

Our Group Outsourcing Policy requires that NAB will only outsource to suppliers with a proven capability, a demonstrable track record in the relevant services and a commitment to social and environmental performance. We ensure that due diligence, supplier monitoring and ongoing risk management are incorporated into any outsourcing decision we make. Outsourced arrangements need to have an appropriate contingency plan and a business continuity management plan so they can recover the

Supply chain partnerships

Working with Williams Lea, our strategic partner in the UK for the production and distribution of our transactional print, we completed a statement redesign exercise. Under the new statement layout, customers transaction history is printed on both sides of the paper with only one copy of the Terms & Conditions¹ included. This has facilitated our UK operations in reducing the average number of pages per statement from 5.9 pages² to 3.7³ pages with the resultant reduction in paper use and overall costs.

service within a timely manner, meeting business expectations.

As part of our regulatory requirements and governance, we are required to notify the Australian Prudential Regulation Authority before entering into contracts with material suppliers. In Australia, these suppliers are managed as part of our Outsourcing Control Framework which covers due diligence requirements. Suppliers must provide commentary on a number of metrics on a monthly and annual basis – including an annual attestation of adherence to NAB's Supplier Sustainability Principles.

The UK continues to manage all suppliers through its UK Supplier Council. This provides a common risk based framework through which all suppliers are managed and assessed. While the framework already included processes designed to monitor and report on regulatory and key business risks, it was updated to include ESG risks identified as part of the UK Supplier Sustainability Program.

ESG risk management

Since the Group Risk Return Management Committee's approval of our Environmental, Social and Governance (ESG) Risk Principles in December 2011, we have been focusing

on our supplier management processes where the sustainability risks faced by our suppliers vary depending on their industry, geographic location, company size and individual practices.

Where possible, we have supported our suppliers with their efforts to reduce their sustainability risks.

We have also incorporated a case study highlighting ESG supply chain risks into our mandatory annual Risk Awareness and Induction training programs and continue to integrate ESG risk considerations into key procurement decision making and management reporting processes.

In Australia and the United Kingdom, we rolled out training for our Procurement and selected Relationship Managers to help identify and reduce ESG risk across our businesses and broader supply chain. The training also generated advocacy for our sustainability and supplier diversity programs. We plan to provide similar training in other regions over the next 12 months.

1. Printed on the back of the first page
2. Measured over a period starting 1st October 2011 and ending in June 2012
3. The average number of pages in July 2012

DEFINITIONS

- Critical supplier - A supplier who provides a product or service directly to our customers in the United Kingdom.
- Managed supplier - A supplier who provides a product or service that has some inherent degree of risk to Bank of New Zealand's operations (e.g. information security) which necessitates regular and ongoing due diligence and management.
- Material supplier – A supplier is one that performs an outsourcing activity that has the potential, if disrupted, to have a significant impact on NAB Group's business operations or its ability to manage risks effectively.
- Strategic supplier – A supplier that is categorised as either high spend and/or high business impact for NAB Group's business operations

NOTES

- Supply chain data in Australia is based on 11-month data with one month estimated due to timing requirements of reporting.
- Data does not include the United States (USA) and Asia operations due to limited reporting capabilities in these regions.
- A reference to '\$' is to an amount in Australian dollars.