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INFORMATION

07-08

 National Australia Bank

2008 CORPORATE RESPONSIBILITY REVIEW



SUSTAINABLE
FOR THE FUTURE

HOT SHOT WINNING ENTRY



This year we launched a competition among our staff to snap the front cover of the 2008 CR Review. The winning shot was taken by Elsa Maszta, an Associate Director in our nabCapital Industrials team. Elsa's photo of her son Xavier in Kings Park Sydney appealed to the judges purely for its simplicity and structure. Elsa won \$1000 for the McGrath Foundation™ providing support for women with breast cancer for her winning shot.

introduction

Welcome to the National Australia Bank's 2008 Corporate Responsibility Review (CR). At NAB we believe corporate responsibility is implicit in creating sustainable value for all of our stakeholders. This report summarises our activities and performance over the past 12 months across our organisation. By listening to our stakeholders we continue to fine tune how we report to you.

This year, issues and activities that you identified as important have been subjected to focus in this Review. We continue to utilise the Global Reporting Initiative's (GRI) guidelines to underpin our reporting with robustness and integrity. This Review is complemented with more detailed information including a full GRI index in our online report available at www.nabgroup.com

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.

The community and environment sections are for the year ended 30 June 2008. Information provided in the stakeholder engagement, benchmarking, customer and people sections are for the year ended 30 September 2008. People data for previous years refers to year ended 30 June but has been updated this year to be in alignment with our Group financial reporting period.

We are reporting on our CR performance in three key geographies in which the majority of our operations are located – Australia, the United Kingdom (UK) and New Zealand. The Group has operations in Asia associated with nabCapital and our Australian business, nabCapital also has operations in the USA. During the reporting year we purchased Great Western Bank located in the USA. Data for our operations in Asia and the USA has been excluded from the scope of our CR disclosures, except for 'our profile' section which includes Great Western Bank. Information from Great Western Bank is planned for inclusion in the 2009 report.

This Review contains references to various websites. NAB Group 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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chairman & ceo message

In these times of economic uncertainty, weaker consumer confidence and ongoing credit supply issues, NAB remains committed to maintaining its focus on meeting or exceeding the expectations of our stakeholders.

This is best demonstrated in our commitment to the achievement of two primary goals:

1. becoming Carbon Neutral by September 2010
2. increasing community investment to 1% of cash earnings before tax per annum

We are delighted that this year's Corporate Responsibility Review demonstrates our progress towards both of these commitments.

We continue to invest in reducing our energy consumption. We are harnessing both improved technology and design and the positive behaviours of our people to address how much energy we use, which is the primary driver of our carbon footprint.

We also took a bold decision this year to ask leading educators and community groups how we could help them to improve student outcomes. The result is our Schools First initiative, which enables us to promote and facilitate schools, parents and community groups coming together to work through what could be done in their local school to improve student outcomes.

Many believe that the challenge in being a responsible company is to choose the right option over the wrong option. In fact, the bigger challenge is more often to choose between two right options.

A number of the issues and challenges we have grappled with this year have been highlighted in feature articles in this Review. These articles include our journey to being carbon neutral, our decisions about offshoring a number of our tasks and activities and the development of our microfinance programs. Also included is an overview of our support in New Zealand of the community organisation, Preventing Violence in the Home (PVH). Domestic violence is a challenging issue and one that many businesses would tend to avoid. We are proud of BNZ's decision to support PVH and are delighted with the overwhelming support of BNZ employees in raising vital funds to support this very worthy cause.

We hope you will notice that the consistent refrain throughout these articles is that we have made our decisions by seeking and then listening to the input of our stakeholders. If in reading these articles or the remainder of the Review you think we should have chosen a different path, we would be grateful if you would take the time to tell us about it.

We hope this report leaves you in no doubt as to:

- our commitment to playing our part in strengthening the communities in which we operate
- our strategy to embed responsible behaviour across the organisation
- our people's internal and external achievements
- the challenges we face in living up to the responsibilities of a leading organisation

We trust you will enjoy this Review.

Michael A Chaney AO
Chairman

John Stewart
Group CEO



NAB environmental expo

Former General Manager of Commercial Services Australia, Simon Le Gear (centre) at the 2008 NAB Environment Expo with special guest Jamie Durie and NAB Ambassador Shane Wakelin.



Our people helping others

nabCapital's Nick Walker with a group of children from Mali. Nick was part of the team that helped set up 20 laptops for the village as part of nabCapital's involvement in the Mali Initiative.



Addressing domestic violence

Pictured left to right: Nicola Wharton (BNZ), Jane Drumm, Executive Director (PVH), Allison Pettigrew (PVH), Ryan O'Neill-Fong (BNZ). 'Stop for New Zealand's Biggest Morning Tea' was the first national fundraiser for Preventing Violence in the Home (PVH).



Helping the hospices

nabCapital staff at the 'Art with Heart' raising money for St Joseph's Hospice, Hackney, London.

STRENGTH THROUGH CHALLENGING TIMES

On a pre-provisioning basis, National Australia Bank Limited's underlying profit for 2008 was \$8.1 billion, up 13.9% on the prior year.

Our core banking franchises have performed well despite the volatility in financial markets. While system lending growth slowed in all markets, we achieved satisfactory growth in lending volumes up 12.5% from 2007 to \$361 billion in 2008. Retail deposits growth was solid, up 10.8%, in a competitive market. All of our businesses have again demonstrated tight cost control with overall expenses down 2% for the year.

This strong result was marred by the provisions required against conduit assets in the nabCapital securitisation business, reflecting unprecedented conditions in global markets. Cash earnings generated across the Group were therefore down 10.7% to \$3.9 billion. The 2008 full year dividend was up 12 cents per share (cps) to 194 cps, fully franked.

We have maintained conservative capital and liquidity settings during the year to provide strength in an uncertain environment. As at 30 September 2008 our Tier 1 capital ratio was strong at 7.35%. \$28 billion of term funding was raised during the year, with a four year average maturity. Our liquidity is sound with liquid assets of \$66 billion.

FIGURE 1: OUR FOUR-YEAR PERFORMANCE (AS AT 30 SEPT 2008)

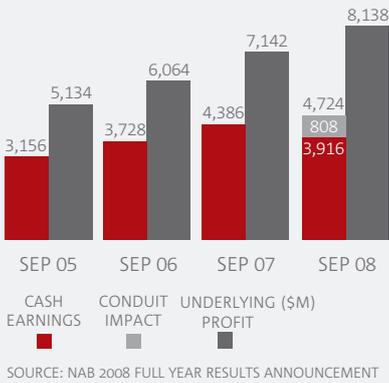
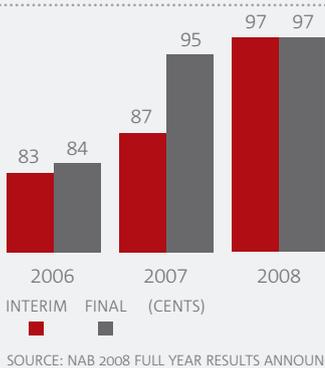


FIGURE 2: OUR DIVIDEND HISTORY (AS AT 30 SEPT 2008)



our profile

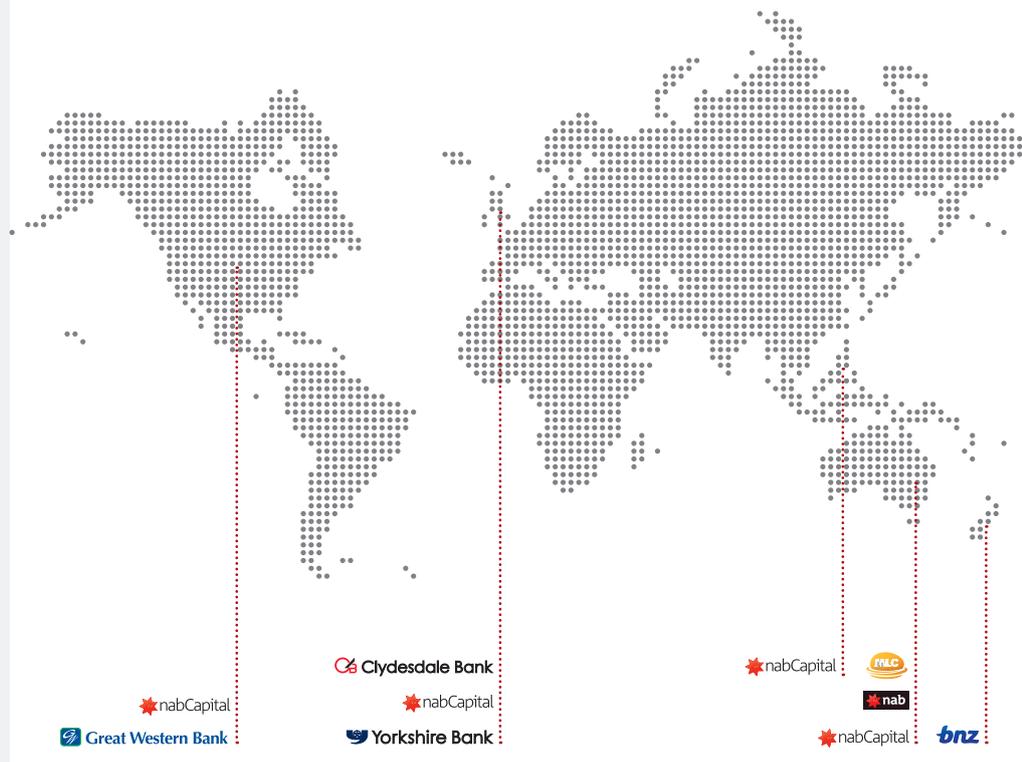
We are an international financial services organisation that operates a portfolio of brands across the UK, Australasia and North America.

Each of our regional businesses provides a comprehensive array of services including retail, business and corporate banking, wealth management, transactional and custody services. In Australia and the UK our wealth management business is carried out under the MLC brand. nabCapital is a global operation and it has offices in Australia, the UK, New Zealand, the United States of America and Asia. nabCapital uses its international relationships and knowledge of local market environments to provide effective debt financing, risk management and investment products for corporate, institutional, and retail clients, worldwide. Our Corporate Centre provides support and coordination of Group wide activities including allocation of capital, shareholder services and group level regulatory matters as well as being responsible for high level governance and oversight.

KEY GROUP FACTS 2008

(as at 30 September 2008)

- ▶ **39,729** Employees (FTE)
- ▶ **8.3 million** Retail and business banking customers
- ▶ **2.2 million** Wealth management customers
- ▶ **1,714** Branches and service centres
- ▶ **2,939** ATMs (including non-branded ATMs)



Our profile - additional information

The Group is a major provider of financial services across Australia, New Zealand and the United Kingdom and in global markets. As such we play a significant role in the management of economic, social and 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 service
- Managing the savings of households and businesses
- Providing credit to assist in 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

2008 value generated in the community

Through our business activities we generate gross value add in the community by earning income through the provision of a comprehensive and integrated range of financial products and services. Refer to Table 5 below.

Table 5: Gross value add in the community ⁽¹⁾

Year to 30 September	2008 \$m	2007 \$m	2006 \$m
Net interest income	11,098	9,746	8,686
Fee income	3,780	3,543	3,475
Gains less losses on financial instruments at fair value	-118	600	471
Net life insurance income	-1,817	1,758	1,417
Other income	187	382	1,140
Net operating income	13,130	16,029	15,189
Significant revenue (2)	-	-	15
Total net income	13,130	16,029	15,204
Other costs (3)	-3,884	-4,440	-4,285
Gross value add in the community	9,246	11,589	10,919

⁽¹⁾ Gross value add in the community for the Group includes Australia, Europe, New Zealand, the United States and Asia.

⁽²⁾ Excludes salary related items.

⁽³⁾ Excludes salary related costs, income tax relating to ordinary activities, depreciation and amortisation and minority interests.

The value we generate is distributed to the local communities in which we operate to our shareholders, governments and our employees. Refer to Table 6.

Table 6: Distribution of community value ⁽⁴⁾

	Australia \$m	Europe \$m	New Zealand \$m
Year to 30 September 2008			
Shareholder (5)	3,928	160	614
Government (6)(7)	-146	66	256
Employees	2,856	868	329
Depreciation & amortisation	329	162	30
Year to 30 September 2007			
Shareholder (5)	3,033	769	590
Government (6)	1,693	284	268
Employees	2,814	1,005	330
Depreciation & amortisation	296	200	29
Year to 30 September 2006			
Shareholder (5)	2,649	1,062	485
Government (6)	1,503	407	215
Employees (8)	2,599	564	320
Depreciation & amortisation	531	232	77

⁽⁴⁾ Distribution of community value in the primary regions in which the Group operates.

⁽⁵⁾ Net profit attributable to ordinary shareholders.

⁽⁶⁾ Includes income tax relating to ordinary activities. Excludes net GST and VAT payments, payroll tax and fringe benefits tax.

⁽⁷⁾ Australia includes an income tax benefit attributable to the statutory funds of the life insurance business. Excluding this benefit the distribution to the Government would be \$1,043 million.

⁽⁸⁾ Europe includes the impact of reforms to the UK defined benefit pension fund.

We source funds used for revenue generating activities through the issue of both debt and equity. Debt is primarily deposit accounts, certificates of deposit, money market accounts, and other types of deposits made by individuals, businesses and other financial institutions and wholesale funding. In return for the use of these funds we pay interest to the depositor. Equity is primarily through the issue of shares and other capital instruments. We pay dividends to shareholders and distributions on our other capital instruments.

Interest expense increased \$7,075 million or 33.4% from September 2007. We paid \$2,995 million in dividends to holders of our ordinary shares and \$312 million distributions to holders of our other capital instruments during the year.

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our corporate responsibility strategy

At NAB, we define Corporate Responsibility (CR) as the activities we undertake to meet or exceed the expectations of stakeholders.

The challenge is to ensure that we are sufficiently engaged with our stakeholders in order to listen to them and understand what they expect of us. These expectations are then translated into programs, behaviours, policies and procedures for our employees to ensure that our CR activities are integrated across the business. Knowing our stakeholder expectations better enables us to simultaneously enhance shareholder value, meet and exceed our legal and commercial obligations and do so in a manner consistent with the expectations of the communities within which we operate.

This year's Corporate Responsibility Review caps off a year of 150th Anniversary Celebrations for NAB in Australia – in order to see us through the next 150 years, we intend to continue to:

- provide good financial products and services by listening, understanding and helping customers achieve their goals
- consider the broader social and environmental issues of our conduct
- create a great place to work by developing our people's capability and talent, recognising the power of their ideas and aspirations and providing attractive employment
- support local community development by helping communities help themselves
- manage our operations responsibly by applying good governance and risk management

We have continued to evolve our CR strategy, as a result of engagement with our people, including our Board and senior executives, our customers and other interested stakeholders, including NGOs and community organisations. Our focus over the past 12 months has been on the following five areas:

- strengthening communities
- improving access to financial services
- support for education
- responding to the effects of climate change
- providing opportunities for our employees to engage in community activities

As a global business with operations spanning three continents, our people work together to devise and maintain the dual goals of a consistent global strategy and the development of programs and partnerships that take into account the local context of each regional business.

This is why our community investment activities vary in each region. In Australia we focus on microfinance and microenterprise, in New Zealand, domestic violence and in the UK, it is on assisting those in hospice care. The first of these plays to our financial services strength, the second utilises the broad reach of our banking network and the third the compassion of our people, but each aims to assist those in need.

This year, our people told us they would like to be part of a community initiative that they could get involved in regardless of which part of our business they were in. We have responded to this call by launching Schools First in October 2008. Schools First seeks to put schools at the centre of the community, providing opportunities for students, schools, community and business leaders to work together to improve student outcomes. Schools First, developed in collaboration with three community groups, will be implemented initially in Australia before being customised for implementation by our operations globally.

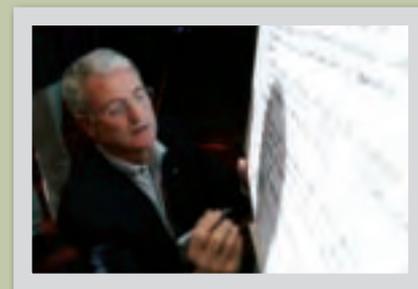
It is important that we not only maintain a strategic focus on CR, but do so in a way that is integral to our business model and aligned to the way we conduct our business. Paramount to achieving this is embracing local knowledge and skills to achieve the most effective responsible business outcomes.

THIS YEAR, OUR PEOPLE TOLD US THEY WOULD LIKE TO BE PART OF A COMMUNITY INITIATIVE THAT THEY COULD GET INVOLVED IN REGARDLESS OF WHICH PART OF OUR BUSINESS THEY WERE IN

LEADING BEYOND THE BOUNDARIES

While we continue to progress our Corporate Responsibility activities within NAB, we also recognise the positive impact our organisation and our people can have beyond the boundaries of the Bank.

Over the past year, many of our people and in particular our senior leaders have given their time to be involved in discussions and considerations of the long-term future of our society.



NAB Chairman Michael Chaney facilitating discussion and taking notes at the 2020 Summit earlier this year.

One example is the representation of NAB leaders at the 2020 Summit, convened by the Prime Minister of Australia, the Honourable Kevin Rudd, in April 2008. NAB Chairman Michael Chaney and Group CEO John Stewart both participated in the discussion regarding the future of the Australian economy. Non-Executive Director Danny Gilbert, a long-time passionate supporter of Indigenous Australians, participated in the dialogue on options for this important segment of the Australian community. Ahmed Fahour, CEO Australia, was very active in the session on strengthening communities, supporting families and social inclusion. Ahmed encouraged the group and the Prime Minister to consider establishing a microfinance scheme in the form of an investment capital fund to help disadvantaged people set up small businesses as a means of overcoming disadvantage in our community.

While only one of many possible examples, the participation of our leaders in forums like the 2020 Summit indicate their genuine interest in and concern for the ongoing development and betterment of our society.

stakeholder engagement

OUR JOURNEY TOWARDS CARBON NEUTRALITY HAS BEEN GREATLY ASSISTED BY THE INPUT OF PEERS AND NGO'S

At NAB we firmly believe that listening to our stakeholders is the key to developing and implementing a successful Corporate Responsibility program.

We aim to create an environment of trust and respect with our stakeholders. This allows a productive exchange of views and constructive critiquing and workshopping of ideas and policies.

Every day we are interacting with a wide range of stakeholders, each with different, sometimes competing priorities. Typically they include customers, employees, government/regulators, suppliers, communities, community organisations, NGOs and shareholders.

We aim to take stakeholder views into account in our actions and decisions. As an example, feedback from stakeholders received in focus groups held to discuss our 2007 Corporate Responsibility Review, have led to many changes in this year's report. These changes include making the review easier to read (we hope), providing more historical data to reveal trend information and incorporating additional case studies and articles which provide a more in-depth look at some of the material corporate responsibility issues across the Group.

Our journey towards carbon neutrality has been greatly assisted by the input of peers and NGOs. Specifically, we have been able to seek feedback on the appropriate boundaries of our carbon footprint and on the type of carbon offsets we should be seeking to purchase. We have also been happy for this feedback and guidance to be used to help others on similar journeys.

Our businesses conduct workshops with various stakeholders in their respective regions, seeking their input on our performance. This valuable feedback helps to identify the areas where we need to improve.

In the past 12 months, our customers have responded to over 250,000 surveys on a range of issues, from the speed of service in our branches or on the phone to our activities impacting climate change.

All 40,000 NAB staff are able to provide feedback through comprehensive feedback tools and opportunities such as the annual employee opinion survey, with other avenues available for more confidential feedback.

For five years Edelman's has been independently assessing the strength of our relationships with key stakeholders. We act on this information by continuing activities that are working and addressing those that are not. The continual increase in our relationship index scores over the past four years reflects the success of this approach.

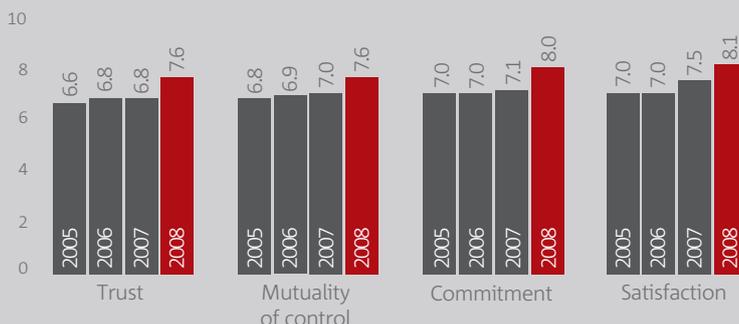
In these economically turbulent times it is essential we engage with all our stakeholders to generate greater trust and understanding and be a better performing bank.

Relationship Index scores for Australia and the United Kingdom. New Zealand did not conduct the survey in 2008.

FIGURE 3: RELATIONSHIP INDEX OUTCOMES – AUSTRALIA



FIGURE 4: RELATIONSHIP INDEX OUTCOMES – UNITED KINGDOM



community investment

NAB Group recognises that the strength of our business and our people is related to the health and well being of the communities in which we operate. This is why we continue to manage and grow an integrated community investment program.

As the NAB Group we are committed to increasing our community investment funding to 1% of cash earnings before tax. In 2008 we have continued to progress towards this goal, increasing the amount by \$7.6 million in 2007 to \$33.5 million – this represents a movement from 0.47% to 0.53% of cash earnings before tax.

We are committed to continuing to progress towards our 1% goal, which this year would have equated to \$63 million. We believe that it is important to move incrementally towards this goal so that we can ensure we remain focused on the responsible allocation of funding to programs that deliver real and lasting value to the community.

Our Group community investment strategy guides this growing investment by outlining key areas of focus. These areas of focus are:

- providing access to financial services
- strengthening communities
- education
- environmental stewardship

While each of our businesses, NAB, MLC, BNZ, Clydesdale and Yorkshire Banks and nabCapital, support our Group strategy, each also recognises the need to apply the strategy to best meet local community needs.

NAB in Australia continues to expand its \$30 million¹ commitment to microfinance with new programs (see feature next page), while the UK's 'Count Me In' set of programs maintains their focus on increasing financial literacy across the community.

Recognising the link between the community and the environment, Yorkshire Bank has embarked on a three-year sponsorship working with the National Trust to encourage and nurture gardens and woodlands across Britain. BNZ celebrated the birth of 'Hūpai' (Maori for 'to overcome'),

the 1000th Kiwi chick hatched under the BNZ Operation Nest Egg program. The program is one initiative of the BNZ Save the Kiwi Trust, our collaboration with the Department of Conservation that began in 1991.

Our people want to help those in need and it's important to facilitate this as much as possible. After an extensive selection process, our UK people chose to put their money and efforts into 'Help the Hospices' across the country. In New Zealand, BNZ has tackled the difficult and often confronting issue of domestic violence by partnering with 'Preventing Violence in the Home' (see insert) and MLC established the 'MLC Community Foundation' that will focus on mental health and well-being, initially by establishing an extensive relationship with Lifeline Australia.

These causes matter to a number of our people as do many others. Last year we reported on our UK, NZ, and nabCapital businesses adopting volunteering policies in addition to the Australian business' existing policy. The results in 2008 speak volumes as to the response this received from our people. Volunteering days group-wide grew by 1,227 days or 14% on our 2007 results to a total of 8,772 days. This has increased the value of our direct input into the community through volunteering by \$630,000 to \$2.76 million. This overwhelming response demonstrates the willingness of our people to get out there and do their bit.

In addition to giving their time, our employees have donated \$250,000 to their favourite charities through our workplace giving programs. This amount was matched for employees in the UK, MLC and the Corporate Centre. The UK business and more recently the nabCapital team have gone a step further, allowing employees to apply for a grant (£500 and \$1500 respectively) on behalf of a non-profit organisation that they are actively involved in.

Our various flagship community programs provide consistent and long-term support to these causes and help generate community benefits for a sustained period on a large scale. We should not, and do not, forget those smaller organisations performing vital work in their local community. These groups, sometimes only visible to our local staff, play an integral part in binding the community together. Our organisation responds to their needs with assistance

and funding through local sponsorships and donations. Across our businesses this support for grassroots organisations sees around \$2.17 million being distributed across more than 1,450 organisations.

Finally, as we delivered these investments into our communities we went through a detailed process to lay the foundation for our next big initiative. NAB looks forward to the implementation of our recently announced Schools First program. It will be initiated within the Australian region before expanding to other regions in subsequent years. See www.schoolsfirst.edu.au for more information. We look forward to updating you on our progress as we go.

COMMITMENT UPDATE

- ✓ We increased our community investment spend from 0.47% to 0.53% of cash earnings before tax
- ✓ Our UK business recorded 1,811 volunteering days in the year to 30 June 2008
- ✓ The NAB 150th Anniversary Program was rolled out nationally culminating in the Dream Festival from 3-6 October 2008
- ✓ We increased our payroll giving to 15% in the UK as well as increased our focus on skilled volunteering in Australia
- ✓ Our NZ business piloted a community investment data collection system
- ✓ BNZ launched 'The Biggest Morning Tea' fundraiser in conjunction with Preventing Violence in the Home
- ✓ We announced our 'Schools First' program, the largest corporate-sponsored education initiative in Australia

1. Stop Press: On 4 October 2008, NAB Australia announced that this program would expand to \$100 million



micro finance

IT IS THE SPIRIT OF SERVICE, OF HELPING PEOPLE, OF DOING THE RIGHT THING, WHICH INSPIRES THE BEST IN THIS ORGANISATION

It is the spirit of service, of helping people, of doing the right thing, which inspires the best in this organisation and it is what we celebrate. We understand that it's difficult for people on low incomes who have few assets and a problematic credit record to get mainstream credit, with some forced to borrow from unscrupulous sources. We also hear the community's desire that as a major bank we must work to help those in need.

It was with this in mind that NAB in Australia announced its \$30 million, three-year commitment to not-for-profit microfinance products in April 2006. These small, safe and affordable loans are for individuals and families who want to get ahead but, due to poor credit history, outstanding debts or any other typical risk factors, are excluded from mainstream credit. Over the last year, we have been growing these programs and rolling them out across the community. As we continue their development, we do not want to lose sight of the fact that effective microfinance requires more than just providing credit products.

Our programs are outlined below.

NO INTEREST LOAN SCHEMES®

No Interest Loan Schemes (NILS) is a circular credit program giving low income Australians access to loans of up to \$1000 from their local community agencies, mostly for fridges and washing machines. NILS was established 26 years ago

by Good Shepherd Youth & Family Service, NAB's key community relationship, providing the NILS framework and accrediting over 280 community agencies across the nation to offer it.

In 2006, NAB committed \$10 million loan capital as an interest and fee-free overdraft to individual community agencies to lend to eligible applicants. During 2008, NAB partnered with Good Shepherd Youth & Family Service to work with each state NILS network to roll out the capital to community groups for existing and new programs. As at June 2008, \$10.1 million in loan capital had been allocated to 152 community groups accredited by Good Shepherd Youth & Family Service. Thirty-seven groups have now completed accreditation and opened accounts with \$2.96 million in capital actively available for loans.

The roll-out of the capital from NAB has been particularly successful with local and state governments joining up with NAB and Good Shepherd. In 2006, the Victorian Government committed \$4.9 million over three years to further strengthen community agencies' capacity to adopt the program. In May 2008 this was further strengthened by the Queensland Government's \$1.2 million over two years and the New South Wales Government's \$840,000. So far we have found these three-way relationships have inspired great innovation and growth within NILS. For example in

Queensland, prior to the NAB injection of capital, there were only nine programs. By May 2008, 32 groups had applied for capital and this has continued to grow with government involvement.

STEP UP LOANS

Step UP low interest loans is another program offered by NAB in conjunction with Good Shepherd Youth & Family Service. The program aims to provide a simple, affordable mainstream borrowing experience while leaving applicants with better financial management skills. Launched in 2004, the program offers personal loans between \$800 and \$3,000 to low income Australians at a reduced interest rate of 7.24%*. This program complements NILS and helps transition low income Australians into mainstream financial services. Adding interest to loans means that the product falls under Australian credit regulations and therefore loans need to be written by authorised credit providers. As a result, NAB funds a 16-location network of community-based microfinance workers to help applicants develop their financial capability and complete application forms. We then manually review all applications considering individual circumstances.

As at 30 June 2008 we had written 876 loans with an average of \$2,700 with defaults at 1.9%. While this is higher than the mainstream, it reflects how vulnerable these clients are to changing financial circumstances. We were delighted to be recognised in 2007 when, for the second year running, Step UP won the Money magazine award for best socially responsible product.

In April 2008 NAB released an evaluation of the program called **Step UP – a step in the right direction?****

From this evaluation we learnt:

- while microfinance improves social inclusion, there remains a gap between microfinance and the mainstream
- the support and skills of our community partners are critical to the program's success
- Step UP involves significant investment, 2008 saw \$1.2 million spent on operational costs for Step UP and an additional \$1.5 million in outstanding loan repayment capital
- the importance and intricacies of partnerships and how to operate more effectively in the community

Over the coming year Step UP will further streamline its processes and add sites in Tasmania and Queensland with the challenge being to offer scale while maintaining personalised support.

MICROENTERPRISE DEVELOPMENT LOANS

In March 2007, NAB launched its Microenterprise Development Loan program to support individuals with limited access to capital wishing to start up or grow a business. The program is offered through collaborations with community and government business literacy and mentoring programs such as New Enterprise Incentive Scheme (NEIS), Business Enterprise Centres Australia, Enterprise Network of Young Australians, Business Innovation & Incubation Australia and the NSW State Government. As at 30 June 2008, 88 Microenterprise loans had been written at an average value of \$15,000. The loans are offered at a reduced interest rate of 9.95% p.a.* (fixed) and are fee-free. The loan default rate so far has only been 5%.

In 2006 NAB committed \$18 million in loan capital to the program. To date we have only used \$1.43 million of this capital. We expect it will take some time to reach full potential as each business request must be thoroughly reviewed and each applicant assessed to ensure that they are not under unnecessary financial stress.

Over the past year in assessing the program we have learnt:

- business literacy is essential – insisting clients undertake business literacy training and also develop a detailed business plan bypasses those not sufficiently serious or committed.
- mentors are important – mentors must have an existing relationship with new clients. Their involvement can go beyond imparting business skills and knowledge to assisting the bank manage arrears. This independent third party is tremendously valuable to both the bank and the clients.

A full report on the program's first year entitled **'NAB Microenterprise Loans – One year down the track'**** was launched in March 2008.

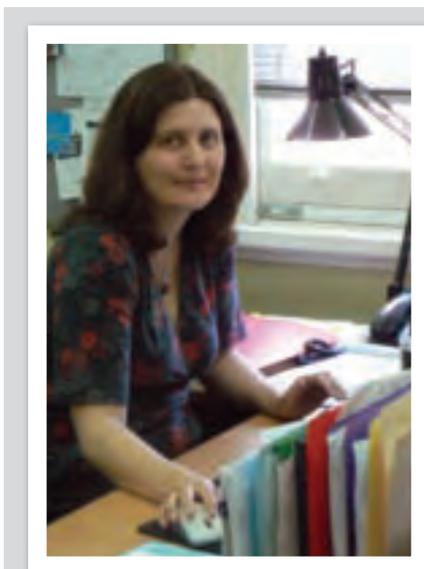
The success of our microfinance strategy so far reinforces our belief in the importance of a loan program for individuals with few or no affordable credit options. It also forms a direct response to community demand that banks provide services to everyone in the community, not just those who can afford it. Moving forward, we hope our microfinance efforts will continue being a positive force for good in the community and give truth to the old adage that from small things big things grow.

*Comparison rates are based on a loan of \$2,500, over a term of 2 years.

WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison rate.

** These reports are available at www.nab.com.au

THE SUCCESS OF OUR MICROFINANCE STRATEGY SO FAR REINFORCES OUR BELIEF IN THE IMPORTANCE OF A LOAN PROGRAM FOR INDIVIDUALS WITH FEW OR NO AFFORDABLE CREDIT OPTIONS



Step UP Co-ordinator Vanessa Little at the Good Shepherd offices in Melbourne, Australia.

A LITTLE HELP CAN GO A LONG WAY

A single mother with two children applied for a loan to purchase an entertainment unit. Her son has limited mobility and uses a wheelchair.

During the loan interview we talked about the fees on savings accounts and the fact that most banks now offer low fee accounts for low income earners. When I called to advise her that the loan had been approved, she had already been to the bank to have the fees on her account waived.

It was great to be able to help improve her son's quality of life as well as make her money go further.

Vanessa Little, Step UP Co-ordinator
Good Shepherd Youth & Family Service

community investment

FIGURE 5: GROUP COMMUNITY INVESTMENT IN AUD\$
YEAR ENDED 30 JUNE 2008

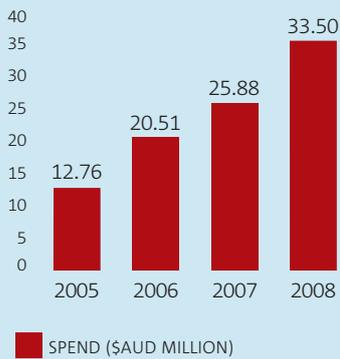


FIGURE 6: 2008 COMMUNITY INVESTMENT BY BUSINESS
YEAR ENDED 30 JUNE 2008

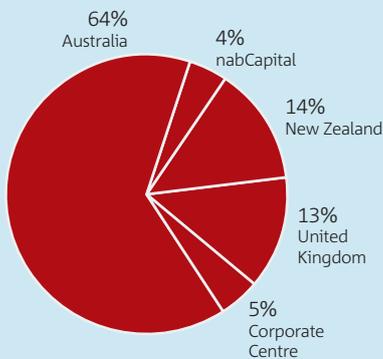
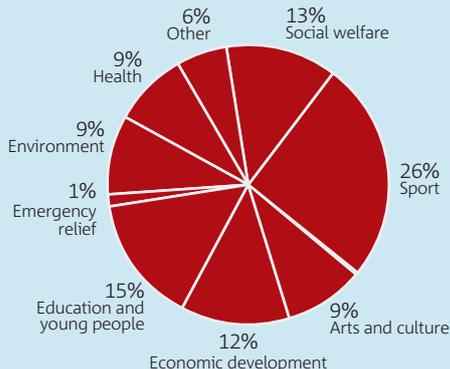


FIGURE 7: DISTRIBUTION OF CASH RELATED COMMUNITY INVESTMENT BY FOCUS AREA
(does not include value of volunteering or management costs)



preventing violence in the home

New Zealand's domestic violence statistics are sobering. Police attend a domestic violence incident every eight minutes and on average 14 women, ten children and six men are killed by a member of their own family every year. Police also estimate over half of all New Zealand's murders are domestic-related.

BNZ bravely leads the New Zealand corporate sector in tackling this growing social problem since entering into a three-year relationship in 2006 with Preventing Violence in the Home (PVH), New Zealand's largest single not-for-profit domestic violence agency.

According to (then) BNZ Chief Executive Officer, Cameron Clyne, it was the social importance of PVH's work that drew the bank to it. "We're delighted to partner with an organisation that is positively changing the lives of at-risk New Zealanders," he says. "Changing New Zealand's sad record of domestic violence is a complex, difficult challenge so from the first time we discussed this, it seemed the thoroughly appropriate and right thing to support."

With a presence in nearly every community, BNZ is well placed to support PVH in breaking the cycle of domestic violence. A good example of this came in June this year, with BNZ's sponsorship of 'Stop for New Zealand's Biggest Morning Tea'

launched at a Parliament morning tea attended by all sides of the political divide. Across New Zealand, thousands of businesses, schools, community groups and pre-schools hosted morning teas and BNZ used its extensive branch and business network to invite people to participate in BNZ hosted morning teas, cake competitions, raffles, auctions and even a stair-climb. The event, which involved staff across the country, was PVH's first nationwide campaign to raise awareness, and aimed to help fund a national domestic violence helpline at 0508 DVHELP (0508 384 357). The two-week campaign raised an impressive amount of funds and its profile successfully drove home the message that domestic violence is not acceptable.

"We want to play an active role in promoting social change," says BNZ General Manager, People & Corporate Relations, Bridget O'Shannessey. "And Stop for New Zealand's Biggest Morning Tea was a practical way for staff, customers and suppliers to help combat domestic violence."

PVH Executive Director, Jane Drumm, was overwhelmed by the nationwide support of BNZ branches, and commended BNZ's bravery in taking on domestic violence as an issue. "Domestic violence is an ugly issue in every New Zealand community and the courage BNZ has shown in helping break the cycle of family violence throws out a challenge to all big companies," she said.



Left-right: Nicola Wharton (BNZ), Jane Drumm, Executive Director (PVH), Allison Pettigrew (PVH), Ryan O'Neill-Fong (BNZ)

'STOP FOR NEW ZEALAND'S BIGGEST MORNING TEA'

was the first national fundraiser for Preventing Violence in the Home (PVH). BNZ branch and business network participated by inviting suppliers, customers and their local communities to participate in morning teas, raising awareness of the issue, BNZ's partnership with PVH and crucial funds for the PVH National Domestic Violence Helpline.

case studies

ST JOSEPH'S HOSPICE, HACKNEY

Art with heart – a contemporary art exhibition and silent auction raised £51,000 for the St Joseph's Hospice, located in London's East End.

St Joseph's, helping people 'live life to the full, to the very last' for over a hundred years, has recently partnered with nabCapital's UK employees as part of its refreshed community investment program.

"We have been overwhelmed by the support we have received from so many people at nabCapital since the recent start of our community partnership. Your generosity – in terms of your commitment, enthusiasm and time as well as your financial support – has helped us to continue to provide vital care to our

patients and their families and is greatly appreciated by everyone at St. Joseph's," Fiona Benson, corporate fundraiser.

nabCapital team leaders Fiona Robb and Kevin Gaffney, along with 12 other volunteers looked after registrations, visitor queries, collections and handing out leaflets in nearby Spitalfields market.

Although St Joseph's were the beneficiaries, Fiona and Kevin highlighted the benefit of bringing together our people from across the business to get to know each other while pursuing a very worthwhile cause.



nabCapital staff at the 'Art with Heart' raising money for St Joseph's Hospice, Hackney, London.

TRADITIONAL CREDIT UNION



TCU head office staff in training.

As an extension of its aims to improve access to fair and affordable financial services in Australia, NAB is working with the Traditional Credit Union Limited (TCU) to assist it to expand its banking services for Aboriginal communities in the Northern Territory.

"Indigenous Australians are the most financially excluded group in this country and there is a growing demand from them for basic financial services. The collaboration with the TCU is a critical step in demonstrating our long-term commitment to the aspirations of Indigenous Australia," Mr Fahour, CEO Australia, said.

Through the collaboration, NAB will provide TCU with interest free loans of up to \$1 million (with no fees or charges) to fund the opening of branches in remote locations in the Northern Territory. It is expected that these loans will provide access to financial services for more than 3,250 Indigenous customers over the next five years.

In addition, NAB has created a grant, to the value of \$200,000, for the TCU to fund additional activities such as advertising, legal and marketing costs, including the development of brochures and website upgrades.

Mrs Cathy Hunt, General Manager of TCU said that Indigenous communities in the Northern Territory had been asking for some time for the TCU to expand its branch footprint, but it had lacked a sufficient capital base to do so.

NAB will provide TCU customers with access to NAB's microfinance programs including the NAB Microenterprise Loan program. NAB and TCU are also developing efficiency programs to help lower the costs of some of the TCU's back room processes and operations, and are investigating volunteering opportunities and secondments for NAB employees to work with TCU and vice versa.

"We see this partnership as a way of extending our branch network to enable our members to build better lives for themselves and improve their financial knowledge through access to face to face services in the communities where they live," said Mrs Hunt.



our people

Representing a portfolio of brands, our 40,000 people are employed across a number of diverse markets and communities, all with varying cultures, expectations and histories.

Yet underneath these differences lie certain principles and standards that hold true across every region in which the bank operates – a focus on strategies that aim to ensure our people are engaged, challenged and rewarded in their employment. We believe that the more successful our people, the more successful our business.

This focus is not without its challenges as the workforce, its expectations and the environment within which we operate continue to alter over time. However, the consistency of our localised strategies to achieve a global purpose continues to be effective for our businesses.

While the ways in which we implement our people strategies across our businesses may vary, all are focused on making the workplace somewhere that our employees want to be. The areas of focus fundamental to achieving this are:

- continuing to improve our internal culture
- building a more diverse and flexible workforce
- enabling enhanced career development and progression
- rewarding our people and developing talent more successfully

The focus on improving our internal culture extends across multiple facets of the business – for example, our UK business has recently rolled out a series of workshops called ‘Dignity at Work’, highlighting the bank’s stance on bullying and harassment in the workplace. This initiative runs in parallel to the focus on employee ‘Gateways’ – which ensures that our Corporate Principles are woven into the measurement of performance and success across the bank.

We continue to measure our cultural progress through the annual OCI (Organisational Culture Inventory), measuring our operating culture and the behaviours that we expect of each other across the Group. Although the rate of improvement has slowed, the 2008 OCI results showed a continuing improvement. BNZ has achieved significant culture change and almost reached the ‘constructive benchmark’, an important achievement in regards to the OCI. In 2008 we continued to measure employee engagement and opinions on a range of issues that are important to the business. In line with the positive cultural changes, both employee engagement and satisfaction have risen in all regions (except the UK where satisfaction fell slightly).

As our culture develops we have identified the need to understand the flexible working requirements of our employees and to give them greater mobility to do their work. This has required us to provide access to a range of flexible working practices and tools. All our businesses have flexible working practices currently in place and strive to make the working environment one that promotes a healthy work life balance. BNZ, for example, has made great progress in this area and following the success of its Flexible Working pilot, is looking to roll out the program business wide. In Australia, our focus is on programs that encourage our people to ‘bring themselves’ to work, respect and encourage diversity and connect with the communities of our customers.

Specific diversity programs addressing issues such as gender balance in the workplace and the retention of our talented mature age employees are also in progress across all areas of the Group. These initiatives provide support and specific training to assist us in listening to employees and putting in place measures to equip them with the appropriate skills and training to manage each stage of their career successfully. Examples include ‘Career Resilience’

COMMITMENT UPDATE

- ✓ We completed the rollout of the learning campus in our UK business
- ✓ We continued to measure our cultural progress through the Organisational Culture Inventory
- ✓ In addition to continued reporting on the results of our diversity strategies we conducted a diversity survey in many of our businesses
- ✓ We continued to increase the child care options available to our employees
- ✓ We continued to improve our health and safety focus, reporting and results
- ▶ **IN PROGRESS**
BNZ have approved the completion and rollout of flexible working toolkits across the business
- ✓ BNZ rolled out numerous communications to its staff to raise awareness of domestic violence support services
- ✓ The Australian business launched The Academy this year

IN 2007, OUR UK BUSINESS WAS NOMINATED AS ONE OF THE TIMES TOP 50 COMPANIES WHERE WOMEN WANT TO WORK.

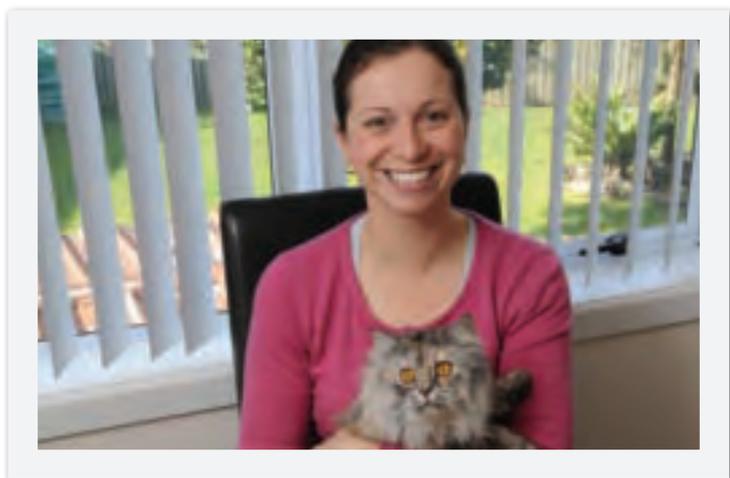
programs designed for developing future female leaders and the 'Transition to Retirement' programs designed to assist mature age employees in planning the later stages of their careers.

In 2008, many of our businesses conducted a diversity survey with employees to measure our on-going progress in enhancing our diversity and inclusiveness. The participation rate across these confidential surveys was very strong and captured some insightful and topical issues that will directly influence our future strategies in this area. In our Australian business, some of the interesting insights from the survey included:

- return to work rates from maternity leave increased to 84% as at March 2008
- 24% of employee respondents were born outside of Australia and 9% of respondents speak English as a second language
- 57% of respondents already have flexible working arrangements in place

Managing, developing and retaining talent are high priorities across all of our businesses. BNZ's Talent Acquisition Model is in its third year and is deeply embedded in the business, facilitating the alignment of individual development and organisational success. In nabCapital, a combination of three talent programs provide specific development opportunities and include mentoring, business project involvement, career coaching, leadership development,

Since April this year Operational Risk Compliance Manager Kylie Jackson-Cox has been replacing a long commute into downtown Auckland with one day a week working from home.



networking opportunities and community involvement. In the Australian business we are launching an exciting new initiative, The Academy.

THE ACADEMY

The Academy is a new approach business school, designed to help employees develop their capabilities and reach their full potential at the bank. It is a genuinely new way of working and learning that places responsibility for an individual's development into their own hands. The governance model for The Academy is unique for a business, in that it is owned and driven by senior business leaders in their capacity as a Dean. The Deans are responsible through the Academy for NAB's enterprise capability uplift, programs and funding prioritisation.

This new approach centres on the philosophy that people will experience 70% of learning on the job, 20% from coaching/mentoring and 10% through formal learning experiences. The Academy's products will reflect and encourage this learning philosophy. The programs are integrated with NAB's new people framework and provide a leadership and development continuum that allows focus on all levels of leadership.

TABLE 1: WORKFORCE BY GENDER AND MANAGEMENT LEVEL

(All figures for year ended 30 September)

	2008		2007		2006	
	F	M	F	M	F	M
▶ BOARD	17%	83%	15%	85%	14%	86%
▶ SENIOR MANAGEMENT	24%	76%	27%	73%	20%	80%
▶ MANAGEMENT	32%	68%	38%	62%	34%	66%
▶ NON-MANAGEMENT	70%	30%	77%	23%	74%	26%

FIGURE 8: MALE:FEMALE SALARY COMPARISON (AVERAGE)

(as at 30 September 2008)



TABLE 2: WORKFORCE BY AGE AND GENDER

(All figures for year ended 30 September)

	2008		2007		2006	
	F	M	F	M	F	M
▶ AGE <25	7%	4%	8%	5%	7%	4%
▶ AGE 25-34	17%	14%	19%	13%	19%	13%
▶ AGE 35-44	18%	14%	19%	12%	20%	11%
▶ AGE 45-54	12%	8%	12%	7%	13%	7%
▶ AGE >55	4%	2%	3%	2%	4%	2%

Our people - additional information

Protecting our employees rights

NAB is committed to ensuring a workplace free from discrimination and providing equality of opportunity in employment for everyone. We have a range of equal opportunity and antidiscrimination policies, practices and initiatives across the Group. Our policies on 'Equity in employment', 'Harrassment and bullying', 'Whistleblower protection' and 'Fair international workplace practices' are available at www.nabgroup.com.

These policies are monitored and enforced through compliance training.

Freedom of Association & Union Engagement

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

Specifically in each of the regions we operate our people are represented by:

- Australia – the Finance Sector Union (FSU)
- New Zealand – Finsec
- United Kingdom – Unite

Importantly we have in place a global union agreement signed by each of our businesses. To support this agreement we hold a global conference, the most recent conference was held in August last year and reported on in last years report.

In the UK anew recognition Agreement was signed during the year with our Union Unite, building on the positive collaborative approach which has been used for several years. An enhanced Union Representatives program was also discussed, signed and launched. This agreement seeks to promote Union representation and encourage employees to take on representative roles.

In Australia we will engage with the FSU to undertake the creation of a new collective bargaining agreement for our employees in Australia.

Additional Diversity and Employee Data

Figure 14: The NAB's workforce by Region (as at 30 September 2008)

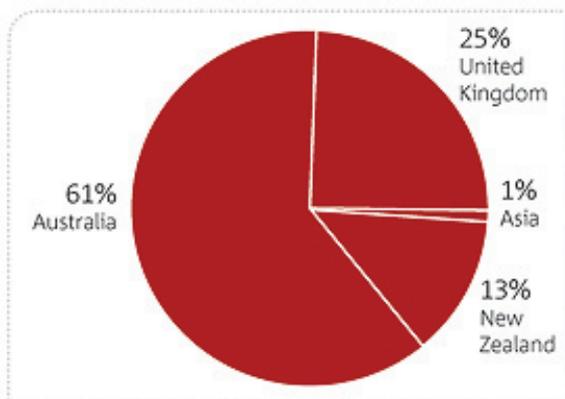


Table 15: The NAB's workforce by Employment Type (as at 30 September 200

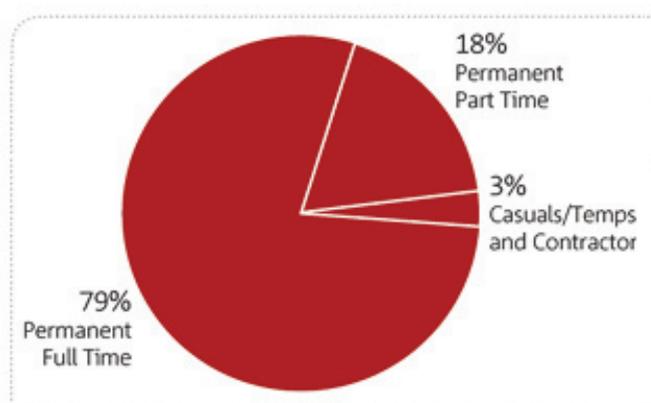


Table 8: General Workforce Statistics (As at 30 September 2008)

Global Indicator	Australia		
	2008	2007	2006
New hires*	5,159	3,955	3,145
No of graduate recruits**	149	187	191
Annual Leave (days taken) ^{^^}	375,647	385,184	375,697
Sick Leave (days taken) ^{^^^}	126,233	132,754	123,759
Employee Turnover ###	19%	18%	23%
Voluntary Employee Turnover +	15%	13%	NA
Redundancies	699	745	NA
Redundancies as % headcount	2.80%	3.00%	NA
	UK		
	2008	2007	2006
New hires*	1,529	2,029	1,624
No of graduate recruits**	82	10	11
Annual Leave (days taken) ^{^^}	NA	NA	NA
Sick Leave (days taken) ^{^^^}	113,106	110,423	119,379
Employee Turnover ###	17%	21%	25%
Voluntary Employee Turnover +	15%	15%	NA
Redundancies	36	397	NA
Redundancies as % headcount	0.30%	3.90%	NA
	New Zealand		
	2008	2007	2006
New hires*	1,115	1,391	1,466
No of graduate recruits**	3	6	3
Annual Leave (days taken) ^{^^}	84,634	85,102	63,210
Sick Leave (days taken) ^{^^^}	22,937	22,651	22,987
Employee Turnover ###	22%	24%	25%
Voluntary Employee Turnover +	14%	15%	NA
Redundancies	121	77	NA
Redundancies as % headcount	2.30%	1.60%	NA

Notes:

New Hires: figures don't include those who were previously with the group and were re-hired, promoted or changed status. However figures for Australia 2007 do include casuals/contractors who were re-hired

Australia - 2006 data excluded wealth management staff due to system constraints - 2007 data not affected by this issue

Australia - Data includes Asia (<1% of total) who experienced a slow down in recruitment and turnover after M&A in 2006

Graduate Recruits: Only new recruits into specially identified graduate recruitment program positions are included

Annual Leave: UK data not collected centrally thus unable to report

Employee Turnover based on headcount figures

Turnover calculated based on all permanent staff who leave either voluntarily or involuntarily, from the business

Australia - There has been a large decrease in turnover for staff in Asia due to resuming normal operations after 2006 M&A. Staff in Asia represent <1% of the Australian numbers

UK - 2006 figures don't include UK nabCapital due to system constraints

UK - 2005 figures not reported as data not collected centrally at that time

NZ - The turnover figure for 2005 was restated to match the turnover definition used for Australia and the UK

Voluntary employee turnover New item for 2007

Table 9: General Workforce statistics (as of 30 September 2008)

Global Indicator	Australia		
	2008	2007	2006
# of employees who took paid maternity leave*	281	1,285	NA
# of employees who took paid parental leave	436	86	NA
% employees returning to work after maternity leave	84%	78%	NA
Maternity and Paternity Leave (weeks taken - paid and unpaid)^	55,423	31,454	32,947
	United Kingdom		
	2008	2007	2006
# of employees who took paid maternity leave*	0	321	NA
# of employees who took paid parental leave	49	78	NA
% employees returning to work after maternity leave	100%	83%	NA
Maternity and Paternity Leave (weeks taken - paid and unpaid)^	11,085	11,557	11,448
	New Zealand		
	2008	2007	2006
# of employees who took paid maternity leave*	NA	NA	NA
# of employees who took paid parental leave	0	180	NA
% employees returning to work after maternity leave	66%	80%	NA
Maternity and Paternity Leave (weeks taken - paid and unpaid)^	5,403	3,955	4,171

* Employees who took paid maternity leave

* Data for NZ unavailable as it isnt captured

** Employees returning to work after maternity leave

Based on employees who finished maternity leave over the year

^ Maternity and Paternity Leave

Australia - Data not reported in 2005 due to change in definitions making it incomparable

Seeking Employee opinion

Table 10: Employee survey results by region

EOS Question	BHZ Total Agree 2008	Australian Region Total Agree 2008	nabCapital Total Agree 2008	UK Total Agree 2008	Corporate Centre Total Agree 2008
People in our organisation share a common vision of the future	88%	72%	81%	79%	77%
I would feel safe raising a breach of compliance	87%	92%	94%	90%	90%
My manager's behaviour is consistent with our Organisations' Corporate Principles	91%	90%	87%	87%	85%
I clearly know what is expected of me as a member of this organisation	95%	93%	92%	91%	89%
I am encouraged to take the initiative to better serve our customers	95%	93%	93%	87%	91%
I am motivated to contribute more than is normally required to complete my work	84%	74%	75%	87%	86%
Our organisation values differences in education, experience, ideas, work styles, and perspectives	88%	89%	87%	81%	84%
I am confident and capable of changing with the times	97%	97%	99%	96%	97%
I am committed to developing individuals who have the potential and motivation to progress (People Leaders only)	92%	100%		95%	97%
My people leader provides me with development opportunities targeted to my career aspirations	82%	80%		74%	79%
Satisfaction Score (10 Items)	90%	88%	89%	87%	88%

On behalf of the National an external organisation inserts questions to gauge the 'engagement' of our employees. Below are the results for 2008 and historical data for comparison where available.

Table11: Employee Engagement Scores

Engagement Score	2008	2007	2005
BNZ	64%	57%	49%
UK	40%		17%
Australian Region	53%	51%	39%
Corporate Centre	51%		39%
nabCapital	52%		39%

Please note that in 2005 Australian Region, Corporate Centre and nabCapital were reported as one group

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the business of offshoring

NAB understands that within the community there are mixed feelings about offshoring. Concerns focus on jobs and economic impacts, data security and privacy, and perceived exploitation of foreign labour markets. At NAB we tell a different story ...

Our offshoring program began in mid-2005 when we first explored the potential benefits of outsourcing our Finance Accounts Payable area to an offshore provider.

Since then, NAB has established a workforce of 792 people in India (Bangalore, Jaipur and Chennai), working on back office processes. In the 2007-08 financial year, 383 roles have been transitioned to offshore service providers (365 roles within the Australian business and 18 nabCapital roles).

While the National Australia Bank Group has operations across the globe, the bulk of our offshoring activity involves Australia-based areas of our business with each region responsible for the determination of need and appropriateness within their own operations.

Importantly, while offshoring is one way we have improved our service and achieved greater efficiencies in our business, it's not the only option we explore.

Through the Efficiency, Quality and Service program, NAB is driving improvements throughout all areas of the business by re-engineering and simplifying processes, automating processes and employing rigorous process management. For example, Six Sigma techniques help reduce error rates and improve the quality of information delivered to our customers. To date, over 2,600 employees have been trained in continuous improvement techniques to ensure that these changes are sustainable.

OUR APPROACH TO OFFSHORING IS A LITTLE DIFFERENT

At NAB, we thoroughly assess an area before it's considered as an offshoring candidate – sometimes it makes sense and other times it doesn't.

When we do consider offshoring, it's not just about reducing costs. While this does play a part in our decision making, we're also looking at how we can do things better.

While some banks own their offshore operations, NAB believes the most productive way to manage offshoring is through arrangements with world class external service providers. It gives us greater flexibility to access leading technologies and provides access to offshore talent and skills that we often find it difficult to source in Australia.

A great example of this is the maintenance of some of our older, legacy technology systems, many of which have been in operation for more than 20 years. Accessing the right skills to maintain these systems is very difficult in the local market, but more easily available with our offshore service providers.

As leaders in their field, our providers work with us to improve the services we provide to our customers. Their specialist process management and re-engineering expertise will underpin our drive to deliver consistently superior value to our customers, employees, shareholders, and communities.

In addition, our providers continuously invest in talent and knowledge management and make significant investment in their people to remain competitive. Our providers have established global reputations as leading employers in their field. We see our offshore workforce as an extension of our local teams.

WE'VE TRANSITIONED A SELECTION OF HIGHLY REPEATABLE, TRANSACTIONAL PROCESSES

Our focus is to improve the highly repeatable transactional processes within our business. This enables us to free-up our local team to work on more value-adding activities and to provide new service offerings to our business and our customers.

Activities that we have transitioned included back office finance and lending processes, technology system maintenance and data management operations, and employee administration processes.

BY TRANSITIONING SOME OF THE ADMINISTRATIVE PROCESSES WE ARE FREEING UP OUR BANKERS AND FRONT-LINE STAFF TO SPEND MORE TIME WITH CUSTOMERS. ULTIMATELY, OUR CUSTOMERS WILL APPRECIATE THE BENEFITS.

FOR OUR CUSTOMERS, OFFSHORING IS SEAMLESS

Our offshoring programs are managed to deliver NAB's strategy to improve competitiveness, streamline administrative functions and focus efforts on being a more customer focused organisation.

Simply put, offshoring helps us to improve our efficiency and provides the capacity to reinvest in growing our business and providing new products and services to meet the needs of our customers. By transitioning some of the administrative processes we are freeing up our bankers and front-line staff to spend more time with customers. Ultimately, our customers will appreciate the benefits.

The security of customer data remains an absolute priority. NAB customer data that is accessed by local and global suppliers is subject to the requirements of the Australian Privacy Act, and rigorous monitoring is in place to ensure the highest data protection standards are consistently maintained.

"Protecting our customers' data is paramount to the success of our business and we will not take any actions that put the information of our customers at risk. NAB remains accountable for protecting customer data no matter where in the world our work is carried out," states Ewen Stafford, Chief Operating Officer Australia.

WE'VE SUCCESSFULLY REDEPLOYED THE MAJORITY OF OUR PEOPLE IMPACTED BY OFFSHORING WHO HAVE WANTED TO REMAIN AT NAB

From the outset we have taken a very open and transparent approach to communicating our offshore plans. Our aim is to communicate as early as possible so that our people are aware of what is happening, what it means for them and that we'll support them throughout the change.

From the initial planning to the completion of the transition, NAB actively engages its employees, regulators, government stakeholders and unions. Employee programs have been developed to guide our people on how to navigate and lead change, and refresh their resume writing, career assessment and interview-handling skills.

"With any outsourcing initiative, our aim is to redeploy our people wherever possible. We are committed to equipping our people with the skills, tools and confidence to help them to find new opportunities whether that be inside or outside NAB," said Ewen Stafford.

"Offshoring is not necessarily about reducing the number of roles we have in Australia. In many cases the purpose of transitioning administrative processes offshore has been specifically to free up our bankers to spend more time with customers," he added.

For Stephanie Tranquille, an employee at NAB, her role changing as a result of processes in her team being offshored opened a door of opportunity for her to gain experience overseas and to transition her skills to a new role upon her return.

"The opportunity to be part of an offshoring project has definitely been a highlight of my career so far, giving me a chance to learn new skills and work with our team overseas. I was very impressed to discover that our offshore teams work in a similar way to NAB, believe in nurturing continual career growth and deliver high standards of quality," said Stephanie Tranquille.

"My role was not being made redundant, however the structure of the role was changing so I saw this as a great time to try something new, and leverage my existing skills and success in a new role as a People and Development Officer."

"As an organisation, we talk about being passionate, connected, involved and inspired when it comes to our customers. These are words that I would like to use about my offshoring experience. By giving me the chance to represent NAB to our partners overseas, it has really inspired me to achieve great things," she concluded.

THROUGH THE EFFICIENCY, QUALITY AND SERVICE PROGRAM, NAB IS DRIVING IMPROVEMENTS THROUGHOUT ALL AREAS OF THE BUSINESS BY RE-ENGINEERING AND SIMPLIFYING PROCESSES, AUTOMATING PROCESSES AND EMPLOYING RIGOROUS PROCESS MANAGEMENT



developing people with perspective

This year nabCapital implemented programs in conjunction with Earthwatch and The Mali Initiative with the dual objective of developing nabCapital employees and benefiting the community.

Those involved with these programs have reflected on the cultural differences, changes in their levels of confidence and the way in which they think differently about their lives now that they are back at work. This broader perspective results in better and more balanced business decisions.

EARTHWATCH

Each year, ten nabCapital employees have the opportunity to join an Earthwatch expedition, providing a unique opportunity to further develop their skills in an unfamiliar and challenging environment. Earthwatch, an international environmental not-for-profit organisation, supports scientific field research and conservation education.

The program gives employees a greater understanding of environmental and ecological issues. This knowledge enhances their interaction with stakeholders and assists in their daily decision making.

nabCapital's Nick Walker with a group of children from Mali. Nick was part of the team that helped set up 20 laptops for the village as part of nabCapital's involvement in the Mali Initiative.

THE MALI INITIATIVE



In 2007, Matthew Slater from nabCapital's New York office had this to say about the expedition he went on in Puerto Rico's Rainforest: "Although my activities were a long way from my day-to-day activities in corporate banking, it does make one think more closely about the implications of business practices and the importance of factors such as the impact on the local population, environmental implications and sustainability."

THE MALI INITIATIVE

The Mali initiative is a not-for-profit network of committed individuals and organisations whose vision is to provide access to quality education in Mali. Through sustainable development it seeks to break the cycle of poverty.

In January 2008 four members of nabCapital's Talent program travelled to Mali in West Africa, for a life changing experience.

They joined other employees from Macquarie Bank, Deutsche Bank and Telstra and participated in workshops at the local school which encouraged team work and supported the school children.

A total of 20 laptops were donated to the school with the capacity to connect to the Internet. This provided the children with the opportunity to communicate outside of Mali for the first time. Medical supplies were also donated to the local healthcare centre and employees helped to paint the building.

The Initiative inspired the group so much that they instigated a strategic plan, outside of their normal work responsibilities, for future work and support of the region.

Darinka Stevic-Wages from nabCapital Australia described her experience as amazing: "I really had no idea what to expect after taking almost two days to reach our destination in Mali. What I was instantly presented with were the smiles, the warmth, the generosity and sincerity of the truly unique people of Mali. There was such gratitude and celebration for all the past work of the Mali Initiative and hope for future work. I am thankful to nabCapital for giving me the opportunity to contribute to the evolution of the Initiative and for ensuring its sustainability. I, too, learnt so much about the Malian culture, how a little can go a long way and the importance of community connection."

our customers

The NAB Group provides its products and services to over 10 million customers worldwide. Our customers are varied, including first home buyers, farmers, small business owners and large multi-national corporations. We recognise the potential in each one of them and aim to make them the central focus of our attention. In order to serve them well, we need to understand their current needs and also be able to work with them to understand what they are likely to need in the future.

This year we conducted over 250,000 surveys and interviews with our customers. These surveys provide valuable insights into where and when we meet our customer's expectations and where and when we need to improve our products and services. In addition to seeking feedback from our customers we also recognise the importance of listening to our employees who deal with our customers every day and know their needs the best.

Our customers have continued to tell us that they want access to lower and no fee products. We have responded with the introduction of our 'Clear Banking Account' in Australia with no dishonour fees. This product was so popular that we developed the 'Clear Banking Home Loan' which removes the exit fee for customers whose circumstances alter. Across each of our regions there are now basic low or no fee accounts for a range of customers designed to let customers take control of their banking needs.

Additionally, building on our commitment to provide access to financial services across the community we do not charge fees on a range of accounts for students, pensioners and not for profit organisations. This year, the total of our fees and interest foregone by providing these fee free accounts has increased by \$1.5 million to \$11.1 million.

The turmoil in global markets has had an impact on everyone, including our customers. We recognise that as circumstances change, and particularly in this volatile environment, our customers can face trying and difficult times. To manage this in both a responsive and proactive manner each of our businesses has dedicated units to assist our customers who may be facing difficulty (see an overview of these services on the next page).

Across the board our businesses are developing new products and services with the needs of our customers in mind.

- BNZ launched its 'Out of the Box' banking products this year, giving customers the chance to purchase financial products off the shelf. These products enable customers to get a clear understanding of what they are purchasing.
- NAB in Australia introduced 'Smart Statements' enabling our customers to access seven years of statements online. This provides our customers with convenient, 24 hour access to their information and also assists us in reducing the environmental impact of our business.
- Our Clydesdale and Yorkshire banks introduced a single telephone number which is available for service calls 24 hours a day and 365 days a year. This ensures that customers only need to call one number to get the answer to all of their banking enquiries.

In April our Australian business released its first formal Customer Promise, a series of undertakings to customers about what they can expect when banking with the NAB. The Customer Promise is available in all branches and accessible via www.nab.com.au.

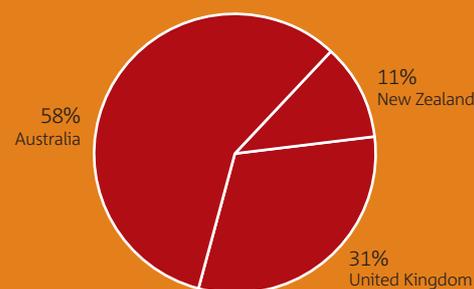
Unfortunately we do not always get it right. All of our businesses actively record and report on customer complaints. This year, our businesses saw an increase in the number of complaints regarding fees and interest charges.

We work hard to understand the sources and causes of complaints in order to respond effectively. As an example, in 2007 43% of UK complaints were categorised as 'service and administration'. Analysis was performed on this category and it was identified that issues with standing orders (a customer instruction to pay on a regular basis) and direct debits were significant contributors. To better understand the problem these two areas were separated out and given their own category. Root cause analysis was performed on the problem and it was discovered that there were issues with the instructions for these two activities. Changes were made to the instructions which resulted in a reduction of 5,000 complaints or 36% over the previous year.

.../continues to page 16

FIGURE 9: DISTRIBUTION OF CUSTOMERS BY GEOGRAPHY

(as at 30 September 2008)



Head of Carbon Solutions Group, Sean Lucy addressing business leaders at the *Climate Change Forum 2008 – The Commercial Impact*, attended by CEOs, CFOs, thought leaders and government.

CARBON SOLUTIONS GROUP

As the business landscape changes in response to growing concern about climate change our customers face new challenges in regards to carbon management. Since 2006 nabCapital's Carbon Solutions Group has been developing and growing its expertise in this rapidly changing environment. It has utilised the experience we have garnered in our own carbon neutral journey to add to the range of skills in funding alternative energy, carbon finance and risk management.

our customers

.../continues from page 15

Our customers have told us that safe and secure banking is important to them. Each of our regional businesses has policies and procedures in place to ensure we are meeting this need.

- NAB in Australia continues to deliver secure banking through its use of SMS security which provides an effective and convenient second factor of authentication using the customer's own mobile phone.
- BNZ customers also now have additional protection through the new Liquid Encryption security feature. Introduced in August of this year, simply by using their BNZ Credit Card in any BNZ ATM, card data is updated which protects against the use of counterfeit cards in other locations.

- Our UK business has a dedicated 'Resilience Team', which identifies where information is transferred to third parties and reviews processes for any potential shortcomings – reporting on any findings and enabling the contact business unit to remediate if required through control points and processes.

Our UK business' Banking and Delivery Services team were recognised for their efforts and awarded the Fraud Prevention Team of the Year at the 'Credit Today' awards ceremony.

As further indication of our commitment to continually improve customer experience, in the coming year our Australian business will undertake the first phase of the Next Generation Banking IT platform. This five-year program will replace the core banking system and underpin its customer focused strategy.

COMMITMENT UPDATE

- ✓ We have enabled our UK customers to apply for a mortgage through the channel of their choice
- ✓ This year we introduced accounts with low or no dishonour fees
- ✓ We completed our ATM replacement program in Australia in September 2008
- ✓ NAB in Australia will be reporting against their customer promise in 2008
- ✓ BNZ introduced multi-lingual functionality across their ATM network
- ✓ BNZ produced a fact sheet for non-profit organisation accounts
- ✓ The UK business introduced a 24 hour telephone service

INCREASING THE TRUST FACTOR

NAB and its wealth management business, MLC, believe that to engender greater trust and transparency in the financial planning industry, financial planners need to move away from a commission based remuneration model and towards a fee for service model.

CEO of MLC, Steve Tucker said, "The commission structure for financial planners and product manufacturers served a purpose for a long time. It facilitated much of the industry's early growth – however that time has largely now passed. Although the payment of commissions to financial advisers remains a legal and convenient option for many industry participants, the commission structure no longer delivers the value to the industry it once did. In fact, it is damaging

the industry and in my view, preventing advisers from being regarded as members of a fully-fledged profession. A better model is a remuneration system based on law but also supported by the trust and confidence of the client. I believe the decision to move to a fee-for-service business model needs to be considered by all financial advisers."

In early 2008 NAB Financial Planning began a process to transition to a Fee for Advice model for all new investment clients by the end of 2008. Godfrey Pembroke, an advice business licensed under the MLC umbrella moved to this model in 2006. Existing customers can either continue with their current fee arrangements, or transition to a fee for advice approach in discussion with their financial planner.

Under a fee for service model clients pay an explicit fee for advice, agreed between the financial planner and the client and all trail commissions paid by investment product providers are fully rebated to clients. Although our clients have always received advice that is in their best interest, under a fee for service model any potential or perceived conflict of interest is removed, ensuring customer confidence is enhanced.

This model ensures our customers clearly understand exactly what they are paying for the valuable financial advice they receive, separate to investment and administration costs.

General Manager of NAB Financial Planning, Mr Geoff Rogers, said "We are focused on building long-term relationships with our customers that are based on quality advice, trust and transparency."

"In today's swiftly changing environment, access to ongoing, first class financial advice is essential to ensure that an individual's financial circumstances reflect market, regulatory and personal changes," Mr Rogers said.

NAB and MLC believe more Australians will seek financial advice if there is greater trust and transparency in the system. How financial planners are remunerated is central to building this trust. This belief is the core driver of the fee for service strategy.

Other advice businesses under the MLC umbrella, Garvan Financial Planning, MLC Financial Planning and Apogee Financial Planning maintain the option for commission based remuneration although many advisers in these businesses have also transitioned to fee for service models.

Our customers - additional information

In order to understand our customers we must be across a large variety of industries and sectors.

The tables below show the distribution of our business customers across these industry sectors.

Industry Segment	% of Business customers	Industry Segment	% of Business footings
Property, Renting and Business Services	29.90%	Property, Renting and Business Services	28.70%
Wholesale and Retail Trade, Repairs	15.70%	Finance and Insurance	18.10%
Finance and Insurance	9.10%	Agriculture, Hunting, Forestry & Fishing	8.10%
Agriculture, Hunting, Forestry & Fishing	8.90%	Education	7.80%
Construction	6.50%	Wholesale and Retail Trade, Repairs	7.40%
Education	6.00%	Manufacturing	5.80%
Health and Community Services, Social Work	5.00%	Construction	4.20%
Recreational, Personal and Community Service Activity	4.60%	Transport, Storage and Communications	3.80%
Manufacturing	4.30%	Electricity and Gas And Water Supply	3.80%
Transport, Storage and Communications	4.30%	Accommodation, Cafes, Pubs and Restaurants	3.20%
Accommodation, Cafes, Pubs and Restaurants	3.50%	Health and Community Services, Social Work	2.80%
Mining	1.10%	Recreational, Personal and Community Service Activity	2.40%
Electricity and Gas And Water Supply	0.70%	Mining	2.30%
Government Administration and Defence	0.40%	Government Administration and Defence	1.70%

Our services in rural and remote locations in Australia

Table 14: Rural and remote services (Australia only)

Indicator	2008	2007	2006	2005
# of rural branches charging reduced fees	144	163	174	182
% of branches in rural and regional Australia	52%	52%	52%	53%
# of customers who use rural and regional branches with reduced transaction fees in Australia	139,197	146,000	58,500	90,000
Fees forfeited across branches in rural areas that charge reduced transaction fees in Australia	1.6	1.2	1.5	\$1.8m

Customer Complaint Statistics

Figure 16: Key Complaint Themes – Australia (Year Ended 30 September 2008)

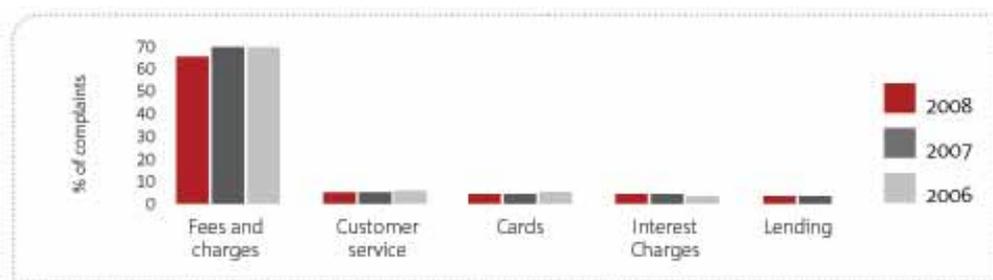


Figure 17: Key Complaint Themes – UK (Year Ended 30 September 2008)

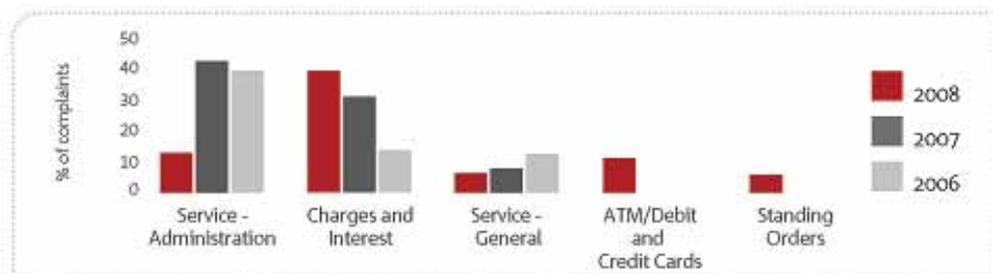


Figure 18: Key Complaint Themes – Wealth Management Australia (Year Ended 30 September 2008)

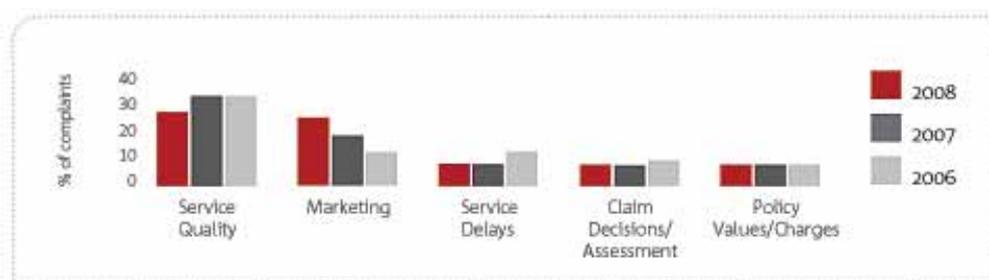
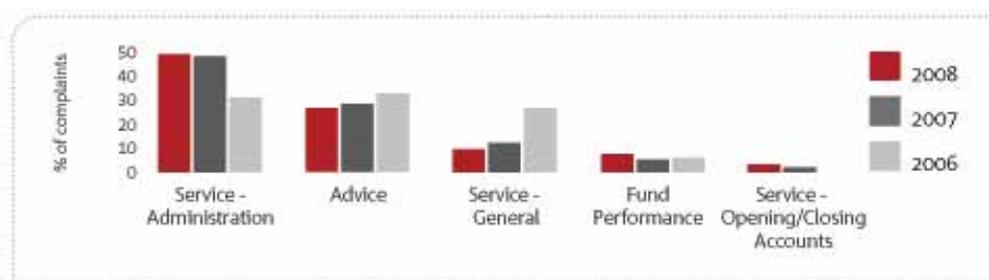


Figure 18: Key Complaint Themes – Wealth Management UK (Year Ended 30 September 2008)



Customer Complaints Referred to the Ombudsman

Table 15: Customer Complaints Referred to the Ombudsman

Banking complaints referred to the ombudsman	2008	2007	2006
Australia	973	669	592
UK	1321	1820	457
NZ	43	28	36
Wealth management complaints referred to dispute resolution bodies			
Australia	148	120	122
UK	52	22	45

SRI Offerings (as at 30 September 2008)

Name of Fund	Australia		
	\$m (2008)	\$m (2007)	\$m (2006)
AMP Capital Investors Sustainable Future Australian Share Fund - Class A	\$0.8	\$2	\$1.45
AMP Capital Investors Responsible Investment Leaders International Share Fund - Class A	\$2.2	\$1	\$0.77
Australian Ethical Large Companies Share Trust (Retail)	\$1.3	\$2	\$1.18
Hunter Hall Australian Value Trust - Class B Units	\$8.1	\$9	\$6.34
Hunter Hall Global Ethical Trust - Class B Units	\$19	\$23	\$11.62
Hunter Hall Value Growth Trust	\$56.1	\$71	\$44.89
Perpetual's Wholesale Ethical SRI Fund	\$57.8	\$63	\$26.13
Total	\$145.3	\$171.43	\$92.38

our customers in need

The past 12 months have been marked by the global credit crunch. Customers have felt the impact of higher home ownership costs and rising fuel, utility and food prices. This combination has increased pressure on households trying to balance budgets. And while most NAB Group customers repay their loans on time, others have had trouble due to loss of income, illness, accidents, natural disasters or family break ups. NAB Group banks are seeing these factors reflected in the number of customers approaching the bank in relation to hardship. NAB Group customers in genuine need of assistance are able to access advice from specialist staff on how they might restructure, refinance or alter their debt arrangements to ease any potential financial stress. Hardship staff are also trained to discuss other options including delaying repayments and recommending that customers seek independent financial counselling advice.

Each of our businesses are doing their bit to try and help our customers in need.

HOW NAB IN AUSTRALIA IS HELPING

Typically customer referrals come into the Hardship Unit from the customer contact centre and through NAB bankers. The hardship team assesses a customer's circumstances before their hardship application is assessed.

Since October 2007 about 75% of applications received have been approved. Common reasons cited in hardship applications are unemployment, reduced income, illness, maternity and paternity leave or relationship issues. Natural disasters including the Queensland floods and the horse flu outbreak have also had an impact.

To better assist customers, our Australian business this year began a limited three month pre-emptive debt management trial. A segment of credit card customers judged to be at risk for potential default were contacted by specially trained staff. These customers were displaying signs of financial difficulty such as missed payments, exceeding credit limits, decreasing repayments, rising cash withdrawals and growing total debt owed. Customers who confirmed they were having problems were stepped through debt education advice including an overview of how NAB's hardship policy works. NAB is now evaluating the findings from the trial program.

We also realise the important role community based financial counsellors play in advocating for people suffering financial hardship. Together with other banks, we have provided seed funding to the peak body of financial counsellors, the Australian Financial Counselling and Credit Reform Association.

EARLY CONTACT MAKES THE DIFFERENCE IN THE UK

Our UK business is aware that a customer complaint may be a sign that they are experiencing financial stress.

A dedicated team in our call centre contacts customers who have made complaints, inviting them to meet with the bank so we can better understand their situation and step them through their finances. The bank outlines options available to customers to improve their financial situation. In some cases, credit limits are reduced and minimum payment direct debits are set up to help customers to better manage their accounts. Customers are also provided with information on independent agencies who can provide assistance.

This sort of proactive identification of customers who may be heading towards financial difficulty is now actively encouraged in The Banking Code, to which the UK Banks subscribe.

PROBLEMS THAT WON'T GO AWAY – BANK OF NEW ZEALAND'S APPROACH

BNZ unveiled its Customer Careline in October 2007 as a tool to help credit card and personal loan customers who may be showing early signs of financial stress. By actively contacting customers and offering advice and information, the bank has been able to help some customers navigate through what can at times become a 'debt paralysis'.

Chris Bayliss, General Manager of Retail Banking sums it up. "The aim is to reduce the customer's anxiety levels, have a good conversation, and put a plan in place. When the pressure is on the temptation is to stop opening statements and hope the problem will go away and there is perhaps an assumption that the bank will be judgemental or unhelpful. That's not the case. This is about early intervention and having the right conversation at the right time."

Customer feedback to date has been overwhelmingly positive. Customers appreciate having an opportunity to ask questions and talk through how interest rate calculations work. They also appreciate the non-judgemental approach. Data shows that they become better at managing their money and so it has the potential to improve their financial position.

WE ARE LEARNING

Some important lessons are being learned. Importantly, the sooner NAB begins to work with customers who may be experiencing financial difficulty the better it is for the customer and the bank. We need a two-pronged approach to ensure this happens. Firstly, we need to educate customers that they should contact us when they first begin to experience financial difficulty and secondly, we need to continue to seek opportunities to identify when customers may be starting to have problems so we can help them to sort it out.

THE AIM IS TO REDUCE CUSTOMER ANXIETY LEVELS, HAVE A GOOD CONVERSATION, AND PUT A PLAN IN PLACE

developments in fees and charges

Across all regions where the NAB group operates, developments in the external environment have amplified customers' on-going concerns about fees and charges. While our response is still a work in progress our businesses continue to take these concerns seriously, aiming to make fees and charges more transparent and offering our customers greater choice with reduced fee or no fee products.

In the UK, from around 2006, consumers and consumer groups began to express dissatisfaction with the level and frequency of bank charges such as overdraft charges, which led them to lodge compensation claims for the fees charged in the UK's County Courts.

In order to seek legal clarity on these claims, the Clydesdale Bank joined with six other UK banks and one building society to pursue a High Court test case with the UK's consumer and competition authority, the Office of Fair Trading (OFT), to seek legal clarification on overdraft fees. In April and October 2008, the Court issued its judgement on the first stage of the test case.

The Court recognised that unarranged overdrafts are a real and identifiable service which banks provide to their current account customers. However, the Court ruled that the banks' terms and conditions may be assessed for fairness under the UK's unfair contract terms legislation, but did find that the banks' unauthorised overdraft fees (both current and historic) are not penalties under common law. The banks in the test case are appealing the former part of the ruling. There is limited case law on this issue and it is important for it to be fully tested. The appeal was heard by the UK Court of Appeal on 28 and 29 October and 4-6 November 2008. The case is expected to continue for some time.

In the Australian context fees are regulated by a combination of disclosure obligations under federal legislation, consistent state-based credit regulation as well as the voluntary Code of Banking Practice. The differences in the regulatory environment may preclude a similar claim to that in the UK. There have however been efforts to take a more prescriptive approach by regulating the levels of fees.

These have not been pursued, in recognition of the success of the market based approach to fees. However it has increased our understanding of customers' desire for greater choice in relation to product service fees.

In Australia, the external focus over the past year has also been on ensuring banking customers have the choice to shop around for the best value bank accounts and home loans. The Federal Government asked the banking industry to develop initiatives to make it easier for consumers to "switch" banks. Since May 2008, NAB internet customers have had access to up to seven years of statements, easing the switching process. NAB is also offering the new banking industry-wide switching solution, introduced on 1 November 2008. The new service means we provide exiting personal customers with a list of regular payments, such as direct debits and credits, over the past 13 months. When customers wish to join NAB, we assist with re-establishing regular payments by notifying merchants, businesses and other service providers.

In New Zealand, fee disclosures as well as the levels of fees, are directly regulated by national regulation, enforced by the Commerce Commission. This effectively places the onus on fee levels on the government. Within this regulatory framework, BNZ understands that banking needs to be as convenient and easy as possible, as well as offering options that help put customers in control of their money. BNZ offers a wide range of transaction accounts that are designed to give customers choice in finding the right accounts for their specific needs, including lower fee or no fee accounts.

All of our businesses are aware of the concerns regarding fees and charges and we will continue our efforts to listen and respond. That is why we seek to constantly evolve our products to meet customers' expectations of the banking services and innovative products we deliver to them.

TABLE 3:
OUR GREENHOUSE EMISSIONS (tCO₂-e)
(2006, 2007 & 2008) by region and Group

	2008*	2007	2006
▶ AUSTRALIA	218,068	223,765	229,624
▶ NEW ZEALAND	10,336	10,835	10,890
▶ UNITED KINGDOM	8,390	17,749	12,489
▶ GROUP	236,794	252,349	252,982

2006 and 2007 figures restated for updated regionally specific emissions factors for air travel and vehicle fleet and factored in transmission losses to the 2007 data for NZ.

FIGURE 10:
OUR GREENHOUSE EMISSIONS
by generating activity/facility

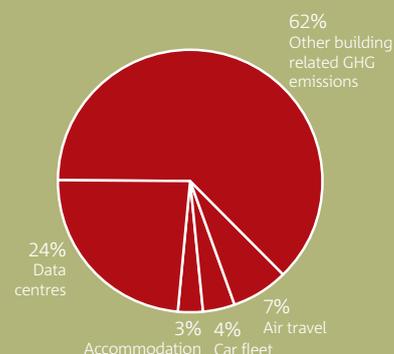
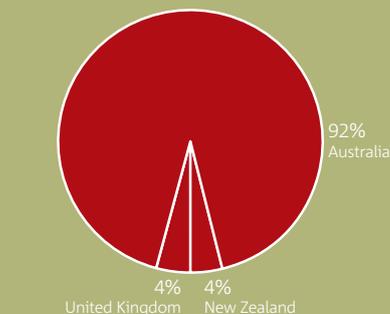


FIGURE 11:
OUR GREENHOUSE EMISSIONS
by region



Totals for year ended 30 June 2008. Totals include emissions from electricity, combustion of fuels, transmission losses and business travel emissions associated with air travel and vehicle fleets.
*2008 data includes hotel stays related emissions.

our environment

Caring for the environment is consistent with our goal of long-term value creation. We believe good environmental management makes good business sense.

This year we have been focused on the implementation of our environmental commitments – to be carbon neutral by 2010 and our adoption of the Equator Principles. We believe these commitments will contribute to reducing both the direct impact created by our people and our infrastructure, and the indirect impact created by our customers, suppliers and the community partners we support. The following section highlights our activities and achievements in these areas.

RESPONDING TO CLIMATE CHANGE

Climate change is one of the most significant environmental challenges facing governments, businesses and communities. As a large global company we feel a responsibility to play our part in addressing climate change and to help our employees, customers and suppliers do the same.

For this reason we have developed a specific climate change strategy with the following five elements:

- **Leading by example** – establishing and minimising our carbon inventory, making our operations carbon neutral, publicly reporting on our progress and being

involved in the debate and development of solutions to climate change.

- **Engaging and helping our people** – supporting our people who wish to personally take action on climate change.
- **Understanding and supporting our customers** – through advice, as well as developing product and service offerings to appropriately support local markets.
- **Building key partnerships** – with a range of stakeholders, including suppliers, to help identify and implement solutions that assist our people, customers and communities to take action.
- **Continuing to grow our understanding of climate risks and opportunities** – to consider the impact of climate change on our lending decisions, as well as other areas of relevant operational policy.

During 2008 we have undertaken a range of activities to deliver on our climate change strategy. In addition to working towards our goal of carbon neutrality (see next page) we have:

- Participated in government consultation processes relating to the development of emissions trading in Australia and the UK.
- Hosted two successful climate change forums in Australia.
- Expanded our in-house expertise through nabCapital's Carbon Solutions Group.

COMMITMENT UPDATE

- ✓ We purchased 17,000 tCO₂e offsets to offset Australian business travel emissions (from job-related vehicles and air travel) for 2008
- ✓ We commenced purchasing 5% of Australian electricity consumption as accredited GreenPower on 1 July 2008
- ✓ We introduced 100% recycled copy paper in the UK
- ✓ We installed water meters in UK properties by 30 June 2008
- ✓ We installed energy monitoring and control technology in all UK properties by 30 June 2008
- ✓ Our UK business is prioritising the outcomes of their car fleet policy review and NZ are completing the review
- ✓ We have implemented remote and automated switch off functionality on PCs in NZ
- ✓ Our UK energy consumption decreased by 23% by June 2008
- ✓ We have 'Green Teams' across 24 sites in Australia

A detailed update on our 2008 environmental performance is available in our online report at www.nabgroup.com

EVERYBODY, EVERY DAY

Our commitment to carbon neutrality has engaged our people. This commitment has unleashed a desire on the part of many to become active and engaged in promoting sustainable behaviour at work and at home. More than 640 employees from Australia are part of a voluntary green team community which is championing green initiatives and encouraging other employees to reduce their environmental impact. Similarly, our NZ operations have 60 carBoNZero champions leading the charge in changing the way in which employees use energy, water and other resources at work.

Over the last 12 months, these teams have been instrumental in helping to raise awareness about the impacts of climate change and implementing campaigns to support initiatives such as Earth Hour and Ride to Work, as well as encouraging employees to switch to NAB Smart Statements.

Volunteering their time and energy on a regular basis, these teams are also focused on specific building based activities from recycling initiatives to alerting building management to waste management issues.



Former General Manager of Commercial Services Australia, Simon Le Gear (centre) at the 2008 NAB Environment Expo with special guest Jamie Durie and NAB Ambassador Shane Wakelin.



carbon neutral

NAB Group's commitment in March 2007 to be carbon neutral by September 2010 is a flagship program of our global climate change strategy.

"NAB IS VERY SERIOUS ABOUT CLIMATE CHANGE, AND ONE OF THE MOST SIGNIFICANT AND VISIBLE COMMITMENTS WE'VE GIVEN THUS FAR IS BECOMING CARBON NEUTRAL OURSELVES BY 2010."

Mark Joiner
Group Chief Financial Officer

OUR JOURNEY TO CARBON NEUTRAL

The NAB Group has been measuring and reporting its greenhouse gas emissions since 2003. We know where and how energy is used across the business, and we have undertaken significant work to define our carbon footprint.

We have selected 2006 as our baseline year from which to calculate our emissions reductions. Our global carbon footprint in 2006 was approximately 252,000 tonnes CO₂-e (calculated based on our building portfolio, car fleet and air travel only), 91% of which was generated by our operations in Australia. The lion's share of our emissions come from our building portfolio, including commercial offices, branches, business centres, ATMs and data centres. Global car and air travel account for approximately 11% of our emissions.

Importantly, we are focused on reducing the emissions we can measure and control. To become carbon neutral, we have been focusing on the following three actions:

1. reducing our energy consumption and travel emissions
2. increasing the amount of energy we purchase from renewable sources
3. purchasing carbon credits to offset our remaining unavoidable emissions

Clearly our first priority is on reducing emissions and energy consumption, as it is not only better for the environment but more cost effective for us. The more we lower our energy bills, the fewer offsets we need to purchase.

WHAT WE'VE BEEN DOING – THE HIGHLIGHTS

In the past year, our priority has been to identify and prioritise the actions that will deliver the largest energy, and therefore greenhouse emission reductions.

In 2008, our net Group-wide greenhouse emissions from all measured sources totalled 236,794 tCO₂-e³, a 6.2% decrease compared with 2007. Our carbon footprint as captured by our current emissions inventory is shown in Figures 8 and 9.

This reduction in greenhouse gas emissions was achieved primarily through initiatives implemented across our building portfolios including the purchase of green electricity, energy efficient management practices and implementing ecologically sustainable design principles in new and refurbished buildings.

3. Total gross Group greenhouse emissions are 272,783 tCO₂-e, if the offset provided by our purchase of 100% green electricity in UK and 2.8% accredited Green Power in Australia is excluded.

Highlights over the last 12 months include:

- completing BNZ's new office in Quay Park, Auckland to meet the NZ Green Building Council's (NZGBC) 5-Star design rating. The building will now be a pilot for the NZGBC's 'As Built' rating tool.
- commencing a major refurbishment of our global headquarters at 500 Bourke Street in Melbourne, Australia. This is currently the largest joint building owner and tenant refurbishment of its kind in Australia and is estimated to save about 10,000 tCO₂-e per annum of greenhouse emissions upon completion in 2009.
- completing the Merrion Way Head Office (Leeds,UK) refurbishment, resulting in building emission reduction of 68%. With remaining emissions offset by a series of Voluntary Carbon Standard (VCS) offsets we have delivered our UK business' first certified carbon neutral building.

Other key activities and actions are:

- developing a pipeline of over 120 energy efficiency projects in Australia for implementation over the next two years. This brings our potential savings from energy efficiency projects to almost 42,000 tCO₂-e tonnes per annum.
- purchasing green electricity in the UK (100%) and Australia (2.8%).
- completing purchase of two different types of carbon offsets to cover our 2008 business travel emissions in the UK and Australia.
- decreasing gas consumption in the UK by 42%.
- implementing remote and automated switch off functionality on PCs across our businesses.
- introducing hybrid vehicles into the Australian job-required car fleet.

WHAT WE'VE LEARNT

When we made the decision to become carbon neutral we knew it would not be easy. However, we also knew it was a very important step in learning how to mitigate our climate impact. 'Learning by doing' also builds in-house expertise and credibility to help employees, customers and community partners respond to the impacts of climate change.

Our most significant insights so far – which include both surprises and unexpected challenges – are shared below.

1. People power

Our commitment to doing something publicly meaningful about our carbon footprint has tapped into our employees' environmental sensibilities and encouraged them to be environmentally active and engaged. Hundreds of our people across our operations are involved in a viral-like network of climate champions and taking action to reduce our environmental impact through the implementation of education and behaviour change activities. For more information see "Everybody, Everyday" on page 19.

2. It's an investment

Achieving carbon neutrality is an investment that requires considerable time, resources and funding. Our capital investment programs include funds to ensure that energy efficiency measures are applied in refurbishment and upgrade works and to progress projects that reduce our carbon footprint. This investment also provides recurring benefits associated with reduced energy consumption.

Managing, monitoring and reporting our progress is essential. We've established global and regional leadership and working groups to provide oversight of program implementation and ensure delivery of emissions-saving initiatives.

3. Making electronic banking environmentally sustainable

One of the biggest challenges we currently face is growing use of technology while we are seeking to reduce our energy consumption. The technology platforms we use to deliver convenient, fast and immediate banking require significant volumes of energy for processing and storage.

Our data centres housing our servers and mainframes are our largest users of energy.

Our immediate priority is to reduce the amount of energy needed to process data. Opportunities such as server consolidation and virtualisation, which ensure that servers are running at full capacity and therefore using energy most efficiently, can help. We are also exploring solutions like on-site tri-generation which will let us generate electricity at an on-site gas-fired facility, enabling the heat produced in the generation to be used for heating and cooling purposes.

4. Keeping pace with developments

Operating in an emerging and evolving carbon market environment means we have to be ready to adapt to change and be very clear about our carbon neutral intentions.

Defining our carbon footprint is critical. Therefore, we have invested time consulting government and non government stakeholders in the development of our carbon inventory policy to facilitate necessary levels of both scrutiny and support.

In tandem, we have been developing a Carbon Offset Acquisition Policy to provide guidance and certainty for the 'neutralising' of our emissions.

This consultation is just one way our journey is helping us to develop knowledge and understanding while helping industry and government to progress theirs in parallel.

Across the geographies in which we operate, governments are on the road towards developing emissions trading schemes to drive reductions in carbon emissions. Such developments create challenges and opportunities for our business. As the landscape evolves and changes we are working hard to respond to and understand these changes. Our experiences will enable us to assist our clients with the same issues.

OUR FIRST PRIORITY IS ON REDUCING EMISSIONS AND ENERGY CONSUMPTION, AS IT IS NOT ONLY BETTER FOR THE ENVIRONMENT BUT MORE COST EFFECTIVE FOR US



Merrion Way Head Office, Leeds, UK. Our UK business' first certified carbon neutral building.

FIGURE 12: PROJECT FINANCE BY SECTOR
as a % of total portfolio value (as at 30 September 2008)

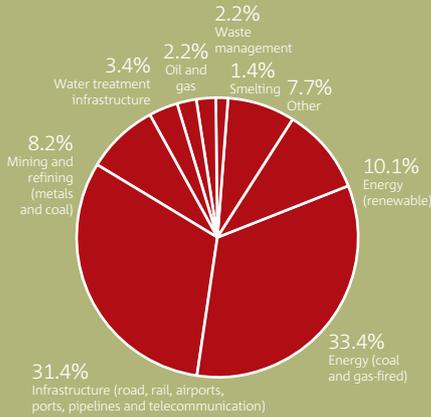


FIGURE 13: PROJECT FINANCE BY GEOGRAPHIC LOCATION
as a % of total portfolio value (as at 30 September 2008)

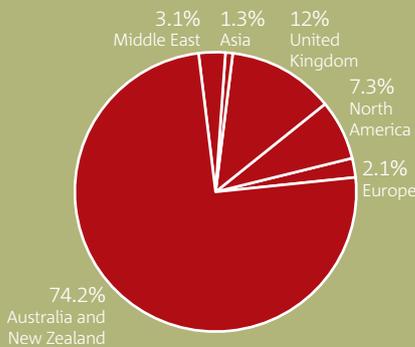


TABLE 4: PROJECT FINANCE DEALS BY EQUATOR PRINCIPLES CATEGORY by number and by % of total portfolio value (as at 30 September 2008)

Category	No. of PF deals	% of total PF portfolio value
▶ CATEGORY A – HIGH RISK	3	3
▶ CATEGORY B – MEDIUM RISK	15	24
▶ CATEGORY C – LOW RISK	12	9
▶ PRE EQUATOR PRINCIPLES ADOPTION (PRE 30 SEPTEMBER 2007)*	52	64
TOTAL DEALS	82	

*Note: As published on the EP website under the full definition of the Equator Principles within "Scope" it is recognised that, quote, "... the Principles are not intended to be applied retrospectively ...". As such nabCapital anticipates that the fourth category in the table above will gradually diminish as older deals are repaid.

our environment

PROJECT FINANCE AND THE EQUATOR PRINCIPLES

NAB Group has had an environmental credit risk policy in place since 1992. In January 2005, nabCapital, our institutional banking business, reviewed this policy and developed a specialised finance environmental credit risk policy for its project finance lending. Since its introduction, this policy has included a requirement that our specialists apply the International Finance Corporation (IFC) and World Bank policies as part of our credit risk and due diligence process for project finance in countries classified as Middle Income-Low or Low by the World Bank. In October 2007, NAB Group announced its adoption of the Equator Principles (EPs) for its project finance lending activities.

The Equator Principles provide voluntary guidelines to help banks manage the environmental and social aspects of project financing. Further information on the EPs can be found at: www.equator-principles.com

In the past 12 months, we have undertaken the following as part of our EPs implementation process:

- attended a three day conference and training session at IFC's offices in Washington. This session was to train new EPs entrants on the IFC's 'Policy and Performance Standards on Social and Environmental Sustainability'.
- attended the EPs AGM in Washington.
- updated the appropriate sections of our Group Credit Policy Manual to reflect our adoption of the Equator Principles.
- implemented a new data recording procedure for EPs annual reporting requirements.

OUR PROJECT FINANCE PORTFOLIO

In 2008, our global project finance portfolio represents less than 1.6% of the Group's total loans and advances, including loans at fair value. Less than 0.5% of our project finance portfolio is in low-income non-OECD countries.

This year, we closed 31 new project finance transactions and five deals were removed from our loan book. We continue to lend significantly to renewable energy projects.

Although deals can be declined at any stage in negotiation or due diligence, none in 2008 were declined on the basis of social or environmental risks or issues. Customer confidentiality dictates we cannot report the decline of any specific deals for social or environmental performance or for any other reason.

Where possible, we support customers who wish to invest in cleaner technologies such as wind power generation or lower carbon, fossil fuel-based power generation opportunities. We believe our approach to project finance can help improve our customers' environmental and social performance. Figures 12 and 13 illustrate our current project finance portfolio and Table 4 provides data on project finance transactions subject to the EPs. We recognise the significant impact we can have in influencing more responsible decision making through the projects and organisations we lend to. We know we still have some room for improvement, but we are confident that we are continuing to move in the right direction in terms of assessing the social and environmental impacts of our lending.



Foundations being laid for one of the 12 turbines at the Lissett Wind Farm.

LISSETT WIND FARM

Lissett Wind Farm is being developed in the village of Lissett in Yorkshire, England. It will consist of 12 wind turbine generators each rated at 2.5 MWatt, providing a total capacity of 30 MWatt. Construction commenced in December 2007 and commercial operation is scheduled to commence in March 2009. It will have an estimated annual energy yield averaging 74.5 GWatt hours per annum.

An Environmental Statement for the project was submitted to East Riding of Yorkshire Council for the project. The proposed development was considered against the Equator Principles. We consider that the project classifies as a Category B project (see glossary).

Our Environment

This year the primary focus of our environmental activities has been the implementation of our climate change strategy and making progress towards our commitment to be carbon neutral by September 2010. We have also been implementing our commitment to the Equator Principles, as is outlined in our 2008 CR Review.

Progress on the planned actions we reported in our 2007 CR reporting is shown in a highlight box at the end of this section.

Environmental governance and management

Environmental governance is provided through a number of Group and regional committees and via half yearly review of our environmental performance by the Board. The Board also reviews other environmental and sustainability matters as required.

We established our Group Carbon Neutral Management Committee in October 2007, to provide oversight of our Group Climate Change Strategy and delivery of our carbon neutral commitment. Additionally, in each geography in which we operate, we have committees with accountability for oversight at the local level.

Environmental governance is also provided through the following ongoing Group-level committees:

- Group Operational Risk and Compliance Committee (GORCC) – which has oversight of our CR related frameworks and policies and monitors performance against targets, commitments and compliance requirements. GORCC may bring CR-risk related issues to the attention of our Group Risk Management Committee and the Board Risk Committee in accordance with an internal risk rating and escalation methodology framework.
- Group Environmental Management Committee – is engaged in the development of our Group-wide environmental strategies and policies and monitors and reports on our environmental performance, policies and strategies through to the GORCC.

Our Group Environmental Policy covers our global environmental commitments, compliance with legislation, reduction of our environmental footprint, consideration of environmental risk in our products and services, building the environmental awareness of our employees and stakeholders, measuring and reporting publicly on our performance, and our commitment to consult with stakeholders on environmental issues and performance. It was reviewed and updated in 2007 to reflect our commitment to carbon neutrality.

Day-to-day management of our direct environmental impacts and performance rests with property and procurement operations throughout the Group, along with responsibility for management of any indirect impacts associated with our supply chain. Our credit risk and project finance teams have responsibility for indirect environmental risks, which are managed through our environmental credit risk policies and processes.

Each of our businesses has dedicated employee resources responsible for managing our environmental performance. In particular, each business has made sure it has appropriate executive and senior management oversight for implementation of our climate change strategy, as well as allocating resources for its delivery.

Further information on our environmental governance is provided on our Group website at: www.nabgroup.com

¹ Our environmental credit risk policies also address some social issues such as reputation and community impacts.

Our environmental commitments

In 2007, we made a public commitment to become carbon neutral by September 2010. Further information on our carbon neutral commitment is provided here.

We continue to be actively involved in global finance sector and industry-led initiatives including:

- Carbon Disclosure Project – NAB Group continues to be a signatory, respondent and member of the Carbon Disclosure Project. We believe that the CDP request is a valuable tool to encourage companies to build their understanding of climate change related risks and opportunities. It also provides valuable information with which to monitor companies' actions to address climate change. The CDP recognises companies for their leading climate change disclosure and governance practices. In October 2008, NAB was listed amongst the highest scoring companies in the Global 500 'Climate Disclosure Leadership Index (CDLI)', ranking highest (with a score of 98 alongside Barclays, Merrill Lynch & Co., Munich Re) in the non-carbon intensive industries segment. This is the first time since 2004 that NAB Group has been listed in the Global 500 CDLI. NAB was the highest scoring Australian bank. NAB Group's response to CDP6 is available on the CDP website at: www.cdproject.net.
- Equator Principles – this year our CR reporting includes our first report on our implementation as a signatory.
- United Nations Environment Program Statement for Financial Institutions (UNEPFI).
- Membership of the Prince of Wales May Day initiative in the UK.
- NAB Group has committed to meeting the requirements of the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multi-national Enterprises, which includes recommendations on environment.

We also joined over 150 global companies that signed the Prince of Wales Corporate Leader's Group on Climate Change Bali Communiqué in December 2007 calling for world leaders to develop a comprehensive and binding United Nations Framework for tackling climate change for the post Kyoto period.

The regulatory environment

The regulatory environment around climate change mitigation and adaptation is evolving rapidly. In Australia, New Zealand, the UK and the US, we are seeing progress towards the implementation of emissions trading. We are also seeing policies and regulatory requirements emerge to drive energy efficiency and good quality energy and greenhouse emissions reporting.

In Australia, we now have a number of energy and greenhouse related regulatory requirements. The 2008 reporting year is our first compliance period under the Energy Efficiency Opportunity (EEO) Act 2006 – we are required to submit a detailed report for Government (the Department of Resources, Energy and Tourism (DRET)) and a public report by December 2008. A copy of our full 2008 EEO Report will be made available on our Group (www.nabgroup.com) and Australian websites (www.nab.com.au) in early December 2008.

We are participating in a pilot of the National Greenhouse and Energy Reporting System (NGERS) and will be required to make our first report to the Department of Climate Change (DoCC) under the NGER Act 2007 by October 31st 2009 for energy used and produced, and greenhouse emissions generated in the period 1 July 2008 and 30 June 2009.

This year, energy use at our major Australian Data Centre (103,109 gigajoules) has triggered the energy use threshold (100,000 gigajoules) for EPA Victoria's Environment Protection (Environment and Resource Efficiency Plans (EREP) Regulations. As a result of this, we have now registered with EPA Victoria and are required to submit an EREP that identifies actions to reduce energy, water use and waste generation at the data centre site. This plan, due 30 June 2009 is well progressed given our data centre is a key site in our energy efficiency program.

We have also taken part in consultation processes undertaken by the Australian Government as it develops the National Greenhouse and Energy Reporting System and we were involved in three submissions, including our own, related to the Government's Carbon Pollution Reduction Scheme Green Paper.

This year, our UK business has participated in the UK Government's consultation processes relating to a proposed domestic 'cap and trade' scheme – the Carbon Reduction Commitment (CRC). At this time, it appears that our UK operations may trigger the proposed energy use threshold for the CRC and have compliance obligations. Implementation of the CRC is currently planned for 2010.

Managing our direct impacts – our environmental performance in 2008

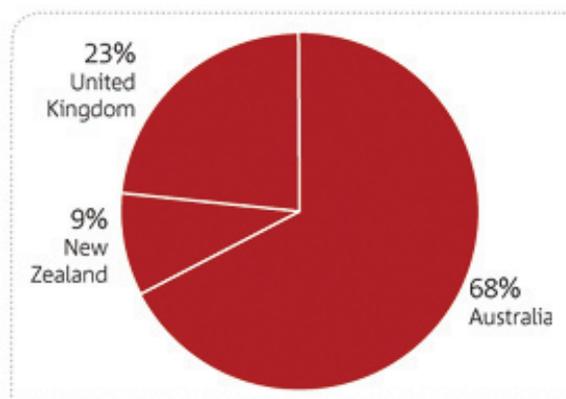
Our major direct environmental impacts continue to be from our building use, from equipment we use and our day-to-day activities. These include generating greenhouse emissions through energy use and waste disposal to landfill.

Information on our key environmental aspects and impacts is provided on our Group website at www.nabgroup.com.

Energy Use and Greenhouse Emissions

Energy use from our building portfolios (stationary energy) is our single biggest contributor to our global carbon footprint. This year, our stationary energy use decreased across the Group by 8.4% to 955,748 GJ. Figure 21 provides a regional breakdown of our energy use across the Group, while Table 16 provides a further regional breakdown of our energy use data.

Table 21: Breakdown of Group stationary energy consumption (%) 2007-08



This year in Australia, there has been an overall decrease of 2.6% in our stationary energy consumption, while energy intensity has remained relatively constant. Excluding our data centres, we achieved a 5.9% reduction in energy use across the remainder of our Australian property portfolio. This decrease in energy use can be attributed to reduced occupancy at one large office site and the implementation of energy efficiency projects arising from our program of energy efficiency assessments being conducted across the portfolio. We have now built a pipeline of around 120 energy efficiency projects for implementation over the next two years. Our Australian energy efficiency projects represent a potential reduction of around 250,000 GJ in energy use, and around 42,000 tCO₂-e in greenhouse emissions, as they are progressively implemented.

Energy use in our Australian data centres (26% of total building related energy consumption in Australia), continues to be the most significant challenge we face in meeting our target to reduce greenhouse emissions by 20% from our stationary energy use. Energy use in our two main Australian data centres continued to grow this year as a result of increasing demand for additional data processing and storage capability. We are working to reduce future energy use and therefore greenhouse emissions from these sites through a number of energy efficiency projects including the implementation of on-site tri-generation (this uses turbines driven by gas to provide electricity and waste heat is used for cooling and heating). Implementation of tri-generation is estimated to reduce emissions by around 20,000 tCO₂-e pa).

In 2008, BNZ achieved a 3% decrease in energy consumption across its building portfolio as a result of the implementation of energy efficiency initiatives and continued consolidation of its property portfolio. However, the office building housing the NZ data centre experienced an increase of 7% in energy consumption this year. BNZ's energy intensity reduced to 0.63 GJ/m².

Our UK building related energy consumption decreased by around 23% compared to last year, exceeding the energy efficiency target to reduce energy consumption by 5%. This is due to both consolidation of the property portfolio and the implementation of energy efficiency initiatives, particularly installation of energy 'smart boxes' and reduction in gas usage (~42%) – as a result better management of gas facilities by our Facilities Managers, gas heating no longer operates 24/7 all year. Our UK stationary energy intensity reduced to 0.97 GJ/m².

Energy efficiency is a high priority as this is the primary way we can reduce greenhouse emissions at source and minimise our carbon footprint.

Case study: Carbon neutral building

In May 2008, the £9m refurbishment program for the Merrion Way Head Office building in Leeds, UK was completed. A number of environmental initiatives underpinned the program including investment in infra-red sensor lighting throughout the building, 100% green renewable energy, new air-conditioning and plumbing, and improved recycling facilities. Each of these changes provided enhanced energy efficiency; better management of the current resources and reduced the building's carbon footprint by 67.9%.

Further to the above improvements, we also contracted one of Europe's leading centres of expertise in carbon management, the Edinburgh Centre for Carbon Management (ECCM), to undertake an independent assessment and confirm the building's carbon footprint. Then, by working in consultation with The CarbonNeutral® Company, the remaining 304 tonnes of CO₂ produced by the building were subsequently offset through a mixture of Voluntary Carbon Standard (VCS) offset projects.

This has now resulted in Merrion Way Head Office becoming the first CarbonNeutral® certified building in our UK building portfolio.

Table 16: 2008 Energy and greenhouse data (for the year ending 30 June 2008)

Energy and greenhouse statistics	Group			Australia			New Zealand			United Kingdom		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
FTE	NA	NA	NA	25,185	24,837	24,263	4,519	4,609	4,764	9,337	9,481	9,454
Property space occupied (m ²) - annual average #	1,075,659	1,124,696	1,123,578	706,235	726,848	714,370	140,072	141,888	149,486	229,352	255,960	259,722
Scope 1 energy use (combustion - gas etc) (GJ)	113,584	172,664	185,155	38,989	44,956	47,535.5	1,230	1,757	4,900	73,365	125,951	132,719
Scope 2 energy use (electricity) (GJ)	842,164	870,628	884,206	604,540	615,765	602,552.5	86,901	89,049	91,209	150,723	165,814	190,444
Total stationary energy consumption (GJ)	955,748	1,043,292	1,069,360	643,529	660,721	650,088	88,131	90,806	96,109	224,088	291,765	323,163
Stationary energy consumption GJ/m ₂ property occupied	0.8885	0.9276	0.9517	0.9110	0.9090	0.9100	0.6292	0.6400	0.6429	0.9770	1.1399	1.2443
Total green energy purchased (MWh)	62,213	40,897	63,240	4,707	0	0	15,639	16,400	15,683	41,867	24,497	47,557
Green energy as a % of total electricity consumption	26.6	16.9	25.7	2.8	0	0	64.7	66.3	61.9	100	53.2	89.9
Greenhouse emissions statistics												
Scope 1 emissions (combustion - gas etc) - tCO ₂ -e	6,313	9,131	9,810	2,030	2,363	2,511	85	93	256	4,198	6,675	7,042
Scope 1 emissions (land travel/vehicle fleet) - tCO ₂ -e	9,024	9,426	9,615	4,723	5,258	5,644	3,628	3,244	3,189	673	924	782
Total Scope 1 emissions - tCO ₂ -e	15,337	18,557	19,424	6,753	7,621	8,155	3,713	3,337	3,445	4,871	7,599	7,824
Scope 2 emissions (electricity) - tCO ₂ -e	180,223	197,711	219,604	176,244	185,244	211,969	3,979	5,170	5,827	0	7,297	1,808
Scope 3 emissions (air travel) - tCO ₂ -e	16,107	14,901	13,954	11,238	10,219	9,500	2,094	1,829	1,617	2,775	2,853	2,837
Scope 3 emissions (hotel stays) - tCO ₂ -e	6,338	NR	NR	5,387	NR	NR	207	NR	NR	744	NR	NR
Scope 3 emissions (transmission losses) - tCO ₂ -e		21,180	NR	18,446	20,681	NR	343	499	NR	NR	NR	NR
Total Scope 3 emissions - tCO ₂ -e	41,234	36,081	13,954	35,071	30,900		2,644	2,328		3,519	2,853	
Total emissions - tCO ₂ -e	236,794	252,349	252,982	218,068	223,765	229,624	10,336	10,835	10,890	8,390	17,749	12,469
Stationary energy greenhouse emissions (tCO ₂ -e)/m ₂	0.1909	0.2027	0.2042	0.2785	0.2866	0.3002	0.0315	0.0406	0.0407	0.0183	0.0546	0.0341
Greenhouse emissions per work use vehicle (tCO ₂ -e/vehicle)	5.59	6.00	6.22	5.60	6.28	6.87	6.71	6.51	6.48	2.93	3.92	3.37
Total stationary energy-related greenhouse emissions - tCO ₂ -e	205,325	228,022	229,413	196,720	206,288	214,480	4,407	5,762	6,084	4,198	13,972	8,850

FootNote(s):

NR: Means not reported. Data was unavailable.

2008 greenhouse emissions have been calculated using the following references: The Australian Government Department of Climate Change National Greenhouse Accounts Factors Workbook 2008; the DEFRA Conversion Factors Guidelines 2008 and the NZ Ministry for Environment's Guidelines for Corporate Reporting 2007 published October 2008.

Scope 3 emissions (transmission losses): We have not calculated transmission losses for gas and electricity use as part of Scope 3 emissions in the UK as we have received advice that this is included in the scope 1 and 2 emissions calculations for gas and electricity use. Separate emissions factors are provided for transmission losses for gas and electricity use in Australia and New Zealand, and we have included these calculations for Australia and New Zealand for 2007 and 2008 data. This has meant we have restated some of our 2007 figures to account for this separation in emissions by scope.

UK-based Scope 2 greenhouse emissions would be 22,484 tCO₂-e due to electricity use if our UK business had not bought 100% accredited green electricity. For 2006, 2007 and 2008, we have applied an emissions factor of zero to our UK-based electricity consumption where we have purchased accredited green electricity.

Scope 3 emissions (air travel): Our UK and New Zealand –based air travel related emissions for 2007 and 2006 have been restated as we have recalculated historical emissions using regionally published emissions factors rather than Australian emissions factors. This means that our UK and NZ business' data will be directly comparable to that published by local businesses. The change in factors has increased the emissions calculated for air travel in both the UK and NZ for the 2006 and 2007 reporting periods. UK air emissions factors were taken from DEFRA's published GHG Conversion Factors for the relevant period. NZ air emissions factors were taken from the NZ Ministry for Environment's Guidelines for Corporate Reporting for the relevant period.

Scope 1 emissions (land travel/fleet vehicle): New Zealand vehicle fleet related greenhouse emissions for 2007 have been restated as we have applied local greenhouse emissions factors published for the first time in April this year by the NZ Ministry for Environment in their Guidelines for Corporate Reporting 2006. These Guidelines are now to be published annually in New Zealand. Our 2006 and 2007 UK vehicle fleet-related emissions have also been restated using emissions factors from DEFRA Conversion Factors Guidelines for the relevant reporting periods. We also changed our methodology for calculating our greenhouse emissions associated with our UK vehicle fleet and have calculated emissions based on emissions factors for each vehicle type in the fleet on a kms travelled basis (based on employee recorded travel miles) rather than fuel use. This is different to the methodology which we use in Australia and New Zealand where we are able to gain access to accurate fuel use data through our vehicle fleet management suppliers.

Scope 3 emissions (Hotel stays): Emissions factors were supplied by the Edinburgh Centre for Carbon Management.

Total net greenhouse gas (GHG) emissions from all sources across the Group decreased by 6.2% in 2008 to 236,794 tCO₂-e primarily due to purchase of green electricity in the UK (100%) and Australia (2.8%) and implementation of energy efficiency initiatives, which were discussed earlier in this section. The bulk of NAB Group's carbon emissions are produced by our building portfolio (~87% of global greenhouse emissions), particularly our data centres (~22% of global stationary energy use occurs in the four buildings housing our main data centres). Table 16 above provides an overview of our greenhouse emissions data.

In Australia this year, we have achieved a 5.6% decrease in net stationary energy-related greenhouse gas emissions compared to 2007. This is due to our energy efficiency program combined with a small (2.8%) purchase of accredited green power. This has contributed to achieving a 7.4% reduction against our target to reduce greenhouse emissions from our 2006 baseline by 20% by September 2010.

Our UK-based stationary energy greenhouse emissions have decreased by around 70% compared to last year. This is particularly due to (i) the 42% reduction in gas usage, and (ii) the purchase of 100% renewable electricity, which has eliminated 22,484 tCO₂-e of greenhouse emissions.

Group-wide GHG emissions from air travel increased by 8.1% this year due to increased air travel by our businesses in Australia (air travel kms increased by around 10%) and New Zealand (air travel kms increased by around 15%) (see Table 17). In the UK, GHG emissions from air travel have decreased by around 2.7% as a result of an 8.1% decrease in air travel kms.

Group-wide GHG emissions due to vehicle fleets decreased by 4.3%. This decrease was due to improvements in vehicle fleet emissions in Australia (a 7% decrease) and the implementation of a more accurate method to measure emissions in the UK. Vehicle emissions in New Zealand increased by 11.2%.

Work being undertaken on NAB Group's greenhouse emissions inventory expanded our greenhouse emissions from business travel to include accommodation (hotel stays). This contributed to 2.7% of our Group GHG emissions in 2008.

During the year, we have implemented a range of energy efficiency initiatives to reduce energy consumption and subsequent greenhouse emissions resulting for the stationary energy use in our building portfolios. Some of these initiatives are highlighted in the carbon neutral case study and environment section in our 2008 CR Review. Further initiatives are also highlighted in our 2008 Carbon Disclosure Project submission available online at www.cdproject.net

We have also undertaken a range of activities to engage and communicate with our employees about our climate change strategy and carbon neutral commitment. These activities have included:

- expanding our Green Teams and CarBoNZero Champions in Australia and New Zealand
- further developing Intranet sites across the Group to provide information and resources for employees and publishing articles in employee newsletters
- publishing a carbon neutral update and creating nabTV programming for employees in Australia to help them understand what we have been doing and what carbon neutral means to NAB
- issuing energy efficient light bulbs to UK employees
- launching a 'switch off' initiative to encourage employees in New Zealand to turn off lights and save energy.

² Our 2006 greenhouse emissions baseline included emissions from our building portfolio (stationary energy use), air travel and our work use vehicle fleet.

Transport and travel

This year we expanded the collection of business travel data included in our carbon inventory to include the hotel stays. The greenhouse emissions associated with our hotel stays are included in our Scope 3 emissions in Table 16 above. The other key items tracked as part of our transport and travel data are the distances our employees travelled as a result of air travel and our work use vehicle fleets.

In Australia and the UK we completed the small purchase of two different types of carbon offsets to cover our 2008 business travel emissions. These purchases were made to test the market and pilot our draft Group Carbon Offsets Acquisition Policy. We will make a further purchase of carbon offsets for our UK and Australian business travel in 2009 as we build our understanding and experience of the voluntary offsets market.

This year in Australia, a target was put in place to reduce air travel by 20% by September 2008. This target has not been achieved. Air travel increased by 10.2% for the year ending 30 June 2008 and greenhouse emissions resulting from air travel also increased by 10%.

This year, we have seen the benefit of the change in vehicle fleet policy implemented in Australia, with a 10% decrease in vehicle fleet related greenhouse emissions, whilst our estimated driving distance has increased. We continued to replace 6-cylinder fleet vehicles with more fuel efficient 4-cylinder vehicles and in December 2007, the Toyota Prius hybrid became the default replacement vehicles in metro areas. To date 324 of our 844 work use vehicles have been replaced with 4-cylinder vehicles and eight hybrid cars have been added to our fleet, with 16 more on order for delivery by the end of September 2008.

BNZ has again experienced an increase in air travel and associated greenhouse emissions this year. This has been noted by BNZ executive and plans have been put in place to facilitate a reduction in air travel in the 2009 reporting year, including encouraging greater use of video conferencing to help reduce domestic air travel between Auckland and Wellington.

The BNZ vehicle fleet grew by 8.6% in 2008 and this contributed to a subsequent increase in greenhouse emissions associated with the vehicle fleet. BNZ has rescheduled a review of its vehicle fleet policy to the 1st quarter of the 2009 financial year (October to December 2008).

In the UK, our air travel has decreased by 8.1% compared to last year. The greenhouse emissions associated with air travel (see Table 16) have decreased primarily due to a change in emissions factors. UK-based emissions factors have been used this year instead of Australian emissions factors to ensure greenhouse emissions estimated in the UK will meet UK Government guidelines. This year, our UK business has configured its business travel data to capture new carbon inventory requirements and has made improvements to data quality. UK road travel decreased by around 6.2% in 2008 due mainly to improved data accuracy – rather than having to apply distance estimates we were able to collect vehicle log book readings from drivers. A vehicle fleet review is currently underway in our UK business and will help to establish targets for greenhouse emissions reductions from the vehicle fleet over the next two years.

Table 17 provides data showing our air travel, car fleet numbers and distance travelled, and hotels stays. Greenhouse emissions associated with this travel are shown in Table 16, as part of our energy and greenhouse statistics.

Table 17: 2007 Air and land travel data (for the year ending 30 June 2007)

Transport and travel statistics	Group			Australia			New Zealand			United Kingdom		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
No. of work use vehicles	1615	1571	1545	844	837	821	541	498	492	230	236	232
Total travel - work use vehicles (kms)	43285475	37604319	36540670	24378939	19517248	19570300	14630103	13529256	12489824	4276433	4657815	4480546
Total air travel (kms)	146332799	135829522	127160614	111206125	100907517	93270378	15116417	13142080	12233928	20010257	21779925	21656308
Hotel stays (nights)	160162	NR	NR	128396	NR	NR	9283	NR	NR	22483	NR	NR

FootNote(s):

NR means not reported. Data was unavailable.

The number of vehicles reported in the Australian & NZ car fleets is an annual monthly average rather than the number of cars at 30 June. This reporting methodology allows more accurate calculation of greenhouse emissions intensity per vehicle due to fluctuation in car fleet numbers during the year. The UK business has reported car numbers as at 30 June 2008.

This year we implemented a number of initiatives to help reduce our travel related environmental impacts and greenhouse emissions including:

- increasing our video conferencing facilities across the Group as part of refurbishment of existing and the development of new offices
- launching a 'MyTravel' initiative for employees at our Quay Park site in Auckland, New Zealand, to encourage them to take more sustainable travel options for travelling to work
- investigating participation in council Car Share Schemes and public transport initiatives in Leeds and Glasgow for employees in the UK. We will provide an update on our progress next year.
- continuing to provide employees in Australia and the UK with access to a no-interest loan for public transport tickets
- production of monthly intranet-based air travel reports since November 2007 for each Australian-based business unit to encourage behavioural changes and help each business unit to better manage travel and achieve air travel reduction, particularly with a focus on frequent travellers.
- implementation of a carbon offset recharge in Australia as part of the purchase of domestic and international travel to allocate funding to the purchase of carbon offsets for air travel that cannot be avoided.

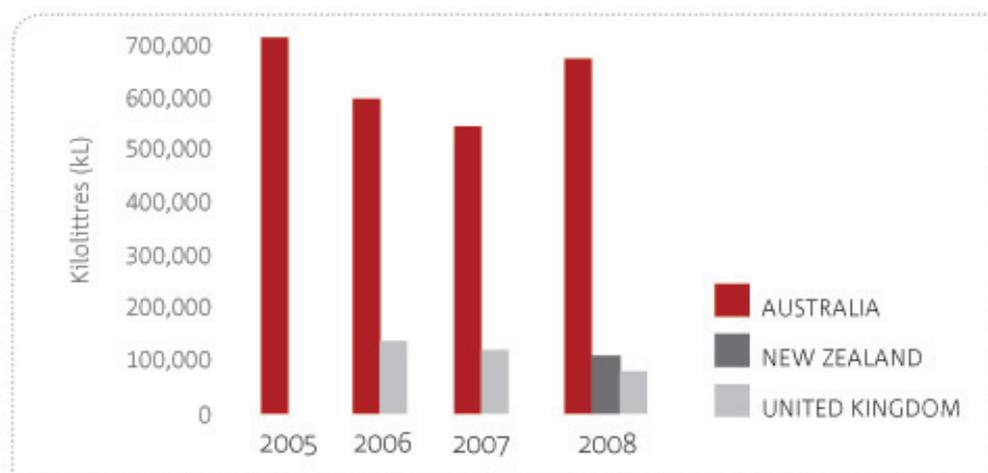
Water use

This year, we have made significant improvements to our capture of data on our water consumption. In Australia, we now have metered water data for close to 60% of our building portfolio by area. In the UK, we are now able to report an accurate estimate of water consumption as a result of the installation of water meters across the building portfolio. In New Zealand, we have been able to gain access to water data for the first time to allow us estimate our water consumption in New Zealand. Water consumption data is shown in Figure 22.

This year we implemented a number of water efficiency initiatives including:

- installation of low flow tap fittings in 11 major Australian office buildings, waterless urinals in eight buildings and we are trialling waterless urinal systems in another two of these buildings
- water efficiency initiatives have also led to a decrease in trade effluent to sewer from our Australian operations (298 kL in 2008 compared to 413 kL in 2007).

Figure 22: Water usage data (for the year ending 30 June 2008)



Paper use

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

A4 paper use is a major component of our office-based paper use. Across the Group, we have in place requirements for printers and photocopiers to print double-sided. Our 2008 A4 paper use statistics are shown in Table 18.

Table 18: Paper use data (for year ending 30 June)

Paper statistics	Australia			New Zealand			United Kingdom		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
FTE	25,185	24,837	24,632	4,519	4,609	4,764	9,337	9,481	9,454
Total A4 copy paper purchased (tonnes)	1,186	1,290	1,282	302	260	273	470	510	516
% A4 paper used with ECF or ETF bleached pulp fibre	100%	100%	100%	100%	100%	100%	100%	100%	100%
% A4 paper made from sustainably managed forests	100%	100%	100%	100%	100%	100%	100%	100%	100%
% of A4 paper purchased containing recycled content*	0.23%	1.7%	50%	11%	0%	0%	78.60%	100%	100%
A4 paper used per FTE (kg/FTE)	47.1	51.9	52.0	66.9	56.5	57.3	50.3	53.8	54.6

FootNote(s):

NR means not reported. Data was unavailable.

*In the UK 100% of A4 paper stock used contained a minimum of 20% de-inked post consumer waste content. In Australia, the recycled paper stock contained a minimum of 65% post consumer waste. NZ is missing from here and needs to be added if we can. None of the paper specs supplied indicated information about the paper they use with recycled content.

A4 Paper use has decreased by 8.1% in Australia and by 7.8% in the UK compared to last year (see Table 18). Due to a change in paper supplier, there was a gap in BNZ's paper consumption data. When the available data is extrapolated to a 12 month period, there appears to be a 16% increase in the consumption of A4 paper. This does not appear consistent with the implementation of paper reduction initiatives within BNZ. However, the investigation undertaken to resolve the missing data issue appears to show the figures provided by our previous supplier may have been slightly understated. We will track this more closely in 2009 so we can confirm this conclusion.

During 2008, the following initiatives have been implemented to reduce A4 paper use including:

- implementation of a Smart Docs initiative in Australia. The objectives of this program were to streamline NAB's lending documentation and processes and to significantly reduce paper use
- discontinuation of redundant paper banker reports (effective 1 June 2007) in Australia
- continued to roll out double-sided printing as a default setting across the Group
- reduction in the number of (reports printed in New Zealand (decreased by more than 970,000 pages)
- encouraged employees across the Group to think twice about printing through the use of email taglines and Intranet messaging

Waste management and recycling

This year, we have continued to improve the capture and quality of our waste data across the Group. BNZ was able to report an estimate of waste to landfill for the first time. In Australia and the UK, our recycling of paper and other materials increased by 55% and 35%, and the amount of waste sent to landfill reduced by 18% and 37% (see Table 19).

Waste reduction and recycling initiatives implemented across the Group this year included:

- a BNZ 'Ban the Bin' campaign launched in March 2008 to remind employees to recycle paper and reduce waste to landfill
- a worm farm trial at BNZ's regional banking centre in Tauranga
- waste management plans in place to recycle co-mingled plastic, glass and metal containers in corporate offices in Auckland and Wellington
- composting of food scraps from our corporate offices in Wellington. It is envisaged that this service will be extended to offices in Auckland over time.
- developed waste reduction action plans for our major Australian buildings. Our Australian facilities managers and Green Teams are implementing these action plans to ensure that we have best in class waste and recycling facilities and sufficient education for our employees to further reduce our waste and improve recycling rates.

Table 19: Waste and recycling data (for year ending 30 June)

Waste & recycling statistics	Group	Australia		New Zealand		United Kingdom	
	2008	2008	2007	2008	2007	2008	2007
Waste							
Total waste to landfill (tonnes) - estimated	3,637	1,839	2,238	620	NR	1,178	1,873
Recycling							
Paper collected and recycled (tonnes) - estimated	4,381	1,762	1,171	782	968	1,836	1,434
Other waste recycled	249	146	59	12	NR	95	NR
Total materials recycled/diverted from landfill (tonnes) - estimated	4,630	1,908	1,230	794	NR	1,934	NR

FootNote(s):

NR means not reported. Data was unavailable.

Ozone depleting substances (ODS)

We have been continuing to expand our inventory of ozone depleting substances stored in air conditioning equipment and refrigeration systems. Our facilities managers regularly maintain and service air conditioning and refrigeration systems to minimise leaks or fugitive emissions.

The Table 20 below shows the coverage of our inventory across our regional building portfolios. In 2009, we plan to complete our inventories and use this information to estimate the greenhouse emissions from fugitive leaks of relevant ODS that contribute to greenhouse emissions and we will include this in the Scope 1 emissions of our carbon footprint. We are including these emissions for completeness and we expect that the materiality of these emissions will be low compared to other emissions in our inventory.

Table 20 shows the current estimate of refrigerant stored in cooling and refrigeration equipment in Australia, New Zealand and the UK is 24,637 kg. It also shows the quantity of these refrigerants with high ozone depleting potential in CFC11-equivalents.

In the UK, we have reduced the quantity of stored ozone depleting substances by 16% as a result of an ongoing cooling unit replacement program.

Table 20: Estimate of ozone depleting substances stored in cooling and refrigeration equipment (for year ending 30 June)

Ozone Depleting Substances	Group		Australia			New Zealand			United Kingdom		
	2008	2007	2008	2007	2006	2008	2007	2006	2008	2007	2006
Total refrigerants stored in refrigeration or air conditioning equipment (kg)	24,637	12,206	18,851	8,497	7,356	3,299	807	NR	2,487	2,902	2,925
Total stored refrigerants with ozone depleting potential as CFC-11 equivalents (kg)	5161.8	2,684	3,520	1,211	1,210	437	39	NR	1,205	1,434	1,437
% asset inventory captured			70%			78%			60%		

Managing indirect environmental impacts

As a financial institution, we can have indirect impacts on the environment and society through the way we manage our supply chain and the policies and processes we have in place to facilitate investment and the provision of loan financing. The indirect social and environmental impacts of lending continue to be a key area of interest for community stakeholders including social and environmental Non-government Organisations (NGOs).

This section provides an overview of how we manage environmental and social risks through our lending processes. For information on our Socially Responsible Investment (SRI) fund offerings and how we manage supply chain impacts, refer to the customer and supply chain sections of this report.

Managing environmental and social risk in lending

Lending transactions across the Group are covered by our environmental credit risk policies. NAB has had environmental credit risk assessment policies and processes in place since 1992.

At the Group level, our credit risk policies provide a framework to ensure each of our businesses has policies and processes to identify, assess and manage environmental risks in dealing with customers. Our credit risk policy manual was updated this year to reflect our adoption of the Equator Principles.

Further detail on our environmental credit risk policies is provided on our Group website: www.nabgroup.com.au.

Assisting our customers on climate change

In 2007, we established our Carbon Solutions Group (CSG) as nabCapital's centre of excellence for all carbon finance matters including renewable and alternative energy finance, energy efficiency financing plus related risk management, emissions trading and advisory services. The CSG is involved in building products and services, and working with bankers and their clients to ensure the risks and opportunities resulting from the physical impacts of climate change, and the evolving regulatory carbon frameworks, are fully understood and successfully managed.

In August this year, nabCapital held a successful climate change forum on the commercial impacts of climate change for key clients. Federal Minister for Climate Change and Water, Senator, The Hon Penny Wong was a keynote speaker.

We are now regularly having discussions with a number of clients, external stakeholders, and our own employees about developments emerging in the emissions trading area.

We have ongoing investment in renewable energy financing through project finance. This includes financing of wind, landfill gas and biogas generation projects. Further detail about this is provided in the Project Finance section of our 2008 CR Review and in our Carbon Disclosure Project submission available at www.cdproject.net

Through nabCapital, we are also building our own carbon trading capability to assist client participation in developing carbon trading schemes, both regulatory and voluntary. This year, our nabCapital markets division participated in forward transactions in the EU ETS.

Agribusiness (Australia) also held a successful forum on climate change at the National Press Club in partnership with the National Farmers Federation in September 2008.

Biodiversity

Through some of our connections with government and non-government organisations NAB continues to contribute to preservation of biodiversity in a number of ways including:

- Save the Kiwi Trust in New Zealand
- the development of BNZ's Kauri Bond
- 460 days of employee volunteering in Australia to assist Conservation Volunteers Australia to revegetate land and remove weeds.

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Supply chain

Our suppliers are making a valuable and increasing contribution to the way in which we manage our social and environmental performance.

During the last year, we revised and updated our Corporate Responsibility (CR) Procurement Policy to reflect our climate change strategy and our commitment to carbon neutrality by 2010. We continued to identify opportunities to work with our suppliers to improve our social and environmental performance, to develop our suppliers' understanding of our policies and objectives, and to encourage them to help us respond to climate change. These and other aspects of our approach to supply chain management are discussed in the following section.

Progress on the planned actions we reported in our 2007 CR reporting is shown in a highlight box at the end of this section.

Our Supply Chain – the facts

In 2008, NAB's supply chain involved over 58,000 suppliers globally. Our regional procurement teams were involved in more than \$2,603 million of the Group's total external spend¹ — about 62% of our estimated total spend for goods, materials and services. This gives our procurement processes significant potential to influence suppliers. Our total global spend on suppliers was around \$4,182 million.

1 Total procurement spend is defined in the UK as total procurement spend after deduction of employee expenses, intra-company and nontrade transactions. In Australia, total procurement spend includes intra-company transactions, but excludes employee 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.

Key supply chain statistics are provided below.

Table 21: 2008 Supply chain statistics

Region	Suppliers - Total (number) ¹	Suppliers with spend within procurement areas direct influence ^{**} - Total (Number)	Suppliers representing 80% of total spend (Number)	Top 10 suppliers - contribution to total spend (%)
Australia	51681	575	447	24
New Zealand	2852	150	62	51
United Kingdom	4099	482	135	29

** This number is sourced from our procurement systems to give the total number of suppliers that we have used during the period 1 July 2007 to 30 June 2008.*

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

Governance for our procurement activities

Our CR Procurement and Commitment to Fair International Workforce Standards policies provide a framework for the integration of CR considerations into our supply chain management practices.

Information on the governance processes we apply to our procurement operations is provided on our Group website: www.nabgroup.com.

Guidance for all external supply chain relationships is provided by our Group Procurement & Outsourcing Policy. This outlines the key requirements to be followed when establishing and managing an external supply relationship and provides links to other relevant NAB policies to be followed in the procurement process. Each of our businesses has put in place policies and procedures to help them locally implement our Group Procurement and Outsourcing Policy. Key suppliers must operate in line with NAB's policies and practices.

Outsourcing & Offshoring

Outsourcing and offshoring are a part of our business strategy. They enable our businesses to focus on what they do

best while leveraging the diverse and specialist skills of our external providers.

Further information on our Australian offshoring activities is provided in our article 'the business of offshoring'.

Developing our procurement teams

This year, we have provided specific training for range of personnel who undertake procurement on the behalf of our regional businesses. In the UK, we held training sessions to help our outsourced procurement management provider to understand requirements relating to our Group Procurement and Outsourcing Policy and the inclusion of our Corporate Responsibility checklists and requirements in our tendering and contracting processes.

In Australia, our Environment and sustainability team provided training for around 15 of our procurement personnel about why supplier sustainability is important to NAB's business strategy and risk management process. This training included information how sustainability issues can be incorporated into the procurement process and how sustainability assessments should be undertaken in the supplier selection process. Procurement personnel were also provided with training sessions on NAB's wider environmental strategy.

BNZ has appointed a specialist within the procurement areas to conduct supplier CR assessments. This specialist is a resource for the procurement team and ensures consistency in BNZ's approach to CR assessment of suppliers.

Corporate responsibility in the supplier selection process

NAB operates a fair and equitable procurement selection process sourcing many products and services from local suppliers. For example, in the UK and New Zealand we generally use local suppliers unless the relevant goods or services provision is negotiated as part of a master contract negotiated for the Group.

Our procurement processes aim to clearly inform potential suppliers of our expectations, policies and requirements. Tender documentation includes a CR checklist asking suppliers about their workplace, human rights and environmental practices.

Corporate Responsibility is one of three key sections of requirements in BNZ's Request for Proposal documentation, alongside commercial and business requirements. Prospective suppliers participating in the procurement process must meet the requirements in each of these sections. BNZ has found that suppliers with good performance in relation to business and commercial requirements also tend to have good CR performance and visa versa.

We have found that most large corporate and multi-national suppliers now have established corporate responsibility and/or sustainability policies and processes in place. This is not the case in respect to smaller local suppliers in each region. We have found that many more of our smaller suppliers have no begun to develop corporate responsibility policies and practices in order to be able to respond to client requirements.

This year in Australia, we have updated the environmental assessment process included within our standard tendering process. This involved reviewing and updating the standard questions used in tender documentation and providing evaluation guidelines to better enable the procurement team to assess supplier's tender responses. In addition, it was decided that for the majority of tenders, assessment of environmental requirements should have a weighting of 10%. Our Australian procurement management framework and supplier portfolio analysis were also reviewed to reflect greater consideration of environmental issues and performance.

Environmental initiatives influence choice of suppliers

This year, a consideration in the selection of AVIS as NAB's preferred hire car provider was the ability of AVIS to provide a carbon offset program to neutralise emissions associated with NAB's use of hire cars. The carbon offset service provided by AVIS is available to employees hiring cars for business and personal purposes.

When concluding the procurement process, we normally award contracts using standard conditions and templates. Contract terms require suppliers to meet minimum regulatory requirements and conditions relevant to the purchase. New supply contracts contain clauses reflecting our CR requirements as a matter of course.

Table 22: Implementation of CR in our procurement process (1 July 2007 to 30 June 2008)

	Australia	New Zealand	United Kingdom
Number of tenders undertaken in the period	52	8	18
Number of tenders requiring a CR* checklist to be completed by the supplier in the reporting period	40	8	4
Number of new supply contracts entered in the reporting period with specific clauses related to CR (social and/or environmental performance)	91	6	10
Spend on contracts** with specific clauses related to corporate social responsibility (\$ million)	335	175	116
Percentage of major# suppliers and contractors that have undergone screening on human rights (%)	29	50	3
Percentage of major# suppliers and contractors that have undergone screening on CR performance (%)	29	50	3

* Our standard CSR checklist requests information from suppliers about environmental and social considerations such as policies, practices, occupational health and safety, human rights, labour practices and environmental performance.

**In Australia this excludes the value of IT contracts as we were not able to readily access this information.

#The number of suppliers considered to be major suppliers are as follows: Australia – 55; New Zealand – 60; UK – 60

Monitoring supplier performance

Monitoring our suppliers' performance is an important aspect of the ongoing supply relationship. Our Group Procurement & Outsourcing Policy requires that each of our businesses monitor the performance of external supply relationships.

Our practices include regular meetings with suppliers to enable the communication of issues, feedback on their performance, sharing of ideas to improve our business' performance and development of new initiatives or opportunities. For example, CR issues are a regular agenda item on BNZ's monthly meeting agenda with major suppliers. Suppliers are also encouraged to provide feedback (positive and negative) and to detail innovations or point to enhancements we can make in our performance. In some cases, for major supply arrangements, we have formal service review boards, with representation from NAB and our supply partner.

This year in the UK, we have sent CR surveys to our top 60 suppliers (defined by procurement spend). At this stage, we have had a low response rate back from suppliers, therefore we have plans in place to follow-up with suppliers. The case study below provides details BNZ's CR survey and assessment of suppliers.

Case study:

During 2008, BNZ's Sourcing Team reviewed their top 60 suppliers based on the supplier's own CR policies and practices. Suppliers were requested to complete a CR survey and then the BNZ Sourcing Team used a CR framework for undertaking assessments of the survey responses. The results of the assessment (which uses a points-based system) were recorded in a dashboard reporting tool. This process continues to raise awareness of CR issues and opportunities among our New Zealand-based suppliers. In some cases, this has encouraged our suppliers develop their own CR strategies and initiatives. BNZ continues to find that large suppliers are more conscious of CR issues, but that most organisations they do business with are moving in some way toward policy development in this area. At times it can be challenging to get suppliers to provide a response. During this year's survey, we had our first supplier achieve a score of 100%.

Suppliers are given specific feedback on the result of BNZ's CR assessment to provide an opportunity for suppliers to make change and improvements over time. The CR assessment process of suppliers is now conducted every second year.

This year, BNZ also completed development of a CR Fact Sheet for its suppliers. This Fact Sheet provides information to help suppliers improve their CR performance and the scores they receive during BNZ's CR assessment. It provides references to a range of organisations and Government agencies that can give CR assistance and advice.

Seeking supplier feedback

The views of our suppliers are important to us as they help us to find new ways to do things and to improve our performance, both in terms of our supply chain management process and our business efficiency and effectiveness and our CR performance.

We seek feedback from suppliers through our day to day relationship management process via our Procurement Team Relationship Managers and through more formal tools such as the Relationship Index (RI) Survey conducted annually by Edelman on our behalf. The RI survey seeks responses to give us both quantitative and qualitative information about the quality of the relationship we have with our stakeholders on four dimensions: trust, satisfaction, mutuality of control and commitment. This is the third year we have sought the views of a group of key suppliers as part of our RI Survey.

The feedback from our UK suppliers reflected the following themes:

- “They are ethically aware and community led”
- “When we provide our service... they welcome us into the organisation at both corporate and staffing in branch level”
- “I always consider that I have been consulted and that I will be able to give input and that input has been listened to”
- “There has been a marked improvement in the ways they take on supplier’s initiatives”
- “They listen to the feedback but I am not sure to what extent they action the feedback”
- “We feel we work in partnership with them” “We are on a journey together”
- “They are trustworthy, open and honest: they are a firm but fair client.

The feedback from our Australian suppliers reflected the following themes:

- “They are a large Australian company with great supply chain management. They have a huge reach into the community and a huge influence on the community”
- “nab understands its charter to customers and when we are supplying temps to nab, the general consensus is that when they promise they do deliver” “They are trying new approaches and environments to improve relationships with customers”
- “They’ve demonstrated fair and reasonable behaviours in respect to their business principles”
- “I think their outsourcing has gone a little to far in regard to offshoring”
- “They are attentive to what others says, but it depends on the importance and the alignment of that against their business fundamentals”
- “We’ve got examples of where we’ve suggested improvements to service delivery models and they’ve been agreed to by nab” “They’re open to new discussion points. For example, they’re doing a lot of work in terms of environment – they were willing to learn from us and were very willing to take other’s experience on board”
- They’re very serious about being seen to be green. At least they walk the walk as well as talk the talk”

Further information on the RI and this year’s Australian and UK survey results is available in the stakeholder section of our 2008 online CR report.

Working with our suppliers

Our supplier relationships are important to us. We believe good quality relationships with our suppliers are about working together and supporting each other, not just placing demands on them.

In December 2007, our Australian business launched its Supplier Environmental Program. 76 of our key Australian suppliers attended this initial briefing that outlined a program on education, influence and support.

As mentioned in the case study above, this year BNZ developed a CR Fact Sheet for suppliers. The CR Fact Sheet provides contacts to help suppliers with their own CR initiatives. Our aim is to encourage our suppliers to come on the sustainability journey with us and to influence them to take similar actions. For example, in the past 12 months,

as a result of our business relationship, one of our suppliers has now joined the New Zealand Sustainable Business Network.

Our Procurement Team Relationship Managers also look for opportunities to engage suppliers in discussions around improving the sustainability of our operational practices. This is highlighted in the case study below.

Case study: How our suppliers are helping us improve our performance

Our suppliers are helping us to improve our CR performance and to deliver on our carbon neutral commitment. Some examples of this include:

- Our facilities manager in Australia, United Group Services, has been working with NAB Australia to help us develop and improve our energy and greenhouse emissions reporting system. They have also been managing a stream of capital works projects aimed at improving the environmental performance of the building portfolio occupied by NAB in Australia.
- Corporate Express, our office supplies provider in Australia, has provided advice to NAB in relation to reducing our footprint associated with the delivery of office supplies. By consolidating the delivery runs, we can reduce the emissions profile of transport associated with supply of general office materials.
- Custom Fleet, our leased car fleet manager, has been helping us to calculate the emissions associated with our job required vehicles in Australia.
- We have been working with HRG, our travel provider, to implement emissions reporting and recharge systems associated with air travel for our businesses residing in Australia. The reporting system is assisting us to improve our data quality around air travel emissions reporting. The recharge system is enabling us to charge back the appropriate expenses to all business units to cover the purchase of carbon offsets to neutralise air travel emissions as part of delivering on our carbon neutral commitment. We are looking to undertake a similar recharge process to cover the cost of buying carbon offsets to neutralise and energy energy use costs, including electricity.
- Working with UK suppliers so that the plastic used in our UK credit and debit cards is manufactured to an accredited carbon neutral standard.

In order to give effect to our CR Procurement Policy, each of our business has a growing number of purchasing policies for goods and equipment to assist in reducing our potential environmental and social impacts. In the last 12 months, as a result of suppliers' suggestions and/or assistance, we have implemented a range of initiatives that either improve our social or environmental performance or help us to assist key stakeholders like our employees and customers. These include:

- purchasing Fair Trade coffee and tea in New Zealand
- developing electronic requisitioning in Australia to ensure better utilisation of preferred suppliers and simultaneously reducing the paper consumption associated with the process. The current coverage of approximately 60% will be increased further over 2008-09.
- changing our standard option for fleet vehicles used in metropolitan areas in Australia to hybrid motor vehicles (Toyota Prius)
- purchasing products and equipment for new buildings (under construction) and major refurbishments with sustainability features as key criteria. An example is shown in BNZ case study below.

These initiatives add to those we have undertaken in previous years, which include recycling of mobile phones in New Zealand, selection of a hybrid taxi fleet as our preferred taxi provider and using recycled A4 paper in the UK and down sizing our car fleet from 6-cylinder to 4 cylinder cars in Australia.

Case study: Constructing a greener future

The majority of NAB Group's energy use occurs in the building we occupy. In late 2006, we began the process of reviewing our approach to designing office buildings and branches with the objective of improving the environmental performance of our property portfolio and reducing our carbon footprint. We also wanted to improve social elements of our workplace design as well.

We have worked closely with ecologically sustainable design (ESD) specialists to revise our property guidelines and specifications across the Group. In Australia, we have set a standard to achieve a minimum of 4-Star Green Star rating for all new office space and major refurbishments, and we will look at every opportunity to achieve a 5-Star GreenStar rating.

We have been working with our building owners to determine how to attain a 5-Star GreenStar tenancy rating for one of our largest office buildings at 500 Bourke Street Melbourne, which is currently undergoing refurbishment. The building owner is also aiming to achieve a 5-Star GreenStar office design rating, which will make this project one of the most significant joint owner/tenant GreenStar office refurbishments in Australia.

BNZ's new offices in Quay Park Auckland are another example of the application of ESD principles to improve the sustainability of the offices that our businesses lease and occupy. Quay Park is the first of three new sustainable buildings we will occupy over the next 12 to 18 months in New Zealand. We believe that occupying modern, sustainable buildings is an important reflection of our brands, culture and commitment to sustainability.

With the help of the building developers, Quay Park has been designed and built to achieve the Green Building Council of New Zealand's 5-Star certification. Some of the key social and environmental aspects were considered and incorporated in the design of the building include:

- contrasting features and tactile surfaces for the visually impaired
- access doors, lifts and security systems designed with disabled access in mind
- provision of audio frequency loops in reception areas and identified meeting rooms for the hearing impaired.
- non-drinking water being sourced from rainwater collection tanks
- adjustable lighting designed to minimise electricity use during daylight hours

PROGRESS ON PLANNED ACTIONS FROM 2007

Actions	Comments	Status
Audit major suppliers in Australia for Environmental Management Plans	Conducted portfolio reviews to identify major suppliers requiring environmental reporting.	Achieved
Include sustainability related requirements in the assessment matrix used for all Australian tenders conducted under the influence of our strategic procurement team	Updated standard tender documentation to require a more comprehensive response on environmental issues. Participating in a UNEP FI sustainable supply chain initiative.	Achieved
Survey our top 60 UK suppliers that have not previously been screened	Top 60 suppliers now issued with survey. Where there was more than one company from a group of companies within the top 60 suppliers, only one survey was issued to cover the group as a whole. The next step will be to follow-up survey responses and analyse responses for opportunities.	In progress
Extend the use of our CR checklist to "in-scope" requirements for Xchanging - our UK procurement agent	Rolled out to Xchanging in March 2008.	Achieved
Make our UK credit cards with 'carbon neutral' plastic in 2008	Both our UK credit and debit card offering are now manufactured to an accredited carbon neutral standard.	Achieved - please note - this relates to the plastic manufacture and not the end to end product.
Develop a supplier Fact Sheet in New Zealand to help suppliers improve their CR performance	Now being distributed with CR feedback to top 90% suppliers.	Achieved
Develop a CR evaluation process for use in the review of existing New Zealand-based suppliers.	CR evaluation process developed and implemented.	Achieved

awards report

National Australia Bank

Best Sustainability Report – Australasian Reporting Awards



Best Socially Responsible Product (Small business loans category) for Microenterprise Loans – Money Magazine's Best of the Best Awards 2008

Best Socially Responsible Product StepUP Loans – Money Magazine's Best of the Best Awards 2008

Best New Product for Gold Banking – Money Magazine's Best of the Best 2008

Best Business Bank in the Australian Banking and Finance Magazine – May 2008

Clydesdale Bank

HM Government Gold Award 2008 – Over 10% of employees donating through payroll giving

Special Service Mentoring Award to Jacqui Atkinson, Community Affairs Mgr – Leeds Mentoring

Top Company of the Year Award for work with Leeds Mentoring and Careers Academy – Leeds Mentoring

Businesses who have made a significant contribution to improving the environment within the city for Clydesdale Bank – **Clean Glasgow Awards**

Best Mortgage Lender Scotland for Clydesdale Bank – Your Mortgage Magazine

Best Regional Mortgage Lender – Yorkshire Bank

Credit Today Awards

- **Mortgage Lender of the year**
- **Fraud Prevention Team of the year**

National Customer Service Awards (BDS) Collections and Recoveries – **'Back Office Customer Service team of the year'** – **Highly Commended**



Best Provincial Cause Award for **PVH/BNZ Get Organised Auckland campaign**

Leading Transformational Culture Change Award – Awarded by Human Synergistics

NZ Workplace Occupational Health and Safety Award 2008 – Award for best significant health and safety initiative by a large organisation

Sunday Star Times Cannex Banking Awards 2008

- **Best fully featured savings account** (Total Money)
- **Best fully featured transaction account** (Ready Money)
- **Best electronic transaction account** (Smart Money)
- **Best frequent flyer credit card** (Global Plus Gold American Express)

CRM Contact Centre Awards 2008

- **Banking Industry Award** – for providing the best service in the banking industry (Sixth year in a row).
- **Diamond Supreme Award** – for providing the best service for contact centres with over 50 seats across all industries.
- **Outbound Diamond Award** – for being the best outbound team across all industries and sizes (for the third time).
- **Best in New Zealand Web/Email** – we placed second in this award across all industries and sizes for the second year running.

nabCapital

Best M&A Deal 2007 for joint lead underwriter for the Wesfarmers acquisition of Coles – FinanceAsia magazine

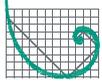
Australia/New Zealand Loan House of the Year for 2007 – Euroweek magazine



MLC Life insurance company of the year – Australia and New Zealand Insurance Industry Awards

Income Protection Product of the Year for MLC Income Protection Plus – AFR Smart Investor Blue Ribbon Awards

assurance



Independent Assurance Report to the National Australia Bank Limited

ERM Environmental Resources Management Australia Pty Limited (ERM) was engaged by the National Australia Bank Limited (NAB) to provide independent limited assurance of its 2008 Corporate Responsibility Report (2008 CR Report), to the scope of work outlined below.

SCOPE OF WORK

The 2008 CR Report covers NAB's operations for the 12 months to 30 September 2008, unless stated otherwise in the text. This work was performed in accordance with ERM's assurance methodology, which is based on the international assurance standards: ISAE 3000, AA1000 AS and ISO 19011. ERM reviewed NAB's use of the AA1000 Principles of Completeness, Materiality and Responsiveness in reporting performance. To do this, we interviewed a number of personnel and reviewed relevant documentation at NAB's operations in Australia (Aus), New Zealand (NZ) and the United Kingdom (UK). The subject matter for this limited assurance consisted of the following material data streams: Corporate Community Investment (CCI), Climate Change, Equator Principles and Project Finance, Offshoring, Fees and Charges, Microfinance, Supply Chain Management, Stakeholder Management, Health and Safety and CR Strategy. The scope excluded data and statements relating to financial information and previous financial years.

ERM'S INDEPENDENCE

NAB was responsible for preparing the CR Report. The ERM team, led by Jo Cain, Partner and Practice Leader for Corporate Advisory Services, Australia & New Zealand, was responsible for expressing assurance conclusions in line with the scope of work agreed with NAB. During 2007-08, ERM did not work with NAB on other consulting engagements.

Environmental Resources Management Australia Pty Limited (ERM) is an independent global provider of environmental, social and corporate responsibility consulting and assurance services. ERM has prepared this statement for National Australia Bank Limited in accordance with ERM's standard terms and the standard practised by members of the environmental consulting profession performing this type of service at the same time. No other warranty, express or implied, is given by ERM as a result of the provision of this statement. To the extent permitted by law, this statement is provided for informational purposes only, without the right to rely, and ERM will not be liable for any reliance which may be placed on this statement by a third party. This statement may not be used by any third party without ERM's express written permission.

OUR CONCLUSION

On the basis of its scope of work, and in consideration of the limitations of the assurance engagement presented above, ERM concludes that, for the specified subject matter, NAB's 2008 CR Report appropriately addresses the AA1000 Principles of Completeness, Materiality and Responsiveness for the 12-month period to 30 September 2008. ERM is of the opinion that the 2008 CR Report has been prepared to Application Level A+, as defined in the GRI G3 Guidelines. ERM will provide a more detailed Management Report to NAB.

KEY OBSERVATIONS

Based on its scope of work, and without affecting our limited assurance conclusion, ERM identified the following good practice:

- **Project management** of the CR Report development process improved, with a greater level of regional involvement
 - **Stakeholder feedback:** Sessions relating to the 2007 CR Report were held in NZ and the UK, as well as Australia, to highlight material issues for inclusion in the 2008 CR Report.
 - **People data** is now collated by a central source demonstrating a more robust data management process.
 - **NZ complaints data** collation has improved substantially with ongoing improvements to the databases used.
- ERM also identified the following areas for improvement:
- **Supply chain data:** require improved definition of reporting metrics and greater clarity regarding the scope of the data to facilitate more robust reporting processes.
 - **Environmental data** management oversight and review processes for environmental data streams could be more consistent across the business.

ERM congratulates NAB on its continued commitment to sustainability reporting.

Environmental Resources Management Australia Pty Limited (ERM),

14 November 2008, Melbourne, Australia

BENCHMARKING SERVICES

We use a number of benchmarking services to objectively assess our progress and areas for improvement.



We continued to improve our DJSI ranking again this year.

CARBON DISCLOSURE PROJECT

In September this year, we ranked highest with a score of 98% in the Global 500 Carbon Disclosure Leadership Index 2008 for non-carbon intensive companies (alongside Barclays, Merrill Lynch & Co., Munich Re).



We maintained our status in FTSE4Good in 2007-08.

moving forward

OUR COMMITMENTS

COMMUNITY

- continuing to move toward our community investment goal of spending 1% of cash earnings before tax
- target 2,000 volunteering days in both the UK and NZ
- report back on the progress of the Schools First initiative
- BNZ will launch staff matching gifts program in 2009
- launch the 'Reconciliation Action Plan' in the Australian region

PEOPLE

- nabCapital employees globally will complete a risk management behaviours program by the end of 2009
- continue the rollout of flexible working practices and toolkits across BNZ and the UK
- continue to increase employee engagement and satisfaction

CUSTOMER

- release our customer promise report for the Australian business
- implement 'text to speak' capability on selected BNZ ATMs to assist visually impaired customers
- upgrade the BNZ Internet banking platform to increase online usability and security

SUPPLY CHAIN

- refine our supply chain reporting process to address identified assurance issues
- review 20 of our critical Australian suppliers on their environmental and corporate responsibility policies, action plans and reporting
- complete the review of our survey of the top 60 UK suppliers
- report on the outcome of BNZ's cyclical review of key suppliers

ENVIRONMENT

- begin to integrate Great Western Bank (GWB) into our 2009 CR reporting
- continue to develop and refine our carbon inventory and carbon offset policy
- report back on our progress towards our 2010 greenhouse emission reduction target of 33,000 tCO₂-e
- the Australian and UK businesses will offset their travel related carbon emissions

glossary

ATM – Automatic Teller Machine, commonly called a cashpoint in the UK

Carbon footprint – the measure of the impact that activities in our carbon inventory will have on the environment measured in units of carbon dioxide equivalent

Carbon Inventory – A defined list of greenhouse gas emission sources that the organisation uses to calculate its carbon footprint

Carbon offset – a credit that is purchased to negate an amount of carbon included in our carbon footprint

Category A – Utilised in classification of projects under the Equator Principles. Defined as projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented

Category B – Utilised in classification of projects under the Equator Principles. Defined as projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures

Category C – Utilised in classification of projects under the Equator Principles. Defined as projects with minimal or no social or environmental impacts

FTE – Full Time Equivalent. A measure for reporting employee numbers

Green energy – energy produced from renewable sources

Greenhouse emissions – gaseous pollutants released into the atmosphere that amplify the greenhouse effect. Gases responsible include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride

Project Finance – a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure

tCO₂-e (Tonnes carbon dioxide equivalent) – greenhouse gas emissions are expressed in tonnes of carbon dioxide equivalent to enable consistent comparison and measurement

corporate principles

CONTACT US

We welcome any feedback you may have on our 2008 CR review. Please email us at corporate_responsibility@national.com.au with your feedback or write to us at Corporate Responsibility National Australia Bank Level 35, 500 Bourke Street Melbourne Victoria 3000 Australia

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

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www.nab.com.au

www.cbonline.co.uk

www.ybonline.co.uk

www.bnz.co.nz

www.greatwesternbank.com

www.nabcapital.com

www.mlc.com.au

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



This review, information contained in our online report and disclosures on our Group website have been reviewed by the Global Reporting Initiative and meet GRI's A+ Application Level.



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