

Dr Anthony Marinac
Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
Parliament House
CANBERRA ACT 2600

25 October 2005

Dear Dr Marinac

The National Australia Bank welcomes the opportunity to contribute to the Parliamentary Joint Committee on Corporations and Financial Services' inquiry into corporate social responsibility (CSR).

The NAB believes that the Australian legislative environment currently provides an adequate framework to allow companies to consider broader stakeholder interests, and that in fact, it makes good business sense to do so. The NAB has made a public commitment to build trusted relationships with all of our stakeholders – our customers, our people, our shareholders, our regulators, our communities and our suppliers – as part of our (CSR) strategy. The way we approach this is to set an overall Group CSR framework with an annual triple bottom line report, and each NAB region having separate responsibility for developing CSR strategies (refer Appendices). This means that we actively pursue a balanced stakeholder approach.

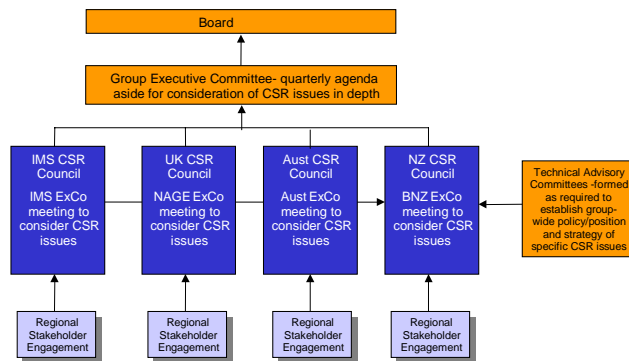
With regard to the terms of reference of the Committee's inquiry, the NAB makes the following points.

a. The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.

The NAB has embedded consideration of CSR related issues, oversight of our CSR strategy, and implementation of specific CSR policies and related programs into the formal governance structures and processes of the Group. Our CSR Governance structure is illustrated in the figure below.

This structure reflects our regional business model and gives regional business Executive Committees a clear line of sight and accountability on CSR strategy implementation and regional delivery.

Our Board has the highest level of oversight for our CSR strategy. They review our progress of the strategy on a half-yearly basis and receive papers on other CSR matters from time to time as required.



NAB's CSR Governance Framework

Our Corporate Centre and each regional business have functional personnel specifically dedicated to coordinating and facilitating Group-wide engagement on CSR issues. We also establish Group-wide internal Technical Advisory Committees (TACs) on an adhoc basis to support the development, implementation and review of specific CSR issues. In the past year, we had three operational TACs. One, to conduct a review of our corporate community investment, another to assist in the development of Customer Charters across the Group, and the third to develop our Commitment to Fair International Workforce Standards.

Earlier this year, our Group Operational Risk and Compliance Committee (GORCC) was also given responsibility for oversight and review of corporate social responsibility frameworks and policies. Matters raised by the GORCC in regard to CSR-related risk issues may in turn be brought to the attention of the Group Risk Management Committee and the Board Risk Committee.

b. The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.

The NAB is a member of both the Australian Bankers' Association and the Business Council of Australia, and we endorse the comments of those bodies on the extent to which decision-makers have regard for the interests of all stakeholders. The Australian Bankers' Association says in its submission to the current Inquiry:

“The banking industry is strongly committed to stakeholder engagement as a part of corporate behaviour. [...] Banks already have in place comprehensive corporate responsibility activities and stakeholder engagement programs that acknowledge the importance of their employees, customers, suppliers, the environment and the wider community.”

The Business Council of Australia writes in its submission:

“...all Member Companies of the BCA are currently engaged in activities that fall within the scope of ‘corporate social responsibility’. Many of these activities involve stakeholders other than shareholders.”

c. The extent to which the current legal framework governing directors’ duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.

As stated earlier, we believe that the Australian legislative environment currently provides an adequate framework to allow companies to consider broader stakeholder interest, and that in fact, it makes good business sense to do so.

Under section 181 of the Corporations Act 2001, directors must exercise their powers and discharge their duties in good faith in the best interests of the corporation and for a proper purpose. Such a duty is not inconsistent with the Board taking into account the interests of stakeholders other than shareholders; in fact, this duty canvases the interests of all stakeholders. The NAB Board has a number of mechanisms in place to ensure that it has direct, line of sight in regard to broader stakeholder interests.

Also as discussed above, the NAB has embedded consideration of CSR related issues, oversight of our CSR strategy, and implementation of specific CSR policies and related programs into the formal governance structures and processes of the Group. Our CSR Governance structure ensures that our Board has the highest level of oversight for our CSR strategy and gives regional business Executive Committees a clear line of sight and accountability on CSR strategy implementation and regional delivery.

d. Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.

Any legislation that requires directors to have regard for the interests of specific stakeholders, brings with it an inherent risk of creating a ‘tick the box’ approach to CSR, where they shift their attention from focusing on how best to engage with stakeholders, to how best to comply with the requirements of the prescriptive law. This would stifle the opportunities for CSR innovation and competition. The ability to increase the range and sophistication of CSR activities is vital.

The NAB also notes the comments made by the Australian Securities and Investments Commission in its submission to the current Inquiry:

“[Legislating in this area brings with it the potential for] practical difficulties including:

- Difficulties in identifying and defining the various classes of stakeholders that might be considered to have a legitimate claim on the attention and resources of companies.
- Difficulties in establishing an appropriate hierarchy of stakeholders' interests to resolve conflicting stakeholder claims on the attention and resources of companies.

These potential difficulties would impact on ASIC's ability to successfully enforce the amended provisions.”

e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.

We believe that Government and industry bodies may undertake a number of voluntary measures to enhance the consideration of stakeholders' interests by incorporated entities. These include:

- rewarding and recognising excellence in stakeholder engagement and public reporting;
- raising the awareness of corporations, and business in general, in regard to the drivers and benefits of adopting an approach to doing business which incorporates a philosophy of CSR;
- providing guidance for business, or facilitating opportunities for knowledge exchange between businesses, on the development and implementation of CSR initiatives.

f. The appropriateness of reporting requirements associated with these issues.

CSR reporting is a rapidly evolving area. The NAB believes that reporting and disclosure of our non-financial performance is an important part of building a relationship of trust with our stakeholders and that responsible companies will undertake to do this voluntarily.

CSR reporting is the outcome of actions undertaken by a company with regard to stakeholders, to manage the social, environmental and economic impacts of its activities. In doing this, companies need the flexibility to recognise the key business drivers and issues of importance to their own stakeholders, organisation and industry sector. CSR issues can vary significantly from industry to industry and change over time in response to changing and emerging community expectations and needs. Regulation is slow to change and may create a barrier to the ability of corporations to respond to and report on their operations in the context of these changing societal expectations and needs. Voluntary reporting allows corporations the ability to be more responsive to the needs of their stakeholders.

g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

As stated earlier, we believe that the Australian legislative environment currently provides an adequate framework to allow companies to consider broader stakeholder interests. As part of our CSR commitment we have become signatories to, or made public statements of commitment in support of, key finance sector and business programs. These programs include the United Nations Environment Program Finance Initiative, the OECD Guidelines for Multinational

Enterprises and the Carbon Disclosure project. Our commitment to these programs has provided a driver for the development of new policies and programs within the Group. We are also organisational stakeholders of the Global Reporting Initiative (GRI) and we use the GRI Sustainability Reporting Guidelines in the preparing our Annual Sustainability Report. We are active participants in the stakeholder processes used for ongoing development of the GRI Guidelines and sector supplements.

Yours sincerely

John Stewart
Managing Director and CEO

APPENDIX 1

National Australia Bank Group Corporate social responsibility framework

For the NAB Group, CSR is about making a contribution to sustainable development and society through creating value, both short and long-term, for our shareholders, customers, employees and other key stakeholders. We believe it provides a framework for helping us to operate in a manner that is efficient, customer focused and ethical, and in which our employees are valued, engaged and productive. We believe that CSR must be embedded in our culture and day-to-day business practices. It is the shared responsibility of all businesses and employees within the Group. However, we understand that this is not an easy goal to achieve and that it is a journey we will make over time.

CSR means putting our corporate principles into practice and considering not only the economic, but also the social and environmental impacts of our decisions in a way that maximises benefits and minimises costs for all concerned.

Our CSR framework is linked to the Group's business strategy, which is focused on simplifying the business, delivering sustainable revenue growth, driving cultural change and improving risk management and compliance. Our CSR framework consists of three key components - making balanced decisions, building trust and growing a great reputation.

Our CSR strategy elements at a glance

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

Public disclosure

The NAB currently uses a range of channels and documents to communicate about its non-financial performance to a varied group of stakeholders from regulators to the general community.

The principal mechanisms for disclosure at the NAB are our:

- annual CSR report
- Annual Financial Report and Concise Annual Report
- Community booklet
- Web-based communications.

In 2003, the NAB committed to publicly reporting on its social, environmental and economic performance as a group (Australian, UK and New Zealand operations). We have adopted the Global Reporting Initiative Sustainability Reporting Guidelines (GRI) as for use as our reporting framework, particularly because it is a globally accepted reporting standard. This has included reporting against both the core GRI indicators, as well as the finance sector supplements, which examine sector specific issues. Our approach has been to make incremental improvements in our non-financial reporting on an annual basis.

In December 2004, the NAB published its first CSR report. This report was independently audited in three regions in which we operate. See Appendix 3 for a copy of our 2004 CSR Report.

Web-based communication

The NAB publishes non-financial information on its Group website (www.nabgroup.com). The website includes copies of hardcopy publications as well as more detailed information on our policies and practices. The web is also used to provide ongoing updates on programs, and as a means for providing stakeholders with an opportunity to contacting the NAB on CSR matters.

National Australia Bank Corporate social responsibility strategy

Our CSR approach

The NAB's approach to CSR is to embed consideration of non-financial issues such as social and environmental impacts into our decision making. Some of the key mechanisms put in place to enable such change to become day-to-day business practice include:

- Our CSR strategy
- External stakeholder forum
- Stakeholder engagement processes
- CSR programs and activities

Our Australian region CSR strategy

Our Australian CSR strategy is focused on areas of direct importance to key stakeholder groups including our employees, customers and the community. In particular this has meant developed our CSR specific programs around four themes:

- inclusive & fair products
- service that benefits the customer
- a rewarding work environment
- meeting our social & environment obligations.

Australian External Stakeholder Forum

Since 1998, the NAB has met with a variety of Australian community leaders to discuss the organisation's performance and community expectations of the way we operate. Over time, the range of stakeholders involved has expanded to include a broad range of stakeholders with interests in broader consumer issues, social disadvantage, small business and environment.

Tim Costello, CEO WorldVision Australia, and Ahmed Fahour, CEO Australia, NAB, chair the stakeholder forum. The Stakeholder Forum meets on a quarterly basis.

Stakeholder engagement processes

In addition to the Stakeholder Forum, the NAB regularly interacts with a wide variety of stakeholders to better understand their expectations as well as to communicate on our performance. Engagement takes several forms:

- Formal membership of committees and industry groups such as the Australian Bankers' Association and Business Council of Australia.
- Partnerships to deliver specific programs and objectives with a variety of community based organisations ie, Good Shepherd Youth and Family Service have worked with us to address the needs of low-income consumers.

- Ad hoc communication/meetings with community, other businesses and government. It is estimated that we respond to over 1,000 different community requests per annum.

Australian region CSR programs

Based on our CSR strategy and engagement processes, the NAB delivers the following CSR programs within Australia.

Addressing financial disadvantage

Over the last five years the NAB has focused its CSR efforts on trying to better meet the financial needs of low-income earners. Much of this work has been done in partnership with the community organisation Good Shepherd Youth and Family Service. Some of the initiatives undertaken to date include:

- Development of affordable banking – for example, a basic bank account with reduced fees for individuals on government benefits.
- Support of the existing community No Interest Loans Scheme (NILS) through funding of the national network administration costs and annual conference.
- Development of Step UP loans - a micro credit product that helps low -income families access a safe and affordable credit option. The Step Up Loans program, which compliments the NILS, is being piloted for two years in five locations. The NAB provides the product, and funds a community-based organisation to manage the customer relationship.
- Training of our Collections Call Centre staff so that they are better able to identify customers experiencing hardship.
- Sponsorship of conferences and events that promote thought leadership in the application of micro-finance in Australia.

Volunteering

The NAB recognises that for community sustainability, it is important to support the work of volunteers. As a result the NAB offers the following programs to both their staff and the community:

- Two days paid leave for all staff to volunteer in the community (over 6,000 days were taken in the last year in Australia). The program is centrally administered to help match staff to community needs.
- Staff volunteer grants – to reward and recognise the involvement of our staff in local community-based organisations. A total of \$4,000 is made available every month for these grants.
- National Australia Bank Volunteer Awards. The Awards are in their seventh year of operation with over \$2.36 million having been contributed to over 400 community groups since their inception. The focus of the Awards is to reward groups who are able to demonstrate that they are effectively managing their volunteers.

Local community investment

The NAB recognises the importance of connecting its 1200 outlets to their local communities. As such, over \$1million is distributed to outlets each year so that they are able to choose which local groups are to be supported. The donations program is often coupled by staff volunteering. In the last year over 2,000 groups were beneficiaries of this program.

Community sponsorship

The NAB supports many community-based sponsorships including:

- Junior Games – a program to encourage the participation of young in sport. The Junior Games, which are part of the NAB's Commonwealth Games sponsorship, have been held in 34 communities and involved 24,000 students over the last year.
- Australian Ballet – a large component of this sponsorship is supporting the involvement of children in ballet. The program specifically supports regional involvement.
- Ovarian Cancer Research Foundation – an awareness campaign to help the Foundation raise funds in order to develop early detection test for ovarian cancer.
- The Australian Football League Auskick program.

Other Australian-based CSR Programs and activities

Increasing our understanding of climate change

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

Providing project finance

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

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

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

Developing a customer charter

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

Using these Group guidelines, Customer Charters have been developed for each of our regional businesses and IMS. As a minimum each Charter includes:

- commitments to ensure customers receive the same high standard of service at all times
- the type of service customers can expect to receive from us, how to contact us and provide feedback, particularly if things go wrong
- a commitment to publicly report each year on our performance in line with the Charters.
- weblinks for the regional business Customer Charters are listed on the inside back cover of this Report.

The Australian region Customer Charter is due to be released by the end of October 2005.

Community Booklet

In 2004 and 2005, we released a publication focusing on our activities impacting on Australian communities. This publication, our Community Booklet, is focused on engaging the interest of staff and customers in some of our CSR activities (see Appendix 4).

Web-based communication

The NAB publishes non-financial information on its regional website (www.national.com.au/Community). The website includes copies of hardcopy publications as well as more detailed information on our policies and practices. The web is also used to provide ongoing updates on programs, and as a means for providing stakeholders with an opportunity to contacting the NAB on CSR matters.

APPENDIX 3

**National Australia Bank Group
Corporate social responsibility report 2004**

APPENDIX 4

National Australia Bank Community Booklet: “Community and Customers – Are there more sides to the National Australia Bank?”