

Environment Dig Deeper



Message From The Chair, Group Environment Committee

I am pleased to report on the progress we are making in delivering on our Environmental Agenda.

In the past twelve months, we have:

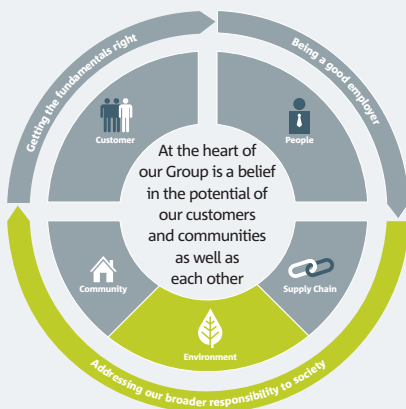
- continued to engage with stakeholders as part of our annual reporting process, so we can understand the material environmental issues relevant to our business from a stakeholder perspective;
- reviewed our Environmental Agenda giving consideration to emerging strategic risks and trends, and subsequently;
- incorporated natural value as a third pillar of our Environmental Agenda and become a signatory to the Natural Capital Declaration;
- finalised a set of Environmental, Social and Governance (ESG) Risk principles to assist in further embedding ESG risk considerations within our risk management framework and practices and day-to-day decision making;
- maintained our carbon neutrality and increased our focus on reducing the environmental impacts of our operations through our carbon management, energy and resource efficiency initiatives, and relationships with suppliers – this supports our Kaizen agenda and our focus on costs and efficiency;
- provided advice and capital to a range of customers to help them achieve their environmental objectives and manage the transition towards a lower carbon way of doing business – this has included continued finance for renewable energy development, as well as providing funding for energy efficient equipment and commercial building upgrades; and
- continued to invest in engaging our people and our customers through our environmental programs and initiatives.

We hope you find our Environment Dig Deeper of interest, and we welcome your feedback on our performance.

Michaela Healey, Group Executive – Group Governance & Legal

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

To inform the content of our Annual Review, we undertake an annual Corporate Responsibility (CR) materiality process to assess the most significant issues in each of our CR segments: Customer, People, Community, Environment and Supply



Chain. This year we sought feedback from investors, analysts, employees, government, community partners, consumer advocacy groups, non-government organisations and business leaders on the most material issues to NAB.

We then focus on including details on these issues in our Annual Review.

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

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

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

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

Environmental issues

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

The environmental impact of operations¹

Managing exposure to environmental risk²

Responsiveness to environmental market opportunities³

¹ Please refer to the *Climate change and resource efficiency pp 4-7* and the *Notes to the environmental performance summary – pages 14 to 28*

² Please refer to page 12

³ Please refer to page 10

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Our Corporate Responsibility commitments

In our 2011 Annual Review, we set out a series of commitments for the coming year. The 'environmental' CR commitments for 2012 and our performance against these targets is described in this Paper.

Commitment	Performance
Reduce Group GHG emissions from buildings-based energy use by 18,900 tCO ₂ -e against a 2010 baseline by 30 June 2013 ⁴ .	In progress. Refer to page 5 and 24 for further information.
Set environmental performance targets for Asian, NZ and US operations ⁵ .	Achieved in Asia and NZ. Not achieved in the US. Further work is required. Refer to page 5 for further information.
Roll out refreshed compulsory compliance training incorporating ESG (Environmental, Social and Governance) risk awareness for all Australian employees. Conduct ESG awareness sessions and training for risk and banking personnel in New Zealand.	Achieved in Australia and Asia. Not achieved in NZ. Delayed. Refer to page 12 for further information.
Refresh employee engagement programs in Australia and New Zealand.	Achieved in Australia Not achieved in NZ. Delayed. Refer to page 6 for further information.

4 This will be achieved through targeted GHG emissions reductions in Australia, New Zealand and the UK.
5 Our target was to have published resource efficiency targets in place for all regions in FY12. Targets for Australia and the UK were published in December 2010.

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National Australia Bank Limited is a listed public company and has operations in Australia, New Zealand, the United Kingdom, the United States and Asia. The principal activities of the Group are banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

All figures quoted in this Dig Deeper paper are in Australian dollars, unless otherwise stated. A reference to '\$' is to an amount in Australian dollars and a reference to '£' is to an amount in British pounds sterling.

Highlights⁶

Year	External recognition	Business highlights
2003		Became signatories to the United Nations Environment Programme Finance Initiative (UNEP FI) Developed our first Environmental Policy
2004	Included in the CDP Carbon Disclosure Leadership Index for first time	Flagship Docklands building designed to 4 Star NABERS Energy rating Developed first Environmental Management System (EMS) – aligned to ISO14001 Made a public statement in support of the OECD Guidelines for Multi-National Enterprises Commenced buying a portion of renewable electricity for our UK operations
2005	Yorkshire Bank ranks 3rd in sector in BITC Yorkshire and Humber Environment Index Flagship Docklands building wins a Banksia Environmental Foundation Award	Launched our first Environmental Procurement Policy
2007		Committed to be carbon neutral by 2010 Established EarthWatch partnership and program with employees Employee Green Team Community established Became member of BITC's May Day Group Purchased 100% renewable electricity in UK
2008		Began introducing Toyota hybrid vehicles into our Australian car fleet Signed the Equator Principles Signed the Bali Communiqué Installed energy monitoring and control technology in all UK properties Established the BNZ Kauri Forest in conjunction with the Kauri 2,000 Trust BNZ's 80 Queen St and Quay Park buildings achieve 5 green star design rating
2009	Listed as leaders in the CDP's Global 500 Climate Disclosure Leadership Index	Launched e-statements in Australia and New Zealand. Signed the Poznan Communiqué First UK high street bank to be awarded the Carbon Trust Standard BNZ's Harbour Quays building achieves 5 green star design rating Became largest fair trade certified workplace in Australia and New Zealand
2010	Won the CDP's inaugural A&NZ Carbon Performance Leadership Award	Signed the Copenhagen Communiqué Trigeneration facility goes live at our major Australian data centre Completed the largest joint tenant & building owner refurbishment in the southern hemisphere at 500 Bourke Street, saving 20,000 tCO ₂ -e BNZ's Quay Park and Queen Street buildings achieve 5 green star fit out and as built ratings. Harbour Quays building achieves 6 green star fit out Launched our Beyond Carbon Neutral resource efficiency program Attained our first NABERS energy certificate for 100 St Georges Terrace, Perth at 4.5 Star Great Western Bank introduces recycling scheme Our UK Bank implements Mixed Dry Recyclate waste management system
2011	Won United Nations Association of Australia World Environment Day Award for Sustainability Leadership (Large Business) Clydesdale Bank wins Clean Glasgow – Business Award	First Australian bank to become carbon neutral (Sept. 2010) and to be accredited Carbon Neutral by Low Carbon Australia (Dec. 2010). BNZ becomes the first carbon neutral bank in New Zealand Signed the Cancun Communiqué Launched Environmental Upgrade Agreements for financing of commercial building refurbishment with Low Carbon Australia and Eureka Funds Management
2012	Won Large Business category of the Victorian Premier's Sustainability Awards Only Australian bank to be listed in Bloomberg's Top 20 World's Greenest Banks Listed No. 3 on Newsweek's 2011 World's Greenest Company rankings ⁷	ESG Risk Principles approved Signed the 2°C Communiqué Inaugural co-signatory of the Natural Capital Declaration 5 Star Green Star ratings achieved for 500 Bourke St Melbourne and 22 King William St Adelaide

6 The 'Highlights' above are shown in reporting years – 1 July to 30 June. For example, 2012 is the year corresponding to the period 1 July 2011 to 30 June 2012.

7 Newsweek's World's Greenest Company rankings are announced in October each year. In October 2011, we were ranked No. 3. On October 22, 2012 Newsweek announced their new 2012 World's Greenest Company rankings. NAB was ranked No. 5 – the only Australian company in the top 25.

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Our Environmental Agenda

Addressing our environmental impacts and dependencies is more than just doing the right thing, it is responsible business practice, and therefore, an imperative for our business.

As part of our strategy development process we have analysed key trends, including environmental challenges, effecting our economy and society. We have also considered societal commentary and attitudes to a range of environmental issues. As a result of this work, we recognise that environmental challenges such as climate change, resource scarcity and natural capital loss and degradation, are becoming increasingly critical to address. Our businesses, and those of our customers and suppliers, face evolving regulatory requirements and market dynamics including cost and productivity concerns. For our business and our sector, environmental sustainability is important to sustainable relationships with our customers, suppliers and other key stakeholders, as well as the sustainability and growth of our organisation.

From 2006-2010, NAB's Environmental Agenda focused on responding to the challenge of climate change. We have significantly reduced the climate change impact of our operations, achieving carbon neutrality in September 2010, and have incorporated climate change considerations into the conversations we have with customers and suppliers, supporting their response. (Also refer to *Climate change and resource efficiency*, page 4).

While addressing climate change continues to be a priority for NAB, we recognise that our environmental impact is broader than just climate change, and that our planet has limited capacity to continue to provide the ecosystem services and natural resources we depend upon.

We have responded by extending our Environmental Agenda to include two further priorities – improving resource efficiency and considering natural value (also known as natural capital).

Our Environmental Agenda		
Climate Change	Resource Efficiency	Natural Value
Imperative		
<p>We recognise the direct impact we can have through our operations and the impact climate change can have on:</p> <ul style="list-style-type: none"> our business risk profile, particularly through our lending, investments and other business activities; opportunities to advise and provide products and services for clients to help them manage environmental risk and mitigate emissions; new regulatory requirements and future energy supply and costs; and opportunities to become more energy efficient and less GHG intensive. 	<p>We recognise increased competition for scarce natural resources has the potential to constrain economic growth and affect operational costs. We are seeing:</p> <ul style="list-style-type: none"> changes to companies' ability to access resources as a result of (i) changes to government policy and regulatory requirements and (ii) actions taken by NGOs; innovation opportunities as our customers and other stakeholders look for more efficient ways to use resources, as well as opportunities to reuse and recycle resources; and increasing costs and potential for conflict where resource scarcity increases. 	<p>We recognise ecosystem services:</p> <ul style="list-style-type: none"> are essential to sustaining human wellbeing and may be threatened by increasing biodiversity loss and ecosystem degradation; need to be better understood so that companies can determine associated risks and opportunities; and are not currently valued appropriately and that work is required to develop methodologies that help to value natural capital.
Objectives		
<p>Work to understand and manage our direct and indirect impacts and dependencies via:</p> <ul style="list-style-type: none"> developing understanding of, and management of, environmental risks and opportunities; developing products and services to help our customers respond to environmental challenges; advocating and communicating about environmental issues; ensuring third-party validation of our processes and activities; leading through our own actions, i.e. reducing our own carbon/environmental footprint and sharing our experience with others; and engaging and assisting our people in their personal contribution to environmental sustainability. 		
Strategy		
<ul style="list-style-type: none"> Continue to develop products and services to help our customers respond to, and manage the impacts of, climate change. Continue to develop our understanding of, and manage, climate change risk and opportunities. Share our carbon neutral experience with others, encouraging their action. Engage our people and assist them with their personal actions. 	<ul style="list-style-type: none"> Continue to reduce GHG emissions. Improve resource efficiency with an increased focus on water, paper and waste. Continue to grow employee engagement and develop positive environmental behaviours. Embed sustainability into our purchasing decisions. 	<ul style="list-style-type: none"> Build NAB's thought leadership position. Consider risks and revenue dependencies. Review our operational and supplier decisions. Participate in initiatives to develop business tools and valuation methodologies. Drive awareness and employee engagement. Build product and service responses.

Environment dig deeper

Climate change and resource efficiency

In September 2010, we became the first Australian owned bank to achieve carbon neutrality. This was achieved through a concentrated focus on energy efficiency and the use of cleaner energy sources, followed by the purchase and retirement of offsets to neutralise remaining emissions.

We remain committed to reducing our climate change impact in this manner and to maintaining our carbon neutrality. In early 2011, we expanded our focus to further reduce our environmental impact through resource efficiency – our *Beyond Carbon Neutral* program – and we have leveraged the experience we have gained through our own energy efficiency initiatives and carbon neutrality into the provision of environmental products and services (see *Products & services*, page 10).

Our commitment to move *Beyond Carbon Neutral* recognises that implementing carbon neutrality as part of our response to climate change is only part of addressing a broader range of environmental issues.

In this section of our Dig Deeper, we explain what carbon neutrality means to NAB, and provide an overview of our approach to energy efficiency and greenhouse gas emissions reduction, as well as highlighting the key areas of focus and achievements from our *Beyond Carbon Neutral* resource efficiency program.

Carbon neutral – what does it mean to us?

We define carbon neutrality as a process involving five steps:

- (i) defining and measuring our carbon (greenhouse gas) inventory;
- (ii) reducing our greenhouse gas (GHG) emissions through energy efficiency, demand management (employee behavioural change) and transitioning to lower emissions energy sources, where it is practicable;
- (iii) avoiding emissions through the purchase of renewable energy (where it is necessary to support our strategy to invest in local emissions abatement);
- (iv) offsetting remaining emissions through the purchase of quality carbon offsets (including co-benefits from selected projects); and
- (v) verifying and reporting on our progress by:
 - regularly assessing our carbon neutrality and reduction targets;

- obtaining annual external verification and assurance of our carbon accounts (inventory and offsets) and carbon neutral commitment; and
- reporting regularly to key internal stakeholders and annually to external stakeholders.

Further detail is provided in our *Group Environmental Reporting and Carbon Offset Standard*, available at www.nabgroup.com/cr

Emissions management and reduction

Energy efficiency and emissions reduction are key priorities across the Group under the 'climate change' pillar of our Environmental Agenda. They support delivery of our carbon neutral commitment and emissions reduction targets.

In Australia and New Zealand, where our energy efficiency programs are more mature, we have included ecologically sustainable design requirements in our Property Design and Performance Standards. Application of these Standards results in buildings occupied by the Group being designed to operate efficiently and with a reduced environmental impact, where commercially practical.

In Australia, we use the requirements of the *Energy Efficiency Opportunities (EEO) Act 2006* (Cth) as a tool to give structure and discipline to our approach to energy efficiency opportunities and we have developed a pipeline of energy efficiency opportunities across our building portfolio. We also use a marginal abatement cost curve, based on our identified energy efficiency opportunities, to help us determine the best investments we can make when making choices to maximise emissions reductions within available capital and operational budgets.

Some key energy efficiency achievements in 2012 included:

- increasing the percentage of our leased office buildings that meet a 4 Star NABERS energy performance self assessment from 33% in 2011 to 60% in 2012. As a major tenant, with a large portfolio of leased buildings, we can have a significant positive influence on commercial building sustainability performance where we operate;
- achieving 5 Star GreenStar Interiors ratings at 500 Bourke Street, Melbourne

Emissions management and reduction measures

Emission reduction measures in Australia	Estimated annual emission reductions (in tCO ₂ -e)
Sub-Total: reduction measures implemented between 1 July 2006 and 30 June 2011	75,779
Sub-Total: reduction measures implemented between 1 July 2011 and 30 June 2012, comprising:	2,000
<i>Data Centre Opportunities</i>	238
<i>Commercial Building Opportunities</i>	227
<i>Retail Network Opportunities</i>	1,535
Total quantity of emissions reduced	77,779

and 22 King William Street, Adelaide in Australia; and

- joining a voluntary energy audit program in Hong Kong – completion of this work is expected in the first quarter of 2013.

In 2012, we implemented 142 energy efficiency projects in Australia alone. A summary of the expected annual emissions savings from projects implemented in Australia⁸ is provided in the table above. For further information on our Australian energy efficiency achievements – download our EEO reports at www.nabgroup.com/cr

⁸ In Australia, we have been tracking reductions achieved from energy efficiency initiatives since 2007 against a 2006 baseline.

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Managing an internal carbon price

As a consequence of our carbon neutral commitment, and our voluntary purchase of carbon offsets, we have an internal price on carbon, which reflects the price we pay for offsets in the voluntary market. This is built into the business case for our energy efficiency opportunities, including the refurbishment of buildings, and has assisted in bringing energy efficiency investments forward. Our internal carbon price has demonstrated that a price on carbon can be an effective tool to incentivise investment in emissions reductions.

Targets & commitments

In December 2010, following the review of our 2007-2010 Climate Change Strategy, we expanded the focus of our Environmental Agenda and developed a range of 2011-2013 environmental performance targets, including a new three-year Group GHG emissions reduction target.

In addition to the Group GHG reduction target, our Australian and UK businesses committed to further reducing our environmental footprint through a range of *Beyond Carbon Neutral* resource efficiency targets⁹. In 2011, as part of setting our annual CR commitments, we committed to setting *Beyond Carbon Neutral* targets in the three other geographies where we operate – Asia, New Zealand and the US. Our Asian and New Zealand operations were successful in setting targets which are described on this page. These targets are aligned to our existing *Beyond Carbon Neutral* targets for Australia and the UK and have a target date of 20 June 2013, against a 2011 baseline.

In addition to our commitment to develop *Beyond Carbon Neutral* targets, we made two other environmental CR commitments in 2011. Updates on these commitments are provided here and throughout this Dig Deeper. Refer to pages 6 and 12.

Our Group GHG reduction target

In 2010, NAB committed to reducing Group GHG emissions from buildings-based energy use by 18,900 tCO₂-e¹⁰, against a 2010 baseline, by 30 June 2013.

GRI Reference: EN5 – Energy saved due to conservation and efficiency improvements.

⁹ Our Group, Australian and UK targets are set against a 2010 baseline year, unless otherwise stated.

¹⁰ This target applies to specific buildings-based sources of GHG emissions across our Australian, NZ and UK operations.

We are also tracking our emissions intensity per FTE, with the goal of reducing our emissions per FTE by around 9.2%, assuming no material change in emissions factors, FTE and levels of business activity when compared to the 2010 baseline year.

We aim to achieve our Group GHG reduction target through reductions in three of our businesses over a three-year period (1 July 2010 to 30 June 2013), against a 2010 baseline year, including:

- a 10% reduction in building energy emissions (from electricity, gas and diesel) per FTE in Australia
- a 3% reduction in building energy emissions (from electricity) in New Zealand
- a 5% reduction in building energy usage (from electricity and gas) in the United Kingdom.

Progress against our Group GHG emissions reduction target is reported in Note 8 on page 24.

Our Beyond Carbon Neutral targets¹¹

All our *Beyond Carbon Neutral* targets are to be achieved by 30 June 2013. They are as follows:

Australia

- 10% reduction in building energy emissions per FTE;
- 20% reduction per FTE in paper use (against a 2009 baseline to align to our Australian PaperCuts program)
- No increase in water use per FTE
- 20% reduction per FTE in waste generated.

United Kingdom

- Reduction in air miles by 700 air miles per FTE
- Minimum of 90% coverage of water metering across the property portfolio
- Minimum diversion of waste from landfill of 80%.

New Zealand

- 3% reduction paper consumption per FTE
- 10% increase total waste recycled (diverted from landfill) per FTE
- 5% reduction in waste to landfill
- Change out of refrigerant R22 on a phased basis by end Dec 2014 (as articulated in the Montreal Protocol and NZ licensing requirements as related to importing of R22 gas).

¹¹ The new *Beyond Carbon Neutral* targets set by our NZ and Asian operations have a baseline line year of 2011.

Asia

- 1% reduction in HK building energy usage (electricity).

US – Great Western Bank

In 2012, Great Western Bank (GWB) commenced work to develop *Beyond Carbon Neutral* targets. However, further work is required in 2013. Our GWB operations in the US have been expanding since 2009, which has meant that we have had a significantly changing baseline, making it difficult to forecast net savings from energy and resource efficiency initiatives. Additionally, we need further time to make changes to arrangements with key suppliers to facilitate reporting of US data for office paper purchased and recycling of materials and to incorporate energy efficiency opportunities into our Information Technology (IT) and operational planning. We will continue this work in 2013, so GWB can set local environmental performance targets, in line with our Group targets for the 2014-2016 period.

Progress against our *Beyond Carbon Neutral* targets is reported in Note 8 on page 24.

Our environmental CR commitments

In addition to our Group GHG reduction target and our commitment to set *Beyond Carbon Neutral* targets, we made two further environmental commitments:

- to roll out refreshed compulsory compliance training incorporating ESG risk awareness for all Australian employees and to conduct ESG awareness sessions and training for risk and banking personnel in New Zealand; and
- to refresh employee engagement programs in Australia and New Zealand.

Refer to the progress updates provided below and on page 6 and 12.

Support for emissions abatement

In April 2012, our UK business recommenced¹² purchase of accredited electricity from renewable sources. Around 24% of our UK electricity consumption came from renewable sources in 2012.

Since 2008, we have sourced a component of our Australian purchased electricity from government certified renewable

¹² Our UK business previously purchased electricity from renewable sources between 2004 and 2009.

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energy sources (GreenPower™) to reduce greenhouse gas emissions and support emissions abatement in Australia. In 2012, around 12.5% of our Australian electricity consumption came from GreenPower™.

Following establishment of the Carbon Farming Initiative (CFI) in December 2011, we reviewed our strategy for supporting Australian-based carbon abatement via our carbon neutral program. As a result of this review, we are currently transitioning from the purchase of Renewable Energy Certificates (RECs) to the purchase of offsets created through the CFI. This will enable us to diversify our support for local emissions abatement and support land-based carbon reduction through an industry sector that is important to our business – agriculture. We continue to be the leading financier for renewable energy development in Australia via our project finance portfolio. In particular, since 2000, NAB has financed around 70% of Australian wind energy projects.

Initiatives to reduce our environmental footprint

During 2012, our Beyond Carbon Neutral Program complemented our continued focus on energy efficiency and emissions reduction to deliver other environmental outcomes. Key outcomes in 2012 included:

- deciding to support locally Australian-made Forestry Stewardship Council (FSC) certified 100% post-consumer recycled office paper – commencing in January 2013;
- switching to a range of recycled paper products including copy paper, paper towels, and cups in our Great Western Bank operations in the US;
- completing a waste audit in New Zealand, which resulted in improved waste sorting processes;
- continuing our R22¹³ replacement program in the UK and NZ. We installed new inverter technology-based air conditioning systems at a further 26 sites in the UK providing an average energy efficiency saving of around 30% per installation. In 2012, BNZ replaced 229 HVAC (Heating, Ventilation, and Air Conditioning) units containing R22 and disposed of 514 kgs of R22. This represented a 41% decrease in R22 contained in HVAC equipment used by BNZ;

- increasing rainwater harvesting capacity at our main Australian data centre from 175 kL to 295 kL. This is helping to reduce the impact of water requirements of our tri-generation plant. In addition, we used around 2,790 kL of harvested rainwater at our tenancy at 80 Queen Street, Auckland;
- continuing our promotion of paperless customer statements in Australia and New Zealand – (see *Products & services*, page 10); and
- continuing to offer our shareholders an opportunity to receive their shareholder communication electronically. As at 30 September 2012, around 109,000 shareholders have selected this channel for receipt of some or all of their account statements. This is reducing emissions by around 10.7 tonnes tCO₂-e per annum.

Employee engagement

In 2012, we committed to refresh employee engagement programs in Australia and New Zealand. This was achieved in Australia through initiatives including the following:

- our biannual internal environmental conference in August 2011 covering four key topics – climate change, resource efficiency, ESG Risk and natural capital;
- continued support of our voluntary Green Team Community which has grown from 1200 in 2011 to 1500 at 30 June 2012;
- our *MyPaperCuts* Program – which promoted direct engagement with over 5000 Australian employees (~18% of Australian business) resulting in over 45 significant paper reduction activities identified;
- employee environmental volunteer days in Australia – in 2012, just over 850 employees planted almost 22,000 trees, shrubs and grass as part of our *Plant your Paper Back* initiative. Since 2010, some 3,150 employees have dedicated their volunteer days to conservation activities such as planting grasses to maintain penguin habitat at the Phillip Island Nature Park and NAB's World Environment Family Tree Planting Day – which focuses on mass regeneration planting on protected land;
- we participated in Earth Hour 2012 in our commercial buildings in city locations and encouraged Australian employees to do the same at home; a range of Earth Hour

activities also occurred in Asia, NZ and the UK;

- provided training for our Green Action Champions, who are the senior members of our Green Team Community and champion environmental awareness and actions in their local workplaces;
- continued to provide a range of opportunities to assist our employees in reducing their own environmental impact through interest free loans for annual public transport tickets and our employee benefits *Green Your Life* initiative – this provides access to discounted environmental products such as water tanks and solar hot water from third party providers; and
- held our *Green Speakers* series in Australia – which invited external experts to speak to our people about carbon, water and waste reduction.

A refresh of our engagement program was not achieved in New Zealand. It was delayed due to work undertaken to set resource efficiency targets and areas of focus.

Employee engagement programs will now be refreshed in 2013 to support the delivery of BNZ's Beyond Carbon Neutral targets (see page 5).

In other geographies we also conducted the following employee engagement activities:

- organised 59 team challenges with an environmental focus on the UK – these included activities such as cleaning up local beaches;
- took part in a coastal clean-up organised by the Hong Kong Green Council – 50 staff and their family members attended the event and 170 kgs of debris was collected;
- introduced a dedicated environmental section on the Intranet to increase awareness and educate UK employees on environmental matters at work and at home; and
- held World Environment Day events to further raise employee awareness of environmental issues.

An Intranet refresh is planned in New Zealand during the 2012-2013 year. Further information on our environmental performance is provided in our *Environmental performance summary* and the associated notes on pages 13 to 28.

¹³ R22 is an HCFC (also known as chlorodifluoromethane) refrigerant gas that must be phased out under the Montreal Protocol.

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Participation in consultation processes

In 2012, we continued to participate in Government and industry consultation processes related to the development of a range of environmental policy.

This included consultation processes on the development of carbon policy both at (i) a national level through our participation in the Energy Efficiency Opportunities Program and a number of industry working groups including the Carbon Working Group of the Australian Financial Markets Association and (ii) through interactions with Australian and international climate policy negotiators on climate finance as part of activities undertaken through our membership of the United Nations Environment Programme Finance Initiative (UNEP FI). NAB participated in UNEP FI's delegation to the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties in Durban, South Africa.

We have also participated in UNEP FI consultation processes on the development of the Natural Capital Declaration Roadmap (see page 8 for further information).

Additionally, we had representation on the Victorian Government's Industry Sustainability Working Committee during 2012. The objective¹⁴ of this Working Committee is to assist the Victorian Government to:

- develop a strategic policy framework for sustainable business opportunities and employment;
- understand the implications for employment and skills arising from the efforts to improve industry sustainability; and
- develop an effective strategy for the development, growth and export of cleantech products and services.

¹⁴ Objective outlined in the *Industry Sustainability Working Committee Members Handbook 2012*.

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Considering natural value – a business imperative

Our strategy development process includes a review of future macro trends, risks and opportunities that are likely to be critical to the long-term sustainability of our business. Through this process, we have identified the value of nature and its contribution to the economy as an important and strategic issue facing our organisation.

We recognise that we operate in an environment where some natural resources are finite and where ecosystems have limits that we don't always understand. We are also aware that we and our customers operate in countries that face regulatory, dependency and pricing risks associated with the depletion of, and derived income from, natural capital. Healthy biodiversity and ecosystem services underpin a healthy economy and society.

We recognise that a significant number of our customers are vulnerable to financial losses as a result of a decline of natural capital. For example, some of our agribusiness customers have significant dependence on water, pollination and other ecosystem services to produce their products, and the electricity generation sector has significant dependence on water resources for use in the electricity generation process. If we are not accounting for these dependencies and how our customers are managing them, we may find in both the short and long term that we have unrecognised risk sitting within our loan portfolio, investments and other business areas.

In 2011, we reviewed our Environmental Agenda in light of this and included a third pillar - natural value. It then made sense for us to endorse the Natural Capital Declaration (NCD)¹⁵ – a statement by financial institutions that recognises that natural capital poses significant risks and opportunities to the finance sector.

In December 2011, we were one of two inaugural signatories to the NCD globally, and to date are the only Australian bank to sign. Signing the NCD commits us to four key commitments illustrated in the figure below.

Endorsing the NCD for us is a clear part of our journey in understanding natural capital risks and opportunities, in building the tools and methodologies to integrate natural capital considerations into our day to day decision making processes and risk assessment, and in supporting our collaboration with others as we work to help our business (and our sector) adapt for a sustainable future.

Our actions to date include:

- incorporating consideration of natural capital risk within our ESG risk management framework and processes (see *Risk management and compliance* page 12);
- identifying potential natural capital risks within specific industry sectors to enable our business to monitor business decisions with these risks in mind (see *Risk management and compliance*, page 12);
- participating in the Equator Principles review process, which includes greater consideration of biodiversity issues (see *Risk management and compliance* page 12);
- continuing involvement in biodiversity-related product and services in New Zealand through the Kauri bond market¹⁶;
- incorporating natural capital considerations into our Group Supplier Sustainability Principles to encourage discussion with our supplier network around impacts and dependencies;
- reviewing our Australian office paper procurement in consideration of natural

“Valuing natural capital is important for the sustainability of our business and economic systems. NAB has been investigating the business issues that arise from biodiversity loss and ecosystem degradation, exploring risks that may arise and examining our business approaches”.

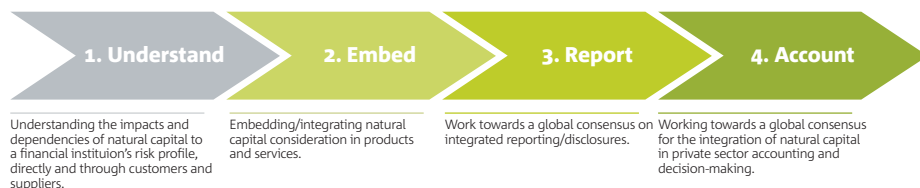
Cameron Clyne, CEO

Responsible paper procurement

Responsible procurement, including third party certification, is important to NAB. Becoming signatories to the Natural Capital Declaration (NCD) has reinforced the need for us to consider the impacts that our procurement decisions may have on biodiversity and ecosystem health.

As part of this commitment we assessed our Australian office paper procurement in 2012. This process included extensive engagement with a broad range of stakeholders to improve our understanding of paper manufacturing and Victorian forest management practices. We followed the manufacturing process right through the supply chain to gain a better understanding of the full range of stakeholder views.

As a result of this journey, we have gained an enhanced appreciation for the complexity of the environmental, social and economic factors involved in manufacturing office paper in Australia. We have made the decision to transition to 100% recycled, carbon neutral, FSC certified paper to support the expansion of recycled paper collection and manufacturing in Australia. This decision is aligned with our NCD commitment and will allow NAB to build on previous efficiency gains made through our national Paper Cuts program.



¹⁶ The BNZ Debt Capital Markets team sees itself as a pioneer, not just in developing the Kauri bond market for supranational, semi-government and agency (SSA) issuers, but also in supporting the rejuvenation of the market's namesake – the Kauri tree. In conjunction with The Kauri Trust 2000, we created the BNZ Kauri Forest. Since its inception in 2008, this initiative has seen 3,200 seedlings planted, with BNZ committed to planting 100 Kauri for every Kauri bond issued.

¹⁵ The *Natural Capital Declaration* is convened by the United Nations Environment Programme Finance Initiative, Global Canopy Program and the Getúlio Vargas Foundation.

Environment dig deeper

value issues and transitioning to a product which is 100% recycled;

- participating in pre-Rio+20 Summit consultation meetings run by the Federal Department of Sustainability, Environment, Water Population and Communities (DSEWPaC), to understand business' perspective on Australia's response to the Rio+20 draft outcomes document, which included coverage of issues related to ecosystem services and biodiversity;
- participating in the International Integrated Reporting Committee (IIRC) pilot to assist in the development of an international integrated reporting framework, which includes reporting on natural capital impacts and dependencies;
- participating in a UNEP FI Biodiversity and Ecosystem Services Working Group project examining the financial materiality of environmental risk in sovereign credit analysis (E-RISC). A Phase 1 project report is to be launched in November 2012.

In addition to this, we have engaged our employees in Australia and New Zealand in biodiversity and ecosystem conservation and research activities, including the following:

Saving the Kiwi

For nearly two decades, BNZ has been a passionate supporter in the kiwi's fight for survival. The BNZ Save the Kiwi Trust¹⁷ is a partnership between the Department of Conservation, the Royal Forest and Bird Protection Society and BNZ. Over time, this team effort has made genuine inroads into protecting the kiwi and its natural habitat, as well as increasing kiwi numbers through comprehensive breeding programs. BNZ meets all of the costs of running the Trust and this provides a funding pool which is distributed to community-based protection projects. BNZ's financial support is complemented by employee volunteer efforts and facilitation of customer donations via EFTPOS card accounts¹⁸.

¹⁷ From 1st October 2012, Save the Kiwi becomes the The Kiwi Trust. This is a new independent trust carrying on the years of dedicated work by BNZ Save the Kiwi. Operating under the name of Kiwis for kiwi, their role is to support the thousands of New Zealanders who are working to protect the kiwi and the habitat where they live. BNZ is continuing its support of the new trust, and is the founding sponsor. More information is available at: www.kiwisforkiwi.org

¹⁸ The BNZ Save the Kiwi EFTPOS card has been offered since 2003 and generates around \$170,000 a year for this cause, with a further \$50,000 from our Kiwi cheque books.

NAB at the Rio+20 Summit

The NCD was officially launched with 39 global signatories at the UN's Conference on Sustainable Development (the Rio +20 Summit) in June 2012. NAB discussed the NCD with the Federal Department of Sustainability, Environment, Water Population and Communities (DSEWPaC) prior to Rio+20.

NAB attended the Summit as part of a UNEP FI delegation and:

- participated in several forums representing signatories to the NCD and the role of the finance sector in sustainable development; and
- attended the Australian Prime Minister's launch of the Indigenous Peoples and Local Communities Land and Sea Managers Network.

NAB's endorsement of the NCD was noted by governments, NGO's and other businesses at the Summit, as a real commitment to take action and consider natural capital within business decisions.

Earthwatch Fellowships

NAB has partnered with Earthwatch since 2007, sending 84 employees to local and overseas biodiversity conservation and research programs since the partnership began. In 2012, 20 employees were involved in a range of projects including Recovery of the Reef in Queensland, Conserving Koala Country in Victoria, Blue Carbon Budgeting of the Daintree tropical mangrove forest, Wildlife of the Mongolian Steppe¹⁹ and Climate Change and Landscape in Borneo's rainforest.

Plant your Paper Back

Since 2010, NAB employees have planted well over 80,000 trees, shrubs and grasses through our *Plant your Paper Back* initiative. In 2012 our employees planted almost 22,000 trees, shrubs and grasses. The initiative pairs NAB employee volunteers with conservation organisations, such as Conservation Volunteers Australia and Landcare, in an effort to help employees understand the impact their paper use has on the environment. Since 2010, some 3,150 employees, have dedicated their volunteer days to conservation activities such as planting grasses to maintain penguin habitats at the Phillip Island Nature Park and NAB's World Environment Family Tree Planting Day which focuses on mass regeneration planting on protected land.

¹⁹ Helene Talia, a member of our Commercial Network Services team, was part of the 2012 Earthwatch Fellowship program. She embarked on a two week scientific expedition to the Mongolian desert-plains along with leading ecology researchers from Denver Zoo (Colorado) and the Mongolian Conservation Coalition, students from selected Mongolian universities, and volunteers from other organisations.

“The Earthwatch expeditions provide NAB employees with an opportunity to actively contribute to driving NAB's Environmental Agenda. In addition to promoting awareness on environmental issues, the projects serve as an alternative arena for NAB employees to directly apply their problem solving skills (often used in a commercial context) in an ecological setting. It fosters innovative thinking around striking the balance between commercial needs and ecological and socially responsible business practices.”

Helene Talia, Wildlife of the Mongolian Steppe

Environment dig deeper

Products and services

NAB recognises that in addition to reducing our own environmental footprint, significant opportunities exist to help our customers address environmental challenges, including the transition to a lower carbon way of operating. This is reinforced by the feedback we have received from stakeholders in the CR material issues review we undertake annually.

Business opportunities, such as the provision of environmental products and services, are identified and prioritised through the strategic planning process both at the Group and business line level. We are developing innovative financial products and services to help our customers adapt to, and manage, the risks associated with climate policy and impacts, natural resource constraints, and changing environmental policy and regulatory requirements.

During 2012, these product initiatives included providing:

- Australia's first Environmental Upgrade Agreements – an innovative new funding source for environmental retrofits of commercial buildings in collaboration with Low Carbon Australia and Eureka Funds Management;
- asset finance solutions for energy efficient products such as LED lighting and solar systems;
- financing of forestry developments specifically targeting carbon sequestration in New Zealand;
- project finance for an additional 62 MW of renewable energy generation projects, effectively maintaining our level of finance to renewable energy projects. Accounting for projects removed from our project finance portfolio in 2012, this resulted in a marginal net decrease in the design rated megawatt (MW) generation capacity of projects financed – which now totals 2,359 MW globally. Our total project finance portfolio (including renewables) represents 1.6% of Group gross, loans and advances, including acceptances²⁰. Refer to our *Customer Dig Deeper* paper at www.nabgroup.com/cr for further information;
- three Kauri bond issues (refer to page 8 for further information);
- personal banking customers in Australia (NAB) and New Zealand (BNZ) with the option of receiving their account information via electronic e-statements. As at 30 September 2012, around

1,012,000 customers in Australia (equating to around 2,872,000 accounts), and around 216,000 customers in NZ (equating to around 337,000 statement accounts), had opted into paperless statements²¹;

- assistance to clients to help with transactions to reduce their carbon footprint and to help them understand the implications of the changing carbon policy landscape; and
- UK credit and debit card customers with cards made using plastic that is certified as carbon neutral.

We also continued to develop ideas for how capital markets can best support the significant infrastructure demands of a lower carbon economy and expect to launch further products over the coming year.

Our Environmental Finance Solutions team within NAB Advisory, actively assists companies to manage the impact of environmental risks and opportunities across carbon, renewables and energy efficiency, including assistance with roll out of commercial scale solar PV installation and initiatives.

Our Environmental Markets team provides trading and risk management services across a range of environmental products including Renewable Energy Certificates, voluntary and compliance carbon units. These products allow us to support client obligations and exposures under the Renewable Energy Target and the Australian Carbon Pricing Mechanism. With the recent changes to the Australian Carbon Pricing Mechanism a range of new products are under development by our Environmental Markets team to complement existing offerings and will include European units eligible for use by liable parties in Australia, as well as domestic compliance units.

Environmental Markets also assists with sourcing voluntary carbon offsets for our carbon neutral commitment, as well as assisting clients to source offsets for their own programs.

We are also actively involved in the development of Carbon Farming Initiative (CFI) projects. NAB Advisory is a mandated carbon advisor to a CFI project developer and both NAB Markets and NAB Advisory are in active conversations with the banks' clients on how they might be able to take advantage of the opportunities arising from the CFI.

Financing GHG emissions reductions - Mackay Sugar renewable energy project

In late September 2012, Mackay Sugar began commissioning its 38 Megawatt renewable energy project, in preparation for the export of renewable electricity (made from sugarcane) to the Mackay electricity grid by early February 2013.

When fully operational, the Racecourse Cogeneration Plant (situated at Racecourse Mill) will provide approximately 30% of Mackay's annual electricity consumption, while reducing the Mackay region's GHG emissions by 200,000 tCO₂-e each year.

Construction of the \$120 million plant first commenced in early 2010 and has involved the replacement of the Mill's traditional boilers, designed to incinerate bagasse (fibre left after crushing sugarcane), with a more efficient high pressure boiler and a new steam turbine generator.

The Racecourse Cogeneration Plant is one of many diversification projects identified under Mackay Sugar's 20-year Diversification Plan, which is structured around the more efficient use of its sugarcane resource to deliver sustainable energy-based projects and greater shareholder value.

Financing for this project is an example of how we're helping our customers to achieve their sustainability and business objectives through our products and services. We provided advice to help Mackay Sugar structure the financing for this project in order for both NAB and Rabobank to co-fund the project.

20 This figure also includes loans at fair value.

21 This is reducing emissions by around 210 tCO₂-e per annum across operations in Australia and New Zealand.

Environment dig deeper

Environmental Governance

Environmental governance is provided through our Group Environment Committee (GEC), chaired by the Group Executive – Group Governance & Legal. Membership of the Committee includes senior representatives from key businesses across the Group in Australia, New Zealand, the UK, Asia and the US.

The GEC is responsible for leading management in respect to the three pillars of the Group's Environmental Agenda. This includes providing oversight in relation to environmental culture (engagement and awareness), integrated environmental governance processes and environmental strategy, risks and performance (which includes consideration of climate change, resource efficiency and natural value strategy, risks and opportunities). The GEC meets on at least a quarterly basis to review progress against key deliverables that form part of our Environmental Agenda. Management at a regional level reviews performance regularly, usually on a monthly basis.

Environmental reporting is also presented to our:

- Group Risk Return Management Committee – which reviews our environmental risks and approves relevant Group-wide environmental policies;
- Executive Committee CR Council – which provides oversight of our overall CR Agenda and related corporate responsibility-related matters; and
- Board.

The Board retains ultimate authority for oversight of all corporate responsibility issues, which includes our Environmental Agenda. Environmental performance is also noted and approved by relevant subsidiary boards and committees, for example – (i) the Great Western Bank Board; and (ii) the UK Property Steering Group (PSG) – particularly where regulatory requirements exist such as the Carbon Reduction Commitment Energy Efficiency Scheme in the UK.

Environmental management across the Group is undertaken on a regional basis due to differences in regional regulatory requirements and operating practices, with reporting through to regional management committees. Our environmental management policies and practices are aligned to the ISO 14000 framework. In the UK, our business maintains ISO 14001 certification for its Merrion Way Customer

Support Centre and successfully retained its certification in July 2012.

Our environmental governance framework is supported by embedded resources and specialists within each of our key businesses.

Our Group CEO and Australian-based executives have performance scorecards that include a performance measure related to the achievement of our Corporate Responsibility scorecard. This currently incorporates a number of Corporate Responsibility performance metrics including reduction of GHG emissions. Overall achievement against the performance scorecard is linked to the annual short-term incentive payment.

Business Unit Managers with responsibility for Property and Technology functions and staff with specific environmental program responsibilities have scorecards which incorporate measures related to meeting environmental reduction targets.

Certain outsourced functions also have contractual arrangements which require them to deliver agreed environmental programs to assist us in meeting our environmental performance targets.

Our environmental policy and approach to environmental management

Our Group Environmental Policy Principles ('the Policy') act as the global reference point for our Environmental Agenda and management practices.

The Policy recognises our commitment to meet key legislative compliance requirements and voluntary commitments, and covers our approach to environmental management and performance, including:

- environmental risk;
- setting of environmental objectives and targets;
- direct (operational) and indirect (via customers and suppliers) environmental impacts;
- reporting and assurance;
- investment in environmental opportunities;
- employee awareness and community involvement; consultation and feedback;
- public policy engagement;
- and governance.

A copy of our Policy is provided on our Group website at: www.nabgroup.com/cr

Our most significant direct environmental aspects and impacts include the following:

- energy use and greenhouse emissions;
- waste production and material use (in particular paper); and
- business travel.

Indirectly, we also recognise we can have an impact through our purchasing choices and supply chain management and through the customers with whom we do business.

In addition to the Policy, the Group has:

- an *Environmental Standard* – which provides further detail on the Group's requirements for environmental management practices and voluntary commitments; and
- an *Environmental Reporting and Offset Management Standard* – which sets an agreed internal standard for our approach to carbon neutrality, offset management and environmental reporting.

Our Policy and Standards are reviewed annually (aligned with reporting and assurance cycles) to reflect evolving environmental management and reporting practices.

KPMG provides assurance services across the Group for key aspects of our voluntary and regulatory environmental and carbon reporting.

Environment dig deeper

Risk management and compliance

Risk management

Risk exists in all aspects of our business, and the environment in which we operate. The Group's collective risk management capability and competency supports successful implementation of our strategic priorities, and enables development of a sustainable and resilient business that is appropriately responsive to its ever-changing environment.

Risk is identified and managed as part of an Group-wide Risk Management Framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to our businesses qualitatively (through our risk postures, policies, standards and work instructions) and quantitatively (through our risk limits, settings and decisioning authorities). Compliance with our Risk Management Framework is non-negotiable and when we make mistakes, we reflect on our experience, share our learnings and hold ourselves accountable through the application of balanced performance scorecards and a risk adjusted performance and rewards framework.

At an executive level, risk is overseen by the Group Chief Executive Officer through the Group Risk Return Management Committee (GRRMC), and its' supporting sub-committees.

While every employee of our organisation is responsible for managing risk as part of their performance scorecard, our operating model differentiates accountabilities using a 'three lines of defence' approach:

- First Line: Management (who own the risks);
- Second Line: Risk (who provide insight, oversight, and appetite); and
- Third Line: Internal Audit (who provide independent assurance).

The Group identifies key categories of material risk that it is exposed to (referred to as the Group Risk Inventory or GRI). Currently the GRI is comprised of the following risk categories:

- Credit risks;
- Operational risks;
- Regulatory and compliance risks;
- Market and non-traded market risks;
- Strategic positioning and strategic execution risks; and
- Life insurance risks.

The systems and processes in place to identify, assess, measure, monitor, mitigate and report against these risks on a consistent basis are documented in our internal Risk Management Systems Descriptions.

ESG risk management

In 2012, we completed development of Environmental, Social and Governance (ESG) Risk Principles to further embed ESG risk considerations into our day-to-day business decision making, and continued to refine our processes and tools for managing ESG risks.

Monitoring of ESG risks (and changes in the external and internal environment, including stakeholder expectations) is an ongoing process at both the Group and business level.

Various ESG risk reports are compiled on a periodic basis and provided to relevant internal stakeholders. For example our Group Environment Committee receives reports on climate change, resource scarcity and natural value, and our GRRMC receives a six monthly report on ESG risks.

In order to help our employees better understand ESG risk, we made a commitment in our 2011 Annual Review to roll-out compulsory risk awareness training (incorporating ESG risk) for all Australian employees, and in New Zealand for risk and banking employees. In Australia, this commitment was met, and also completed by our Asian employees. However, the New Zealand commitment has been delayed until 2013.

Equator Principles

NAB became a signatory to the Equator Principles (EPs) in October 2007 and is a member of the EPs Association.

In 2012, the EPs Association commenced a review of the EPs and has conducted a consultation and public comment process on a proposed draft of EPs III. We have participated in member consultation processes for the development of the draft EPs III and are continuing to participate in further work to address feedback arising from both member and public consultation on the draft.

NAB's reporting to meet Principle 10 of the EPs is published in our Customer Dig Deeper available at: www.nabgroup.com/cr

Environmental Compliance

We are subject to a range of environmental regulatory requirements in the countries in which we operate.

The most significant include the:

- National Greenhouse and Energy Reporting Act 2007 (Cth) (Aust.);
- Energy Efficiency Opportunities Act 2006 (Cth) (Aust.);
- Environmental Protection (Environment and Resources Efficiency Plan) Regulations 2007 (Vic) (Aust.); and
- Carbon Reduction Commitment Energy Efficiency Scheme (UK).

In 2012, we also reported for the first time on our main Australian data centre under the National Pollutant Inventory (NPI) due to the volume of gas consumed at our tri-generation facility operated at the data centre. Full operation of our tri-generation facility delivers a GHG emissions reduction of around 19,000 tCO₂-e per annum.

In October 2012, NAB applied to the Australian Securities and Investments Commission to vary its Australian Financial Services licence to provide financial services in relation to regulated emissions units (carbon units, Australian carbon credit units and eligible international emissions units) established pursuant to Australia's carbon pricing scheme. It is anticipated that our licence will be varied by 31 December 2012.

Further information is provided in the *Report of the Directors* in our 2012 *Annual Financial Report* available at: www.nabgroup.com

During the 2012 environmental reporting period:

- the Group was not subject to any material environmental fines or penalties; and
- there were no significant spills from any Group storage facility.

Environment dig deeper

Environmental performance summary²²

Statement of position for the Group

Indicator	Units	Notes	2012	2011	2010	2009	2008	2007
Employee numbers ²³	FTE		44,054	45,153	41,003	38,544	39,041	38,927
Property space occupied ²⁴	m ²		1,101,213	1,133,042	1,116,256	1,064,482	1,075,805	1,124,696
Total operating expense ²⁵	\$m		(7,828)	(7,974)	(7,862)	(7,580)	(7,276)	(7,428)
Underlying profit ²⁶	\$m		10,396	9,620	8,776	9,376	8,138	7,142
Water consumption (estimate) ²⁷	kl	7	729,903	722,590	632,998	772,799	871,988	550,369
Waste to landfill (estimate) ²⁸	tonnes	5	3,528	3,786	3,514	3,620	3,637	NR
A3 & A4 office paper purchased	tonnes	4	1,849	2,066	2,199	2,177	1,958	NR
Net Energy consumption	GJ	2	1,139,700	1,144,975	1,115,506	1,001,087	955,748	1,043,292
Gross GHG emissions	tCO ₂ -e	3	307,026	321,158	320,839	266,750	263,261	266,212

Summary of Group Greenhouse Gas (GHG) Emissions

(tCO ₂ -e emissions)	Notes	2012 Performance	2011	2010	2009	2008	2007	% change from 2011 to 2012
Total Scope 1 Emissions	3,6	25,363	25,551	22,084	16,019	15,335	19,089	-1%
Total Scope 2 Emissions	3	171,767	174,448	186,479	193,709	207,020	210,018	-2%
Gross Scope 1 and 2 GHG emissions		197,130	199,999	208,563	209,728	222,355	229,107	-1%
Total Scope 3 emissions	3,4,5,6	109,896	121,159	112,276	57,022	40,906	37,105	-9%
Gross GHG emissions²⁹		307,026	321,158	320,839	266,750	263,261	266,212	-4%
Renewable Electricity (RE)	9	(27,620)	(21,970)	(27,068)	(37,103)	(28,935)	(13,331)	26%
Voluntary carbon offsets purchased (offsets) ³⁰	9	(279,406)	(299,188)	(42,040)	(18,314)	(16,000)	0	-7%
Net GHG emissions (after RE and offsets)	9	0	0	251,731	211,333	218,326	252,881	

Summary of Group Progress against 2013 Reduction Target

Indicator	Notes	2010 Baseline tCO ₂ -e	2012 Performance tCO ₂ -e	Movement tCO ₂ -e	2013 Target tCO ₂ -e	Movement	Status
A 18,900 tCO ₂ -e reduction in GHG emissions from stationary energy ³¹ in buildings against 2010 baseline by 30 June 2013	8	208,254	192,422	15,832	189,354	18,900	On track

Integrity of Reporting

Senior Management of the NAB Group has a responsibility in relation to establishing and monitoring internal controls relevant to the preparation and presentation of the information contained in the 2012 Environment Dig Deeper with the objective of ensuring that the information is free from material misstatement.

Unless otherwise stated, all data in this *Dig Deeper* is reported for the period 1 July to 30 June and all graphs represent Group-wide data from internal sources.

In this *Dig Deeper* Paper, 'US' refers to the performance and data from our New York branch and Great Western Bank operations.

[~]For financial year ending 30 September.

* 2012 and 2011 water consumption and waste to landfill figures include United States in addition to Australia, United Kingdom and New Zealand. All prior years are based on Australia, United Kingdom and New Zealand only.

²² KPMG has provided assurance on specified GHG emissions and offset data since 2009.

²³ 2010 and 2011 Full Time Equivalent Employee (FTE) numbers have been restated to reflect a refinement of the definition of FTEs made in 2011 for financial reporting purposes. 2012, 2011 and 2010 FTE numbers are based on a monthly average number of employees across the period 1 July to 30 June each year. All prior years are reported as at 30 June.

²⁴ The 2010 Group number for property space occupied has been restated in 2012 (figure is now 1,116,256 m² and it was previously 1,222,142 m²) as a result of the restatement of the 2010 Australian figure for property space occupied. This change was made to ensure the methodology for determining the Net Lettable Area was consistent with all other reported periods.

²⁵ The 2011 figure for Total operating expense has been restated to align with the figure provided in NAB Group's 2011 Full Year Results.

²⁶ Use of Underlying Profit as a metric (rather than measures of profit or economic activity) for normalisation of our environmental performance data allows for meaningful comparison to prior years' data and to financial intensity measures used in our Carbon Disclosure Project disclosures due to the nature of our underlying business activities. Please refer to page 12 of NAB's 2012 Full Year Announcement (available at www.nabgroup.com) for a more detailed explanation of the elements comprising the underlying profit.

²⁷ The Group water consumption estimates for 2011 and 2010 have been restated due to changes made to Australian historical water data for 2010 and 2011. Australia water data has been updated following changes to water data invoiced by some landlords and a revision to the methodology applied in Australia for extrapolating water consumption where no invoices are available.

²⁸ The 2011 Group waste to landfill estimate has been restated due to detailed analysis of Australian waste data, which identified historical anomalies due to changes in waste conversion factors used by our waste services provider.

²⁹ The Group Gross GHG emissions figure for 2011 has been restated due to a small number of changes made to improve accuracy of data. As a result of these changes, our 2011 Gross GHG emissions have changed from 320,776 to 321,158 tCO₂-e and an additional 382 offsets have been allocated and retired from our surplus to the 2011 environmental reporting period.

³⁰ In 2012, we have retired a further 382 offsets for the 2011 environmental reporting year, following small adjustments made to emissions calculations as a result of: (i) corrections to the paper emissions factors published by EPA Victoria; (ii) adjustment to the waste conversion factors used by our waste contractors to quantify our waste to landfill in Australia; (iii) an adjustment to emission factors for calculating vehicle fleet emissions in the UK; (iv) a minor change to calculation of buildings refrigerant emissions in NZ and (v) adjustment to electricity consumption data in Japan.

³¹ Our targets for emissions from stationary energy in buildings includes the following emissions: Australia – emissions from gas, diesel and electricity; New Zealand – emissions from electricity; UK – emissions from gas and electricity. Also refer to the description on page 5 and Note 8 – Reduction targets on page 24.

Environment dig deeper

Notes to the environmental performance summary

Note 1: Reporting policies

Reporting period

This Dig Deeper paper has been prepared based on a reporting year from 1 July to 30 June, unless otherwise stated. This environmental reporting year has been established to align with regulatory reporting requirements in the Australian geography, where the bulk of the Group's emissions currently occur. It should be noted that this is not the same as the Group's financial reporting period, which has a year end of 30 September.

Organisational boundary

NAB Group reports its environmental performance data using an operational control approach to define its organisational boundary.

In Australia, the organisational boundary for our relevant Scope 1 and 2 greenhouse gas emissions meets the definitional requirements of the *National Greenhouse and Energy Reporting Act 2007* (Cth).

In the UK, the organisational boundary for our relevant Scope 1 and 2 greenhouse gas emissions meets the requirements of the *Carbon Reduction Commitment Energy Efficiency Scheme* (UK).

In addition to reporting on aspects of our environmental performance over which we have operational control or can exert a significant degree of influence, we are committed to playing an influencing role with employees, customers and suppliers to assist and encourage them to reduce their own environmental footprint.

Geographic Scope

Environmental performance data has been reported for NAB Group's operations in Australia, New Zealand, the United Kingdom (UK), Asia and the US, where data of a reasonable quality is available or a reasonable estimate can be made.

Baseline for 2013 targets

The baseline data for environmental reduction targets is the data prepared for the 2010 environmental reporting period, except in the case of our Australian paper reduction target, which was established 12 months earlier against a 2009 baseline, or where otherwise stated.

Prior year statements

Where relevant and applicable, prior year figures have been restated when more accurate data becomes available.

Restatements are noted where relevant as footnotes in this Dig Deeper paper.

Estimation

Where complete information is not available, estimates are made by extrapolation from known activity data or by applying an uplift based on reconciliation between systems that collect activity data and our financial reporting systems. Estimates are footnoted where relevant within this Dig Deeper paper.

Reporting of greenhouse gas emissions

All greenhouse gas (GHG) emissions figures reported as part of the Group's environmental performance are in tonnes of carbon dioxide equivalents (tCO₂-e) and include the main GHGs covered in the Kyoto Protocol – carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O), perfluorocarbons (PFCs) and hydrofluorocarbons (HFCs), as relevant. The Group does not have emissions of sulphur hexafluoride (SF₆).

Our *Environmental Reporting and Offset Management Standard* sets out the decision framework we have used to establish which Scope 3 GHG emissions are included in our carbon inventory.

All Scope 1 and 2 emissions from our direct operations in Australia, the United Kingdom and New Zealand are included in NAB Group's carbon inventory. For our smaller operations in the US and Asia, Scope 2 data is included and data for Scope 1 emissions is included where it is available and of a reasonable quality.

NAB Group's Scope 3 emissions include those Scope 3 emissions identified as mandatory for reporting under the framework of the World Resources Institute (WRI) provided in *Hot Climate, Cool Commerce: A Service Sector Guide To Greenhouse Gas Management*. It also includes other voluntary sources of emissions which are relevant to our business, which we have determined to include using the principles and tests

provided in the *WRI Service Sector Guide* and presented in the highlight box on page 15.

The GHG emissions associated with NAB's carbon inventory and the activities noted within this Dig Deeper paper have been determined on the basis of measured or estimated energy and fuel use, and relevant activity data, and multiplied by relevant GHG emission factors.

Where possible, fuel or energy use is based on direct measurements, purchase invoices or actual activity data; in other cases, it has been necessary to make estimates. Where estimates or extrapolations have been used, this is noted.

Relevant published national government emissions factors were used to calculate GHG emissions wherever possible. In the absence of such national factors, we have also used emissions factors provided in reporting guidelines produced by voluntary reporting initiatives, or we have used emissions factors developed by consultants with specialist expertise.

Environment dig deeper

Reporting methodologies

NAB Group's carbon inventory has been prepared with reference to the following methodology descriptions and sources of emissions factors:

- National Greenhouse and Energy Reporting (Measurement) Determination 2008, Compiled 1 July 2011
- National Greenhouse Accounts (NGA) Factors, July 2011
- National Greenhouse Accounts (NGA) Factors, July 2012
- 2012 Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting
- For office paper we have used emissions factors prepared for EPA Victoria by Tim Grant and Leyla Acaroglu of Life Cycle Strategies, Richmond, Victoria. These were published in *Greenhouse Gas Emission Factors for Office Copy Paper Publication 1374*, May 2011. However, we needed to seek additional information from EPA Victoria due to the errors in this publication. This has led to a minor adjustment of our 2011 GHG emissions from office paper consumption, and we have restated our 2011 figures in 2012 and retired additional offsets for 2011.
- For refrigerants – our method reflects the GHG Protocol worksheet titled hfc-pfc (1) – Worksheet 3: Screening Method for HFC and PFC Emissions from Refrigeration/AC Equipment: Emission Factor Based Approach: Step 2: Determine Net Gross HFC and PFC Emissions from Operation of Refrigeration/AC Equipment. Some additional Global Warming Potentials (GWPs) have also been taken from ASHRAE Standard 34 – Table 1: GWPs of Common Greenhouse Gases and Refrigerants
- For hotel stays – the method used incorporates information and factors from the CIBSE Guide F – Energy Efficiency in Buildings, the 2012 Guidelines to DEFRA/ DECC's GHG Conversion Factors for Company Reporting – Table 6I, and the International Energy Agency – *CO₂ Emissions From Fuel Combustion Highlights* (2011 Edition)

- Guidance for Voluntary, Corporate Greenhouse Gas Reporting – Data and Methods for the 2010 Calendar Year. New Zealand Ministry for Environment, Dec 2011; and
- The US Climate Registry – General Reporting Protocol V1.1 May 2008, including updates and clarifications released July 15, 2011; 2012 Climate Registry Default Emission Factors – Released January 6, 2012; and 2012 eGRID Subregion Emission Rates (2009 Data) – Released May 10, 2012

Across the Group, where there is evidence that a proportion of activity data relevant to the calculation of an emissions source included in our carbon inventory is generated outside corporate systems, an uplift factor is applied to account for this additional business activity within our footprint to ensure that we do not underestimate our GHG emissions. This uplift factor is calculated based on a reconciliation of activity data in corporate systems compared to expenditure data. Uplift factors have been applied to data from Australia and New Zealand³².

Principles and tests for guiding decisions regarding the inclusion of emissions in NAB Group's carbon inventory³³

General principles – applying to Scope 1, 2 and 3 emissions

1. Relevance
2. Completeness
3. Consistency
4. Transparency
5. Accuracy

Tests for relevance – applying to Scope 3 emissions

- a. Is the emission causing activity significant or believed to be significant relative to the NAB Group's Scope 1 and Scope 2 emissions?
- b. Is the emission-causing activity crucial to the NAB Group's core business?
- c. Do NAB Group's key stakeholders believe that it is important to account for particular emission-causing activities?
- d. Can NAB Group reduce or mitigate some of the emissions?
- e. Are the emissions from an outsourced activity that would have been previously categorised as producing Scope 1 emissions?
- f. Is NAB Group able to readily find reliable data for the emission-causing activity?

³² A review of Australian uplift factors was conducted in 2012. This showed improvements in business travel records, which means we are now able to directly capture more of our travel data, and we have adjusted our uplift factors accordingly. In Australia, the uplift factors applied include: (i) a 7% uplift to *Business travel – air*, for flights not booked through our corporate travel provider; (ii) a 6% uplift for *Business travel – hotel stays* for stays not booked through our corporate travel provider; and (iii) an 8% uplift for *Business travel – rental cars*, for bookings not made through our corporate rental car provider.

In New Zealand the uplift factors applied include: (i) *Air Travel* – domestic uplift of 3.12% and international short & long haul uplift of 5.4%; and (ii) *Rental Cars* – uplift applied is 5.1%. These uplifts capture specific categories of business travel where bookings have occurred outside of BNZ's preferred travel suppliers.

³³ These principles are taken from the *Hot Climate, Cool Commerce: A Service Sector Guide to Greenhouse Management* by the World Resources Institute, May 2006.

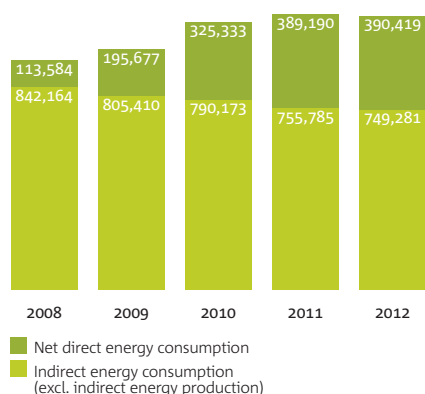
Environment dig deeper

Notes to the environmental performance summary

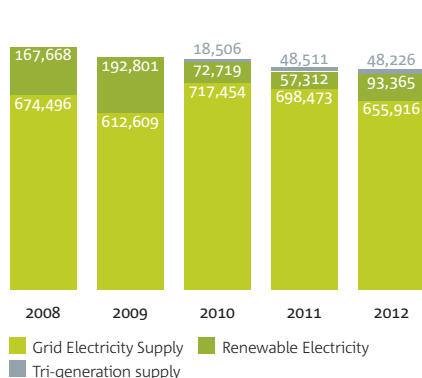
Note 2: Energy consumption and production

Direct and Indirect Energy Consumption and Production												
(GJ)	Group		Australia		United Kingdom		New Zealand		United States		Asia ³⁴	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Direct energy consumption	390,419	389,190	220,042	223,747	74,419	65,110	58,524	52,343	37,001	47,879	433	110
Indirect energy consumption	797,507	804,296	503,412	504,677	146,667	152,494	77,025	76,908	66,080	65,866	4,323	4,352
Gross energy consumption	1,187,926	1,193,486	723,454	728,424	221,086	217,604	135,549	129,251	103,081	113,745	4,756	4,462
Indirect energy production (tri-generation)	(48,226)	(48,511)	(48,226)	(48,511)	0	0	0	0	0	0	0	0
Net energy consumption	1,139,700	1,144,975	675,228	679,913	221,086	217,604	135,549	129,251	103,081	113,745	4,756	4,462

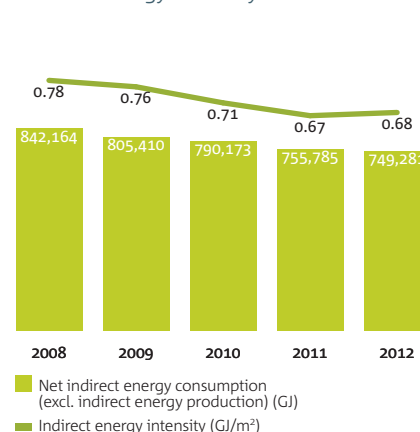
Net direct and indirect energy consumption (GJ)



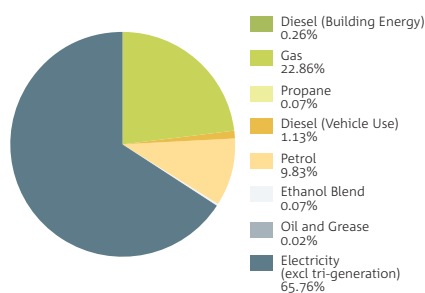
Indirect energy consumption mix (GJ)



Indirect energy intensity



Net energy consumption by Fuel Type (%)



- NR means not reported. Data unavailable in reporting period.
- Direct energy consumption refers to energy from fuel used in buildings for heating and back-up power generation, as well as fuel used in our vehicle fleet.
- Indirect energy consumption refers to electricity consumption, from grid supply, and from tri-generation.
- Indirect energy production refers to electricity generated through tri-generation.
- Net energy consumption refers to Gross energy consumption minus indirect energy production.

The Group's net energy consumption in 2012 was 1,139,700 GJ – a marginal decrease in energy consumption (0.5%) when compared to 2011. Reductions made in some geographies, and for some emissions sources, have been largely been offset by increases in others. For example, savings due to (i) energy efficiency initiatives in the commercial and retail portfolio in Australia, (ii) reduced electricity use in the UK, and (iii) reduced gas usage in the US as a result of a warmer winter have been negated by (a) increased energy use in Asia resulting from the opening of more Asian offices; (b) continued growth in data centre energy consumption in Australia – in line with growth in customers; (c) increased electricity use in New Zealand and increased gas use in the UK; and (d) increased vehicle fuel consumption in the UK, NZ and Asia as a result of increases in work use vehicle fleet size of 20%, 7% and 100%³⁵ respectively.

³⁴ The 2011 indirect energy consumption figure for Asia has been restated due to improvements in data capture for our offices in Japan.

A range of energy efficiency initiatives we have implemented within our building portfolios are discussed on page 4. Over half of BNZ's workforce occupies a Green Star rated building³⁶. In Australia, we have implemented 142 energy efficiency projects estimated to deliver annual emissions reductions of 2,000 tCO₂-e.

During 2011, NAB purchased a quantity of 57,600 GJ of Australian government-accredited GreenPower™ as Renewable Energy Certificates (RECs) for the 2012 reporting period. This represented around 12.5% of our Australian purchased electricity in the 2012 reporting period. The RECs have been purchased with the help of our Environmental Markets team.

Our UK operations recommenced purchasing accredited renewable electricity in April 2012, purchasing a total of 35,765 GJ of renewable electricity within the

³⁵ In 2012, our Asian business doubled vehicle use from one to two vehicles.

³⁶ Two major sites in Auckland have both been certified as 5 Greenstars for design, build and fit out and one key site in Wellington has 5 Greenstars for design and 6 Greenstars for fitout.

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reporting period, bringing the total green electricity purchased by the Group to 93,365 GJ.

At the Group level, indirect energy intensity of our portfolio remained relatively flat despite a decrease in both property space occupied and FTE. Energy intensity per m² property increased marginally from 1.01 GJ/m² to 1.035 GJ/m², while energy intensity per FTE increased from 25.36 GJ/FTE to 25.87 GJ/FTE.

We expect to see a further increase in energy intensity per m² of property space occupied in future years as we consolidate our property portfolios in a number of geographies where we operate. The development of our new offices at 700 Bourke Street, Melbourne continues and we expect to have employees move from six buildings in the Melbourne Central Business District into this one new building, which is targeting a 5Star GreenStar Interiors rating after a year of occupancy. This will provide a significant energy efficiency benefit as we move out of less efficient buildings.

Additionally, we expect to experience upward pressure on energy use and emissions per FTE due to decreases in employee numbers, particularly in Australia and the UK, over the next one to two years.

Energy efficiency pays

This year, we have had two of our energy efficiency case studies independently assured by KPMG. The assurance report is available at www.nabgroup.com/cr. These case studies illustrate examples of the types of energy efficiency opportunities that we are implementing to reduce greenhouse gas emissions from our building portfolio.

Office Building Energy Efficiency

Whilst extensive energy efficiency works have already been undertaken across the NAB commercial property portfolio, a further series of opportunities assessments was recently undertaken. This has led to the development of a further program of works across nine key sites in the commercial property portfolio. Works include a variety of control adjustments, several lighting initiatives and disconnection of surplus equipment. This is expected to result in estimated savings of 620 MWh and 680 tCO₂-e per annum. This is estimated to deliver annual financial savings of \$86,000.

Tri-generation Heat Recovery Module

During the 2010 financial year, we completed the installation and commissioning of a tri-generation system to reduce the greenhouse gas intensity and electricity demand of our main Australian data centre. Subsequently, our National Critical Sites Operations Manager suggested an initiative to incorporate a Heat Recovery Module which was installed in November 2011. This is now estimated to harvest up to 500 kW of available waste heat to preheat hot water for the facility. This has delivered estimated savings of 6,744 GJ of energy and 343 tCO₂-e per annum. This is estimated to deliver annual financial savings of \$30,000.

GRI Reference

EN3 – Direct energy consumption.

EN4 – Indirect energy consumption.

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Notes to the environmental performance summary

Note 3: GHG emissions

Gross GHG Emissions by scope												
(tCO ₂ -e emissions)	Group		Australia		United Kingdom		New Zealand		United States		Asia	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Total Scope 1 emissions	25,363	25,551	14,565	14,882	4,620	4,024	4,047	3,759	2,101	2,878	30	8
Total Scope 2 emissions	171,767	174,448	134,058	135,408	19,651	20,605	2,931	3,397	14,297	14,213	830	825
Total Scope 3 emissions	109,896	121,159	89,833	98,704	10,885	12,765	4,952	5,456	2,896	2,960	1,330	1,274
Gross GHG emissions	307,026	321,158	238,456	248,994	35,156	37,394	11,930	12,612	19,294	20,051	2,190	2,107

Gross GHG Emissions by activity ³⁷							
(GJ)	Group		Australia	United Kingdom	New Zealand	United States	Asia
	2012	2011	2012	2012	2012	2012	2012
Scope 1							
Building-based refrigerants - in HVAC and refrigerators	2,705	2,978	2,158	184	164	199	0
Business travel - Work-use vehicles fleet (diesel, petrol, ethanol)	8,373	8,177	4,418	411	3,444	70	30
Work-use vehicle fleet - air conditioning refrigerant	159	147	96	21	40	2	0
Business travel - status-use vehicle fleet (UK only)	453	438	0	453	0	0	0
Status-use vehicle fleet - air conditioning refrigerant	47	39	0	47	0	0	0
Stationary energy - combustion of fuel: including diesel, gas and propane	13,626	13,772	7,893	3,504	399	1,830	0
TOTAL SCOPE 1	25,363	25,551	14,565	4,620	4,047	2,101	30
Scope 2							
Stationary energy - electricity	171,767	174,448	134,058	19,651	2,931	14,297	830
Scope 3							
Business travel - air	27,808	37,025	20,760	2,662	2,934	530	922
Business travel - employee claims for use of personal vehicles for work purposes	3,925	4,659	1,785	1,346	139	655	0
Business travel - hotel stays	4,633	5,257	3,316	514	420	239	144
A4 and A3 paper purchased	1,051	1,193	21	397	613	0	20
Business travel - rental cars ³⁸	571	628	389	8	68	106	0
Business travel - taxi use	1,689	1,911	1,461	17	189	0	22
Business travel - rail (UK Only)	199	377	0	199	0	0	0
Supplier business travel (UK only)	384	603	0	384	0	0	0
Waste to landfill	3,833	4,112	2,912	331	155	435	0
Base-building energy - electricity not under NAB's operational control	32,996	32,905	32,869	0	127	0	0
Base-building energy - combustion of fuel: including diesel, gas and propane not under NAB's operational control	1,652	1,398	1,652	0	0	0	0
Transmission Losses - stationary energy (diesel, gas, propane) and electricity	25,582	25,584	19,392	4,741	296	931	222
Transmission Losses - base-building energy (diesel, gas, propane) and electricity not under NAB's operational control	4,938	4,908	4,927	0	11	0	0
Transmission Losses - Work-use vehicles fleet (diesel, petrol, ethanol)	470	455	349	121	0	0	0
Transmission Losses - Status-use vehicles fleet (diesel, petrol, ethanol)	124	110	0	124	0	0	0
Water consumption (UK only)	41	34	0	41	0	0	0
TOTAL SCOPE 3	109,896	121,159	89,833	10,885	4,952	2,896	1,330
GROSS GHG EMISSIONS	307,026	321,158	238,456	35,156	11,930	19,294	2,190

Note *The value '0', means the emissions source is not applicable to a particular geography.

³⁷ 2011 GHG emissions have been restated due to (i) Group-wide restatement of emission factors relating to paper; (ii) changes to Waste to landfill quantitative measurement conversion factors used by our Australian waste contractors; (iii) amendments to emission factors applied to UK vehicle fleet refrigerants and NZ.

³⁸ Emissions for 'Business travel - rental cars for our New York office in the United States were estimated based on Great Western Bank data by applying a tCO₂-e/FTE extrapolation'

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The Group's total gross greenhouse emissions in 2012 were 307,026 tCO₂-e. This was a decrease of around 4.4% compared to 2011. This has been driven by:

- (i) a significant drop (~22%) in business travel across the Group (see Note 6, page 22);
- (ii) reductions in electricity consumption in Asia, Australia and the UK;
- (iii) a 14% decrease in emissions associated with electricity usage in NZ as a result of an increase in the proportion of renewables in the NZ electricity supply grid mix; and
- (iv) decrease in emissions (6.8%) from waste to landfill as a result of successful waste reduction initiatives in the UK and NZ.

The downward trends noted above, were partly offset by an increase in:

- (i) vehicle-based emissions in NZ (9%) and the UK (6%) as a result of increasing fleet size; and
- (ii) gas usage in the UK (15%) and NZ (4%).

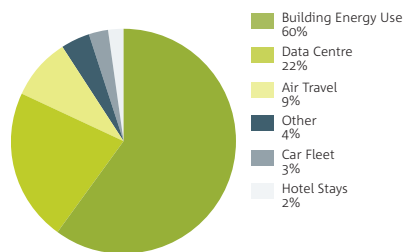
The net emissions from our business in 2012 were 279,406 tCO₂-e. This net result is ~10% lower than our gross emissions due to purchase of 25,935 MWh of renewable electricity in Australia and the UK.

Our Australian business contributes around 78% of the Group's emissions. This is illustrated in the pie chart opposite. The next biggest contributors are our businesses in the UK and the US, with our US footprint increasing due to acquisition of further branches by Great Western Bank.

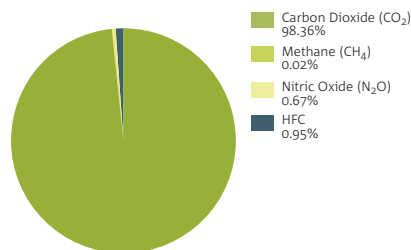
Building related energy use (stationary energy) is the largest source of emissions across the Group (around 82%). This includes energy use from our data centres, which represents 22% of the Group's emissions. The next most significant source of emissions is the indirect emissions we generate as a result of our air travel (9%).

Around 98% of the Group's GHG emissions are carbon dioxide due to direct or indirect combustion of fossil fuels. A minor quantity of emissions results from our use of refrigerants in cars, building cooling systems and kitchen refrigerators (~1%) (see pie chart).

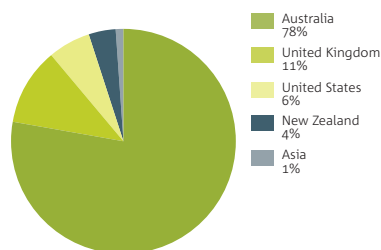
Group GHG emissions by generating activity (%)



Group GHG emissions by gas type (%)



Group GHG emissions by region (%)



GRI Reference

EN16 – GHG emissions.

EN17 – Other relevant indirect GHG emissions.

EN 19 – Emissions of ozone-depleting substances included in inventory.

EN 20 – Emissions from fuel combustion includes NOx.

Environment

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Notes to the environmental performance summary

Note 4. Office paper purchased

A3 and A4 paper purchased												
	Group		Australia		United Kingdom		New Zealand		United States		Asia	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Total A3 & A4 office paper purchased (tonnes)	1,849	2,066	1,033	1,175	345	346	451	530	NR	NR	20	15
A3 & A4 office paper purchased containing recycled content (%)	13%	22.04%	0.03%	0.00%	35.18%	98.79%	26.86%	21.49%	NR	NR	0.00%	0.00%
Total A3 & A4 office paper purchased per FTE (kg/FTE)	42	46	36	48	40	40	95	113	NR	NR	46	42

Total purchase of A3 & A4 paper decreased across the Group by 10.5% in 2012 compared to 2011. Paper consumption across the Group also dropped to 41.5 kg per FTE from 45.8 in 2011.

This decrease in paper purchase is largely due to paper reduction in Australia and New Zealand of 12% and 14% respectively. This has been achieved through employee behavioural change programs such as our 'MyPaperCuts' program in Australia and 'Paperless Office 2015' in New Zealand, and changes in technology such as the installation of pin-printing ability on office copiers. Paper purchase in the UK remained constant, whilst Asian operations experienced an increase due to new offices being opened in India and Indonesia.

In addition to managing our employees' office-based paper consumption, our Australian business has set a target to reduce paper consumption by 20% per FTE by 30 June 2013 from 2009 levels. This target includes paper use for customer statements, external marketing, shareholder communications and internal reporting.

In 2012, our most successful Australian paper reduction initiative was an internet banking message encouraging customers to suppress their paper statements. This resulted in a 154% increase in customers opting in to online statements from the month prior to the message campaign. We have also made significant progress in reducing paper used for key management reporting. This is expected to result in a further 80 tonnes of paper saved starting in February 2013. As of 30 June 2012, our Australian operations had reduced total paper purchased by 18.4% per employee.

Across the Group, all A3 and A4 office paper purchased used either ECF or TCF bleached pulp fibre.

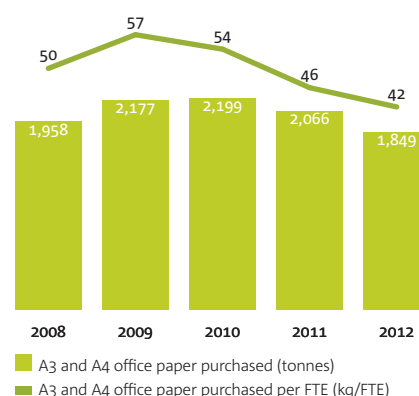
Office copy paper used throughout the Group was either FSC or PEFC certified, to ensure paper pulp is sourced from sustainably managed forestry.

In the United Kingdom, the recycled A3 and A4 paper stock purchased was manufactured from 100% post consumer waste.

A3 and A4 paper stock purchased in Australia is Carbon Neutral, National Carbon offset standard Carbon Neutral Program certified.

In New Zealand recycled paper stock contained 50% post-consumer waste.

A3 and A4 office paper purchased (tonnes)



GRI Reference

EN1 – Weight of materials used.

EN2 – Materials used with recycled content

Environment dig deeper

Notes to the environmental performance summary

Note 5. Waste to landfill and recycle

Total waste produced												
tonnes (estimate)	Group		Australia ³⁹		United Kingdom		New Zealand		United States		Asia	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Total waste to landfill (tonnes)	3,528	3,786	2,648	2,532	293	707	201	270	386	277	NR	NR
Total materials recycled/diverted from landfill	4,809	4,710	2,868	2,920	1,344	1,216	583	558	NR	NR	15	16
Total waste generated	8,338	8,496	5,516	5,452	1,637	1,923	784	828	386	277	15	16

Recycled materials												
tonnes (estimate)	Group		Australia		United Kingdom		New Zealand		United States		Asia	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Paper collected and recycled	3,797	4,084	2,648	2,648	686	970	450	458	NR	NR	13	8
Other waste recycled	1,013	626	220	272	658	246	133	100	NR	NR	2	8
Total materials recycled/diverted from landfill	4,809	4,710	2,868	2,920	1,344	1,216	583	558	0	0	15	16

Waste to landfill												
(estimate)	Group		Australia		United Kingdom		New Zealand		United States		Asia	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Total waste to landfill per FTE (kg/FTE)	80	84	92	86	34	78	42	57	239	169	NR	NR

Total waste generated across the Group decreased by around 2% in 2012.

Total waste generated consists of waste to landfill, paper recycled and other materials recycled.

The Group's total waste to landfill decreased by 6.8% in 2012 due largely to waste reduction initiatives in New Zealand and the UK. In New Zealand, this has been assisted by providing employee training on better waste management practices.

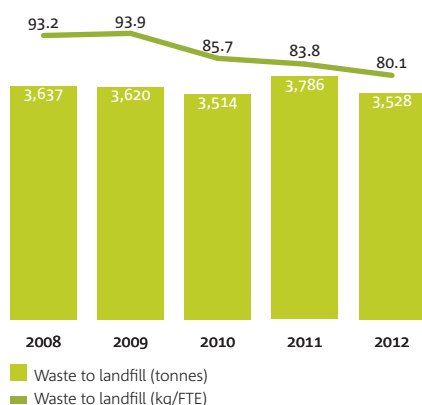
Contrary to Group trends, Australian data showed an increase in total waste generated and a reduction in recycling levels. Inclusion of sites which were not fully operational in 2011 has largely driven the increase in waste to landfill in Australia. Waste reduction initiatives and employee engagement and education continue to be a priority for our Australian operations going into 2013.

Across the Group, paper recycling decreased by 7%. However, this correlates well with the decrease of around 10% in A3 and A4 office paper purchased and indicates

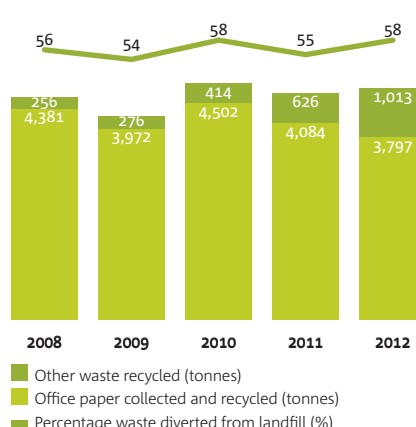
that we are reducing materials usage, as well as wastage. This is both a win for the environment and a win for our operational costs.

Recycling of other materials, excluding paper, continues to increase significantly (by ~62%) across the Group and is contributing to our increased diversion of waste from landfill. Our UK operations continued with their implementation of Mixed Dry Recycling (MDR). They have introduced dedicated MDR recycle bins throughout all Head Office locations and all retail sites have a dedicated MDR collection service.

Waste to landfill – estimate



Recycled materials – estimate (tonnes)



GRI Reference

EN22 – Waste disposal.

- NR means not reported. Data unavailable in reporting period.
- Recycling data for China, India, and Indonesia was estimated based on Hong Kong data by applying a kg/FTE extrapolation.
- Other waste recycled includes:
 - (i) Australia – printer cartridges, co-mingled recycled, mobile phones, cardboard and food;
 - (ii) New Zealand – co-mingled recycled, cardboard and food;
 - (iii) United Kingdom – co-mingled recycled, cardboard, metal and other materials; and
 - (iv) Asia – printer cartridges, co-mingled recycled and paper.
- Greenhouse emissions resulting from waste to landfill are reported in Note 3 – GHG emissions.

³⁹ Detailed analysis of Australian waste data (including paper recycling data) identified historical anomalies due to changes in waste conversion factors used by our waste services provider. This resulted in the restatement of Australian historical waste figures for 2011. Our Australian operations continue to focus on waste reduction initiatives and consideration is being given to alternative waste measurement methods to improve waste data integrity.

Environment dig deeper

Notes to the environmental performance summary

Note 6. Transport and travel

Transport and travel												
	Group		Australia		United Kingdom		New Zealand		United States		Asia	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
No. of work use vehicles	1,777	1,725	1,001	1,019	233	194	532	496	9	15	2	1
Fuel consumption - work use vehicles (kL) ⁴⁰	3,612	3,536	1,947	2,002	168	158	1,454	1,330	30	43	13	3
Total air travel ('000 pkms) ⁴¹	136,591	160,916	101,987	123,375	10,727	13,200	16,324	16,478	2,867	3,434	4,686	4,428
Hotel stays (nights)	89,309	100,146	58,521	66,024	13,935	14,348	9,829	12,380	4,486	5,306	2,538	2,088

Group fleet vehicle fuel consumption increased by 2.1% for work use vehicles in 2012 compared to 2011.

The increase in fuel consumption is a result of increased numbers of fleet vehicles in the UK, NZ and Asia.

In Australia, vehicle fuel consumption decreased by 3% largely due to a decrease in fleet size (1.8%) and the continued transition to hybrid vehicles. Hybrid vehicles now represent 53% of the total vehicle fleet in Australia. This means our Australian vehicle fleet is now more fuel efficient. This is reflected in energy use statistics which indicate a 5% decrease in energy use from the petrol vehicles in Australia.

In New Zealand, the number of diesel vehicles in the vehicle fleet has increased by 25%. These cars are smaller and more fuel efficient than the current petrol vehicles in the New Zealand vehicle fleet.

Business travel related emissions decreased across the Group by around 22%.

This was largely the result of a 15% decrease in pkms travelled by air, which led to associated decreases in hotel stays (11%) and taxi travel (9.2%) compared to 2011.

The key reasons for the significant decrease in air travel included:

- increased availability of video conferencing facilities;
- targeted cost reductions across the Group for air travel; and
- additional approval processes for international air travel.

Air Travel and Hotel Stays



Work use vehicles GHG intensity



GRI Reference

EN29 - environmental impact of logistics.

⁴⁰ Fuel consumption in the UK is derived from recorded distance travelled and vehicle efficiency information provided by our UK fleet manager because fuel cards are not used by our UK business.

⁴¹ The unit for air travel is pkms (passenger kilometres travelled). Uplift has been applied to Australian and NZ air travel to account for travel bookings made outside agreed corporate travel providers

Environment dig deeper

Notes to the environmental performance summary

Note 7. Water consumption and trade effluent discharge

Water consumption												
	Group		Australia ⁴²		United Kingdom		New Zealand		United States ⁴³		Asia	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Water consumption (kL) - estimate	729,903	722,590	427,957	426,538	120,428	99,354	69,123	80,171	112,395	116,526	NR	NR

The Group's reported water consumption increased by 1% in 2012 compared to 2011.

This increase is due to:

- (i) a large water bill adjustment received in 2012 by our UK operations for water consumption that included prior year consumption. We were unable to obtain a split of this data from the relevant water utility to enable assignment of this consumption across the 2011 and 2012 years. Therefore, this has resulted in under reporting for 2011 and over reporting in 2012. The issue has been resolved and will not impact reporting going forward; and
- (ii) a small and expected increase in Australian water consumption due to water usage requirements of our tri-generation plant at our main Australian data centre.

In all regions, work has continued to improve the quality of our water data. Access to reliable water data is an issue across the Group and we continue to work with our water utility suppliers to improve our access to actual site-based water consumption. Water data is not always available as it is often covered by a general charge in rental outgoings by our landlords. Our UK business has now installed water meters at 91% of sites to allow us to collect better water data. In Australia, we have undertaken a data cleansing activity, expanded the sample of sites with actual metered data, and made improvements to our estimation and extrapolation methodology for water data.

In Australia, we have also begun to implement a number of water harvesting initiatives. Additional capacity was added to the water harvesting system at our main Australian data centre in October 2011, increasing the capacity from 175 kL to 295 kL. Additional water metering is currently being commissioned to assist with more sophisticated analysis in the future.

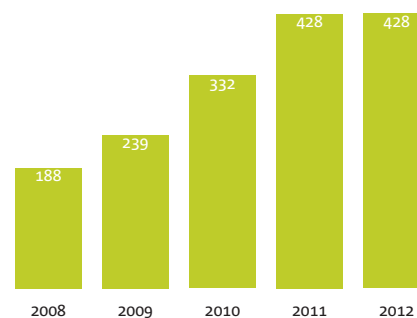
A water savings pilot is currently being conducted across the Australian branch network in Canberra and will be rolled out nationally in late 2013.

Trade effluent

In Australia, NAB has a number of licences for the discharge of trade effluent from cooling towers we use at our data centre and for cooling in some large commercial office buildings.

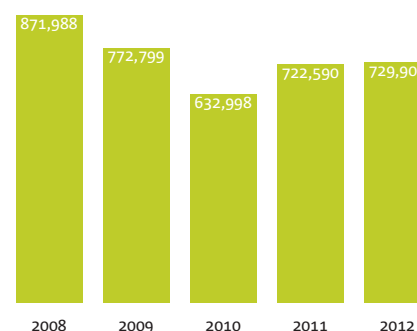
Discharge of trade effluent in Australia was flat in 2012 compared to 2011. There were no changes to the volumes billed under the terms specified in our discharge licences.

Australian trade effluent discharge – estimate (kL)



Australian trade effluent discharge (kL) – estimate

Group water consumption – estimate (kL)⁴²



Group water consumption (kL) – estimate

⁴² Australian 2010 and 2011 water consumption has been restated following improvements to our estimation and extrapolation methodology.

⁴³ Water consumption for our New York Office in the United States was estimated based on Great Western Bank data.

GRI Reference

EN8 - water consumption
EN21 - water discharge

Environment dig deeper

Notes to the environmental performance summary

Note 8. Reduction targets⁴⁴

Building GHG emission targets												
(tCO ₂ -e emissions)	Group			Australia			United Kingdom			New Zealand		
	2010 Baseline	2012	Target	2010 Baseline	2012	Target	2010 Baseline	2012	Target	2010 Baseline	2012	Target
Annual GHG Emissions	208,254	192,422	189,354	172,096	161,342	154,896	31,400	27,886	29,850	4,757	3,194	4,607
Targeted saving in tCO ₂ -e		15,832	18,900		10,754	17,200		3,514	1,550		1,564	150
Employee numbers (FTE)	39,550	42,015		26,149	28,721		8,885	8,560		4,516	4,734	
Annual GHG Emissions per FTE	5.27	4.58	4.79	6.58	5.62	5.92	3.53	3.26	3.36	1.05	0.67	1.02
Group GHG Emission Reduction (%)		-13.0%	-9.2%		-14.6%	-10.0%		-7.7%	-5.0%		-35.9%	-3.0%

Beyond Carbon neutral targets					
Australia (Targets are compared to a 2010 baseline unless otherwise stated)					
	Units	Baseline	2012	2013 Target	Status
A 10% reduction/FTE in building emissions	tCO ₂ -e/FTE	6.58	5.62	5.92	✓
A 20% reduction/FTE in paper use from 2009 baseline	kg/FTE	187.6	152.3	150.1	↗
A 0% increase/FTE in water use	kL/FTE	15.9	14.9	15.9	✓
A 20% reduction/FTE in waste generated	kg/FTE	191.0	192.0	153.0	↘
United Kingdom (Targets are compared to a 2010 baseline unless otherwise stated)					
	Units	2010 Baseline	2012	2013 Target	Status
Achieve target of 700 air miles per FTE	miles/FTE	942	779	700	↗
Achieve a minimum of 90% coverage of water metering across property portfolio	%	88%	91%	90%	✓
Achieve a minimum diversion of waste from landfill of 80%	%	59%	82%	80%	✓
New Zealand (Targets are compared to a 2011 baseline unless otherwise stated)					
	Units	2011 Baseline	2012	2013 Target	Status
Achieve a 3% reduction in paper usage per FTE	kg/FTE	112.7	95.4	109.3	✓
Increase total waste recycled by 10% per FTE	kg/FTE	118.6	123.3	130.4	↘
Achieve a 5% reduction in waste to landfill	tonnes	268.5	201.0	255.0	✓
Change out of refrigerant R22 by end Dec 2014	kg	52.3	30.8	0.0	↗
Asia					
	Units	2011 Baseline	2012	2013 Target	Status
Achieve a 1% reduction in electricity usage (Hong Kong) against a 2011 baseline	GJ	2,246	2,187	2,224	✓

Key to status symbols: ✓ Satisfactory progress that meets or exceeds target; ↗ progressing well towards target; ↘ Indicates that there are issues that could result in the target not being achieved

In 2012, the Group⁴⁵ achieved a net reduction of 15,832 tCO₂-e and a GHG intensity reduction of 13.0% per FTE.

This means we are currently on track to meet our Group GHG emissions reduction target of 18,900 tCO₂-e. Additionally, GHG intensity per FTE is currently tracking lower than our goal to achieve a 9.2% reduction by 2013.

This result was achieved through the implementation of energy efficiency initiatives and programs that are discussed in the *Climate change & resource efficiency* section on pages 4-7

Achieving our Group GHG emissions target in 2013 will be challenging. This year, our Australian business achieved an absolute reduction in energy use, against upward pressure provided by growing data centre energy consumption due to the demand for technology services to support our banking platforms. This demand trend will continue to put pressure on our ability to meet our targets – which is an issue globally. In New Zealand and the UK this year, underlying energy use associated with emissions sources included in our Group emissions reduction target increased slightly although they are still tracking below our 2010 baseline.

- FTE refers to employee numbers as reported in the *Environmental Performance Summary* on page 13.
- In Australia, the paper use target refers to A3 and A4 office paper purchased and paper usage associated with customer statements, internal business reports, proprietary printing and purchased notepads.
- Water use refers to water consumption (kL). Further detail reported in Note 7 – *Water consumption and trade effluent discharge*.
- Waste generated refers to total materials recycled/diverted from landfill and total waste to landfill (tonnes) as reported in Note 5 – *Waste to landfill and recycle*.
- Air miles refers to total air travel ('000 pkms) as reported in Note 6 – *Transport and travel*.
- Water metering across the property portfolio refers to percentage of total property space occupied (m²) where water metering is operational.
- Diversion of waste from landfill refers to percentage of total waste which has been recycled/diverted from landfill as reported in Note 5 – *Waste to landfill and recycle*.

⁴⁴ Targets are to be achieved by 30 June 2013 (refer to page 5 for further information on our targets).

⁴⁵ The Group GHG emissions reduction target is based on emissions reductions in Australia (from electricity, gas and diesel), UK (electricity and gas) and NZ (electricity).

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The electricity grid supply mix in both NZ and the UK has increased in renewable energy content. This has meant the GHG emissions associated with electricity use in the UK and NZ have decreased, despite their slight increase in electricity consumption. This means we need to have an increased focus on driving energy efficiency initiatives in these areas in NZ and the UK in 2013 in order to continue to drive us towards achieving our reduction target.

Progress on Beyond Carbon Neutral Targets

We are currently on track to achieve 10 out of 12 Beyond Carbon Neutral (BCN) resource efficiency targets across the Group. Our BCN resource efficiency targets are described in detail on page 5. Progress on our BCN targets is outlined below.

Australia

Our Australian business is making satisfactory progress on all its resource efficiency targets, with the exception of the waste target.

Detailed analysis of Australian waste data (including paper recycling data) identified historical anomalies due to incomplete data reporting and changes in waste conversion factors made by our waste services provider. This resulted in the restatement of Australian historical waste figures for 2011 (up 9%) and 2010 (up 3%). Our Australian operations continue to focus on waste reduction initiatives and consideration is being given to alternative waste measurement methods to improve waste data integrity.

We are also expecting to see further gradual reduction in FTE numbers over the next twelve months. This reduction was not forecast when our targets were set and will make achieving some of our targets quite challenging.

United Kingdom

Our UK business is currently on track to meet all its environmental performance targets.

However, we will need an increased focus on the delivery of energy efficiency initiatives to ensure the slight increase in energy use experienced in 2012 is reversed and that we continue to achieve our targeted reduction in GHG emissions.

Our UK air travel reduction target will also be challenging. 66% of our targeted reduction has been achieved over the past two years via setting of expenditure targets and the designation of 'critical travel only' months. Similar reductions may be challenging in the next twelve months in light of FTE reductions announced as part of the strategic review of our UK operations.

New Zealand

BNZ is on track to achieve three of its four *Beyond Carbon Neutral* targets, with the exception of the waste recycling target.

An increase in waste recycling has been achieved in year one of the target time period (4%). However, this is slightly less than half the targeted increase (10%) with one year to go. BNZ has noted this and is placing focused effort on increasing recycling rates through work with our waste contractors and increased employee engagement in order to meet this target in 2013.

Asia

Our Hong Kong operation is on track to meet its 1% reduction target for reduced electricity use. The 2.6% reduction delivered in 2012 is expected to provide a reasonable safety margin to buffer against any growth in underlying business activities that may cause an increase in consumption and we are focused on delivering further savings through energy efficiency initiatives.

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Notes to the environmental performance summary

Note 9. Offsetting activities

Offsetting activities												
	Group ⁴⁶		Australia		United Kingdom		New Zealand		United States		Asia	
(tCO ₂ -e emissions)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Gross GHG emissions	307,026	321,158	238,456	248,994	35,156	37,394	11,930	12,612	19,294	20,051	2,190	2,107
GreenPower™	(27,620)	(21,970)	(21,760)	(21,970)	(5,860)	0	0	0	0	0	0	0
Voluntary carbon offsets	(279,406)	(299,188)	(216,696)	(227,024)	(29,296)	(37,394)	(11,930)	(12,612)	(19,294)	(20,051)	(2,190)	(2,107)
Net Emissions	0	0										

A total of 279,406 tCO₂-e of offsets has been retired to cover Group-wide net GHG emissions occurring in the 2012 reporting period.

At the end of the 2012 year, we undertook a reconciliation process of forecast to actual GHG emissions (net of GreenPower™). This reconciliation process indicated that we had retired a surplus of 19,400 tCO₂-e of carbon offsets due to (i) achieving a reduction in gross GHG emissions additional to the targeted Scope 1 and 2 emissions reduction included in our Group emissions reduction target; and (ii) a change in our UK electricity supply contract switched to purchase of renewable electricity⁴⁷.

Given the surplus of offsets held at the end of the reporting period, we re-allocated 19,400 tCO₂-e of retired offsets to future periods. We have obtained external assurance over our GHG emissions inventory for the year ending 2012 and the reconciliation of reported emissions to retired offsets.

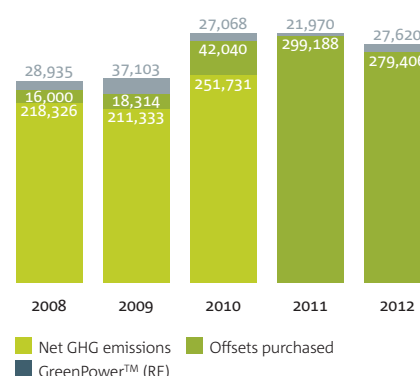
Our requirements for the purchase of quality carbon offsets and the management of our offset portfolio are documented in our *Environmental Reporting and Offset Management Standard*⁴⁸. Our Environmental & Sustainability team managed NAB Group's offset portfolio in 2012 to ensure it met our portfolio diversity and quality requirements.

We have adopted a forward purchasing model to meet its carbon neutral

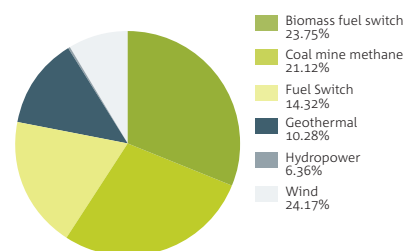
commitment. This means we have calculated our forecast GHG emissions for the 2013 year using the actual greenhouse gas emissions reported in our 2012 carbon inventory. We have purchased and retired a total of 300,402 tCO₂-e of carbon offsets in advance for our 2013 forecast emissions.

One of our key assumptions in adopting a forward purchasing model for forecast emissions is that future year's emissions are unlikely to exceed the prior year's total due to the safety net provided by our GHG reduction target. Additionally, we reconcile actual versus forecast emissions at the end of the future reporting period, and should a shortfall or surplus occur, we retire additional offsets for the period or reallocate surplus offsets to a future period to ensure our neutrality is maintained.

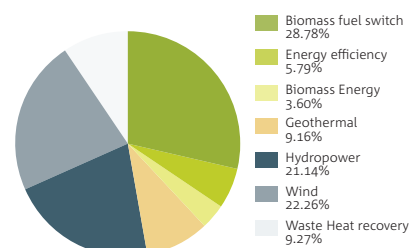
Group GHG emissions – showing net GHG emissions after RE purchased and offsets (tCO₂-e)



Offset portfolio by project type for actual 2012 GHG emissions (%)



Offset portfolio by project type for 2013 forecast GHG emissions (%)



46 Due to restatement of 2011 data we have retired an additional 382 offsets for 2011 emissions during our 2012 reporting and reconciliation process. Also refer to footnotes 29 and 30 in the 'Environmental performance summary' on page 13.

47 In 2012, this was equivalent to a reduction of 5,860 tCO₂-e.

48 NAB had previously documented its carbon inventory and offset management requirements in Guidelines. These were reviewed in 2012 and have now been combined into an *Environmental Reporting and Offset Management Standard*.

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Notes to the environmental performance summary

Assurance and third party certification

We consider that independent assurance and third party validation of our performance is an important means to provide management and stakeholders with confidence in its reported environmental performance data and information.

Third party certification

In Australia and the UK, we have chosen to seek third party certification for our carbon management. This is to give our stakeholders confidence in the credibility of our approach to carbon management.

In Australia, we have held certification under the National Carbon Offset Standard (NCOS) Carbon Neutral Program since 2010 for the emissions inventory we are monitoring and reporting for our Australian operations.

Our Australian operations will undertake its next NCOS verification at the end of the 2012-2013 environmental reporting period. This is additional to the carbon neutral assurance KPMG conducts across our

Group-wide carbon inventory on an annual basis.

In the UK, we are certified under the Carbon Trust Standard (CTS). We first achieved CTS certification in 2008.

CTS certification is now included as an early action metric under the UK Government's Carbon Reduction Commitment Energy Efficiency (CRC EE) Scheme requirements.

Our UK operations will undertake its next CTS certification process again early in the 2012-2013 environmental reporting period, with the aim of ensuring that we hold certification as part of our approach to meeting the requirements of the CRC EE Scheme.

Independent assurance

We undertake a range of assurance processes on an annual basis. These include:

- Reasonable level assurance over Scope 1 and 2 data submitted under the Australian

Government's *National Greenhouse and Energy Reporting Act 2007*;

- Reasonable level assurance over Scope 1 and 2 data submitted under the UK Government's *Carbon Reduction Commitment Energy Efficiency Scheme*; and
- Limited level assurance over additional Scope 1, 2 and 3 data and information associated with the Group's carbon neutral commitment (not already covered by assurance for regulatory reporting requirements). A copy of this assurance report is included below.

Additionally, in 2012, we also requested KPMG to provide assurance over two energy efficiency case studies included in this paper.

Copies of all KPMG's assurance reports are available on our Group website at: www.nabgroup.com/cr

A summary of our environmental accreditation and certification is provided on the final page of this *Dig Deeper* paper.



Independent limited assurance report to the National Australia Bank Limited

We have been engaged by the National Australia Bank Limited (NAB) to provide limited assurance over specified greenhouse gas (GHG) emissions and offset data of the NAB and its subsidiaries ("NAB Group"). The specified data relates to scope 1, scope 2 and selected scope 3 GHG emissions and offset data relating to NAB operations in Australia, New Zealand, United Kingdom, United States and Asia.

The specified greenhouse gas emissions and offset data have been prepared by the NAB Group for the purpose of assessing its carbon neutrality in accordance with the NAB Group's Carbon Inventory Guidelines, Carbon Offset Acquisition Guidelines and reporting methodologies, which take into account relevant regulatory requirements and government reporting guidelines in jurisdictions in which the NAB Group operates (together referred to as "the Framework"). A summary of the Framework is available on the NAB Group website at www.nabgroup.com/cr

The specified GHG emissions and offset data as presented on 13 September 2012 comprises the following:

- Actual consolidated net GHG emissions for the year ended 30 June 2012 of 279,406 tCO₂-e;
- Actual quantity of carbon offsets purchased and retired of 279,406 tCO₂-e for the year-ended 30 June 2012.
- Estimated consolidated net GHG emissions for the future year ending 30 June 2013 of 300,402 tCO₂-e; and

- Actual quantity of carbon offsets purchased and retired of 300,402 tCO₂-e for the future year-ending 30 June 2013.

Management and Directors' responsibilities

The Management and Directors of NAB are responsible for the preparation and presentation of the specified GHG emissions and offset data in accordance with the Framework. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the specified GHG emissions and offset data that is free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a limited assurance conclusion to the NAB on the preparation and presentation of the specified GHG emissions and offset data.

We conducted our limited assurance engagement in accordance with the International Standard on *Assurance Engagements ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board, in order to state whether we have become aware of any matter that would lead us to believe that the specified greenhouse gas

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emission and offset data has not, in all material respects, been prepared in accordance with the Framework.

ISAE 3000 requires us to comply with the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and to plan and perform the engagement to obtain limited assurance as to whether the specified GHG emissions and offset data is free from material misstatement.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for the management, monitoring and preparation of the specified GHG emissions and offset data, and applying analytical and other evidence gathering procedures, as appropriate. The key procedures we performed were:

- Visits to the following NAB businesses, which were selected on the basis of a risk analysis, including the consideration of both quantitative and qualitative criteria:
 - NAB Australia, Melbourne
 - National Australia Group Europe, United Kingdom
 - Great Western Bank, United States
 - Bank of New Zealand, New Zealand
- Interviews with senior management and relevant employees across the NAB Group concerning the Climate Change Strategy, Carbon Neutral Program and policies for material issues, and the implementation of these across the business
- Interviewing the employees responsible for the collection and reporting of specified GHG emissions and offset data across the NAB Group
- Reviewing the Framework and other relevant documentation, including NAB Group policies, management and reporting structures, documentation and systems used to collect, analyse and aggregate the specified GHG emissions and offset data
- Performing tests on a sample basis of evidence supporting specified GHG emissions and offset data concerning completeness, accuracy and existence
- Undertaking analytical procedures over the specified GHG emissions and offset data
- Understanding the reporting processes for the capture of the GHG emissions and offset data including the consolidation process of the data at the aggregate level
- Reconciliation of the reported consolidated net GHG emissions with the offset data
- Review of the quantity of carbon offsets purchased and retired as at 30 June 2012
- Vouching of carbon offsets purchased to certificates from third party verifiers on a sample basis, to confirm and evidence the retirement of those offsets.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance so that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance or audit opinion.

We disclaim any assumption of responsibility for any reliance on this report, or the specified GHG emissions and offset data to

which it relates to any person, other than NAB, or for any purpose other than that for which it was prepared.

Inherent limitations

Non-financial information, such as the specified GHG emissions and offset data, possesses a greater inherent risk of misstatement than financial data, due to the nature of the information and the uncertainties inherent in the methods used for determining such information, including the:

- absence of a significant body of established practice on which to draw that allows for the selection of different but acceptable measurement techniques, particularly with respect to Scope 3 GHG emissions, which can impact comparability. The precision of different measurement techniques may also vary
- nature and methods used to determine such information, as well as the measurement criteria and precision thereof, may change over time. The quantities of GHG emissions derived from estimates may differ to actual emissions
- methodology applied to convert energy data into GHG emissions that is based upon information and factors provided by either independent third parties and/or as detailed in the Framework. Our assurance work has not included an assessment of these emissions factors provided by third parties, in relation to certain GHG emissions.

The limited assurance conclusion expressed in this report has been formed on the above basis.

Independence

In conducting our limited assurance engagement, we have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants.

Application of the framework

Without modifying our conclusion, we draw attention to the Framework which describes the basis of preparation of the specified GHG emissions and offset data. A summary of the Framework is available on the NAB website at www.nabgroup.com/cr. Consideration of the Framework is fundamental to understanding the methods and assumptions applied in the preparation of the specific GHG emissions and offset data as part of our assurance conclusion.

Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that would lead us to believe that the specified GHG emissions and offset data, as identified above, has not, in all material respects, been prepared and presented in accordance with the Framework.

KPMG

Melbourne
13 September 2012

Environment dig deeper

Glossary

Biodiversity – the variety of flora and fauna - nature's 'living' assets.

Carbon footprint – the measure of the impact that activities in an organisation's carbon inventory will have on the environment; measured in units of CO₂-e.

Carbon inventory – defined list of greenhouse gas emission sources that an organisation uses to calculate its carbon footprint.

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

CO₂-e (carbon dioxide equivalent) – greenhouse gas emissions are expressed in tonnes (tCO₂-e) or kilograms (kgCO₂-e) of carbon dioxide equivalent to enable consistent comparison and measurement.

ECF or TCF – elemental chlorine free or totally chlorine free. An environmentally preferable process that uses chlorine dioxide for the bleaching of wood pulp. It does not use elemental chlorine gas during the bleaching process and prevents the formation of dioxins and dioxin-like compounds, which are carcinogenic compounds.

Ecosystem – a natural habitat which includes a combination of soil, air, water, flora and fauna, and climate e.g. desert, forest, ocean, grassland.

Ecosystem services – natural services derived from the earth's natural assets, on which human beings are reliant. The United Nations 2004 Millennium Ecosystem Assessment (MEA), grouped ecosystem services into four broad categories: provisioning – such as the production of food and water; regulating – such as the control of climate and disease; supporting – such as nutrient cycles and crop pollination; and cultural – such as spiritual and recreational benefits.

Environmental, Social and Governance (ESG) – describes the consideration of the Environmental, Social and Governance (ESG) factors that impact on the risk and return profile of a company's operations and investments.

ESG risk incorporates the three main areas of concern that have developed as the central factors in measuring the sustainability and ethical impact of a company's operations. They can arise directly through a company's own operations, or indirectly through customers and suppliers. ESG issues include managing the company's carbon footprint, addressing diversity, human rights and financial

inclusion and ensuring there are systems in place to ensure accountability.

Equator Principles (EPs) – voluntary set of standards for determining, assessing and managing social and environmental risk in project finance transactions. Equator Principles Financial Institutions (EPFIs) commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs. Refer <http://www.equator-principles.com>

FSC – Forest Stewardship Certification

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

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

Natural capital – comprises Earth's natural assets (biodiversity and ecosystems) and the ecosystem services resulting from them.

Natural value – (Otherwise known as natural capital accounting) is recognition of the contribution that biodiversity and ecosystem goods and services have on economic sustainability.

Natural Capital Declaration (NCD) – statement by financial institutions which recognises that Natural Value poses significant risks and opportunities. The Declaration has been endorsed by 40 global financial institutions (as at date of publication for this Dig Deeper) and is also supported by various NGO's and Associations. Signatories have committed to implementing natural capital considerations into their businesses and to collaborate in developing shared tools and industry standards by 2020. The Declaration has been convened by United Nations Environment Program Finance Initiative's (UNEP FI), Global Canopy Programme and The Centre for Sustainability Studies, Guetulio Vargas Foundation. Refer <http://www.naturalcapitaldeclaration.org>.

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.

PEFC – Program for the Endorsement of Forest Certification.

Renewable energy – energy taken from sources that are renewable, for example,

wind, water, solar, geothermal energy, and biomass.

Scope 1 greenhouse gas emissions – this includes direct emissions from:

1. Combustion of fuel in boilers, furnaces or generators that are owned or controlled by the reporting company.
2. Generation of electricity, steam or heat in equipment that is owned or controlled by the reporting company.
3. Business travel in vehicles such as company cars or corporate jets that are owned or controlled by the reporting company.
4. Employee commuting in company-owned or -controlled vehicles, such as company cars.
5. HFC emissions from company-owned or controlled refrigeration or air conditioning equipment.

Scope 2 greenhouse gas emissions – this includes indirect emissions from consumption of purchased electricity, steam or heat.

Scope 3 greenhouse gas emissions – this includes indirect emissions from:

1. Business travel in non-company-owned or -controlled vehicles, such as rental cars, employee cars, rail and commercial planes.
2. Combustion of fuel in boilers or furnaces not owned or controlled by the reporting company.
3. Employee commuting in vehicles not owned or controlled by the reporting company, such as light rail, rail, buses and employees' cars.
4. Third party production or manufacture of materials and resources used by the reporting company, such as furniture, paper, and equipment.

Spill – accidental release of a hazardous substance that can affect human health, land, vegetation, water bodies, ground water and property.

Trade effluent – waste water discharged from industrial and commercial operations to the sewerage system. This may include waste water discharged from cooling towers, boiler systems, grease traps in kitchens and canteens.

Tri-generation – a process in which fuel is combusted to generate electricity, with waste heat being utilised to provide heating and cooling.

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Awards, memberships and certifications

RECOGNITION WE RECEIVED IN 2012:

Victorian Premier's Sustainability Awards – Large Business Category
Money Magazine Socially Responsible Bank of the Year (for carbon neutrality, microfinance and renewables financing)

KEY MEMBERSHIPS:

United Nations Environment Programme Finance Initiative
Carbon Disclosure Project – Investor, Reporter Services and Supply Chain
Sustainable Business NZ
Water Stewardship Australia
New Zealand Business Council for Sustainable Development
Sustainable Business Australia



IN 2012, WE PROVIDED SUPPORT TO:

Earthwatch
Kiwis for Kiwi
Conservation Volunteers
Green Council
The Green Capital Program



NAB GROUP IS INCLUDED IN THE FOLLOWING INDICES AND LEAGUE TABLES

Dow Jones Sustainability Index
FTSE4Good Index
CDP 2012 Global 500 Performance Leadership Index
Australia & New Zealand 2012 CDP Carbon Disclosure and Carbon Performance Leadership Indices
Bloomberg's 2012 Top 20 World's Greenest Banks rankings
Newsweek's 2011 & 2012 Global Green rankings



CERTIFICATIONS:

National Carbon Offset Standard (AUST)
Carbon Trust Standard (UK)
ISO 14001 (for our Merrion Way Customer Support Centre)



WE ARE SIGNATORIES TO:

Australian Government's Fluorocycle Scheme
United Nations Global Compact
Equator Principles
Natural Capital Declaration

