Annual Financial Report 2001

National

National Australia Bank Limited
ABN 12 004 044 937

This Annual Financial Report 2001 includes the disclosure requirments for both Australia and the United States Securities and Exchange Commision (SEC). It will be lodged with the SEC as an annual report on Form 20-F.

Nothing in this Annual Financial Report 2001 is, or should be taken, as an invitation or application or offer to subscribe for, or to buy, securities in the National Australia Bank.

All figures in this document are in Australain dollars unless otherwise stated.

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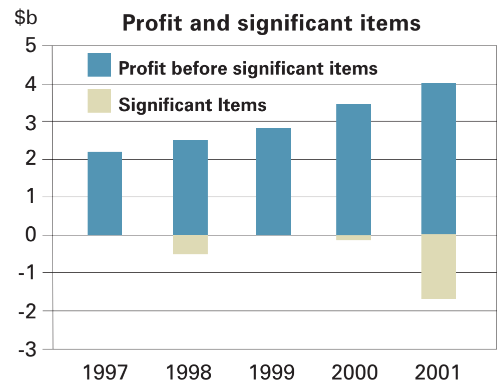
Financial performance

Profitability

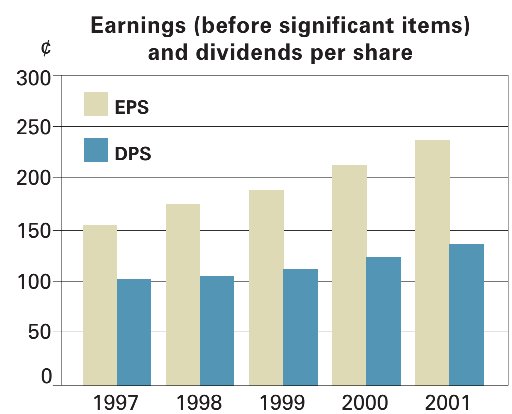
- Net profit after significant items decreased 35.7 per cent to $2,083 million. The key significant items were:
    - net profit of $1,681 million from the sale of Michigan National Corporation; and
    - writedowns of mortgage servicing rights and goodwill totalling $3,617 million (after tax) relating to HomeSide Lending, Inc.
- Net profit before significant items increased 19.1 per cent to $4,019 million.
- International activities contributed $165 million of net loss after significant items, $1,771 million of net profit before significant items.



Earnings

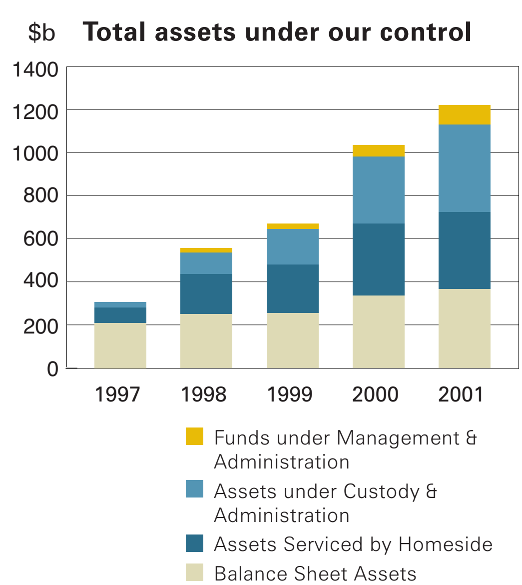
- Cash earnings per share before significant items increased 10.1 per cent to 236.6 cents.
- Cash earnings per share after significant items decreased 46.2 per cent to 110.7 cents.
- Return on equity decreased from 17.3 per cent to 9.0 per cent. Excluding significant items, return on equity increased from 18.1 per cent to 18.4 per cent.
- Dividends were 135 cents per share, fully franked, compared with 123 cents per share last year.
- EVA[1] after significant items decreased 18.1 per cent to $1,129 million. EVA before significant items increased 3.8 per cent to $1,431 million.

[1] *EVA measures the economic profit earned in excess of the Group's cost of capital. EVA is the registered trademark of Stern Stewart & Co.*



Growth and diversification

- Excluding the impact of the sale of Michigan National Corporation:
    - funds under management and administration increased 8.0 per cent to $64 billion;
    - assets under custody and administration increased 21.0 per cent to $345 billion;
    - underlying growth of 11.1 per cent in total balance sheet assets in local currency terms;
    - movements in exchange rates increased total balance sheet assets (in Australian dollar terms) by $14.9 billion; and
    - gross loans and advances increased 10.0 per cent in local currency terms.



Description of business

Introduction

National Australia Bank Limited (herein referred to as the Company, or, together with its controlled entities as the Group) is an international financial services group, providing a comprehensive and integrated range of financial products and services across four continents and 15 countries. Globally, as at September 30, 2001, the Group had:

- total balance sheet assets of $375 billion;
- $64 billion in assets under management and administration;
- $345 billion in assets under custody and administration; and
- more than 8.2 million banking customers and 2.8 million wealth management clients.

The Company is the largest financial services institution, by market capitalisation, listed on the Australian Stock Exchange Limited and in the July 2001 edition of Fortune 500 was listed as the 20th largest financial services company in the world by profitability and 47th by revenues.

As well as continuing to grow its core banking business, the Group has also concentrated on developing wealth management activities within its various regional markets to improve the quality and sustainability of earnings. The Group is one of the largest managers of retail funds in Australia.

Vision and strategy

General

The Group's vision is to build a leading international financial services company. The Group aims to deliver maximum value to its shareholders and seeks to maximise the efficiency with which their capital is utilised. To achieve this the Group constantly balances the needs of all stakeholders including staff, customers and the communities in which it operates.
This vision is being pursued through the following core strategies to:

- drive performance and growth in businesses that rely on relationship management and tailoring of financial services such as the small and medium business segments of the business market and the premium segment of the consumer market. The Group has strategic capabilities and positions in these segments. The focus will continue to be on developing and transferring core skills and products between the key markets in which the Group operates;

- accelerate the growth of selected businesses where capability, efficiency and service give the Group a competitive edge. These include Wholesale Financial Services, Wealth Management and Securities Services;

- transform the infrastructure and core processes of the organisation onto an Internet protocol based platform to stake out positions in areas key to the evolution of financial services;

- create maximum shareholder value by adopting EVA shareholder value principles and actively managing the Group's portfolio of businesses; and

- continue to build diversified income streams to reduce the Group's reliance on interest income and produce sustainable, reliable revenues.

Business operating model

The Group's operating model is global in those areas where global economies in scale and scope are achievable, but regional where local tailoring and differences are important. The operating model aligns with customers rather than along product lines to facilitate a relationship based customer advocacy stance rather than a pure product sales philosophy. As a trusted financial adviser to its customers, the Group sources products and services on their behalf to best suit their financial needs and aspirations. By integrating banking, investment and insurance offerings, the Group is well positioned to meet those needs as they evolve.

The overall risk profile of the Group continues to be managed to ensure an acceptable risk reward balance for shareholders. Internal policies and control systems are maintained in a manner that ensures all risks are monitored and managed appropriately.

The structure under which the Group operates is as follows:
- Business and Personal Financial Services;
- Specialist and Emerging Businesses;
- National Shared Services.
- Wholesale Financial Services;
- Wealth Management; and
- HomeSide.

Business and Personal Financial Services, Specialist and Emerging Businesses National Shared Services and Wholesale Financial Services, are hereinafter collectively referred to as 'Banking and Other Financial Services'.

Business and Personal Financial Services

Business and Personal Financial Services is the retailing arm of the Group consisting of almost 29,000 staff, meeting the needs of 8.2 million customers in Australia, New Zealand, Great Britain and Ireland.

Business and Personal Financial Services is organised around customer segments, with products, services and the skills of staff matched to the needs of a similar group of customers in each region. This reflects the Group's core strategy of 'driving performance and growth in businesses that rely on relationship management and the tailoring of financial services'. The aim is to develop mutually beneficial, long-term relationships with customers worldwide.

The segment-based businesses include Business Financial Services (comprising Major Client Group, Custom Business, Package Business and Micro Business) and Personal Financial Services (comprising Private Banking, Premium Financial Services and Retail Financial Services). The segment-based businesses in each region are supported by specialist Direct Retailing and Channel Management, Marketing Services and Product and Process Management units.

A brief discussion of the Group's retailing activities in each of its regions follows. For a detailed discussion of results by geographic segment, refer to pages 27 to 29.

Description of business

Australia

In Australia, the Group's retailing business units provide a full range of financial services to approximately 3.5 million customers.

The Group is one of the largest providers of financial services in Australia. It is the largest provider of financial services to business (measure: credit outstandings, source: Greenwich Associates).

The Group's strong position in business markets is the result of initiatives over a number of years, centred on a relationship management model. These initiatives have included the development of specialist Business and Agribusiness banking teams with specialist knowledge and a sound understanding of the financial needs of businesses.

Services to business customers comprise a full range of deposit, lending and payment facilities supplemented with a range of other financial services. These services include treasury, asset finance, equity finance, nominee and custodian services, corporate trustee services and insurance and investment products.

Business customer sales and relationship management are primarily conducted through a network of business banking centres and business banking suites.

In the consumer segments, the Group has implemented a relationship management approach for the top 10 per cent of the customer base (Private and Premium). Private and Premium bankers pro-actively manage portfolios of customers, and use a range of specialists such as financial planners and estate planners to meet their more complex needs. Retail customers are able to access the Group's products and services through the branch network, contact centres, automatic teller machines (ATMs) and the internet.

The acquisition and integration of the MLC group of companies has provided additional expertise and services to both staff and customers. This has been reflected in the continued strong performance of the financial planning force, which is now established in all consumer and business segments.

Customer transactions, sales and inquiry services are provided through a network of branches and electronic distribution channels. The number of outlets was reduced by 100 to 1,050 during the financial year; however, personal customers are now able to conduct transactions at 2,800 Australia Post outlets. The number of ATMs has also been increased to over 1,600. Customers are able to conduct a range of product purchases, transactions and source information services via the internet, by telephone, by email, through contact centres, or through an extensive network of point of sale (EFTPOS) terminals. Less than 10 per cent of all transactions are now carried out through the branch network, reflecting changing customer preferences.

These channels are supported by customer relationship management systems, data 'warehouses' and lead generation systems. These provide bankers with integrated customer information to better service and meet the needs of customers.

At September 30, 2001, Business and Personal Financial Services within Australia had a staff of 14,700 (or 12,400 full-time equivalent employees).

Great Britain

The Group's regional banks in Great Britain are Clydesdale Bank in Scotland and Yorkshire Bank in northern England. Each bank offers a broad range of financial services to both retail and business customers.

Clydesdale Bank is the third-largest bank in Scotland, with a strong business customer franchise, and has been part of the Group since 1987. Yorkshire Bank was acquired in 1990 and is one of the largest banks in its natural marketing areas of Yorkshire and the surrounding counties (measure: total assets, source: Bank of England statistics). Yorkshire Bank has a strong consumer franchise, with a growing business segment.

The Group has 500 outlets in Great Britain (including three in London), together with 94 business banking centres and premium outlets. These are supported by two customer contact centres (which also service the Group's Irish operations), internet facilities and 900 ATMs.

The focus of the Group in Great Britain is to grow the relationship management customer segments (Custom and Package business, and Private and Premium consumer segments) by implementing the models, which have been successfully adopted elsewhere in the Group. This is supported by the introduction of innovative products and services, and the continued investment in alternative channels to assist in migrating transactions from branches to electronic channels.

At September 30, 2001, Business and Personal Financial Services within Great Britain had a staff of 8,100 (or 7,100 full-time equivalent employees).

Ireland

The Group has owned Northern Bank in Northern Ireland and the National Irish Bank in the Republic of Ireland since 1987. Each bank offers a broad range of financial services.

Northern Bank is the largest bank in Northern Ireland with a strong business presence (measure: credit outstandings, source: MORI, MRC) and over recent years has expanded its profile in the consumer segment. National Irish Bank's strength is in the consumer segment and it has benefited from the strong growth in the economy during the past three years.

The Group has 150 outlets in Ireland, together with 32 business banking centres and premium outlets. These are supplemented with a network of 250 ATMs, an internet presence and access to the customer contact centres in Great Britain.

The primary aims of the Group in Ireland are consistent with those of Great Britain; to grow the relationship management segments while investing in integrated channels. The focus over the past year has also been on more closely integrating the head office and support areas of the two banks into one, to better use the Group's resources.

At September 30, 2001 Business and Personal Financial Services in Ireland had a staff of 2,600 (or 2,300 full-time equivalent employees).

Description of business

New Zealand

Bank of New Zealand (BNZ) was acquired by the Group in 1992. It has a strong brand and franchise with comprehensive coverage of the North and South Islands. It offers a full range of financial services and is well balanced between the personal and business segments.

The on-going enhancement of the physical distribution network, coupled with the improved technology, automation and functionality through the telephone, electronic and remote channels, continues to be a core strategy. BNZ's vision is to provide customers with tailored financial solutions, which are deliverable through a full range of convenient and cost-effective channels.

The distribution network includes 188 outlets, three private banking suites, 345 ATMs, two customer contact centres, and shared access to an extensive nationwide EFTPOS network. BNZ also has a well established internet banking capability.

As at September 30, 2001, Business and Personal Financial Services in BNZ had 3,500 staff (or 3,100 full-time equivalent employees).

Specialist and Emerging Businesses

Specialist and Emerging Businesses operates along global lines of business and comprises four product specialist units (Securities Services, Cards and Payments, Asset Finance and Fleet Management, and International Trade and Business Finance) together with National Australia Investment Capital Limited.

At September 30, 2001, Specialist and Emerging Businesses had staff of 3,200 (or 3,100 full-time equivalent employees) based in Australia, Great Britain, Ireland and New Zealand.

As an indication of the size of the Group's product specialist units, as at September 30, 2001, the Group had:

- $345 billion of assets under custody and administration;
- $11 billion in leasing receivables under management; and
- over four million credit cards on issue.

During the year, the Group had $55 billion in trade and related turnover.

Securities Services

This area holds and safeguards assets of large corporations as well as government bodies, superannuation funds and asset managers. Securities Services also provides performance monitoring of investments, as well as settlement functions and back office processing.

Since October 2001, Securities Services has moved within the Wholesale Financial Services structure. This will assist the Group in providing a wider range of coordinated financial solutions.

Cards and Payments

Cards manages the Group's credit card business (predominantly Visa and MasterCard) in Australia, New Zealand, Great Britain and Ireland. Payments is responsible for the processing and completion of payment transactions and the development of payment processes and systems, particularly in the emerging areas of smartcards and e-commerce.

Asset Finance and Fleet Management

Asset Finance and Fleet Management is the Group's product specialist in plant, equipment and motor vehicle leasing as well as the broader area of fleet management.

International Trade and Business Finance

International Trade and Business Finance provide sales, processing, settlement and finance services for import and export trade and invoice discounting and factoring.

National Australia Investment Capital Limited

National Australia Investment Capital Limited is the Group's venture capital operation in Australia, which invests equity into business growth opportunities.

National Shared Services

National Shared Services combines Operational Services (ie transaction and loan application processing including collections), Financial Shared Services, Human Resources Shared Services, Information Technology and Corporate Real Estate to form a true shared services organisation with improved productivity and lower costs.

National Shared Services is structured globally, with an emphasis on the transfer of best practices across all regions, and the ability to build single-process solutions for global implementation. However, at the same time, National Shared Services also focuses on regional delivery to take into account regional diversity.

Within National Shared Services, the Group undertakes a number of specialised business activities through its controlled entities and its business units. These include a property owning company, NBA Properties Limited, which, with its subsidiary companies, is primarily an owner of the Group's business-related properties.

At September 30, 2001, National Shared Services had staff of 7,400 (or 6,900 full-time equivalent employees).

Wholesale Financial Services

Wholesale Financial Services is responsible for managing the Group's top 1,500 relationships, being with large corporations, institutions, supranationals and government bodies. It operates in Australia, Great Britain, Ireland, New Zealand, New York, Hong Kong, Singapore, Seoul and Tokyo.

Wholesale Financial Services comprises Markets Division, Corporate Finance Division, Industry Group, and a Services unit. At September 30, 2001, Wholesale Financial Services employed 1,800 staff (or 1,700 full-time equivalent employees).

Description of business

Markets Division

Markets Division focuses on traded products and structured solutions. It provides foreign exchange, money market, commodities, derivatives and capital markets products globally through a dedicated 24-hour dealing capability. These products assist both Wholesale Financial Services' clients and the Group's business clients manage their increasingly-diverse range of financial risks. In selected products, Markets Division acts as a market maker and liquidity provider.

The division also manages the liquidity portfolio for the Group in each of its major markets. It assists in interest rate risk management and provides short-term funding for the Group, for maturities to approximately 12 months.

Corporate Finance Division

Corporate Finance Division provides the full range of financial solutions utilised in large-scale, complex transactions such as project and property finance, corporate lending, structured finance, securitisation, loan syndications and agency management.

Using its specialised knowledge of the respective legal, commercial, regulatory and financial implications of these transactions, it develops solutions which contribute to clients' prosperity.

Industry Group

Industry Group manages the Group's total relationship with large corporate and institutional clients, including the Group's 3,000 correspondent banking relationships.

The Industry Group covers major client segments globally, which are , consumer goods and services, telecommunications, media and technology and financial institutions, industrials, materials and health care, energy and utilities, and property and construction finance. The focus of these groups is development and delivery of client solutions across the depth and breadth of the Group's capabilities.

Services

Services is responsible for the management of the operating platform for Wholesale Financial Services, including technology, operations, human resources, finance, planning, strategy and marketing. Technology and operations operate out of two hubs, supporting five geographic regions to provide efficiency, optimise future investment and provide common product capability across all regions.

Asian operations

Wholesale Financial Services has a strong capability in Asia that is focused in four key markets; Hong Kong, Tokyo, Singapore and Seoul. The Group's retail franchise in these locations is also managed by Wholesale Financial Services.

Wealth Management

Wealth Management operates a diverse portfolio of financial services businesses with more than $63.8 billion in funds under management and administration and more than 2.8 million clients as at September 30, 2001. Wealth Management services both the retail and corporate markets, specialising in the provision of insurance, superannuation and investment solutions to build and protect clients' wealth thoughout their lives, and the provision of portfolio implementation systems and services to advisers. The business operates across five regions; Australia, Great Britain, Ireland, New Zealand and Asia.

As at September 30, 2001, Wealth Management had 4,300 staff (or 4,200 full-time equivalent employees).

Wealth Management's operations include:

- funds management, covering superannuation and investment services for retail and corporate clients;
- funds administration, providing retail clients with the ability to direct their investments to fund managers and investment products of their choice, through one point of service;
- online investing, providing self-directed investors with portfolio services and access to share trading and retail managed funds at wholesale rates;
- investment management, predominantly through a manager of managers investment approach involving investment manager research, selection, blending and on-going monitoring. Additional investment management services include providing strategic advice, asset management and investment portfolio management services to corporate and institutional clients;
- retail insurance (covering life insurance, income insurance and general insurance agency) and group insurance;
- financial advice services to both retail and corporate clients;
- financial planning dealership management and development, including the on-going recruitment, training and development of financial planners into the Group's multiple dealership groups to ensure Wealth Management supports the delivery of quality and holistic financial planning; and
- business support services to financial advisers, enabling them to provide quality financial planning services to their clients and enhance their business efficiency and servicing for retail and corporate clients.

HomeSide

HomeSide Lending, Inc. (HomeSide US), based in Jacksonville, Florida, was acquired by the Group in 1998.

HomeSide US operates a loan servicing and origination business based on automated and cost-effective processing systems, outsourcing of selected functions, and effective control of delinquencies and foreclosures. As at September 30, 2001, HomeSide US serviced a portfolio of loans of US$187 billion.

HomeSide US's diversified origination sources include long-term strategic relationships with US partners, including a number of large financial institutions. As a natural extension to preferred partner relationships, HomeSide US also provides e-commerce based loan origination services and technology to other consumer lending companies with strong marketing and brand recognition, but which lack mortgage origination and servicing capabilities.

In July 2000, HomeSide Solutions, a division of HomeSide US, was established to create a mortgage origination solution that streamlines loan applications and online mortgage approvals.

Description of business

During the year, HomeSide US also continued to invest in its e-commerce and direct origination capabilities to include additional business-to-business and business-to-consumer functionality, and additional value-added services, such as home equity products, complete moving services, real estate agent referrals, location of temporary housing, and other home-buying and home-selling information.

In September 2001 a decision as taken by the Board of directors of the Company to pursue the sale of HomeSide US, after reviewing its position within the Group's current core strategies of banking and wealth management. At the date of this report, the sale process is proceeding.

During the year to September 2001, the operations of HomeSide Australia were restructured, such that the various divisions of HomeSide Australia are now structured as part of the Group's other lines of business, specifically Business and Personal Financial Services and National Shared Services.

Corporate Centre

The Corporate Centre focuses on strategic and policy direction for the Group and incorporates the following units; Risk Management, People and Culture, Finance and Planning, and the Office of the CEO.

Sale of Michigan National Corporation

The Group sold Michigan National Corporation to ABN Amro North America Inc., a subsidiary of ABN Amro NV on April 1, 2001 for US$2,750 million (A$5,314 million). The sale provided the Group with a net gain on sale of $2,799 million, after all disposal costs including taxation. The profit was booked by way of $1,681 million through the profit and loss account and a $1,118 million transfer from the foreign currency translation reserve to distributable retained profits.

Competition

The financial services market is rapidly evolving into an increasingly competitive and integrated global market. Accordingly, the key forces shaping the future of the financial services industry cannot be viewed within regional or geographic boundaries.

The Australian financial system is characterised by a large number of traditional and new players and well developed equity and, more recently, corporate bond markets. There are four major national banks (including the Company) and many other financial conglomerates with national operations offering a full range of financial services as well as a number of smaller regional institutions and niche players. Mutual societies have been a force in the Australian financial system, although many have demutualised over the past several years to capture capital-related and other competitive advantages. These institutions have also widened their range of products and services from insurance, investments and superannuation (pensions) to compete in the markets traditionally serviced by banks. Competition also comes from numerous Australian and, in many cases, international non-bank financial intermediaries including investment/merchant banks, specialist retail and wholesale fund managers, building societies, credit unions and finance companies. More recently, product and functional specialists have also emerged as important players in, for example, household and business mortgages, credit cards and other payment services. The rapid development and acceptance of the internet and other technologies has increased competition in the financial services market and improved choice and convenience for customers.

These forces are evident across all of the Group's businesses in each of its geographic markets. Within the broader financial services industry, increased competition has led to a reduction in operating margins only partly offset by fees and other non-interest income and increased efficiencies. These trends are likely to continue in the future.

In a number of countries, regulatory authorities are currently reviewing competition issues, including the United Kingdom Competition Commission with regard to small business banking, and the Reserve Bank of Australia (RBA) with regard to the payments system.

Regulation of the financial services system

Australia

The Australian Prudential Regulation Authority (APRA) has responsibility for the prudential and regulatory supervision of Australian deposit takers (referred to as 'authorised deposit-taking institutions' (ADIs), which comprise banks, building societies, and credit unions) as well as insurance companies, superannuation funds, and friendly societies.

The RBA has overall responsibility for monetary policy, financial system stability and, through a Payments System Board, payments system regulation including the operations of Australia's real-time gross settlement system.

The Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission have responsibility for certain consumer protection measures. ASIC has primary responsibility for market integrity and disclosure issues.

APRA's prudential framework for ADIs includes standards covering liquidity, credit quality, capital adequacy, audit and related arrangements, large exposures, equity associations, and funds management and securitisation. APRA has also been establishing guidelines for the supervision of conglomerates which contain an ADI. These will be incorporated into a thorough reassessment of the standards, which is aimed at ensuring all significant risks facing ADIs are addressed flexibly.

APRA carries the responsibility for depositor protection in relation to the ADIs it supervises. To achieve this, it has strong and defined powers to direct the activities of an ADI in the interests of depositors or when an ADI has contravened its prudential framework. These 'direction powers' enable APRA to impose correcting action without assuming control.

APRA requires banks to provide regular reports covering a broad range of information, including financial and statistical data relating to their financial position and prudential matters. APRA gives special attention to capital adequacy *(refer to page 33 of this financial review for current details)*, sustainability of earnings, loan loss experience, liquidity, concentration of risks, potential exposures through equity investments, funds management and securitisation activities and international banking operations.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from banks with selective on-site visits by specialist teams to overview discrete areas of banks' operations. These include asset quality, market risk and operational risk reviews and formal meetings with banks' senior management and external auditors.

Description of business

APRA has also formalised a consultative relationship with each bank's external auditors with the agreement of the banks. The external auditors provide additional assurance to APRA that prudential standards agreed with the banks are being observed, and that statutory and other banking requirements are being met. External auditors also undertake targeted reviews of specific risk management areas selected at the annual meeting between the bank, its external auditors and APRA. In addition, each bank's chief executive officer attests to the adequacy and operating effectiveness of the bank's management systems to control exposures and limit risks to prudent levels.

There are no formal prohibitions on the diversification by banks through equity involvements or investments in subsidiaries. However, without the consent of the Treasurer of the Commonwealth of Australia, no bank may enter into any agreement or arrangement for the sale or disposal of its Australian banking business, or for the carrying on of business in partnership with an ADI, or effect a reconstruction.

Non-Australian jurisdictions

APRA, under the international Basel framework, now assumes the role of 'home banking supervisor' and maintains an active interest in overseeing the operations of the Group, including its offshore branches and subsidiaries.

The Group's branches and banking subsidiaries in Great Britain, Ireland, New Zealand and the United States are subject to supervision by the Financial Services Authority, Central Bank of Ireland, Reserve Bank of New Zealand, and the Office of the Comptroller of the Currency, respectively.

In Great Britain, Ireland and the United States, the local regulatory frameworks are broadly similar to that in force in Australia. Each of the banking regulatory authorities in these countries has introduced risk-based capital adequacy guidelines in accordance with the framework developed by the Basel Committee on Banking Supervision.

The emphasis of the Reserve Bank of New Zealand's regulatory framework is primarily on capital adequacy and systemic risk management. The framework has moved away from detailed rules and private monitoring by the supervisor, in favour of enhanced public disclosure of financial information, a relaxation of supervisory regulation and increased emphasis on the role of bank directors.

In other offshore areas of activity, the Group believes it is currently in full compliance with the operating requirements of local regulatory authorities.

Privacy

In recent years, the arrival of the information age has meant advances in information technologies and a transformation in the way the community conducts many of its daily activities. Some of the new information technologies used include potentially privacy intrusive ways of generating, using and distributing personal information.

The Group began looking at the issue of privacy in Australia in October 2000, putting the Customer Advantage Program in place to oversee implementation of the *Privacy Amendment (Private Sector) Act 2000* by December 21, 2001. Strict state-based privacy legislation in the United States and centralised laws in Great Britain and Ireland have been introduced in recent years; Australia seeks to align itself somewhat with the requirements of these regions.

The amended Australian legislation is based on 10 National Privacy Principles (NPPs) regulating how private organisations collect (NPP1), and use and disclose (NPP2) personal information.

The minimum standards contained in the NPPs also cover keeping personal information accurate (NPP3) and secure (NPP4); recognising an individual's rights of access to, and correction of (NPP6), their information; not adopting government identifiers (NPP7); giving individuals a choice of transacting anonymously (NPP8); ensuring that information transferred overseas is subject to privacy safeguards (NPP9); and that sensitive information about an individual is only collected in ways permitted under the NPPs (NPP10).

In Australia, the Group has worked with key stakeholders across the business to develop Australia's privacy policy (NPP5), which will keep customers informed of the Group's intentions in relation to privacy within Australia. The Group has set up a privacy complaints handling system and maintains a close working relationship with the Federal Privacy Commissioner.

The changing face of privacy is set to be an ongoing challenge as technology, business, government and wider environments alter, and attitudes adjust with them. The Group will continually attempt to balance social and economic interests to discover privacy solutions to provide value, service and a trust relationship to customers while maximising the efficient use of advances in technology.

Organisational structure

National Australia Bank Limited is a public limited company incorporated in Australia, which is the Company's main domicile. Its registered office is 24th floor, 500 Bourke Street, Melbourne, Victoria 3000, Australia. National Australia Bank Limited is the holding company for the Group, as well as the main operating company. The Company has seven main operating subsidiaries: Clydesdale Bank PLC, Yorkshire Bank PLC, Northern Bank PLC, National Irish Bank PLC, Bank of New Zealand, National Australia Financial Management Limited and HomeSide International, Inc. *(Refer to note 44 in the financial report for details of the principal controlled entities of the Group).*

National Australia Bank Limited operates under the requirements of the *Australian Banking Act 1959* and *Corporations Act 2001*.

Description of property

The Group operates about 2,100 outlets and offices worldwide, of which 59% are in Australia, with the largest proportion of the remainder being in Great Britain.

Approximately 19% of the outlets and offices are owned directly by the Group, with the remainder being held under commercial lease.

These premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for the Group's current and future operations.

Certain legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business. For further information on contingent liabilities of the Group, including those relating to Australian Market Automated Quotation (AUSMAQ) System Limited litigation, refer to note 45 in the financial report. The Group does not consider that the outcome of any proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. Where appropriate, provisions have been made.

Financial review

Overview

Currency of presentation

All currency amounts are expressed in Australian dollars unless otherwise stated. Merely for the convenience of the reader, this annual financial report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US$0.4915 = A$1.00, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the noon buying rate) on September 30, 2001.

Certain definitions

The Company's fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 2001 is referred to as 2001 and other fiscal years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (ie billions) of Australian dollars respectively. Financial statements means the Company's consolidated financial statements for the year ended September 30, 2001, September 30, 2000, and September 30, 1999 included herein at pages 60 to 165. Any discrepancies between total and sums of components in tables contained in this annual financial report are due to rounding.

The financial review appearing on pages 9 to 47 is prepared in accordance with generally accepted accounting principles (GAAP) applicable in Australia (Australian GAAP).

			Group			
	2001[(1)]	**2001[(2)]**	2000[(3)]	1999	1998[(4)]	1997
	$m	**US$m**	$m	$m	$m	$m
Summary of statement of financial performance						
Operating revenue						
Net interest income	**6,960**	**3,421**	6,371	6,066	5,858	5,358
Other banking and financial services income	**4,809**	**2,364**	4,124	4,027	3,630	2,909
Mortgage servicing and origination revenue	**810**	**398**	640	536	323	-
Life insurance income	**137**	**67**	1,557	-	-	-
Movement in excess of net market value over net assets of life insurance controlled entities	**510**	**251**	202	-	-	-
Total operating revenue	**13,226**	**6,501**	12,894	10,629	9,811	8,267
Operating expenses						
Operating expenses	**6,539**	**3,214**	7,032	5,701	5,320	4,477
Amortisation of goodwill	**167**	**82**	197	206	181	142
Significant operating expenses	**1,643**	**808**	204	-	749	-
Total operating expenses	**8,349**	**4,104**	7,433	5,907	6,250	4,619
Charge to provide for doubtful debts	**989**	**486**	588	581	587	332
Operating profit before income tax expense	**3,888**	**1,911**	4,873	4,141	2,974	3,316
Significant non-operating items						
Proceeds from the sale of foreign controlled entity	**5,314**	**2,612**	-	-	-	-
Cost of foreign controlled entity sold	**(2,929)**	**(1,440)**	-	-	-	-
Charge to provide for mortgage servicing rights valuation adjustment	**(1,436)**	**(706)**	-	-	-	-
Impairment loss on goodwill	**(858)**	**(422)**	-	-	-	-
Significant non-operating items before income tax expense	**91**	**44**	-	-	-	-
Profit from ordinary activities before income tax expense	**3,979**	**1,955**	4,873	4,141	2,974	3,316
Income tax expense relating to ordinary activities	**1,891**	**929**	1,632	1,321	959	1,095
Net profit	**2,088**	**1,026**	3,241	2,820	2,015	2,221
Net profit/(loss) attributable to outside equity interest	**5**	**2**	2	(1)	1	(2)
Net profit attributable to members of the Company	**2,083**	**1,024**	3,239	2,821	2,014	2,223
Reconciliation of net profit before significant items						
Net profit attributable to members of the Company	**2,083**	**1,024**	3,239	2,821	2,014	2,223
Add: Significant operating expenses before income tax expense	**1,643**	**808**	204	-	749	-
Income tax expense relating to significant non-operating items	**704**	**346**	-	-	-	-
Deduct: Significant non-operating items before income tax expense	**(91)**	**(44)**	-	-	-	-
Income tax benefit relating to significant operating expenses	**(320)**	**(157)**	(68)	-	(252)	-
Net profit before significant items	**4,019**	**1,977**	3,375	2,821	2,511	2,223

Overview (continued)

(1) Includes amounts relating to Michigan National Corporation to March 31, 2001. The Group sold this entity on April 1, 2001.

(2) Translated at the noon buying rate on September 30, 2001 of US$0.4915 = A$1.00, refer to 'selected financial data - exchange rates' section in this financial review on page 14.

(3) Includes amounts relating to MLC from July 1, 2000. The Group acquired this entity on June 30, 2000.

(4) Includes amounts relating to HomeSide International, Inc. from February 10, 1998, the date on which the Group acquired this entity.

Net profit before significant items increased by 19.1% to $4,019 million in 2001 from $3,375 million in 2000 and $2,821 million in 1999. Net profit before significant items included $163 million from exchange rate movements. Net profit attributable to members of the Company was $2,083 million, compared to $3,239 million in 2000. The 2001 result included the following significant items:

- net profit on sale of Michigan National Corporation of $1,681 million; and
- writedowns of mortgage servicing rights and goodwill totalling $3,617 million (after tax) in HomeSide Lending, Inc.

Net profit before significant items was impacted by the following factors:

- net interest income in 2001 increased 9.2% to $6,960 million after increases of 5.0% and 3.6% in 2000 and 1999 respectively;
- other banking and financial services income in 2001 increased by 16.6% to $4,809 million after an increase of 2.4% in 2000 and an increase of 10.9% in 1999;
- mortgage servicing and origination income in 2001 increased by 26.6% to $810 million after increases of 19.4% and 65.9% in 2000 and 1999 respectively;
- life insurance income in 2001 decreased by 91.2% to $137 million;
- movement in excess of net market value over net assets of life insurance controlled entities increased from $202 million in 2000 to $510 million in 2001;
- operating expenses in 2001 decreased by 7.0% to $6,539 million after increases of 23.4% and 7.2% in 2000 and 1999 respectively;
- charge to provide for doubtful debts increased 68.2% to $989 million from $588 million in 2000 and $581 million in 1999;
- net profit before significant items increased 19.1% to $4,019 million after increases of 19.6% and 12.4% in 2000 and 1999 respectively;
- significant operating expenses in 2001 of $1,643 million relate to the charge to provide for mortgage servicing rights valuation adjustment. The 2000 significant operating expenses of $204 million related to provisions for restructuring costs and integration costs;
- significant non-operating items in 2001 relate to proceeds on sale of Michigan National Corporation of $5,314 million, less the cost of Michigan National Corporation sold of $2,929 million, and the writedown of mortgage servicing rights and goodwill of $2,294 million in HomeSide Lending, Inc.;
- net profit attributable to members of the Company in 2001 decreased by 35.7% to $2,083 million after increases of 14.8% and 40.1% in 2000 and 1999 respectively;
- gross loans and advances grew 6.2% during 2001 from $200.0 billion in 2000 to $212.4 billion. Excluding the sale of Michigan National Corporation the increase was 15.4%. Excluding the impact of exchange rate movements and the disposal of Michigan National Corporation, the increase was 10.0%;
- total provisions for doubtful debts increased during 2001 by 3.1% from $2,709 million in 2000 to $2,793 million. Gross non-accrual loans increased during 2001 by 18.1% from $1,467 million to $1,732 million. Gross non-accrual loans as a percentage of risk-weighted assets is 0.7% (2000: 0.6%); and
- the increase in capital ratios is attributable to the impact of the profit on sale of Michigan National Corporation, partially offset by the impact of the writedowns of mortgage servicing rights and goodwill in HomeSide Lending, Inc. The Tier 1 ratio as at September 30, 2001 was 7.5%, compared with 6.6% in 2000 and 7.8% in 1999. The total risk-weighted capital ratio as at September 30, 2001 was 10.2%, compared with 9.3% and 10.4% in 2000 and 1999 respectively.

The result reflects the Group's continued efforts to diversify its income streams across business lines. The acquisition of MLC on June 30, 2000 has particularly assisted in this regard, with Wealth Management activities contributing 16.8% to net profit before significant items in 2001, up from 6.5% in 2000.

Adjusted to accord to US GAAP

Prepared in accordance with GAAP applicable in the United States (US GAAP), consolidated net income for the year to September 30, 2001 was $1,866 million compared to $3,051 million in 2000 and $2,862 million in 1999. There were no individually material adjustments between US GAAP net income and Australian GAAP net profit attributable to members of the Company for the years ended September 30, 2001, 2000 and 1999, other than those disclosed in note 58 in the financial report.

Outlook

After a very strong 2000, the **US economy** weakened progressively through 2001, in the face of the previously high levels of interest rates and oil prices, a strong currency and falling equity prices. By mid-2001, it was clear that the US economy had stalled, notwithstanding aggressive rate cuts and the announcement of US federal tax cuts.

While there were tentative signs that US manufacturing may have been bottoming in the September quarter, it is likely that the terrorist attacks will now make an already difficult situation worse. The disruption to normal business trading, the further damage to consumer confidence and the likelihood of further losses in household wealth as share prices fall, reduce hope for a return to growth by the end of calendar 2001. Prior to these attacks, the Group expected to see the first anaemic signs of recovery in December after flat to negative growth through June and September. Now we see recovery being pushed back to early 2002 with the probability of a recession through the September and December quarters.

Financial review

Overview (continued)

Clearly, it is very difficult to see where things go from here. With official interest rates now at 40-year lows, which could go still lower, and a large fiscal stimulus likely (possibly in the order of US$100 billion) policy will be contributing strongly to growth through calendar 2002. Confidence is, however, very fragile and could easily be further ruptured by additional terrorist attacks. At this stage, we expect the US to bottom in early calendar 2002 and pick up through the calendar year as the assumed fiscal and monetary policy responses take effect. That, however, would still only see US growth of around 1.75 per cent for calendar 2002.

After performing strongly in the first half of calendar 2000, the **Australian economy** slowed sharply in the December quarter 2000, largely due to a post-GST induced slump in dwelling activity. However, the Australian economy resumed growth in the first half of calendar 2001 assisted by strong household consumption, government spending, the low currency and a halt to the downturn in dwelling investment. Prior to the terrorist attacks, the Australian economy was showing signs of a strong recovery. However, the events of September 11 have resulted in a downward revision to US growth, with knock on effects to global activity and the recovery deferred. The downward revision to world growth is expected to lower activity in Australia, directly through its impact on export growth, but also via reduced consumer and business confidence, and reduced wealth following the fall in local share markets. A number of recent corporate collapses (especially Ansett) have also added to that uncertainty.

Underlying inflation is expected to remain at the upper range of the Reserve Bank of Australia's target range in the near term, mainly due to the weak currency. However, lower petrol prices will see headline inflation falling below 2.5 per cent in calendar 2002. For the remainder of calendar 2001, the Reserve Bank of Australia will be focused more on global developments rather than domestic considerations. With the US likely to remain in recession in late calendar 2001 some moderate further reduction in official interest rates, from the current 4.5 per cent, could be expected.

Provided the US economy responds as expected to recent interest rate cuts and fiscal stimulus the Australian economy, after a weak end to calendar 2001 and beginning of calendar 2002, could still perform reasonably well in calendar 2002. Overall growth is now expected to be around 3.25 per cent in calendar 2002 (or around 2.8 per cent in the year to June 2002). In this environment interest rates are unlikely to remain at record lows – with increases expected by the second half of calendar 2002.

Growth in the **United Kingdom economy** remained solid for much of the year to June 2001, with strong domestic demand offsetting a weaker external environment. Household spending continued to grow strongly, underpinned by a fall in the unemployment rate to a 26-year low and solid growth in real household incomes. However, the high level of the exchange rate and the softening in external demand drove the manufacturing sector into recession and this affected demand for some services. The foot and mouth disease has also had a considerable impact on the UK's farming and tourism industries and the repercussions are likely to be evident for some time. In response to the benign inflationary outlook, the Monetary Policy Committee has cut interest rates five times since February 2001, to 4.75 per cent.

With world economic activity likely to slow further in coming quarters, UK growth is also expected to continue to moderate. After expanding by around 2.2 per cent in the year to June 2001, economic growth is expected to slow to around 1.6 per cent in the year to June 2002. Private domestic demand is likely to moderate further and with exports remaining weak, a significant driver of growth will be government spending. Economic growth is expected to start to pick up in mid calendar 2002 and should be assisted by additional interest rate cuts in coming months from the Monetary Policy Committee.

After seven years of exceptionally strong growth, economic activity in the **Irish economy** slowed in the year to June 2001. Apart from the pressure on the supply side of the economy from this rapid expansion, Ireland has been hit hard by the impact of the US and global economic slowdown on its important high technology sector. Moreover, exports from the agriculture sector have been affected by the foot and mouth disease, while related restrictions have adversely affected tourism. Despite a decline in consumer confidence since the beginning of the calendar year, consumer expenditure seems to have held up well in the year to June 2001. Employment has continued to expand, albeit at a reduced rate, and consumers have received significant increases in household disposable incomes, reflecting increases in average earnings, low real interest rates and reductions in taxation.

Economic growth in Ireland is expected to ease further in the year to June 2002, to around 4.0 per cent, from 5.5 per cent in the year to June 2001, reflecting the economy's exposure to the external environment. Domestic demand should slow as the weakness in output feeds through into employment and incomes, although further rate cuts by the European Central Bank will provide some support for activity.

After a slowdown towards the end of calendar 2000 and in the first quarter of calendar 2001, domestic activity in the **New Zealand economy** started to gain momentum in mid-calendar 2001. Household spending has been buoyed by the falling unemployment rate, steady growth in disposable income and low interest rates while improvements in business confidence drove an increase in investment. Despite external demand continuing to soften over the 2001 calendar year, high commodity prices and the low NZ dollar have helped to cushion exporters from the global economic slowdown. While the domestic economy will not be immune to the latest adverse external developments, New Zealand is reasonably well placed to weather a short downturn.

Following economic growth of 2.3 per cent in the year to June 2001, growth in New Zealand is expected to increase to around 2.5 per cent in the year to June 2002, as the current momentum in domestic economic activity offsets the impact of weaker world growth. The Reserve Bank of New Zealand is likely to cut interest rates further in the short-term in response to the downside risk to activity from the global economy. However, the Group expects these rate cuts to be reversed next year, as a pick-up in world economic growth along with continued firm growth in the domestic economy places further pressure on supply capacity.

Much of **East Asia** was already in recession prior to the terrorist attacks in the US. Given the dependence of this region on the US high technology sector, it is not surprising that exports and output have been falling sharply. Recovery in East Asia is crucially dependent on an upturn in the US. That upturn has just been deferred, which will result in conditions in East Asia remaining weaker for a longer period.

Financial review

Selected financial data

The Group's annual financial report is prepared in accordance with Australian GAAP, which differs in certain material respects from US GAAP *(as set out in note 58 in the financial report).* The information hereunder has been derived from the audited financial report of the Group, or where certain items are not shown in the Group's financial report, has been prepared for the purpose of this annual financial report and should be read in conjunction with and qualified in their entirety by reference to the financial report. Comparative amounts have been reclassified to accord with changes in presentation made in 2001, except where otherwise stated.

	Five year average compound growth	**2001 (1) $m**	**2001 (2) US$m**	Group 2000 (3) $m	1999 $m	1998 (4) $m	1997 $m
Shareholder information							
Australian GAAP							
Dividends paid/payable (5)	10.27%	**2,080**	**1,022**	1,858	1,655	1,467	1,367
Earnings per share before significant items ($) (6)							
Basic	11.24%	**2.47**	**1.22**	2.11	1.87	1.75	1.52
Diluted	10.91%	**2.40**	**1.18**	2.04	1.82	1.71	1.49
Earnings per share ($) (6)							
Basic	(3.40%)	**1.22**	**0.60**	2.02	1.87	1.40	1.52
Diluted	(3.13%)	**1.22**	**0.60**	1.96	1.82	1.38	1.49
Cash earnings per share before significant items ($) (7)							
Basic	9.00%	**2.37**	**1.16**	2.15	2.01	1.87	1.61
Diluted	8.54%	**2.29**	**1.13**	2.07	1.95	1.83	1.58
Cash earnings per share ($) (7)							
Basic	(6.09%)	**1.11**	**0.54**	2.06	2.01	1.53	1.61
Diluted	(5.92%)	**1.12**	**0.55**	1.99	1.95	1.48	1.58
Dividends per share ($) (5)	9.18%	**1.35**	**0.66**	1.23	1.12	1.02	0.94
Dividends per American Depositary Share (ADS) ($) (5)	9.18%	**6.75**	**3.30**	6.15	5.60	5.10	4.70
Dividends per ADS (US$) (5)(8)		**n/a**	**n/a**	3.50	3.62	3.17	3.24
Dividend cover before significant items (times)		**1.93**	**1.93**	1.82	1.70	1.71	1.63
Dividend cover (times)		**1.00**	**1.00**	1.74	1.70	1.37	1.63
Net tangible asset backing per ordinary share (9)(10)	5.98%	**9.32**	**4.58**	7.46	8.67	8.24	7.40
Book value per share ($)		**15.15**	**7.45**	14.12	12.46	10.87	8.88
Book value per ADS ($)		**75.75**	**37.25**	70.60	62.30	54.35	44.40
Share price (annual) ($)							
High		**35.13**	**17.27**	27.90	30.28	23.50	22.85
Low		**23.80**	**11.70**	19.88	18.99	16.87	13.15
End		**25.66**	**12.61**	25.51	22.43	20.39	21.22
Adjusted to accord with US GAAP							
Net income	(2.77%)	**1,866**	**917**	3,051	2,862	2,099	2,289
Earnings per share (6)							
Basic	(6.28%)	**1.07**	**0.53**	1.90	1.89	1.46	1.56
Diluted	(5.68%)	**1.09**	**0.53**	1.84	1.84	1.44	1.53
Cash earnings per share (7)							
Basic	(9.18%)	**0.97**	**0.48**	2.03	2.03	1.59	1.66
Diluted	(8.58%)	**0.99**	**0.48**	1.96	1.99	1.56	1.62
Earnings per ADS (6)							
Basic	(6.21%)	**5.37**	**2.64**	9.50	9.45	7.30	7.80
Diluted	(5.71%)	**5.44**	**2.67**	9.20	9.20	7.20	7.65

Financial review

Selected financial data (continued)

	Group					
	2001 [1]	**2001** [2]	2000 [3]	1999	1998 [4]	1997
	$m	**US$m**	$m	$m	$m	$m
Summary of statement of financial position						
Australian GAAP						
Investments relating to life insurance business	**31,381**	**15,424**	31,103	-	-	-
Loans and advances (after provisions for doubtful debts)	**207,797**	**102,132**	195,492	165,620	160,001	131,036
Total assets	**374,720**	**184,175**	343,677	254,081	251,714	201,969
Total risk-weighted assets	**257,513**	**126,568**	238,589	197,096	199,476	154,309
Life insurance policy liabilities	**30,257**	**14,871**	29,879	-	-	-
Deposits and other borrowings	**190,965**	**93,859**	185,097	162,468	158,084	128,469
Perpetual floating rate notes	**507**	**249**	461	383	421	347
Exchangeable capital units [11]	**1,262**	**620**	1,262	1,262	1,262	1,262
Bonds, notes and subordinated debt	**24,984**	**12,280**	21,051	13,437	15,115	9,569
Net assets	**23,557**	**11,578**	21,407	18,520	15,764	12,581
Ordinary shares	**8,050**	**3,957**	7,180	6,611	5,942	1,413
Equity instruments [12]	**2,675**	**1,315**	2,675	2,675	733	-
Contributed equity	**10,725**	**5,272**	9,855	9,286	6,675	1,413
Equity [10]	**23,489**	**11,545**	21,361	18,520	15,761	12,579
Adjusted to accord with US GAAP						
Total assets	**377,167**	**185,378**	344,227	258,791	256,753	205,743
Equity [10]	**23,987**	**11,789**	21,836	19,226	16,359	13,153

	Group				
	2001	2000	1999	1998	1997
	%	%	%	%	%
Selected financial ratios					
Australian GAAP					
Net profit before significant items as a percentage of					
Average total assets (excluding statutory funds)	**1.3**	1.2	1.1	1.1	1.2
Average ordinary equity	**18.4**	18.1	17.3	17.8	16.7
Year-end total assets (excluding statutory funds)	**1.2**	1.1	1.1	1.0	1.1
Year-end ordinary equity	**18.2**	17.0	17.3	16.7	17.7
Net profit as a percentage of					
Average total assets (excluding statutory funds)	**0.7**	1.2	1.1	0.8	1.2
Average ordinary equity	**9.0**	17.3	17.3	14.3	16.7
Year-end total assets (excluding statutory funds)	**0.6**	1.0	1.1	0.8	1.1
Year-end ordinary equity	**9.0**	16.2	17.3	13.4	17.7
Dividend payout ratio [5]	**111.2**	61.1	60.2	73.1	61.5
Average equity to average total assets (excluding statutory funds)	**7.3**	7.3	6.7	5.9	7.1
Cash return on average tangible equity before significant items [13]	**18.2**	19.4	21.1	22.9	21.2
Cash return on average tangible equity [13]	**9.0**	18.6	21.1	18.8	21.2
Capital - risk asset ratios [14]					
Tier 1	**7.5**	6.6	7.8	6.4	6.8
Tier 2	**3.9**	4.0	2.9	3.1	2.2
Deductions	**(1.2)**	(1.3)	(0.3)	(0.3)	(0.3)
Total	**10.2**	9.3	10.4	9.2	8.7
Average net interest margin	**2.71**	2.88	3.00	3.17	3.53
Ratio of earnings to fixed charges [15]	**1.3**	1.4	1.5	1.3	1.4
Adjusted to accord with US GAAP					
Net income as a percentage of year-end					
Total assets (excluding statutory funds)	**0.5**	1.0	1.1	0.8	1.1
Equity	**7.8**	14.0	14.9	12.8	17.4
Dividends as percentage of net income [5]	**111.5**	60.9	57.8	69.9	59.7
Equity as percentage of total assets (excluding statutory funds)	**7.0**	7.0	7.4	6.4	6.5
Ratio of earnings to fixed charges [15]	**1.3**	1.4	1.5	1.3	1.4

Financial review

Selected financial data (continued)

	Group				
	2001	2000	1999	1998	1997
Exchange rates (average and closing per A$1.00)					
Average					
British pound	**0.3626**	0.3902	0.3934	0.3914	0.4714
Irish punt	**0.4631**	0.4970	0.4592	0.4530	0.4934
United States dollar	**0.5227**	0.6102	0.6404	0.6468	0.7695
New Zealand dollar	**1.2474**	1.2648	1.2012	1.1576	1.1240
Singapore dollar	**0.9257**	1.0402	1.0804	1.0720	1.1052
Closing					
British pound	**0.3354**	0.3710	0.3697	0.3480	0.4467
Irish punt	**0.4247**	0.4856	0.4840	0.3972	0.4940
United States dollar	**0.4928**	0.5427	0.6528	0.5934	0.7197
New Zealand dollar	**1.2135**	1.3351	1.2589	1.1880	1.1272
Singapore dollar	**0.8683**	0.9449	1.1116	1.0017	1.1043

		Group				
	2002 [16]	**2001**	2000	1999	1998	1997
(US$ per A$1.00)						
High	**0.5068**	**0.5712**	0.6687	0.6712	0.7386	0.8180
Low	**0.4913**	**0.4828**	0.5372	0.5887	0.5550	0.7455
Average [17]	**0.4994**	**0.5221**	0.6091	0.6404	0.6571	0.7639
September 30		**0.4915**	0.5415	0.6528	0.5930	0.7250

On October 12, 2001 the noon buying rate was US$0.5036 per A$1.00.

	Group 2001					
	October	September	August	July	June	May
United States dollar (per A$1.00)						
High	0.5068	0.5230	0.5386	0.5186	0.5270	0.5281
Low	0.4913	0.4841	0.5129	0.5050	0.5058	0.5077

	Group				
	2001	2000	1999	1998	1997
Other information (numbers)					
Total staff					
Full-time and part-time [18]	**49,710**	51,879	51,566	50,973	52,226
Full-time equivalent [19]	**44,983**	47,417	45,676	46,300	46,422

(1) *Includes amounts relating to Michigan National Corporation to March 31, 2001. The Group sold this entity on April 1, 2001.*

(2) *Translated at the noon buying rate on September 30, 2001 of US$0.4915 = A$1.00.*

(3) *Includes amounts relating to MLC from July 1, 2000. The Group acquired this entity on June 30, 2000.*

(4) *Includes amounts relating to HomeSide International, Inc. from February 10, 1998, the date on which the Group acquired this entity.*

(5) *Dividend amounts are for the year for which they are declared and includes issues under the bonus share plan in lieu of cash and scrip dividends. Dividends and book value per ordinary share and per American Depositary Share (ADS) calculations are based on year-end fully-paid equivalent ordinary shares, adjusted for loans and rights issues as appropriate. Net profit is based on amounts attributable to ordinary shareholders after deducting distributions to other equityholders.*

(6) *Refer to notes 8 and 58 in the financial report for explanation of earnings per share.*

(7) *Cash earnings are based on earnings attributable to ordinary shareholders excluding movement in excess of net market value over net assets of life insurance controlled entities and goodwill amortisation. Comparatives for 2000 have been restated to exclude the movement in excess of net market value over net assets of life insurance controlled entities.*

(8) *Dividend amounts are translated into US dollars per ADS (representing five ordinary shares) at the exchange rate on each of the respective payment dates for interim and final dividends. The 2001 final dividend of A$0.68 per ordinary share is not payable until December 12, 2001. Accordingly, the total US dollar dividend per ADS cannot be determined until that date.*

(9) *After deducting goodwill.*

(10) *Excludes outside equity interests.*

(11) *The exchangeable capital units of US$1 billion are recorded in this annual financial report at the historical rate of US$0.7922 = A$1.00.*

(12) *Equity instruments incorporate preference shares and National Income Securities.*

(13) *Based on cash earnings as a percentage of average equity excluding the average unamortised balance of goodwill. Comparatives for 2000 have been restated.*

(14) *Based on Tier 1 and Tier 2 capital, as defined by Australian Prudential Regulation Authority, related to risk-weighted assets. (Refer to 'capital adequacy' on page 33 and 'regulation of the financial services system' on page 7).*

Financial review

Selected financial data (continued)

(15) *For the purpose of calculating these ratios, fixed charges include interest on all indebtedness including interest on deposits, and one third of rental charges (which is used to be representative of an interest factor). Earnings are calculated after all operating and income deductions, except fixed charges, extraordinary items and tax based on profits and are stated before outside equity interests.*

(16) *Through to October 12, 2001.*

(17) *The daily average of the noon buying rates.*

(18) *Full-time and part-time staff excludes unpaid absences (eg maternity leave).*

(19) *Full-time equivalent includes part-time staff (pro rated). Comparatives for 2000 have been restated to include an additional 383 full-time equivalent Wealth Management employees.*

Net interest income

2001	$	6,960	million
2000	$	6,371	million
1999	$	6,066	million

Net interest income is the difference between interest income and interest expense.

Net interest income is derived from diverse business activities, including extending credit to customers, accepting deposits from customers, regulatory deposits, amounts due to and from other financial institutions and managing the Group's other interest sensitive assets and liabilities, especially trading securities, available for sale securities and investment securities.

Net interest income in 2001 increased by 9.2% to $6,960 million after increases of 5.0% to $6,371 million in 2000 and 3.6% to $6,066 million in 1999. During 2001, movements in exchange rates increased net interest income by $264 million, after an increase of $20 million in 2000. Excluding the impact of exchange rate movements, the increase in 2001 was 5.1%. In each year, lending and investment and trading asset growth combined with lower interest rate driven funding costs, was partly offset by a reduction in retail deposit margins and a higher proportion of wholesale funding to fund growth. Net interest income in 2000 included a $636 million contribution from Michigan National Corporation, which reduced to $350 million in 2001 following the sale of the controlled entity. This was partly offset by an increased return on excess capital resulting from the receipt of the sale proceeds and lower funding costs within the Group.

Interest income increased by 13.7% to $19,919 million in 2001 after increasing by 16.3% to $17,517 million in 2000 and decreasing by 2.3% to $15,066 million in 1999. Excluding the impact of exchange rate movements, the increase in 2001 was 8.2% and in 2000 the increase was 15.9%. Interest expense increased 16.3% to $12,959 million during 2001 after increasing 23.8% to $11,146 million during 2000 and decreasing 5.9% to $9,000 million in 1999. Excluding the impact of exchange rate movements, the movement in 2001 was a decrease of 10.0% and in 2000 the movement was an increase of 23.5%.

Average interest-earning assets for 2001 increased by 16.1% to $256.6 billion from $221.0 billion in 2000 and $202.1 billion in 1999.

The interest margin (net interest income as a percentage of average interest-earning assets), which includes the impact of non-accrual loans on net interest income, decreased to 2.71% in 2001 from 2.88% in 2000 and 3.00% in 1999. The interest spread (the difference between the average interest rate earned and the average interest rate incurred on funds) decreased to 2.34% from 2.39% in 2000 and 2.47% in 1999.

Financial review

Net interest income (continued)

Volume and rate analysis

The following table allocates changes in net interest income between changes in volume and changes in rate for the last three years ended September 30. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities. The variance caused by changes of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total.

	2001 over 2000 Increase/(decrease) due to change in			2000 over 1999 Increase/(decrease) due to change in			1999 over 1998 Increase/(decrease) due to change in		
	Average balance $m	**Average rate $m**	**Total $m**	Average balance $m	Average rate $m	Total $m	Average balance $m	Average rate $m	Total $m
Interest-earning assets									
Due from other financial institutions									
Australia	**27**	**4**	**31**	20	17	37	(11)	5	(6)
Overseas	**153**	**(80)**	**73**	103	70	173	(89)	(67)	(156)
Marketable debt securities									
Australia	**(18)**	**4**	**(14)**	117	65	182	131	(34)	97
Overseas	**448**	**(39)**	**409**	29	68	97	31	(235)	(204)
Loans and advances									
Australia	**797**	**(69)**	**728**	571	413	984	512	(493)	19
Overseas	**883**	**(206)**	**677**	679	(7)	672	728	(1,033)	(305)
Regulatory deposits									
Australia	**-**	**-**	**-**	-	-	-	(1)	-	(1)
Overseas	**-**	**-**	**-**	-	-	-	(1)	-	(1)
Other interest-earning assets	**917**	**(419)**	**498**	(519)	825	306	176	20	196
Change in interest income	**3,207**	**(805)**	**2,402**	1,000	1,451	2,451	1,476	(1,837)	(361)
Interest-bearing liabilities									
Due to other financial institutions									
Australia	**42**	**(9)**	**33**	11	46	57	1	2	3
Overseas	**600**	**(148)**	**452**	417	(141)	276	(112)	(70)	(182)
Savings deposits									
Australia	**(18)**	**8**	**(10)**	67	49	116	(3)	(2)	(5)
Overseas	**(19)**	**(34)**	**(53)**	19	62	81	46	(210)	(164)
Other demand deposits									
Australia	**100**	**111**	**211**	(2)	29	27	52	(52)	-
Overseas	**77**	**(19)**	**58**	70	49	119	29	(83)	(54)
Time deposits									
Australia	**20**	**75**	**95**	205	(157)	48	224	(84)	140
Overseas	**635**	**(127)**	**508**	(97)	235	138	470	(942)	(472)
Government and official institutions									
Australia	**(2)**	1	**(1)**	37	-	37	-	-	-
Overseas	**34**	**(6)**	**28**	46	6	52	8	1	9
Short-term borrowings									
Overseas	**16**	**7**	**23**	141	10	151	(114)	135	21
Long-term borrowings									
Australia	**320**	**(6)**	**314**	209	68	277	27	(114)	(87)
Overseas	**153**	**(111)**	**42**	17	51	68	(62)	12	(50)
Other debt issues									
Australia	**15**	**(9)**	**6**	5	6	11	(1)	(2)	(3)
Overseas	**(4)**	**24**	**20**	(25)	32	7	(1)	4	3
Other interest-bearing liabilities	**(171)**	**258**	**87**	(15)	696	681	204	68	272
Change in interest expense	**1,798**	**15**	**1,813**	1,105	1,041	2,146	768	(1,337)	(569)
Change in net interest income	**1,409**	**(820)**	**589**	(105)	410	305	708	(500)	208

Financial review

Net interest income (continued)

Interest margins and spreads

	2001 $m	2000 $m	1999 $m
Australia			
Net interest income	**3,374**	3,106	2,867
Average interest-earning assets	**115,747**	104,806	95,106
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.59**	2.38	2.30
Interest foregone on non-accrual and restructured loans (%)	**(0.03)**	(0.04)	(0.03)
Interest spread (%) [(1)]	**2.56**	2.34	2.27
Benefit of net free liabilities, provisions and equity (%)	**0.35**	0.62	0.75
Interest margin (%) [(2)]	**2.91**	2.96	3.02
Overseas			
Net interest income	**3,586**	3,265	3,199
Average interest-earning assets	**151,104**	120,580	108,485
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.05**	2.35	2.65
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.03)	(0.05)
Interest spread (%) [(1)]	**2.03**	2.32	2.60
Benefit of net free liabilities, provisions and equity (%)	**0.34**	0.39	0.34
Interest margin (%) [(2)]	**2.37**	2.71	2.94
Group			
Net interest income	**6,960**	6,371	6,066
Average interest-earning assets	**256,603**	220,987	202,052
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.37**	2.42	2.51
Interest foregone on non-accrual and restructured loans (%)	**(0.03)**	(0.03)	(0.04)
Interest spread (%) [(1)]	**2.34**	2.39	2.47
Benefit of net free liabilities, provisions and equity (%)	**0.37**	0.49	0.53
Interest margin (%) [(2)]	**2.71**	2.88	3.00

(1) *Interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.*

(2) *Interest margin is net interest income as a percentage of average interest-earning assets.*

The interest rate on Australian interest-earning assets increased to 8.5% from 8.2% in 2000 and 7.5% in 1999, while the interest rate on interest-bearing liabilities was unchanged from 5.9% in 2000 which was an increase from 5.2% in 1999. Interest margins in Australia were relatively stable in 2001, resulting from lower interest rate driven deposit margins and adverse product mix, offset by lower interest rate driven wholesale funding costs and favourable balance sheet positioning.

The interest rate on overseas interest earning assets decreased to 7.0% in 2001 from 7.6% in 2000 and 7.4% in 1999, while the interest rate on interest-bearing liabilities decreased to 5.0% in 2001 from 5.3% in 2000 and 4.8% in 1999. Overseas interest margins reduced in 2001, impacted by pressure on customer lending and deposit margins and the sale of Michigan National Corporation, partly offset by lower interest rate driven funding costs across all regions.

During 2001, net interest income increased by $589 million. Australian net interest income increased by 8.6% to $3,374 million, while overseas net interest income increased 9.8% to $3,586 million. Average interest-earning assets increased 16.1% to $257 billion during the year. Australian average interest-earning assets grew by 10.4% to $116 billion, while overseas average interest earning assets grew by 25.3% to $151 billion.

Financial review

Other banking and financial services income

2001	$	4,809	million
2000	$	4,124	million
1999	$	4,027	million

Other banking and financial services income includes loan fees from banking, money transfer fees, banking fees and commissions, treasury-related income and other income (including rental income, dividends received and profit on sale of fixed assets).

Other banking and financial services income increased by $685 million or 16.6% in 2001 after increasing 2.4% in 2000. Refer below for a detailed analysis of the main categories of other banking and financial services income.

Loan fees from banking

2001	$	1,334	million
2000	$	1,246	million
1999	$	1,077	million

Loan fees from banking primarily consist of acceptance fees, which are charged for accepting bills of exchange, application fees charged to cover costs of establishing lending facilities, commitment fees charged to compensate for undrawn funds set aside for a customer's ultimate use, and service fees to cover costs of maintaining credit facilities.

Loan fees from banking in 2001 increased by $88 million or 7.1% after increasing 15.7% in 2000. The increase in 2001 reflects sustained activity across all regions.

Money transfer fees

2001	$	1,043	million
2000	$	1,048	million
1999	$	1,030	million

Money transfer fees are fees earned on the transfer of monies between accounts and/or countries and also include fees for bank cheques and teletransfers, dishonours and special clearances, and periodical payments.

Money transfer fees in 2001 decreased by $5 million or 0.5% after increasing 1.7% in 2000. The decline and slow growth rate in prior years reflects the migration of customers to lower cost electronic distribution channels.

Fees and commissions

2001	$	1,303	million
2000	$	1,098	million
1999	$	955	million

Fees and commissions consist of fees charged to cover the costs of establishing credit card facilities and commissions from selling insurance and investment products.

Fees and commissions increased by $205 million or 18.7% in 2001, after increasing 15.0% in 2000. The increase in fees and commissions is due primarily to higher personal insurance income from an enhanced product range and credit card fees related to growth in volumes.

Treasury-related income

2001	$	721	million
2000	$	468	million
1999	$	457	million

Treasury-related income includes all realised and unrealised profits and losses resulting directly from foreign exchange trading activities, trading securities and interest rate-related derivative trading activities.

Treasury-related income increased by $253 million or 54.1% in 2001 after increasing by 2.4% in 2000. The increase in treasury-related income is largely attributable to maximising client relationship opportunities and leveraging product leadership in a volatile investment market.

Financial review

Other banking and financial services income (continued)

Other income

2001	$	408	million
2000	$	264	million
1999	$	508	million

Other income includes rental income, dividends received, profit on sale of fixed assets, fleet service fees, other general insurance income and sundry income.

Other income increased by $144 million or 54.5% in 2001 after decreasing by 48.0% in 2000. The increase in other income reflects the first full year's contribution of the MLC group, generating increased other general insurance income and service income from the sale of non-life products.

Mortgage servicing and origination revenue

Net mortgage servicing fees

2001	$	474	million
2000	$	535	million
1999	$	312	million

Net mortgage servicing fee income represents fee income derived from mortgage servicing activities less amortisation of capitalised cost *(refer to note 1 in the financial report).*

Net mortgage servicing fees in 2001 decreased by $61 million or 11.4% over 2000, reflecting an increase in mortgage servicing fees driven by the growth in the servicing portfolio, more than offset by the higher amortisation of mortgage servicing rights driven by higher refinancing/prepayment activity, which is a result of falling US interest rates.

Net mortgage origination revenue

2001	$	336	million
2000	$	105	million
1999	$	224	million

Net mortgage origination revenue comprises fees earned on the origination of mortgage loans, gains and losses on the sale of loans, gains and losses resulting from hedges of secondary marketing activity, and fees charged to review loan documents for purchased loan production.

Net mortgage origination revenue increased in 2001 by $231 million or more than 200% over 2000, reflecting an increase in production volumes. However, the decreasing interest rate environment has adversely impacted the mortgage origination market and sparked fierce price competition.

Life insurance business

Life insurance income

2001	$	137	million
2000	$	1,557	million

Life insurance income comprises those components of premiums that are revenues and interest, dividends, realised and unrealised capital gains and other returns on all the investments under the life insurer's control *(refer to note 57 in the financial report for a definition of the life insurer).*

Life insurance income decreased in 2001 by 91.2% to $137 million, from $1,557 million in 2000. This decline was primarily due to a decline in investment revenue (decrease of $1,955 million from 2000) arising from the volatility of investment markets. This was offset by a decrease in policy liabilities. Premium and related income increased $535 million or 109.9% due, in part, to the first full year's contribution from the MLC group, and strong sales growth.

Movement in excess of net market value over net assets of life insurance controlled entities

2001	$	510	million
2000	$	202	million

Following the adoption of Australian accounting standard AASB 1038 "Life Insurance Business" (AASB 1038) in 2000, life insurance entities of the Group are required to value their investments in controlled entities at market value, with changes in the excess of net market value over net assets reflected in the consolidated statement of financial performance.

Life insurance business (continued)

The revaluation of life insurance entities' interest in controlled entities gave rise to a revaluation profit of $510 million before tax, reflecting the movement in the excess of market value over the net assets of subsidiaries owned by National Australia Financial Management Limited (NAFM), adjusted for capital. Values shown are directors' valuations based on discounted cash flow (DCF) valuations determined by Tillinghast-Towers Perrin.

NAFM subsidiaries market value summary	Market value 2000 (1) $m	Net capital transfers (2) $m	Excess on acquisitons (3) $m	Operating profit after tax (4) $m	Movement in excess before tax (5) $m	Market value 2001 $m
Net assets (6)	785	(97)	(193)	215	-	710
Value of inforce business	1,773	-	140	-	225	2,138
Embedded value	**2,558**	**(97)**	**(53)**	**215**	**225**	**2,848**
Value of future new business	1,499	-	53	-	1,124	2,676
Value of synergy benefits	1,306	-	-	-	(839)	467
Market value	**5,363**	**(97)**	**-**	**215**	**510**	**5,991**

(1) *The present value of expected revenue and expense synergies arising from the integration of the MLC and NAFM operations, which amounts to $140 million per annum to be achieved by 2003, was reflected in the opening net market value at September 30, 2000.*

(2) *Net capital transfers represent movements in value that do not impact on the revaluation and operating profit, such as the payment of dividends, capital injections, and the acquisition/divestment of controlled entities.*

(3) *Representing the excess of net market value over the net assets of businesses or controlled entities acquired/divested, including the divestment of County Investment Management and the acquisitions of Deutsche Bank's Australian financial planning and portfolio management businesses and John A. Nolan and Associates.*

(4) *Operating profit after income tax shown in this table excludes operating profits of entities outside the market value accounting environment; ie the operating profits after tax from NAFM's own business, and other Wealth Management entities not owned by NAFM.*

(5) *The movement in excess of market value over recognised net assets of life insurance controlled entities before tax does not include a revaluation uplift in respect of NAFM's own business. AASB 1038 requires assets of a life company to be valued at net market value; since NAFM is the parent life entity, the change in market value of its own business is not brought to account.*

(6) *Net assets represent the shareholder capital reserves and retained profits. A portion of these net assets is non-distributable as it is required to support regulatory capital requirements. The cost of this capital support is reflected in the value of inforce business.*

The components that contributed to the reported movement in the excess of net market value of life insurance controlled entities comprised:

- the expected increases arising from the rolling forward of the DCF valuations at the discount rate;
- assumption and experience changes included a reduction of 1% in the discount rate applied in the DCF valuation for Australian life insurance companies. This reduction together with a commensurate reduction in the rate of future expected investment earnings on funds under management and a reduction in future inflation and business growth rates, reflects decreases in the 10 year bond yield since September 30, 2000. Experience items included recognition of the impact of the investment earnings being less than expected including the volatility in the September 2001 quarter. These combined assumptions and experience changes contributed to an increase of $28 million in the movement in the excess of net market value of life insurance controlled entities;
- the passing of benefit associated with imputation credits of $58 million on the payment of dividends to shareholders during the year;
- during the year an agreement was established to reinsure the NAFM protection business with MLC Lifetime Company Limited. This arrangement resulted in the transfer of business into the mark to market environment and released capital for more efficient use elsewhere within the business. This transaction increased the valuation of MLC Lifetime Company Limited by $150 million before tax; and
- as synergy benefits are recognised from the integration of the MLC group, the value associated with synergies recognised will transfer to increased values of inforce business and future new business. Since September 30, 2000, the value of synergies expected to be realised amounted to $982 million. This has reduced the valuation of synergy benefits as a separate component of the valuation.

Life insurance expenses

2001	$	(11)	million
2000	$	1,225	million

Life insurance expenses comprise claims expense, change in policy liabilities, policy acquisition and maintenance costs, and investment management fees.

Life insurance expenses decreased $1,236 million in 2001 to $(11) million, from $1,225 million in 2000. This is due primarily to the decrease in policy liabilities resulting from the negative volatility of the investment markets, and is consistent with the decrease in investment revenue. This was partially offset by a $337 million or 128.6% increase in claims expense due, in part, to the first full year's impact of the MLC group.

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Personnel expenses

2001	$	3,725	million
2000	$	3,401	million
1999	$	3,267	million

Personnel expenses increased by $324 million or 9.5% in 2001 to $3,725 million, after increasing 4.1% in 2000. This reflects market-based salary increases, the first full year's contribution from the MLC group, increased contractor costs and higher performance-based compensation (largely in Wholesale Financial Services). These increases have partially been offset by improved efficiencies and outsourcing within National Shared Services.

Occupancy expenses

2001	$	587	million
2000	$	512	million
1999	$	498	million

Occupancy expenses increased by $75 million or 14.6% in 2001 to $587 million, after increasing 2.8% in 2000. This partly reflects the impact of the Group's ongoing sale and leaseback program, which has resulted in increased rental expenses across the Group, as well as increases in rental rates and the impact of the introduction of goods and services tax in Australia.

General expenses

2001	$	2,238	million
2000	$	1,894	million
1999	$	1,936	million

General expenses increased by $344 million or 18.2% in 2001 to $2,238 million, after decreasing 2.2% in 2000. The increase was mainly attributable to increased software amortisation and increased telephone and teleprocessing expenses caused by higher rates and increased use of these channels. Expenses were also impacted by increased network costs, expenses associated with the introduction of a second call centre in Great Britain, increased non-lending losses and the first full year's contribution from the MLC group.

The Group’s total operating cost to income ratio (excluding significant items) was 50.7% in 2001 compared to 56.1% in 2000 and 55.6% in 1999. The Group's cost to income ratio reflects the different business mix including policyholder items. The ratio has improved due to continued income growth and effective cost control.

(Refer to notes 4 and 5(b) in the financial report for details of income and expense items)

Significant operating expenses

Impairment loss on mortgage servicing rights

In July 2001, the directors of the Company determined that the carrying value of the mortgage servicing rights asset held by HomeSide Lending, Inc., a controlled entity of the Company, exceeded the fair value. An impairment loss of $888 million was recognised to reflect the asset at its fair value. This impairment was the result of hedging positions which were adversely impacted by extreme volatility in United States interest rate markets.

In September 2001, the directors of the Company determined that a second impairment loss on mortgage servicing rights was required in order to reflect the mortgage servicing rights asset at its fair value. This impairment loss of $755 million was the result of an incorrect interest rate assumption discovered in an internal model used to determine the fair value of HomeSide Lending, Inc.’s mortgage servicing rights. Based on an assessment, $734 million of the impairment loss has been attributed to the half-year ended March 31, 2001 and the remainder has been attributed to the half-year ended September 30, 2001.

Restructuring costs

During 2000, the Group recognised restructuring costs of $96 million resulting from two major initiatives *(refer to note 5(a) in the financial report).* The majority of these costs are expected to be recovered by the end of 2003 from annual productivity improvements and revenue enhancements. The first initiative involved a significant transformation of Business and Personal Financial Services’ Australian distribution network to meet the rapidly-changing customer preferences for accessing financial services. The second initiative intended to bring about globally-consistent processes and the centralisation of processes where scale efficiencies could be realised for Wholesale Financial Services. To balance date $37 million of the provision had been utilised.

Other restructuring costs incurred in 2001, 2000 and 1999 have been expensed as incurred. Such costs were not material *(refer to note 5 in the financial report).*

Financial review

Significant operating expenses (continued)

Business integration costs

During 2000, the Group recognised business integration costs of $108 million resulting from the integration of the MLC Group's operations with the Group's existing life insurance and funds management businesses. The total integration charge includes costs for the integration of asset management and administration systems, changes to information technology and distribution systems, the ongoing functional requirements of the MLC Group as a result of the separation from Lend Lease Corporation Limited, (the previous owner of the MLC Group), and the write-off of capitalised software and systems, which will not form part of the integrated Wealth Management business going forward. To balance date $84 million of the provision has been utilised.

Charge to provide for doubtful debts

2001	$	989	million
2000	$	588	million
1999	$	581	million

The total charge to provide for doubtful debts for 2001 amounted to $989 million, $401 million higher than the 2000 charge of $588 million.

The charge in Australia increased to $473 million in 2001 from $207 million in 2000. The increase reflects a higher general provision charge as a result of loan volume growth and the impact on credit quality of the prevailing macro-economic conditions. The charge was also impacted by a small number of large corporate exposures within Wholesale Financial Services and a charge in relation to the collapse of Ansett and the Group's position as merchant transaction acquirer. *(The nature of general and specific provisioning is explained in note 1(q)(i) in the financial report).*

The charge in Great Britain was $381 million, an increase of $117 million or 44.3% over the charge of $264 million in 2000, which in turn was $22 million higher than the charge of $242 million in 1999. Clydesdale and Yorkshire Bank's charges increased by $88 million reflecting a higher general provision charge in 2001 compared with the prior year, consistent with loan volume growth and macro-economic conditions.

The charge in Ireland was $15 million, a decrease of $12 million or 44.4% over the charge of $27 million in 2000 which in turn was $5 million higher than the charge of $22 million in 1999. Northern and National Irish Bank's charges decreased by $11 million, although the underlying charge remained steady, due to the inclusion of a substantial provision relating to one customer in 2000.

The charge in New Zealand decreased to $10 million in 2001 from $11 million in 2000, reflecting the current status of the New Zealand credit cycle and the quality of the loan portfolio.

The charge in the United States increased by $37 million to $107 million, due to an increase in provisioning in the New York branch of the Company of $31 million, as well as higher charges in HomeSide International, Inc. of $62 million, an increase of $7 million from 2000 due to movements in foreign exchange.

The following table provides a regional analysis of the charge to provide for doubtful debts.

	2001 $m	2000 $m	1999 $m	2001/2000 % Change
Australia	**473**	207	180	large
Great Britain [(1)]				
Clydesdale and Yorkshire Banks	**348**	260	320	33.8
Other	**33**	4	(78)	large
	381	264	242	44.3
Ireland [(2)]				
Northern and National Irish Banks	**16**	27	21	(40.7)
Other	**(1)**	-	1	large
	15	27	22	(44.4)
New Zealand	**10**	11	19	(9.1)
United States	**107**	70	90	52.9
Asia	**3**	9	28	(66.7)
Total charge to provide for doubtful debts	**989**	588	581	68.2

[(1)] *The 1999 doubtful debts charge for each of the Great Britain entities includes the impact of a realignment of the statistically-determined general provision, adopted in 1998, between Great Britain - Other (including National Australia Group Europe Limited) and the individual banks. The realignment impacted Great Britain by the following amounts: Clydesdale and Yorkshire Banks up $88 million, and Great Britain - Other down $74 million. The net impact on Great Britain was an increase of $14 million.*

[(2)] *The 1999 doubtful debts charge for each of the Irish entities includes the impact of a realignment of the statistically-determined general provision, adopted in 1998, between Ireland - Other and the individual banks. The realignment impacted Ireland by the following amounts: Northern and National Irish Banks down $8 million.*

Charge to provide for doubtful debts (continued)

Net write-offs (advances written off less recoveries) in 2001 were $587 million compared with $433 million in 2000 and $422 million in 1999. As a percentage of risk-weighted assets, net write-offs were 0.2% in 2001, 0.2% in 2000 and 0.2% in 1999.

Percentage of risk-weighted assets

	2001	2000	1999
	%	%	%
Australia [(1)]			
Charge	**0.36**	0.18	0.19
Net write-offs	**0.19**	0.15	0.19
Great Britain [(1)]			
Charge	**0.61**	0.56	0.66
Net write-offs	**0.45**	0.43	0.47
Ireland [(1)]			
Charge	**0.12**	0.25	0.24
Net write-offs	**0.21**	0.12	0.14
New Zealand [(1)]			
Charge	**0.05**	0.06	0.11
Net write-offs	**0.05**	0.02	0.07
United States [(1)]			
Charge	**0.43**	0.16	0.15
Net write-offs	**0.09**	0.04	0.07
Asia [(1)]			
Charge	**0.04**	0.15	0.49
Net write-offs	**(0.01)**	0.40	0.40
Group			
Charge	**0.38**	0.25	0.27
Net write-offs	**0.23**	0.18	0.21

[(1)] *Ratio calculated as a percentage of risk-weighted assets of Australia, Great Britain, Ireland, New Zealand, United States and Asia, as appropriate.*

The Group maintains a conservative and prudent approach to actual and potential loan losses. The overall provision for doubtful debts *(refer to notes 1 and 17 in the financial report)* is augmented as necessary by a charge against profit having regard to both specific and general factors. An explanation of the Group's lending and risk analysis policies is provided within the 'risk management' section of this financial review on page 41.

Significant non-operating items

Net profit on sale of foreign controlled entity

Michigan National Corporation's results are included for the six months to March 31, 2001. On April 1, 2001, the Group sold Michigan National Corporation to ABN Amro North America Inc., a subsidiary of ABN Amro NV. Proceeds from the US$2,750 million (A$5,314 million) sale gave rise to a gain of $2,799 million after all disposal costs, including taxation. The profit was booked by way of $1,681 million through the profit and loss account and a $1,118 million transfer from the foreign currency translation reserve to distributable retained profits.

Charge to provide for mortgage servicing rights valuation adjustment

On September 2, 2001, the directors of the Company decided to value HomeSide Lending, Inc. at its estimated market sale value, rather than as an ongoing part of the Group, after reviewing its position within the Group's current core strategies of banking and wealth management. As a result of this decision, the carrying value of HomeSide Lending, Inc.'s core asset, mortgage servicing rights, was revalued and a provision for mortgage servicing rights valuation adjustment of $1,436 million was recognised in order to reflect the mortgage servicing rights asset at its estimated market sale value.

Impairment loss on goodwill

In conjunction with the directors' decision to value HomeSide Lending, Inc. on an estimated market sale value basis, the decision was made that the carrying value of goodwill which arose on the acquisition of HomeSide Lending, Inc. was in excess of its recoverable amount. Accordingly, an impairment loss of $858 million was recognised, in order to reduce the carrying value of this goodwill to $nil.

Financial review

Net profit by segment

Contribution to Group net profit by operating segment

The Group's operating model is global in those areas where global economies in scale and scope are achievable, but regional where local tailoring and differences are important. The operating model aligns with customers rather than along product lines to facilitate a relationship based customer advocacy stance rather than a pure product sales philosophy.

	2001	2000
	$m	$m
Business and Personal Financial Services	**2,396**	2,273
Specialist and Emerging Businesses	**250**	314
National Shared Services	**(71)**	(164)
Wholesale Financial Services	**685**	586
Wealth Management	**673**	218
HomeSide	**(3,438)**	141
Other [(1)]	**1,588**	(129)
Net profit attributable to members of the Company	**2,083**	3,239

(1) *Incorporates the profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001.*

(Refer to note 3 in the financial report for detailed information by operating segment)

Business and Personal Financial Services

Business and Personal Financial Services increased net profit 5.4% to $2,396 million in 2001, from $2,273 million in 2000, underpinned by strong housing growth, particularly in Australia and New Zealand. The result includes only 6 months contribution from Michigan National Corporation (MNC), which was sold on April 1, 2001. Excluding the contribution from MNC, net profit increased 11.7% to $2,230 million. Details of the 11.7% increase in net profit are as follows.

Total income (excluding MNC) increased 8.5% to $7,501 million, while net interest income increased 10.5% on the back of strong mortgage lending in the second half of the year. Net interest margins declined by 11 basis points to 3.67%, largely due to unfavourable product mix impact in Great Britain and Ireland.

Non-interest income (excluding MNC) increased by 4.4% after adjusting for the creditor insurance activities of Great Britain that were transferred to Wealth Management during the period. Before cost recharges, non-interest income grew by 8.8%, or 5.7% in local currency terms, driven by increased fee income resulting from higher sales volumes of wealth management and home lending products, and new revenue sharing arrangements with the Cards and Payments unit of Specialist and Emerging Businesses. Other fee income increased moderately mainly due to increased customer migration to lower fee electronic channels.

Operating expenses (excluding MNC) increased 4.7% in local currency terms. This was due mainly to wage increases, a refined cost allocation methodology and other initiatives including additional resources applied to non-accrual loan management in Australia, substantial investment in delivery of the Siebel customer relationship management platform in Australia and a second call centre in Europe.

Asset quality management remained a key priority during the year. The Group's two pronged strategy of aggressively tackling existing problem loans while adopting a prudent approach to future lending saw the proportion of gross non-accrual loans to gross loans and acceptances contained at 0.83%, marginally down from 0.84% at September 2000. The charge to provide for doubtful debts (excluding MNC) increased by 4.7% in local currency terms to $481 million.

Specialist & Emerging Businesses

Specialist and Emerging Businesses decreased net profit 20.4% to $250 million in 2001, from $314 million in 2000. Specialist & Emerging Businesses comprise four specialist product units and a venture capital operation, which performed as follows:

Securities Services increased net profit 21.4% to $51 million in 2001, from $42 million in 2000, driven by continued growth in new business. At September 30, 2001 Securities Services had assets under custody and administration of $345 billion, an increase of 21.0% from September 2000.

Cards and Payments decreased net profit 30.1% to $158 million in 2001, from $226 million in 2000. The Cards business performed strongly during the second half of the year, mainly due to increased cardholder spend, growing outstandings and the impact of a reduction of interest free days on credit cards. However profit growth was impacted by the costs associated with providing loyalty programs and higher charges to provide for doubtful debts. The Payments business was impacted by the loss of a major customer in Australia and a large merchant card provision for Ansett.

Financial review

Net profit by segment (continued)

Asset Finance and Fleet Management decreased its net profit 14.6% to $35 million in 2001, from $41 million in 2000. This was mainly due to a $20 million write-back in the maintenance provision in 2000 following a change in accounting treatment. Excluding the impact of this writeback, net profit increased 25% from the prior year, reflecting strong sales performance and increased market share for Asset Finance and solid new sales in Fleet Management.

International Trade and Business Finance increased its net profit 175.0% to $11 million in 2001, from $4 million in 2000, reflecting the impact of increased revenue and productivity gains achieved through the automation and streamlining of processes which led to a reduction in operating expenses and the enhancement of service standards.

National Australia Investment Capital Limited decreased its contribution to a net loss of $3 million in 2001, from a $2 million net profit in 2000.

National Shared Services

National Shared Services provides a number of operational services to the rest of the Group and as such is not a generator of revenue, its income being cost recharges to Group businesses. Therefore, its major focus is on cost effectiveness as a driver of contribution to Group performance.

National Shared Services improved its contribution to Group profit to a net loss of $71 million in 2001, from a net loss of $164 million in 2000, with total operating income (ie cost recharges) increasing 6.9% to $1,573 million. Total operating expenses decreased 3.1% to $1,684 million in 2001.

This was largely driven by an 8.4% decrease in personnel expenses, despite increasing wage rates, as the number of full-time equivalent employees reduced significantly, largely through natural attrition and redeployment in the back-office transaction processing area. This was offset by an 8.4% increase in occupancy expenses, reflecting the impact of the ongoing sale and leaseback program, increased rental rates and the introduction of GST in Australia.

Wholesale Financial Services

Wholesale Financial Services increased net profit 16.9% to $685 million in 2001, from $586 million in 2000. Net profit before significant items increased 15.1% to $685 million.

The result reflects growth of 62.5% in net interest income to $822 million, due to volatility in global interest rates, particularly during the first half of the year, driving growth from funding and liquidity management activities, as well as continuing reductions in US interest rates impacting positively on trading income. Non-interest income increased 20.8% to $960 million, due to strong sales of foreign exchange and interest rate risk management products, and growth in structured finance activity in Europe.

The continued growth in the business was also reflected in higher operating expenses, increasing 27.8% (before significant items) to $635 million, mainly reflecting increases in personnel expenses, occupancy expenses, legal and professional fees. The cost to income ratio (before significant items) decreased from 38.2% to 35.6%, with the increase in staffing driving strong income growth.

The result was also impacted by the significant increase in the charge to provide for doubtful debts from $17 million to $216 million. The increase is consistent with growth in the loan portfolio and following a conservative assessment of current economic conditions in the major markets in which Wholesale Financial Services operates, and a charge for a small number of large corporate exposures. Gross non-accrual loans increased as a result of the deteriorating economic environment, particularly in Australia, and the quality of the portfolio has deteriorated slightly, however, it remains high with approximately 85% of credit exposures equivalent to investment grade or above.

Wealth Management

Wealth Management increased net profit 208.7% to $673 million ($678 million before outside equity interests) from $218 million in 2000. The result included $340 million net operating profit and $333 million net profit from the movement in the excess of net market value over net assets of life insurance controlled entities, reflecting the first full years' contribution from the MLC group. The 2000 result only included a 3 month contribution from the MLC group. The result reflects the strong performance of Wealth Management's Australian businesses.

Financial highlights supporting the net operating profit result include:

- retail investments, corporate and insurance achieved significant new business sales growth in Australia, supported by increased distribution capability;
- rapid growth in the Australian insurance business combined with favourable claims experience;
- funds under management and administration growth of 8.0 % over the prior year (excluding the impact of the sale of Michigan National Corporation);

Net profit by segment (continued)

- investment returns on shareholders' invested assets contributed $10 million after tax. An efficient capital and reserving structure combined with the use of both subordinated debt financing and reinsurance arrangements reducing reserve requirements, and minimised the earnings impact from the decline in global investment markets on shareholders assets;
- strategic investment of over $190 million during the year, including new product development and acquisitions;
- disciplined expense management combined with expense reductions resulted in significant reinvestment of operational expenditure in growth initiatives;
- non-Australian operations contributed 14% of net profit in 2001. In all regions, uncertain economic conditions, volatile investment markets, subdued investor sentiment and sales pressures impacted the business;
- emergence of $61 million of pre-tax annualised integration synergy benefits; and
- alignment to Group accounting policies positively influenced the full year operating result by $37 million after tax.

The valuation of businesses held within the mark to market environment increased by $628 million from 30 September 2000. This increase in value comprised $118 million from growth in shareholders' net assets and $510 million ($333 million after tax) from other components over and above the increase in net assets, which are reported as the movement in the excess of net market value over net assets of life insurance controlled entities. The components that contributed are:

- the expected increases arising from the rolling forward of the discounted cash flow valuations at the discount rate;
- assumption and experience changes included a reduction of 1% in the discount rate applied in the discounted cash flow valuation for Australian life companies;
- the passing of benefits associated with imputation credits of $58 million on the payment of dividends to shareholders during the period; and
- during the year an agreement was established to reinsure the National Australia Financial Management Limited protection business with MLC Lifetime Company Limited, resulting in the transfer of business into the mark to market environment and released capital for more efficient use elsewhere within the business. This increased the valuation by $150 million before tax.

HomeSide

HomeSide International, Inc. recorded a net loss after significant items of $3,438 million in 2001, compared to a net profit of $141 million in 2000. The results were impacted by unprecedented uncertainty and turbulence in the US mortgage servicing market and the discovery of an incorrect interest rate assumption embedded in the mortgage servicing rights valuation model which was subsequently corrected. These factors resulted in a $1,323 million after tax operating impairment loss on mortgage servicing rights, and a subsequent $2,294 million non-operating charge comprising a $1,436 million provision for changes in valuation assumptions to reduce the carrying value of the mortgage servicing rights to an estimated market sale value and $858 million for write-off of goodwill.

HomeSide International, Inc.'s net operating profit before significant items increased 27.0% to $179 million.

Net mortgage origination revenue was up 220% over the prior year primarily due to an increase in core production volume to US$20.8 billion. Net servicing revenue for the year decreased by 11.4% with an increase in mortgage servicing fees offset by higher amortization of mortgage servicing rights. Mortgage servicing fees increased as the servicing portfolio grew by 8.1% to US$187.4 billion. However, the decline in mortgage rates resulted in higher prepayment activity which drove a 80.9% increase in amortisation charges for mortgage servicing rights.

Operating expenses increased 50.6% primarily driven by increased production volumes, growth in the servicing portfolio and increased refinancing activity following the decline in US interest rates. Higher volumes resulted in a 12.7% increase in the charge for the provision for doubtful debts.

Financial review

Net profit by segment (continued)

Contributions to Group net profit by major geographic area

	2001	2000	1999	1998	1997
	$m	$m	$m	$m	$m
Australia					
Banking & Other Financial Services	**1,514**	1,338	1,331	1,031	1,281
Wealth Management	**631**	206	74	67	48
Other [(1)]	**1,785**	103	-	-	-
Deduct: goodwill amortisation	**(1)**	(1)	(11)	(6)	-
	3,929	1,646	1,394	1,092	1,329
Great Britain					
Clydesdale and Yorkshire Banks	**819**	708	605	394	438
National Australia Life	**(5)**	2	10	5	5
Other [(2)]	**9**	(19)	4	(63)	(45)
Deduct: goodwill amortisation	**(62)**	(62)	(62)	(62)	(62)
	761	629	557	274	336
Ireland					
Northern and National Irish Banks	**200**	174	202	202	152
Other [(3)]	**-**	1	2	1	-
	200	175	204	203	152
New Zealand					
Bank of New Zealand	**348**	311	298	262	277
Other [(4)]	**(35)**	(30)	(27)	(42)	(49)
Deduct: goodwill amortisation	**(31)**	(31)	(31)	(31)	(31)
	282	250	240	189	197
United States					
Michigan National Corporation	**156**	291	254	239	222
HomeSide	**(3,438)**	141	153	84	-
Other [(5)]	**191**	161	78	(7)	8
Deduct: goodwill amortisation	**(73)**	(103)	(102)	(82)	(49)
	(3,164)	490	383	234	181
Asia					
Asian branches	**71**	39	33	10	18
Other [(6)]	**4**	10	10	12	10
	75	49	43	22	28
Net profit attributable to members of the Company	**2,083**	3,239	2,821	2,014	2,223

[(1)] *Australia - Other includes earnings on excess capital. Earnings on excess capital was not calculated prior to the 2000 year. Comparatives have not been restated. Australia - Other also includes the profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001.*

[(2)] *Great Britain - Other includes National Australia Group Europe Limited, the London branch of the Company and NAB Investments Limited.*

[(3)] *Ireland - Other includes NAB Finance (Ireland) Limited.*

[(4)] *New Zealand - Other includes National Australia Group (NZ) Limited.*

[(5)] *US - Other includes the New York branch of the Company, National Australia Funding (Delaware), Inc., National Americas Investment, Inc. and HomeSide Investment, Inc.*

[(6)] *Asia - Other includes Nautilus Insurance Pte Limited.*

Australia

Australia's net profit increased 138.7% to $3,929 million, from $1,646 million in 2000 and $1,394 million in 1999. The 2001 result was impacted by the profit on sale of Michigan National Corporation of $1,681 million. Excluding the profit on sale, Australia's net profit increased 36.6% to $2,248 million, due to the solid performances of Banking & Other Financial Services and Wealth Management, which includes the first full year's contribution of the MLC group.

Banking and Other Financial Services

Banking and Other Financial Services' net profit of $1,514 million increased 13.2% from $1,338 million in 2000. Net profit (before goodwill amortisation and significant items) of $1,514 million increased 8.5% or $118 million from $1,396 million in 2000 and $1,331 million in 1999.

Financial review

Net profit by segment (continued)

Net interest income increased 9.6% to $3,243 million, despite an 8 basis point decline in net interest margin to 2.66% over the same period. The increase was driven by strong funded-lending growth, with housing loans performing particularly well. Non-interest income increased 13.9% to $2,366 million, due largely to higher treasury-related and fee income, higher lending and account fee income, and higher transaction income in Securities Services.

Operating expenses increased 7.3% to $2,817 million, while the cost to income ratio improved to 50.2%. The continued growth in Wholesale Financial Services resulted in increased operating expenses. Expenses also increased due to increased communication costs as a result of customer transition to non-branch channels, increased loyalty program expenditure due to increased sales volumes, higher customer program redemption rates and the GST, increased software amortisation charges, and increased personnel expenses due to salary increases which occurred in the second half of the year.

The charge to provide for doubtful debts increased to $476 million. The charge was impacted by large provisions for a small number of corporate accounts, including Ansett, for whom the Group acted as merchant transaction acquirer. The remaining increase reflects increased statistical provisioning as a result of volume growth and the impact on credit quality of the prevailing macro-economic conditions.

Wealth Management

Wealth Management Australia's net profit (before goodwill amortisation and significant items) increased from $206 million to $631 million. This comprised $285 million from operating profits and $346 million from revaluation profits. The result for 2000 includes only a three month contribution in respect of the MLC group, which was acquired on June 30, 2000. Financial highlights supporting Wealth Management Australia's contribution include:

- sales growth (retail, corporate and insurance segments);
- growth in the insurance business, with sales growth combined with favourable claims experience;
- investment returns on shareholders' invested assets contributed $15 million after tax;
- integration synergy benefits contributed $21 million after tax;
- expansion of distribution capacity and increased specialist asset consultant capabilities through acquisition;
- disciplined expense management combined with tactical expense reductions resulted in significant reinvestment of operational expenditure into the business, funding growth initiatives including new product offerings; and
- alignment to the Group's accounting policies positively influenced net profit by $37 million.

Great Britain

Great Britain's net profit increased 21.0% in the year to $761 million from $629 million in 2000 and $557 million in 1999.

Clydesdale and Yorkshire Banks' contributed net profit (before goodwill amortisation and significant items) of $819 million, an increase of 15.6% from the prior year.

Net interest income increased by GBP 55 million or 9.2% driven by strong growth in core lending (variable rate mortgages, lease finance and fixed and variable term lending on the back of the successful tailored business loan product) and retail deposits, largely through on-demand, despite a decline in net interest margin. Non-interest income increased by 2.9% in local currency terms primarily due to increased creditor insurance income and strong sale of interest rate risk management products, offsetting declining account fees.

While operating expenses increased GBP 15 million or 3.4%, reflecting personnel expense increases as a result of merit increases in the trading banks, partially offset by a decline in employee numbers. The cost to income ratio improved from 47.0% to 45.5% reflecting tight cost controls. The charge to provide for doubtful debts increased 23.2% due to statistical provisioning as a result of increased lending volumes.

Ireland

Ireland's net profit increased 14.3% in the year to $200 million from $175 million in 2000 and $204 million in 1999.

Northern and National Irish banks' contributed net profit (before goodwill amortisation and significant items) of $200 million, an increase of 14.9% from the prior year, or 7.5% in local currency terms.

Net interest income increased by GBP 5 million or 2.8% as a result of solid growth in business lending and mortgages, despite a decline in net interest margin. Non-interest income increased by 4.6% in local currency terms on the back of the launch of the Tailored Business Loan product, enhanced fee collection rates and tracker bond commission.

In 2001, operating expenses included a net charge of GBP 11million in respect of settlement of customer claims pertaining to the sale of certain offshore insurance products, investigation expenses and restructuring costs. This was partially offset by operating expenses in 2000 including GBP 5million in respect of settlement of Deposit Interest Retention Tax and investigation costs. After adjusting for these, operating expenses were in line with the previous year, reflecting a strong cost

Net profit by segment (continued)

focus. Although the charge to provide for doubtful debts for the year decreased, the underlying charge was steady as the previous year's charge included a substantial provision relating to one customer.

New Zealand

New Zealand's net profit increased 12.8% in the year to $282 million from $250 million in 2000 and $240 million in 1999 .

Bank of New Zealand's (BNZ) operations contributed net profit (before goodwill amortisation and significant items) of $357 million, an increase of 11.9% from the prior year, or 13.4% in local currency terms. BNZ's domestic operations contributed $348 million to the result.

Net interest income grew 18.5% to $603 million. This growth was attributable to growth in core lending and deposit volumes. Net interest margins increased to 2.20%, largely due to strong focus on margin management. Non-interest income increased marginally, up 0.3% to $396 million primarily due to the impact on fee income of customer migration to lower cost channels. This was partly offset by growth in treasury income for Wholesale Financial Services, as well as increased banking fee income resulting from higher lending volumes.

While operating expenses increased 3.9% (1.4% in local currency terms) to $512 million, the cost to income ratio in local currency terms improved from 55.7% to 51.8% reflecting improved efficiencies and the refinement of key processes. The charge to provide for doubtful debts declined 9.1% to $10 million, reflecting the current status of the New Zealand credit cycle.

United States

The United States contributed a net loss of $3,164 million compared to a net profit of $490 million in 2000 and $383 million in 1999. Net profit included significant items of $3,617 million. Net profit before significant items decreased 7.6% to $453 million.

HomeSide International, Inc. recorded a net operating loss (after goodwill amortisation and significant items) of $3,486 million compared to a net profit of $87 million in the prior year. The results were impacted by uncertainty and turbulence in the US mortgage servicing market and the discovery of an incorrect interest rate assumption embedded in the mortgage servicing rights valuation model, which was subsequently corrected. These factors resulted in a:

- $1,323 million after tax operating impairment loss on mortgage servicing rights; and
- $2,294 million non-operating charge, comprising:
  - $1,436 million provision for changes in valuation assumptions to reduce the carrying value of the mortgage servicing rights to an estimated market sale value; and
  - $858 million for write off of goodwill.

HomeSide International, Inc.'s net operating profit (before goodwill amortisation and significant items) increased 27.0% to $179 million.

Net mortgage origination revenue increased 220% due to an increase in core production volume, and net servicing revenue decreased by 11.4% with an increase in mortgage servicing fees offset by higher amortization of mortgage servicing rights, as the decline in mortgage rates resulted in higher prepayment activity. Other operating expenses rose by 50.6% primarily driven by increased production volumes, growth in the servicing portfolio and increased refinancing activity following the decline in US interest rates. Higher volumes resulted in an increase in the charge for the provision for doubtful debts.

The Company's New York branch's net profit (before goodwill amortisation and significant items) increased 17.0% to $165 million, or 1.2% in local currency terms. The increase in net profit was due to a large increase in non-interest income arising from the increased wholesale activities in the New York branch, partly offset by an increase in the charge to provide for doubtful debts reflecting increased statistical provisioning in a deteriorating economic environment.

The Group disposed of Michigan National Corporation on April 1, 2001. In the half year to March 31, 2001, Michigan National Corporation contributed net profit (before goodwill amortisation and significant items) of $156 million.

Asia

Asia's net profit increased 53.1% in the year to $75 million from $49 million in 2000 and $43 million in 1999.

The growth in profit was largely driven by Wholesale Financial Services, through growth in net interest income primarily from funding and liquidity management activities, lower operating expenses, and lower charges to provide for doubtful debts.

Wealth Management's Asian operations contributed a $7 million loss to the result. This comprised $11 million profit from operations, $13 million from revaluation losses generated on National Australia Financial Management Limited controlled entities, and $5 million attributable to outside equity interests relating to profit from operations. Performance was impacted by volatile global investment markets and sales pressure.

Financial review

Assets and equity

Year-end total assets increased to $374.7 billion after an increase to $343.7 billion at September 30, 2000. Following the sale of Michigan National Corporation on April 1, 2001, $23.8 billion of total assets were removed from the Group's balance sheet. The depreciation of the Australian dollar, primarily against the US dollar and Great British pound, increased total assets by $17.0 billion in 2001. Excluding the impact of exchange rate movements, total assets (in Australian dollar terms) grew $14.0 billion or 4.1% during 2001, reflecting growth in lending.

Year-end total equity in the Group increased to $23.6 billion in 2001 from $21.4 billion in 2000. The increase in total equity was primarily attributable to an increase of $0.8 billion (2000: $1.1 billion) in retained profits, dividend reinvestment and share issues totalling $0.9 billion (2000: $0.6 billion) and the impact of movements in the foreign currency translation reserve of $0.2 billion (2000: $0.9 billion).

In Australia during 2001, total assets grew by $19.7 billion to $205.4 billion with gross loans and advances increasing by 9.8% to $106.8 billion. The major contributor to this increase was housing loans, which grew by 14.2% to $55.6 billion. In Australian dollar terms, total assets in Great Britain increased by 30.0% to $78.1 billion during 2001. Excluding the effect of exchange rate movements, total assets in Great Britain grew by 16.6%, reflecting growth in lending, particularly in commercial and industrial lending. In Australian dollar terms, total assets in Ireland increased by 14.1% to $17.2 billion during 2001. Excluding the effect of exchange rate movements, total assets in Ireland grew by 2.0%, reflecting term lending growth partly offset by a decrease in short term lending. In Australian dollar terms, total assets in New Zealand increased by 18.0% to $30.1 billion in 2001. Excluding the effect of exchange rate movements, total assets in New Zealand grew by 6.8%, due largely to increases in the Bank of New Zealand's loan portfolio. In Australian dollar terms, total assets in the United States decreased by 33.0% to $30.0 billion in 2001 partly due to the sale of Michigan National Corporation on April 1, 2001. Excluding Michigan National Corporation, total assets in the United States increased by 27.5%. Excluding Michigan National Corporation and the effect of exchange rate movements, total assets in the United States increased by 14.4% due to growth in the operations of the New York branch of the Company, offset by HomeSide Lending, Inc.'s writedowns against mortgage servicing rights and goodwill. In Australian dollar terms, total assets in Asia increased by 12.0% to $14.0 billion in 2001. Excluding the effect of exchange rate movements, total assets in Asia increased 4.3%, reflecting an increase in term lending.

Assets and equity adjusted to accord with US GAAP

Year-end total assets calculated in accordance with US GAAP increased to $377.2 billion in 2001 after an increase to $344.2 billion at September 30, 2000 from $258.8 billion at September 30, l999. In US dollar terms, year-end total assets decreased by US$1.0 billion, or 0.5%, from US$186.4 billion in 2000 to US$185.4 billion in 2001, having increased by US$17.5 billion or 10.3% in 2000 from US$169.0 billion at the end of 1999. The increase in total assets in 2001 is mainly attributable to the factors outlined above under 'assets and equity' (offset in part by the impact of the strong US dollar), and the impact of the adoption of US accounting standard Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". In 2001, total equity under US GAAP reported in Australian dollars increased to $24.0 billion from $21.8 billion in 2000 and $19.2 billion in 1999. *(Refer to note 58 in the financial report for a detailed reconciliation of total assets and total equity according to US GAAP)*

Return on average equity

Profitability, as measured by return on average equity before significant items, increased to 18.4% in 2001 from 18.1% in 2000 and 17.3% in 1999. The impact of higher earnings in 2001 was partly offset by an increase of 18.0% in weighted average equity due to retention of profits and funding of business growth.

Cash return attributable to ordinary shareholders, (as measured by net profit before significant items, excluding movement in excess of net market value over net assets of life insurance controlled entities and goodwill amortisation), on tangible equity (excluding goodwill), decreased in 2001, with average tangible equity growing at a faster rate than cash earnings.

	2001 $m	2000 $m	1999 $m	1998 $m	1997 $m
Weighted average equity [(1)]	**20,752**	17,586	15,915	14,054	13,312
Return on average equity (%) [(1)(2)]	**18.4**	18.1	17.3	17.8	16.7
Cash return (before life insurance excess and goodwill amortisation) on average tangible equity (%) [(1)(2)]	**18.2**	19.4	21.1	22.9	21.2

[(1)] *Based on amounts attributable to ordinary shareholders.*
[(2)] *Based on net profit before significant items.*

Financial review

Shareholder value

The Group is committed to growing value for its shareholders. To better manage activities and to focus staff towards consistent and sustained creation of shareholder value, the Group measures performance in terms of growth in Economic Value Added, or EVA®.

EVA is the return generated in excess of the cost of capital. More precisely, EVA is EVA NOPAT less (economic capital x the cost of that capital). In calculating EVA, EVA NOPAT is the reported net operating profit before tax adjusted as detailed below, economic capital is shareholders' equity adjusted as detailed below, and the cost of capital is the Group's cost of equity capital, calculated using the capital asset pricing model. These adjustments are made to better reflect the underlying performance of the Group.

During the year, the Group continued its expansion of the use of EVA, measuring performance at the divisional level, embedding EVA into the way the Group prices products and linking at-risk compensation for senior managers to sustainable EVA growth. In addition EVA was introduced as the reference point for share grants for employees throughout Australia, New Zealand and the United States. At the Divisional level, EVA is used to promote risk management through charging business units for the cost of the risk capital they consume. Because EVA levies a charge for risk capital, managers are better encouraged to weigh risks against returns in all their activities – from pricing a loan to disaster recovery planning.

The Group has once again created more than $1 billion in economic value. Before the significant impacts of the sale of Michigan National Corporation and the HomeSide Lending, Inc. provisions, the annual EVA had grown from $1,379 million to $1,431 million, reflecting growth in economic value creation in the underlying business activities. HomeSide Lending, Inc. provisioning has had a significant negative impact on the Group, and the EVA calculation reflects that impact in the full year EVA outcome of $1,129 million.

	2001 $m	2000 $m	1999 $m	1998 $m	1997 $m
Economic Value Added – before HomeSide Lending, Inc. provisions and profit on sale Michigan National Corporation	**1,431**	1,379 [(1)]	1,390	957	1,056
Net impact on EVA of HomeSide Lending, Inc. provisions	**(407)**	n/a	n/a	n/a	n/a
Net impact on EVA of Michigan National Corporation profit on sale	**105**	n/a	n/a	n/a	n/a
Economic Value Added	**1,129**	1,379 [(1)]	1,390	957	1,056
Average annual cost of capital %	**11.5**	11.4	10.5	10.5	11.0

[(1)] Differences between the adjustments made to profit and equity in calculating EVA were adjusted during 2001 to allow for the Group's expanded life insurance activities. Historical comparisons have been adjusted to reflect this new definition.

Net operating profit after tax and economic capital are derived by adjusting reported operating profit before tax and equity respectively. These adjustments are set out below.

Reconciliation of operating profit before tax to NOPAT for year to September 2001	**$m**
Profit from ordinary activities before tax expense	3,979
Net proceeds on sale of Michigan	(2,385)
HomeSide provisioning before tax expense	3,937
EVA Operating profit before tax	5,531
Amortisation of goodwill	167
Reversal of policyholder interests in pre-tax profits	204
Michigan National Corporation profit on sale amortisation impact	119
HomeSide Lending, Inc. provisions amortisation impact	(393)
Other non-recurring items	(58)
Revaluation gains of life insurance activities	(510)
Other	90
Adjusted EVA operating profit before tax	5,150
Projected cash taxes [(1)]	(1,751)
Franking benefits	695
National Income Securities coupons	(142)
Preference share dividends	(71)
EVA net operating profit after tax	**3,881**

Reconciliation of total equity to economic capital as at September 2001	**$m**
Equity (before dividends)	24,611
Accumulated amortisation of goodwill	1,492
Cumulative non-recurring items	450
Accumulated Michigan National Corporation profit on sale impact	(2,266)
Accumulated HomeSide Lending, Inc.'s provisions impact	3,544
Accumulated life insurance revaluations	(711)
Other	(129)
Cumulative tax adjustment [(1)]	107
Net of FITB and income tax liability	1,278
National Income Securities	(1,945)
Preference share capital	(730)
Economic capital	25,701
Average economic capital	23,919
Capital cost	**2,752**
NOPAT less capital cost	**1,129**

[(1)] The Group's EVA calculation uses a projected tax rate equal to the expected average cash tax rate to be paid by the Company in 2000-04. Differences between the projected rate and the actual rate in any one year are capitalised in the cumulative tax adjustment.

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Financial review

Earnings and dividends per share

Cash earnings per share (before significant items) increased 10.1% for 2001 to 236.6 cents, from 214.8 cents in 2000 and 200.6 cents in 1999. Including the impact of significant items, cash earnings per share decreased 46.2% for 2001 to 110.7 cents, from 205.7 cents in 2000 and 201.0 cents in 1999.

Basic earnings per share (before significant items) increased 17.1% for 2001 to 247.4 cents, from 211.3 cents in 2000 and 186.6 cents in 1999. The increase in basic earnings per share (before significant items) reflects strong growth in profitability (before significant items) and active capital management. Including the impact of significant items, basic earnings per share decreased 39.9% for 2001 to 121.5 cents from 202.3 cents in 2000 and 186.6 cents in 1999.

	2001 **Cents**	2000 Cents	1999 Cents	1998 Cents	1997 Cents
Earnings per share (before significant items)					
Basic	**247.4**	211.3	186.6	174.6	151.6
Diluted [(1)]	**239.5**	204.0	181.6	170.6	148.7
Earnings per share					
Basic	**121.5**	202.3	186.6	140.0	151.6
Diluted [(1)]	**121.9**	195.6	181.6	137.9	148.7
Cash earnings per share (before significant items)					
Basic	**236.6**	214.8	200.6	187.3	161.3
Diluted [(1)]	**229.4**	207.0	195.0	182.6	157.9
Cash earnings per share					
Basic	**110.7**	205.7	201.0	153.0	161.0
Diluted [(1)]	**111.9**	199.0	195.0	148.0	158.0
Dividends per share	**135.0**	123.0	112.0	102.0	94.0

[(1)] *Calculated based on the weighted average diluted number of ordinary shares, which includes the impact of options, potential conversion of exchangeable capital units and partly paid ordinary shares, as set out in note 8 in the financial report.*

Interim dividends of 67, 59 and 54 cents per ordinary share were paid during the years ended September 30, 2001, 2000 and 1999 respectively. The final dividend declared from the 2001 profit was 68 cents, an increase of 4 cents, or 6.3% compared with 2000 at 64 cents (1999: 58 cents). The 2001 final dividend is payable on December 12, 2001.

The Company expects to continue its policy of paying regular cash dividends; however, there is no assurance as to future dividends. Future dividend policies will be determined by the Board of directors with regard to the Company's earnings, capital requirements, financial conditions and applicable government regulations and policies. In addition, the payment of dividends is subject to the restrictions described in note 7 in the financial report.

The Company has a bonus share plan enabling shareholders (principally those who do not benefit from dividend imputation) to elect to take all or part of their dividend in the form of unfranked bonus ordinary shares. The Company's dividend reinvestment plan (DRP) permits re-investment of cash dividends in new ordinary shares. In addition, the dividend plan permits ordinary shareholders to receive dividends paid out of the profits of a United Kingdom subsidiary.

Liquidity and capital resources

	2001 **$m**	2000 $m	1999 $m
Total equity (parent entity interest)	**23,489**	21,361	18,520
Outside equity interest	**68**	46	-
Perpetual floating rate notes	**507**	461	383
Exchangeable capital units	**1,262**	1,262	1,262
Total liquidity and capital resources	**25,326**	23,130	20,165

The Group assesses its capitalisation against market, regulatory and ratings agency expectations, having regard to Australian and international peers and the Group's own asset base, risk profile and capital structure. The Group believes it has sufficient capital to meet current and future commitments.

As indicated in the above table, the Group has significantly increased its capital position. The Group has a history of internally generating capital through retained earnings and has traditionally relied on retained earnings to augment its capital resources to allow for real and inflation induced growth in its asset base. The capital position has also increased from the re-investment of dividends under the Company's DRP and share issues pursuant to option plans.

During the years ended September 30, 2001, 2000 and 1999, 19.2 million, 15.0 million and 15.6 million ordinary shares were issued under the DRP to shareholders at varying prices.

In November 2001, to further the Group's commitment to ongoing capital management, the Board of directors adopted a continuing policy to buy-back shares equal to the shares issued under the Group's various share and option plans. All buy-backs would be subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time.

Financial review

Capital adequacy

As at September 30, 2001, the Group's total capital adequacy ratio was 10.2%, consisting of Tier 1 capital of 7.5%, Tier 2 capital of 3.9% and deductions of 1.2%.

The principal objective of the Australian Prudential Regulation Authority's (APRA) (the Company's prime supervisor) capital adequacy requirements for banks is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. Consistent with the international standards of the Basel Committee on Banking Supervision, APRA's approach to assessing capital adequacy of banks focuses on three main elements the credit risk associated with a bank's exposures, the market risk associated with a bank's trading activities, and the form and quantity of a bank's capital.

In order to provide a broad indication of relevant credit risk, all assets are risk weighted according to four categories (0%, 20%, 50% and 100%). The assets to which those weightings apply are described more fully below *(refer to 'risk-adjusted assets and off-balance sheet exposures')*. Off-balance sheet transactions are converted to balance sheet equivalents, using a credit conversion factor, before being allocated to a risk-weighted category.

Off-balance sheet activities giving rise to credit risk are categorised as follows: direct credit substitutes such as financial guarantees and standby letters of credit; trade and performance-related contingent items such as performance bonds, warranties, and documentary letters of credit; long-term commitments such as formal credit lines with a residual maturity exceeding one year; and market-related transactions such as foreign exchange contracts, currency and interest rate swaps and forward rate agreements.

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices pertaining to interest rate-related instruments and equities in the trading book, and foreign exchange risk and commodities risk throughout the Group. APRA's current capital reqiurements for market risk, which involve creating equivalent risk-weighted exposures *(refer to 'risk-adjusted assets and off-balance sheet sheet exposures')* are broadly consistent with the Basel Committee on Banking Supervision's recommendations.

For regulatory purposes, capital comprises two elements, eligible Tier 1 capital (ie Tier 1 capital, net of any deductions) and Tier 2 capital from which certain further deductions are made. The resultant amount of capital forms the capital base. Eligible Tier 1 capital must constitute at least 50% of the capital base. Tier 1 capital includes paid up ordinary capital (including hybrid instruments such as National Income Securities), paid up non-cumulative irredeemable preference shares, reserves (other than asset revaluation reserves), retained profits less goodwill and other intangible assets. In addition, where future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital. Tier 2 capital includes asset revaluation reserves, general provision for doubtful debts (net of associated future income tax benefits), certain hybrid debt/equity instruments, and subordinated long-term debt.

Net assets in non-consolidated controlled entities and holdings of other bank's capital instruments are deducted from the capital base.

As the measure of capital adequacy, Australian banks are required to maintain a minimum ratio of capital base to total risk-weighted assets of 8%, of which a minimum of 4% must be held in Tier 1 capital.

The numerator of the ratio is the capital base. The denominator of the ratio is the total risk-weighted asset exposure, ie sum of credit risk-weighted exposures and the equivalent market risk-weighted exposure.

Under guidelines issued by APRA, life insurance and funds management activities are excluded from the calculation of risk-weighted assets, and the related controlled entities are deconsolidated for the purposes of calculating capital adequacy. The intangible component of the investment in these controlled entities (the difference between the appraisal value and the embedded value) is deducted from Tier 1 capital, and embedded value is deducted from the total of eligible Tier 1 and Tier 2 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of Tier 1 capital to the extent that they have not been remitted to the Company in the form of dividends.

The Basel Committee on Banking Supervision has released wide-ranging and detailed proposals for the reform of capital adequacy guidelines for banks. In this regard, APRA has commented and made recommendations on a range of matters that it believes need to be considered closely by the Basel Committee before the revised capital framework is finalised and able to be implemented.

Capital adequacy ratios

	2001	2000	1999
	%	%	%
Tier 1	**7.5**	6.6	7.8
Tier 2	**3.9**	4.0	2.9
Deductions	**(1.2)**	(1.3)	(0.3)
Total capital	**10.2**	9.3	10.4

Capital adequacy (continued)

The capital ratios at September 2001 include the effect of the sale of Michigan National Corporation and the asset writedowns in HomeSide Lending, Inc.

Proceeds from the sale of Michigan National Corporation on April 1, 2001 of US$2.75 billion (A$5.3 billion) gave rise to a profit on sale after all disposal costs including taxation of $1.7 billion, and including the realisation of foreign exchange a total gain of $2.8 billion. As a result of the sale, the Group's capital increased by $1.7 billion and $0.7 billion of goodwill and $23.3 billion of risk-weighted assets were removed from the Group's balance sheet.

The net effect of provisions relating to HomeSide Lending, Inc. taken in June and September 2001 are a $2.5 billion reduction in the Group's Tier 1 capital. Under the regulations adopted by APRA, 10% of the value of mortgage servicing rights must be deducted from Tier 1 capital. Accordingly, the provision resulted in lower Tier 1 capital and a lower deduction from Tier 1 capital. In addition to the impact on Tier 1 capital, the provisions also resulted in a reduction in the risk-weighted assets of the Group by a total of $2.9 billion.

The following tables provide details of the Tier 1 and Tier 2 capital position, risk-adjusted assets and off-balance sheet exposures as at September 30:

Regulatory capital

	2001 $m	2000 $m	1999 $m
Tier 1			
Contributed equity	**10,725**	9,855	9,286
Reserves	**2,427**	2,006	802
Retained profits	**10,337**	9,500	8,432
Outside equity interest	**68**	46	-
Estimated reinvestment under dividend reinvestment plan [(1)]	**365**	283	245
Deduct:			
Asset revaluation reserve	**(16)**	(14)	-
Goodwill	**(876)**	(2,617)	(2,905)
Intangible component of investment in non-consolidated controlled entities	**(2,448)**	(2,290)	-
Other	**(1,352)**	(938)	(523)
Total Tier 1 capital	**19,230**	15,831	15,337
Tier 2			
Asset revaluation reserve	**16**	14	-
General provisions for doubtful debts	**1,538**	1,562	1,390
Perpetual floating rate notes	**507**	461	383
Exchangeable capital units	**1,262**	1,262	1,262
Dated subordinated debts	**6,815**	6,277	2,586
Notional revaluation of investment securities to market	**11**	(28)	(5)
Total Tier 2 capital	**10,149**	9,548	5,616
Total Tier 1 and 2 capital	**29,379**	25,379	20,953
Deductions			
Investment in non-consolidated controlled entities (net of intangible component deducted from Tier 1)	**(2,780)**	(2,788)	(354)
Holdings of other financial institutions' capital instruments	**(445)**	(446)	(219)
Total regulatory capital	**26,154**	22,145	20,380

(1) *The amount is derived from reinvestment experience on the Company's dividend reinvestment and bonus share plans.*

Risk-adjusted assets and off-balance sheet exposures

	Balance			Risk	Risk-adjusted balance [(1)]		
	2001 $m	2000 $m	1999 $m	weights %	**2001 $m**	2000 $m	1999 $m
Assets							
Cash, claims on RBA, claims on Australian Commonwealth & State Governments, claims on OECD central governments and central banks [(2)]	**21,663**	19,257	18,192	0	**-**	-	-
Claims on Australian banks, local governments and banks incorporated in OECD countries	**47,438**	31,188	24,810	20	**9,488**	6,238	4,962
Housing loans [(3)]	**81,515**	69,348	60,579	50	**40,757**	34,674	30,289
All other assets	**166,843**	164,195	135,860	100	**166,843**	164,195	135,861
Total assets [(4)]	**317,459**	283,988	239,441		**217,088**	205,107	171,112

Capital adequacy (continued)

	Contract or notional amount 2001 $m	Credit equivalent amount 2001 $m	Risk weights %	Risk-adjusted balance [1] 2001 $m	2000 $m	1999 $m
Off-balance sheet exposures						
Financial guarantees, standby letters of credit and other letters of credit	**11,480**	**10,318**	0 - 100	**9,115**	8,743	6,332
Performance-related guarantees, warranties and indemnities	**2,852**	**1,426**	0 - 100	**1,347**	1,480	1,311
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**97,041**	**21,255**	0 - 100	**15,672**	15,156	12,368
Foreign exchange, interest rate and other market-related transactions	**1,348,345**	**39,342**	0 - 50	**10,817**	6,334	3,146
Total off-balance sheet exposures	**1,459,718**	**72,341**		**36,951**	31,713	23,157
Total risk-adjusted assets				**217,088**	205,107	171,112
Total risk-adjusted assets and off-balance sheet exposures - credit risk				**254,039**	236,820	194,269
Add: Risk-adjusted assets - market risk [5]				**3,474**	1,769	2,827
Total assessed risk exposure				**257,513**	238,589	197,096

(1) *Claims secured by cash, government securities or guarantees from banks and governments reflect the risk weight attaching to the collateral security or a direct claim on the guarantor.*

(2) *Short-term claims on the Australian Commonwealth Government are those with a residual term to maturity of less than 12 months; longer term claims are those with residual term to maturity greater than 12 months. Both categories held in the banking book attract a 0% risk weighting.*

(3) *APRA announced on August 17, 1994 that housing loans approved after September 5, 1994 having a loan to market valuation ratio in excess of 80% must be risk weighted at 100%. Following the August 1998 APRA amendments these loans may qualify for the 50% risk weighting if they are covered by an adequate level of mortgage insurance provided by an acceptable lenders mortgage insurer. These loans are reported under 'all other assets'.*

(4) *Total assets differ from the consolidated balance sheet due to the adoption of APRA's classification of certain items for capital adequacy purposes, particularly goodwill and general provision for doubtful debts. In addition, fair value of trading derivative financial instruments have been excluded as they have been incorporated into the calculation of the credit equivalent amount of off-balance sheet exposures.*

(5) *Under APRA APS 113 - "Capital Adequacy: Market Risk", Australian banks are required to hold sufficient levels of capital to cover market risk.*

Changes in financial condition

	2001 $bn	2000 $bn	1999 $bn	1998 $bn	1997 $bn
Average balances					
Total assets	**355**	285	255	238	192
Total liabilities	**332**	265	239	224	179

Average total assets in 2001 increased by 24.6% to $355 billion from $285 billion in 2000 and $255 billion in 1999. Year-end total assets increased 9.0% to $375 billion from 2000 after increasing 35.3% from 1999. *(Refer to 'assets and equity' section in this financial review for an explanation of major movements in 2001)* A discussion of the changes in significant assets and liabilities follows.

Total assets under management and administration

The assets of the Group as reported on the statement of financial position include assets managed on behalf of others. In addition, the Group and its associated entities also manage and perform administration for entities such as superannuation funds and units trusts, the assets of which do not form part of the total assets on the Group's balance sheet, as set out below.

	2001 $m	2000 $m
By type		
Assets under management	**51,333**	49,077
Assets under administration	**12,504**	12,424
Total assets under management and administration	**63,837**	61,501

Total assets under management and administration (continued)

	2001 $m	2000 $m
By region		
Australia	**59,865**	55,238
Great Britain and Ireland	**1,774**	1,736
United States	**-**	2,381
New Zealand	**1,777**	1,895
Asia	**421**	251
Total assets under management and administration	**63,837**	61,501
By type of investor		
Retail	**53,112**	49,671
Corporate	**10,725**	11,830
Total assets under management and administration	**63,837**	61,501

Total assets under management and administration increased 3.8% in 2001 to $63,837 million, from $61,501 million in 2000. Excluding the impact of the sale of Michigan National Corporation, total assets under management and administration increased 8.0% in 2001. The growth in total assets under management and administration reflects net sales and investment returns during a year of volatile international investment markets.

Gross loans and advances

Average balances

2001	Australia	$	102	billion
	Overseas	$	99	billion
2000	Australia	$	91	billion
	Overseas	$	88	billion
1999	Australia	$	83	billion
	Overseas	$	80	billion

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries served. The loan portfolio continues to consist of short-term outstandings with 39.4% of the loans at September 30, 2001 maturing within one year and 24.0% maturing between 1 year to 5 years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after five years. The average balance of gross loans and advances in 2001 was 56.7% of average total assets. This compares with 62.8% in 2000 and 63.9% in 1999.

Average gross loans and advances were $201.3 billion in 2001, an increase of 12.3% over the 2000 balance of $179.2 billion, which was an increase of 10.1% over the 1999 balance of $162.8 billion. The sale of Michigan National Corporation on April 1, 2001, removed average gross loans and advances of $16.3 billion from the Group's balance sheet. A continuing low interest rate environment assisted in growth in lending volumes.

Australian average loans and advances accounted for 50.7% of the total average loans and advances in 2001, 50.9% in 2000 and 51.1% in 1999. The increase in Australian average loans and advances reflects strong growth in housing lending and commercial and industrial lending.

Gross loans and advances in the United States and most notably in other lending decreased from the prior year due to the impact of the sale of Michigan National Corporation. Excluding the impact of the sale, growth was achieved in all regions and products, particularly in housing loans, lease finance and industrial lending.

Loans by industry for the Group as at September 30, 2001

	Australia $m	Great Britain $m	Ireland $m	New Zealand $m	United States $m	Asia $m	**Total $m**
Government and public authorities	425	448	406	164	323	41	**1,807**
Agriculture, forestry and fishing	5,251	1,530	961	2,793	16	173	**10,724**
Financial, investment and insurance	4,807	6,637	414	3,413	847	1,024	**17,142**
Real estate - construction	1,941	1,041	757	136	1,098	280	**5,253**
Manufacturing	3,263	3,296	1,002	933	571	674	**9,739**
Real estate - mortgage	55,629	12,568	4,341	8,396	28	677	**81,639**
Instalment loans to individuals and other personal lending (including credit cards)	9,850	9,142	1,388	2,356	-	17	**22,753**
Lease financing	7,073	8,181	467	3	-	52	**15,776**
Other commercial and industrial	18,550	16,509	3,166	5,817	1,762	1,797	**47,601**
Total gross loans and advances	106,789	59,352	12,902	24,011	4,645	4,735	**212,434**

Financial review

Gross loans and advances (continued)

	Australia $m	Great Britain $m	Ireland $m	New Zealand $m	United States $m	Asia $m	**Total $m**
Total gross loans and advances	106,789	59,352	12,902	24,011	4,645	4,735	**212,434**
Deduct: Unearned income	(1,029)	(887)	(6)	-	-	-	**(1,922)**
Provisions for doubtful debts	(1,406)	(876)	(150)	(164)	(90)	(29)	**(2,715)**
Total net loans and advances	104,354	57,589	12,746	23,847	4,555	4,706	**207,797**

In Australia, net loans and advances grew by 9.9% during 2001 to $104.4 million, with strong growth in housing lending and other personal lending. Residential mortgage loans increased 14.2% from $48.7 billion to $55.6 billion. Other personal lending grew by $1.6 billion or 19.7% to $9.9 billion over 2001.

In Great Britain, net loans and advances at September 30, 2001 were $57.6 billion compared with $46.5 billion at September 30, 2000. In local currency terms, gross loans and advances grew by 11.8% during 2001. The major areas of growth, based on gross balances, were in real estate mortgages increasing by 8.9%, leasing finance up 7.1% and overdrafts up 12.2% from 2000.

In Ireland, net loans and advances grew 17.4% to $12.7 billion as at September 30, 2001. In local currency terms, gross loans and advances grew by 5.0%. The major area of growth was real estate mortgages up 9.9% from 2000.

In New Zealand, net loans and advances grew by $3.3 billion from $20.5 billion to $23.8 billion at September 30, 2001. In local currency terms, gross loans and advances grew 5.9% during 2001, principally in housing and term lending.

In the United States, net loans and advances fell to $4.6 billion following the sale of Michigan National Corporation on April 1, 2001. In local currency terms, excluding the impact of the sale of Michigan National Corporation, net loans and advances grew 8.1% during 2001, resulting from growth in wholesale operations.

In Asia, net loans and advances grew by $1.4 billion from $3.3 billion to $4.7 billion at September 30, 2001, principally in relation to other commercial and industrial lending.

Impaired assets, provisions and allowance for loan losses

Non-accrual loans

Total non-accrual loans less specific provision for credit losses at September 30, 2001 were $1,204 million, an increase of 17.5% from the 2000 balance of $1,025 million. Net non-accrual loans in the United States declined significantly following the sale of Michigan National Corporation on April 1, 2001. The impact of this was offset by a significant increase in gross non-accrual loans in Australia, and an increase in gross non-accrual loans in Ireland.

Gross non-accrual loans at September 30, 2001 were $1,732 million, an increase of $265 million, or 18.1%, from the 2000 balance of $1,467 million.

The Group's gross non-accrual loans to risk-weighted assets showed an increase from 0.6% at September 30, 2000 to 0.7% at September 30, 2001, primarily as a reflection of decline in asset quality largely related to a small number of large corporate loans in Australia and macro-economic conditions. The Australian component of the gross non-accrual loans in 2001 was $959 million, representing a $391 million or 68.8% increase from the 2000 balance of $568 million. In Great Britain, gross non-accrual loans decreased by $1 million or 0.2%, from $509 million to $508 million. In Ireland, gross non-accrual loans increased by $49 million or 36.3% from $135 million to $184 million. In New Zealand, gross non-accrual loans decreased by $23 million or 34.8% from $66 million to $43 million. In the United States, gross non-accrual loans decreased due to the impact of the sale of Michigan National Corporation. Excluding the impact of the sale, gross non-accrual loans decreased 29.5% to $31 million. In Asia, gross non-accrual loans increased by $2 million or 40.0% from $5 million to $7 million.

The Group has specialist Asset Structuring units operating in each region which has resulted in earlier identification and workout of problem loans.

		2001			2000	
	Gross $m	**Specific provision $m**[(1)]	**Net $m**	Gross $m	Specific provision $m[(1)]	Net $m
Australia	**959**	**325**	**634**	568	196	372
Great Britain	**508**	**151**	**357**	509	133	376
Ireland	**184**	**36**	**148**	135	36	99
New Zealand	**43**	**8**	**35**	66	12	54
United States	**31**	**5**	**26**	184	62	122
Asia	**7**	**3**	**4**	5	3	2
Total	**1,732**	**528**	**1,204**	1,467	442	1,025
Percentage of risk-weighted assets	**0.7%**	**0.2%**	**0.5%**	0.6%	0.2%	0.4%

Impaired assets, provisions and allowance for loan losses (continued)

	2001 $m	2000 $m	1999 $m
Net non-accrual loans	**1,204**	1,025	1,113
Total equity	**23,557**	21,407	18,520
Percentage	**5.1%**	4.8%	6.0%

(1) *Includes specific provisions for impaired off-balance sheet credit exposures.*

Provisions for doubtful debts closing balance by geographic group

	2001 $m	2000 $m	1999 $m	1998 $m	1997 $m
Australia					
General (1)	**1,140**	1,056	995	1,031	422
Specific (2)	**266**	208	231	193	193
	1,406	1,264	1,226	1,224	615
Great Britain					
General (1)	**692**	546	444	381	132
Specific (2)	**184**	141	135	126	141
	876	687	579	507	273
Ireland					
General (1)	**111**	96	84	161	37
Specific (2)	**38**	37	29	41	33
	149	133	113	202	70
New Zealand					
General (1)	**154**	137	132	133	76
Specific (2)	**10**	14	22	24	21
	164	151	154	157	97
United States (3)					
General (1)	**85**	383	377	403	89
Specific (2)	**5**	51	15	5	180
	90	434	392	408	269
Asia					
General (1)	**25**	20	23	34	15
Specific (2)	**5**	3	26	13	15
	30	23	49	47	30
Group					
General (1)	**2,207**	2,238	2,055	2,143	771
Specific (2)	**508**	454	458	402	583
Total provisions for doubtful debts	**2,715**	2,692	2,513	2,545	1,354
Percentage of risk-weighted assets	**1.1%**	1.1%	1.3%	1.3%	0.9%

(1) *The general provision includes the impact of the adoption of a statistically-based provisioning methodology on September 30, 1998. Comparatives have not been restated.*

(2) *Excludes specific provisions for impaired off-balance sheet credit exposures.*

(3) *Prior to the adoption of a statistically-based provisioning methodology by the Group, Michigan National Corporation adopted a provisioning methodology under which a portion of the specific provision was determined against segments of the loan portfolio based on historical loan loss experience and then current trends evident in those segments of the loan portfolios. This amount is included in the 1998 specific provision figure quoted in the above table (1997: $168 million). Due to the nature of the Michigan National Corporation provisioning methodology, the above table did not include gross loan amounts to which this provision related. Following the adoption of a statistically-based provisioning methodology by the Group, the corresponding provision was included in the general provision at September 30, 1998, 1999 and 2000.*

Total allowance for loan losses, excluding off-balance sheet credit exposures, held at September 30, 2001 was $2,715 million or 1.1% of risk-weighted assets. This compares with $2,692 million or 1.1% of risk-weighted assets in 2000 and $2,513 million or 1.3% of risk-weighted assets in 1999. Of the total allowance for loan losses at September 30, 2001, the general provision represented $2,207 million or 0.86% of risk-weighted assets.

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Impaired assets, provisions and allowance for loan losses (continued)

Credit quality data

As at September 30, 1998, the Group adopted a statistically based provisioning methodology to determine its general provision for doubtful debts. Comparative information for 1997 has not been restated to reflect the change in methodology *(refer to notes 1 and 18 in the financial report).*

	2001	2000	1999	1998	1997
	$m	$m	$m	$m	$m
Provisions for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**508**	454	458	402	583
General	**2,207**	2,238	2,055	2,143	771
Gross non-accrual and restructured loans	**1,736**	1,471	1,573	1,476	1,286
Charge to the profit and loss account	**989**	588	581	587	332
Ratios [(1)]	**%**	%	%	%	%
Provisions for doubtful debts at year end as a percentage of year-end loans (before provisions)					
Specific	**0.24**	0.23	0.27	0.25	0.44
General	**1.04**	1.12	1.21	1.31	0.58
	1.28	1.35	1.48	1.56	1.02
Provisions for doubtful debts at year end as a percentage of year-end loans and acceptances (before provisions)					
Specific	**0.22**	0.20	0.24	0.22	0.38
General	**0.95**	1.00	1.07	1.15	0.50
	1.17	1.20	1.31	1.37	0.88
Provisions for doubtful debts at year end as a percentage of risk-weighted assets					
Specific	**0.20**	0.19	0.23	0.20	0.38
General	**0.86**	0.94	1.04	1.07	0.50
	1.06	1.13	1.27	1.27	0.88
Non-accrual and restructured loans as a percentage of year-end loans (before provisions)	**0.82**	0.74	0.93	0.90	0.96
Charge to profit and loss account as a percentage of					
Year-end loans	**0.47**	0.29	0.34	0.36	0.25
Year-end loans and acceptances	**0.43**	0.26	0.30	0.31	0.22
Average loans and acceptances	**0.49**	0.33	0.36	0.40	0.27
Risk-weighted assets	**0.38**	0.25	0.29	0.29	0.22

[(1)] *Ratios exclude specific provision for off-balance sheet credit exposures.*

Provisioning coverage ratio

The level of provisioning for non-accrual loans (provisioning coverage ratio) is determined having regard to all identifiable losses anticipated to result from these loans. Accordingly, the balance of the specific provision is maintained equal to the total of all estimated losses.

To ensure that adequate provisions and write offs are maintained, rigorous credit monitoring procedures are in place to facilitate the early identification of all doubtful debts and correspondingly, the estimated losses likely to arise. Central to this process, all entities in the Group are required to formally review their loan portfolio at least quarterly to ensure all doubtful debts have been identified and loss estimations made. Provisions must be adjusted upwards or downwards to equate to the current estimates of loss on doubtful loan accounts.

This approach is designed to ensure that the Group has sufficiently covered the fall in security values through a combination of provisions and write offs. It is considered a more prudent approach in addressing the immediate loss of security value than maintaining high levels of provisions.

The actual levels of specific provisioning set aside to cover estimated losses on loans which are considered to be sufficiently impaired to warrant raising of a provision are set out below:

	2001	2000	1999
	%	%	%
Specific provision coverage [(1)]	**30.4**	29.8	28.8
Total provision coverage [(1)]	**160.5**	182.5	158.4

[(1)] *The coverage ratios include specific provisions for off-balance sheet credit exposures.*

Impaired assets, provisions and allowance for loan losses (continued)

In addition to the specific provision, the Group maintains a general provision to provide cover for doubtful debts which are inherent in lending, but which are not identified. Effective September 30, 1998, the Group adopted a statistically-based provisioning methodology. Under this methodology, the Group estimates the level of losses inherent, but unidentified, in its existing loan portfolio, based on the historical loss experience of component exposures.

The operation of a statistically-based provisioning methodology is such that when individual loans are classified as non-accrual, a specific provision will be raised by making a transfer from the general provision for the amount required. The general provision is then re-established based on the remaining book of performing credit exposures *(refer to note 1 in the financial report for additional information).*

The general provision provides further coverage against these loans of 126.8% at September 30, 2001, bringing total effective coverage to 160.5%.

Deposits and other borrowings

Total deposits and other borrowings (net of set-offs) increased by 3.2% to $191.0 billion at September 30, 2001, compared with $185.1 billion in 2000 and $162.5 billion in 1999. Excluding the effect of exchange rate movements during 2001, deposits and other borrowings decreased by 2.7%, due to the sale of Michigan National Corporation on April 1, 2001. Following the sale of Michigan National Corporation $17.2 billion of deposits and other borrowings were removed from the Group's balance sheet.

Non-interest bearing deposits at September 30, 2001 represent 6.3% of total deposits compared to 7.8% in 2000 and 7.8% in 1999.

In Australia, deposits and other borrowings increased by $8.7 billion or 11.1%. In Great Britain, deposits and other borrowings increased by $14.9 billion, or 36.2%. However, in local currency terms, deposits and other borrowings increased 23.1%. In Ireland, deposits and other borrowings increased $1.7 billion, or 16.5%. However, in local currency terms, the increase was 4.4%. In the United States, deposits and other borrowings decreased by $17.5 billion or 57.1% due in part to the sale of Michigan National Corporation. Excluding the sale of Michigan National Corporation, deposits and other borrowings decreased 10.4%. However, in local currency terms, the decrease was 18.6%. In New Zealand, deposits increased by $4.8 billion, or 33.2%. However, in local currency terms, New Zealand deposits increased by 21.1%.

Deposits and other borrowings for the Group as at September 30, 2001

	Australia $m	Great Britain $m	Ireland $m	New Zealand $m	United States $m	Asia $m	**Total $m**
Deposits not bearing interest (net)	4,545	3,811	2,504	679	538	1	**12,078**
Demand & short-term deposits	42,370	26,881	6,242	4,823	2,879	106	**83,301**
Certificates of deposit	7,921	18,720	-	3,088	755	-	**30,484**
Term deposits	23,165	6,584	3,424	8,908	5,396	3,485	**50,962**
Other debt obligations	8,722	-	-	1,820	3,598	-	**14,140**
Total deposits and other borrowings	86,723	55,996	12,170	19,318	13,166	3,592	**190,965**

Risk management

Management of risk is fundamental to the business of being a full financial services provider and is an essential element of the Group's strategy. Financial services organisations face an array of risks and increasingly the success or otherwise of the institution relies upon its proactive rather than reactive management of risk.

An enterprise-wide risk management model structure implemented throughout the Group comprises a common policy framework and a set of controls to achieve standardisation of risk/reward practices across the Group. Each business unit is responsible, using best practice methodology, for the identification and quantification of the particular risks it is exposed to and for implementation of appropriate policies, procedures and controls.

Overview and monitoring of this process throughout the Group is undertaken by the globally-focused divisions of Risk Management. Risk Management comprises Global Credit Bureau, Global Internal Audit, Global Operational Risk, Insurance and Compliance, Global Market Risk and Prudential Control, Global Property Finance and Investment, and Global Legal.

Risk Management's role is to constantly monitor and systematically assess the Group's risk profile in existing and future business operations, and to assist business units in the design and implementation of appropriate risk management policies and strategies. Risk Management also works with the businesses to promote awareness of the need to manage risk and the achievement of a balance between risk minimisation and reward for risks accepted.

Developments are being made in the quantification of risks, and the allocation of appropriate risk capital. Portfolio management methods are being adopted to manage the Group's risk profile. Modelling to forecast future risk management trends is being used increasingly to assist in decision making. This will increase in importance as prudential requirements such as the new Basel Capital Accord are incorporated within an increasingly regulated global financial services industry.

Periodically, Risk Management prepares and submits to the Board of directors, the Group risk profile. This document profiles the major recognised balance sheet and off balance sheet strategy/performance and operational risks together with procedures for their day-to-day management, control and responsibility.

A Group Risk Policy Committee, comprising executive and senior management, is the principal risk policy decision making body within the Group. A Risk Policy Committee also exists in each region. These Risk Policy Committees operate under criteria detailed in a risk management template.

Major balance sheet risk areas and their management are outlined below, but many other types of risks such as environmental, payment systems, computer systems fraud, legislative compliance, business continuity/disaster recovery, and e-commerce, are routinely managed throughout the Group.

Market risk

Market risk represents the potential change in value of assets and liabilities from movements in interest and foreign exchange rates, asset values, and commodity and derivative prices in the global financial markets in which the Group operates.

Trading risk

The Group has a Value at Risk (VaR) limit approved by the Board to cover trading activities.

Global Market Risk and Prudential Control is responsible for the sub-allocation of the Board approved VaR limit to member banks and trading units. It also oversees the trading risks run by Markets division. This risk control function is fully segregated from Wholesale Financial Services and Markets division. This is to ensure its independence meets both internal and external requirements.

A comprehensive global market risk control framework is in operation.

Limits for the management of trading risk are delegated to regional or global management in accordance with the organisational structure of Markets division.

As foreign exchange and interest rate derivatives generally consist of offsetting commitments, they involve a net foreign exchange and interest rate risk, which is managed in the Group under strict trading guidelines. The overall market risk assumed by any business unit is monitored by a combination of intraday trading limits and overnight VaR limits.

VaR represents an estimate of potential profit impact of a rate movement, and is assessed on an entire trading portfolio basis, including both physical and derivative positions. VaR measures the adverse changes in the trading portfolio value brought about by daily changes in market rates at a 95% confidence level. For example, a VaR exposure of $1 million means that in 95 cases out of 100, given the historical behaviour of rates, an overnight loss impact on the trading portfolio should not exceed $1 million.

The VaR methodology is one means by which the Group manages volatility from market risk. In addition, the impact of extreme movements in market rates is estimated by performing regular stress testing on the trading portfolios.

The following table shows the Group's VaR for all member banks' trading portfolios, including both physical and derivative positions. The figures reflect the potential losses across products and regions in which the Group operates.

Value at Risk at 95% confidence	**2001** **$m**	2000 $m
Average value during reporting period		
Foreign exchange risk	**6.3**	9.5
Interest rate risk	**8.6**	10.2
Volatility risk	**1.6**	0.9
Commodities risk	**0.1**	-
Diversification benefit	**(4.2)**	(5.2)
Total	**12.4**	15.4

Financial review

Risk management (continued)

	2001 $m	2000 $m
Minimum value during reporting period [(1)]		
Foreign exchange risk	**1.4**	2.7
Interest rate risk	**6.0**	6.2
Volatility risk	**0.9**	0.4
Commodities risk	**-**	-
Diversification benefit	**n/a**	n/a
Entire trading portfolio	**8.0**	8.1
Maximum value during reporting period [(1)]		
Foreign exchange rate	**15.3**	20.3
Interest rate	**13.5**	16.6
Volatility risk	**2.6**	3.2
Commodities risk	**0.6**	-
Diversification benefit	**n/a**	n/a
Entire trading portfolio	**22.0**	24.3

[(1)] *The VaR numbers in these two tables could be taken from different days; hence they are not additive.*

Balance sheet risk

The Group Asset and Liability Management Committee (Group ALCO), under delegated Board authority, sets policies in relation to the management of structural balance sheet exposures. These exposures include structural interest rate risk, structural foreign exchange risk and liquidity risk. The Group's global structural balance sheet risk is monitored against approved policies by Group Balance Sheet Management and reported on a monthly basis to Group ALCO.

Each region in the Group has an Asset and Liability Management Committee (ALCO) which is delegated the responsibility for managing local structural balance sheet risks in accordance with Group balance sheet management policies. Group ALCO supervises the management of these local structural risks and monitors activity for compliance with Group policies.

Structural interest rate risk

In carrying out its business activities, each member bank in the Group strives to meet customer demands for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of assets and liabilities. As interest rates and yield curves change over time, the size and nature of these mismatches may result in a loss or gain in earnings.

In managing structural interest rate risks, the primary objective is to limit the extent to which net interest income could be impacted by an adverse movement in interest rates. Each regional ALCO is responsible for managing the structural interest rate risk within the region, in accordance with approved Group policy.

Structural interest rate risk is calculated using balance sheet simulation processes, which are undertaken across the Group's banking operations. The balance sheet simulation process is based on planned product volumes and margins, which are regularly updated to reflect the Group's latest views on business projections and interest rate environments.

The results of balance sheet simulations, together with other balance sheet risk management information and strategies, are presented and reviewed by regional ALCOs, Group ALCO on a monthly basis and at scheduled Board meetings.

The table below presents a summary of the aggregated structural earnings at risk relating to non-trading assets and liabilities that are sensitive to changes in interest rates. Based on the structural interest rate risk position at balance date, the table shows the possible impact on net income, for the 12 months ending September 30, 2002, under a rising or declining interest rate environment.

The Group uses a wide range of interest rate scenarios in measuring structural interest rate risk. These interest rate scenarios are derived using estimates of volatility to generate a range of potential outcomes around the market implied yield curve. This provides the ability to derive a statistical distribution of potential movements in net income. To capture a wide range of potential outcomes, structural interest rate risk is measured to a 99% confidence interval.

The interest rate scenarios for the non-banking entities are based on a sudden and sustained 50 basis point increase or decrease in market interest rates over 12 months.

The impact of interest rate movements on the net income of life insurance and funds management entities is not incorporated within the table below. However, interest rate movements are one of the factors taken into account in determining the change in net market value of these entities when applying Australian Accounting Standard AASB 1038 "Life Insurance Business".

	Forecast effect on net income 2002 [(1)]		Forecast effect on net income 2001 [(1)]	
	Rising rates A$m	Declining rates A$m	Rising rates A$m	Declining rates A$m
Australian dollars	21	(19)	(5)	14
Non-Australian dollars	(7)	(30)	(45)	27

[(1)]*Represents the forecast effect on net interest income for the year ending September 30, 2002 and the prior year comparative.*

The exposure expressed in non-Australian dollars is a net exposure of offshore banking and non-banking entities. Structural interest rate exposure in some currencies may be biased towards rising interest rates, whilst others may be biased to falling interest rates.

Mortgage servicing rights

The Group is exposed to fluctuations in the value of mortgage servicing rights through its investment in US-based controlled entity HomeSide Lending, Inc. The economic value of the asset fluctuates based on a number of factors in the United States including mortgage coupon rates, mortgage prepayment rates, mortgage servicing fees and the like.

A hedging strategy is used to protect the economic value of the asset that comprises a range of financial instruments including interest rate swaps, mortgage securities, options and treasury securities. A perfect hedge cannot be achieved and therefore the effectiveness of the hedging strategy may be impacted by modelling versus actual prepayments and unexpected volatility in the relationship between mortgage rates and other interest rates, the relationship between long term and short term rates, and several other factors.

Risk management (continued)

As a result, material changes may occur in the value of the asset, which cannot be fully covered by the hedging strategy.

HomeSide Lending, Inc. has established risk management policies and a Mortgage Servicing Rights Hedge Committee to oversee management of the risk inherent in the mortgage servicing rights asset.

Risk management policies have been extensively reviewed following the write-off in the mortgage servicing rights asset during the year.

Structural foreign exchange risk

Structural foreign exchange risk arises from investments in the Group's foreign branches and subsidiaries. Both earnings and capital are exposed to movements in foreign exchange rates as a result of these investments.

Reported earnings and equity are exposed to movements in exchange rates as a result of the need to translate earnings and net assets of the foreign operations into the Australian dollar consolidated accounts. This exposure of reported earnings and equity to movements in exchange rates is sometimes referred to as an accounting or translation exposure which, in the absence of any long-term realignment in exchange rates, has no impact on underlying economic exposures.

The policy of the Group is that the net asset position of integrated foreign operations is to be fully hedged, whilst the net asset position and earnings of offshore subsidiaries and self-sustaining foreign operations is to remain unhedged. The rationale for this approach is that the Group bases its hedging decisions on economic considerations and not on the potential impact which short-term currency fluctuations may have on reported earnings and net worth.

Real foreign exchange exposures, on the other hand, arise independent to the accounting process. Such exposures arise from the risk that future cash flows will be converted to Australian dollars at less favourable rates than at present. Such cash flows could result from the repatriation of profits or capital back to the Company. Hedging of these exposures is assessed on a case-by-case basis.

Liquidity risk

Liquidity risk is the risk that the Group is unable to service its cash flow obligations today or in the future. Liquidity within the Group is managed in accordance with policies approved by the Board, with oversight from both regional and Group ALCOs.

Throughout the year, the Group managed liquidity risk by a combination of positive cash flow management, the maintenance of portfolios of high quality liquid assets, and diversification of its funding base. In accordance with the requirements of APRA, cash flow liquidity risk is measured and managed in the Group's banking entities on a cash flow basis. Each regional bank is required to monitor liquidity under both 'going concern' and 'name crisis' scenarios, and cash flow mismatch limits have been established to limit the Group's liquidity exposure. In addition, regional banks are required to hold liquid asset portfolios to meet any unexpected cash flow requirement.

Regulatory authorities in some countries in which the Group operates may impose additional requirements to ensure that liquidity is managed prudently. These requirements may require the holding of a reserve deposit account with the central bank or holding a portfolio of liquid securities.

Liquidity is managed on a regional basis, with day-to-day responsibility residing with subsidiary banks, offshore branches and regional treasury operating divisions.

A contingency plan has also been established for management of an escalated liquidity requirement where the Group experiences restricted access to wholesale funding or experiences a large increase in withdrawal of funds.

Operational risk

The Group defines operational risk as the risk of direct or indirect loss resulting from inadequate or failed processes, people, or systems, or from external events.

Individual business units are responsible for the development of action plans to mitigate high risks. The documented plans are reported to executive management and the Board on a regular basis for their information and approval.

Global Operational Risk is responsible for coordinating the risk assessment process of new products and services to ensure changes occurring within the organisation and industry are reviewed in a timely manner.

To enhance the Group's ability to identify, measure and manage operational risk, a systematic framework and methodology for operational risk management has been developed and implemented in each regional bank. The methodology includes risk modelling, risk evaluation, and risk forecasting (which is under development). Risk modelling is the statistical estimation of operational risk exposure based on internal and external historical loss experience. Risk evaluation involves the quality mapping and appraisal of the internal control environment based on end-to-end evaluation criteria. Risk forecasting is the forward-looking analysis of new and emerging risks, which may not be captured or recognised in historical loss experience.

Credit risk

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

The Group's credit risk management infrastructure is framed to provide sound management principles and practices for the maintenance of appropriate asset quality across the Group.

Global Credit Bureau, a unit of Risk Management, is structured to develop and maintain credit policies and key credit risk systems, provide monitoring and reporting of asset quality, and undertake the independent oversight of lending portfolios across the Group.

The management of credit risk within the Group is achieved through both the traditional focuses on approval and monitoring of individual transactions together with analysis of the performance of the various credit risk portfolios. Portfolio monitoring covers such areas as industry or geographic concentrations and delinquency trends.

Establishing an appropriate credit risk environment

Significant credit risk strategies and policies are approved, and reviewed annually, by the Board, which, through such policies as industry concentration limits, also establishes the Group's tolerance for risk. These policies are

Risk management (continued)

delegated to, and disseminated under the guidance and control of, executive management.

The Group's credit policies, which are subject to ongoing review, are documented and disseminated in a form that provides a consistent view of all major credit policies supporting the credit operations of the Group.

For complex credit products and services, Global Credit Bureau provides product profiles that identify and quantify risks, and establish the means of mitigating such risks.

Single large exposure policies and industry concentration limits are in place across the Group. Overall composition and quality of the credit portfolio exposures are monitored and reported to the Board half yearly, and, where required, to the relevant regional supervisory authorities.

A key factor in the introduction of new products and services is the identification of credit risk inherent in such products and services. This is managed through a process requiring acceptance by all impacted areas of the business and approval by Risk Policy Committees prior to implementation.

Operating under a sound credit granting process

The Group's established credit culture reinforces the continued use of sound credit granting criteria. These include:

- establishment of overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties for both on and off-balance sheet exposures;
- satisfaction with repayment capacity and integrity of the borrower;
- use of financial covenants;
- use of collateral; and
- consideration of economic and industry conditions.

Supporting the Group's credit culture are well-defined and documented policies and processes for the granting of credit. The key elements of the process include:

- clearly-defined authorities for the approving of credit; and
- a system of overview of lending approvals by a higher level of authority to ensure adherence to policies and good lending practice.

The past year has seen the implementation of new financial analysis software in all member banks. The new software provides for common templates across the Group for credit applications for Business Financial Services and Wholesale Financial Services, and drives analysis and commentary on all of the critical credit assessment factors.

The Group's credit rating system has been the hub of credit assessment and related processes for a number of years. An upgraded rating system, based on probability of default of a borrower, has been developed and implemented globally, which provides meaningful differentiation of credit risk, and will enable greater focus in pricing for risk.

For consumer credit, robust scoring solutions are in place and are supported by the mandatory use of appropriate monitoring tools. These tools provide the essential continual review of data integrity, scorecard performance and decision strategies. Software to validate and verify input data is used globally to support data integrity and prevent fraudulent activity.

Maintaining an appropriate credit administration, measurement and monitoring process

Efficient and effective credit administration operations and adequate control over back office procedures such as monitoring documentation, contractual requirements, legal covenants and collateral are recognised as being vitally important aspects of the end-to-end credit process.

The Group assigns these responsibilities to various business units, (eg Cards and Payments, and Leasing and Asset Finance), together with centralised structures supporting the branch network, and business bankers, such as Lending Services. These business units are all subject to quality controls and periodic audit.

Monitoring the condition of individual credits in Business Financial Services and Wholesale Financial Services principally rests with the customer-facing relationship managers, with overview by supervising authorities.

Exception reporting of credits that are outside agreed arrangements continues to be enhanced. These enhancements will provide the Group with the ability to monitor credit portfolios independently of relationship management.

Ensuring adequate controls over credit risk

There is a formal process, undertaken by specialist units, of independent oversight of credit in each region across the Group. Detailed quarterly reports are submitted to executive management and the Audit Committee. Additionally, credit processes and policy compliance are subject to internal audit and targeted credit reviews, of specific business units or regions, are undertaken as considered appropriate.

On a daily basis, credits that are outside arrangements are reported to the appropriate levels of authority for attention and monitoring of actions taken.

Delinquent credits pass to specialist units that undertake the collections and recovery processes. The Asset Structuring functional stream, reporting to Global Credit Bureau, has proven highly effective in remediating stressed credits and exiting severely impaired credits with minimal losses. The Group is considered to employ industry best practice in this regard, with the use of skilled external resources on secondment and upskilling of internal staff being a feature of this function.

The role of supervisors

The Group is subject to supervision by the Australian Prudential Regulation Authority (APRA), together with the local supervisors in each of the countries in which the Company, or its subsidiary banks, carry on business. In addition to regular dialogue, APRA undertakes periodic visits to the Company to review asset quality and the operation of credit risk management processes.

The Group also provides quarterly information to APRA, detailing exposures to individual customers or groups of related customers in excess of 10% of Tier 1 and Tier 2 capital. Advance notification to APRA is required prior to approving any exceptionally large exposures.

Risk management (continued)

Country risk

Sound international lending practices require not only commercial credit analysis of the borrower, of the type normally associated with domestic lending, but also an assessment of country risk. Country risk arises from economic, financial, political or social factors within a country, which may affect a borrower's ability and willingness to repay loans made by the Group. This consideration is applied notwithstanding the fact that the borrowers own credit standing domestically might not have been impaired.

The Group has an established process for measuring country risk, which is used in determining and monitoring its cross border exposures. This includes setting prudential cross border limits based upon the Group's maximum appetite to each country. Amongst other things, these limits are reflective of a country's credit grading, size, level of foreign exchange reserves and ability to meet financial obligations.

Limits are allocated into maturity time bands, which vary according to the risks of the country concerned and the outlook for the economic/political landscape. Exposures are monitored daily. The Board approves these individual country limits on an annual basis.

Cross border outstandings by industry category

The following table analyses the aggregate cross border outstandings due from countries other than Australia where such outstandings individually exceed 0.75% of the Group's assets. For the purposes of this presentation, cross border outstandings are based on the country of domicile of the borrower or guarantor of the ultimate risk, and comprise loans, balances due from banks, acceptances and other monetary assets. Local currency activities with local residents by foreign branches and subsidiaries are excluded.

	Bank and other financial institutions $m	Other commercial and industry $m	Total $m	% of Group total assets	Commitments including irrevocable letters of credit
As at September 30, 2001					
Germany	6,164	874	7,038	1.9	3,660
United Kingdom	4,007	1,153	5,160	1.4	5,882
Japan	4,053	249	4,302	1.1	129
United States	2,056	2,589	4,645	1.2	10,776
As at September 30, 2000					
United Kingdom	2,093	1,192	3,285	1.0	3,744
Japan	5,384	125	5,509	0.6	2,887
United States	1,424	1,481	2,905	0.8	6,942
As at September 30, 1999					
United Kingdom	2,648	1,067	3,715	1.0	4,234
Japan	2,154	-	2,154	0.6	1,129
United States	2,434	637	3,071	0.8	7,125

People and Culture

The table below summarises the Group's staffing position as at September 30:

	2001	2000 (2)	1999	1998	1997
Number of employees, Full- time and part-time (1)	**49,710**	51,879	51,566	50,973	52,226
Number of employees, full-time equivalents	**44,983**	47,417	45,676	46,300	46,422
Net profit (before significant items) per average full-time equivalent	**$86,857**	$73,694	$61,342	$53,693	$47,500

(1) *Full-time and part-time staff excludes the effect of unpaid absences (eg maternity leave). Full-time equivalents include part-time staff (pro-rated).*
(2) *2000 comparatives have been restated to include an additional 383 full-time equivalent Wealth Management employees.*

Full-time equivalents by region as at September 30:

	2001	2000 (1) (2)	1999	1998	1997
Australia	**23,264**	23,561	21,210	21,124	22,323
Great Britain	**10,953**	10,767	10,956	10,632	11,985
Ireland	**2,600**	2,615	2,665	3,123	2,941
New Zealand	**4,545**	4,532	4,433	4,461	5,154
United States	**2,864**	5,718	6,120	6,669	3,775
Asia	**757**	224	292	291	244
Total	**44,983**	47,417	45,676	46,300	46,422

(1) *Includes 2,274 MLC full-time equivalents and 3,271 Michigan National Corporation full-time equivalents.*
(2) *2000 comparatives have been restated to include an additional 383 full-time equivalent Wealth Management employees.*

Full-time equivalents by line of business as at September 30:

	2001	2000 (2)
Business and Personal Financial Services	**24,990**	26,871
Wealth Management	**4,229**	3,850
Wholesale Financial Services	**1,747**	1,578
Specialist and Emerging Businesses	**3,102**	3,003
HomeSide	**2,721**	2,835
National Shared Services	**6,881**	7,670
Other (1)	**1,313**	1,610
Total	**44,983**	47,417

(1) *Includes Corporate Centre functions.*
(2) *2000 comparatives have been restated to include an additional 383 full-time equivalent Wealth Management employees.*

The Group's full-time equivalent employee numbers reduced by 2,434 people or 5.1% from 47,417 for 2000 to 44,983 for 2001. Excluding the impact of the sale of Michigan National Corporation on April 1, 2001, full-time equivalent employee numbers actually increased 1.9%. This compares with a 3.8% increase from 1999 to 2000.

In Australia, employees decreased by 297 in 2001, having increased in the previous year. The 2000 comparatives included 482 Wealth Management Asian employees, now classified within Asia. Excluding the impact of this,

People and Culture (continued)

Australian employees actually increased 185 in 2001. This increase resulted mainly from strong growth in Securities Services, financial planner growth in Wealth Management, increased revenue generating staff in Wholesale Financial Services and increased Cards processing staff, offset by lower staff levels in shared services due to outsourcing and increased efficiencies.

In Great Britain, employees increased by 186 in 2001 having decreased the previous year. The 2001 increase resulted from the development of the Wealth Management strategy and the growth of the Wholesale Financial Services business.

In Ireland, employees decreased by 15 in 2001 having decreased the previous year. The 2001 decrease resulted from a number of roles being lost in the Shared Services business as a result of improved processes.

In New Zealand, employees increased by 13 in 2001, having increased in the previous year. The 2001 increase resulted from a continuing focus on improved customer service delivery.

In the United States, employees decreased 2,854 in 2001 as a result of the sale of Michigan National Corporation on April 1, 2001. Excluding the impact of the sale, employees actually increased 417, due to higher production volumes in HomeSide.

In Asia, employees increased 533. At September 2000, 482 Wealth Management Asia employees were classified as Australian employees. Comparatives have not been restated. Excluding the impact of this, Asian employees increased 51 in 2001, due to expansion of operations in the region, particularly with regard to Wholesale Financial Services and Wealth Management activities.

Approximately 48% of Group employees in Australia are members of the Finance Sector Union of Australia (FSU). Over the last 12 months, the Company has continued to strive for a good relationship with the FSU through the enterprise bargaining process. Currently, the Company is the subject of industrial disruption as a result of the breakdown of the enterprise bargaining negotiations. Agreement had been reached on many aspects of employment issues such as training and pay structures, however, agreement could not be reached on the level of pay increase.

European Economic and Monetary Union

International and wholesale financial operations continue to support trading, all types of accounts, and payments in Euro. National Irish Bank operates domestically with Euro and Irish pound capability.

The Group continues to prepare for the arrival of Euro cash in January 2002 and the cessation of the use of National Currency Denominations.

In the United Kingdom (UK), the government is committed to the entry of the UK into the European Economic and Monetary Union (EMU), subject to certain economic criteria being met and a national referendum in favour of UK entry. Against this uncertain background, the Group has assessed the impact that UK entry into the EMU might bring and has laid the foundations of a program to prepare for such entry should it occur. The Group continues to monitor the UK government and industry developments so that it can ensure that its operations will not be disrupted whatever the eventual outcome. The Group is also ensuring that it can continue to service its customers as the use of the Euro in business evolves.

Further developments in respect of the EMU and possible UK entry are not expected to have a materially adverse effect on the Group. However, it is not possible to predict all strategic practical implications of the EMU and there may be other key potential impacts. Where the Group is relying on third parties to provide EMU related services, there can be no guarantee that they will provide those services in a timely manner, but it is not expected that the late provision of those services will disrupt materially the Group s operations during the transition period.

Risk factors

Business conditions and general economy

As an international financial services group, the Group's businesses are affected by the external environment in the markets in which it operates. The profitability of the Group's businesses could be adversely affected by a worsening of general economic conditions in Australia, the UK, the United States or elsewhere, as well as by foreign and domestic trading market conditions. Such factors could also adversely affect the credit quality of the Group's on-balance sheet and off-balance sheet assets. An economic downturn can impact the Group's results and financial position by affecting demand for the Group's products and services. Such a downturn, international disruption, dispute or events, or significantly higher interest rates could impact the credit quality of the Group's borrowers and counterparties, increasing the risk that a greater number of the Group's customers would default on their loans or other obligations to the Group, or would refrain from seeking additional borrowing.

For a discussion of the Group's economic outlook, refer to 'overview' on page 9 of the financial review.

Competitive forces

The Group faces intense competition in all markets in which it operates *(refer to 'competition' on page 7 of the financial review for a detailed discussion)*.

Government policies and economic controls

The Group's businesses and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Group's control.

Fluctuations in currency exchange rates

As the Group prepares its accounts in Australian dollars, changes in currency exchange rates, particularly between the Australian dollar and the British pound or US dollar, may have an effect on the earnings that it reports.

For a discussion of the Group's risk management procedures, including the management of currency risk, refer to 'risk management' on page 41 of the financial review.

Credit risk

The Group's provisions for doubtful debts provide for risks of losses inherent in loans and advances. Estimating potential losses is inherently uncertain and

Risk factors (continued)

depends on many factors, including general economic conditions, rating migration, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements.

For a discussion of the Group's risk management procedures, including the management of credit risk, refer to 'risk management' on page 41 of the financial review.

Control systems and programs

The implementation of control systems and programs are dependent upon such factors as the Group's ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel, the competence and performance of employees, the co-operation of customers, third party vendors and competitors.

Goods and services tax

The Company's primary Australian financial products and services are input taxed and therefore goods and services tax (GST) is not added directly to the consumer's price for financial products and services. However, leasing, general insurance and a range of specialist products are subject to GST like most goods and services.

As most banking products are input taxed and not subject to GST, the Group is not able to recover the net increase in the cost of its purchases directly. Accordingly, pricing of fees and interest rates were adjusted in 2000 to reduce the impact on the business of these costs attributable to GST. Consistent with the Group's policy, any pricing changes fully comply with the guidelines released by the Australian Competition and Consumer Commission.

Accounting developments

The following is a summary of the future impact of recently issued accounting standards.

Income taxes

In December 1999, the Australian Accounting Standards Board (AASB) reissued AASB 1020 "Income Taxes". The revised AASB 1020 requires income tax to be accounted for using the balance sheet method of tax-effect accounting in contrast to the current income statement method. It focuses on temporary differences rather than timing differences and requires the difference between the carrying amount of a revalued asset and its tax base to be recognised as an assessable temporary difference. The tax payable on the taxable income of a reporting period is to be recognised as an expense in the profit/loss for the period and referred to as current tax. The tax, which remains unpaid at reporting date, is recognised as a current tax liability in the balance sheet. Future tax consequences of transactions recognised give rise to deferred tax liabilities/assets in the period in which the transactions are recognised. The revised standard will apply to the Group's financial report for the first time in the year ending September 30, 2003. The impact of the standard is currently being assessed.

Provisions, Contingent Liabilities and Contingent Assets

In October 2001, the AASB issued AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets". AASB 1044 deals with the recognition, measurement and presentation of provisions and contingent assets and contingent liabilities. In general, the introduction of the standard will result in a tightening of the rules relating to the recognition of provisions and will limit the recognition of provisions for final dividends in annual financial reports. Provisions are required to be discounted to present value where the effect of discounting is material. The standard will apply to the Group's financial report for the first time in the year ending September 30, 2003, unless adopted earlier. The impact of the standard is currently being assessed.

Goodwill and other intangible assets

In June 2001, the Financial Accounting Standards Board in the US issued Statement of Financial Accounting Standards (SFAS) 142 "Goodwill and Other Intangible Assets". SFAS 142 addresses how intangible assets should be accounted for in the financial statements upon their acquisition and after initial recognition. The standard requires that goodwill no longer be amortised to earnings, but instead be subject to periodic testing for impairment using a fair-value-based approach. Goodwill of a reporting unit would be tested when events and circumstances occur indicating that it might be impaired. The Group will apply the new rules on accounting for goodwill and other intangible assets from October 1, 2001, for the purposes of presenting financial information in accordance with United States generally accepted accounting principles (US GAAP). It is estimated that the impact of adopting SFAS 142 will be a reduction in goodwill amortisation expense of $252 million under US GAAP in the first year of adoption. The impact in future years depends on the results of periodic impairment testing.

Corporate governance statement

The main corporate governance practices that were in place during the year to September 30, 2001 are discussed in this section.

The Board of directors, (hereinafter referred to as the Board) is responsible for the corporate governance of the Company and its controlled entities. The directors of the Company and its controlled entities are required to act honestly, transparently, diligently, independently, and in the best interests of all shareholders in order to increase shareholder value. Directors of the Company and all its controlled entities are provided with corporate governance guidelines, which have been approved by the Board. The corporate governance policies have been specifically tailored for the different types of entities depending on the nature and degree of activities of those entities. One of the functions of the Board is to approve all appointments of directors to the boards of controlled entities.

The major processes by which the directors of the Company and its controlled entities meet their duties are described in this corporate governance statement.

Responsibilities and functions of the Board

The most significant responsibilities of the Board are:

- reporting to shareholders and the market;
- ensuring regulatory compliance;
- ensuring compliance with prudential regulations and standards;
- ensuring the maintenance of credit quality;
- ensuring adequate risk management processes;
- reviewing internal controls and internal and external audit reports;
- monitoring and influencing the culture, reputation and ethical standards of the Company and Group;
- monitoring the Board composition, director selection and Board processes and performance;
- approving key executive appointments and ensuring executive succession planning;
- reviewing the performance of the Managing Director and Chief Executive Officer and senior management;
- reviewing and approving executive remuneration;
- ensuring that the Board has an in-depth understanding of each substantial segment of the business;
- validating and approving corporate strategy;
- reviewing the assumptions and rationale underlying the annual plans and approving such plans;
- reviewing business results, and monitoring budgetary control and corrective actions (if required); and
- authorising and monitoring major investment and strategic commitments.

Composition of the Board

The Board of directors of the Company comprises one executive director and eight independent non-executive directors. The Chairman is a non-executive director and the Managing Director is the executive director. The qualifications, experience and expertise of the directors are set out on page 52 of this annual financial report.

Appointment of Board members

The composition of the Board is based on the following factors:

- Company's constitution provides for the number of directors to be not less than five and not more than 14 as determined by the directors from time to time;
- Chairman of the Board should be an independent non-executive director;
- Board should comprise a majority of independent non-executive directors; and
- Board should comprise directors with a broad range of expertise and knowledge. In particular, current or previous experience as the chief executive of a significant enterprise with international operations is highly regarded.

The process for re-election of a director is in accordance with the constitution, which requires that, each year, at least one-third of the non-executive directors retire from office at the annual general meeting. The retiring directors may be eligible for re-election.

The process for appointing a director is that, when a vacancy exists, the Board identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed but must stand for election at the next annual general meeting.

The retirement age for non-executive directors has been fixed by the shareholders at 70 years of age.

Board appraisal

The Board has a process to review and evaluate the performance of the Board. The process involves consideration of all of the Board's key areas of responsibility.

Remuneration of directors

The remuneration policy for directors, the remuneration of each director and the formula for calculation of retirement allowances of directors is set out in the report of the directors.

At the Company's last annual general meeting, shareholders approved a non-executive directors' share arrangement under the National Australia Bank Staff Share Ownership Plan, which requires non-executive directors' remuneration to include a share acquisition component of up to 40 per cent of their remuneration. This arrangement was then established early in the 2001 year.

Independence of Board members

The constitution provides that a director may enter into an arrangement with the Company or with any controlled entity. Directors or their firms may act in a professional capacity for the Company or controlled entities, other than to act as an auditor of the Company. These arrangements are subject to the restrictions of the *Corporations Act 2001*. Financial services must be provided to directors under terms and conditions that would normally apply to the public or, in the case of an executive director, under terms and conditions that would normally apply to employees.

Corporate governance statement

Disclosure of related party transactions is set out in note 52 in the financial report.

When a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, the director concerned takes no part in discussions nor exercises any influence over other members of the Board if a potential conflict of interest exists.

During the year, one non-executive director took leave of absence from the Board because of a potential conflict of interest and took no part in the affairs of the Company. The non-executive director has subsequently resigned as a director of the Company.

Board meetings

The frequency of Board meetings and directors' attendance at those meetings is set out on page 58 of the report of the directors. Directors are expected to adequately prepare for meetings and attend and participate at Board meetings. Some on-site inspections are conducted which directors are also expected to attend. Directors are assisted in gaining an understanding and knowledge of the Group through the provision of technical reading material, tutorials and workshops. The amount of work undertaken is considerable. The time requirement varies depending on the number of Board Committee meetings and subsidiary company board meetings a director attends.

Access to independent professional advice

Written guidelines are in place providing for each director to have the right to seek independent professional advice at the Company's expense subject to the prior approval of the Chairman.

Restrictions on share dealings by directors

Directors are subject to the *Corporations Act 2001* restrictions on buying, selling or subscribing for securities in the Company if they are in possession of inside information, ie, information which is not generally available and, if the information were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in the Company.

Further, directors may only trade in the Company's securities (subject to the insider trading restrictions above) during each of the eight weeks commencing the day following each half yearly profit announcement or the date of issue of a prospectus. Directors are further required to discuss their intention to trade in the Company's securities with the Chairman prior to trading. During the year, the Company's Insider Trading Policy was revised and re-issued.

In addition, directors must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director by virtue of holding office as a director of the Company.

Shareholding requirements

Directors are required to hold at least 2,000 shares in the Company. Non-executive directors receive at least 10 per cent and up to 40 per cent of their remuneration in the form of shares in the Company, through the newly introduced non-executive directors share arrangement under the National Australia Bank Staff Share Ownership Plan, which was approved by shareholders at the Company's last annual general meeting. The executive director receives share options and, as a staff member, also receives shares in the Company. *Details of all holdings by directors in the Company are set out in the report of the directors.*

Confidential information

The Company, through its operations, possesses confidential information about a number of customers and organisations and, quite apart from its legal obligations, the Company has systems and processes to ensure that this information is not released to its related entities, such as the funds management and development capital business units. This ensures that such information is not exploited for the benefit of the Company.

Internal control systems are monitored and employee integrity within the Company is fostered to ensure that confidential customer information is not disclosed outside the Company, or used for individual personal gain or for the gain of any entity within the Group.

Board Committees

The Board delegates a number of functions to Committees. Formal Committees comprise an Audit Committee, Compensation and Nomination Committee and Board Committees established to consider both large credit facilities and large borrowing programs. Other Board Committees are established from time to time and as required to consider matters of special importance including capital strategies, major investments and commitments, capital expenditure, delegation of authorities to act, and the allocation of resources.

Board and Committee agendas

Board and Committee agendas are structured throughout the year in order to ensure that each of the significant responsibilities of the Board is addressed. This includes the Board receiving a detailed overview of the performance and significant issues confronting each business unit and the Corporate Centre and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

Directors receive detailed financial, operational and strategy reports from senior management during the year and management is available to discuss the reports with the Board.

Audit Committee

The Audit Committee's role is documented in a Charter, which has been approved by the Board. The Charter defines the purpose, authority and responsibility of the Committee. The Charter has been recently reviewed and enhanced. The review was conducted with reference to authoritative pronouncements on audit committees in Australia, the US and United Kingdom. The Audit Committee has regard to world best practice in auditing standards and relevant guidance notes, including the Ramsay Report on Audit Independence in Australia.

In accordance with this Charter, all members of the Committee must be independent non-executive directors. The members of the Audit Committee at the date of this annual financial report are:

Mrs Catherine M Walter (Chairman);
Mr Peter JB Duncan;
Mr Graham J Kraehe; and
Dr Kenneth J Moss.

Members are appointed for an initial term of three years. Membership is reviewed every three years and periodic rotation is encouraged, but no more than one member each year can resign as a result of periodic rotation.

The internal and external auditors, the Managing Director and Chief Executive Officer, the Chief Financial Officer and other members of management are invited to attend Audit Committee meetings at the discretion of the Committee.

The responsibilities of the Audit Committee are to:

- present formal reports to the Board on its activities and to formally table the minutes of the intervening Audit Committee meetings;
- communicate with the Board, the external auditors, Internal Audit and management to exchange information and views;
- oversee and appraise the independence, quality, cost effectiveness and extent of the total audit effort;
- perform an independent overview of the financial information prepared by Company management for shareholders and prospective shareholders;
- review and authorise the release of financial information to shareholders and prospective shareholders where empowered by the Board;
- evaluate the adequacy and effectiveness of the Group's management and financial control systems and other internal control systems and evaluate the operation thereof; and
- review and endorse the Chief Executive Officer's annual attestation statement in accordance with regulatory requirements.

The Audit Committee meets with the external auditors during the year to review the adequacy of existing external audit arrangements with particular emphasis on the scope and quality of the audit. The Committee then reports to the Board on the external auditor's continuance and achievement of their terms of engagement. At least annually the Audit Committee is to meet with Internal Audit, the external auditors and Consulting Actuary separately, without the presence of management.

The Audit Committee is supported by regional audit committees and Management Committees in the regions in which the Group conducts its business activities. Regional audit committees are comprised of independent non-executive directors of the relevant operating companies within the Group.

Compensation and Nomination Committee

The Compensation and Nomination Committee's members at the date of this annual financial report are:

Dr Edward D Tweddell (Chairman);
Dr Kenneth J Moss; and
Mr D Charles K Allen.

The responsibilities of the Compensation and Nomination Committee are to:

- monitor, review and make recommendations to the Board as necessary and appropriate regarding:
    - the objectives for and assessment of the performance of the Managing Director and Chief Executive Officer;
    - the compensation arrangements for the Managing Director and Chief Executive Officer and other senior executives, including incentive plans, other benefits and service contracts;
    - the remuneration policies and practices of the Company generally;
    - option and share plans or other incentive plans for executives or other employees; and
    - the remuneration arrangements for non-executive members of the Board;
- make grants of share options pursuant to the Company's executive option plans from time to time on such conditions (not inconsistent with the provisions of the plan) as the Committee may, in its absolute discretion, think fit, where prior in-principle approval had been given by the Board to the grants contemplated on each occasion. Undertake all acts, matters, resolutions or things necessary or desirable in connection with the making of those grants;
- review and make recommendations to the Board as appropriate regarding:
    - the size and composition of the Board;
    - the criteria for Board membership and desirable specifications of qualifications, experience and domicile for individual new appointees to the Board; and
    - identification of potential candidates for appointment to the Board; and
- review these terms of reference and composition of the Committee annually.

Appointment of senior executives and review of performance

The Board reviews the succession planning for senior executives and makes the executive appointments.

The Board also reviews performance and sets the remuneration packages applicable to the Managing Director and Chief Executive Officer and senior executives. Performance reviews involve meeting established performance-based criteria structured on increasing shareholder value.

The remuneration policy for senior executives is set out in the report of the directors on page 56 of this annual financial report .

Corporate governance statement

Communication with shareholders

The Board's policy is that shareholders are informed of all major developments that impact on the Company consistent with continuous disclosure obligations of the Company pursuant to the Australian Stock Exchange Listing Rules and the Listing Rules of the other exchanges on which the Company's securities are listed, the *Australian Corporations Act 2001*, and equivalent legislation in relevant jurisdictions. The Company has had in operation during 2001, a continuous disclosure process to ensure compliance with the Company's continuous disclosure and reporting obligations.

The main practices and procedures of the continuous disclosure process are:

- documents provided to the Board containing an outline of obligations and requirements under the continuous disclosure regime and the consequences of non-compliance;
- guidance to management on identifying significant events from on-going reviews of business and financial reports and minutes of board meetings of affiliate entities; and
- regular reviews of global procedures to ensure timely identification of disclosure material and materiality thresholds.

Information is communicated to shareholders through:

- the annual review (unless a shareholder has requested not to receive the document);
- the annual financial report (for those shareholders who have requested a copy);
- disclosures to the stock exchanges in Australia, London, Luxembourg, New York, New Zealand and Tokyo, the Australian Securities and Investments Commission and US Securities and Exchange Commission;
- notices and explanatory memoranda of annual general meetings;
- the National Shareholders' Bulletin which provides shareholders with details of profit performance and other matters of interest;
- occasional letters from the Managing Director and Chief Executive Officer and Chairman to specifically inform shareholders of key matters of interest; and
- the Company's web-site on the internet: www.national.com.au.

Risk management

The Board is committed to the identification and quantification of risk throughout the Company's business units and controlled entities. Directors receive regular reports from Risk Management on areas where significant business risk or exposure concentrations may exist and on the management of those risks. The Board Committee structures, including the Committees established to consider large credit facilities, form an important part of the risk management process.

More comprehensive details on risk management appear on pages 41 to 45 of this annual financial report.

Ethical standards

The operations of the Company and the Group are driven by the Group Mission Statement and Values. All the Values are important and cover every aspect of daily banking and financial service practices.

The Values include the requirement that the business be conducted ethically and with professionalism to achieve the highest standards of behaviour. These Values are reinforced by the Company's internal Code of Conduct which is provided to all staff and which requires observance of strict ethical guidelines. The Code of Conduct is issued to all staff and covers:

- personal conduct;
- honesty;
- relations with customers;
- prevention of fraud;
- financial advice to customers;
- conflict of interest; and
- disclosure.

During the year ended September 30, 2001, a revised Code of Conduct was issued to all staff. Changes to the Code included two new case studies on personal conduct and a new section on electronic communications usage.

The Group regularly reviews its relationships with the external suppliers of goods and services. Organisations with high ethical standards are favourably considered. Where there is transition of executives between the Group and major suppliers or customers, appropriate confidentiality and independence issues are addressed in both principle and process.

In addition, the directors of the Company support the Code of Conduct issued by the Australian Institute of Company Directors.

Report of the directors

The directors of National Australia Bank Limited (hereinafter referred to as the Company) present their report together with the financial report of the Company and of the Group, being the Company and its controlled entities, for the year ended September 30, 2001 and the audit report thereon.

Directors

The Board has power to appoint persons as directors to fill any vacancies. Other than the managing director, one-third (or the nearest number to but not exceeding one-third) are required to retire by rotation at each annual general meeting, together with any director appointed during the year to fill any vacancy. Both the directors retiring by rotation and any newly-appointed directors are eligible to stand for re-election or election.

Details of directors of the Company in office at the date of this report, and each director's qualifications, experience and special responsibilities are below:

Mr D Charles K Allen
AO, MA, MSc, FTSE, FAICD

Mr Allen was appointed Chairman in September 2001 and has been an independent non-executive director since 1992. He is a member of the Compensation and Nomination Committee.

Experience
35 years in the petroleum industry including 21 years with Shell International and 14 years as Managing Director of Woodside Petroleum Limited until 1996.

Other directorships
Amcor Limited, The Australian Gas Light Company Limited (AGL), Air Liquide Australia Limited and Earthwatch Australia. Chairman of the Commonwealth Scientific and Industrial Research Organisation (CSIRO) until November 2001.

Mr Frank J Cicutto
BCom, FAIBF, FCIBS

Mr Cicutto, the Managing Director and Chief Executive Officer, was appointed to the Board as an executive director in 1998. He is a director of National Wealth Management Holdings Limited, MLC Holdings Limited, MLC Limited, National Australia Financial Management Limited and Chairman of National Australia Group Europe Limited.

Experience
33 years in banking and finance in Australia and internationally. Previous executive positions include Head of Credit Bureau, State Manager New South Wales, Chief Executive Clydesdale Bank PLC, and Chief General Manager, Australian Financial Services. Appointed Executive Director and Chief Operating Officer in July 1998, and appointed Managing Director and Chief Executive Officer in June 1999.

Other directorships
Melbourne Business School Limited (the University of Melbourne).

Dr J Brian Clark
DSc

Dr Clark was appointed an independent non-executive director on October 15, 2001.

Experience
30 years as a research physicist and senior manager, including 5 years as President at CSIR, the largest multi-disciplinary contract research organisation in South Africa, followed by 2 years as Managing Director and Chief Executive Officer of Telekom SA Limited. Since 1997 he has been with the Vodafone Group, currently serving as Chief Executive of Vodafone Pacific Limited and a member of Vodafone group plc Executive Committee.

Other directorships
Vodafone Pacific Limited and associated group entities.

Mr Peter JB Duncan
BE (Chem)(1st Class Hons), DBS (with Distinction)

Mr Duncan was appointed an independent non-executive director on November 2, 2001. He is a member of the Audit Committee.

Experience
36 years with Royal Dutch/Shell Group of companies, including senior finance and general management positions in Australia, New Zealand, South America, Europe and South East Asia. He was Chairman of the Shell Group of Companies in Australia and New Zealand. Former Chairman of the Australian Institute of Petroleum.

Other directorships
Woodside Petroleum Ltd, Orica Limited and GasNat Australia Limited. Member of the German-Australian Chamber of Industry and Commerce.

Mr Graham J Kraehe
BEc

Mr Kraehe was appointed an independent non-executive director in 1997. He is a member of the Audit Committee.

Experience
38 years in the wine, automotive and diversified manufacturing industries. Managing Director of Pacifica Limited from 1985 until 1994. Managing Director and Chief Executive Officer of Southcorp Limited from 1994 until early 2001.

Other directorships
Non-executive director of Brambles Industries Ltd, Brambles plc and, News Corporation Ltd. Chairman designate of BHP Steel. He is also President of the German-Australian Chamber of Industry and Commerce.

Dr Kenneth J Moss
BE, PhD, FIEAust, CPEng, FAICD

Dr Moss was appointed an independent non-executive director in 2000. He is a member of the Audit Committee and the Compensation and Nomination Committee.

Report of the directors

Experience
35 years in the mining, engineering, marine and hardware industries with BHP Limited and the Howard Smith Group, including seven years as Managing Director of Howard Smith Limited until July 2000.

Other directorships
GPT Management Limited, Hunter Area Health Services, Hunter Medical Research Institute, Australian Maritime Safety Authority. Advisory Board member of the Graduate School of Business at the University of Newcastle. Chairman of Boral Limited and Centennial Coal Company Limited. Vice President of National Council of Australian Institute of Company Directors.

Mr Geoffrey A Tomlinson
BEc

Mr Tomlinson was appointed an independent non-executive director in 2000. He is Chairman of National Wealth Management Holdings Limited, MLC Holdings Limited, MLC Limited and National Australia Financial Management Limited.

Experience
29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998.

Other directorships
Amcor Limited, Mirrabooka Investments Limited and Pineapplehead Limited. Chairman of Reckon Limited, Funtastic Limited and Programmed Maintenance Services Limited. Deputy Chairman of Neverfail Springwater Limited and Hansen Technologies Limited. Non-executive consultant to PricewaterhouseCoopers.

Dr Edward D Tweddell
BSc, MBBS (Hons), FRACGP, FAICD

Dr Tweddell was appointed an independent non-executive director in 1998. He is Chairman of the Compensation and Nomination Committee.

Experience
25 years in the pharmaceutical and health care industries. Group Managing Director and Chief Executive Officer of FH Faulding & Co Limited from 1993 to 2001.

Other directorships
He is Deputy Chairman of Pacific Dunlop Limited and director of Australian Postal Corporation.

Mrs Catherine M Walter
LLB (Hons), LLM, MBA, FAICD

Mrs Walter was appointed an independent non-executive director in 1995. She is a director of National Wealth Management Holdings Limited, MLC Holdings Limited, MLC Limited and National Australia Financial Management Limited. She is Chairman of the Audit Committee and a member of the Audit Committee of National Australia Financial Management Limited.

Experience
20 years as a solicitor and eight years as a partner in the firm Clayton Utz until 1994, including some time as Managing Partner of the Melbourne office. She also served as a Commissioner of the City of Melbourne.

Other directorships
Australian Stock Exchange Limited, Orica Limited, Queensland Investment Corporation Limited, Committee for Economic Development of Australia, and Melbourne Business School Limited (the University of Melbourne). Council member of The University of Melbourne.

Board changes

During the year, Mr Mark R Rayner resigned as Chairman and director as a matter of good corporate governance. Mr Rayner joined the Board in 1985 and was elected Chairman in September 1997. The Board thanks Mr Rayner for his substantial contribution.

Dr J Brian Clark and Mr Peter JB Duncan were appointed as independent non-executive directors in October and November 2001 respectively.

Indemnification

Since the end of the previous year, the Company has not indemnified, or made a relevant agreement for indemnifying, against a liability, any present or former officer or auditor of the Company or any of its related bodies corporate as contemplated by subsections 300(1), (8) and (9) of the *Corporations Act 2001*, other than to enter into deeds providing for indemnity, insurance and access to documents with the directors of the Company in accordance with a resolution of the shareholders at the annual general meeting held on December 17, 1998 and similar deeds in favour of certain officers.

Insurance

During the year, the Company paid a premium under a contract insuring each of certain officers of the Company and its controlled entities against liabilities permitted to be indemnified by the Company under section 199B of the *Corporations Act 2001*.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance.

The Company has not provided any insurance for an auditor of the Company or a related body corporate.

Principal activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, mortgage servicing, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

Review of operations

A review of the operations of the Group during the year, and the results of those operations are contained in the financial review on page 9 of this annual financial report.

Group results

The net profit of the Group for the year ended September 30, 2001 attributable to the members of the Company was $2,083 million, a decrease of $1,156 million (35.7%) on the previous year. The net profit before significant items of the Group for the year ended September 30, 2001 was $4,019 million, an increase of $644 million (19.1%) on the previous year's result. Significant items included in the current year's result were $1,936 million after tax.

Dividends

The directors have declared a final dividend of 68 cents per ordinary share, fully franked, payable on December 12, 2001. The proposed payment amounts to $1,054 million.

Dividends paid since the end of the previous financial year:

- The final dividend for the year ended September 30, 2000 of 64 cents per ordinary share, fully franked, paid on December 13, 2000. The payment amount was $976 million.

- The interim dividend for the year ended September 30, 2001 of 67 cents per ordinary share, fully franked, paid on July 4, 2001. The payment amount was $1,026 million.

Information on the dividends paid and declared to date is contained in note 7 in the financial report.

The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors including the proportion of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system as a result of the Australian Government's tax reform initiatives.

Significant changes in the state of affairs

In the directors' opinion there have been no significant changes in the state of affairs during the year ended September 30, 2001, other than:

- On April 1, 2001, the Group sold Michigan National Corporation to ABN Amro North America Inc., a subsidiary of ABN Amro NV, for US$2,750 million ($5,314 million). The sale provided the Group with a profit on sale of $1,681 million.

  The portion of the business sold contributed $132 million to the Group's 2001 result.

- In July 2001 the directors determined that the carrying value of the mortgage servicing rights asset held by HomeSide Lending, Inc., a controlled entity of the Company, exceeded the fair value. An impairment loss of $888 million ($568 million after tax) was recognised to reflect the asset at its fair value. The impairment was the result of hedging positions which were adversely impacted by extreme volatility in the United States interest rate markets.

  At this time a review was undertaken and in September 2001, the directors determined that a second impairment loss on mortgage servicing rights was required to reflect the mortgage servicing rights asset at its fair value. This impairment loss of $755 million was the result of an incorrect interest rate assumption discovered in an internal model used to determine the fair value of HomeSide Lending, Inc.'s mortgage servicing rights.

  Furthermore, a decision was taken by the Board to pursue the sale of HomeSide Lending, Inc., after reviewing its position within the Group's current core strategies of banking and wealth management. As a result of this decision, the carrying value of HomeSide Lending, Inc.'s core asset, mortgage servicing rights, was revalued and a provision for mortgage servicing rights valuation adjustment of $1,436 million was recognised in order to reflect the mortgage servicing rights asset at its estimated market sale value.

  In conjunction with the directors' decision to value HomeSide Lending, Inc. on an estimated market sale basis, the decision was taken that the carrying value of goodwill which arose on the acquisition of HomeSide Lending, Inc. was in excess of its recoverable amount. Accordingly, an impairment loss of $858 million was recognised, in order to reduce the carrying value of this goodwill to $nil.

While the above matters are considered to be significant changes, review of matters affecting the Group's state of affairs are also contained in the financial review on pages 9 to 47 of this annual financial report.

Events after end of financial year

In November 2001 the Board adopted a continuing policy to buy back shares equal to the shares issued under the Group's various share and option plans. All buy-backs would be subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time. The buy-back policy is considered to be an appropriate capital management strategy given the Group's sound capital position and strong internal capital generation. On November 8, 2001, the Company announced to the Australian Stock Exchange Limited its intention to undertake an on-market buy-back of its ordinary shares.

No further matter, item, transaction nor event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors of the Company, has or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

Details of the likely major developments in the operations of the Group in future years and the expected results of those operations are referred to in the overview on page 9 of this annual financial report.

In the opinion of the directors, disclosure of any further information would be likely to result in unreasonable prejudice to the interests of the Group.

Environmental regulation

The operations of the Group are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, but can incur environmental liabilities as a lender. The Group has developed credit policies to ensure this is managed appropriately.

Rounding of amounts

Pursuant to Class Order 98/100 made by the Australian Securities and Investments Commission on July 10, 1998, the Company has rounded off amounts in the report of the directors and the accompanying financial report to the nearest million dollars, except where indicated.

Remuneration policy and relationship to company performance

Board members

The fees paid to non-executive members of the Board are based on advice and data from the Company's remuneration specialists and from external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Company's operations, the achievements of the Company and the responsibilities and workload requirements of Board members.

Because the focus of the Board is on the long-term strategic direction of the Company, there is no direct link between director remuneration and the short-term results of the Company. The long-term performance of the Company, relative to other large corporations, is considered among other factors in setting the fee pool, which is periodically proposed to shareholders at the annual general meeting for approval.

Fees are established annually for the Chairman and non-executive directors. Additional fees are paid, where applicable, for participation in Board Committees and for serving on the boards of controlled entities. The total fees paid to members of the Board, including fees paid for their involvement on Board Committees and controlled entity Boards, are kept within the total approved by shareholders from time to time. At the Company's annual general meeting held in December 2000, shareholders approved the non-executive directors' share arrangement under the National Australia Bank Staff Share Ownership Plan. Under this arrangement, shares are provided to non-executive directors as part of their remuneration, rather than receiving cash.

Agreements between the Company and the non-executive directors provide that upon, and in the consequence of, each of these directors ceasing to be a director by reason of retirement or death, the Company shall pay a lump sum retiring allowance. This retirement benefit is based on period of service, as follows:

- **Less than 15 years**:
  One-third of the average yearly emoluments paid by the Company to the director:
  (a) during the last three years of service; or
  (b) when the period of such service is less than three years, during that period
  for each completed year of service and proportionately for part of a year, as a non-executive director of the Company.

- **15 years or more:**
  Five times the average yearly emoluments paid by the Company to the director during the last three years of service as a non-executive director.

Board fees are not paid to executive directors since the responsibilities of Board membership are considered in determining the remuneration provided as part of their normal employment conditions.

The following table shows details of the nature and amount of each major element of the emoluments of each non-executive director of the Company for 2001.

	Fees, cash component(1) $	Fees, share component(1)(2) $	Retirement allowances(3) $	Other benefits(4) $	Total remuneration $
Non-executive directors					
D Charles K Allen	145,218	37,042	-	11,617	193,877
Graham J Kraehe	143,311	19,575	-	11,465	174,351
Kenneth J Moss	97,425	12,650	-	7,794	117,869
Mark R Rayner	257,767	15,584	1,467,347	-	1,740,698
Geoffrey A Tomlinson	191,183	27,042	-	15,295	233,520
Edward D Tweddell	168,310	9,918	-	13,465	191,693
Catherine M Walter	158,996	21,837	-	12,720	193,553

(1) *Non-executive directors' remuneration represents fees in connection with attending Board, Board Committee and controlled entity company board meetings.*

(2) *The aggregate number of shares acquired by non-executive directors as part of their remuneration was 6,256, comprising 6,617 shares issued, less 361 shares forfeited upon resignation, at an average price of $30.93.*

(3) *Reflects payments in respect of retirement (including superannuation).*

(4) *Reflects non-salary package remuneration and includes Company contributions to superannuation which will form part of the non-executive directors' retirement allowance.*

Report of the directors

Senior executives

The Group operates in a variety of different countries and different business segments so it is necessary to consider remuneration for senior executives in the context of the different geographic and specialist remuneration markets in which the Group competes for top executive talent.

Senior executives have a direct impact on the performance of the Group and its future prospects and the Board believes it is imperative that remuneration levels are set to be among the leaders of major corporations, in the appropriate remuneration markets, to ensure that the Group is able to attract and retain the best available executive talent.

Remuneration for senior executives of the Group is determined in accordance with remuneration structures set by the Board, following recommendations from the Compensation and Nomination Committee. The Committee receives advice on the level and form the remuneration should take from the Group's remuneration specialists. This advice incorporates competitive market data and analysis from several external remuneration advisers.

Senior executive remuneration is made up of three components:

- **Base or fixed remuneration**
  This element reflects the scope of the job and the level of skill and experience of the individual.

- **Short-term incentive**
  This is paid depending on the annual performance of the Group, the individual business unit and the individual executive. The weighting of this component varies depending on the nature of the specific executive role. This aspect of the reward program looks back at actual achievements over the past year.

  The performance of the Group and individual business units is the key factor in setting the pools to provide these short-term rewards which generally apply to other staff as well as senior executives.

- **Long-term incentive**
  This is currently paid through the issue of executive share options and links the reward of the executive directly to the growth in the Company's share price. This aspect of the reward program focuses the executive on the future performance of the Group over the next three to eight years.

  Before executive share options can be exercised, a performance hurdle must be met. This hurdle compares the total shareholder return (TSR) of the Company with the TSRs of the 50 largest corporations by market capitalisation on the Australian Stock Exchange. The number of options which may be exercised, if any, depends on the relevant ranking of the Company in this group of 50 corporations.

The Group aims to be competitive in each of these three components in each of the various geographic and specialist remuneration markets in which the Group must compete to secure top quality executives. Over the last few years, the emphasis in executive remuneration, as with most other large companies, has been moving towards the variable elements of the reward program with particular focus on the long-term incentive.

The following table shows the remuneration details for the five senior executives (including the executive director) receiving the highest emoluments from the Company and the Group during 2001.

Senior executive emoluments (current employees)

Name and position[(1)]	Salary package[(2)] $	Performance based remuneration[(3)] $	Retention allowances $	Other benefits[(4)] $	Total remuneration $	Options Granted[(5)] (No.)	Exercise price[(6)] $	Date first exercisable
Frank J Cicutto Managing Director and Chief Executive Officer	1,476,283	1,350,000	-	101,008	2,927,291	500,000	27.85	23/03/04
Glenn LL Barnes Executive General Manager eTransformation	966,011	500,000	-	65,380	1,531,391	250,000	27.85	23/03/04
Stephen C Targett Executive General Manager Wholesale Financial Services	521,216	875,000	-	36,824	1,433,040	250,000	27.85	23/03/04
Robert MC Prowse Executive General Manager Office of the CEO	878,238	375,000	-	94,297	1,347,535	250,000	27.85	23/03/04
Peter B Scott Executive General Manager Wealth Management	569,067	600,000	-	90,932	1,259,999	250,000	27.85	23/03/04

Report of the directors

Senior executive emoluments (ceased employees)

Name and position[(1)]	Salary package[(2)] $	Performance based remuneration $	Retirement allowances $	Other benefits[(4)] $	Total Remuneration $	Options granted[(9)] (No.)	Exercise price[(6)] $	Date first exercisable
Douglas E Ebert Former Chief Executive Officer Michigan National Corporation	660,053	2,004,477	18,812,244[(8)]	23,817	21,500,591	-		
Joe K Pickett Former Chief Executive Officer HomeSide	715,376	4,537,621[(7)]	468,867[(10)]	106,474	5,828,338	-		
Hugh Harris Former Chief Executive Officer HomeSide	973,646	4,537,621[(7)]	-	89,056	5,600,323	150,000	27.85	23/03/04
Michael D Soden Former Executive General Manager Business & Personal Financial Services	1,026,876	800,000	35,591[(11)]	65,892	1,928,359	300,000	27.85	23/03/04

(1) *The top five executives of the company and group are those executives responsible for the strategic direction and management of major business units for a significant period during the year.*

(2) *Reflects the total remuneration package consisting of both basic salary and packaged benefits.*

(3) *Reflects performance-based remuneration in respect of performance for the year to September 30, 2000.*

(4) *Reflects non-salary package remuneration and includes company contributions to superannuation, benefits received under the Group's employee share schemes and expatriate benefits.*

(5) *No options have been granted since year-end.*

(6) *Refer to note 39 in the financial report for details of the valuation of options granted and an explanation of the performance hurdles that must be achieved before the options can be exercised.*

(7) *Joe K Pickett and Hugh Harris includes Long Term Incentive Plan payments of US$1,918,889 each, for the three year performance period April 1, 1998 to March 31, 2001. This arrangement was established in 1998 as part of their employment contracts. Performance targets were achieved for years 1998/1999 and 1999/2000, but not 2000/2001.*

(8) *Douglas E Ebert's allowance includes an annuity payment triggered by the termination of his employment on the sale of Michigan National Corporation. The pension arrangement was established in 1995 as part of his employment contract. The payment of US$5,251,898 was grossed up for tax purposes and resulted in a payment of US$9,545,434.*

(9) *These options lapse 30 days after the termination of employment.*

(10) *Termination payment to Joe K Pickett of US$250,000.*

(11) *Michael D Soden payment of $35,591 is in lieu of untaken annual leave.*

Share options

During 2001 the following share options were granted to 2,525 senior employees.

Issue date of options	Exercise period of options	Exercise price of options $	Options held at Sep 30, 2001 (No.)	Options lapsed [(1)] during the period (No.)	Options granted (No.)	Fair value of options as at grant date [(2)] $
Mar 23, 2001	Mar 23, 2004 - Mar 23, 2009 [(3)]	27.85	11,759,000	322,500	12,081,500	59,320,165
Sep 14, 2001	Sep 14, 2004 - Sep 14, 2009 [(3)]	28.87	1,177,000	-	1,177,000	6,238,100

(1) *Share options lapse 30 days after the termination of employment.*

(2) *Fair value is based on a numerical pricing method. Refer to note 39 in the financial report for further information.*

(3) *Share options expire on the last day of their exercise period.*

Exercise of the options is subject to satisfaction of a performance hurdle. The performance hurdle is measured after the first three years by comparing the performance of the Company with the performance of other companies in which shareholders may potentially invest. Options become exercisable depending on the maximum total shareholder return of the Company relative to the total shareholder return of a group of companies during the relevant performance period. This group of companies is based on the top 50 companies listed on the stockmarket of the Australian Stock Exchange Limited by market capitalisation (excluding the Company), determined at the date when the options are issued.

In accordance with US Accounting Principles Board Option No. 25 Accounting for Stock Issued to Employees , the Company adopts the intrinsic value method for valuing options issued under the National Australia Bank Executive Share Option Plan No. 2. Under the intrinsic value method, a nil value is ascribed to the options issued under this plan, as the exercise price and market value of the options at issue date are equivalent. Accordingly, a nil value is ascribed to options included in the senior executives' remuneration table above.

There were 11,196,700 shares issued during the year as a result of options issued in prior years being exercised, for a total consideration of $204,544,750. There are currently 41,252,000 options outstanding.

No person holding an option has or had, by virtue of the options, a right to participate in a share issue of any other body corporate.

Refer to note 39 in the financial report for full details of the Company's share option plan and details of the valuation assumptions used.

Directors' meetings

The table below shows the number of directors' meetings held (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the year.

Directors	Directors' meetings of the Company		Audit Committee meetings of the Company		Compensation and Nomination Committee meetings of the Company		Directors' meetings of controlled entities		Additional meetings [(1)]
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held[(2)]	Meetings attended
D Charles K Allen	15	15	3	4	2	2	17	20	16
Frank J Cicutto [(3)]	15	15	-	-	-	-	19	26	2
Graham J Kraehe	15	15	-	1	-	-	21	21	6
Kenneth J Moss	15	15	-	-	14	14	11	11	5
Mark R Rayner [(4)]	12	12	3	3	12	12	10	10	8
Geoffrey A Tomlinson	15	15	-	-	-	-	21	23	9
Edward D Tweddell	14	15	-	-	14	14	21	21	20
Catherine M Walter	15	15	4	4	-	-	21	23	21

(1) Reflects the number of additional formal meetings attended during the year by each director, including committee meetings (other than the Audit Committee or Compensation and Nomination Committee) where any two directors are required to form a quorum.

(2) Reflects the number of meetings held during the time the director held office during the year. Where a controlled entity holds board meetings in a country other than the country of residence of the director, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year.

(3) Where Mr Frank J Cicutto was unable to attend a board meeting of a controlled entity company of which he was a director, he was represented by his alternate director.

(4) Mr Mark R Rayner took leave of absence from the Board in August 2001 and resigned as a director in September 2001.

Subsequent to the end of the financial year, Dr J Brian Clark and Mr Peter JB Duncan were appointed as non-executive directors to the Board.

Report of the directors

Directors interests

The table below shows the interests of each director in the issued ordinary shares and National Income Securities of the Company, and registered schemes of the Group as at the date of this report.

	Ordinary shares			Options over ordinary shares	National Income Securities		Registered schemes	
	Held beneficially	Held non-beneficially	Shares acquired as a result of options exercised	Held beneficially	Held beneficially	Held non-beneficially	Held beneficially	Held non-Beneficially
D Charles K Allen [(2)]	13,465	-	-	-	-	-	-	-
Frank J Cicutto [(1)(3)]	240,616	-	-	1,600,000	-	-	-	-
J Brian Clark [(4)]	2,000	-	-	-	-	-	-	-
Peter JB Duncan [(5)]	-	-	-	-	-	-	-	-
Graham J Kraehe [(2)]	13,301	-	-	-	670	-	-	-
Kenneth J Moss [(2)]	2,704	-	-	-	-	-	-	-
Geoffrey A Tomlinson [(2)]	6,256	-	-	-	500	-	-	-
Edward D Tweddell [(2)]	3,007	-	-	-	-	-	-	-
Catherine M Walter [(2)]	15,971	-	-	-	-	-	-	-

[(1)] *Includes staff share scheme issues.*

[(2)] *Includes shares acquired under non-executive directors share plan.*

[(3)] *Includes shares acquired as a result of the exercise of options.*

[(4)] *Dr J Brian Clark became a director on October 15, 2001.*

[(5)] *Mr Peter JB Duncan became a director on November 2, 2001.*

All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between the Company and any such organisations.

Signed in accordance with a resolution of the directors.

D Charles K Allen
Chairman

Frank J Cicutto
Managing Director

November 8, 2001

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Statement of financial performance

For the year ended September 30	Note	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Operating revenue						
Interest income	4	**19,919**	17,517	15,066	**13,485**	11,315
Interest expense	5(b)	**12,959**	11,146	9,000	**10,479**	8,498
Net interest income		**6,960**	6,371	6,066	**3,006**	2,817
Other banking and financial services income	4	**4,809**	4,124	4,027	**4,641**	5,847
Mortgage servicing and origination revenue	4	**810**	640	536	**-**	-
Life insurance income	4, 57	**137**	1,557	-	**-**	-
Movement in excess of net market value over net assets of life insurance controlled entities	4, 57	**510**	202	-	**-**	-
Total operating revenue		**13,226**	12,894	10,629	**7,647**	8,664
Operating expenses						
Personnel expenses	5(b)	**3,725**	3,401	3,267	**1,778**	1,711
Occupancy expenses	5(b)	**587**	512	498	**269**	253
General expenses	5(b)	**2,238**	1,894	1,936	**963**	808
Life insurance expenses	5(b), 57	**(11)**	1,225	-	**-**	-
Amortisation of goodwill	5(b)	**167**	197	206	**-**	-
Significant operating expenses	5(a)	**1,643**	204	-	**-**	98
Total operating expenses		**8,349**	7,433	5,907	**3,010**	2,870
Charge to provide for doubtful debts	5(b), 17	**989**	588	581	**532**	216
Operating profit before income tax expense		**3,888**	4,873	4,141	**4,105**	5,578
Significant non-operating items						
Proceeds from the sale of foreign controlled entity	5(a)	**5,314**	-	-	**-**	-
Cost of foreign controlled entity sold	5(a)	**(2,929)**	-	-	**-**	-
Charge to provide for mortgage servicing rights valuation adjustment	5(a)	**(1,436)**	-	-	**-**	-
Impairment loss on goodwill	5(a)	**(858)**	-	-	**-**	-
Significant non-operating items before income tax expense		**91**	-	-	**-**	-
Profit from ordinary activities before income tax expense		**3,979**	4,873	4,141	**4,105**	5,578
Income tax expense relating to ordinary activities	6	**1,891**	1,632	1,321	**611**	657
Net profit		**2,088**	3,241	2,820	**3,494**	4,921
Net profit/(loss) attributable to outside equity interest		**5**	2	(1)	**-**	-
Net profit attributable to members of the Company		**2,083**	3,239	2,821	**3,494**	4,921
Other changes in equity other than those resulting from transactions with owners as owners						
Net credit/(debit) to asset revaluation reserve	35	**8**	29	(2)	**(123)**	(29)
Net credit/(debit) to foreign currency translation reserve	35	**1,380**	931	(1,012)	**19**	53
Net credit to retained profits on adoption of AASB 1038 "Life Insurance Business"	36	**-**	58	-	**-**	-
Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised directly in equity		**1,388**	1,018	(1,014)	**(104)**	24
Total changes in equity other than those resulting from transactions with owners as owners		**3,471**	4,257	1,807	**3,390**	4,945
Basic earnings per share (cents)	8	121.5	202.3	186.6		
Diluted earnings per share (cents)	8	121.9	195.6	181.6		
Dividends per ordinary share (cents)						
Interim	7	67	59	54		
Final	7	68	64	58		

Statement of financial position

As at September 30	Note	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Assets					
Cash assets	9	**7,993**	6,868	**1,529**	772
Due from other financial institutions	10	**16,472**	12,780	**11,945**	9,803
Due from customers on acceptances	11	**19,353**	22,945	**19,110**	21,953
Trading securities	12	**19,713**	15,112	**18,288**	13,819
Available for sale securities	13	**6,665**	3,047	**6,637**	2,823
Investment securities	14	**10,697**	7,452	**5,224**	2,986
Investments relating to life insurance business	15	**31,381**	31,103	**-**	-
Loans and advances	16	**207,797**	195,492	**123,212**	107,488
Mortgage loans held for sale		**3,688**	2,656	**-**	-
Mortgage servicing rights	19	**5,445**	8,226	**-**	-
Due from controlled entities		**-**	-	**35,651**	37,365
Shares in entities and other securities	20	**1,412**	1,376	**11,906**	11,225
Regulatory deposits	21	**98**	135	**20**	12
Property, plant and equipment	22	**2,831**	2,437	**1,177**	832
Income tax assets	23	**1,296**	1,207	**674**	639
Goodwill	24	**876**	2,617	**-**	-
Other assets	25	**39,003**	30,224	**26,157**	18,494
Total assets		**374,720**	343,677	**261,530**	228,211
Liabilities					
Due to other financial institutions	26	**42,873**	29,685	**39,859**	25,688
Liability on acceptances	11	**19,353**	22,945	**19,110**	21,953
Deposits and other borrowings	27	**190,965**	185,097	**123,072**	107,120
Life insurance policy liabilities	28	**30,257**	29,879	**-**	-
Income tax liabilities	29	**2,575**	2,920	**476**	803
Provisions	30	**2,440**	2,154	**1,755**	1,596
Due to controlled entities		**-**	-	**13,306**	20,106
Bonds, notes and subordinated debt	31	**24,984**	21,051	**21,412**	17,437
Other debt issues	32	**1,985**	1,907	**507**	461
Other liabilities	33	**35,731**	26,632	**24,131**	17,263
Total liabilities		**351,163**	322,270	**243,628**	212,427
Net assets		**23,557**	21,407	**17,902**	15,784
Equity					
Contributed equity	34	**10,725**	9,855	**10,725**	9,855
Reserves	35	**2,427**	2,006	**94**	230
Retained profits	36	**10,337**	9,500	**7,083**	5,699
Total parent entity interest		**23,489**	21,361	**17,902**	15,784
Outside equity interest	37	**68**	46	**-**	-
Total equity	38	**23,557**	21,407	**17,902**	15,784

Statement of cash flows

For the year ended September 30	Note	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Cash flows from operating activities						
Interest received		**20,373**	17,471	16,470	**11,958**	11,143
Interest paid		**(13,020)**	(10,978)	(10,562)	**(8,901)**	(8,527)
Dividends received		**44**	38	42	**2,226**	3,724
Fees and other income received		**5,248**	4,776	4,479	**2,898**	2,120
Life insurance						
Premiums received		**7,157**	576	-	**-**	-
Investment and other revenue received		**1,985**	1,041	-	**-**	-
Policy payments		**(4,784)**	(215)	-	**-**	-
Fees and commissions paid		**(288)**	(111)	-	**-**	-
Personnel expenses paid		**(3,634)**	(3,343)	(3,192)	**(1,711)**	(1,661)
Occupancy expenses paid		**(504)**	(435)	(425)	**(211)**	(197)
General expenses paid		**(2,392)**	(2,569)	(1,630)	**(1,115)**	(630)
Income tax paid		**(2,245)**	(1,431)	(1,236)	**(942)**	(685)
Goods and services tax paid		**(102)**	-	-	**(99)**	-
Net increase in trading securities		**(4,400)**	(2,268)	(1,581)	**(4,405)**	(2,059)
Net decrease/(increase) in mortgage loans held for sale		**(763)**	(274)	1,177	**-**	-
Net cash provided by/(used in) operating activities	43(a)	**2,675**	2,278	3,542	**(302)**	3,228
Cash flows from investing activities						
Movement in investment securities						
Purchases		**(37,041)**	(172,874)	(13,883)	**(30,901)**	-
Proceeds on maturity		**30,828**	175,661	12,552	**28,957**	2,612
Movement in available for sale securities						
Purchases		**(18,803)**	(11,540)	(2,624)	**(19,050)**	(10,632)
Proceeds from sale		**26**	5	5	**26**	-
Proceeds on maturity		**15,247**	9,037	2,117	**14,599**	9,020
Net increase in investments relating to life insurance business		**(2,236)**	(3,287)	-	**-**	-
Net increase in loans and advances		**(19,109)**	(24,081)	(15,085)	**(13,784)**	(14,970)
Net increase in amounts due from controlled entities		**-**	-	-	**(3,477)**	(7,607)
Net increase in shares in entities and other securities		**(36)**	(308)	(55)	**(810)**	(4,568)
Payments for mortgage servicing rights		**(2,700)**	(1,272)	(1,873)	**-**	-
Payments for acquisition of controlled entities	43(e)	**(131)**	(4,660)	(8)	**-**	(1,200)
Proceeds from sale of controlled entities	43(f)	**5,415**	-	-	**-**	-
Payments for property, plant and equipment		**(982)**	(725)	(429)	**(577)**	(411)
Net proceeds from sale of property, plant and equipment		**132**	143	169	**68**	10
Net decrease/(increase) in regulatory deposits		**23**	36	978	**(7)**	(6)
Net decrease/(increase) in other assets		**291**	(287)	2,304	**(2,492)**	(3,314)
Net cash used in investing activities		**(29,076)**	(34,152)	(15,832)	**(27,448)**	(31,066)
Cash flows from financing activities						
Net increase in deposits and other borrowings		**11,793**	16,802	12,414	**13,967**	12,992
Net proceeds from bonds, notes and subordinated debt		**6,986**	8,747	5,183	**6,481**	7,665
Repayments of bonds, notes and subordinated debt		**(4,537)**	(2,309)	(6,142)	**(3,704)**	(2,284)
Payments from provisions		**(221)**	(189)	(172)	**(140)**	(96)
Net proceeds from the issue of ordinary shares		**261**	194	277	**261**	194
Net proceeds from the issue of National Income Securities		**-**	-	1,945	**-**	-
Dividends paid		**(1,494)**	(1,490)	(1,110)	**(1,398)**	(1,238)
Net increase in other liabilities		**4,426**	1,501	1,198	**2,402**	656
Net cash provided by financing activities		**17,214**	23,256	13,593	**17,869**	17,889
Net increase/(decrease) in cash and cash equivalents		**(9,187)**	(8,618)	1,303	**(9,881)**	(9,949)
Cash and cash equivalents at beginning of year		**(10,037)**	(1,434)	(3,086)	**(15,113)**	(4,860)
Effects of exchange rate changes on balance of cash held in foreign currencies		**(1,015)**	15	349	**(1,391)**	(304)
Cash and cash equivalents of controlled entities sold		**1,831**	-	-	**-**	-
Cash and cash equivalents at end of year	43(b)	**(18,408)**	(10,037)	(1,434)	**(26,385)**	(15,113)

Notes to the financial statements

1 Principal accounting policies

In this financial report, National Australia Bank Limited, the parent entity, is referred to as the Company. The Group consists of the Company and all entities over which it has control.

The financial report is a general purpose financial report which is prepared in accordance with the requirements of the *Banking Act 1959 (as amended), Corporations Act 2001*, Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report also includes disclosures required by the United States Securities and Exchange Commission (SEC) in respect of foreign registrants. Other prescribed SEC disclosures, which are not required to be included in the financial report, are presented elsewhere in this annual financial report.

The preparation of the financial report requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

(a) Historical cost

The financial report is based on historical cost and therefore does not reflect changes in the purchasing power of money or current valuations of non-monetary assets, except for:

- certain non-monetary assets which are reflected at independent valuation *(refer to note 1(v))*;
- trading securities which are reflected at market value *(refer to note 1(l))*; and
- the assets and liabilities of the Group's life insurance business which are measured at net market value and net present value respectively *(refer to note 1(g))*.

(b) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(c) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated July 10, 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

(d) Changes in accounting policy

Revaluation of non-current assets

The Group has applied Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" and the revised AASB 1010 "Recoverable Amount of Non-Current Assets" from October 1, 2000. Under the transitional provisions of these standards, the directors have made the following elections:

- land and buildings will continue to be revalued *(refer to note 1(v))*;
- all other property, plant and equipment will continue to be carried at cost unless that carrying value exceeds their recoverable amount. Where carrying values exceed recoverable amount, the assets are written down *(refer to note 1(v))*; and
- shares in entities and other securities will continue to be carried at cost. Shares in entities that were previously revalued will be carried at their original cost *(refer to note 1(t))*.

No adjustments were made to the financial report of the Group as a result of the change in accounting policy. The adjustments to the financial report of the Company as at October 1, 2000 as a result of the change in accounting policy were a $125 million reduction to the asset revaluation reserve to reverse prior year revaluation increments and a corresponding $125 million reduction to the carrying value of shares in entities and other securities. There was no impact on the retained profits of the Group or Company in the current or prior years as a result of the change in accounting policy.

(e) Reclassification of financial information

Some line items and sub-totals reported in the previous year have been reclassified and repositioned in the financial statements as a result of the first time application on October 1, 2000 of the revised Australian Accounting Standards AASB 1018 "Statement of Financial Performance", AASB 1034 "Financial Report Presentation and Disclosures" and the new AASB 1040 "Statement of Financial Position".

Adoption of these standards has resulted in the following:

- the reconciliation of the opening retained profits to closing retained profits has been transferred from the face of the statement of financial performance to note 36;
- expense items previously disclosed as abnormal have been reclassified and are now disclosed as individually significant operating expenses in note 5(a). These items have been disclosed as a single line item on the face of the statement of financial performance; and
- income tax assets have been removed from the previous classification within other assets and are now disclosed as a separate line item on the face of the statement of financial position.

(f) Comparative amounts

Comparative amounts have been reclassified to accord with changes in presentation made in 2001, except where otherwise stated.

(g) Principles of consolidation

All entities which are controlled by the Company are consolidated in the financial report. Control means the ability or power of the Company to dominate decision making directly or indirectly in relation to the financial and operating policies of another entity, to enable that other entity to operate with it in pursuing its objectives.

All inter-entity balances, transactions and profits are eliminated on consolidation. Controlled entities prepare accounts for consolidation in conformity with the Company's accounting policies.

Where controlled entities have been acquired or sold during the year, their operating results have been included from the date of acquisition or to the date of sale. Controlled entity acquisitions have been accounted for using the purchase method of accounting.

Statutory funds of the Group's life insurance business have been consolidated into this financial report as required by AASB 1038 "Life Insurance Business". The financial report consolidates all the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective of whether they are designated as relating to policyholders or shareholders.

1 Principal accounting policies (continued)

Associates are entities over which the Company exerts significant influence but does not exercise control. Associates are accounted for utilising the cost method with only dividends received or receivable recognised in the profit and loss account. When applied to the Group, the impact of this method does not differ significantly from accounting for associates under the equity method.

(h) Foreign currency translation

All foreign currency monetary assets and liabilities are revalued at the rates of exchange ruling at balance date. Unrealised profits and losses arising from these revaluations are recognised immediately in the profit and loss account. Foreign currency revenue and expense amounts are translated at average rates of exchange for the year.

Differences arising on the translation of the financial report of the Group's overseas operations which are considered to be economically self-sustaining are included in the foreign currency translation reserve, net of any related hedges, on a pre-tax basis. Differences arising on the translation of the financial report of all other overseas controlled entities and overseas branches are recognised immediately in the profit and loss account.

It is the Group's policy from a trading risk viewpoint to maintain a substantially matched position in assets and liabilities in foreign currencies and net exposure to exchange risk in this respect is not material.

Assets

(i) Cash assets

Cash assets are items readily convertible into cash and are generally repayable on demand. Cash assets are brought to account at the face value or the gross value of the outstanding balance where appropriate.

(j) Due from other financial institutions

Due from other financial institutions includes loans, nostro balances, certificates of deposit and settlement account balances due from other financial institutions. They are brought to account at the gross value of the outstanding balance.

(k) Acceptances

The Group's liability under acceptances is reported in the statement of financial position. The Group has equal and offsetting claims against its customers which are reported as an asset. The Group's own acceptances discounted are held as part of either the trading securities or loan portfolio depending on whether, at the time of such discount, the intention was to hold the acceptances for resale or until maturity, respectively.

(l) Trading securities

Trading securities are public and other debt securities which are purchased for current resale in day-to-day trading operations. Trading securities are recorded at fair value and unrealised profits or losses in respect of fair value adjustments are recognised immediately in the profit and loss account.

The fair value of trading securities represents the quoted market value of those securities adjusted for any risk, control or liquidity premium.

Trading securities are recorded on a trade-date basis.

(m) Available for sale securities

Available for sale securities are public and other debt securities which are purchased with the intention to be held for an indefinite period of time but not necessarily to maturity. Such securities may be sold in response to various factors including significant changes in interest rates, liquidity requirements and regulatory capital considerations.

Available for sale securities are recorded at the lower of aggregate cost or market value. Cost is adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses in respect of market value adjustments and realised profits and losses on sale of available for sale securities are recognised in the profit and loss account. The cost of securities sold is calculated on a specific identification basis.

Available for sale securities are recorded on a trade-date basis.

(n) Investment securities

Investment securities are public and other debt securities which are purchased with the positive intent and ability to hold until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses relating to other than temporary diminutions in the value of investment securities are recognised in the profit and loss account and the recorded values of those securities adjusted accordingly. In those rare instances where investment securities are sold prior to maturity, profits and losses on sale are taken to the profit and loss account when realised.

Investment securities are recorded on a trade-date basis.

(o) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the investment, available for sale or trading portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the profit and loss account over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the profit and loss account over the term of the reverse repurchase agreement.

(p) Investments relating to life insurance business

Investment assets held by the Group's life insurance business have been recorded at net market value including an allowance for estimated realisation costs. Where no quoted market values exist, the directors adopt various valuation methods. In those cases, the values adopted are deemed equivalent to net market value. Details of particular methods adopted are as follows:

- freehold land and leasehold properties are stated at values not greater than independent valuations, which are carried out at regular intervals not exceeding three years. As market value is adopted, building depreciation is not provided for;
- ordinary and preference shares, equity options and investments in unit trusts that are not controlled entities are recorded at their latest available market value or, where no quoted security exists, at directors' valuations with reference to net tangible assets;

1 Principal accounting policies (continued)

- investments in controlled entities of life insurance operations that do not have quoted market values are recorded at not greater than independent valuation or where no independent valuation is available at directors' valuations, or, for entities in voluntary liquidation, at net tangible assets;
- investments in associated entities are recorded at directors' valuation with reference to the life insurance entity's proportionate interest in the market value of each associated entity;
- interest bearing securities quoted on stock exchanges are shown at prices quoted at balance date. Unlisted interest bearing securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable quoted investments; and
- participations in lease transactions are included in investment assets. The transactions are recorded at market value, based on the net present value of the after-tax cash flows arising from the transactions.

Restrictions on assets

The assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act 1995* and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995* are met. Therefore, assets held in statutory funds are not available for use by other parts of the Group's business other than any profits generated in the statutory funds. Conversely, the liabilities of the statutory funds (including policyholder liabilities) are not obligations of the Group but are obligations of, and are quarantined to, the statutory funds *(refer to note 2).*

(q) Loans and advances

Loans and advances include overdrafts, credit card lending, bill financing, housing loans, lease finance, other term lending and redeemable preference share finance. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for doubtful debts and unearned income.

(i) Bad and doubtful debts

Provisions for doubtful debts provide for losses inherent in loans, and off-balance sheet credit extensions such as letters of credit, guarantees and undrawn commitments to extend credit.

The specific provision for doubtful debts is established to cover all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement. Amounts provided for are determined by specific identification and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. All bad debts are written off against the specific provision for doubtful debts in the reporting period in which they are classified as irrecoverable.

The Group has adopted a statistically based provisioning methodology for its general provision for doubtful debts. Under this methodology, the Group estimates the level of losses inherent but not specifically identified in its existing credit portfolios based on the historical loss experience of the component exposures.

The operation of the statistically based provisioning methodology is such that when individual loans are classified as non-accrual, specific provisions will be raised by making a transfer from the general provision for doubtful debts. The general provision for doubtful debts is then re-established based on the remaining portfolios of performing credit exposures.

All loans and off-balance sheet credit extensions are subject to continuous management surveillance.

(ii) Asset quality

The Group has disclosed certain components of its loan portfolios as impaired assets according to the classifications discussed below *(refer to note 18).*

Non-accrual loans consist of:
- all loans against which a specific provision has been raised;
- loans which are contractually past due 90 days with security insufficient to cover principal and arrears of interest;
- restructured loans where the interest rate charged is lower than the Group's average cost of funds;
- loans not included above, that are maintained on a cash basis because of a significant deterioration in the financial performance or position of the borrower; and
- impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

Restructured loans are those loans on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Group's average cost of funds at the date of restructuring.

Assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of loans.

(iii) Revenue recognition on non-accrual loans

When a loan is classified as non-accrual, interest income ceases to be recognised in the profit and loss account on an accruals basis, as reasonable doubt exists as to the collectability of interest and principal. Interest charged on non-accrual loans in the current reporting period is reversed against income.

Cash receipts in relation to non-accrual loans are recognised as interest income to the extent that the cash receipts represent unaccrued interest except where there is a contrary agreement with the borrower, or the receipts relate to proceeds from the sale of security, or are scheduled principal repayments.

(iv) Leasing

Finance leases in which the Group is the lessor are included in loans and advances and are accounted for using the finance method, whereby income determined on an actuarial basis is taken to account over the term of the lease in proportion to the outstanding investment balance. Where the Group is a lessee, finance lease assets are capitalised and the corresponding liability is recognised in other liabilities.

Leveraged leases with lease terms beginning on or after October 1, 1999 are accounted for as finance leases. Investments in leveraged leases entered into before October 1, 1999 are recorded at an amount equal to the equity participation and are net of long term debt for which there is no recourse to the lessor in the event of default by the lessee. Income is taken to account on an actuarial basis over the term of each lease. Where a change occurs in estimated lease cash flows during the term of a lease, total lease profit is recalculated and

1 Principal accounting policies (continued)

reallocated over the entire lease term. Net of tax income has been grossed up at current rates to reflect the appropriate pre-tax equivalent amount.

Lease rentals receivable and payable on operating leases are recognised in the profit and loss account in periodic amounts over the effective lease term.

(v) Unearned income

Unearned income on the Group's consumer instalment lending and leasing is calculated on an actuarial basis. The actuarial basis does not differ significantly from a level-yield basis.

(r) Mortgage loans held for sale

Mortgage loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is based on the contract prices at which the mortgage loans will be sold or, if the loans are not committed for sale, the current market price. Deferred hedge gains and losses on risk management hedge instruments are included in the cost of the mortgage loans held for sale for the purpose of determining the lower of aggregate cost or fair value. Mortgage loans are typically sold within three months of origination.

(s) Mortgage servicing rights

Mortgage servicing rights are the rights to receive a portion of the interest coupon and fees collected from the mortgagor for performing specified servicing activities. The total cost of loans originated or acquired is allocated between the mortgage servicing rights and the mortgage loans without the servicing rights, based on relative fair values. The value of servicing rights acquired through bulk transactions is capitalised at cost.

Mortgage servicing rights are amortised in proportion to and over the period of estimated net servicing revenue. They are evaluated for impairment by comparing the carrying amount of the servicing rights to their fair value. Fair value is estimated using market prices of similar mortgage servicing assets and discounted future net cash flows, considering market prepayment rates, historic prepayment rates, portfolio characteristics, interest rates and other economic factors.

For purposes of measuring impairment, the mortgage servicing rights are stratified by the predominant risk characteristics which include product types of the underlying loans and interest rates of the mortgage. Impairment is recognised through a valuation reserve for each impaired stratum and is generally included in amortisation of mortgage servicing rights.

(t) Shares in entities and other securities

Except where a life insurance controlled entity consolidates a controlled entity *(refer to note 1(p))*, shares in entities and other securities are stated at original cost less any necessary provision for diminution in value. Unrealised losses relating to diminution in the value of shares in entities and other securities are recognised in the profit and loss account.

(u) Regulatory deposits

In several countries in which the Group operates, the law requires that regulatory deposits be lodged with the local central bank at a rate of interest generally below that prevailing in the market. The amount of the deposit and the interest rate receivable are determined in accordance with the requirements of the local central bank.

(v) Property, plant and equipment

Except for life insurance business investments, all land and buildings are revalued annually by directors to reflect current market values. Directors' valuations are based on advice received from independent valuers on an existing use basis. Independent valuations are carried out regularly on an existing use basis. Revaluation increments are credited to the asset revaluation reserve. To the extent that they reverse previous revaluation increments, revaluation decrements are charged against the asset revaluation reserve.

A provision for capital gains tax is only made when it is known that the relevant asset will eventually be sold. This provision, when required, is made against the asset revaluation reserve.

All other property, plant and equipment acquired since the last revaluation are carried at the lower of cost, less accumulated depreciation or amortisation, and recoverable amount. If the carrying amount of property, plant and equipment exceeds its recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value unless otherwise stated.

The costs of developing, acquiring and enhancing internal-use software are capitalised and amortised over the estimated useful life of the software, which ranges from three to eight years. The costs of developing websites are capitalised and amortised over their useful life, except for costs incurred during the planning and implementation stages, which are expensed as incurred.

With the exception of land, all property, plant and equipment is depreciated or amortised using the straight-line method at the rates appropriate to its estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation are: buildings - 3.3%; leasehold improvement - up to 10%; furniture, fixtures and fittings and other equipment - from 10% to 20%; personal computers and related application software - 33.3%; and other data processing equipment and related application software - from 12.5% to 20%.

Profit or loss on the sale of property, plant and equipment, which is determined as the difference between the carrying amount of the property, plant and equipment at the time of sale and the sale proceeds, is treated as operating revenue or expense.

(w) Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets acquired on the date of acquisition of a non-life insurance controlled entity, is recognised as an asset. Goodwill is amortised from the date of acquisition by systematic charges on a straight-line basis to the profit and loss account over the period in which the benefits are expected to arise, but not exceeding 20 years. The carrying value of goodwill is reviewed at least annually. If the carrying value of goodwill exceeds the value of the expected future benefits, the difference is charged to the profit and loss account.

(x) Other assets

Where a life insurance entity within the Group consolidates a controlled entity, any difference between the values consolidated line by line and the market value of the controlled entity recorded in the life insurer's financial report is shown as 'excess of net market value over net assets of life insurance controlled entities'. This excess represents:

1 Principal accounting policies (continued)

- acquired goodwill to the extent it remains at balance date;
- increases in the value of goodwill of the controlled entity since acquisition or establishment; and
- differences between the values assigned to the assets and liabilities of the controlled entity within the Group financial report and those in the financial report of the controlled entity, arising due to valuation methodology differences.

The excess is not amortised. Movements in the excess of net market value over net assets of life insurance controlled entities are included in the Group's operating revenue.

Liabilities

(y) Due to other financial institutions

Due to other financial institutions includes deposits, vostro balances and settlement account balances due to other financial institutions. They are brought to account at the gross value of the outstanding balance.

(z) Deposits and other borrowings

Deposits and other borrowings include non-interest bearing deposits redeemable at call, certificates of deposit, interest bearing deposits, debentures and other funds raised publicly by borrowing corporations. They are brought to account at the gross value of the outstanding balance.

(aa) Life insurance policy liabilities

Policy liabilities in the Group's statement of financial position and the change in policy liabilities disclosed as an operating expense have been calculated using the Margin on Services (MoS) methodology in accordance with guidance provided by the Life Insurance Actuarial Standard Board's Actuarial Standard 1.02 "Valuation Standard" *(refer to note 1(nn)).*

Policy liabilities for investment-linked business are calculated using the accumulation method. The liability is generally the accumulation of amounts invested by policyholders plus investment earnings less fees specified in policy contracts. Deferred acquisition costs are offset against this liability.

Policy liabilities from non-investment linked business are measured mainly using the projection method which is the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses). The accumulation method may be used only where the result would not be materially different to the projection method.

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment linked policyholders that have not yet vested with specific policyholders.

The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of the policy liability at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance date. A summary of the significant actuarial methods and assumptions used is contained in note 57.

(bb) Provisions

(i) Employee entitlements

Employee entitlements to long service leave are accrued using an actuarial calculation, based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases. This method does not differ significantly from calculating the amount using present value techniques.

The provision for annual leave is accrued based on each employee's total remuneration package.

(ii) Restructuring costs

Provision for restructuring costs includes provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. This includes the cost of staff redundancies and surplus leased space.

(iii) Surplus leased space

Provision is made for surplus leased space when it is determined that no substantive future benefit will be obtained by the Group from its occupancy. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, are being sub-leased for lower rentals than the Group pays, or there are no substantive benefits beyond a known future date. The provision is determined on the basis of the present value of net future cash flows.

(iv) Restoration costs

Provision is made for costs of restoring property, plant and equipment as soon as the need is identified.

(cc) Bonds, notes and subordinated debt

Bonds, notes and subordinated debt issued by the Group are recorded at cost or at cost adjusted for premium or discount amortisation.

(dd) Other debt issues

Other debt issues include perpetual floating rate notes, exchangeable capital units and fixed rate securities issued by the Group. They are recorded at cost or at cost adjusted for premium or discount amortisation.

(ee) Derivative financial instruments held or issued for trading purposes

Derivative financial instruments held or issued for trading purposes, also referred to as trading derivatives, include swaps, futures, forward, option and other contingent or exchange-traded contracts in the interest rate and foreign exchange markets. Trading derivatives are measured at fair value and the resultant profits and losses are recognised in other income. The fair value of trading derivatives is reported on a gross basis as other assets or other liabilities, as appropriate.

The fair value of a derivative financial instrument represents the present value of future expected cash flows arising from that instrument.

1 Principal accounting policies (continued)

(ff) Derivative financial instruments held or issued for purposes other than trading

The principal objective of using derivative financial instruments for purposes other than trading is to maximise the level of net interest income, while maintaining acceptable levels of interest rate and liquidity risk, and to facilitate the funding needs of the Group. To achieve this objective, a combination of derivatives including swaps, futures, forward, option and other contingent or exchange-traded contracts in the interest rate and foreign exchange markets may be used.

Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. Hedging derivatives are accounted for in a manner consistent with the accounting treatment of the hedged items.

The net revenue or expense on derivatives used to manage interest rate exposures are recorded in net interest income on an accruals basis. If a derivative that is used to manage an interest rate exposure is terminated early, any resulting gain or loss is deferred within other assets or other liabilities and amortised to net interest income over the remaining period originally covered by the terminated contract. If the underlying interest rate exposure position ceases to exist, any deferred gain or loss is recognised immediately in operating revenue.

Gains or losses on derivatives used to hedge exposures arising from anticipated future transactions, are deferred within other assets or other liabilities until such time as the accounting impact of the anticipated transaction is recognised in the financial report. Such gains or losses only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is recognised immediately in other operating revenue.

Interest receivables and payables for interest rate swaps with the same counterparty are reported on a net basis as other assets or other liabilities where a legal right of set-off exists.

Margin deposits for exchange-traded derivatives are reported as other assets.

(gg) Trustee and funds management activities

The Group's financial statements include the shareholders' interest in trustee companies, which act as the trustee, custodian or manager of a number of investments and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. These funds and trusts, as disclosed in note 56, are not included in the Group's financial statements as the Group does not have direct or indirect control of the funds and trusts as defined by Australian Accounting Standard AASB 1024 "Consolidated Accounts". The trustees hold a right of indemnity against the assets of the applicable funds or trusts for liabilities incurred in their capacity as trustees. As these assets are sufficient to cover the liabilities, the liabilities are not included in the Group's financial statements.

Commissions and fees earned in respect of the Group's trust and funds management activities are included in the profit and loss account *(refer to note 1(mm))*.

(hh) Securitisation

Through its Australian loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors. In such transactions, the Group receives fees for various services provided to the program on an arm's length basis, including servicing fees and management fees. Fee income is recognised in income on an accruals basis in relation to the reporting period in which the costs of providing these services are incurred.

Interest rate swaps and liquidity facilities are provided to the program by the Group on an arm's length basis, in accordance with Australian Prudential Regulation Authority guidelines.

The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. The residual income is recognised in operating revenue when receivable.

Due to the significant uncertainties inherent in estimating the underlying loan repayment rates and interest margins with respect to the Australian loan securitisation program, future cash flows cannot be reliably measured. Therefore no asset or liability, nor profit or loss on sale of the loans has been recognised.

This level of uncertainty is not inherent in the Group's securitisation activities in the United States. Refer to note 1(r) and (s) for the Group's accounting policy with respect to mortgage loans held for sale and mortgage servicing rights with respect to the United States loan securitisation program operated by HomeSide Lending, Inc.

Revenue and expense recognition

(ii) Interest income

Interest income is reflected in the profit and loss account when earned on an accruals basis *(refer to note 1(n), (q)(iii) and (q)(iv))*.

(jj) Dividend income

Dividend income is recorded in the profit and loss account on an accruals basis when the Group obtains control of the right to receive the dividend.

(kk) Loan related fees and costs

Loan origination fees, if material, are recognised as revenue over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised as revenue over the life of the loan as an adjustment of yield or, if unexercised, recognised as revenue upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised as revenue when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as revenue over the commitment period. Loan related administration and service fees are recognised as revenue over the period of service. Credit card fees are recognised as revenue over the card usage period. Syndication fees are recognised as revenue after certain retention, timing and yield criteria are satisfied.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised as revenue over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

1 Principal accounting policies (continued)

Loan origination fees and direct loan origination costs are recognised as revenue as an adjustment of yield using the constant yield method of amortisation. All other loan related fees are recognised as revenue using the straight-line method of amortisation.

(ll) Trading income

Profits and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the profit and loss account. Realised and unrealised profits and losses on trading derivative instruments are reflected in the profit and loss account *(refer to note 1(l) and (ee))*.

(mm) Fees and commissions

When fees and commissions relate to specific transactions or events, they are recognised as revenue in the reporting period in which they are received. When they are charged for services provided over a period, they are recognised as revenue on an accruals basis.

(nn) Life insurance business revenue and expenses

The Group conducts its life insurance business through a number of controlled entities including National Australia Financial Management Limited, MLC Limited, MLC Lifetime Company Limited, National Australia Life Company Limited, BNZ Life Insurance Limited, MLC (Hong Kong) Limited, PT MLC Life Indonesia and their controlled entities.

(i) Types of business

The Australian life insurance operations of the Group consist of investment-linked business and non-investment linked business, which are conducted in separate statutory funds as required under the *Life Insurance Act 1995*. The overseas life insurance operations of the Group consist primarily of non-investment linked business.

Investment linked business relates to business where policyholders' investments are made into the statutory funds and policyholders' returns are directly linked to the investment performance of the assets in that fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets, however the policy value is calculated by reference to the market value of the statutory fund's assets. Investment-linked business includes superannuation and allocated pension business.

Non-investment linked business refers to business where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, either the continuance of the annuitant's life or the expiry of the annuity term. The benefit payable is not directly referable to the market value of the fund's assets. Non-investment linked business includes traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholders and shareholders) and risk policies such as death, disability and income insurance (where the shareholder bears all the financial risks).

(ii) Allocation of profit

Profits are brought to account in the statutory funds on a MoS basis. Under MoS, profit is recognised as fees are received and services are provided to policyholders. When fees are received but the service has not been provided, the profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of policies to be charged to the profit and loss account over the period that the policy will generate profits. Costs may only be deferred, however, to the extent that a policy is expected to be profitable *(refer to note 1(nn)(vii))*.

Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested, over operating expenses and amortisation of policy acquisition costs.

Profit arising from policies comprising non-investment-linked business is based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment linked business. This profit sharing is governed by the *Life Insurance Act 1995* and the life insurance companies' constitutions. This profit sharing amount is treated as an expense in the profit and loss account.

(iii) Premium revenue

Premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks including protection business are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to deposits, are recognised as an increase in policy liabilities. The initial fee, which is the difference between the premium received and the initial surrender value is recognised as premium revenue. The Group has taken advantage of the transitional rules under AASB 1038 and, for the annuity business and traditional business, all premiums are recognised as revenue. For the Group's unit-linked business, premiums are recognised as an increase in policy liabilities.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue or an increase in policy liabilities on a cash received basis. Premiums due before the end of the year but not received at balance date are included as outstanding premiums in note 25. Premiums due after but received before the end of the year are accounted for as premiums in advance.

(iv) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income.

Net realised and unrealised profits and losses represent changes in the measurement of net market values in respect of all investments recognised at net market value *(refer to note 1(p))*.

1 Principal accounting policies (continued)

(v) Claims

Claims are recognised when the liability to a policyholder under a policy contract has been established or upon notification of the insured event, depending on the type of claim.

The Group has taken advantage of the transitional rules under AASB 1038 and for the annuity business and traditional business, all claims are recognised as expenses.

Claims incurred in respect of investment linked business, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities.

Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.

(vi) Basis of expense apportionment

All expenses charged to the profit and loss account are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act 1995* as follows:

- expenses and other outgoings that related specifically to a particular statutory fund have been directly charged to that fund;
- expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocatable) have been apportioned between each statutory fund and shareholders' fund. Expenses are apportioned between classes of business by first allocating the expenses to major functions and activities, including those of sales support and marketing, new business processing and policyholder servicing, and then to classes of products using relevant activity cost drivers, including commissions, policy counts, funds under management and benchmark profit; and
- investment income, profits and losses on sale of property, plant and equipment, profits and losses on sale of investments, and appreciation and depreciation of investments have been directly credited or charged to the appropriate statutory fund or shareholders' fund.

Apportionment between policy acquisition, policy maintenance and investment management has been made in line with principles set out in Actuarial Standard AS 1.02.

(vii) Deferred acquisition costs

Policy acquisition costs are deferred, provided that the business generated continues to be profitable. The deferred costs are reflected as a reduction in policy liabilities and are amortised in the profit and loss account over the expected duration of the relevant policies.

(oo) Superannuation

Superannuation expense represents the Group's contributions to various superannuation plans. The contributions are determined on an actuarial basis. The assets and liabilities of plans are not consolidated as the Group has no control over them.

(pp) Income tax

The Group adopts tax-effect accounting using the liability method.

The tax effect of timing differences, which occur where items are claimed for income tax purposes in a period different from when they are recognised in the financial statements, is included in the provision for deferred income tax or future income tax benefits, as applicable, at the tax rate expected to apply when the timing differences reverse. The future income tax benefit relating to timing differences, and any future income tax benefit relating to tax losses are not carried forward as an asset unless the benefits are virtually certain of being realised. In the statement of financial position, future income tax benefits are reflected within income tax assets and the provision for deferred income tax is reflected within income tax liabilities.

Capital gains tax, if applicable, is provided for in determining the income tax expense in the reporting period in which an asset is sold.

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and shareholders on different bases. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

- superannuation policies - 15%;
- annuity policies - 0%; or
- non-superannuation investment policies - 34% to the end of the 2000/2001 tax year and 30% from the commencement of the 2001/2002 tax year.

The life insurance business shareholder funds are taxed at the company rate of 34% to the end of the 2000/2001 tax year and 30% from the commencement of the 2001/2002 tax year on fee income and profit arising from insurance risk policies, less deductible expenses. For five years from July 1, 2000 (the date that the current life company tax regime commenced), there is a transitional provision that allows a one-third exemption from assessable income of fee income derived from policies inforce as at July 1, 2000.

(qq) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the cost of the expense or the acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included within other assets or other liabilities.

Cash flows are included in the statement of cash flows on a gross basis. The tax component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

(rr) Overseas classification

Amounts booked in branches and controlled entities outside Australia are classified as overseas.

2 Supplementary statement of financial position

Given the significant restrictions imposed by life insurance legislation, regulations and the regulators thereunder, the directors consider it essential that users of this financial report are able to easily separate the assets and liabilities of the statutory funds from the assets and liabilities of the shareholders' funds and other Group operating businesses. However, current Australian accounting requirements do not allow for these assets and liabilities to be separated and disclosed separately on the statement of financial position. In addition, the requirements also prohibit any adjustment to comparative balances or the inclusion of an adjusted comparative column, which if allowed would facilitate comparability between periods.

To ensure that the assets of the statutory funds are identifiable and comparable between years, a supplementary statement of financial position for the Group has been included for each year below, as at September 30.

		2001			2000		
	Note	**Group operating businesses $m**	**Statutory funds $m**	**Total $m**	Group operating businesses $m	Statutory funds $m	Total $m
Assets							
Cash assets	9	**6,957**	**1,036**	**7,993**	5,844	1,024	6,868
Due from other financial institutions	10	**16,472**	**-**	**16,472**	12,780	-	12,780
Due from customers on acceptances	11	**19,353**	**-**	**19,353**	22,945	-	22,945
Trading securities	12	**19,713**	**-**	**19,713**	15,112	-	15,112
Available for sale securities	13	**6,665**	**-**	**6,665**	3,047	-	3,047
Investment securities	14	**10,697**	**-**	**10,697**	7,452	-	7,452
Investments relating to life insurance business (1)	15	**590**	**30,791**	**31,381**	287	30,816	31,103
Loans and advances	16	**207,797**	**-**	**207,797**	195,492	-	195,492
Mortgage loans held for sale		**3,688**	**-**	**3,688**	2,656	-	2,656
Mortgage servicing rights	19	**5,445**	**-**	**5,445**	8,226	-	8,226
Shares in entities and other securities	20	**1,412**	**-**	**1,412**	1,376	-	1,376
Regulatory deposits	21	**98**	**-**	**98**	135	-	135
Property, plant and equipment	22	**2,831**	**-**	**2,831**	2,437	-	2,437
Income tax assets	23	**1,296**	**-**	**1,296**	1,199	8	1,207
Goodwill	24	**876**	**-**	**876**	2,617	-	2,617
Other assets	25	**37,669**	**1,334**	**39,003**	29,743	481	30,224
Total assets		**341,559**	**33,161**	**374,720**	311,348	32,329	343,677
Liabilities							
Due to other financial institutions	26	**42,873**	**-**	**42,873**	29,685	-	29,685
Liability on acceptances	11	**19,353**	**-**	**19,353**	22,945	-	22,945
Deposits and other borrowings	27	**190,965**	**-**	**190,965**	185,097	-	185,097
Life insurance policy liabilities (1)	28	**-**	**30,257**	**30,257**	163	29,716	29,879
Income tax liabilities	29	**2,470**	**105**	**2,575**	2,847	73	2,920
Provisions	30	**2,440**	**-**	**2,440**	2,154	-	2,154
Bonds, notes and subordinated debt	31	**24,984**	**-**	**24,984**	21,051	-	21,051
Other debt issues	32	**1,893**	**92**	**1,985**	1,829	78	1,907
Other liabilities	33	**33,850**	**1,881**	**35,731**	24,797	1,835	26,632
Total liabilities		**318,828**	**32,335**	**351,163**	290,568	31,702	322,270
Net assets		**22,731**	**826**	**23,557**	20,780	627	21,407
Equity							
Contributed equity	34	**10,538**	**187**	**10,725**	9,750	105	9,855
Reserves	35	**2,427**	**-**	**2,427**	2,006	-	2,006
Retained profits	36	**9,698**	**639**	**10,337**	8,978	522	9,500
Total parent entity interest		**22,663**	**826**	**23,489**	20,734	627	21,361
Outside equity interest	37	**68**	**-**	**68**	46	-	46
Total equity	38	**22,731**	**826**	**23,557**	20,780	627	21,407

(1) *Included within Group operating businesses are assets and liabilities that relate to foreign domiciled life insurance entities held by the Group's life insurance business shareholders' funds. These non-Australian life insurers do not have statutory funds concepts.*

3 Segment information

The following segment information is disclosed in accordance with Australian Accounting Standard AASB 1005 "Financial Reporting by Segments" (AASB 1005) and US accounting standard, Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). Under AASB 1005 and SFAS 131, an operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in assessing performance. The Group results are based on the operating segments as reviewed separately by the chief operating decision maker, the Managing Director and Chief Executive Officer, as well as other members of senior management. Each segment is organised based on similar products and services provided globally to customers or activities undertaken solely for the Group's own account, and managed by individuals who report directly to the Managing Director and Chief Executive Officer.

The Group's business is organised into six major operating segments: Business and Personal Financial Services, Wealth Management, Wholesale Financial Services, Specialist and Emerging Businesses, HomeSide, and National Shared Services. Business and Personal Financial Services is the retailing arm of the Group and provides a full range of financial services to customers across all regions and segments. Wealth Management specialises in providing integrated insurance, superannuation and investment solutions to customers. Its operations includes funds management, funds administration, investment management, retail insurance, business support services to financial advisers and financial advice services. Wholesale Financial Services is responsible for the Group's relationships with large corporations, institutions, supranationals and government bodies worldwide. It comprises two divisions, Global Markets and Global Corporate Finance, six global industry groups and a global services unit. Specialist and Emerging Businesses consists of five specialist units, being Cards and Payments, Asset Finance and Fleet Management, Securities Services, International Trade and Business Finance, and National Australia Investment Capital Limited. HomeSide is the Group's United States product specialist responsible for co-ordinating mortgage origination and servicing activities and the creation of mortgage-backed securities sold in secondary markets. National Shared Services combines operational services, Finance Shared Services, Human Resources Shared Services, Information Technology and Corporate Real Estate to form a true shared services organisation with improved productivity and lower costs. The Corporate Centre function which focuses on strategic and policy direction for the Group and incorporates Risk Management, People and Culture, Finance and Planning, and the Office of the CEO, is included in 'Other'.

The accounting policies of the segments are, in all material respects, consistent with those described in note 1. Operating revenues and expenses directly associated with each operating segment are included in determining their operating result. Transactions between operating segments are based on agreed recharges between segments operating within the same country and arm's length between segments operating in different countries.

Comparatives for the current basis of segmentation are disclosed for the year ended September 30, 2000, only. It is impracticable to provide comparative segment information for the year ended September 30, 1999 on this basis and, as such, information has been disclosed for the operating segments as defined in that year.

Year ended September 30, 2001 [1]	Business and Personal Financial Services $m	Wealth Management [2] $m	Wholesale Financial Services $m	Specialist and Emerging Businesses $m	HomeSide [3] $m	National Shared Services $m	Other [4] $m	Inter-company eliminations $m	Total Group $m
Net interest income	5,540	(4)	822	683	(77)	(114)	110	-	6,960
Non-interest income	2,390	1,175	947	816	871	15	52	-	6,266
Inter-segment revenue	91	-	13	97	-	1,672	320	(2,193)	-
Total operating revenue	8,021	1,171	1,782	1,596	794	1,573	482	(2,193)	13,226
Amortisation of goodwill	-	-	-	-	-	-	167	-	167
Significant operating expenses	-	-	-	-	1,643	-	-	-	1,643
Other operating expenses	2,407	432	518	623	479	1,630	450	-	6,539
Inter-segment expenses	1,526	93	117	356	-	54	47	(2,193)	-
Total operating expenses	3,933	525	635	979	2,122	1,684	664	(2,193)	8,349
Charge to provide for doubtful debts	495	-	216	240	62	(1)	(23)	-	989
Operating profit before tax	3,593	646	931	377	(1,390)	(110)	(159)	-	3,888
Significant non-operating items	-	-	-	-	(2,294)	-	2,385	-	91
Profit from ordinary activities before tax	3,593	646	931	377	(3,684)	(110)	2,226	-	3,979
Income tax expense	1,197	(32)	246	127	(246)	(39)	638	-	1,891
Net profit	2,396	678	685	250	(3,438)	(71)	1,588	-	2,088
Outside equity interest	-	5	-	-	-	-	-	-	5
Net profit attributable to members of the Company	2,396	673	685	250	(3,438)	(71)	1,588	-	2,083
Total assets [5]	169,124	38,831	154,113	13,536	12,576	2,812	50,265	(66,537)	374,720

3 Segment information (continued)

Year ended September 30, 2000 [6]	Business and Personal Financial Services $m	Wealth Management [2] $m	Wholesale Financial Services $m	Specialist and Emerging Businesses $m	HomeSide [3] $m	National Shared Services $m	Other [4] $m	Inter-company eliminations $m	Total Group $m
Net interest income	5,288	(8)	506	554	(77)	(105)	213	-	6,371
Non-interest income	2,387	1,867	787	771	653	37	21	-	6,523
Inter-segment revenue	175	-	8	205	-	1,540	160	(2,088)	-
Total operating revenue	7,850	1,859	1,301	1,530	576	1,472	394	(2,088)	12,894
Amortisation of goodwill	-	-	-	-	-	-	197	-	197
Significant operating expenses	86	108	12	-	-	(1)	(1)	-	204
Other operating expenses	2,378	1,365	390	543	322	1,648	386	-	7,032
Inter-segment expenses	1,473	24	107	411	(4)	91	(14)	(2,088)	-
Total operating expenses	3,937	1,497	509	954	318	1,738	568	(2,088)	7,433
Charge to provide for doubtful debts	461	-	17	99	55	(21)	(23)	-	588
Profit from ordinary activities before tax	3,452	362	775	477	203	(245)	(151)	-	4,873
Income tax expense	1,179	142	189	163	62	(81)	(22)	-	1,632
Net profit	2,273	220	586	314	141	(164)	(129)	-	3,241
Outside equity interest	-	2	-	-	-	-	-	-	2
Net profit attributable to members of the Company	2,273	218	586	314	141	(164)	(129)	-	3,239
Total assets [5][7]	175,959	33,488	107,402	12,369	13,151	2,717	(1,409)	-	343,677

Year ended September 30, 1999 [6]	Business and Personal Financial Services $m	Products and Services $m	Wholesale Financial Services $m	HomeSide $m	Information Technology $m	Other [4] $m	Inter-company eliminations $m	Total Group $m
Net interest income	4,791	430	379	103	(14)	377	-	6,066
Non-interest income	2,262	934	658	568	1	140	-	4,563
Inter-segment revenue	227	670	5	-	558	106	(1,566)	-
Total operating revenue	7,280	2,034	1,042	671	545	623	(1,566)	10,629
Amortisation of goodwill	-	-	-	-	-	206	-	206
Other operating expenses	2,483	1,544	300	410	605	359	-	5,701
Inter-segment expenses	1,042	335	136	4	-	49	(1,566)	-
Total operating expenses	3,525	1,879	436	414	605	614	(1,566)	5,907
Charge to provide for doubtful debts	517	89	(52)	12	-	15	-	581
Profit from ordinary activities before tax	3,238	66	658	245	(60)	(6)	-	4,141
Income tax expense	1,108	(2)	107	92	(23)	39	-	1,321
Net profit	2,130	68	551	153	(37)	(45)	-	2,820
Outside equity interest	-	(1)	-	-	-	-	-	(1)
Net profit attributable to members of the Company	2,130	69	551	153	(37)	(45)	-	2,821
Total assets [7]	141,492	11,046	86,380	10,631	302	4,230	-	254,081

(1) *Includes the results of Michigan National Corporation and its controlled entities up to the date of its sale, on April 1, 2001 (refer to note 5(a)(ii)). The net profit of Michigan National Corporation and its controlled entities to this date of $132 million was comprised of net profit from Business and Personal Financial Services of $166 million and Other of $(34) million.*

(2) *Refer to note 57 for life insurance disclosures relating to policyholder and shareholder revenues, expenses, assets and liabilities.*

(3) *Comparatives have been restated to reflect the current basis of segmentation, such that HomeSide Australia activities are now classified within Business and Personal Financial Services, National Shared Services and Other.*

(4) *Consists of the Corporate Centre function, goodwill amortisation and the Group's funding. These segments are not considered to be reportable operating segments under SFAS 131. It also includes the sale of Michigan National Corporation and its controlled entities.*

(5) *Includes statutory funds' assets of $33,161 million as at September 30, 2001 (2000: $32,329).*

3 Segment information (continued)

(6) *Includes the results of Michigan National Corporation and its controlled entities for the full year. The net profit of Michigan National Corporation and its controlled entities for 2000 of $243 million was comprised of net profit from Business and Personal Financial Services of $277 million and Other of $(34) million. The net profit of Michigan National Corporation and its controlled entities for 1999 of $205 million was comprised of net profit from Business and Personal Financial Services of $233 million and Other of $(28) million.*

(7) *In 2000 and 1999 intercompany assets were allocated across lines of business.*

Geographical segments

The Group has operations in Australia (its country of domicile), Great Britain, Ireland, the United States, New Zealand and Asia. The allocation of assets, revenue and profit is based on the geographical location in which transactions are booked. There are no material inter-segment transactions.

	Group					
	2001	**2001**	2000	2000	1999	1999
	$m	**%**	$m	%	$m	%
Total assets (1)						
Australia	**205,364**	**54.8**	185,748	54.1	126,296	49.7
Great Britain	**78,134**	**20.9**	60,115	17.5	45,523	17.9
Ireland	**17,150**	**4.6**	15,033	4.4	13,215	5.2
United States (2)	**30,022**	**8.0**	44,799	13.0	32,768	12.9
New Zealand	**30,051**	**8.0**	25,465	7.4	24,195	9.5
Asia	**13,999**	**3.7**	12,517	3.6	12,084	4.8
Total assets	**374,720**	**100.0**	343,677	100.0	254,081	100.0
Total operating revenue						
Australia	**12,867**	**49.1**	12,385	51.5	9,225	47.0
Great Britain	**5,649**	**21.6**	4,712	19.6	4,154	21.2
Ireland	**1,180**	**4.5**	1,055	4.4	1,051	5.4
United States (3)	**3,193**	**12.2**	3,192	13.3	2,770	14.1
New Zealand	**2,332**	**8.9**	2,126	8.8	1,772	9.0
Asia	**964**	**3.7**	570	2.4	657	3.3
Total operating revenue	**26,185**	**100.0**	24,040	100.0	19,629	100.0
Net profit attributable to members of the Company						
Australia	**3,929**	**188.7**	1,646	50.8	1,394	49.4
Great Britain	**761**	**36.5**	629	19.5	557	19.8
Ireland	**200**	**9.6**	175	5.4	204	7.2
United States (3)	**(3,164)**	**(151.9)**	490	15.1	383	13.6
New Zealand	**282**	**13.5**	250	7.7	240	8.5
Asia	**75**	**3.6**	49	1.5	43	1.5
Net profit attributable to members of the Company	**2,083**	**100.0**	3,239	100.0	2,821	100.0

(1) *Includes statutory funds' assets of $33,161 million at September 30, 2001 (2000: $32,329 million).*

(2) *2000 and 1999 comparatives include the total assets of Michigan National Corporation and its controlled entities, which were sold during 2001. Refer to note 5(a)(ii) for details of MNC's total assets during these years.*

(3) *Includes the results of Michigan National Corporation and its controlled entities up to the date of their sale on April 1, 2001, and for the full 2000 and 1999 years. Refer to note 5(a)(ii) for details of operating revenue and net profit contribution for these periods.*

4 Revenue from ordinary activities

	Note	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Operating revenue						
Interest income						
Loans to customers [1]		**15,259**	13,854	12,198	**8,271**	7,242
Marketable debt securities		**1,860**	1,465	1,186	**1,387**	1,135
Other financial institutions		**795**	691	481	**631**	482
Controlled entities		**-**	-	-	**1,603**	1,338
Other interest		**2,005**	1,507	1,201	**1,593**	1,118
		19,919	17,517	15,066	**13,485**	11,315
Other banking and financial services income						
Dividends received from						
Controlled entities		**-**	-	-	**2,197**	3,701
Other entities		**44**	38	42	**30**	22
Profit on sale of property, plant and equipment [2]		**19**	27	42	**3**	2
Loan fees from banking		**1,334**	1,246	1,077	**1,045**	1,001
Money transfer fees		**1,043**	1,048	1,030	**418**	366
Trading income [3]						
Foreign exchange derivatives		**601**	399	251	**432**	262
Trading securities		**217**	76	(14)	**195**	69
Interest rate derivatives		**(97)**	(7)	220	**(123)**	6
Foreign exchange income		**12**	19	20	**-**	3
Fees and commissions		**1,303**	1,098	955	**438**	415
Other income		**333**	180	404	**6**	-
		4,809	4,124	4,027	**4,641**	5,847
Mortgage servicing and origination revenue						
Net mortgage servicing fees		**474**	535	312	**-**	-
Net mortgage origination revenue		**336**	105	224	**-**	-
		810	640	536	**-**	-
Life insurance income						
Premium and related revenue	57	**1,022**	487	-	**-**	-
Investment revenue	57	**(885)**	1,070	-	**-**	-
		137	1,557	-	**-**	-
Movement in excess of net market value over net assets of life insurance controlled entities	57	**510**	202	-	**-**	-
Total operating revenue, before interest expense		**26,185**	24,040	19,629	**18,126**	17,162
Significant non-operating income						
Proceeds from the sale of foreign controlled entity	5(a)	**5,314**	-	-	**-**	-
Total revenue from ordinary activities		**31,499**	24,040	19,629	**18,126**	17,162

(1) *Included within interest income is rental income of $409 million (2000: $297 million, 1999: $365 million) and depreciation of $280 million (2000: $209 million, 1999: $237 million) in relation to operating leases where the Group is the lessor.*

(2) *For the Group, profit on sale of property, plant and equipment of $19 million (2000: $27 million, 1999: $42 million) is the difference between the proceeds from sale of $132 million (2000: $143 million, 1999: $169 million), their carrying value of $131 million (2000: $130 million, 1999: $175 million) and loss on sale of property, plant and equipment of $18 million (2000: $14 million, 1999: $48 million). For the Company, the profit on sale of property, plant and equipment of $3 million (2000: $2 million) is the difference between the proceeds from sale of $68 million (2000: $10 million), their carrying value of $66 million (2000: $10 million) and loss on sale of property, plant and equipment of $1 million (2000: $2 million).*

(3) *Under Australian Accounting Standard AASB1032 "Specific Disclosures by Financial Institutions", separate disclosure of trading income arising from foreign exchange trading, securities trading and interest rate derivatives trading is required. As the Group manages its trading positions utilising a variety of instruments, fluctuations between the disclosed components may occur.*

5 Profit from ordinary activities before income tax expense

(a) Individually significant items included in profit from ordinary activities before income tax expense

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
(i) Significant operating expenses					
Impairment loss on mortgage servicing rights	**1,643**	-	-	-	-
Restructuring costs					
Personnel	-	23	-	-	23
Occupancy	-	38	-	-	40
Write-down of property, plant and equipment	-	29	-	-	29
General	-	6	-	-	6
Business integration costs	-	108	-	-	-
Total significant operating expenses	**1,643**	204	-	**-**	98

Impairment loss on mortgage servicing rights

In July 2001, the directors of the Company determined that the carrying value of the mortgage servicing rights asset held by HomeSide Lending, Inc., a controlled entity of the Company, exceeded the fair value. An impairment loss of $888 million was recognised to reflect the asset at its fair value. This impairment was the result of hedging positions which were adversely impacted by extreme volatility in United States interest rate markets.

In September 2001, the directors of the Company determined that a second impairment loss on mortgage servicing rights was required in order to reflect the mortgage servicing rights asset at its fair value. This impairment loss of $755 million was the result of an incorrect interest rate assumption discovered in an internal model used to determine the fair value of HomeSide Lending, Inc.'s mortgage servicing rights. Based on an assessment, $734 million of the impairment loss has been attributed to the half-year ended March 31, 2001 and the remainder has been attributed to the half-year ended September 30, 2001.

Restructuring costs

During 2000, the Group recognised restructuring costs of $96 million resulting from two major initiatives. The majority of these costs are expected to be recovered by the end of 2003 from annual productivity improvements and revenue enhancements. The first initiative comprises a significant transformation of Business and Personal Financial Services' Australian distribution network to meet the rapidly-changing customer preferences for accessing financial services. The second initiative will bring about globally consistent processes and centralisation of processes where scale efficiencies can be realised for Wholesale Financial Services.

For 2001, payments of $8 million (2000: $3 million) were made in respect of approximately 86 positions (2000: 56 positions) made redundant. The reduction in staff numbers has occurred in both managerial and non-managerial positions in the following regions:

	Australia & Asia	Europe	New Zealand	United States	Total
Original number of positions to be made redundant	154	25	1	12	192
Number of positions made redundant during 2000	(56)	-	-	-	(56)
Number of positions made redundant during 2001	(81)	(2)	(1)	(2)	(86)
Number of positions to be made redundant as at September 30, 2001	17	23	0	10	50

During 1998, the Group recognised restructuring costs of $380 million resulting from its transition to a fully-integrated financial services organisation, including migration to a new operating framework and distribution, technology and workforce initiatives to improve operational efficiency and productivity. For 2001, payments of $5 million (2000: $15 million, 1999: $86 million) were made in respect of approximately 53 positions (2000: 219 positions, 1999: 1,180 positions) made redundant as a result of the 1998 restructuring initiative. The reduction in staff numbers occurred in both managerial and non-managerial positions. The balance of the provision relating to redundancy costs was written-back during 2001, based on a periodic evaluation to ensure that any accrued amount no longer needed for its originally-intended purpose is reversed in a timely manner. The remainder of the provision for restructuring costs raised in 1998 relates to occupancy costs. Future payments will be made in periods corresponding with the relevant lease terms *(refer to note 1(bb)(iii))*.

Business integration costs

During 2000, the Group recognised business integration costs of $108 million, resulting from the integration of the MLC group's operations with the Group's existing life insurance and funds management business. The total integration charge includes costs for the integration of asset management and administration systems, changes to information technology and distribution systems, the ongoing functional requirements of the MLC group as a result of the separation from Lend Lease Corporation Limited (the previous owner of MLC), and the write-off of capitalised software and systems which will not form part of the integrated Wealth Management business going forward. To balance date, $84 million had been utilised. Future payments relating to remaining provision for business integration costs raised in 2000 will be made in 2002.

5 Profit from ordinary activities before income tax expense (continued)

(ii) Significant non-operating items

Sale of foreign controlled entity

On April 1, 2001, the Group sold Michigan National Corporation and its controlled entities to ABN Amro North America Inc., a controlled entity of ABN Amro NV. The profit arising from the sale was as follows:

	Group 2001		
	Proceeds from sale $m	Cost of assets sold $m	Profit on sale $m
Michigan National Corporation and its controlled entities	**5,314**	**(2,929)**	**2,385**

The financial performance, financial position and cash flows of Michigan National Corporation and its controlled entities up to the date of sale, and therefore included in the results of the Group, were as follows:

	Group		
	October 1, 2000 to March 31, 2001 $m	2000 $m	1999 $m
Financial performance			
Net interest income	**350**	636	615
Other operating income	**171**	306	276
Operating expenses	**295**	533	523
Charge to provide for doubtful debts	**14**	15	31
Profit from ordinary activities before income tax expense	**212**	394	337
Income tax expense relating to ordinary activities	**80**	151	132
Net profit	**132**	243	205
Financial position			
Total assets	**23,806**	21,246	16,506
Total liabilities	**21,215**	18,699	14,282
Net assets	**2,591**	2,547	2,224
Cash flows			
Net cash provided by/(used in) operating activities	**272**	305	361
Net cash provided by/(used in) investing activities	**5**	(1,996)	(542)
Net cash provided by/(used in) financing activities	**(728)**	454	773
Net increase/(decrease) in cash and cash equivalents	**(451)**	(1,237)	592

Charge to provide for mortgage servicing rights valuation adjustment

On September 2, 2001, the directors of the Company decided to value HomeSide Lending, Inc. at its estimated market sale value, rather than as an ongoing part of the Group, after reviewing its position within the Group's current core strategies of banking and wealth management. As a result of this decision, the carrying value of HomeSide Lending, Inc.'s core asset, mortgage servicing rights, was revalued and a provision for mortgage servicing rights valuation adjustment of $1,436 million was recognised in order to reflect the mortgage servicing rights asset at its estimated market sale value.

Impairment loss on goodwill

In conjunction with the directors' decision to value HomeSide Lending, Inc. on an estimated market sale value basis, the decision was made that the carrying value of goodwill which arose on the acquisition of HomeSide Lending, Inc. was in excess of its recoverable amount. Accordingly, an impairment loss of $858 million was recognised, in order to reduce the carrying value of this goodwill to $nil.

5 Profit from ordinary activities before income tax expense (continued)

(b) Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Interest expense					
Deposits and other borrowings	**9,213**	8,225	6,893	**6,347**	5,452
Other financial institutions	**1,907**	1,422	1,089	**1,694**	1,233
Bonds, notes and subordinated debt	**1,647**	1,333	870	**1,186**	875
Controlled entities	**-**	-	-	**1,218**	904
Other debt issues	**192**	166	148	**34**	34
Total interest expense	**12,959**	11,146	9,000	**10,479**	8,498
Operating expenses					
Personnel expenses					
Salaries	**2,618**	2,368	2,263	**1,250**	1,130
Related personnel expenses					
Superannuation	**155**	129	129	**73**	84
Payroll	**159**	154	144	**88**	82
Fringe benefits tax	**30**	26	24	**28**	23
Charge to provide for					
Annual leave	**35**	20	17	**18**	16
Long service leave and retiring allowances	**54**	37	57	**49**	34
Performance-based compensation	**237**	192	164	**116**	104
Restructuring costs(1)	**27**	23	30	**22**	22
Other expenses	**410**	452	439	**134**	216
	3,725	3,401	3,267	**1,778**	1,711
Occupancy expenses					
Depreciation of buildings and amortisation of leasehold assets	**83**	77	73	**39**	37
Operating lease rental expense	**277**	234	219	**158**	151
Other expenses	**227**	201	206	**72**	65
	587	512	498	**269**	253
General expenses					
Depreciation and amortisation of plant and equipment	**297**	254	206	**128**	108
Loss on sale of property, plant and equipment(2)	**18**	14	48	**1**	2
Operating lease rental expense	**45**	44	46	**20**	20
Charge to provide for					
Non-lending losses and contingencies	**69**	35	69	**54**	20
Diminution in value of shares in entities(3)	**13**	-	8	**13**	8
Fees and commissions	**264**	93	76	**76**	53
Communications, postage and stationery	**507**	459	427	**184**	165
Computer equipment and software	**258**	216	186	**122**	93
Other expenses	**767**	779	870	**365**	339
	2,238	1,894	1,936	**963**	808
Life insurance expenses					
Claims expense	**599**	262	-	**-**	-
Change in policy liabilities	**(1,318)**	664	-	**-**	-
Policy acquisition and maintenance	**619**	261	-	**-**	-
Investment management fees	**89**	38	-	**-**	-
	(11)	1,225	-	**-**	-

5 Profit from ordinary activities before income tax expense (continued)

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Amortisation of goodwill					
Australia	**1**	1	11	**-**	-
Great Britain and Irish banks	**62**	62	62	**-**	-
Bank of New Zealand	**31**	31	31	**-**	-
HomeSide Lending, Inc.	**48**	54	53	**-**	-
Michigan National Corporation	**25**	49	49	**-**	-
	167	197	206	**-**	-
Significant operating expenses(4)	**1,643**	204	-	**-**	98
Total operating expenses	**8,349**	7,433	5,907	**3,010**	2,870
Charge to provide for doubtful debts					
Specific	**-**	-	-	**-**	-
General	**989**	588	581	**532**	216
Total charge to provide for doubtful debts(5)	**989**	588	581	**532**	216

(1) *Significant restructuring costs incurred during 2000 were classified as significant operating expenses (refer to note 5(a)(i)).*

(2) *Refer to note 4, footnote (2).*

(3) *Includes provision for diminution in value of investments in Mondex and Peakhour Pty Ltd.*

(4) *Refer to note 5(a).*

(5) *Refer to note 17.*

6 Income tax expense

Reconciliation of income tax expense shown in the statement of financial performance with prima facie tax payable on the pre-tax accounting profit

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Profit from ordinary activities before income tax expense					
Australia	**5,383**	2,411	2,122	**3,802**	5,378
Overseas	**(1,404)**	2,462	2,019	**303**	200
Deduct: Profit from ordinary activities before income tax expense attributable to the statutory funds of the life insurance business (1)	**(56)**	(222)	-	**-**	-
Total profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business, before income tax	**3,923**	4,651	4,141	**4,105**	5,578
Prima facie income tax at 34% (2000: 36%, 1999: 36%)	**1,334**	1,674	1,491	**1,396**	2,008
Add/(deduct): Tax effect of permanent differences					
Non-allowable depreciation on buildings	**5**	9	10	**-**	-
Rebate of tax on dividends, interest, etc.	**(31)**	(77)	(87)	**(756)**	(1,342)
Foreign tax rate differences	**(245)**	(97)	(70)	**1**	(4)
Amortisation of goodwill	**59**	70	74	**-**	-
Non-allowable impairment loss on goodwill	**292**	-	-	**-**	-
Timing differences not carried forward as future income tax assets(2)	**764**	-	-	**-**	-
Future income tax benefits no longer recognised	**(4)**	10	(3)	**8**	10
Restatement of tax timing differences due to change in Australian company income tax rate	**(8)**	42	-	**21**	52
Over-provision in prior years	**(17)**	(24)	(12)	**(9)**	(15)
Non-assessable gain on Group hedging activities	**-**	(14)	-	**-**	(14)
Impact of lower effective tax rate on HomeSide Lending, Inc.'s deferred tax liabilities	**-**	(11)	-	**-**	-
Other	**(46)**	(58)	(82)	**(50)**	(38)
Total income tax expense on profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business	**2,103**	1,524	1,321	**611**	657
Income tax expense attributable to the statutory funds of the life insurance business (1)	**(212)**	108	-	**-**	-
Total income tax expense	**1,891**	1,632	1,321	**611**	657

6 Income tax expense (continued)

(1) The income tax expense attributable to the statutory funds of the life insurance business has been determined after segregating the life insurance business into various classes of business and then applying, when appropriate, different tax treatments to these classes of business (refer to note 1(pp)).

(2) Refer to note 23 for further information on future income tax assets not taken to account.

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Total income tax expense is attributable to the following:					
Profit from operating activities	**1,187**	1,632	1,321	**611**	657
Profit from non-operating activities					
Profit on sale of foreign controlled entity	**704**	-	-	**-**	-
Total income tax expense	**1,891**	1,632	1,321	**611**	657

7 Dividends and distributions

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Dividends paid or provided for					
Interim					
67c ordinary dividend paid (2000: 59c, 1999: 54c), fully franked at a rate of 30% (2000: 34%, 1999: 36%)	**1,026**	882	794	**1,026**	882
Final					
68c ordinary dividend provided for (2000: 64c, 1999: 58c), fully franked at a rate of 30% (2000: 34%, 1999: 79% franked at a tax rate of 36%)	**1,054**	976	861	**1,054**	976
Total dividends paid or provided for	**2,080**	1,858	1,655	**2,080**	1,858

During 2001, the Company revised the approach used for determining the amount of earnings paid to shareholders in the form of dividends. In 2001, the dividend payout has been based on after-tax cash earnings (adjusted for significant items). In prior years, dividend payout was based on after-tax accounting earnings.

The franking credits available to the Company at September 30, 2001, after allowing for tax payable in respect of the current reporting period's profits that will be subject to Australian income tax, the payment of the final dividend, and the receipt of dividends recognised as receivable at balance date, are estimated to be $nil (2000: $nil).

The franking credits that will be available to the Group at June 30, 2002 (being the end of the Group's franking year), after allowing for the instalments of tax payable in respect of the 2002 financial year, are estimated to be $153 million (2000: $nil).

The extent to which future dividends will be franked will depend on a number of factors including the level of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system as a result of the Federal Government's tax reform initiatives.

	Group			Company	
Distributions on other equity instruments					
Trust units exchangeable for preference shares	**71**	61	58	**-**	-
National Income Securities	**142**	137	16	**142**	137
Total distributions on other equity instruments	**213**	198	74	**142**	137

8 Earnings per share

	Group					
	2001		2000		1999	
	Basic	**Diluted[1]**	Basic	Diluted[1]	Basic	Diluted[1]
Earnings ($m)						
Net profit attributable to members of the Company	**2,083**	**2,083**	3,239	3,239	2,821	2,821
Distributions on other equity instruments	**(213)**	**(213)**	(198)	(198)	(74)	(74)
Potential dilutive adjustments						
Options	**-**	**36**	-	23	-	12
Exchangeable capital units	**-**	**102**	-	85	-	82
Partly paid ordinary shares	**-**	**-**	-	1	-	1
Adjusted earnings	**1,870**	**2,008**	3,041	3,150	2,747	2,842
Weighted average ordinary shares (No. '000)						
Weighted average ordinary shares	**1,538,633**	**1,538,633**	1,503,253	1,503,253	1,472,144	1,472,144
Potential dilutive ordinary shares						
Options	**-**	**41,389**	-	40,211	-	25,153
Exchangeable capital units	**-**	**65,460**	-	65,460	-	65,460
Partly paid ordinary shares	**-**	**1,119**	-	1,550	-	1,963
Total weighted average ordinary shares	**1,538,633**	**1,646,601**	1,503,253	1,610,474	1,472,144	1,564,720
Earnings per share (cents)	**121.5**	**121.9**	202.3	195.6	186.6	181.6

[1] *The weighted average diluted number of ordinary shares includes the impact of options, potential conversion of exchangeable capital units and partly paid ordinary shares.*

As set out in note 1(d), during 2001, the Group changed its accounting policy with respect to accounting for the revaluation of non-current assets. This change did not have an impact on basic or diluted earnings per share.

During 2000, the Group changed its accounting policies with respect to accounting for the Group's life insurance business and income recognition on non-accrual loans. Neither of these changes had an impact on basic or diluted earnings per share.

During 1999, the Group changed its accounting policy with respect to accounting for software costs. The effect for the year ended September 30, 1999 was to increase basic earnings per share by 4.0 cents and diluted earnings per share by 3.8 cents as compared with the amounts of earnings per share that would have been determined using the previous accounting policy.

There has been no: (a) conversion to, calls of, or subscriptions for ordinary shares; or (b) issues of potential ordinary shares since September 30, 2001 and before the completion of this financial report.

For further information on earnings per share calculations, refer to the financial review.

9 Cash assets

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Australia				
Coins, notes and cash at bank	**2,024**	1,721	**619**	436
Money at short call	**155**	19	**155**	-
Other (including bills receivable and remittances in transit)	**2,459**	720	**705**	553
	4,638	2,460	**1,479**	989
Overseas				
Coins, notes and cash at bank	**2,831**	2,079	**18**	13
Money at short call	**384**	900	**-**	532
Other (including bills receivable and remittances in transit)	**140**	1,429	**32**	(762)
	3,355	4,408	**50**	(217)
Total cash assets	**7,993**	6,868	**1,529**	772

The cash within the Group's life insurance business statutory funds of $1,036 million (2000: $1,024 million) is subject to restrictions imposed under the *Life Insurance Act 1995* and other restrictions and therefore is not available for use in operating, investing or financing activities of other parts of the Group *(refer to note 1(p)).*

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m

10 Due from other financial institutions

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Australia				
Interest earning	**1,485**	896	**1,234**	817
Non-interest earning	**58**	62	**58**	62
	1,543	958	**1,292**	879
Overseas				
Interest earning	**14,146**	11,192	**10,109**	8,912
Non-interest earning	**783**	630	**544**	12
	14,929	11,822	**10,653**	8,924
Total due from other financial institutions	**16,472**	12,780	**11,945**	9,803

11 Due from customers on acceptances

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Australia				
Government and public authorities	**5**	6	**5**	6
Agriculture, forestry and fishing	**1,493**	1,558	**1,493**	1,558
Financial, investment and insurance	**4,235**	5,182	**4,235**	5,182
Real estate - construction	**1,140**	1,373	**1,140**	1,373
Manufacturing	**2,539**	3,521	**2,539**	3,521
Instalment loans to individuals and other personal lending (including credit cards)	**357**	378	**357**	378
Other commercial and industrial	**9,109**	9,415	**9,109**	9,415
	18,878	21,433	**18,878**	21,433
Overseas				
Agriculture, forestry and fishing	**16**	46	**16**	46
Financial, investment and insurance	**78**	751	**-**	-
Manufacturing	**37**	446	**34**	290
Other commercial and industrial	**344**	269	**182**	184
	475	1,512	**232**	520
Total due from customers on acceptances	**19,353**	22,945	**19,110**	21,953

12 Trading securities

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Listed - Australia				
Australian Government Treasury notes	**129**	349	**129**	349
Australian Government bonds and securities	**1,644**	1,101	**1,605**	1,101
Securities of Australian and semi-government authorities	**2,024**	2,544	**2,024**	2,544
Private corporations/other financial institutions' CDs/bills [(1)]	**2,057**	1,421	**2,057**	1,421
Other securities	**11,491**	7,685	**11,491**	7,685
	17,345	13,100	**17,306**	13,100
Listed - Overseas				
Securities of or guaranteed by UK/Irish governments	**-**	222	**-**	222
US Treasury and other US Government agencies	**57**	18	**57**	18
Other securities	**645**	350	**645**	350
	702	590	**702**	590
Total listed trading securities	**18,047**	13,690	**18,008**	13,690
Unlisted - Overseas				
Securities of or guaranteed by New Zealand Government	**203**	157	**-**	-
US and political sub-divisions	**-**	20	**-**	-
Private corporations - Eurobonds	**-**	83	**-**	83
Private corporations/other financial institutions' CDs/bills [(1)]	**623**	825	**145**	46
Other securities	**840**	337	**135**	-
Total unlisted trading securities	**1,666**	1,422	**280**	129
Total trading securities	**19,713**	15,112	**18,288**	13,819

[(1)] *The abbreviation CDs refer to certificates of deposit.*

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m

13 Available for sale securities

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Listed - Australia				
Other securities	**60**	17	**60**	10
	60	17	**60**	10
Listed - Overseas				
Securities of or guaranteed by UK/Irish governments	**5**	4	**-**	-
Private corporations/other financial institutions' CDs/bills	**4,527**	2,018	**4,527**	2,018
Other securities	**219**	216	**194**	200
	4,751	2,238	**4,721**	2,218
Total listed available for sale securities	**4,811**	2,255	**4,781**	2,228
Unlisted - Overseas				
Private corporations - Eurobonds	**-**	80	**-**	80
Private corporations/other financial institutions' CDs/bills	**274**	332	**274**	332
Other securities	**1,580**	380	**1,582**	183
Total unlisted available for sale securities	**1,854**	792	**1,856**	595
Total available for sale securities	**6,665**	3,047	**6,637**	2,823

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Market value information				
Listed - Australia				
Other securities	**60**	17	**60**	10
	60	17	**60**	10
Listed - Overseas				
Securities of or guaranteed by UK/Irish governments	**5**	4	**-**	-
Private corporations/other financial institutions' CDs/bills	**4,527**	2,018	**4,527**	2,018
Other securities	**219**	216	**196**	200
	4,751	2,238	**4,723**	2,218
Total listed available for sale securities at market value	**4,811**	2,255	**4,783**	2,228
Unlisted - Overseas				
Private corporations - Eurobonds	**-**	80	**-**	80
Private corporations/other financial institutions' CDs/bills	**274**	332	**274**	332
Other securities	**1,580**	380	**1,580**	183
Total unlisted available for sale securities at market value	**1,854**	792	**1,854**	595
Total available for sale securities at market value	**6,665**	3,047	**6,637**	2,823

The following table reconciles gross unrealised profits and losses of the Group's holdings of available for sale securities at September 30 for the years shown:

	2001				2000			
	Amortised cost $m	**Gross unrealised losses $m**	**Gross unrealised profits $m**	**Market value $m**	Amortised cost $m	Gross unrealised losses $m	Gross unrealised profits $m	Market value $m
Securities of or guaranteed by UK/Irish governments	**5**	**-**	**-**	**5**	4	-	-	4
Private corporations - Eurobonds	**-**	**-**	**-**	**-**	80	-	-	80
Private corporations/other financial institutions' CDs/bills	**4,801**	**-**	**-**	**4,801**	2,350	-	-	2,350
Other securities	**1,859**	**1**	**1**	**1,859**	613	-	-	613
Total	**6,665**	**1**	**1**	**6,665**	3,047	-	-	3,047

13 Available for sale securities (continued)

Maturities of available for sale securities

The following table analyses the maturity of the Group's holdings of available for sale securities at September 30, 2001:

	0 to 1 year		1 to 5 year(s)		5 to 10 years		Over 10 years	
	$m	yield pa	$m	yield pa	$m	yield pa	$m	yield pa
Australia								
Other securities	-	-	-	-	60	5.0%	-	-
	-		-		60		-	
Overseas								
Securities of or guaranteed by UK/Irish governments	5	6.5%	-	-	-	-	-	-
Private corporations/other financial institutions' CDs/bills	4,801	5.3%	-	-	-	-	-	-
Other securities	1,600	1.7%	172	4.9%	27	3.7%	-	-
	6,406		172		27		-	
Total maturities at carrying value	6,406		172		87		-	
Total maturities at market value	6,406		172		87		-	

Proceeds from maturities of available for sale securities during 2001 were $15,247 million (2000: $9,037 million, 1999: $2,117 million). Proceeds from sales of available for sale securities during 2001 were $26 million (2000: $5 million, 1999: $5 million). Gross profits during 2001 of $nil (2000: $1 million, 1999: $nil) and gross losses of $nil (2000: $nil, 1999: $1 million) were realised on sales.

14 Investment securities

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Listed - Australia				
Securities of Australian and semi-government authorities	**26**	26	**26**	26
	26	26	**26**	26
Listed - Overseas				
Securities of Australian and semi-government authorities	**-**	53	**-**	-
Securities of or guaranteed by UK/Irish governments	**377**	308	**-**	-
US Treasury and other US Government agencies	**25**	77	**25**	77
Private corporations/other financial institutions' CDs/bills	**955**	286	**386**	286
Other securities	**3,979**	2,600	**3,979**	2,317
	5,336	3,324	**4,390**	2,680
Total listed investment securities	**5,362**	3,350	**4,416**	2,706
Unlisted - Australia				
Other securities	**-**	1	**-**	-
	-	1	**-**	-
Unlisted - Overseas				
Securities of or guaranteed by UK/Irish governments	**9**	49	**-**	-
Securities of or guaranteed by New Zealand Government	**657**	479	**-**	-
US Treasury and other US Government agencies	**-**	3,240	**-**	-
US and political sub-divisions	**-**	13	**-**	-
Private corporations - Eurobonds	**-**	25	**-**	25
Private corporations/other financial institutions' CDs/bills	**38**	160	**12**	160
Other securities	**4,631**	135	**796**	95
	5,335	4,101	**808**	280
Total unlisted investment securities	**5,335**	4,102	**808**	280
Total investment securities	**10,697**	7,452	**5,224**	2,986

14 Investment securities (continued)

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Market value information				
Listed - Australia				
Securities of Australian and semi-government authorities	**26**	26	**26**	26
	26	26	**26**	26
Listed - Overseas				
Securities of Australian and semi-government authorities	**-**	53	**-**	-
Securities of or guaranteed by UK/Irish governments	**383**	307	**-**	-
US Treasury and other US Government agencies	**25**	77	**25**	77
Private corporations/other financial institutions' CDs/bills	**956**	286	**386**	286
Other securities	**4,022**	2,520	**3,991**	2,208
	5,386	3,243	**4,402**	2,571
Total listed investment securities at market value	**5,412**	3,269	**4,428**	2,597
Unlisted - Australia				
Other securities	**-**	1	**-**	-
	-	1	**-**	-
Unlisted - Overseas				
Securities of or guaranteed by UK/Irish governments	**9**	49	**-**	-
Securities of or guaranteed by New Zealand Government	**657**	479	**-**	-
US Treasury and other US Government agencies	**-**	3,205	**-**	-
US and political sub-divisions	**-**	13	**-**	-
Private corporations - Eurobonds	**-**	25	**-**	25
Private corporations/other financial institutions' CDs/bills	**38**	160	**12**	160
Other securities	**4,604**	234	**800**	221
	5,308	4,165	**812**	406
Total unlisted investment securities at market value	**5,308**	4,166	**812**	406
Total investment securities at market value	**10,720**	7,435	**5,240**	3,003

The following table reconciles gross unrealised profits and losses of the Group's holdings of investment securities at September 30 for the years shown:

	2001				2000			
	Amortised cost $m	**Gross unrealised profits $m**	**Gross unrealised losses $m**	**Market value $m**	Amortised cost $m	Gross unrealised profits $m	Gross unrealised losses $m	Market value $m
Securities of Australian and semi-government authorities	**26**	**-**	**-**	**26**	80	-	-	80
Securities of or guaranteed by UK/Irish governments	**386**	**6**	**-**	**392**	357	2	3	356
Securities of or guaranteed by New Zealand Government	**657**	**-**	**-**	**657**	479	-	-	479
US Treasury and other US Government agencies	**25**	**-**	**-**	**25**	3,317	11	46	3,282
US and political sub-divisions	**-**	**-**	**-**	**-**	13	-	-	13
Private corporations - Eurobonds	**-**	**-**	**-**	**-**	25	-	-	25
Private corporations/other financial institutions' CDs/bills	**993**	**1**	**-**	**994**	446	-	-	446
Other securities	**8,610**	**17**	**1**	**8,626**	2,735	19	-	2,754
Total	**10,697**	**24**	**1**	**10,720**	7,452	32	49	7,435

14 Investment securities (continued)

Maturities of investment securities

The following table analyses the maturity of the Group's holdings of investment securities at September 30, 2001:

	0 to 1 year		1 to 5 years		5 to 10 years		Over 10 years	
	$m	yield pa	$m	yield pa	$m	yield pa	$m	yield pa
Australia								
Securities of Australian and semi-government authorities	-	-	26	7.7%	-	-	-	-
	-		26		-		-	
Overseas								
Securities of or guaranteed by UK/Irish governments	103	5.8%	283	2.5%	-	-	-	-
Securities of or guaranteed by New Zealand Government	657	5.6%	-	-	-	-	-	-
US Treasury and other US Government agencies	25	4.8%	-	-	-	-	-	-
Private corporations/other financial institutions' CDs/bills	967	2.8%	26	-	-	-	-	-
Other securities	5,642	3.3%	2,968	3.6%	-	-	-	-
	7,394		3,277		-		-	
Total maturities at carrying value	7,394		3,303		-		-	
Total maturities at market value	7,439		3,281		-		-	

Proceeds from maturities of investment securities during 2001 were $30,828 million (2000: $175,661 million, 1999: $12,552 million). The majority of these relate to the maturity of short-dated investment securities. Proceeds from the sale of investment securities during 2001 were $nil (2000: $nil, 1999: $nil). Gross profits of $nil (2000: $3 million, 1999: $1 million) and no gross losses (2000: $nil, 1999: $nil) were realised during 2001.

15 Investments relating to life insurance business

	Group **2001** **$m**	Group 2000 $m	Company **2001** **$m**	Company 2000 $m
Equity security investments				
Direct	**15,467**	11,566	**-**	-
Indirect	**6,379**	7,511	**-**	-
	21,846	19,077	**-**	-
Debt security investments				
Interest bearing securities				
National government	**1,689**	3,250	**-**	-
Other public sector	**904**	1,292	**-**	-
Private sector	**5,981**	4,647	**-**	-
	8,574	9,189	**-**	-
Properties				
Direct	**-**	476	**-**	-
Indirect	**611**	2,009	**-**	-
	611	2,485	**-**	-
Other investments	**350**	352	**-**	-
Total investments relating to life insurance business	**31,381**	31,103	**-**	-

Direct investments refer to investments that are held directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Investments held in the statutory funds of the Group's Australian life insurance business can only be used within the restrictions imposed under the *Life Insurance Act 1995* . The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

Investment assets held in statutory funds are not available for use by other parts of the Group's business *(refer to notes 1(p) and 2).*

16 Loans and advances

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Australia				
Overdrafts	**5,417**	5,762	**5,417**	5,762
Credit card outstandings	**3,207**	2,952	**3,207**	2,952
Market rate advances	**88**	301	**88**	301
Lease finance	**6,709**	6,370	**6,603**	6,295
Housing loans	**55,629**	48,719	**55,629**	48,720
Other term lending	**30,373**	26,300	**30,164**	26,084
Equity participation in leveraged leases	**364**	559	**364**	559
Other lending	**5,002**	6,301	**4,733**	6,027
	106,789	97,264	**106,205**	96,700
Overseas				
Overdrafts	**14,707**	13,322	**5,435**	3,884
Credit card outstandings	**2,911**	2,329	**-**	-
Market rate advances	**1,138**	824	**-**	-
Bills discounted	**102**	102	**-**	19
Lease finance	**8,703**	7,448	**52**	53
Housing loans	**26,010**	22,611	**195**	186
Other term lending	**47,403**	44,081	**12,964**	5,038
Redeemable preference share finance	**2,239**	1,985	**-**	-
Other lending	**2,432**	10,030	**919**	3,950
	105,645	102,732	**19,565**	13,130
Total gross loans and advances	**212,434**	199,996	**125,770**	109,830
Deduct: Unearned income	**(1,922)**	(1,812)	**(1,009)**	(1,003)
Provisions for doubtful debts *(refer to note 17)*	**(2,715)**	(2,692)	**(1,549)**	(1,339)
Total net loans and advances	**207,797**	195,492	**123,212**	107,488
Leasing receivables included in lease finance net of unearned income				
Current	**4,704**	2,892	**3,433**	1,757
Non-current	**9,864**	10,397	**2,697**	4,353
Total leasing receivables included in lease finance	**14,568**	13,289	**6,130**	6,110

16 Loans and advances (continued)

The diversification and size of the Group are such that its lending is widely spread both geographically and in terms of the types of industries served. In accordance with SEC guidelines, the following table shows comparative year-end detail of the loan portfolio for each of the last five years ended September 30. The table also demonstrates the concentration of credit risk by industry with the maximum credit risk represented by the carrying values less provision for doubtful debts.

	Group				
	2001	2000	1999	1998	1997
	$m	$m	$m	$m	$m
Australia					
Government and public authorities	**425**	478	1,270	929	1,403
Agriculture, forestry and fishing	**5,251**	5,329	5,039	5,794	4,615
Financial, investment and insurance	**4,807**	4,656	5,006	4,940	4,902
Real estate - construction	**1,941**	1,661	1,637	1,367	1,268
Manufacturing	**3,263**	2,268	2,714	2,524	2,749
Real estate - mortgage	**55,629**	48,719	41,968	37,763	33,420
Instalment loans to individuals and other personal lending (including credit cards)	**9,850**	8,223	8,098	7,272	7,223
Lease financing	**7,073**	6,929	6,522	5,981	5,226
Other commercial and industrial [(1)]	**18,550**	19,001	13,956	13,885	10,183
	106,789	97,264	86,210	80,455	70,989
Overseas					
Government and public authorities	**1,382**	1,590	821	1,010	543
Agriculture, forestry and fishing	**5,473**	5,099	4,608	4,835	3,881
Financial, investment and insurance	**12,335**	12,065	8,906	7,527	3,135
Real estate - construction	**3,312**	3,061	1,862	1,775	1,373
Manufacturing	**6,476**	7,446	6,536	6,618	4,912
Real estate - mortgage	**26,010**	22,611	19,978	20,215	16,103
Instalment loans to individuals and other personal lending (including credit cards)	**12,903**	12,012	10,443	11,096	9,214
Lease financing	**8,703**	7,448	5,478	4,750	2,880
Other commercial and industrial [(1)]	**29,051**	31,400	24,878	25,781	20,604
	105,645	102,732	83,510	83,607	62,645
Total gross loans and advances	**212,434**	199,996	169,720	164,062	133,634
Deduct: Unearned income	**(1,922)**	(1,812)	(1,587)	(1,516)	(1,244)
Provisions for doubtful debts *(refer to note 17)*	**(2,715)**	(2,692)	(2,513)	(2,545)	(1,354)
Total net loans and advances	**207,797**	195,492	165,620	160,001	131,036

[(1)] *At September 30, 2001, there were no concentrations of other commercial and industrial loans exceeding 10% of total loans and advances.*

Concentrations of credit risk by geographical location are based on the geographical location of the office in which the loans or advances are booked. The amounts shown are net of unearned income and provisions.

Australia	**104,354**	94,986	84,046	78,356	69,562
Great Britain	**57,589**	46,532	35,068	35,523	24,098
Ireland	**12,746**	10,856	9,251	10,352	7,177
New Zealand	**23,847**	20,466	20,097	18,113	17,402
United States	**4,555**	19,323	14,111	14,367	10,649
Asia	**4,706**	3,329	3,047	3,290	2,148
Total net loans and advances	**207,797**	195,492	165,620	160,001	131,036

16 Loans and advances (continued)

The following tables show the maturity distribution of loans and advances to customers and interest rate sensitivity of such loans for the Group as at September 30, 2001:

	Group			
	0 to 1 year [1]	1 to 5 year(s)	Over 5 years	Total
	$m	$m	$m	$m
Maturity distribution of loans and advances				
Australia				
Government and public authorities	258	91	76	425
Agriculture, forestry and fishing	3,084	1,580	587	5,251
Financial, investment and insurance	3,595	869	343	4,807
Real estate - construction	1,456	214	271	1,941
Manufacturing	2,422	526	315	3,263
Real estate - mortgage	13,260	3,541	38,828	55,629
Instalment loans to individuals and other personal lending (including credit cards)	2,278	7,241	331	9,850
Lease financing	3,888	3,099	86	7,073
Other commercial and industrial	10,597	4,653	3,300	18,550
	40,838	21,814	44,137	106,789
Overseas				
Government and public authorities	939	181	262	1,382
Agriculture, forestry and fishing	2,394	1,340	1,739	5,473
Financial, investment and insurance	8,572	3,387	376	12,335
Real estate - construction	1,407	1,555	350	3,312
Manufacturing	3,536	2,111	829	6,476
Real estate - mortgage	2,149	4,172	19,689	26,010
Instalment loans to individuals and other personal lending (including credit cards)	8,020	4,062	821	12,903
Lease financing	1,271	3,307	4,125	8,703
Other commercial and industrial	14,648	9,147	5,256	29,051
	42,936	29,262	33,447	105,645
Total gross loans and advances	83,774	51,076	77,584	212,434
Interest rate sensitivity of loans and advances				
Variable interest rates [2]				
Australia	20,934	5,329	29,938	56,201
Overseas	31,334	19,244	23,567	74,145
Fixed interest rates				
Australia	19,904	16,485	14,199	50,588
Overseas	11,602	10,018	9,880	31,500
Total gross loans and advances	83,774	51,076	77,584	212,434

(1) *Overdrafts are not subject to a repayment schedule. Due to their characteristics, overdrafts are categorised as due within one year.*

(2) *Under the Consumer Credit Acts of the states of Victoria, New South Wales, South Australia and Western Australia, and of the Australian Capital Territory, the Company must give notice to credit card holders when an increase in interest rates is sought. The legislation stipulates the notice period as two billing cycles plus 21 days which, in effect, means approximately 90 days' notice must be given. Such credit card outstandings have been included in the variable category.*

Securitisation of loans

At September 30, 2001, the Group had securitised Australian loans amounting to $1,924 million (2000: $nil) through its HomeSide Mortgage Securities Trust securitisation program. Outstanding securitised loans of the program totalled $1,440 million as at September 30, 2001 (2000: $nil). The securities issued by the program do not represent liabilities of the Company or the Group. Neither the Company nor the Group in any way stands behind the capital value or performance of securities or assets of the program except to the limited extent provided in the transaction documents for the program through the provision of arm's length services and facilities *(refer to note 1(hh))* . The Group does not guarantee the payment of interest or repayment of principal due on the securities. The Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support. The Group has no obligation to repurchase any of the securitised loans other than in limited circumstances.

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m

17 Provisions for doubtful debts

	2001 $m	2000 $m	1999 $m	**2001 $m**	2000 $m
Specific provision for doubtful debts	**586**	471	474	**348**	232
General provision for doubtful debts	**2,207**	2,238	2,055	**1,277**	1,122
Total provision for doubtful debts	**2,793**	2,709	2,529	**1,625**	1,354
Deduct: Specific provision against off-balance sheet credit related commitments [(1)]	**78**	17	16	**76**	15
Net provisions for doubtful debts *(refer to note 16)*	**2,715**	2,692	2,513	**1,549**	1,339

[(1)] *The specific provision for off-balance sheet credit-related commitments is shown as a liability in the financial report (refer to note 30).*

Reconciliation of movements in provisions for doubtful debts

	2001 $m	2000 $m	1999 $m	**2001 $m**	2000 $m
Specific provision					
Opening balance	**471**	474	420	**232**	276
Transfer from/(to) general provision	**748**	423	505	**388**	156
Provisions of controlled entity sold	**(58)**	-	-	**-**	-
Bad debts recovered	**151**	224	205	**67**	87
Bad debts written off	**(738)**	(657)	(627)	**(341)**	(279)
Foreign currency translation and consolidation adjustments	**12**	7	(29)	**2**	(8)
Closing balance	**586**	471	474	**348**	232
General provision					
Opening balance	**2,238**	2,055	2,143	**1,122**	1,052
Transfer from/(to) specific provision	**(748)**	(423)	(505)	**(388)**	(156)
Provisions of controlled entity sold	**(336)**	-	-	**-**	-
Charge to profit and loss account	**989**	588	581	**532**	216
Foreign currency translation and consolidation adjustments	**64**	18	(164)	**11**	10
Closing balance	**2,207**	2,238	2,055	**1,277**	1,122
Total provisions for doubtful debts	**2,793**	2,709	2,529	**1,625**	1,354

Provisions for doubtful debt ratios

	2001	2000	1999
Specific provision as a percentage of risk-weighted assets			
On-balance sheet exposures	**0.20%**	0.19%	0.23%
Off-balance sheet credit-related commitments	**0.03%**	0.01%	0.01%
Specific provision for doubtful debts as a percentage of risk-weighted assets	**0.23%**	0.20%	0.24%
Total provisions for doubtful debts as a percentage of risk-weighted assets	**1.08%**	1.14%	1.28%
Bad debts written-off as a percentage of average loans and advances [(1)]	**0.29%**	0.24%	0.26%

[(1)] *Refer to note 40 for average loans and advances.*

Notes to the financial statements

17 Provisions for doubtful debts (continued)

Specific provision for doubtful debts by industry category

The following table provides an analysis of the Group's specific provision for doubtful debts including off-balance sheet exposures by industry category for each of the five years ended September 30:

	Group				
	2001	2000	1999	1998	1997
	$m	$m	$m	$m	$m
Australia					
Agriculture, forestry and fishing	**34**	24	46	26	16
Financial, investment and insurance	**13**	2	50	45	43
Real estate - construction	**5**	8	14	14	11
Manufacturing	**15**	34	76	63	50
Real estate - mortgage	**-**	-	2	2	2
Instalment loans to individuals and other personal lending (including credit cards)	**14**	46	21	25	30
Lease financing	**8**	9	8	4	1
Other commercial and industrial	**253**	89	17	18	40
	342	212	234	197	193
Overseas					
Agriculture, forestry and fishing	**14**	15	12	12	12
Financial, investment and insurance	**2**	2	4	2	6
Real estate - construction	**2**	8	11	15	27
Manufacturing	**24**	48	44	32	43
Real estate - mortgage	**6**	7	7	13	18
Instalment loans to individuals and other personal lending (including credit cards)	**111**	60	50	48	84
Lease financing	**10**	8	9	5	3
Other commercial and industrial	**75**	111	103	96	208
	244	259	240	223	401
Total specific provision for doubtful debts	**586**	471	474	420	594

Bad debts written-off and bad debts recovered by industry category

The following table provides an analysis of bad debts written-off and bad debts recovered by industry category for each of the five years ended September 30. For further information, refer to asset quality disclosures in note 18.

Bad debts written-off					
Australia					
Agriculture, forestry and fishing	**9**	27	7	9	15
Financial, investment and insurance	**9**	26	5	6	10
Real estate - construction	**8**	14	8	8	7
Manufacturing	**29**	56	30	19	9
Real estate - mortgage	**8**	7	10	11	8
Instalment loans to individuals and other personal lending (including credit cards)	**109**	72	112	97	78
Lease financing	**32**	16	8	7	6
Other commercial and industrial	**108**	34	60	60	50
	312	252	240	217	183
Overseas					
Agriculture, forestry and fishing	**7**	4	8	9	9
Financial, investment and insurance	**-**	6	6	16	1
Real estate - construction	**9**	16	11	18	8
Manufacturing	**27**	30	44	32	27
Real estate - mortgage	**2**	3	7	24	5
Instalment loans to individuals and other personal lending (including credit cards)	**289**	206	200	243	175
Lease financing	**9**	11	6	2	4
Other commercial and industrial	**83**	129	105	134	127
	426	405	387	478	356
Total bad debts written-off	**738**	657	627	695	539

17 Provisions for doubtful debts (continued)

	Group				
	2001	2000	1999	1998	1997
	$m	$m	$m	$m	$m
Bad debts recovered					
Australia					
Agriculture, forestry and fishing	**1**	1	3	4	2
Financial, investment and insurance	**7**	4	7	2	7
Real estate - construction	**-**	1	1	1	1
Manufacturing	**1**	2	3	2	3
Real estate - mortgage	**1**	1	1	1	1
Instalment loans to individuals and other personal lending (including credit cards)	**40**	41	33	27	20
Lease financing	**3**	1	1	1	1
Other commercial and industrial	**6**	30	14	16	25
	59	81	63	54	60
Overseas					
Agriculture, forestry and fishing	**-**	-	1	1	3
Financial, investment and insurance	**5**	11	5	15	4
Real estate - construction	**-**	1	1	17	4
Manufacturing	**-**	16	15	15	22
Real estate - mortgage	**-**	-	1	1	1
Instalment loans to individuals and other personal lending (including credit cards)	**56**	62	56	40	38
Lease financing	**-**	-	2	-	2
Other commercial and industrial	**31**	53	61	95	57
	92	143	142	184	131
Total bad debts recovered	**151**	224	205	238	191

18 Asset quality disclosures

The Group provides for doubtful debts as discussed in note 1(q)(i). Accordingly, when management determines that a loan recovery is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value. Interest and charges are no longer taken to the profit and loss account when their payment is considered to be unlikely, with the exception of cash received in respect of non-accrual loans as discussed in note 1(q)(iii).

The following table provides an analysis of the asset quality of the Group's impaired loans and advances for each of the last five years ended September 30. Gross amounts have been prepared without regard to security available for such loans and advances. The inclusion of past due loans and restructured loans in both tables does not necessarily indicate that such loans are doubtful.

	Group				
	2001	2000	1999	1998	1997
	$m	$m	$m	$m	$m
Non-accrual loans [(1)(2)]					
Gross					
Australia	**959**	568	644	602	553
Overseas	**773**	899	926	868	728
	1,732	1,467	1,570	1,470	1,281
Specific provision for doubtful debts					
Australia	**325**	196	226	189	189
Overseas	**203**	246	231	214	386
	528	442	457	403	575
Net					
Australia	**634**	372	418	413	364
Overseas	**570**	653	695	654	342
Total net non-accrual loans	**1,204**	1,025	1,113	1,067	706

18 Asset quality disclosures (continued)

	Group				
	2001	2000	1999	1998	1997
	$m	$m	$m	$m	$m
Restructured loans					
Australia	**4**	4	-	-	-
Overseas	**-**	-	3	6	5
Total restructured loans	**4**	4	3	6	5
Assets acquired through security enforcement					
Real estate					
Australia	**-**	-	-	-	-
Overseas	**-**	8	8	5	6
	-	8	8	5	6
Other assets					
Australia	**-**	-	-	-	-
Overseas	**4**	5	5	7	6
	4	5	5	7	6
Total assets acquired through security enforcement	**4**	13	13	12	12
Total impaired assets					
Gross					
Australia	**963**	572	644	602	553
Overseas	**777**	912	942	886	745
	1,740	1,484	1,586	1,488	1,298
Specific provision for doubtful debts					
Australia	**325**	196	226	189	189
Overseas	**203**	246	231	214	386
	528	442	457	403	575
Net					
Australia	**638**	376	418	413	364
Overseas	**574**	666	711	672	359
Total net impaired assets	**1,212**	1,042	1,129	1,085	723

[(1)] *Includes loans amounting to $170 million gross, $124 million net (2000: $252 million gross, $182 million net, 1999: $124 million gross, $86 million net, 1998: $184 million gross, $116 million net, 1997: $153 million gross, $90 million net) where some concerns exist as to the ongoing ability of the borrowers to comply with existing loan terms, but on which no principal or interest payments are contractually past due.*

[(2)] *Includes off-balance sheet credit-related commitments amounting to $219 million gross, $141 million net (2000: $33 million gross, $16 million net; 1999: $40 million gross, $24 million net, 1998: $51 million gross, $33 million net, 1997: $43 million gross, $32 million net).*

	2001	2000	1999	1998	1997
Memorandum disclosures					
Accruing loans past due 90 days or more with adequate security					
Australia	**48**	39	22	15	11
Overseas	**54**	68	74	91	92
Total accruing loans past due 90 days or more with adequate security	**102**	107	96	106	103
Accruing portfolio facilities past due 90 to 180 days					
Gross					
Australia	**35**	23	27	33	31
Overseas	**83**	36	29	68	76
	118	59	56	101	107
Specific provision for doubtful debts					
Australia	**18**	15	9	7	6
Overseas	**40**	14	8	10	13
	58	29	17	17	19
Net					
Australia	**17**	8	18	26	25
Overseas	**43**	22	21	58	63
Total net accruing portfolio facilities past due 90 to 180 days	**60**	30	39	84	88

18 Asset quality disclosures (continued)

Further analysis of non-accrual loans and interest received and foregone under the Australian Prudential Regulation Authority asset quality disclosure guidelines is as follows for the Group, for each of the last three years ended September 30:

	2001			2000			1999		
	Gross $m	**Specific provision $m**	**Net $m**	Gross $m	Specific provision $m	Net $m	Gross $m	Specific provision $m	Net $m
Non-accrual loans with provisions and									
No performance									
Australia	**502**	**299**	**203**	251	186	65	355	213	142
Overseas	**495**	**180**	**315**	370	169	201	463	183	280
	997	**479**	**518**	621	355	266	818	396	422
Partial performance									
Australia	**-**	**-**	**-**	-	-	-	-	-	-
Overseas	**6**	**2**	**4**	48	8	40	30	20	10
	6	**2**	**4**	48	8	40	30	20	10
Full performance									
Australia	**119**	**26**	**93**	30	10	20	77	13	64
Overseas	**54**	**21**	**33**	248	69	179	54	28	26
	173	**47**	**126**	278	79	199	131	41	90
Non-accrual loans without provisions and									
No performance									
Australia	**303**	**-**	**303**	260	-	260	195	-	195
Overseas	**206**	**-**	**206**	224	-	224	325	-	325
	509	**-**	**509**	484	-	484	520	-	520
Full performance									
Australia	**35**	**-**	**35**	27	-	27	17	-	17
Overseas	**12**	**-**	**12**	9	-	9	54	-	54
	47	**-**	**47**	36	-	36	71	-	71
Total non-accrual loans	**1,732**	**528**	**1,204**	1,467	442	1,025	1,570	457	1,113

	Group		
	2001 $m	2000 $m	1999 $m
Interest income received and foregone			
Interest and other income received and taken to the profit and loss account on non-accrual loans and restructured loans			
Australia	**12**	10	13
Overseas	**4**	13	7
	16	23	20
Net interest and other income foregone on non-accrual loans and restructured loans			
Australia	**54**	49	29
Overseas	**40**	48	52
	94	97	81

18 Asset quality disclosures (continued)

	Group 2001 $m	Group 2000 $m	Group 1999 $m
Additional information in respect of impaired assets			
Fair value of security [(1)]			
Non-accrual loans			
Australia	**646**	322	376
Overseas	**515**	629	566
	1,161	951	942
Restructured loans			
Australia	**-**	-	-
Overseas	**-**	-	3
	-	-	3
Loans newly classified into impaired asset categories during the year			
Australia	**1,154**	510	617
Overseas	**403**	514	646
	1,557	1,024	1,263

[(1)] *Fair value of security is the amount for which that security could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Amounts of security held in excess of the outstanding balance of individual non-accrual or restructured loans are not included in this table.*

19 Mortgage servicing rights

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Opening balance	**8,226**	5,345	**-**	-
Additions	**2,700**	2,065	**-**	-
Deferred hedge loss/(gain) applied [(1)]	**(1,771)**	480	**-**	-
Amortisation	**(1,252)**	(748)	**-**	-
Impairment loss [(2)]	**(1,643)**	-	**-**	-
Foreign currency translation adjustments	**621**	1,084	**-**	-
	6,881	8,226	**-**	-
Deduct: Provision for valuation adjustment [(3)]	**(1,436)**	-	**-**	-
Total mortgage servicing rights	**5,445**	8,226	**-**	-

[(1)] *Refer to note 46 for information on derivative financial instruments used to hedge mortgage servicing rights.*

[(2)] *Refer to note 5(a)(i) significant operating expenses.*

[(3)] *Refer to note 5(a)(ii) significant non-operating items.*

The estimated fair value of mortgage servicing rights was $5,445 million as at September 30, 2001 (2000: $8,226 million, 1999: $5,416 million). The fair value was determined by using market prices of similar assets and discounted future cash flows based on economic factors such as market and historic prepayment rates, portfolio characteristics and interest rates.

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m

20 Shares in entities and other securities

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Shares in other entities				
At cost	**612**	617	**485**	501
Deduct: Provision for diminution in value	**(62)**	(23)	**(26)**	(18)
	550	594	**459**	483
Shares in controlled entities				
At cost [(1)]	**-**	-	**11,513**	10,613
At directors' valuation 2000 [(1)]	**-**	-	**-**	155
Deduct: Provision for diminution in value	**-**	-	**(66)**	(26)
	-	-	**11,447**	10,742
Units in unlisted trusts (at cost)	**862**	782	**-**	-
Total shares in entities and other securities	**1,412**	1,376	**11,906**	11,225
Market value information				
Shares in other entities	**790**	643	**692**	534
Units in unlisted trusts	**862**	782	**-**	-
Total shares in entities and other securities at market value	**1,652**	1,425	**692**	534

(1) *As disclosed in note 1(d), on October 1, 2000, the directors elected to continue to carry shares in entities and other securities at cost. Shares in entities that were previously revalued will be carried at their original cost.*

21 Regulatory deposits

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Central banks overseas	**98**	135	**20**	12
Total regulatory deposits	**98**	135	**20**	12

22 Property, plant and equipment

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Land and buildings				
Freehold				
At cost (acquired subsequent to previous valuation date)	**46**	34	**-**	-
At directors' valuation 2001	**702**	-	**43**	-
At directors' valuation 2000	**-**	819	**-**	61
Leasehold				
At cost (acquired subsequent to previous valuation date)	**21**	1	**19**	-
At directors' valuation 2001	**91**	-	**-**	-
At directors' valuation 2000	**-**	89	**-**	-
Deduct: Accumulated depreciation and amortisation on buildings	**(27)**	(7)	**(2)**	-
	833	936	**60**	61
Leasehold improvements				
At cost	**725**	688	**515**	488
Deduct: Accumulated amortisation	**(335)**	(311)	**(239)**	(221)
	390	377	**276**	267
Furniture, fixtures and fittings and other equipment				
At cost	**813**	754	**122**	123
Under finance lease	**27**	28	**-**	-
Deduct: Accumulated depreciation and amortisation	**(478)**	(453)	**(86)**	(84)
	362	329	**36**	39
Data processing equipment and application software				
At cost	**2,423**	1,961	**1,275**	1,001
Under finance lease	**33**	21	**11**	10
Deduct: Accumulated depreciation and amortisation	**(1,210)**	(1,187)	**(481)**	(546)
	1,246	795	**805**	465
Total property, plant and equipment	**2,831**	2,437	**1,177**	832

Notes to the financial statements

22 Property, plant and equipment (continued)

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Reconciliations of movements in property, plant and equipment				
Land and buildings				
Balance at beginning of year	**936**	943	**61**	57
Additions	**41**	35	**18**	6
Net amount of revaluation increments less decrements [(1)]	**6**	22	**-**	1
Disposals	**(60)**	(98)	**(18)**	(4)
Depreciation and amortisation	**(25)**	(25)	**(3)**	(1)
Net foreign currency movements arising from self-sustaining foreign operations	**65**	59	**2**	2
Sale of controlled entities	**(130)**	-	**-**	-
Balance at end of year	**833**	936	**60**	61
Leasehold improvements				
Balance at beginning of year	**377**	313	**267**	238
Additions	**89**	116	**51**	69
Disposals	**(7)**	(5)	**(6)**	(4)
Amortisation	**(57)**	(52)	**(36)**	(36)
Net foreign currency movements arising from self-sustaining foreign operations	**8**	5	**-**	-
Sale of controlled entities	**(20)**	-	**-**	-
Balance at end of year	**390**	377	**276**	267
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**329**	331	**39**	43
Additions	**117**	52	**10**	8
Disposals	**(12)**	(7)	**(3)**	(2)
Depreciation and amortisation	**(68)**	(63)	**(10)**	(11)
Net foreign currency movements arising from self-sustaining foreign operations	**21**	16	**-**	1
Sale of controlled entities	**(25)**	-	**-**	-
Balance at end of year	**362**	329	**36**	39
Data processing equipment and application software				
Balance at beginning of year	**795**	445	**465**	237
Additions	**756**	557	**495**	324
Disposals	**(52)**	(20)	**(39)**	-
Depreciation and amortisation	**(230)**	(192)	**(117)**	(97)
Net foreign currency movements arising from self-sustaining foreign operations	**28**	5	**1**	1
Sale of controlled entities	**(51)**	-	**-**	-
Balance at end of year	**1,246**	795	**805**	465

[(1)] *The fair values of freehold and leasehold land and buildings have been determined by independent valuations. Such valuations were performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date (refer to note 1(v)).*

23 Income tax assets

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Future income tax benefits	**1,296**	1,207	**674**	639
Total income tax assets	**1,296**	1,207	**674**	639
Future income tax benefits comprise:				
Specific provision for doubtful debts	**78**	87	**82**	76
General provision for doubtful debts	**669**	676	**388**	349
Other provisions	**459**	362	**200**	203
Statutory funds/other	**4**	57	**-**	-
Tax losses	**86**	25	**4**	11
Total future income tax benefits	**1,296**	1,207	**674**	639

Future income tax benefits not brought to account

Future income tax benefits have not been brought to account for the following items as realisation of the benefits is not regarded as virtually certain:

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Mortgage servicing rights impairment loss and provision for valuation adjustment (1)	**820**	-	**-**	-
Capital gains tax losses	**3**	-	**-**	-

(1) *Reflected at the applicable income tax rate for HomeSide Lending, Inc. of 36.5%*

These future income tax benefits will only be obtained if:

(a) future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the Group in realising the benefit.

24 Goodwill

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
At cost	**2,368**	2,895	**-**	-
At recoverable amount (1)	**-**	1,047		
Deduct: Accumulated amortisation	**(1,492)**	(1,325)	**-**	-
Total goodwill	**876**	2,617	**-**	-

(1) *On September 2, 2001, the directors of the Company determined that the carrying value of goodwill exceeded its recoverable amount, based on their decision to value HomeSide Lending, Inc. on an estimated market sale value basis. As a result, the carrying value of goodwill which arose on the acquisition of HomeSide Lending, Inc. of $858 million was fully written-off. The impairment loss recognised due to the write-down has been accounted for as a significant non-operating expense (refer to note 5(a)(ii)).*

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m

25 Other assets

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Accrued interest receivable	**1,613**	1,851	**921**	1,003
Prepayments	**1,169**	236	**152**	87
Receivables under contracts of sale	**4**	6	**-**	-
Fair value of trading derivative financial instruments	**18,083**	13,877	**17,380**	12,973
Receivables from liquidator [(1)]	**35**	17	**35**	17
Excess of net market value over net assets of life insurance controlled entities	**5,281**	4,582	**-**	-
Other life insurance assets [(2)]				
Accrued income receivable	**182**	153	**-**	-
Outstanding premiums receivable	**90**	89	**-**	-
Unsettled investment transactions	**197**	160	**-**	-
Other assets [(3)]	**12,349**	9,253	**7,669**	4,414
Total other assets	**39,003**	30,224	**26,157**	18,494

(1) *Represents the liquidators' estimate of the net return to the Company from entities placed in voluntary liquidation. Movements in the estimated net return other than liquidators' distributions are recognised in the profit and loss account.*

(2) *Refer to note 1(p) for restrictions on assets of the life insurance business.*

(3) *Includes prepaid pension costs, securities sold but not yet settled, and accrued fees receivable.*

Excess of net market value over net assets of life insurance controlled entities
Life insurance entities within the Group are required to value their investments in controlled entities at market value, with changes in the excess of net market value over net assets reflected in the Group's statement of financial performance *(refer to note 1(x))*. Directors' valuations of the entities controlled by life insurance entities are based on discounted cash flow valuations determined by Tillinghast-Towers Perrin.

The following table analyses the excess of net market value over net assets of National Australia Financial Management Limited's (NAFM's) controlled entities as at September 30 for the years shown. These controlled entities include MLC Limited, MLC Lifetime Company Limited and overseas life insurance entities, which are classified as life insurance business, below. The net market value and net assets of NAFM are not included in this table.

	Group 2001			Group 2000		
	Net market value [(1)] $m	**Net assets $m**	**Excess of net market value over net assets $m**	Net market value [(1)] $m	Net assets $m	Excess of net market value over net assets $m
Life insurance business	**4,740**	**434**	**4,306**	4,295	498	3,797
Funds management/administration	**1,170**	**169**	**1,001**	957	232	725
Other	**81**	**107**	**(26)**	110	50	60
Total	**5,991**	**710**	**5,281**	5,362	780	4,582

(1) *Significant assumptions used in the valuation basis underlying the directors' valuations include:*

(i) the valuations are based on the present value of estimated after-tax distributable profits together with the present value of 70% of attaching imputation credits in the case of Australian entities;

(ii) present values have been determined at the following risk discount rates:

Life insurance business within Australia	*11%*
Funds management business within Australia	*12%*
Life insurance business written in US dollars within Indonesia	*11.5%*
Life insurance business written in Indonesian rupiah within Indonesia	*20.5%*
Life insurance business written in US dollars within Hong Kong	*13%*
Life insurance business written in Hong Kong dollars within Hong Kong	*13%*

(iii) in the case of the life insurance entities, the value of future new business has been determined by applying a multiplier to the value of one year's sales. The average multipliers used were as follows:

MLC Limited	*9*
MLC Lifetime Company Limited	*10*
MLC (Hong Kong) Limited	*9*
PT MLC Life Indonesia	*7*

25 Other assets (continued)

The following table provides explanation of the changes in the Group's excess of net market value over net assets of NAFM's controlled entities from 2000 to 2001:

	Increase in value of inforce business $m	Increase in value of future new business $m	Decrease in value of future synergy benefits $m	Total increase in excess of net market value over net assets $m
Life insurance business	367	884	(742)	509
Funds management/administration	79	293	(96)	276
Other	(86)	-	-	(86)
Total	360	1,177	(838)	699

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m

26 Due to other financial institutions

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Australia				
Interest bearing	**2,224**	2,278	**2,224**	2,278
Non-interest bearing	**16**	16	**16**	16
	2,240	2,294	**2,240**	2,294
Overseas				
Interest bearing	**39,708**	26,999	**36,734**	23,004
Non-interest bearing	**925**	392	**885**	390
	40,633	27,391	**37,619**	23,394
Total due to other financial institutions	**42,873**	29,685	**39,859**	25,688

27 Deposits and other borrowings

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Australia				
Deposits				
Deposits not bearing interest	**4,545**	4,409	**4,544**	4,409
On demand and short term deposits [1]	**42,370**	35,245	**42,370**	35,245
Certificates of deposit	**7,921**	7,210	**7,832**	7,138
Term deposits	**23,165**	22,864	**23,058**	22,757
Borrowings	**8,722**	8,332	**8,705**	8,331
	86,723	78,060	**86,509**	77,880
Overseas				
Deposits				
Deposits not bearing interest	**7,533**	10,001	**539**	572
On demand and short term deposits [1]	**40,931**	38,684	**3,068**	2,010
Certificates of deposit	**22,563**	15,201	**19,311**	10,541
Term deposits	**27,797**	32,195	**13,645**	15,666
Borrowings	**5,418**	10,956	**-**	451
	104,242	107,037	**36,563**	29,240
Total deposits and other borrowings	**190,965**	185,097	**123,072**	107,120

[1] *Deposits available on demand or lodged for periods of less than 30 days.*

27 Deposits and other borrowings (continued)

Funds are derived from well-diversified resources spread over the following geographic locations. Concentrations of deposits and other borrowings by geographical location are based on the geographical location of the office in which the deposits and other borrowings are recognised.

	Group	
	2001	2000
	$m	$m
Australia	**86,723**	78,060
Great Britain	**55,996**	41,127
Ireland	**12,170**	10,443
New Zealand	**19,318**	14,505
United States	**13,166**	30,657
Asia	**3,592**	10,305
Total deposits and other borrowings	**190,965**	185,097

Maturities of deposits

The following table shows the maturity profile of the Group's certificates of deposit and time deposits at September 30, 2001:

	0 to 3 months $m	3 to 6 months $m	6 to 12 months $m	Over 12 months $m	Total $m
Australia					
Certificates of deposit	5,565	1,273	848	235	7,921
Time deposits	15,154	152	103	7,756	23,165
	20,719	1,425	951	7,991	31,086
Overseas					
Certificates of deposit	15,316	2,527	4,513	207	22,563
Time deposits	22,546	1,677	1,667	1,907	27,797
	37,862	4,204	6,180	2,114	50,360
Total certificates of deposit and time deposits	58,581	5,629	7,131	10,105	81,446

Short term borrowings

Short term borrowings of the Group consist of commercial paper programs of National Australia Funding (Delaware), Inc., HomeSide Lending, Inc. and Bank of New Zealand. The following table sets forth information concerning the Group's short term borrowings for each of the last three years ended September 30:

		Group	
	2001	2000	1999
	$m	$m	$m
Commercial paper			
Balance outstanding at balance date ($m)	**4,965**	9,625	5,330
Maximum outstanding at any month end ($m)	**14,216**	9,671	5,532
Approximate average amount outstanding during the year ($m)	**9,557**	6,698	4,893
Approximate weighted average interest rate on			
Balance outstanding at balance date (% pa)	**8.0%**	4.4%	4.8%
Average amount outstanding during the year (% pa)	**4.1%**	6.5%	6.0%

28 Life insurance policy liabilities

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Business valued by projection method				
Value of future policy benefits	**5,079**	4,890	**-**	-
Future bonuses	**1,125**	958	**-**	-
Value of future expenses	**846**	696	**-**	-
Future profit margins	**746**	784	**-**	-
Value of future premiums	**(3,568)**	(2,837)	**-**	-
Total business valued by projection method	**4,228**	4,491	**-**	-
Business valued by accumulation method				
Value of future policy benefits	**26,412**	25,613	**-**	-
Future charges for acquisition costs	**(581)**	(439)	**-**	-
Total business valued by accumulation method	**25,831**	25,174	**-**	-
Unvested policyholder benefits	**198**	214	**-**	-
Total policy liabilities [1]	**30,257**	29,879	**-**	-

[1] *Included in the above policy liabilities are capital guarantees of $4,682 million (2000: $4,419 million) provided on annuity products, money invested in the cash options of investment-linked business, whole of life and endowment policies and investment account policies.*

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in note 57. All policy liabilities relate to the business conducted in the statutory funds and will be settled from the assets of each statutory fund *(refer to note 1(aa))*.

29 Income tax liabilities

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Provision for income tax	**781**	1,109	**29**	265
Provision for deferred income tax	**1,794**	1,811	**447**	538
Total income tax liabilities	**2,575**	2,920	**476**	803
Provision for deferred income tax comprises:				
Lease finance	**130**	156	**109**	119
Leveraged leasing	**124**	231	**123**	230
Depreciation	**86**	183	**19**	20
Statutory funds	**129**	467	**-**	-
Other timing differences	**1,325**	774	**196**	169
Total provision for deferred income tax	**1,794**	1,811	**447**	538

30 Provisions

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Final dividend	**1,054**	976	**1,054**	976
Employee entitlements	**495**	439	**418**	364
Non-lending losses/contingencies	**84**	83	**53**	43
Restructuring costs [1]	**111**	166	**78**	122
Specific provision for off-balance sheet credit-related commitments	**78**	17	**76**	15
Other provisions	**618**	473	**76**	76
Total provisions	**2,440**	2,154	**1,755**	1,596
Provision for restructuring costs comprises:				
Redundancy and outplacement	**27**	36	**17**	27
Occupancy	**61**	112	**41**	59
Other	**23**	18	**20**	36
Total provision for restructuring costs	**111**	166	**78**	122

[1] *Refer to note 5(a)(i) for further details regarding significant restructuring costs.*

31 Bonds, notes and subordinated debt

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Medium term notes	**17,557**	12,502	**13,985**	9,305
Other senior notes	**418**	2,125	**418**	1,708
Subordinated medium term notes	**6,250**	5,674	**6,250**	5,674
Other subordinated notes	**750**	734	**750**	734
Total bonds, notes and subordinated debt	**24,975**	21,035	**21,403**	17,421
Add: Net premiums and deferred gains/(losses)	**9**	16	**9**	16
Total bonds, notes and subordinated debt	**24,984**	21,051	**21,412**	17,437

The maturity analysis of bonds, notes and subordinated debt based on remaining maturity is set out in note 41.

Medium term notes

The Group operates a number of medium term notes programs:

- under the Euro medium term notes program of the Company, notes may be issued up to an aggregate amount of US$15 billion for terms of three months or more. As at September 30, 2001, the Company had US$5.025 billion outstanding under this program;
- under the US medium term notes program of the Company, notes may be issued up to an aggregate amount of US$5 billion. As at September 30, 2001, the Company had US$2.4 billion outstanding under this program;
- under the medium term notes program through the Company's New York branch, notes may be issued up to an aggregate amount of US$1 billion for terms of nine months or more. As at September 30, 2001, the Group had no outstanding issues under this program; and
- under the HomeSide Lending Inc. medium term notes program, notes may be issued up to an aggregate amount of US$3.568 billion for terms of nine months or more. As at September 30, 2001, the Group had US$1.76 billion outstanding under this program.

Outstanding medium term notes issued by the Group pursuant to medium term notes programs as at September 30 were as follows:

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
AUD Euro medium term notes (1)	**1,029**	1,029	**1,029**	1,029
EUR Euro medium term notes (1)	**556**	648	**556**	648
GBP Euro medium term notes (1)	**816**	455	**816**	455
HKD Euro medium term notes (1)	**2,109**	1,417	**2,109**	1,417
JPY Euro medium term notes (1)	**349**	445	**349**	445
NZD Euro medium term notes (1)	**656**	637	**656**	637
SGD Euro medium term notes (1)	**58**	-	**58**	-
USD Euro medium term notes (1)	**8,412**	4,674	**8,412**	4,674
USD medium term notes (2)	**3,572**	3,197	**-**	-
Total medium term notes	**17,557**	12,502	**13,985**	9,305

(1) *Notes issued under the Company's Euro medium term notes program.*

(2) *Notes issued under the Group's US medium term notes programs through HomeSide Lending Inc.*

Other senior notes

The Group has conducted a number of stand-alone note issues.

Outstanding other senior notes issued by the Group under stand-alone programs as at September 30 were as follows:

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
AUD 150m 7.5% notes due 8/12/2000 (1)	**-**	150	**-**	150
AUD 200m 8% notes due 10/04/2001 (1)	**-**	200	**-**	200
AUD 100m 7.5% notes due 26/11/2001 (1)	**100**	100	**100**	100
AUD 100m 7.25% notes due 5/02/2002 (1)	**100**	100	**100**	100
CHF 100m 2.75% notes due 12/06/2002 (1)	**126**	106	**126**	106
EUR 200m floating rate notes due 19/03/2001 (1)	**-**	324	**-**	324
EUR 400m floating rate notes due 18/06/2001 (1)	**-**	648	**-**	648
GBP 57.792m floating rate notes due 20/06/2001 (2)	**-**	156	**-**	-
LUF 2,000m 6.875% notes due 30/12/2002 (1)	**92**	80	**92**	80
USD 129.965m 11.25% senior secured second priority notes due 15/5/2003 (3)	**-**	261	**-**	-
Total other notes	**418**	2,125	**418**	1,708

(1) *Notes issued under the Company's stand-alone notes programs.*

(2) *Notes issued under the Group's stand-alone notes program through Yorkshire Bank PLC.*

(3) *Notes issued under the Group's stand-alone notes program through HomeSide International Inc. These notes were redeemed in full on May 16, 2001.*

31 Bonds, notes and subordinated debt (continued)

Subordinated notes
Certain notes are subordinated in right of payment to the claims of depositors and all other creditors of the Company. Subordinated notes with an original maturity of at least five years constitute Tier 2 capital as defined by the Australian Prudential Regulation Authority (APRA) for capital adequacy purposes.

Subordinated medium term notes
Subordinated notes have been issued under the Euro medium term notes and the US medium term notes programs of the Company, described above.

Outstanding subordinated medium term notes issued by the Company under medium term notes programs as at September 30 were as follows:

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
USD subordinated Euro medium term notes [(1)]				
USD 30m subordinated Euro medium term notes due 20/11/2007	**61**	55	**61**	55
USD 200m subordinated Euro medium term notes due 23/01/2008	**406**	369	**406**	369
USD 150m subordinated Euro medium term notes due 15/09/2008	**304**	276	**304**	276
USD 100m subordinated Euro medium term notes due 15/06/2009	**203**	184	**203**	184
USD 200m subordinated Euro medium term notes due 8/05/2011	**406**	369	**406**	369
USD subordinated medium term notes [(2)]				
USD 400m subordinated medium term notes due 10/12/2007	**812**	737	**812**	737
USD 400m subordinated medium term notes due 10/12/2007	**812**	737	**812**	737
USD 700m subordinated medium term notes due 19/05/2010	**1,420**	1,289	**1,420**	1,289
USD 900m subordinated medium term notes due 19/05/2010	**1,826**	1,658	**1,826**	1,658
Total subordinated medium term notes	**6,250**	5,674	**6,250**	5,674

(1) *Notes issued under the Company's Euro medium term notes program.*

(2) *Notes issued under the Company's US medium term notes program.*

Other subordinated notes
The Company has conducted a number of stand-alone subordinated note issues.

Outstanding other subordinated notes issued by the Company under stand-alone programs as at September 30 were as follows:

AUD 22m subordinated floating rate notes due 8/06/2004 [(1)]	**22**	22	**22**	22
AUD 25m subordinated floating rate notes due 8/06/2006 [(1)]	**25**	68	**25**	68
AUD 250m subordinated floating rate notes due 25/11/2007	**250**	250	**250**	250
AUD 150m 6.25% subordinated notes due 25/11/2007	**150**	150	**150**	150
AUD 43m subordinated floating rate notes due 8/06/2008 [(1)]	**43**	-	**43**	-
AUD 20m 7.5% subordinated notes due 15/12/2027	**20**	20	**20**	20
AUD 20m 7.5% subordinated notes due 15/06/2028	**20**	20	**20**	20
USD 108.533m subordinated floating rate notes due 30/08/2002 [(2)]	**220**	204	**220**	204
Total other subordinated notes	**750**	734	**750**	734

(1) *These extendable notes were initially issued with a maturity of June 8, 2000. A$110 million were redeemed on June 10, 1997. As from June 8, 2001, A$22 million have a maturity date of June 8, 2004, A$25 million have a maturity date of June 8, 2006 and the remaining A$43 million have a maturity date of June 8, 2008.*

(2) *US$531,643.61 of the US$110,500,000 subordinated floating rate notes originally due 2002 were redeemed on August 26, 1991. A further US$901,157.71 were redeemed on February 26, 1998 and a further US$534,561.11 were redeemed on February 26, 1999.*

32 Other debt issues

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Perpetual floating rate notes	**507**	461	**507**	461
Exchangeable capital units	**1,262**	1,262	**-**	-
Fixed rate securities	**216**	184	**-**	-
Total other debt issues	**1,985**	1,907	**507**	461

Perpetual floating rate notes

On October 9, 1986, the Company issued US$250 million (A$507 million) undated subordinated floating rate notes. Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London.

The notes are unsecured obligations of the Company, subordinated in that:

(i) payments of principal and interest on the notes will only be payable to the extent that, after such payment, the Company remains solvent;

(ii) the payment of interest will also be optional if a dividend has not been declared, paid or made in the preceding 12 months; and

(iii) in the event of the winding-up of the Company, the rights of the noteholders will rank in preference only to the rights of preferred and ordinary shareholders and creditors whose claims rank, or are expressed to rank, after the noteholders and couponholders.

The notes have no final maturity. All or some of the notes may be redeemed at the option of the Company with the prior consent of the Australian Prudential Regulation Authority (APRA).

Exchangeable capital units

On March 19, 1997, National Australia Capital Securities (UK) PLC, a controlled entity, received funds following the issue of 40 million exchangeable capital units at US$25 each with a cumulative return of 7 7/8% per annum. Under the terms of the exchangeable capital units, the Company has the option to require the exchange of all, but not part, of the exchangeable capital units at any time for 7 7/8% convertible non-cumulative preference shares of the Company. Holders of the exchangeable capital units or the convertible non-cumulative preference shares have the option at any time to exchange their holdings for ordinary shares of the Company initially at the rate of 1.6365 ordinary shares per exchangeable capital unit or convertible non-cumulative preference share, subject to anti-dilution provisions.

As a result of a holder of exchangeable capital units exercising the option to exchange their holdings for ordinary shares of the Company, the number of exchangeable capital units is currently 39,999,800.

The Company has the right to redeem all or part of the exchangeable capital units or redeem any or all of the convertible non-cumulative preference shares under a special offer at any time after March 19, 2007, with the prior consent of APRA.

Fixed rate securities

MLC Limited has US$100 million (A$216 million) of funds raised through the issue of subordinated securities in a global offering outside Australia. The securities have a fixed coupon of 7.53% per annum until July 2004, have no stated maturity and are redeemable at the option of MLC Limited. Of this debt, US$57 million resides in the shareholders' fund of MLC Limited and supports the investment in HK MLC Holdings Limited. The balance of the debt (US$43 million) is held in the statutory funds of MLC Limited. The subordinated debt is measured at net present value of the payments to the next restatement date (July 14, 2004).

33 Other liabilities

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Accrued interest payable	**2,053**	2,087	**1,191**	1,210
Fair value of trading derivative financial instruments	**18,871**	13,061	**18,046**	12,127
Notes in circulation	**2,122**	1,800	**-**	-
Other life insurance liabilities [(1)]				
Unsettled investment liabilities	**927**	548	**-**	-
Outstanding policy claims	**12**	60	**-**	-
Reinsurance creditors	**9**	44	**-**	-
Other	**91**	333	**-**	-
Other liabilities	**11,646**	8,699	**4,894**	3,926
Total other liabilities	**35,731**	26,632	**24,131**	17,263

[(1)] *Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to note 1(p)).*

34 Contributed equity

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Issued and paid-up share capital					
Ordinary shares, fully paid	**8,050**	7,180	6,610	**8,050**	7,180
Ordinary shares, partly paid to 25 cents	**-**	-	1	**-**	-
Preference shares, fully paid	**730**	730	730	**730**	730
Other contributed equity					
National Income Securities	**1,945**	1,945	1,945	**1,945**	1,945
	10,725	9,855	9,286	**10,725**	9,855
Reconciliations of movements in contributed equity					
Ordinary share capital					
Balance at beginning of year	**7,180**	6,611	5,942	**7,180**	6,611
Shares issued					
Dividend reinvestment plan	**610**	370	383	**610**	370
Staff share ownership plan [(1)]	**-**	2	3	**-**	2
Executive option plan [(1)]	**10**	44	132	**10**	44
Executive option plan No.2 [(1)]	**195**	84	-	**195**	84
Share purchase plan	**52**	66	145	**52**	66
Shares converted from partly paid	**3**	3	6	**3**	3
Balance at end of year	**8,050**	7,180	6,611	**8,050**	7,180

34 Contributed equity (continued)

The number of ordinary shares on issue for the last three years as at September 30 was as follows:

	Company		
	2001	2000	1999
	No. '000	No. '000	No. '000
Ordinary shares, fully paid			
Balance at beginning of year	**1,514,361**	1,484,080	1,447,649
Shares issued			
Dividend reinvestment plan	**19,185**	15,018	15,592
Bonus share plan	**2,655**	3,367	3,072
Staff share ownership plan (1)	**105**	68	129
Staff share allocation plan (1)	**666**	2	2
Executive option plan (1)	**807**	3,655	11,019
Executive option plan No. 2 (1)	**10,389**	5,043	15
Share purchase plan	**1,657**	2,663	6,040
Shares converted from partly paid	**478**	465	562
	1,550,303	1,514,361	1,484,080
Ordinary shares, partly paid to 25 cents			
Balance at beginning of year	**1,750**	2,215	2,777
Shares converted to fully paid	**(478)**	(465)	(562)
	1,272	1,750	2,215
Total number of ordinary shares on issue at end of year	**1,551,575**	1,516,111	1,486,295

(1) *Refer to note 39 for details on employee share, bonus and option schemes.*

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings.

In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Preference shares					
Balance at beginning of year	**730**	730	730	**730**	730
Balance at end of year	**730**	730	730	**730**	730

On September 30, 1998, a total of 32,008,000 fully paid non-converting non-cumulative preference shares of the Company with a liquidation preference of US$12.50 per share (the TrUEPrS[SM] preference shares) were issued to a depositary in connection with an issue of 16,004,000 Trust Units Exchangeable for Preferred Shares[TM] (TrUEPrS) by the NAB Exchangeable Preferred Trust, a Delaware business trust that is not controlled by the Company. The underwriters with respect to the TrUEPrS issue subsequently exercised an option resulting in a further issuance of 2,000,000 TrUEPrS (and accordingly, in the issue of a further 4,000,000 TrUEPrS preference shares).

The holders of TrUEPrS receive distributions quarterly in arrears at the rate of 8% per annum on a non-cumulative basis. On December 31, 2047, or the earlier occurrence of certain other exchange events, the holders of TrUEPrS can be required to exchange their TrUEPrS for American depositary shares representing TrUEPrS preference shares, or for cash in some limited circumstances. Until that time, the TrUEPrS preference shares do not pay dividends. After such an exchange event occurs the TrUEPrS preference shares will automatically convert into non-cumulative preference shares paying a dividend of 8% per annum, if declared.

If a dividend is not paid on the TrUEPrS preference shares, the Company cannot, in certain circumstances, pay distributions, redeem, buy-back or reduce capital on any other shares of the Company that rank equally with or junior to the TrUEPrS preference shares.

Holders of the TrUEPrS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per TrUEPrS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the TrUEPrS preference shares.

The TrUEPrS preference shares are redeemable, in certain limited circumstances, prior to the fifth anniversary of their issue date, and after the fifth anniversary of the issue date, at the Company's election at a redemption price of US$12.50 plus accrued dividends, if any. The terms of the TrUEPrS preference shares also provide, subject to certain conditions, for a reduction of the share capital of the TrUEPrS preference shares of US$12.49, followed by a redemption of the outstanding share capital attributed to those shares of US$0.01, and for holders to accept a buy-back offer, if made by the Company at a price of US$12.50 plus accrued dividends, if any, for each TrUEPrS preference share.

34 Contributed equity (continued)

In a winding-up of the Company, holders of TrUEPrS preference shares will generally rank equally with the holders of other preference shares and will rank for return of capital on the TrUEPrS preference shares in priority to ordinary shareholders. After certain exchange events occur (as referred to above), TrUEPrS preference shares will rank in priority to ordinary shares and equally with other preference shares as to dividends. Presently, the Company's other preference shares consist of the preference shares issued in connection with National Income Securities, which are described below. Preference shares may also be issued by the Company in connection with its exchangeable capital units.

TrUEPrS[SM] is a service mark of Merrill Lynch & Co., Inc.

	Group			Company	
	2001	2000	1999	**2001**	2000
	\$m	\$m	\$m	**\$m**	\$m
National Income Securities					
Balance at beginning of year	**1,945**	1,945	1,945	**1,945**	1,945
Balance at end of year	**1,945**	1,945	1,945	**1,945**	1,945

On June 29, 1999, the Company issued 20 million National Income Securities (NIS) at A$100 each. These securities are stapled securities, comprising one fully paid note of A$100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (an NIS preference share). The amount unpaid on an NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. If the amount unpaid on an NIS preference share becomes due, the holder can, and must, transfer to the Company the note stapled to that NIS preference share. The transfer of the note to the Company will satisfy the holder's obligation to pay up the amount on the NIS preference share. The holder will then hold a fully paid NIS preference share.

Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears commencing on August 15, 1999. A minimum interest rate of at least 6% per annum was payable until May 15, 2000. Holders of NIS preference shares are not entitled to dividends until the NIS preference shares become fully paid. If the NIS preference shares become fully paid, holders will receive, if declared, a dividend calculated at the same rate and payable on the same basis as for the NIS.

If a dividend is not paid on the NIS preference shares, the Company cannot, in certain circumstances, pay distributions, redeem, buy-back or reduce capital on any other shares of the Company that rank equally with or junior to the NIS preference shares.

Holders of the NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per preference share on a limited number of matters including any proposal to wind-up the Company or any proposal to affect the rights attaching to the preference shares.

With the prior consent of the Australian Prudential Regulation Authority, the Company may redeem each note for A$100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. This may take place at any time after the fifth anniversary of the issue date of the NIS or earlier in certain limited circumstances.

NIS have no maturity date, are quoted on the stock market of Australian Stock Exchange Limited (the ASX) and on winding-up of the Company will rank for a return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders. In a winding-up of the Company, the holders of fully paid NIS preference shares issued in connection with the NIS will generally rank equally with the holders of other preference shares of the Company with the same number with respect to priority on payment in winding-up (as specified in accordance with the constitution), and will rank for a return of capital on the NIS preference shares in priority to the holders of ordinary shares. Presently, the only other class of preference shares on issue are the preference shares issued in connection with the TrUEPrS, which are described above, and which rank equally with the NIS preference shares with respect to priority on payment in a winding-up. Preference shares may also be issued by the Company in connection with the exchangeable capital units.

35 Reserves

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
General reserve	**649**	422	163	**9**	8
Asset revaluation reserve	**16**	14	-	**5**	134
Foreign currency translation reserve	**1,762**	1,570	639	**80**	88
Total reserves	**2,427**	2,006	802	**94**	230

Reconciliations of movements in reserves

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
General reserve					
Balance at beginning of year	**422**	163	142	**8**	7
Transfers from retained profits	**227**	259	56	**1**	1
Transfers to retained profits	**-**	-	(35)	**-**	-
Balance at end of year	**649**	422	163	**9**	8

The general reserve includes statutory funds' retained profits from the Group's life insurance business. Profits from the statutory funds are not immediately available for distribution. These profits will only be available after the respective life company's board has approved the transfer of surpluses from the statutory funds to the shareholders' fund.

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Asset revaluation reserve					
Balance at beginning of year	**14**	-	3	**134**	165
Net effect on adoption of AASB 1041 "Revaluation of Non-Current Assets"	**-**	-	-	**(125)**	-
Revaluation of properties	**16**	29	4	**4**	1
Revaluation of certain properties to recoverable amounts	**(8)**	-	(6)	**(2)**	-
Reduction of investment in controlled entities	**-**	-	-	**-**	(30)
Transfers to retained profits	**(6)**	(15)	(1)	**(6)**	(2)
Balance at end of year	**16**	14	-	**5**	134

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets in accordance with Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets".

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Foreign currency translation reserve					
Balance at beginning of year	**1,570**	639	1,637	**88**	35
Currency translation adjustments	**1,380**	931	(1,012)	**19**	53
Transfers from retained profits	**-**	-	14	**-**	-
Transfers to retained profits	**(70)**	-	-	**(27)**	-
Transfer to retained profits on sale of foreign controlled entity	**(1,118)**	-	-	**-**	-
Balance at end of year	**1,762**	1,570	639	**80**	88

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation.

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m

36 Retained profits

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Balance at beginning of year	**9,500**	8,432	7,304	**5,699**	2,681
Net profit attributable to members of the Company	**2,083**	3,239	2,821	**3,494**	4,921
Net effect on adoption of AASB 1038 "Life Insurance Business"	-	58	-	-	-
Transfers to general reserve	**(227)**	(259)	(21)	**(1)**	(1)
Transfers from asset revaluation reserve	**6**	15	1	**6**	2
Transfer from foreign currency translation reserve on sale of foreign controlled entity	**1,118**	-	-	-	-
Transfers from/(to) foreign currency translation reserve	**70**	-	(14)	**27**	-
Dividends paid or provided for	**(2,080)**	(1,858)	(1,655)	**(2,080)**	(1,858)
Dividend provision not required	**80**	71	70	**80**	91
Distributions on other equity instruments	**(213)**	(198)	(74)	**(142)**	(137)
Balance at end of year	**10,337**	9,500	8,432	**7,083**	5,699

Comprehensive income

The Group reports total comprehensive income in accordance with US accounting standard Statement of Financial Accounting Standard No. 130 "Reporting Comprehensive Income". Comprehensive income is defined as the change in equity of a business enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes net profit plus all other changes in equity during a reporting period except those resulting from investments by owners and distributions to owners.

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Net profit attributable to members of the Company	**2,083**	3,239	2,821	**3,494**	4,921
Other comprehensive income					
Asset revaluation reserve	**2**	14	(3)	**(129)**	(31)
Foreign currency translation reserve	**192**	931	(998)	**(8)**	53
Total other comprehensive income	**194**	945	(1,001)	**(137)**	22
Total comprehensive income	**2,277**	4,184	1,820	**3,357**	4,943

37 Outside equity interest

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Contributed equity	**74**	56	6	**-**	-
Retained profits	**(6)**	(10)	(6)	**-**	-
Total outside equity interest	**68**	46	-	**-**	-

38 Total equity reconciliation

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Balance at beginning of year	**21,407**	18,520	15,764	**15,784**	12,174
Total changes in equity recognised in statement of financial performance	**3,471**	4,257	1,807	**3,390**	4,945
Transactions with owners as owners					
Contributions of equity	**870**	569	2,611	**870**	569
Dividends[(1)]	**(2,000)**	(1,787)	(1,585)	**(2,000)**	(1,767)
Distributions	**(213)**	(198)	(74)	**(142)**	(137)
Total changes in outside equity interest	**22**	46	(3)	**-**	-
Balance at the end of year	**23,557**	21,407	18,520	**17,902**	15,784

[(1)] *Includes dividends paid or provided for and dividend provisions not required.*

39 Employee share, bonus and option schemes

(a) National Australia Bank Staff Share Ownership Plan (staff share ownership plan)

The staff share ownership plan was approved by shareholders by special resolution in January 1997. Details of issues and acquisitions are set out in table 1, below.

The staff share ownership plan provides for the Board to invite any employee of the Group to participate in an offer under the plan. The Board may also invite any employee to apply for a loan to acquire shares or offer to have the Company provide funds to acquire shares. The Board determines the number of shares to be offered, the offer price per share and the offer period. The Company may provide funds for a trustee to subscribe for or purchase fully paid ordinary shares in the Company on behalf of participating employees (if required). The trustee must subscribe for or purchase the shares within a predetermined timeframe.

Shares acquired under the plan will be held in trust and may not be dealt with by the employee until a prescribed period after they were acquired, unless otherwise determined by the Board. Certain of the shares may also be forfeited in certain limited circumstances.

If shares are acquired using a loan under the plan, the shares are held in trust until the loan is repaid. The loan is provided at no interest and the loan will be repaid by the dividends from the shares. The loan must be repaid if the employee ceases employment with the Group. An employee may direct the trustee to sell the shares to satisfy this repayment obligation. If the proceeds of the sale are insufficient to fully repay the outstanding loan balance, the Company will forgive the difference.

Following the acquisition of the MLC group of companies in 2000, a number of offers have been made under the plan to maintain existing arrangements and facilitate the terms of the acquisition. These offers were:

- the Wealth Management ownership offer which provides for Wealth Management employees to receive up to 5% of their total remuneration package in shares, based on length of service. This is a continuation of an arrangement in place prior to acquisition of the MLC group;
- as part of the acquisition, certain employees of the MLC group were offered retention benefits to remain within the Group. Employees were able to express a preference to receive part of this payment in shares in accordance with the terms of the plan; and
- the MLC group acquired an interest in Medfin Australia Pty Ltd (Medfin) prior to the acquisition of MLC by the Group. Subsequently, the remaining share capital of Medfin has been acquired by the Group, which resulted in an obligation to provide retention benefits to Medfin employees by way of shares in the Company.

Shares are provided to non-executive directors as part of their remuneration, rather than receiving cash. Every six months, at least 10% and up to 40% of their remuneration for that fee period is provided as shares acquired under the plan.

Shares must not be issued under the plan if the total number of shares issued in the last five years under the Company's employee share or option plans and the total number of outstanding options issued under its plans, including the proposed offer, exceeds 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. This calculation does not include offers made or shares or options acquired as a result of an offer made to a person situated outside Australia at the time of the offer or which did not need disclosure under section 708 of the *Corporations Act 2001* (for example, shares provided for no consideration under the staff share allocation plan), otherwise than as a result of relief granted by the Australian Securities and Investments Commission.

(b) National Australia Bank Staff Share Allocation Plan (staff share allocation plan)

The staff share allocation plan was approved by shareholders by special resolution in January 1997. Details of issues and acquisitions are set out in table 1, below.

The plan provides for the Board to invite any employee of the Group to participate in an offer under the plan. Offers approved by the Board up to September 30, 2000 were for 25 shares per participant. Under the plan, the Company provides funds (if required) for a trustee to subscribe for or purchase fully paid ordinary shares in the Company on behalf of participating employees. The shares are held by the trustee for three years, or until the employee ceases employment with the Group. Employees may deal with the shares when the restrictions are released.

This year, the first National EVA® share offer was made to all eligible employees (excluding employees in certain jurisdictions and Wealth Management employees for whom there were alternate arrangements) to acquire ordinary shares in the Company for no consideration. Eligible employees were offered up to $1,000 worth of shares as a reward for the Group's performance in the previous year, assessed against its Economic Value Added (EVA®) target.

Shares must not be offered under the plan if the total number of shares issued in the last five years under the Company's employee share or option plans and the total number of outstanding options issued under its plans, including the proposed offer, exceeds 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. This calculation does not include offers made or shares or options acquired as a result of an offer made to a person situated outside Australia at the time of the offer or which did not need disclosure under section 708 of the *Corporations Act 2001* (for example, shares provided for no consideration under the staff share allocation plan), otherwise than as a result of relief granted by the Australian Securities and Investments Commission.

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39 Employee share, bonus and option schemes (continued)

(c) Employee Share Savings Plan – United Kingdom and Republic of Ireland (employee share savings plan)

The employee share savings plan was approved by shareholders in 1995. Shares acquired under the plan are shown in table 1, below.

Full-time and part-time employees of controlled entities in the United Kingdom and Republic of Ireland who are resident in those countries and have had at least one full year's continuous service at the beginning of the savings period are eligible to participate in the plan. The plan allows for savings out of salary (up to a maximum of 2%) by participating employees and the investment of those savings by the acquisition of fully paid ordinary shares of the Company.

At the end of the savings period, each relevant controlled entity makes a cash contribution sufficient to purchase an equivalent number of shares as that purchased from the accumulated savings of participation employees. Contributions by controlled entities are accrued over the term of the savings period and are included in provisions until paid.

Savings by participating employees and contributions by controlled entities are paid to trusts which purchase shares on market as soon as practicable after the close of each savings period. The price of the shares is the market price at the date the trusts acquire the shares. Shares acquired under the plan must be held in the trusts for a minimum of two years. The underlying regulations provide certain taxation concessions to employees where the employer-funded shares are retained in the trusts for a period of three years.

The aggregate market value of shares issued to participating employees in the plan must be within the statutory requirements permitted by the taxation authorities from time to time.

The plan continues to operate with six-monthly savings periods beginning on February 1 and August 1 each year. The Board has established the savings limit for participating employees as 1% of salary until otherwise determined.

(d) National Australia Executive Option Plan (executive option plan)

The executive option plan was approved by shareholders in 1994. Options have not been issued under this plan since 1996. Outstanding options issued under the plan are shown in table 2, below. Following approval of the executive share option plan No. 2 by shareholders in January 1997, there is no intention of issuing further options under the plan.

Under the plan, the Board could offer options to executives of the Group to subscribe for fully paid ordinary shares in the Company. The Board determined eligibility and entitlements having regard to each executive's contribution and potential contribution to the Group and to any other matters which the Board considered relevant.

The options were issued free of charge to participants in the plan. Each option is to subscribe for one fully paid ordinary share in the Company. The exercise price per share for an option was determined by the Board at the date the option was issued. The exercise price per option was required to be at least equal to 95% of the market value of the Company's ordinary shares as at the date the option was issued. The market value was the weighted average market price of the Company's fully paid ordinary shares in the week preceding the issue of the option.

An option may not be exercised before the third anniversary of its issue, and must be exercised by the fifth anniversary of its issue. Under the terms of offer, a precondition of the exercise of any option requires that the market price of the Company's shares must have increased by at least 20% over the exercise price as determined at the date the option is issued, after allowing for share issues in the meantime.

Options will lapse if unexercised on or before their expiry date. Options may be forfeited if the Board makes a determination that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any entity in the Group.

Options may only be exercised within the limitations imposed by the *Corporations Act 2001* and the Australian Stock Exchange Listing Rules. Under the Australian Stock Exchange Listing Rules, options may not be issued to Company directors under an employee incentive scheme without specific shareholder approval. Shareholders approved the issue of option under the executive options plan (and shares resulting from exercise of those options) to the then Managing Director at the relevant annual general meeting.

A loan may be available to executives if and when they wish to exercise their options. The plan rules provide that the rate of interest applicable to such a loan is generally the standard rate charged by the Company on loans to employees. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

39 Employee share, bonus and option schemes (continued)

(e) National Australia Bank Executive Share Option Plan No. 2 (executive share option plan No. 2)

The executive share option plan No. 2 was approved by shareholders by special resolution in January 1997 and options issued under the plan are shown in table 2, below.

The executive share option plan No. 2 provides for the Board to offer options to executives of the Group to subscribe for fully paid ordinary shares in the Company. Options must not be issued if the total number of shares issued in the last five years under the Company's employee share or option plans and the total number of outstanding options under its plans, including the proposed offer, exceeds 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. This calculation does not include offers made or shares or options acquired as a result of an offer made to a person situated outside Australia at the time of the offer or which did not need disclosure under section 708 of the *Corporations Act 2001* (for example, shares provided for no consideration under the staff share allocation plan), otherwise than as a result of relief granted by the Australian Securities and Investments Commission.

During 2001, 13,258,500 share options were issued to 2,525 senior employees (2000: 11,435,500 share options issued to 604 senior employees).

The options were issued free of charge to participants in the plan. Each option is to subscribe for one fully paid ordinary share in the Company. The exercise price per share for an option is the market price of the Company's fully paid ordinary shares as at the date the option was issued. The market price is the weighted average of the prices at which the Company's fully paid ordinary shares were traded on Australian Stock Exchange Limited (ASX) in the one week up to and including the day of the issue of the option.

Generally, these options may not be exercised before the third anniversary of their issue, and must be exercised before the fifth or eighth anniversary (depending on the particular terms of each option) of issue. The Board may determine such other terms for the issue of options consistent with the Australian Stock Exchange Listing Rules and the terms of the plan.

Options may, however, be exercised before the third anniversary of issue and notwithstanding the performance hurdle (described below) where an executive ceases employment with the Group as the result of death or total and permanent disablement. The Board may also allow the option holders to exercise the options irrespective of the normal criteria where certain events occur, such as the making of a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.

Options will lapse if unexercised on or before their expiry date or, for options issued prior to November 1999, if the Board determines that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any entity in the Group and for options issued after November 1999, 30 days after an executive ceases to be employed by the Group otherwise than as a result of death or total and permanent disablement.

A loan may be available to executives if and when they wish to exercise their options. The plan rules provide that the rate of interest applicable to such a loan be the Company's base lending rate plus any margin determined by the Board. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

Exercise of the options is subject to satisfaction of a performance hurdle. The performance hurdle for options issued after November 1999 is measured after the first three years by comparing the performance of the Company with the performance of other companies in which shareholders may potentially invest. Options become exercisable depending on the maximum total shareholder return of the Company relative to the total shareholder return of a group of companies during the relevant performance period. This group of companies is based on the top 50 companies listed on ASX by market capitalisation (excluding the Company), determined at the date when the options are issued.

Table 1 Employee share plans

Current employee share plans [(1)]	No. of eligible participants	Average price	No. of fully paid ordinary shares
Staff share ownership plan			
1999	33,841	$23.05	7,770,022
2000	35,028	$24.01	5,333,720
2001 Wealth Management ownership offer	2,772	$33.72	91,909
2001 Wealth Management retention benefits	110	$34.04	34,351
2001 Wealth Management Medfin offer	35	$33.72	6,444
2001 Non-executive directors' shares [(2)]	7	$30.93	6,617
Staff share allocation plan			
1999	33,841	$23.05	762,325
2000	35,028	$24.01	764,475
2000 National EVA share offer	25,025	$33.72	665,500

39 Employee share, bonus and option schemes (continued)

Current employee share plans [(1)]	No. of eligible participants	Average price	No. of fully paid ordinary shares
Employee share savings plan			
Aug 1, 1996 - Jan 31, 1997	15,466	$15.91	212,028
Feb 1, 1997 - Jul 31, 1997	14,468	$19.01	188,562
Aug 1, 1997 - Jan 31, 1998	14,359	$19.21	188,512
Feb 1, 1998 - Jul 31, 1998	14,266	$19.45	209,992
Aug 1, 1998 - Jan 31, 1999	13,241	$27.27	158,880
Feb 1, 1999 - Jul 31, 1999	13,009	$22.57	185,108
Aug 1, 1999 - Jan 31, 2000	12,694	$21.67	180,718
Feb 1, 2000 - Jul 31, 2000	12,911	$25.84	165,430
Aug 1, 2000 - Jan 31, 2001	12,599	$29.39	151,066
Feb 1, 2001 - Jul 31, 2001	12,386	$33.83	136,380
Aug 1, 2001 - Jan 31, 2002 [(3)]	12,562		

(1) *Under the Australian Stock Exchange Listing Rules, options or shares may not be issued to company directors under an employee incentive scheme without specific shareholder approval. Shareholders approved the issue of options (and shares resulting from exercise of those options) to the then managing director at the relevant annual general meeting.*

(2) *6,617 shares were issued of which 361 were forfeited upon resignation of a director.*

(3) *No shares have been acquired at September 30, 2001 but $0.46 million has been contributed to the trust in respect of this savings period. Shares will be purchased at the end of the savings period.*

Table 2 Option plans

Issue date of options	Exercise period of options[(1)]	Exercise price of options	No. of options held at Sep 30, 2001	No. of options lapsed or cancelled during 2001	No. of options exercised during 2001	No. of options held at Sep 30, 2000	No. of options exercised during 2000	Fair value of options as at grant date
Executive option plan								
Jan 2, 1996	Jan 2, 1999 - Jan 2, 2001	$12.16	-	30,000	792,400	822,400	3,310,800	17,126,400
Jan 25, 1996	Jan 25, 1999 - Jan 25, 2001	$12.54	-	-	-	-	-	645,000
Jun 27, 1996	Jun 27, 1999 - Jun 27, 2001	$11.52	-	-	15,000	15,000	45,000	290,400
Executive share option plan No. 2								
Feb 27, 1997	Feb 27, 2000 - Feb 27, 2002	$16.62	890,500	-	3,661,800	4,552,300	5,027,700	14,903,700
Feb 26, 1998	Feb 26, 2001 - Feb 26, 2003	$19.90	4,183,500	-	6,727,500	10,911,000	15,000	39,294,080
Mar 19, 1999	Mar 19, 2002 - Mar 19, 2004	$28.23	12,295,000	60,000	-	12,355,000	-	56,624,750
Aug 6, 1999	Aug 6, 2002 - Aug 6, 2004	$23.34	120,000	-	-	120,000	-	589,200
Mar 23, 2000	Mar 23, 2003 - Mar 23, 2008	$21.29	10,183,500	374,500	-	10,558,000	-	47,194,260
Sep 28, 2000	Sep 28, 2003 - Sep 28, 2008	$24.89	777,500	100,000	-	877,500	-	5,168,475
Mar 23, 2001	Mar 23, 2004 - Mar 23, 2009	$27.85	11,759,000	322,500	-	-	-	59,320,165
Sep 14, 2001	Sep 14, 2004 - Sep 14, 2009	$28.87	1,177,000	-	-	-	-	6,238,100

(1) *The latest date to exercise options is the last day of the exercise period.*

The market price of the Company's shares at September 30, 2001 was $25.66 (2000: $25.51, 1999: $22.43).

39 Employee share, bonus and option schemes (continued)

In accordance with US Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", the Company adopts the intrinsic value method for valuing options issued under the National Australia Bank Executive Share Option Plan No. 2. Under the intrinsic value method, a nil value is ascribed to the options issued under the plan, as the exercise price and market value of the options at issue date are equivalent. Accordingly, a nil value is ascribed to the options issued under the plan in note 54 and the report of the directors.

US accounting standard Statement of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation" (SFAS 123) allows an alternative valuation method, known as the fair value method. SFAS 123 requires disclosure of the fair value of options where the Company adopts the intrinsic value method. Under the fair value method, options issued on March 23, 2001 were valued at $4.91 each, and those issued on September 14, 2001 were valued at $5.33 each (March 23, 2000: $4.47 each, September 28, 2000: $5.89 each, March 19, 1999: $4.55 each, August 6, 1999: $4.91 each).

For options granted in the current year, the valuation is based on a numerical pricing method which takes into account both the probability of achieving the performance hurdle required for these options to vest, and the American feature which permits early exercise of vested option. The following significant assumptions were adopted to determine the fair value of options:

	Sep 14, 2001	Mar 23, 2001	Sep 28, 2000	Mar 23, 2000	1999
Risk-free interest rate (per annum)	5.91%	5.64%	6.60%	6.10%	5.55%
Life of options	8 years	8 years	8 years	8 years	5 years
Volatility of share price	24.47%	20.74%	20.80%	20.80%	20.00%
Dividend rate (per annum)	4.84%	4.56%	3.90%	4.50%	4.63%

If the fair value basis of accounting had been applied to account for compensation costs as stipulated in SFAS 123, the following net profit and earnings per share would have appeared:

	2001		2000		1999	
	As reported	**Pro forma**	As reported	Pro forma	As reported	Pro forma
Net profit attributable to members of the Company ($m)	**2,083**	**2,039**	3,239	3,205	2,821	2,710
Basic earnings per share (cents)	**121.5**	**118.7**	202.3	200.1	186.6	184.1
Diluted earnings per share (cents)	**121.9**	**119.3**	195.6	193.5	181.6	180.9

Refer to (d) and (e) above for details of the plans and the hurdles that must be achieved before the options can be exercised.

40 Average balance sheets and related interest

The following tables set forth the major categories of interest-earning assets and interest-bearing liabilities, together with their respective interest rates earned or paid by the Group. Averages are predominantly daily averages. Interest income figures include interest income on non-accruing loans to the extent cash payments have been received *(refer to note 1(q)(iii))*. Amounts classified as overseas represent interest-earning assets or interest-bearing liabilities of the controlled entities and overseas branches. Non-accrual loans are included with interest-earning assets within loans and advances.

Average assets and interest income

		2001			2000			1999	
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa	Average balance $m	Interest $m	Average rate % pa
Average interest-earning assets									
Due from other financial institutions									
Australia	**1,980**	**110**	**5.56**	1,490	79	5.30	1,063	42	3.95
Overseas	**13,332**	**685**	**5.14**	9,819	612	6.23	8,612	439	5.10
Marketable debt securities									
Australia	**11,813**	**624**	**5.28**	12,182	638	5.24	9,848	456	4.63
Overseas	**22,061**	**1,236**	**5.60**	14,104	827	5.86	13,580	730	5.38
Loans and advances									
Australia	**101,941**	**7,525**	**7.38**	91,120	6,797	7.46	83,253	5,813	6.98
Overseas	**99,320**	**7,734**	**7.79**	88,043	7,057	8.02	79,563	6,385	8.03
Regulatory deposits									
Australia	**-**	**-**	**-**	-	-	-	733	-	-
Overseas	**131**	**3**	**2.29**	109	2	1.83	114	2	1.75
Other-interest earning assets[(1)]	**6,025**	**2,002**	**N/A**	4,120	1,505	N/A	5,286	1,199	N/A
Intra-Group loans									
Overseas	**10,248**	**455**	**4.44**	4,399	273	6.21	1,539	96	6.26
Average interest-earning assets and interest income including intragroup	**266,851**	**20,374**	**7.63**	225,386	17,790	7.89	203,591	15,162	7.46

40 Average balance sheets and related interest (continued)

	2001			2000			1999		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa	Average balance $m	Interest $m	Average rate % pa
Intra-Group eliminations	**(10,248)**	**(455)**	**4.44**	(4,399)	(273)	6.21	(1,539)	(96)	6.26
Total average interest-earning assets and interest income	**256,603**	**19,919**	**7.76**	220,987	17,517	7.93	202,052	15,066	7.46
Average non-interest earning assets									
Acceptances									
Australia	**22,405**			22,349			21,959		
Overseas	**1,004**			1,165			1,309		
Investments relating to life insurance business [(2)]									
Australia	**30,642**			7,329			-		
Overseas	**591**			627			-		
Property, plant and equipment									
Australia	**1,173**			845			756		
Overseas	**1,166**			1,211			1,310		
Other assets									
Australia	**19,422**			15,811			10,214		
Overseas	**24,597**			17,533			19,655		
Total average non-interest earning assets	**101,000**			66,870			55,203		
Provisions for doubtful debts									
Australia	**(1,348)**			(1,246)			(1,228)		
Overseas	**(1,267)**			(1,304)			(1,109)		
Total average assets	**354,988**			285,307			254,918		
Percentage of total average assets applicable to overseas operations	**47.0%**			47.5%			50.0%		

Average liabilities and interest expense

	2001			2000			1999		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa	Average balance $m	Interest $m	Average rate % pa
Average interest-bearing liabilities									
Due to other financial institutions									
Australia	**4,178**	**203**	**4.86**	3,350	170	5.07	3,070	113	3.68
Overseas	**33,638**	**1,704**	**5.07**	22,031	1,252	5.68	14,913	976	6.54
Savings deposits									
Australia	**5,584**	**290**	**5.19**	5,919	300	5.07	4,470	184	4.12
Overseas	**17,417**	**642**	**3.69**	17,886	695	3.89	17,386	614	3.53
Other demand deposits									
Australia	**30,796**	**1,050**	**3.41**	27,703	839	3.03	27,784	812	2.92
Overseas	**15,696**	**459**	**2.92**	13,095	401	3.06	10,676	282	2.64
Time deposits									
Australia	**33,709**	**1,856**	**5.51**	33,321	1,761	5.28	34,119	1,713	5.02
Overseas	**57,850**	**3,062**	**5.29**	45,956	2,554	5.56	47,805	2,416	5.05
Government and official institutions									
Australia	**750**	**36**	**4.80**	788	37	4.70	-	-	-
Overseas	**2,174**	**118**	**5.43**	1,546	90	5.82	744	38	5.11
Short term borrowings									
Australia	**-**	**-**	**-**	-	-	-	-	-	-
Overseas	**7,384**	**523**	**7.08**	7,154	500	6.99	5,140	349	6.79
Long term borrowings									
Australia	**18,515**	**1,158**	**6.25**	13,404	844	6.30	10,013	567	5.66
Overseas	**5,412**	**251**	**4.64**	2,655	209	7.87	2,386	141	5.91
Other debt issues									
Australia	**673**	**42**	**6.24**	456	36	7.89	385	25	6.49
Overseas	**1,220**	**150**	**12.30**	1,283	130	10.13	1,565	123	7.86
Other interest-bearing liabilities[(1)]	**4,067**	**1,415**	**N/A**	4,611	1,328	N/A	191	647	N/A
Intra-Group loans									
Australia	**10,248**	**455**	**4.44**	4,399	273	6.21	1,539	96	6.24

40 Average balance sheets and related interest (continued)

	2001			2000			1999		
	Average balance $m	Interest $m	Average rate % pa	Average balance $m	Interest $m	Average rate % pa	Average balance $m	Interest $m	Average rate % pa
Average interest-bearing liabilities and interest expense including Intra-Group	**249,311**	**13,414**	**5.38**	205,557	11,419	5.56	182,186	9,096	4.99
Intra-Group eliminations	**(10,248)**	**(455)**	**4.44**	(4,399)	(273)	6.21	(1,539)	(96)	6.24
Total average interest-bearing liabilities and interest expense	**239,063**	**12,959**	**5.42**	201,158	11,146	5.54	180,647	9,000	4.98
Average non-interest bearing liabilities									
Liability on acceptances									
Australia	**22,405**			22,349			21,959		
Overseas	**1,004**			1,165			1,309		
Deposits not bearing interest									
Australia	**4,287**			4,264			4,061		
Overseas	**8,160**			8,157			7,701		
Life insurance policy liabilities (2)									
Australia	**29,550**			11,413			-		
Overseas	**514**			551			-		
Other liabilities									
Australia	**15,097**			8,267			10,532		
Overseas	**11,481**			7,722			11,562		
Total average non-interest bearing liabilities	**92,498**			63,888			57,124		
Total average liabilities	**331,561**			265,046			237,771		
Total average equity	**23,427**			20,261			17,147		
Total average liabilities and equity	**354,988**			285,307			254,918		
Percentage of total average liabilities applicable to overseas operations	**48.8%**			48.8%			51.0%		

(1) *Includes interest on derivatives and escrow deposits.*

(2) *Included within investments relating to life insurance business are interest-earning debt securities (refer to note 15). The interest earned from these securities is reported in life insurance income, as shown in note 4, and has therefore been treated as non-interest earning for the purposes of this note. The assets and liabilities held in the statutory funds of the Group's Australian life insurance business are subject to restrictions of the Life Insurance Act 1995 (refer to note 1(p)).*

41 Maturity analysis

The following tables represent a breakdown of the Group's statement of financial position for the last two years as at September 30 by contractual maturity. The majority of the longer term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Accordingly, this information is not relied upon by the Group in its management of interest rate risk *(refer to note 42 for information on interest rate sensitivity).*

	Group 2001							
	At call $m	Overdrafts $m	0 to 3 months $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Assets								
Cash assets	7,993	-	-	-	-	-	-	7,993
Due from other financial institutions	5,126	19	10,064	508	498	257	-	16,472
Due from customers on acceptances	-	-	18,594	709	41	9	-	19,353
Trading securities	-	-	19,713	-	-	-	-	19,713
Available for sale securities	16	-	2,740	3,651	171	87	-	6,665
Investment securities	-	-	3,155	4,238	3,304	-	-	10,697
Investments relating to life insurance business	-	-	-	-	-	-	31,381	31,381
Loans and advances (1)	7,388	20,124	22,746	31,424	49,204	73,956	2,955	207,797
Mortgage servicing rights	-	-	-	-	-	5,445	-	5,445
All other assets	-	-	-	-	-	-	49,204	49,204
Total assets	20,523	20,143	77,012	40,530	53,218	79,754	83,540	374,720

41 Maturity analysis (continued)

	Group 2001							
	At call	Overdrafts	0 to 3 months	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Liabilities								
Due to other financial institutions	6,645	32	33,703	2,492	1	-	-	42,873
Liability on acceptances	-	-	18,594	709	41	9	-	19,353
Deposits and borrowings	86,825	-	80,260	13,684	8,848	1,348	-	190,965
Life insurance policy liabilities	-	-	-	-	-	-	30,257	30,257
Bonds, notes and subordinated debt	-	-	558	7,664	9,562	7,191	9	24,984
Other debt issues	-	-	-	-	-	-	1,985	1,985
All other liabilities	-	-	-	-	-	-	40,746	40,746
Total liabilities	93,470	32	133,115	24,549	18,452	8,548	72,997	351,163
Net assets	(72,947)	20,111	(56,103)	15,981	34,766	71,206	10,543	23,557

	Group 2000							
	At call	Overdrafts	0 to 3 months	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Cash assets	6,868	-	-	-	-	-	-	6,868
Due from other financial institutions	2,143	610	9,501	-	269	257	-	12,780
Due from customers on acceptances	107	-	21,731	1,059	48	-	-	22,945
Trading securities	-	-	15,112	-	-	-	-	15,112
Available for sale securities	6	-	1,888	732	106	315	-	3,047
Investment securities	58	-	804	2,237	4,001	352	-	7,452
Investments relating to life insurance business	-	-	-	-	-	-	31,103	31,103
Loans and advances [(1)]	3,401	19,084	24,933	30,382	46,890	71,671	(869)	195,492
Mortgage servicing rights	-	-	-	4	70	8,152	-	8,226
All other assets	-	-	-	-	-	-	40,652	40,652
Total assets	12,583	19,694	73,969	34,414	51,384	80,747	70,886	343,677
Liabilities								
Due to other financial institutions	9,112	4	18,204	936	1,429	-	-	29,685
Liability on acceptances	107	-	21,731	1,059	48	-	-	22,945
Deposits and borrowings	86,061	-	74,846	17,289	5,579	1,322	-	185,097
Life insurance policy liabilities	-	-	-	-	-	-	29,879	29,879
Bonds, notes and subordinated debt	-	-	1,077	3,125	10,280	6,553	16	21,051
Other debt issues	-	-	-	-	-	-	1,907	1,907
All other liabilities	-	-	-	-	-	-	31,706	31,706
Total liabilities	95,280	4	115,858	22,409	17,336	7,875	63,508	322,270
Net assets	(82,697)	19,690	(41,889)	12,005	34,048	72,872	7,378	21,407

(1) *Includes provisions for doubtful debts as disclosed in note 17.*

42 Interest rate risk

The following tables represent a break down, by currency and repricing date or contractual maturity, whichever is the earlier, of the Group's statement of financial position for the last two years as at September 30. As interest rates and yield curves change over time the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group Balance Sheet Management policy and guidelines. In managing the structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximise shareholder wealth.

Life insurance investment assets have been included in the following tables. The interest income on these assets supports the life insurance policies issued by the Group's life insurance business and does not contribute to market risk within the Group's banking operations. The assets and liabilities held in the statutory funds are subject to restrictions of the Life Insurance Act 1995 *(refer to note 1(p) and (z)).*

42 Interest rate risk (continued)

	Repricing period 0 to 3 months $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Non-interest earning/ bearing $m	Total $m	Weighted average effective interest rate % pa
Australian dollars - 2001							
Financial assets							
Cash assets	1,030	9	-	-	870	1,909	4.8%
Due from other financial institutions	3,853	13	-	-	58	3,924	3.7%
Due from customers on acceptances	-	-	-	-	18,876	18,876	-
Trading securities	17,429	-	-	-	-	17,429	5.5%
Available for sale and investment securities	980	285	25	-	-	1,290	5.0%
Investments relating to life insurance business	1,305	433	1,652	2,493	17,481	23,364	5.2%
Loans and advances	75,134	10,938	20,634	691	732	108,129	7.2%
Other assets	-	-	4	-	28,518	28,522	-
	99,731	11,678	22,315	3,184	66,535	203,443	
Financial liabilities							
Due to other financial institutions	8,634	274	187	-	901	9,996	5.0%
Liability on acceptances	-	-	-	-	18,876	18,876	-
Deposits and other borrowings	77,448	6,996	584	-	4,545	89,573	3.3%
Life insurance policy liabilities	-	-	-	-	30,031	30,031	-
Bonds, notes and subordinated debt	11,199	998	3,134	5,860	-	21,191	5.9%
Other debt issues	1,768	-	-	-	-	1,768	5.7%
Other liabilities	-	-	1	-	13,468	13,469	-
Total equity	-	-	-	-	14,703	14,703	-
	99,049	8,268	3,906	5,860	82,524	199,607	
Off-balance sheet items attracting interest rate sensitivity	(6,091)	(3,299)	3,956	5,515	-	81	
Total interest rate repricing gap	(5,409)	111	22,365	2,839	(15,989)	3,917	
Cumulative interest rate repricing gap	(5,409)	(5,298)	17,067	19,906	3,917		
Australian dollars - 2000							
Financial assets							
Cash assets	306	199	-	-	1,136	1,641	1.3%
Due from other financial institutions	1,971	-	-	-	-	1,971	6.3%
Due from customers on acceptances	-	-	-	-	21,434	21,434	-
Trading securities	13,126	-	-	-	-	13,126	6.4%
Available for sale and investment securities	72	274	26	10	7	389	6.5%
Investments relating to life insurance business	1,220	182	1,841	2,764	17,534	23,541	5.8%
Loans and advances	72,590	10,128	16,019	765	-	99,502	8.1%
Other assets	2,194	415	307	170	20,395	23,481	-
	91,479	11,198	18,193	3,709	60,506	185,085	
Financial liabilities							
Due to other financial institutions	5,534	22	-	-	-	5,556	7.1%
Liability on acceptances	-	-	-	-	21,434	21,434	-
Deposits and other borrowings	63,973	14,663	2,688	1	4,409	85,734	5.3%
Life insurance policy liabilities	-	-	-	-	29,148	29,148	-
Bonds, notes and subordinated debt	8,974	340	2,796	5,126	-	17,236	6.8%
Other debt issues	1,723	-	-	-	-	1,723	6.7%
Other liabilities	1,994	378	379	34	17,669	20,454	-
Total equity	-	-	-	-	8,487	8,487	-
	82,198	15,403	5,863	5,161	81,147	189,772	
Off-balance sheet items attracting interest rate sensitivity	(7,049)	34	2,601	4,414	-	-	
Total interest rate repricing gap	2,232	(4,171)	14,931	2,962	(20,641)	(4,687)	
Cumulative interest rate repricing gap	2,232	(1,939)	12,992	15,954	(4,687)		

Notes to the financial statements

42 Interest rate risk (continued)

	Repricing period 0 to 3 months $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Non-interest earning/ bearing $m	Total $m	Weighted average effective interest rate % pa
British pounds and Irish punts - 2001							
Financial assets							
Cash assets	18	-	-	-	4,446	4,464	-
Due from other financial institutions	1,626	6	-	-	132	1,764	5.2%
Due from customers on acceptances	244	-	41	9	-	294	-
Trading securities	179	-	-	-	-	179	-
Available for sale and investment securities	1,366	89	351	-	17	1,823	4.7%
Investments relating to life insurance business	-	-	24	182	420	626	4.2%
Loans and advances	47,719	6,661	8,385	1,668	-	64,433	7.3%
Regulatory deposits	30	-	-	-	54	84	1.6%
Other assets	-	-	-	-	5,870	5,870	-
	51,182	6,756	8,801	1,859	10,939	79,537	
Financial liabilities							
Due to other financial institutions	4,339	1,777	3	-	20	6,139	4.8%
Liability on acceptances	244	-	41	9	-	294	-
Deposits and other borrowings	46,934	3,247	598	292	6,317	57,388	3.2%
Other liabilities	190	-	-	455	12,467	13,112	-
Total equity	5	-	-	-	3,157	3,162	-
	51,712	5,024	642	756	21,961	80,095	
Off-balance sheet items attracting interest rate sensitivity	(6,561)	4,866	2,869	(2,029)	-	(855)	
Total interest rate repricing gap	(7,091)	6,598	11,028	(926)	(11,022)	(1,413)	
Cumulative interest rate repricing gap	(7,091)	(493)	10,535	9,609	(1,413)		
British pounds and Irish punts - 2000							
Financial assets							
Cash assets	5	-	-	-	3,980	3,985	-
Due from other financial institutions	1,921	124	8	-	(262)	1,791	5.1%
Due from customers on acceptances	850	206	41	-	2	1,099	-
Trading securities	243	-	-	-	-	243	6.0%
Available for sale and investment securities	386	21	284	38	30	759	4.6%
Investments relating to life insurance business	-	3	68	55	494	620	5.7%
Loans and advances	37,876	4,374	7,729	1,270	(282)	50,967	8.5%
Mortgage servicing rights	-	-	-	-	18	18	-
Regulatory deposits	58	-	-	-	25	83	1.5%
Other assets	2,896	-	-	-	1,867	4,763	-
	44,235	4,728	8,130	1,363	5,872	64,328	
Financial liabilities							
Due to other financial institutions	5,558	335	-	-	59	5,952	5.9%
Liability on acceptances	850	206	41	-	2	1,099	5.9%
Deposits and other borrowings	35,244	5,490	383	31	5,957	47,105	4.1%
Life insurance policy liabilities	-	-	-	-	556	556	-
Bonds, notes and subordinated debt	156	-	-	-	-	156	6.4%
Other liabilities	2,223	-	2	-	5,042	7,267	-
Total equity	5	-	-	-	3,733	3,738	-
	44,036	6,031	426	31	15,349	65,873	
Off-balance sheet items attracting interest rate sensitivity	(9,856)	6,415	3,656	(1,309)	-	(1,094)	
Total interest rate repricing gap	(9,657)	5,112	11,360	23	(9,477)	(2,639)	
Cumulative interest rate repricing gap	(9,657)	(4,545)	6,815	6,838	(2,639)		

42 Interest rate risk (continued)

	Repricing period 0 to 3 months $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Non-interest earning/ bearing $m	Total $m	Weighted average effective interest rate % pa
New Zealand dollars - 2001							
Financial assets							
Cash assets	1	-	-	-	472	473	-
Due from other financial institutions	2,464	14	-	-	-	2,478	4.0%
Due from customers on acceptances	-	-	-	-	-	-	-
Trading securities	1,545	-	-	-	-	1,545	5.1%
Available for sale and investment securities	981	63	40	-	-	1,084	5.3%
Investments relating to life insurance business	20	-	-	9	7	36	1.8%
Loans and advances	13,986	3,477	6,267	87	33	23,850	7.4%
Other assets	-	341	167	85	1,797	2,390	-
	18,997	3,895	6,474	181	2,309	31,856	
Financial liabilities							
Due to other financial institutions	2,296	14	-	-	-	2,310	4.1%
Liability on acceptances	-	-	-	-	-	-	-
Deposits and other borrowings	16,397	1,772	709	47	679	19,604	4.2%
Life insurance policy liabilities	5	-	-	-	-	5	-
Other liabilities	130	-	-	-	2,838	2,968	-
Total equity	-	-	-	-	979	979	-
	18,828	1,786	709	47	4,496	25,866	
Off-balance sheet items attracting interest rate sensitivity	5,595	(1,915)	(3,745)	64	-	(1)	
Total interest rate repricing gap	5,764	194	2,020	198	(2,187)	5,989	
Cumulative interest rate repricing gap	5,764	5,958	7,978	8,176	5,989		
New Zealand dollars - 2000							
Financial assets							
Cash assets	4	-	-	-	436	440	-
Due from other financial institutions	757	-	-	-	-	757	2.3%
Due from customers on acceptances	-	-	-	-	-	-	-
Trading securities	804	391	168	53	-	1,416	6.8%
Available for sale and investment securities	423	55	28	-	-	506	5.6%
Investments relating to life insurance business	20	5	-	12	-	37	2.4%
Loans and advances	12,413	2,671	5,474	149	75	20,782	8.2%
Other assets	-	-	-	-	2,484	2,484	-
	14,421	3,122	5,670	214	2,995	26,422	
Financial liabilities							
Due to other financial institutions	1,305	12	-	-	-	1,317	3.7%
Liability on acceptances	-	-	-	-	-	-	-
Deposits and other borrowings	12,103	1,594	345	80	579	14,701	5.3%
Life insurance policy liabilities	-	-	-	-	6	6	-
Other liabilities	-	-	-	-	1,541	1,541	-
Total equity	-	-	-	-	1,132	1,132	-
	13,408	1,606	345	80	3,258	18,697	
Off-balance sheet items attracting interest rate sensitivity	3,379	(410)	(2,962)	(7)	-		
Total interest rate repricing gap	4,392	1,106	2,363	127	(263)	7,725	
Cumulative interest rate repricing gap	4,392	5,498	7,861	7,988	7,725		

42 Interest rate risk (continued)

	Repricing period 0 to 3 months $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Non-interest earning/ bearing $m	Total $m	Weighted average effective interest rate % pa
United States dollars and other currencies - 2001							
Financial assets							
Cash assets	1,147	-	-	-	-	1,147	0.7%
Due from other financial institutions	8,281	25	-	-	-	8,306	3.8%
Due from customers on acceptances	183	-	-	-	-	183	-
Trading securities	434	126	-	-	-	560	1.9%
Available for sale and investment securities	8,333	4,641	191	-	-	13,165	4.7%
Investments relating to life insurance business	392	126	777	1,563	4,497	7,355	4.8%
Loans and advances	5,213	2,962	2,835	375	-	11,385	4.7%
Mortgage loans held for sale	3,688	-	-	-	-	3,688	6.6%
Mortgage servicing rights	-	-	-	-	5,445	5,445	-
Regulatory deposits	14	-	-	-	-	14	-
Other assets	8,090	-	-	-	546	8,636	-
	35,775	7,880	3,803	1,938	10,488	59,884	
Financial liabilities							
Due to other financial institutions	20,438	3,990	-	-	-	24,428	3.9%
Liability on acceptances	183	-	-	-	-	183	-
Deposits and other borrowings	18,122	5,711	30	-	538	24,401	4.0%
Life insurance policy liabilities	-	-	-	-	221	221	-
Bonds, notes and subordinated debt	-	3,793	-	-	-	3,793	4.0%
Other debt issues	-	-	-	217	-	217	5.3%
Other liabilities	7,101	-	1	-	4,095	11,197	-
Total equity	152	-	2,670	-	1,891	4,713	-
	45,996	13,494	2,701	217	6,745	69,153	
Off-balance sheet items attracting interest rate sensitivity	(5,116)	6,692	96,238	20	-	97,834	
Total interest rate repricing gap	(15,337)	1,078	97,340	1,741	3,743	88,565	
Cumulative interest rate repricing gap	(15,337)	(14,259)	83,081	84,822	88,565		
United States dollars and other currencies - 2000							
Financial assets							
Cash assets	625	-	-	-	177	802	2.3%
Due from other financial institutions	7,683	-	-	-	578	8,261	5.8%
Due from customers on acceptances	411	-	-	-	1	412	-
Trading securities	327	-	-	-	-	327	6.4%
Available for sale and investment securities	4,877	1,089	1,351	1,528	-	8,845	6.5%
Investments relating to life insurance business	304	459	924	1,022	4,196	6,905	5.7%
Loans and advances	14,404	3,120	4,310	2,407	-	24,241	7.8%
Mortgage loans held for sale	2,656	-	-	-	-	2,656	8.0%
Mortgage servicing rights	-	-	-	-	8,208	8,208	-
Regulatory deposits	6	-	-	-	46	52	0.6%
Other assets	2,526	-	1	-	4,606	7,133	-
	33,819	4,668	6,586	4,957	17,812	67,842	
Financial liabilities							
Due to other financial institutions	15,475	1,357	28	-	-	16,860	6.0%
Liability on acceptances	411	-	-	-	1	412	-
Deposits and other borrowings	25,290	7,330	1,377	95	3,465	37,557	5.6%
Life insurance policy liabilities	-	-	-	-	169	169	-
Bonds, notes and subordinated debt	-	-	3,659	-	-	3,659	6.9%
Other debt issues	-	-	-	184	-	184	8.4%
Other liabilities	1,672	-	1	-	771	2,444	-
Total equity	151	-	2,425	-	5,474	8,050	-
	42,999	8,687	7,490	279	9,880	69,335	
Off-balance sheet items attracting interest rate sensitivity	(5,377)	3,125	22,994	14,531	-	35,273	
Total interest rate repricing gap	(14,557)	(894)	22,090	19,209	7,932	33,780	
Cumulative interest rate repricing gap	(14,557)	(15,451)	6,639	25,848	33,780		

42 Interest rate risk (continued)

The above tables provide details of the repricing dates of all interest earning-assets and interest-bearing liabilities of the Group. To obtain an understanding of the effective interest earned/paid on each of the above assets and liabilities, refer to note 40.

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m

43 Notes to the statement of cash flows

(a) Reconciliation of net profit attributable to members of the Company to net cash provided by operating activities

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Net profit attributable to members of the Company	**2,083**	3,239	2,821	**3,494**	4,921
Add/(deduct): Non-cash items					
Decrease/(increase) in interest receivable	**242**	(316)	1,410	**100**	(245)
Increase/(decrease) in interest payable	**(61)**	168	(1,562)	**(25)**	(30)
Depreciation and amortisation of plant and equipment	**382**	332	282	**167**	145
Profit on sale of controlled entities	**(2,477)**	-	-	**-**	-
Impairment loss on mortgage servicing rights	**1,643**	-	-	-	-
Impairment loss on goodwill	**858**	-	-	-	-
Charge to provide for doubtful debts	**989**	588	540	**532**	216
Charge to provide for mortgage servicing rights valuation adjustment	**1,436**				
Charge to provide for restructuring	**-**	24	30	**-**	22
Movement in excess of net market value over net assets of life insurance controlled entities	**(510)**	(202)	-	**-**	-
Amortisation of goodwill	**167**	197	206	**-**	-
Increase in life insurance policy liabilities	**600**	2,530	-	**-**	-
Decrease/(increase) in life insurance investment assets	**2,310**	(2,529)	-	**-**	-
Increase/(decrease) in provision for income tax	**(328)**	139	25	**(237)**	(164)
Net increase/(decrease) in provision for deferred tax and future income tax benefits	**(106)**	732	(64)	**(126)**	143
Net increase in trading instruments	**(4,400)**	(2,268)	(1,581)	**(4,405)**	(2,059)
Net movement in mortgage loans held for sale	**(763)**	(274)	1,177	**-**	-
Other provisions and non-cash items	**610**	(82)	258	**198**	279
Net cash provided by/(used in) operating activities	**2,675**	2,278	3,542	**(302)**	3,228

(b) Reconciliation of cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash assets, due from other financial institutions and due to other financial institutions.

Cash and cash equivalents as at the end of the year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
Cash assets	**7,993**	6,868	3,649	**1,529**	772
Due from other financial institutions	**16,472**	12,780	11,120	**11,945**	9,803
Due to other financial institutions	**(42,873)**	(29,685)	(16,203)	**(39,859)**	(25,688)
Total cash and cash equivalents	**(18,408)**	(10,037)	(1,434)	**(26,385)**	(15,113)

(c) Non-cash financing and investing activities

	Group 2001 $m	Group 2000 $m	Group 1999 $m	Company 2001 $m	Company 2000 $m
New share issues					
Dividend reinvestment plan	**610**	372	382	**610**	372
Bonus share plan	**74**	82	75	**74**	82
Movement in assets under finance lease	**10**	8	2	**10**	8

As part of an internal restructure on creation of Wealth Management, on September 29, 2000, the Company transferred 100% of the share capital of National Australia Financial Management Limited to National Wealth Management Holdings Limited. The consideration given for this transfer was additional equity in National Wealth Management Holdings Limited. These amounts are not reflected in the statement of cash flows.

(d) Financing arrangements

Refer to note 51.

43 Notes to the statement of cash flows (continued)

(e) Acquisitions of controlled entities

The following acquisitions have been made during the last three years:

- on April 2, 2001, National Australia Financial Management Limited acquired 100% of the share capital of Deutsche Funds Management Limited for cash consideration. As part of this transaction, Godfrey Pembroke Limited acquired all other assets of Deutsche Bank AG's Australian financial planning and portfolio management businesses for cash consideration;
- on December 18, 2000, National Australia Financial Management Limited acquired 100% of the share capital of John A Nolan & Associates Pty Ltd for cash consideration;
- on October 25, 2000, MLC Limited acquired the remaining 25% of the share capital of Medfin Australia Pty Ltd for cash consideration;
- on June 30, 2000, National Australia Financial Management Limited acquired 100% of the share capital of MLC Holdings Limited, GWM Adviser Services Limited, National Corporate Investment Services Limited and MLC Corporate Services Asia Pte Limited from Lend Lease Corporation Limited for cash consideration of $4,560 million;
- on June 29, 2000, the Company acquired 100% of the share capital of National Australia Financial Management Limited as part of an internal restructure; on September 29, 2000, this investment was transferred to National Wealth Management Holdings Limited, a controlled entity of the Company;
- on March 8, 2000, National Australia Group Services Limited acquired 50% of the share capital of Fleet Systems Pty Ltd for cash consideration; and
- on January 21, 1999, Yorkshire Bank PLC acquired the remaining 25% of the share capital of Eden Vehicle Rentals Limited for cash consideration.

The operating results of the acquired entities have been included in the Group's statement of financial performance from their acquisition dates. Details of the acquisitions were as follows:

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Fair value of net assets acquired					
Cash assets	**2**	-	-	**-**	49
Investments relating to life insurance business	**-**	25,385	-	**-**	5,400
Loans and advances	**3**	-	-	**-**	-
Property, plant and equipment	**-**	37	1	**-**	15
Other assets	**1**	752	12	**-**	1,116
Life insurance policy liabilities	**-**	(23,492)	-	**-**	(5,176)
Income tax liabilities	**-**	(97)	-	**-**	(84)
Provisions	**(1)**	(2)	-	**-**	(7)
Bonds, notes and subordinated debt	**-**	(164)	-	**-**	-
Other liabilities	**(2)**	(1,583)	(10)	**-**	(113)
Total net assets acquired	**3**	836	3	**-**	**1,200**
Excess of net market value over net assets at acquisition[(1)]	**128**	3,814	-	**-**	**-**
Goodwill on acquisition	**-**	10	5	**-**	**-**
Total acquisition cost	**131**	4,660	8	**-**	1,200
Cash consideration paid	**131**	4,660	8	**-**	1,200

[(1)] *Included in the excess of market value over net assets at acquisition is the excess of net market value over net assets of entities previously acquired by MLC Holdings Limited.*

(f) Sales of controlled entities

The following sales were made during the last three years:

- On April 1, 2001, National Americas Holdings Limited sold 100% of the share capital of Michigan National Corporation to ABN Amro North America, Inc., a controlled entity of ABN Amro NV for cash consideration of US$2,750 million.
- On December 20, 2000, National Australia Financial Management Limited sold 100% of the share capital of County Investment Management Limited for cash consideration.

The operating results of the controlled entities have been included in the Group's statement of financial performance up to the date of sale. Details of the sales were as follows:

43 Notes to the statement of cash flows (continued)

	Group			Company	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Cash consideration received	**5,415**	-	-	-	-
Net assets of controlled entities sold					
Cash assets	**353**	-	-	-	-
Due from other financial institutions	**683**	-	-	-	-
Due from customers on acceptances	**1**	-	-	-	-
Trading securities	**5**	-	-	-	-
Available for sale securities	**220**	-	-	-	-
Investment securities	**3,724**	-	-	-	-
Investments relating to life insurance business	**11**	-	-	-	-
Loans and advances	**17,264**	-	-	-	-
Regulatory deposits	**30**	-	-	-	-
Property, plant and equipment	**227**	-	-	-	-
Goodwill	**716**	-	-	-	-
Other assets	**930**	-	-	-	-
Due to other financial institutions	**(2,865)**	-	-	-	-
Liability on acceptances	**(1)**	-	-	-	-
Deposits and other borrowings	**(17,215)**	-	-	-	-
Life insurance policy liabilities	**(6)**	-	-	-	-
Income tax liabilities	**(75)**	-	-	-	-
Provisions	**(132)**	-	-	-	-
Due to controlled entities	**(708)**	-	-	-	-
Other liabilities	**(224)**	-	-	-	-
Total net assets of controlled entities sold	**2,938**	-	-	-	-
Profit on sale of controlled entities	**2,477**	-	-	-	-

44 Particulars in relation to controlled entities

The following table highlights those controlled entities with contributions to Group net profit of $5 million or more, or those that are deemed to be of particular interest:

Entity name	Incorporated in
National Australia Bank Limited	Australia
National Equities Limited[(1)]	Australia
National Americas Investment, Inc.	United States
HomeSide Investments, Inc.	United States
HomeSide International, Inc.	United States
HomeSide Lending, Inc.	United States
National Wealth Management Holdings Limited	Australia
National Australia Financial Management Limited	Australia
County Investment Management Limited[(2)]	Australia
MLC Holdings Limited	Australia
MLC Lifetime Company Limited	Australia
Medfin Australia Pty Ltd	Australia
MLC (Hong Kong) Limited	Hong Kong
MLC Investments Limited	Australia
National Corporate Investment Services Limited	Australia
National Australia Group (NZ) Limited	New Zealand
Bank of New Zealand	New Zealand
BNZ Investments Limited	New Zealand
BNZ International Limited	New Zealand
Amber Liquid Investment Limited	Cayman Islands
BNZ Investment Management Limited	New Zealand
BNZ Life Insurance Limited	New Zealand
Screen Holdings No. 3 Limited	New Zealand
BNZI Securities No. 2 Limited	New Zealand
Income Trust No. 1	New Zealand
National Australia Group Europe Limited	England
Clydesdale Bank PLC	Scotland
Clydesdale Bank Insurance Brokers Limited	Scotland
Clydesdale Europe Finance Limited	Scotland
Clydesdale Bank Asset Finance Limited	Scotland
National Americas Holdings Limited	England
Michigan National Corporation[(2)]	United States
Michigan National Bank[(2)]	United States
National Australia Life Company Limited	England
National Australia Group Europe Services Limited	Scotland
National Australia Group Europe Investments Limited	Scotland
Custom Fleet Limited (formerly Eden Vehicle Rentals Limited)	England
National Irish Holdings Limited	England
National Irish Bank Limited	Republic of Ireland
Northern Bank Limited	Northern Ireland
Yorkshire Bank PLC	England
Yorkshire Bank Home Loans Limited	England
Yorkshire Bank Financial Services Limited	England
National Australia Group Services Limited	Australia
Custom Service Leasing Limited[(4)]	Australia
NBA Properties Limited[(1)]	Australia
CSPL Securities Pty Limited[(3)]	Australia
National Australia Merchant Bank (Singapore) Limited	Singapore
National Australia Corporate Services Limited[(1)]	Australia
Nautilus Insurance Pte Limited	Singapore
National Markets Group Limited	Australia
Australian Market Automated Quotation (AUSMAQ) System Limited	Australia
National Australia Finance (Asia) Limited	Hong Kong
National Australia Trustees Limited	Australia

Beneficial interest in the shares of all entities listed above is 100%.

44 Particulars in relation to controlled entities (continued)

(1) *These controlled entities and those listed hereunder have entered into a deed of cross guarantee (refer to note 45 for details) with the Company pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated August 13, 1998. The controlled entities and the Company form a closed group (a closed group is defined as a group of entities comprising a holding entity and its related wholly-owned entities). Relief, therefore, was granted to these controlled entities from the Corporations Act 2001 requirements for preparation, audit and publication of an annual financial report.*

ARDB Limited
Australian Banks' Export Re-Finance Corporation Limited
C.B.C. Investments Limited
C.B.C. Investments Services Limited
Commercial Nominees Pty Limited
Groundsel Limited
National Nominees (London) Limited
National Australia Investment Brokers Limited
National Australia Leasing (Qld) Pty Limited
NBA Leasing Pty Limited
VPL Securities Pty Limited

(2) *These controlled entities were sold in full during 2001 (refer to note 43(f) for further details).*

(3) *These controlled entities were placed into liquidation during 2001.*

(4) *Custom Service Leasing Limited has entered into a deed of cross guarantee with National Australia Group Services Limited pursuant to Australian Securities and Investments Commission Class Order 98/1418, dated August 13, 1998. The Class Order provides relief to Custom Service Leasing Limited from the Corporations Act 2001 requirements for preparation, audit and publication of accounts.*

45 Contingent liabilities and credit commitments

	Group				Company			
	Notional amount[1]		Credit equivalent[2]		Notional amount[1]		Credit equivalent[2]	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Contingent liabilities								
Guarantees	**4,028**	2,676	**4,028**	2,676	**7,101**	6,481	**7,101**	6,481
Standby letters of credit	**4,947**	5,649	**4,947**	5,649	**4,786**	4,391	**4,786**	4,391
Bill endorsements	**-**	2	**-**	2	**-**	2	**-**	2
Documentary letters of credit	**507**	711	**85**	124	**369**	494	**75**	103
Performance-related contingencies	**2,281**	2,494	**1,141**	1,247	**1,512**	1,728	**756**	864
Other	**177**	273	**177**	273	**117**	167	**117**	167
Total contingent liabilities	**11,940**	11,805	**10,378**	9,971	**13,885**	13,263	**12,835**	12,008

(1) *The notional amount represents the maximum credit risk.*

(2) *The credit equivalent amount records the estimated maximum or total potential loss if the counterparty were to default, and is determined in accordance with the Australian Prudential Regulation Authority's risk-weighted capital adequacy guidelines. These credit equivalents are then weighted in the same manner as balance sheet assets according to counterparty for capital adequacy purposes. (For additional information, refer to capital adequacy information in the financial review).*

The Group has shared its exposure on letters of credit with other financial institutions to the extent of $17 million credit equivalent (2000: $15 million). This amount is not included in the above figures. The Group has recourse arrangements with customers and others in respect of the major portion of the remaining contingent liabilities. For further information, refer below.

Credit-related commitments								
Outright forward purchases and forward deposits	**7,157**	3,349	**7,157**	3,349	**14**	155	**14**	155
Underwriting facilities	**90**	132	**45**	66	**90**	132	**45**	66
Other binding credit commitments	**76,086**	77,664	**15,404**	16,594	**57,424**	53,169	**13,495**	12,984
Total credit-related commitments	**83,333**	81,145	**22,606**	20,009	**57,528**	53,456	**13,554**	13,205

In the normal course of business, various types of contracts are entered into that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers and include commitments to extend credit, letters of credit and financial guarantees. The contracts expose the Group to various degrees of credit risk. For further information, refer below.

Investment commitments								
Statutory funds	**868**	661	**868**	661	**-**	-	**-**	-
Total investment commitments	**868**	661	**868**	661	**-**	-	**-**	-

In the normal course of business of the Group's life insurance business statutory funds, various types of investment contracts are entered into that give rise to contingent or future obligations.

45 Contingent liabilities and credit commitments (continued)

Contingent liabilities

(a) General

The Group's exposure to potential loss in the event of non-performance by a counterparty to a financial instrument for commitments to extend credit, letters of credit and financial guarantees written, is represented by the contractual notional principal amount of those instruments. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets.

Letters of credit and financial guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Those letters of credit and guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of the Group as a letter of credit or guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds, ongoing obligations to government entities, etc.

The credit risk involved in issuing letters of credit and financial guarantees is essentially the same as that involved in extending loan facilities to customers. The Group holds collateral supporting these commitments where it is deemed necessary.

In accordance with the rules governing clearing arrangements contained in the Regulations of the Australian Paper Clearing System and in the Regulations of the Bulk Electronic Clearing System under Australian Payments Clearing Associated Limited, the Company is subject to a commitment to provide liquidity support to the clearing system in the event of a failure of another clearing financial institution.

(b) Legal proceedings

The Company does not consider that the outcome of any proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. Where appropriate, provisions have been made.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities in the Group. The aggregate of potential liability in respect thereof cannot be accurately assessed.

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business. One such case that has attracted recent publicity is referred to below.

In September 1998, a summons was filed in the Supreme Court of New South Wales by Idoport Pty Limited (Idoport) and Market Holdings Pty Limited (in liquidation) (Market Holdings) against the Company and others.

Market Holdings was placed into voluntary liquidation in September 2000.

Market Holdings' claim was dismissed on October 17, 2001.

Idoport's claim is in the range of US$8.3 billion to US$29.3 billion.

The dispute centres around what rights Idoport has arising out of the entry into a consulting agreement by the Company, Idoport and others, and involves the development of a subsidiary, Australian Market Automated Quotation (AUSMAQ) System Limited (AUSMAQ).

The damages claim is primarily based upon an allegation that the AUSMAQ business has not been operated and developed as Idoport claims it should have been. It is also based on an allegation that Idoport is entitled to a share of the profits of some offerings provided by entities in the Group separately from AUSMAQ.

The Group is strongly disputing the claim and has prepared an extensive response to the claim.

A cross claim has been filed by the Company and another against a number of parties, including Idoport, Market Holdings and Mr John Malcolm Maconochie, for in excess of $31 million. A defence to that cross claim has been filed. Idoport has a second cross claim against the Company and others. A defence to the second cross claim has also been filed. The second cross claim is also strongly disputed.

The hearing of the actions commenced on July 24, 2000.

In September 2000, Idoport filed a new claim in the Supreme Court of New South Wales against the Company, MLC Limited (MLC), National OnLine Trading Limited (National OnLine Trading) and others. That claim includes an allegation that Idoport is entitled to a share of the profits of some other offerings provided by entities in the Group, including MLC and National OnLine Trading. The damages claim has not been quantified. The Group is also strongly disputing the new claim.

All of the claims referred to above will be heard together. The hearing is expected to continue for in excess of 18 months.

45 Contingent liabilities and credit commitments (continued)

(c) Indemnities under the agreement for sale of Michigan National Corporation

The Company and its controlled entity National Americas Holdings Limited (NAHL), have contingent liabilities which relate to certain indemnities given under an agreement for the sale of Michigan National Corporation (which was the direct holding company of Michigan National Bank at the time of the sale) to ABN Amro North America, Inc. for any breach of representations and warranties by the Company and NAHL as sellers. Some of the indemnities relate to potential environment liability relating to certain branch premises of Michigan National Bank. The maximum liability of the Company and NAHL under some of the indemnities is subject to various caps.

Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or interlocking guarantees;
- specific charges over defined assets of the counterparty; and
- loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

Parent entity guarantees and undertakings

Excluded from the Group amounts disclosed above are the following guarantees and undertakings to entities in the Group:

- commercial paper issued by National Australia Funding (Delaware), Inc. totalling $2,742 million (2000: $6,862 million) is guaranteed by the Company;
- the Company has agreed to guarantee existing debenture holders secured under Broadbank Corporation Limited's (now National Australia Bank (NZ) Limited) Trust Deed as at December 31, 1987 until maturity. The outstanding liability as at September 30, 2001 was immaterial;
- under arrangements with the Bank of England, a letter has been issued by the Company to Clydesdale Bank PLC and Northern Bank Limited undertaking to maintain their capital base at regulatory levels in the event that losses are incurred on exposures to individual customers whose facilities exceed 25% of Clydesdale's or Northern's regulatory capital base;
- the Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer; and
- pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated August 13, 1998, relief was granted to certain controlled entities *(refer to note 44, footnote 1)* from the *Corporations Act 2001* requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act 2001.* If a winding-up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound-up. The following consolidated pro forma statements of financial performance and financial position are presented for the Company and controlled entities which are party to the deed, after eliminating all transactions between parties to the deed of cross guarantee, which is known as a closed group.

It is not envisaged that any material unrecorded loss is likely to arise from transactions described in this note.

45 Contingent liabilities and credit commitments (continued)

	Closed group 2001 $m	Closed group 2000 $m
Pro forma statement of financial performance		
For the year ended September 30		
Profit from ordinary activities before income tax expense	**4,722**	3,390
Income tax expense relating to ordinary activities	**822**	791
Net profit attributable to members of the Company	**3,900**	2,599
Retained profits at beginning of year	**5,534**	4,880
Dividend provisions not required	**-**	91
Aggregate of amounts transferred from reserves	**115**	3
Total available for appropriation	**9,549**	7,573
Dividends paid or provided for	**2,147**	2,036
Aggregate of amounts transferred to reserves	**-**	3
Retained profits at end of year	**7,402**	5,534
Pro forma statement of financial position		
As at September 30		
Assets		
Cash assets	**1,542**	773
Due from other financial institutions	**11,945**	9,803
Due from customers on acceptances	**19,110**	21,953
Trading securities	**18,288**	13,820
Available for sale securities	**6,637**	2,823
Investment securities	**5,224**	2,986
Loans and advances	**123,284**	107,559
Shares in entities and other securities	**12,495**	10,281
Regulatory deposits	**20**	12
Property, plant and equipment	**1,368**	1,032
Income tax assets	**673**	639
Goodwill	**14**	12
Other assets	**63,091**	51,495
Total assets	**263,691**	223,188
Liabilities		
Due to other financial institutions	**39,859**	25,688
Liability on acceptances	**19,110**	21,953
Deposits and other borrowings	**123,144**	107,192
Income tax liabilities	**938**	883
Provisions	**1,755**	1,596
Bonds, notes and subordinated debt	**21,412**	17,437
Other debt issues	**507**	461
Other liabilities	**37,945**	32,078
Total liabilities	**244,670**	207,288
Net assets	**19,021**	15,900
Equity		
Contributed equity	**10,725**	9,855
Reserves	**894**	510
Retained profits	**7,402**	5,535
Total equity	**19,021**	15,900

46 Derivative financial instruments

The purpose of the following discussion is to inform users of the financial report of the type of instruments used by the Group, the reasons for using them, the accompanying risks, and how those risks are managed.

Derivative financial instruments held or issued for trading purposes

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange and interest rate-related services. In addition, the Group takes conservative positions on its own account, and carries an inventory of capital market instruments. It satisfies customer needs and maintains access to market liquidity by quoting bid and offer prices on those instruments and trading with other market makers. All positions held for trading purposes are revalued on a daily basis to reflect market movements, and any revaluation profit or loss is recognised immediately in the profit and loss account.

Derivative financial instruments held or issued for purposes other than trading

The operations of the Group are subject to risk of interest rate fluctuations, to the extent that there is a difference between the amount of the Group's interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. Derivative financial instruments are held or issued for the purposes of managing this interest rate risk.

The Group monitors its interest rate risk for derivative activities other than trading by simulating future net interest income resulting from applying a range of possible future interest rate environments to its projected balance sheets.

The Group also holds or issues derivative financial instruments for the purpose of hedging foreign exchange rate or interest rate exposures arising from anticipated future transactions. The majority of such transactions arise on interest rate repricing mismatches revealed in risk analyses of the type mentioned above. In addition, the Company also uses foreign exchange rate-related derivatives, in order to hedge anticipated cash flows such as those relating to dividends emanating from overseas controlled entities.

Risk associated with derivatives

Derivatives are used primarily as a means of transferring risk. They expose the holder to various degrees and types of financial risk including market, credit and liquidity risk. These risks are discussed below.

Market risk

Market risk of derivative financial instruments held or issued is the risk that the value of derivatives will be adversely affected by changes in the market value of the underlying instrument, reference rate or index. Not all risks associated with intermediation can be effectively hedged. The residual market exposures together with trading positions are managed within established limits approved by the Board. A unit independent of the trading activities monitors compliance within delegated limits on a daily basis.

Table 1 shows the fair value of all derivative instruments held or issued by the Group for the last two years as at September 30, together with the average fair values that applied during those years. The fair value of derivative financial instruments were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. It should be noted that fair value at a particular point in time gives no indication of future gain or loss, or what the dimensions of that gain or loss are likely to be.

Table 1 Fair value of derivative financial instruments held or issued by the Group

	Other than trading fair value [(1)]		Trading fair value [(1)]		Trading average fair value	
	2001	2000	**2001**	2000	**2001**	2000
	$m	$m	**$m**	$m	**$m**	$m
Foreign exchange rate-related contracts						
Spot and forward contracts to purchase foreign exchange						
In a favourable position	**768**	1,341	**7,180**	8,611	**5,831**	3,918
In an unfavourable position	**(9)**	(21)	**(7,804)**	(8,234)	**(4,230)**	(3,138)
Cross currency swaps						
In a favourable position	**1,219**	755	**724**	1,124	**778**	944
In an unfavourable position	**(24)**	(121)	**(1,346)**	(1,246)	**(1,048)**	(893)
Options						
Purchased	**12**	3	**1,215**	1,220	**680**	641
Written	**-**	-	**(807)**	(804)	**(498)**	(457)
	1,966	1,957	**(838)**	671	**1,513**	1,015

46 Derivative financial instruments (continued)

	Other than trading fair value [1] 2001 $m	2000 $m	Trading fair value [1] 2001 $m	2000 $m	Trading average fair value 2001 $m	2000 $m
Interest rate-related contracts						
Forward rate agreements						
In a favourable position	**-**	-	**19**	5	**14**	7
In an unfavourable position	**-**	-	**(17)**	(7)	**(11)**	(8)
Swaps						
In a favourable position	**3,572**	217	**8,428**	2,746	**8,291**	3,038
In an unfavourable position	**(2,924)**	(643)	**(8,783)**	(2,701)	**(8,525)**	(3,159)
Futures	**1**	1	**49**	(6)	**59**	3
Options						
Purchased	**438**	302	**425**	171	**508**	235
Written	**-**	-	**(93)**	(95)	**(121)**	(101)
	1,087	(123)	**28**	113	**215**	15
Other contracts						
In a favourable position	**5,088**	-	**-**	-	**-**	-
In an unfavourable position	**(3,381)**	-	**-**	-	**-**	-
	1,707	-	**-**	-	**-**	-
Total fair value of derivative financial instruments issued or held	**4,760**	1,834	**(810)**	784	**1,728**	1,030

[1] *The positive fair value represents the credit risk to the Group if all the Group's counterparties were to default.*

The table shows that the bulk of fair value for foreign exchange-related contracts is concentrated in foreign exchange spot and forward transactions. These contracts are of a standardised form and are usually of a maturity of less than 12 months.

The fair value of foreign exchange rate-related contracts held or issued for trading purposes amounted to a net unrealised loss at September 30, 2001 of $837 million (2000: profit of $671 million). Total net realised and unrealised profits and losses on foreign exchange rate-related contracts held or issued for trading purposes during the year amounted to a net profit of $601 million (2000: profit of $399 million) *(refer to note 4).*

The table shows that the bulk of fair value for interest rate-related contracts is concentrated in interest rate swaps.

The fair value of interest rate-related contracts held or issued for trading purposes amounted to a net unrealised profit at September 30, 2001 of $30 million (2000: profit of $113 million). Total net realised and unrealised profits and losses on both interest rate related contracts and physical securities held or issued for trading purposes during the year amounted to a net profit of $120 million (2000: profit of $69 million) *(refer to note 4).*

Values at risk for derivatives held or issued for trading purposes

As foreign exchange and interest rate derivatives generally consist of offsetting commitments, they involve only limited net foreign exchange and interest rate risk, which is managed in the Group under strict trading guidelines. The overall market risk that any business unit can assume is approved by a special committee of the Board, through a combination of intraday trading limits and overnight values at risk limits.

Values at risk represents an estimate of potential profit impact of a rate movement, and is assessed on an entire trading portfolio basis, including both physical and derivative positions. Values at risk is measured as the absolute value of observed changes in the trading portfolio value brought about by daily changes in market rates at a 95% confidence level. For example, a values at risk exposure of $1 million means that in 95 cases out of 100, given the historical behaviour of rates, an overnight profit impact on the trading portfolio should not exceed $1 million.

The values at risk methodology is one means by which the Group manages volatility from market risk. Table 2 shows the Group's values at risk for both foreign exchange and interest rate trading portfolios, including both physical and derivative positions. The figures reflect the offsetting potential profits or losses across products and regions in which the Group operates.

Table 2 Values at risk for physical and derivative positions

	Average value during reporting period 2001 $m	2000 $m	Minimum value during reporting period 2001 $m	2000 $m	Maximum value during reporting period 2001 $m	2000 $m
Values at risk at a 95% confidence level						
Foreign exchange risk	**6**	10	**1**	3	**15**	20
Interest rate risk	**9**	10	**6**	6	**14**	17
Volatility risk	**2**	1	**1**	-	**3**	3
Total values at risk for physical and derivative positions [1]	**12**	15	**8**	8	**22**	24

46 Derivative financial instruments (continued)

(1) VaR is measured individually according to interest rate risk, foreign exchange risk and volatility risk. The individual risk categories do not sum up to the total risk number due to portfolio effect. Risk limits are applied in these categories separately, and against the total risk position.

Deferred gains and losses on derivative financial instruments held or issued for other than trading purposes

Table 3 shows the net deferred realised gains and losses arising from hedging contracts entered into by the Group to reduce the risk arising from identifiable assets, liabilities and commitments, together with the expected term of deferral.

Table 3 Net deferred gains and losses

	Foreign exchange rate-related contracts		Interest rate-related contracts [1]		Total	
	2001	2000	**2001**	2000	**2001**	2000
	$m	$m	**$m**	$m	**$m**	$m
Within 6 months	**-**	-	**2**	-	**2**	-
6 months - 1 year	**-**	-	**-**	-	**-**	-
1 - 2 years	**-**	-	**(1)**	-	**(1)**	-
2 - 5 years	**-**	-	**(5)**	-	**(5)**	-
After 5 years	**-**	-	**(1,766)**	1,271	**(1,766)**	1,271
Total net deferred (gains)/losses	**-**	-	**(1,770)**	1,271	**(1,770)**	1,271

(1) Interest rate-related contracts expected to be deferred after five years relate to hedges of mortgage servicing rights.

Table 4 shows the net deferred gains and losses from hedging contracts entered into by the Group to reduce the risk arising from anticipated transactions together with the expected term of deferral.

Table 4 Net deferred gains and losses arising from hedges of anticipated transactions

	Foreign exchange rate related contracts		Interest rate related contracts		Total	
	2001	2000	**2001**	2000	**2001**	2000
	$m	$m	**$m**	$m	**$m**	$m
Within 6 months	**-**	-	**-**	1	**-**	1
6 months - 1 year	**-**	-	**-**	-	**-**	-
1 - 2 years	**-**	-	**-**	-	**-**	-
2 - 5 years	**-**	-	**-**	-	**-**	-
After 5 years	**-**	-	**-**	-	**-**	-
Total net deferred gains and losses arising from hedges of anticipated transactions	**-**	-	**-**	1	**-**	1

Credit risk

Credit risk arises from the possibility that the counterparty to a derivative financial instrument will not adhere to the terms of the contract with the Group when settlement becomes due.

Notional principal is the amount of a derivative's underlying asset, reference rate or index and is the quantum on which changes in the value of the derivative are measured. It provides an indication of the volume of business transacted by the Group. Changes in the value of a derivative are usually only a fraction of the notional principal amount, and it is only those changes which have a positive fair value to the Group that create a potential for credit risk.

The Group's credit exposure has been determined in accordance with the Australian Prudential Regulation Authority's (APRA) capital adequacy guidelines. This credit equivalent is derived by taking into account the residual maturity of each instrument, and then adding the fair value of all contracts which have a positive fair value. Futures and option contracts which are traded on a recognised exchange and which are subject to margin payments are considered to have no credit exposure. Internal credit assessment applies a conservative methodology to determine potential counterparty exposure.

Table 5 shows the fair value of all derivative instruments held or issued by the Group for the last two years as at September 30. It should be noted that fair value at a particular point in time gives no indication of future profit or loss, or what the dimensions of that profit or loss are likely to be.

Credit risk is constantly assessed, measured and managed in strict accordance with the Group's risk management policies. Banking entities within the Group may take collateral to secure amounts due under treasury transactions; however collaterisation is assessed specifically at the time facilities are approved on a case-by-case basis.

46 Derivative financial instruments (continued)

Table 5 Notional principal, estimated credit equivalent and fair value of all derivative financial instruments

	Notional principal		Credit equivalent		Fair value		Average fair value (1)	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Foreign exchange rate-related contracts								
Spot and forward contracts to purchase foreign exchange(2)								
Trading	**289,930**	252,067	**8,778**	11,458	**(624)**	377	**1,601**	780
Other than trading	**28,766**	28,694	**779**	450	**759**	1,475	**-**	-
	318,696	280,761	**9,557**	11,908	**135**	1,852	**1,601**	780
Cross currency swaps(2)								
Trading	**46,340**	29,992	**4,618**	3,204	**(622)**	(122)	**(270)**	51
Other than trading	**8,527**	5,995	**-**	-	**1,195**	634	**-**	-
	54,867	35,987	**4,618**	3,204	**573**	512	**(270)**	51
Futures trading	**107**	8	**-**	-	**-**	-	**-**	-
Options								
Trading	**95,132**	83,628	**1,548**	1,247	**408**	416	**182**	184
Other than trading	**521**	143	**18**	5	**12**	3	**-**	-
	95,653	83,771	**1,566**	1,252	**420**	419	**182**	184
Total foreign exchange rate-related contracts	**469,323**	400,527	**15,741**	16,364	**1,128**	2,783	**1,513**	1,015
Interest rate related-contracts								
Forward rate agreements								
Trading	**59,072**	44,429	**26**	83	**2**	(2)	**3**	(1)
Swaps								
Trading	**392,390**	280,704	**11,097**	4,128	**(355)**	44	**(234)**	(121)
Other than trading	**118,333**	51,589	**4,109**	620	**648**	(426)	**-**	-
	510,723	332,293	**15,206**	4,748	**293**	(382)	**(234)**	(121)
Futures								
Trading	**181,279**	106,845	**-**	-	**49**	(6)	**59**	3
Other than trading	**39,915**	12,359	**-**	-	**1**	2	**-**	-
	221,194	119,204	**-**	-	**50**	(4)	**59**	3
Options								
Trading	**40,874**	87,166	**446**	234	**332**	77	**387**	134
Other than trading	**100,820**	54,432	**932**	459	**438**	302	**-**	-
	141,694	141,598	**1,378**	693	**770**	379	**387**	134
Total interest rate-related contracts	**932,683**	637,524	**16,610**	5,524	**1,115**	(9)	**215**	15
Other contracts								
Trading	**1,817**	-	**202**	-	**-**	-	**-**	-
Other than trading	**2,485**	63	**1,808**	4	**1,707**	2	**-**	-
Total other contracts	**4,302**	63	**2,010**	4	**1,707**	2	**-**	-
Total derivative financial instruments	**1,406,308**	1,038,114	**34,361**	21,892	**3,950**	2,776	**1,728**	**1,030**
Deduct:								
Non-consolidated controlled entities(3)	**4,588**	2,779	**50**	27	**195**	158	**-**	-
Total derivative financial instruments reported for capital adequacy(4)	**1,401,720**	1,035,335	**34,311**	21,865	**3,755**	2,618	**1,728**	**1,030**

(1) *Average fair values of other than trading contracts are not captured.*

(2) *In accordance with industry practice, notional principal amounts disclosed for spot and forward foreign exchange contracts represent the buy leg only and for cross currency swaps represent the receivable leg only.*

(3) *Under APRA guidelines, life insurance and funds management activities are excluded from the calculation of risk-weighted assets and the related controlled entities are deconsolidated for the purposes of calculating capital adequacy.*

(4) *Refer to the financial review for further information on capital adequacy.*

46 Derivative financial instruments (continued)

Credit equivalent by maturity

As mentioned above, the credit equivalent amount includes an adjustment which takes account of the residual maturity of contracts. This is because credit risk is partly a function of the time over which the exposure will be held.

Table 6 provides a maturity profile of total counterparty exposure by credit equivalent amounts for all derivative financial instruments held or issued by the Group for the last two years as at September 30. It shows that 49% (2000: 64%) of the exposure is confined to maturities of one year or less and 78% (2000: 86%) matures within five years.

Table 6 Maturity profile of total derivative financial instruments counterparty exposure by credit equivalent

	Foreign exchange rate related contracts		Interest rate related contracts		Other contracts		Total	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Within 6 months	**8,803**	10,023	**3,215**	1,083	**1,703**	-	**13,721**	11,106
6 months - 1 year	**2,471**	2,618	**352**	202	**195**	-	**3,018**	2,820
1 - 2 years	**1,520**	1,404	**1,200**	736	**74**	-	**2,794**	2,140
2 - 5 years	**1,655**	1,302	**5,615**	1,408	**38**	-	**7,308**	2,710
After 5 years	**1,292**	994	**6,228**	2,095	**-**	-	**7,520**	3,089
Total derivative financial instruments reported for capital adequacy	**15,741**	16,341	**16,610**	5,524	**2,010**	-	**34,361**	21,865

Credit equivalent by concentration

Depending on the risks associated with an individual counterparty or groups of counterparties, a concentration of credit risk can be perceived as indicative of more or less credit risk. In general, the Group's dealings in derivatives involve counterparties in the banking and financial services area, together with government and semi-government authorities and major corporates.

Table 7 shows the credit equivalent of derivatives allocated to broad sector and geographic locations as at September 30, 2001 for the Group. It shows that 65% (2000: 66%) of credit exposure is to government authorities and banks. In excess of 93% (2000: 93%) of the Group's derivative financial instruments outstanding in terms of the credit equivalent are to customers with a credit rating of investment grade or above under the Group's loan grading system.

Table 7 Credit equivalent of derivative financial instruments allocated to sectors and geographic locations of ultimate obligors

	Governments	Banks	Non-bank financial institutions	Corporate and all other sectors	Total
	$m	$m	$m	$m	$m
Australia	470	8,919	1,958	3,319	14,666
Great Britain and Ireland	-	5,744	212	177	6,133
United States	-	4,833	165	10	5,008
New Zealand	9	167	44	523	743
Asia	-	2,351	5,304	156	7,811
Total credit equivalent of derivative financial instruments	479	22,014	7,683	4,185	34,361

Liquidity risk

Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will force the Group to sell derivative positions at a value which is far below their underlying worth, or may result in the inability to exit from the positions. The liquidity of a derivative, or an entire market, can be reduced substantially as a result of some market event or change in market psychology, or the actions of individual participants.

In order to counter such risk, the Group concentrates its derivative activity in highly liquid markets. Table 5, for example, shows that approximately 39% (2000: 39%) of notional principal outstanding was represented by standard foreign exchange and interest rate futures contracts.

Special considerations apply in the case of interest rate and cross currency swaps. These are often specially tailored instruments whose cash flows are structured to suit the particular needs of individual customers. Such instruments have the appearance of illiquidity because hedging the position with another counterparty with exactly offsetting requirements would be an unlikely occurrence. However, the Group hedges the risk of customised swap structures by using a combination of instruments. Swaps, forward rate agreements, futures contracts, physical securities or even loans and deposits can be employed for this purpose. In other words, such swaps may appear illiquid but their component risks are not. Furthermore, other market participants will always be willing to provide liquidity to an instrument they are able to hedge. In addition, values at risk utilisations *(refer to table 2)* ensure that open positions are maintained at a very small level relative to total volume. Such levels ensure that, at a time of market stress the Group would not be forced to compete for ever-diminishing liquidity in order to dispose of, or hedge, its existing positions.

47 Fair value of financial instruments

Australian Accounting Standard AASB 1033 "Presentation and Disclosure of Financial Instruments" requires disclosure of net fair value of on- and off-balance sheet financial instruments. Net fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction after deducting transaction costs. The fair value of financial instruments required to be disclosed under US accounting standard, Statement of Financial Accounting Standard No 107. "Disclosure about Fair Value of Financial Instruments" (SFAS 107) is calculated without regard to estimated transaction costs. Such costs are not material, and accordingly the net fair values shown below would not differ materially from fair values calculated in accordance with SFAS 107.

The estimated fair values are based on relevant information available for the last two years as at September 30. These estimates are subjective in nature and involve matters of judgement. Changes in assumptions could have a material impact on the amounts estimated.

There are various limitations inherent in this disclosure. Not all of the Group's financial instruments can be exchanged in an active trading market. In addition, it is the Group's intent to hold most of its financial instruments to maturity and therefore it is not probable that the net fair values shown will be realised in a current transaction. The methods used to estimate fair value exclude a wide range of intangible, franchise and relationship benefits such as core deposits and credit card intangibles, which are integral to a complete assessment of the Group's financial position. As a consequence, the aggregate fair value does not represent the underlying value of the Group.

		2001		2000	
	Footnote	**Carrying value $m**	**Net fair value $m**	Carrying value $m	Net fair value $m
Financial assets					
Cash assets	(a)	**7,993**	**7,993**	6,868	6,868
Due from other financial institutions	(a)	**16,472**	**16,472**	12,780	12,780
Due from customers on acceptances	(a)	**19,353**	**19,353**	22,945	22,945
Debt securities	(b)	**37,075**	**37,098**	25,611	25,594
Investments relating to life insurance business					
Equity securities	(c)	**21,846**	**21,846**	19,077	19,077
Debt securities	(c)	**8,574**	**8,574**	9,189	9,189
Loans and advances	(d)	**207,797**	**211,684**	195,492	197,335
Mortgage loans held for sale	(e)	**3,688**	**3,688**	2,656	2,654
Mortgage servicing rights	(f)	**5,445**	**5,445**	8,226	8,226
Shares in entities and other securities	(g)	**1,412**	**1,652**	1,376	1,425
Regulatory deposits	(h)	**98**	**98**	135	135
Financial liabilities					
Due to other financial institutions	(a)	**42,873**	**42,873**	29,685	29,685
Liability on acceptances	(a)	**19,353**	**19,353**	22,945	22,945
Deposits and other borrowings	(i)	**190,965**	**190,869**	185,097	185,148
Life insurance policy liabilities	(j)	**30,257**	**30,257**	29,879	29,879
Bonds, notes and subordinated debt	(k)	**24,984**	**25,436**	21,051	21,356
Other debt issues	(k)	**1,985**	**2,789**	1,907	2,490

The net fair value estimates are based on the following methodologies and assumption:

(a) the carrying amount of **cash assets**, **due from and to other financial institutions**, **due from and to customers on acceptances**, and **regulatory deposits** approximate their net fair value as they are short term in nature or are receivable or payable on demand;

(b) **debt securities** consist of trading, available for sale and investment securities. The net fair values of debt securities, together with related hedge contracts where applicable, were based on quoted market prices at September 30;

(c) the net fair values of **debt and equity securities** held as **investments relating to life insurance business** were based on quoted market prices at September 30. Where no quoted market value exists, various valuation methods were adopted by the directors as detailed in note 1(p). In those instances, the values adopted were deemed equivalent to net market value;

(d) the carrying value of **loans and advances** is net of specific and general provisions for doubtful debts and income yet to mature. The net fair value of loans and advances that reprice within six months of balance date were assumed to equate to the carrying value. The net fair values of all other loans and advances were calculated using discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current interest rates of similar types of loans, if the loans were performing at balance date.
The differences between estimated net fair values of loans and advances and carrying value reflects changes in interest rates and credit worthiness of borrowers since loan origination.
Net lease receivables with a carrying value of $15,394 million (2000: $13,801 million) and a net fair value of $15,576 million (2000: $13,796 million), are included in loans and advances. Lease receivables are excluded from the definition of a financial asset under SFAS 107 and have been included in the above table for Australian reporting purposes;

(e) the net fair value of **mortgage loans held for sale** was based on the sale contract prices or, if not committed for sale, the current market price;

(f) the net fair value of **mortgage servicing rights** was derived using market prices of similar assets and discounted future net cash flows based on economic factors such as market and historic prepayment rates, portfolio characteristics and interest rates;

47 Fair value of financial instruments (continued)

(g) the net fair value of **shares in other entities** was based on quoted market prices where available. Where quoted market prices did not exist, the net fair values were estimated after taking into account the underlying financial position of the investee or quoted market prices for similar instruments;

(h) the Group is required by law to lodge **regulatory deposits** with certain central banks at a rate of interest below that generally prevailing in the market. As the obligation between the parties is not based on contract but on regulatory requirements, such deposits do not constitute a financial instrument within the definition contained in SFAS 107 and have been included in the above table for Australian reporting purposes;

(i) with respect to **deposits and other borrowings**, the net fair value of non-interest bearing, call and variable rate deposits and fixed rate deposits repricing within six months was the carrying value at September 30. The net fair value of other term deposits was calculated using discounted cash flow models based on the deposit type and its related maturity;

(j) the net fair value of **life insurance policy liabilities** was calculated using the Margin on Services methodology as detailed in note 1(aa);

(k) the net fair values of **bonds, notes, subordinated debt** and **other debt issues** were calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments was used.
The fair value of off-balance sheet financial instruments that qualify as accounting hedges for the Group's long term debt was included in the fair value amount of hedged debt;

(l) **commitments to extend credit, letters of credit and guarantees, warranties and indemnities issued** are considered to be financial instruments. These financial instruments are generally not sold nor traded and estimated fair values are not readily ascertainable. Net fair value of these items was not calculated for the following reasons. Very few of the commitments extended beyond six months would commit the Group to a predetermined rate of interest. The fees attaching to these commitments are the same as those currently charged to enter into similar arrangements. Finally, the quantum of fees collected under these arrangements, upon which a fair value calculation would be based, is not material; and

(m) the fair values of **derivative financial instruments**, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. The net fair values of these instruments are disclosed in note 46.

48 Superannuation commitments

The Group sponsors a range of superannuation funds for employees which principally offer two types of benefits:

- defined benefits which provide a pension with the option of commutation of part of the pension on retirement, or lump sum benefit; and
- accumulation benefits which provide a lump sum benefit on retirement or withdrawal.

Defined benefits are based on years of service and compensation levels during the latter years of service. For defined benefit funds, the Group's policy has been to contribute to the plans annually in amounts required to maintain sufficient plan assets to provide for accrued benefits.

Accumulation benefits are based on accumulated contributions and interest earnings thereon. Entities in the Group are obliged to contribute sufficiently to cover specified minimum benefit levels. These obligations are legally enforceable. The relevant trust deed may allow for the cessation of these contributions. Member and employer contributions are calculated as percentages of member's salaries or wages. In the case of some funds, member contributions are not required.

The Group contributed $155 million in respect of all superannuation funds for 2001 (2000: $129 million).

All trustees of the respective funds are of the opinion, based on the advice of the actuaries as at the last valuation date, that on termination of the funds, or the voluntary or compulsory termination of each employee, all vested benefits are covered by the available assets of the respective funds and, where this is not the case, appropriate action has been implemented to correct the situation.

48 Superannuation commitments (continued)

Listed below are details of the major funds with total assets in excess of $10 million each. The accrued benefits, plan assets at net market value, net surplus and vested benefits of these funds (converted at exchange rates as at September 30) were:

		2001				2000			
Name of defined benefit fund	Last assessment date and actuary name	**Accrued benefits $m**	**Plan assets $m**	**Net surplus $m**	**Vested benefits $m**	Accrued benefits $m	Plan assets $m	Net surplus $m	Vested benefits $m
National Australia Bank Group Group Superannuation Fund A(1)	June 30, 2000 Mr SJ Schubert, FIA, FIAA Towers Perrin	**1,764**	**1,904**	**140**	**1,652**	1,764	1,800	36	1,532
Clydesdale Bank Pension Scheme(2)	June 30, 2000 Watson Wyatt Partners Consulting Actuaries	**1,765**	**1,965**	**200**	**1,589**	1,695	2,042	347	1,526
Northern Bank Pension Scheme(2)	June 30, 2000 Watson Wyatt Partners Consulting Actuaries	**1,133**	**1,482**	**349**	**1,070**	1,100	1,550	450	1,036
National Irish Bank Pension Scheme(2)	June 30, 2000 Watson Wyatt Partners Consulting Actuaries	**292**	**462**	**170**	**233**	274	388	114	242
National Australia Bank UK Retirement Benefits Plan(2)(3)	June 30, 2000 Watson Wyatt Partners Consulting Actuaries	**215**	**227**	**12**	**173**	201	224	23	159
Yorkshire Bank Pension Scheme(2)	June 30, 2000 Watson Wyatt Partners Consulting Actuaries	**1,443**	**1,953**	**510**	**1,261**	1,420	2,044	624	1,237
Bank of New Zealand Officers' Provident Association(4)	June 30, 2000 Watson Wyatt NZ Ltd Consulting Actuaries	**149**	**247**	**98**	**148**	143	242	99	141
NAB Group/USA Pension Plan(5)	September 30, 2000 William M Mercer Incorporated Consulting Actuaries	**-**	**-**	**-**	**-**	218	309	91	209
National Staff Superannuation Fund (MLC)(6),(7)	September 13, 2000 Mr SJ Schubert, FIA, FIAA Towers Perrin	**96**	**99**	**3**	**96**	71	80	9	80
Total defined benefit funds		**6,857**	**8,339**	**1,482**	**6,222**	6,886	8,679	1,793	6,162

(1) *National Australia Bank Group Superannuation Fund A is technically a defined benefit fund although the vast majority of members have accumulation benefits. Accrued benefits are at the date of the last actuarial assessment, which was June 30, 2000. Plan assets and vested benefits are as at June 30, 2001, being the date of the most recent financial statements of the fund.*

(2) *Accrued benefits, plan assets and vested benefits are at the date of the last actuarial assessment, which was June 30, 2000. Comparative amounts are as of the actuarial assessment date of June 30, 1999.*

(3) *Employees working for National Australia Bank Limited, National Australia Group Europe Limited, National Australia Group Services Europe Limited and National Australia Life Services Limited in Europe are eligible for membership of the National Australia Bank UK Retirement Benefits Plan.*

(4) *Amounts for Division 1 and 2 of the Bank of New Zealand Officers' Provident Association have been combined.*

(5) *Accrued benefits, plan assets and vested benefits are as at the date of the last actuarial assessment which was September 30, 2000.*

(6) *National Staff Superannuation Fund (MLC) was established on September 13, 2000 and the first formal actuarial assessment since commencement, whilst currently underway, has not yet been completed. The fund is technically a defined benefit fund although the majority of members have accumulation benefits. Accrued benefits are as estimated as at the date of commencement of the fund. Plan assets and vested benefits are as at June 30, 2001, being the date of the most recent financial statements of the fund.*

(7) *Comparative information for 2000 has been restated based on advice received from the actuary.*

49 Operating lease commitments

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Estimated minimum lease commitments				
Due within 1 year	**184**	291	**69**	173
Due within 1-2 years	**206**	228	**99**	121
Due within 2-3 years	**175**	183	**81**	86
Due within 3-4 years	**178**	148	**80**	60
Due within 4-5 years	**137**	121	**64**	47
Due after 5 years	**1,110**	919	**373**	229
Total operating lease commitments(1)(2)(3)	**1,990**	1,890	**766**	716
Commitments by type				
Commercial and residential buildings	**1,828**	1,859	**617**	694
Data processing and other equipment	**162**	31	**149**	22
Total operating lease commitments	**1,990**	1,890	**766**	716

(1) *Figures include liabilities taken up for surplus leased space and lease incentives.*

(2) *Includes non-cancellable operating lease commitments consisting of:*

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Due within 1 year	***77***	*72*	**-**	-
Due within 1-2 years	***67***	*62*	**-**	-
Due within 2-3 years	***85***	*54*	**-**	-
Due within 3-4 years	***43***	*47*	**-**	-
Due within 4-5 years	***38***	*40*	**-**	-
Due after 5 years	***418***	*425*	**-**	-
Total non-cancellable operating lease commitments	***728***	*700*	**-**	-

(3) *Included in this note are lease commitments resulting from the sale and leaseback of various properties. These transactions are generally for a term of five years, or 10 years for major properties. There is no ongoing involvement in the properties other than rental payments.*

The Company has entered into an agreement to lease two commercial buildings in the Docklands precinct of Melbourne, Australia. The leases are expected to commence in April 2003 and March 2004, respectively, for a term of 12 years, at commercial rates. The table above does not reflect rentals due under these leases as the principal provisions of the leases have not yet been agreed.

50 Capital expenditure commitments

	Group 2001 $m	Group 2000 $m	Company 2001 $m	Company 2000 $m
Land and buildings				
Due within 1 year	**44**	43	**32**	34
Data processing and other equipment				
Due within 1 year	**45**	102	**21**	80
Due within 1-2 years	**22**	-	**21**	-
Total capital expenditure commitments	**111**	145	**74**	114

51 Financing arrangements

	Group 2001 Accessible $m	Group 2001 Unused $m	Group 2000 Accessible $m	Group 2000 Unused $m
The Company and other controlled entities had access to the following financing arrangements				
Standby lines of credit	**3,170**	**106**	2,876	91
Total financing arrangements	**3,170**	**106**	2,876	91

The standby line of credit facility available at September 30, 2001 is subject to an expiry date of October, 15, 2002.

52 Related party disclosures

During the year, there have been dealings between the Company and its controlled entities and other related parties. The Company provides a range of services including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, the provision of finance, forward exchange and interest rate cover. These transactions are normally subject to commercial terms and conditions.

Other transactions with controlled entities may involve leases of properties, plant and equipment, the provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are made on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

The aggregate of material amounts receivable from or payable to controlled entities, at balance date are as disclosed on the statement of financial position of the Company.

Details of directors who held office during the year are set out in the report of the directors. Details of remuneration paid or payable to the directors and directors of related entities are set out in the report of the directors and note 53.

Australian banks and the Australian parent entities of Australian banks have been exempted under Australian Securities and Investments Commission Class Order 98/110 dated July 10, 1998, from providing details of certain loans or financial instrument transactions made by banks to related parties (other than directors) in the ordinary course of banking business and on an arm's length basis or with the approval of shareholders of the relevant entity and its ultimate parent entity if any.

The Company is required under the terms of the Class Order to lodge a statutory declaration, signed by two directors, with the Australian Securities and Investments Commission. The declaration must provide confirmation that the Company has implemented systems of internal control and procedures, which provide assurance that any loans or other financial instrument transactions of a bank which are not entered into on normal terms and conditions are drawn to the attention of the directors so that they may be disclosed in the financial report.

The Company will lodge such a declaration with its annual return to the Australian Securities and Investments Commission for the year ended September 30, 2001.

Loans to directors

Loans made to non-executive directors of the Company and controlled entities are made in the ordinary course of business on commercial terms and conditions. Loans to executive directors of the Company and controlled entities are made on similar terms and conditions to other employees within the Group.

Under the Class Order referred to above, disclosure is limited to the aggregate amount of loans made or guaranteed by:

- the Company and its controlled entities to directors of all entities within the Group; and
- controlled non-banking entities to the related parties of directors of all entities within the Group.

The aggregate amounts of such loans made, repayments received and amounts outstanding at September 30 were:

	Group		Company	
	2001	2000[1]	**2001**	2000
	$'000	$'000	**$'000**	$'000
Balance outstanding at September 30	**39,184**	43,888	**776**	762
Loans made during the year				
Normal terms and conditions	**9,739**	16,106	**41**	356
Employee terms and conditions	**6,485**	6,620	**-**	-
Repayments received during the year				
Normal terms and conditions	**19,928**	21,339	**27**	23
Employee terms and conditions	**7,120**	7,053	**-**	-

[1] *Loans to directors for 2000 has been restated to correct a numerical error in the total reported in the Annual Financial Report 2000. The figure was $115,589,000.*

Notes to the financial statements

52 Related party disclosures (continued)

The following table sets out the nature of loans made to directors of the Company and controlled entities during the year:

	Group			Group			Group	
	2001	2000		2001	2000		2001	2000
DJ Anderson	1,2,3,4	2,4	SE Forbes	1,2	2	JT Macken	1,2,3,4	2,4
JO Anderson	1,2,3,4	1,2,3,4	HG Ford	2	1,2,3	FR Mallia	2,3	-
MT Anderson	-	1,2,3,4	G Ford	2	-	CP Matten	-	1,2,3,4
EJ Antczak	2	1,2,4	E Goff	1,2,4	-	RF Matrenza	2	3
J Badge	2	1,2,4	B Gordan	1,2,4	-	IG Mattiske	1,2,3,4	1,2,3,4
DA Baillie	1,2,4	1,2,4	D Grant	1,2,3,4	1,2,3,4	J McDonald	2	2,3,4
BA Baker	1,2,4	1,2,4	GT Greer	1,2,3,4	-	B McGahan	3	-
I Ballard	-	2	RJ Gregory	1,2,3	-	DJ McGee	1,2,3,4	1,2,3,4
A Barnard	1,2,4	2,4	SI Grimshaw	2,3,4	-	B McKenzie	1,2,4	-
GLL Barnes	1,2,4	1,2,4	L Haggerty	-	1,2,3	RA McKimm	2,3	1,2,3
SE Bernard	2	1,2,4	AG Haintz	-	2	RE McKinnon	1,2,4	1,2,4
JK Berry	-	3	AP Hale	1,2,4	1,3	D McPherson	1,2,4	4
ND Birrell	2,4	2,4	CK Hall	1,2,3	1,2,3	SJD Melia	1,2,3,4	1,2,3,4
CJ Black	1,2,3,4	4	W Handley	1,2,3	1,2,3	JB Meyer	2	2,3
JF Blom	-	2,4	GDB Harkness	3	3	B Meyler	2,4	1,2,4
DK Bould	2,4	1,2,4	DA Harris	3	4	G Miller	1,2,3	-
RK Boyce	1,3	1,2,3	HR Harris	-	4	RB Miller	1,2,3,4	1,2,3,4
PP Boyle	-	2,3,4	A Hart	-	1,2,4	J Mitchell	-	1,3
D Braimbridge	1,2,4	-	M Harwood	2	-	R Mitchell	2,4	-
PF Brooksbank	1,2,4	-	A Haslam	1,2,4	1,2,4	LE Moon	2	2,3
RC Brown	2	1,2,4	JN Hemingway	-	3	C Moore	-	2,4
DM Browne	2,4	1,2,4	RD Henriks	1,4	-	P Moir	1,2,4	-
I Buttler	3	-	DC Holden	1,2,3,4	3	D Morath	1,3	3
WH Byrne	2	1,2,4	M Hosking	1,2,4	-	AF Morrison	3	1,3
CR Campbell	2	1,2,4	T Hunersen	2	4	B Morris	1,2,4	-
W Canning	2,3,4	2,3,4	JC Hurst	2,4	2,4	KJ Moss	1,2	1,3
PJA Carson	2,4	-	RJ Hutchinson	2	1,2,4	DG Motherwell	2	1,2,4
JS Carton	2	1.2.3	GA Hyde	2,4	1,2,4	AM Murphy	1,2,3	1,2,3
BT Case	3	3	TL Irland	2	2,4	M Murphy	1,2,4	-
D Cathie	2	-	RJ Jacobs	4	2,4	FL Nelson	-	1,3
JB Christopher	1,2,3,4	-	PA Jefferies	1,3	1,3	W Nixon	2	2,3,4
FJ Cicutto	3	2,3	LS Jones	2	2,3,4	GF Nolan	1,2,4	1,2,4
PR Clark	1,2,4	4	SD Jursek	2	1,2,4	P Norris	1,2,3,4	-
RS Clark	-	2,3,4	A Karney	1,2,4	-	AJ O'Grady	-	1,2,4
AJ Clarke	2	1,2,4	DS Kelly	2	1,2,3,4	FG Olsson	1,2,4	1,4
RE Clements	1,2,3,4	-	M Kelly	1,2,3,4	1,2,3,4	MG O'Neill	4	-
WA Cole	2,3	1,2,3	D Kenny	1,2,4	2,4	DG Paton	1,2,3,4	-
G Comito	4	4	A Kentmann	2	3,4	D Peebles	-	1,2,3
KL Cormican	1,2,3,4	1,2,3	D Keys	2,4	1,2,4	GR Pellett	2,3,4	1,2,3,4
R Cone	-	1,3	MA King	2	1,2,4	WF Pickard	2	2,3
KF Courtney	3	3	V Koh Yoke Har	2,4	1,2,4	JK Pickett	2	1,4
DD Cowlishaw	-	2	GJ Kraehe	1,3	2,3	RE Pinney	1,2,3,4	1,2,3,4
G Cullen	1,2,4	1,4	DM Krasnostein	3,4	3,4	RH Polkinghorne	1,2,4	2,4
RF Dailey	2	1,2,4	PAK Laband	-	1,2,4	D Price	2,4	-
MS Darling	1,3	3	R Lakin	1,2,4	1,2,4	P Promnitz	1,2,3	3
R Day	2,4	2,3	B Lanesman	1,2,3	-	RMC Prowse	1,2,4	1,2,4
J Dean	2	1,2,3,4	BT Lavelle	1,2,4	2	JE Queen	1,2,3,4	1,2,3,4
JA Docherty	1,3	-	A Law	1,3,4	-	H Raby	2,4	4
M Donohoe	2,4	1,2,3,4	M Lawler	1,2,3	-	K Race	2	1,2,4
D Douglas	3,4	1,3,4	DIW Lawson	-	1,2,3	TE Reiss	2	1,2,3,4
MC Dowland	2	4	G Lefevre	-	2,3,4	D Richards	1,2,4	-
CW Duncan	4	4	C Leggat	2	2,4	J Richards	2,4	1,4
DE Ebert	2	1,2,3	BR Lenz	1,2	1,2,4	WD Ritsema	2	1,2,4
MR Edmonds	1,4	2,4	P Lendon	1,2,3,4	1,2,3,4	PD Rogan	2	2,3
MM Elliott	3	2,3	SP Littlebury	1,2,3,4	1,3,4	PK Roy	1,2,3,4	-
RR Erdos	1,2,4	-	B Long	2,3,4	2,4	TC Rutland	2	1,2,4
P Fegan	1,2,3,4	1,2,4	C Macek	-	2	RG Scholes-		
RJ Field	-	1,2,3	D MacGregor	1,2,3	2,3	Robertson	1,2,3	1,2,3
PG Flavel	2,3	3	KM Mach	-	2	GP Savage	1,2,3,4	1,2,3,4

52 Related party disclosures (continued)

	Group 2001	Group 2000		Group 2001	Group 2000		Group 2001	Group 2000
RR Schwarzlose	**2**	1,2,3,4	I Tasker	**2**	-	DL Upton	**1,2,4**	1,2,4
PB Scott	**4**	1,4	DG Taylor	**2,3,4**	1,2,3,4	SA Van Andel	**2**	2,3
MJW Skilling	**2,3**	-	JD Taylor	**2,3**	1,2,3,4	K Van Solkema	**1,2,3,4**	1,2,3,4
GR Slater	**1,4**	-	TS Tennent	**2**	-	C Van Swearingen	**2**	1,2,4
T Slater	**1,2,4**	4	PL Thodey	**2,4**	-	O Vanzuyden	**2,3**	2,3
MJ Smith	**1,2,4**	-	PJS Thomas	**3**	-	I Walker	**1,2,3,4**	-
MD Soden	**-**	2	D Thompson	**2,4**	-	JD Walmsley	**2,4**	1,2,4
RJ Stapleton	**2**	1,2,3,4	AC Thomson	**1,2,3**	1,2,3	P Weanie	**2,3,4**	2,3,4
AA Stewart	**-**	2,4	HJ Thomson	**1,2,3,4**	2,3,4	GJ Wheaton	**1,2**	1,2,3
A Stirrup	**2,4**	1,2,4	J Treloar	**1,2,4**	-	A Whitford	**1,2,3**	-
JD Storey	**2**	2,3	J Trethowan	**1,2,3**	2,3	OA Wilhelm	**2**	1,2,4
K Sukswasdi	**2,4**	-	S Tucker	**1,2,3**	3	G Willcock	**4**	-
GA Targett	**1,2**	-	RP Tuckey	**4**	1,4	W Wolke	**2**	-
SC Targett	**2,3**	-	P Tulloch	**3**	-	NL Youren	**1,2,3**	1,2,3

(1) *Loan made to this person during the year. Refer to the previous table for aggregate amounts.*

(2) *Repayment made by this person during the year. Refer to the previous table for aggregate amounts.*

(3) *Loan made in ordinary course of business on commercial terms and conditions. Refer to the previous table for aggregate amounts.*

(4) *Loan made on employee terms and conditions. Refer to the previous table for aggregate amounts.*

Loans made by the Group in 2001 and 2000 to directors or to any associate of such persons, as defined by the US Securities and Exchange Commission at no time exceeded 5% of equity.

Deposits

The value of deposits made with the Company directly or indirectly by directors of the Company and by parties related to them as at September 30, 2001 was $1,300,000. These deposits were transacted on normal terms and conditions.

Shares, share options and equity instruments

The aggregate number of shares, share options and equity instruments issued, disposed/exercised, or held, directly, indirectly or beneficially by directors of the Company and by parties related to them during the last two years is set out below. The share and share option details represent issues under the Company's dividend reinvestment plan, bonus share plan, UK dividend plan and, where applicable, employee share schemes and executive option plan. Equity instrument details represent issues of National Income Securities.

	Company					
	Issued		Disposed/Exercised		Held	
	2001	2000	**2001**	2000	**2001**	2000
Ordinary shares, fully paid	**209,719**	316,839	**-**	303,138	**296,380**	109,253
Share options over ordinary shares	**500,000**	500,000	**200,000**	300,000	**1,600,000**	1,300,000
Equity instruments	**-**	2,700	**400**	2,200	**1,170**	1,570

All these transactions were conducted on the same terms and conditions applicable to all ordinary shareholders, equity instrument holders or, where applicable, to all employees of the Company under employee share scheme.

Other transactions of directors

All other transactions with directors, director-related entities and other parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by non-bank controlled entities. All such transactions that have occurred with directors, director-related entities and other related parties have been trivial or domestic in nature.

Controlled entities

Refer to note 20 for details of the Company's investment in controlled entities. Refer to note 44 for details of controlled entities.

Details of amounts received from or paid to controlled entities, in the form of dividends or interest, are set out in notes 4 and 5(b).

In the context of the Group's operations, the directors do not consider it practicable to collate details of dealings with controlled entities by transaction type, except to the extent that they have been collated and disclosed in respect of the specific transaction types referred to in the preceding paragraphs.

The Company has certain guarantees and undertakings with entities in the Group. These are set out in note 45.

53 Remuneration of directors

Total income paid or payable, or otherwise made available, to all directors of the Company and each entity in the Group, directly or indirectly, by the Company or any related party consists of the following:

	Group		Company	
	2001	2000[(1)]	**2001**	2000
	$'000	$'000	**$'000**	$'000
Salary package	**40,470**	32,246	**2,782**	2,516
Performance-based bonuses [(2)]	**11,598**	10,149	**1,350**	550
Other benefits	**20,357**	6,941	**1,641**	1,455
Total remuneration of directors	**72,425**	49,336	**5,773**	4,521

[(1)] *Directors' remuneration for 2000 has been restated to include total income paid or payable to all directors of the Company and its controlled entities. Several offshore controlled entities were omitted from total directors' remuneration in the Annual Financial Report 2000.*

[(2)] *Represents bonuses paid in respect of prior year performance.*

Options issued during the year to executive directors under the Company's executive option plans have an exercise price equivalent to the market value of the Company's fully paid ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be $nil *(refer to note 39 for details of all options issued under the executive option plans).*

The following table shows the number of directors of the Company whose total income paid or payable, or otherwise made available, directly or indirectly, by the Company or any related party, falls within each of the bands.

	Company			Company	
Remuneration ($)	**2001**	2000	Remuneration ($)	**2001**	2000
10,001 - 20,000	**-**	1	190,001 - 200,000	**3**	-
80,001 - 90,000	**-**	1	230,001 - 240,000	**1**	-
100,001 - 110,000	**-**	*1	300,001 - 310,000	**-**	1
110,001 - 120,000	**1**	1	400,001 - 410,000	**-**	*1
130,001 - 140,000	**-**	1	960,001 - 970,000	**-**	*1
140,001 - 150,000	**-**	*1	1,740,001 - 1,750,000	***1**	-
150,001 - 160,000	**-**	1	1,920,001 - 1,930,000	**-**	1
160,001 - 170,000	**-**	1	2,900,001 - 2,910,000	**1**	-
170,001 - 180,000	**1**	-			
Total number of directors				**8**	12

* *Includes retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

The remuneration bands are not consistent with the specific remuneration details set out in the report of the directors as the basis of calculation differs due to the differing requirements of the *Corporations Act 2001* and Australian accounting standards.

54 Remuneration of executives

For the purposes of this note, executives are persons who work in, or mainly in, Australia and receive gross remuneration in excess of $100,000, and are Board appointees, executive directors of controlled entities, or Group employees responsible for the strategic direction and management of major business units. Aggregate remuneration received or due and receivable, directly or indirectly, by executives of the Group from the Company and related parties consists of the following:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Salary package	**29,504**	24,478	**25,101**	24,478
Performance-based bonuses [(1)]	**13,246**	7,709	**10,544**	7,709
Other benefits	**5,204**	2,030	**4,501**	2,030
Total remuneration of executives	**47,954**	34,217	**40,146**	34,217

[(1)] *Represents bonuses paid in respect of prior year performance.*

54 Remuneration of executives (continued)

Options issued during the year to executives under the Company's executive option plans have an exercise price equivalent to the market value of the Company's fully paid ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be $nil (refer to note 39 for details of all options issued under the executive option plans).

The following table shows the number of executives (as defined above) of the Group receiving gross remuneration, in each of the ranges stated, from the Company and related bodies corporate.

	Group		Company			Group		Company	
Remuneration ($)	**2001**	2000	**2001**	2000	Remuneration ($)	**2001**	2000	**2001**	2000
100,001 - 110,000	**-**	1	**-**	1	530,001 - 540,000	**1**	1	**-**	1
110,001 - 120,000	**-**	1	**-**	1	540,001 - 550,000	**-**	1	**-**	1
120,001 - 130,000	**1**	2	**1**	2	550,001 - 560,000	**1**	-	**1**	-
130,001 - 140,000	**1**	-	**1**	-	560,001 - 570,000	**1**	1	**-**	1
140,001 - 150,000	**1**	-	**1**	-	570,001 - 580,000	***3**	2	***2**	2
150,001 - 160,000	**3**	1	**2**	1	590,001 - 600,000	**-**	*1	**-**	*1
160,001 - 170,000	**2**	1	**2**	1	600,001 - 610,000	**2**	-	**-**	-
190,001 - 200,000	***2**	-	***2**	-	610,001 - 620,000	***1**	-	***1**	-
200,001 - 210,000	**1**	-	**1**	-	620,001 - 630,000	**1**	-	**-**	-
210,001 - 220,000	**1**	1	**1**	1	640,001 - 650,000	**1**	-	**1**	-
220,001 - 230,000	**1**	-	**1**	-	650,001 - 660,001	**1**	-	**1**	-
230,001 - 240,000	**3**	3	**3**	3	660,001 - 670,001	***1**	-	***1**	-
240,001 - 250,000	**1**	-	**-**	-	680,001 - 690,000	**1**	1	**1**	1
250,001 - 260,000	**-**	2	**-**	2	720,001 - 730,000	**-**	1	**-**	1
260,001 - 270,000	**2**	1	**2**	1	750,001 - 760,000	**1**	1	**1**	1
270,001 - 280,000	**-**	3	**-**	3	760,001 - 770,000	**-**	1	**-**	1
280,001 - 290,000	**-**	1	**-**	1	770,001 - 780,000	**2**	-	**2**	-
290,001 - 300,000	**1**	1	**1**	1	780,001 - 790,000	**1**	-	**1**	-
300,001 - 310,000	**2**	-	**2**	-	810,001 - 820,000	**-**	1	**-**	1
310,001 - 320,000	**2**	2	**2**	2	840,001 - 850,000	**-**	1	**-**	1
320,001 - 330,000	**1**	3	**1**	3	880,001 - 890,000	**-**	1	**-**	1
330,001 - 340,000	**3**	2	**3**	2	890,001 - 900,000	***1**	1	***1**	1
340,001 - 350,000	**3**	-	**2**	-	900,001 - 910,000	**1**	-	**1**	-
350,001 - 360,000	**3**	1	**3**	1	910,001 - 920,000	**-**	1	**-**	1
360,001 - 370,000	**-**	2	**-**	2	920,001 - 930,000	**-**	1	**-**	1
370,001 - 380,000	**2**	2	**2**	2	930,001 - 940,000	**1**	-	**-**	-
380,001 - 390,000	**3**	1	**2**	1	980,001 - 990,000	**-**	1	**-**	1
390,001 - 400,000	**2**	4	**2**	4	1,010,001 - 1,020,000	**2**	-	**2**	-
400,001 - 410,000	**2**	-	**2**	-	1,070,001 - 1,080,000	**1**	-	**1**	-
410,001 - 420,000	**1**	3	**1**	3	1,080,001 - 1,090,000	**1**	-	**1**	-
420,001 - 430,000	**2**	1	**2**	1	1,100,001 - 1,110,000	**-**	1	**-**	1
430,001 - 440,000	**2**	1	**2**	1	1,280,001 - 1,290,000	**1**	-	**-**	-
440,001 - 450,000	**1**	1	**-**	1	1,320,001 - 1,330,000	**1**	1	**1**	1
450,001 - 460,000	***1**	-	***1**	-	1,350,001 - 1,360,000	**-**	1	**-**	1
460,001 - 470,000	**1**	1	**1**	1	1,410,000 - 1,420,001	***1**	-	***1**	-
470,001 - 480,000	**-**	2	**-**	2	1,420,001 - 1,430,000	**1**	-	**1**	-
480,001 - 490,000	**-**	1	**-**	1	1,510,001 - 1,520,000	**1**	-	**1**	-
490,001 - 500,000	**#2**	-	**#2**	-	1,910,001 - 1,920,000	***1**	-	***1**	-
500,001 - 510,000	**1**	1	**1**	1	1,920,001 - 1,930,000	**-**	1	**-**	1
510,001 - 520,000	**1**	1	**-**	1	2,900,001 - 2,910,000	**1**	-	**1**	-
520,001 - 530,000	**-**	1	**-**	1					
Total number of executives						**87**	69	**73**	69

** Includes retirement, retrenchment and /or other resignation benefits paid to at least one person in each of these bands.*

 # Includes expatriate benefits paid to at least one person in each of these bands.

The remuneration bands are not consistent with the specific remuneration details set out in the report of the directors as the basis of calculation differs due to the differing requirements of the *Corporations Act 2001* and Australian accounting standards.

55 Remuneration of auditors

	Group 2001 $000's	Group 2000 $000's	Group 1999 $000's	Company 2001 $000's	Company 2000 $000's
Total amounts paid or due and payable to auditors of the Company for					
Audit and review of the financial statements	**7,511**	6,069	5,036	**2,122**	1,971
Regulatory services (1)	**1,573**	4,370	3,072	**442**	581
Taxation services (2)	**1,838**	2,337	1,914	**919**	1,749
Other services (3)	**7,260**	4,217	3,435	**3,713**	2,304
	18,182	16,993	13,457	**7,196**	6,605
Total amounts paid or due and payable to related practices of auditors of the Company for					
Consulting (4)	**7,456**	3,414	-	**7,456**	3,414
Total remuneration of auditor-related practices	**25,638**	20,407	13,457	**14,652**	10,019

(1) *Regulatory services provided other than those relating to the audit and review of the statutory financial statements of the Group. These services include prudential supervision reviews for central banks, prospectus reviews, trust audits and other audits required for local statutory purposes.*

(2) *Taxation services includes services provided for taxation consulting.*

(3) *Other services include internal audit secondments, and investment and advisory assistance.*

(4) *Provision of personnel to assist with the development of the corporate intranet.*

The Audit Committee has reviewed the level of non-audit fees provided by KPMG and is satisfied that this amount is compatible with maintaining auditors' independence.

By virtue of Australian Securities and Investments Commission Class Order 98/2000 dated September 30, 1998, and amended on February 8, 2000, the auditors of the Company and its controlled entities, KPMG, have been exempted from compliance with section 324(1) and 324(2) of the *Corporations Act 2001*. The Class Order exemption applies in that members of KPMG and bodies corporate in which a member of KPMG is a substantial shareholder (other than those members and bodies corporate in which a member of KPMG is a substantial shareholder engaged on the audit of the Company and/or controlled entities) may be indebted to the Company and its controlled entities provided that:

- such indebtedness does not exceed $5,000; or
- section 324(3) applies to the relevant indebtedness; or
- the indebtedness arose upon ordinary commercial terms as to the rate of interest, the terms of repayment of principal and payment of interest, the security to be provided and otherwise, and it related to a financial arrangement between the relevant member and the Company and/or its controlled entities prior to the member becoming a member of KPMG where the arrangement was not entered into in connection with becoming a member of KPMG.

56 Fiduciary activities

The Group's fiduciary activities consist of investment management and other fiduciary activities conducted as trustee, custodian or manager for a number of investments and trusts including superannuation and approved deposit funds, and wholesale and retail investment trusts. The aggregate amounts of funds concerned, which are not included in the Group's statement of financial position, are as follows:

	Group 2001 $m	Group 2000 $m
Fiduciary funds under management, administration and trusteeship	**29,334**	26,352

Arrangements are in place to ensure that these activities are managed independently from all other activities of the Group.

57 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including National Australia Financial Management Limited (NAFM), MLC Limited (MLC) and MLC Lifetime Company Limited (MLC Lifetime) in Australia, National Australia Life Company Limited in Great Britain, BNZ Life Insurance Limited in New Zealand, MLC (Hong Kong) Limited, PT MLC Life Indonesia and their controlled entities.

Appropriately-qualified actuaries have been appointed in respect of each life insurance business within the Group and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial report, including compliance with the regulations of the *Life Insurance Act 1995* where appropriate. Further details are set out in the various insurance statutory returns of these life insurers.

(a) Details of the solvency position of each life insurer in the Group

Australian life insurers

Under the *Life Insurance Act 1995* , life insurers are required to hold reserves in excess of policy liabilities to meet certain solvency and capital adequacy requirements. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a cushion against adverse experience in managing long term risks. In Australia, the Life Insurance Actuarial Standards Board has issued Actuarial Standard AS 2.02 "Solvency Standard" for determining the level of solvency reserves. This standard prescribes a minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund. Capital adequacy is determined in accordance with Actuarial Standard AS 3.02 "Capital Adequacy Standard".

The summarised information provided below has been extracted from the financial statements prepared by each life insurer in the Group for the purpose of fulfilling reporting requirements prescribed by local Acts and prevailing prudential rules for 2001. For detailed solvency information on a statutory funds basis, users of this annual financial report should refer to the financial statements prepared by each life insurer.

	NAFM $m	MLC $m	MLC Lifetime $m
Solvency reserve as at September 30, 2001	86	141	659
Assets available for solvency as at September 30, 2001	132	202	866
Coverage of solvency reserve (times)	1.5	1.4	1.3

Non-Australian life insurers

The non-Australian life insurers in the Group are not governed by the *Life Insurance Act 1995* as they are foreign-domiciled life insurance companies. Each of these companies is required to meet similar tests of capital adequacy and solvency based on the regulations set down by their local authorities.

(b) Actuarial methods and assumptions - Australian life insurers

(i) Policy liabilities

The policy liabilities have been calculated on the Margin on Services (MoS) method as set out in Actuarial Standard AS 1.02 "Valuation Standard" (AS 1.02) issued by the Life Insurance Actuarial Standards Board *(refer to note 1(aa))*.

(ii) Types of business and profit carriers

Product type	Actuarial method	Profit carrier
Investment-linked	Accumulation	N/A
Non-investment linked		
Traditional non-participating business	Projection	Premiums
Lump sum risk - regular premiums	Projection	Premiums
Lump sum risk - single premiums	Projection	Claims
Income stream risk	Projection	Premiums
Annuity business	Projection	Annuity payments
Traditional participating business	Projection	Bonuses

57 Life insurance business disclosures (continued)

(iii) Discount rates

These are the rates used to discount future cash flows under the projection method to determine the net present value. The discount rates are determined by the earnings rate of the assets that support the policy liabilities.

Discount rates	NAFM	MLC and MLC Lifetime
Traditional business		
Ordinary	5.7% [1]	5.4% [2]
Superannuation		6.5% [2]
Term life insurance	5.7% [1]	5.2% [1]
Disability business	5.7% [1]	5.2% [1]
Annuity business	6.5% [1]	5.9% [1]

[1] *Before tax.*

[2] *After tax.*

(iv) Future expenses and indexation

Future maintenance expenses have been assumed to increase by a 2.25% per annum rate of inflation for NAFM and 2.25% for MLC and MLC Lifetime. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the consumer price index. The policy liabilities assume a future take-up of these indexation options based on the company's recent experience.

(v) Rates of taxation

Rates of taxation have been revised in the reporting period to reflect known changes in the basis of taxation on life insurance business *(refer to note 1(pp)).*

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by the Institute of Actuaries of Australia, with adjustments to claim incidence and termination rates based on recent experience as follows:

NAFM

- Traditional business - 90% of IA 90-92[1] ;
- Term insurance - 75% of IA 90-92[1] ;
- Disability income
  - Income protection benefits - 120% of IAD 89-93[2] ;
  - Mortgage-related TTD benefits - 150% of IAD 89-93[2] ;
  - Lump sum benefits - various;
- Annuity business - 90% of the minimum of ALT 90-92 and IA 90-92 with annual improvements from 1991[1][3] ;
- Accident plan - Australian population rates, increasing by 1% for each year after policy commencement.

MLC and MLC Lifetime

- Traditional business - 86% of IA 90-92[1] ;
- Term insurance - 76% of IA 90-92[1] ;
- Disability income - rates similar to 106% or 107% of incidence and 115% of claim costs of IAD 89-93[1] ;
- Annuity business - 57% of IM 80 and IF 80[4] .

[1] *IA 90-92 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1990 to 1992.*

[2] *IAD 89-93 is a disability table developed by the Institute of Actuaries of Australia based on Australian insured lives disability income business experience from 1989 to 1993.*

[3] *ALT 90-92 is a mortality table published by the Australian Bureau of Statistics based on Census data collected in 1991.*

[4] *IM 80 and IF 80 are mortality tables developed by the Institute of Actuaries of Australia and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1979 to 1982. The tables refer to male and female lives respectively and incorporate factors which allow for mortality improvements since the date of the investigation. (There is no standard Australian annuitant mortality table.)*

57 Life insurance business disclosures (continued)

(vii) Discontinuances

Assumed future annual rates of discontinuance for the major classes of business are as follows:

Product type	NAFM	MLC and MLC Lifetime
Traditional business - ordinary	5.0%	5.0%
Traditional business - superannuation	N/A	4.0%
Term life insurance	12.5%	11.0%
Accident business	5.0%	N/A
Superannuation business	N/A	10.0%
Allocated pension	N/A	5.0%
Disability income	17.5%	15.0%

(viii) Surrender values

Surrender values are based on the provision specified in policy contracts and on the current surrender value basis for traditional policies, and typically include a recovery of policy acquisition and maintenance costs. In all cases, the surrender values specified in the contracts exceed those required by the *Life Insurance Act 1995*.

(ix) Crediting policy and bonus philosophy

For participating business, the Group's policy is to set bonus rates such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities were set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future profits.

Assumed future annual bonus rates for the major classes of business are:

	Ordinary business	Superannuation business
Bonus rate on sum assumed	1.77%	2.57%
Bonus rate on existing bonuses	1.77%	2.57%

(c) Disclosure of assumptions - non-Australian life insurers

The policy liabilities for the Group's non-Australian life insurers have been determined by the respective entity's actuary in accordance with the guidelines and standards mandated by their local authorities.

(d) Glossary of terms relating to statutory funds business

Accumulation method - The calculation of the policy liability is based on the accumulation of premiums and investment earnings less fees applicable. Deferred acquisition costs are offset against this liability.

Annuity products - Policies that provide a regular payment to the policyholder for a specified period or until death of the insured. Policies may also provide for a payment of a specified amount upon death.

Bonuses - Discretionary amounts added to the benefits currently payable under participating business. Under the *Life Insurance Act 1995* , bonuses are a distribution to policyholders of current profits and retained profits and may take a number of forms including reversionary bonuses, interest credits and capital growth bonuses (payable on the termination of the policy). The total amount of policyholders' retained profits distributed in the reporting period as interim and terminal bonus distributions are included in claims expense. Bonuses proposed during a year are included in the change in policy liabilities.

Classes of business - Under the *Life Insurance Act 1995* , there may be two classes of business in each statutory fund: superannuation business and ordinary business. Superannuation business is maintained for the purpose of a superannuation or retirement scheme. Ordinary business is all other business.

Discontinuances - The voluntary termination of polices through surrender, lapse (surrender value is insufficient to support the debt on the policy) or forfeiture (non-payment of premiums when the policy has no surrender value).

Experience profits/(losses) - The profits/(losses) that occur when the actual experience of business is better (or worse) than that expected according to the assumptions used in the calculation of policy liabilities or when once-off events occur which were not allowed for in the assumptions.

57 Life insurance business disclosures (continued)

Investment account policies - Policies where the benefits are calculated by reference to an account balance. Interest is added to the account balance each year as a distribution of profits under the *Life Insurance Act 1995.*

Investment management expenses - The costs of managing the investment portfolio including principal investment advice, investment management and custodian expenses.

Maintenance expenses - The costs of all activities which support the maintenance and servicing of the business currently inforce. Maintenance costs include the cost of processing policy renewals, the cost of processing claims and surrender payments, various management costs, renewal commission, and the cost of maintaining product and administration systems. Maintenance expenses include all costs that are not policy acquisition costs or investment management expenses.

Non-participating business - Policies where the policy benefits are fully specified in the policy document. Profits or losses on this business accrue solely to the shareholders.

Participating business - Policies where the policy benefits include, in addition to benefits guaranteed by the policy document, an entitlement to share (with the shareholders) in the profits of the life company. These profits are usually distributed by providing additional benefits under the policies eg by the addition of bonuses or interest credits. The participating policyholders' share of the profits is protected by the *Life Insurance Act 1995.* The participating business includes whole of life, endowment insurance, pure endowment policies and investment account policies.

Planned profit - The amount of profit that is expected to be generated from the profit margins for a particular reporting period.

Policy acquisition costs or new business selling costs - Include advisory fees, the cost of processing the application, advertising and promotion of products and services, and the cost of developing and establishing new products and related activities.

Profit margin - The expected profit under the policy is the profit margin. It depends upon the premiums charged and the policy benefits provided, the policy experience to date (including the policy acquisition costs incurred) and the assumptions used in the calculation of policy liabilities. Under the requirements of AS 1.02, profit margins are often defined in terms of the value of another income or expense item (the profit carrier). For participating business, profit margins include those for both policyholders and shareholders. For non-participating business, all profit margins belong to shareholders.

Traditional business - Policies such as whole of life insurance, endowment insurance and pure endowment. The sum insured and any bonuses are payable on death or on reaching a certain age (endowment insurances and pure endowments). Premiums are normally paid throughout the policy term. Traditional business, which is normally participating business, is included within non-investment linked business.

Whole of life and endowment - Policies where the sum insured and bonuses are payable on death or on reaching a certain age. Bonuses are added each year as distribution of profits under the *Life Insurance Act 1995.*

(e) Disaggregated information

The Group's life insurance business is conducted through a number of life insurance entities in Australia and overseas.

In Australia, under the *Life Insurance Act 1995* , life insurance business is conducted within separate statutory funds which are distinguished from one another and from the shareholders' fund. The financial statements of Australian life insurers are lodged with the relevant Australian regulators and show all major components of the financial statements disaggregated between each life insurance statutory fund and the shareholders' funds.

Notes to the financial statements

57 Life insurance business disclosures (continued)

The disaggregated financial statements of the Group's life insurance businesses for 2001 are summarised below:

	Australian statutory funds					
	Investment-linked business $m	Non-Investment-linked business $m	International life insurance funds[3] $m	Total life insurance funds $m	Total shareholder funds $m	Total $m
Disaggregated statement of financial performance						
For the year ended September 30, 2001						
Premium and related revenue						
Total premiums received or receivable[1]	5,569	549	432	6,550	9	6,559
Deduct: Policyholder investment contributions	5,392	7	-	5,399	-	5,399
Fee revenue in premiums	177	542	432	1,151	9	1,160
Deduct: Outward reinsurance expense	-	109	29	138	-	138
Total premium and related revenue	177	433	403	1,013	9	1,022
Investment revenue						
Equity securities	(1,290)	(16)	(86)	(1,392)	(11)	(1,403)
Debt securities	332	170	4	506	3	509
Property	-	9	-	9	-	9
Total investment revenue	(958)	163	(82)	(877)	(8)	(885)
Other income	-	43	18	61	408	469
Total life insurance revenue	(781)	639	339	197	409	606
Movement in excess of net market value over net assets of controlled entities	-	-	-	-	510	510
Total operating revenue	(781)	639	339	197	919	1,116
Claims expense						
Total claims paid or payable[2]	3,614	661	210	4,485	-	4,485
Deduct: Policyholder investment withdrawals	3,614	175	-	3,789	-	3,789
Total claims expenses	-	486	210	696	-	696
Deduct: Reinsurance claim recoveries	-	79	18	97	-	97
Net claims expense	-	407	192	599	-	599
Change in policy liabilities	(1,095)	(165)	(58)	(1,318)	-	(1,318)
Policy acquisition						
Commission	102	38	68	208	-	208
Other	57	41	9	107	-	107
Policy maintenance						
Commission	40	27	16	83	-	83
Other	145	71	5	221	-	221
Investment management fees	75	11	2	88	1	89
Interest expense	5	12	-	17	12	29
Other expenses	-	-	81	81	429	510
Total life insurance expenses	(671)	442	315	86	442	528
Profit from ordinary activities before income tax expense	(110)	197	24	111	477	588
Income tax expense relating to ordinary activities	(267)	50	5	(212)	159	(53)
Net profit	157	147	19	323	318	641
Net profit attributable to outside equity interest	-	-	-	-	5	5
Net profit attributable to parent entity interest	157	147	19	323	313	636

57 Life insurance business disclosures (continued)

	Australian statutory funds Investment-linked business $m	Non-Investment-linked business $m	International life insurance funds[3] $m	Total life insurance funds $m	Total shareholder funds $m	Total $m
Disaggregated MoS shareholder profit analysis						
For the year ended September 30, 2001						
Planned profit margins	128	88	8	224	-	224
Experience variation and other items	(27)	49	(2)	20	-	20
Reversal of capitalised losses/(new business losses)	-	-	(1)	(1)	-	(1)
Operating margins	101	137	5	243	-	243
Revaluation gains after income tax expense	-	-	-	-	333	333
Investment earnings on contributed equity and retained profits	(3)	10	1	8	-	8
Other	59	-	13	72	(20)	52
Net profit attributable to parent entity interest	157	147	19	323	313	636
Disaggregated statement of financial position						
As at September 30, 2001						
Assets						
Investment assets[3]	26,104	4,444	243	30,791	59	30,850
Other assets	1,254	359	757	2,370	5,969	8,339
Total assets	27,358	4,803	1,000	33,161	6,028	39,189
Liabilities						
Policy liabilities[3]	25,577	3,793	689	30,059	-	30,059
Unvested policyholder benefits	-	198	-	198	-	198
Other liabilities	1,415	600	63	2,078	707	2,785
Total liabilities	26,992	4,591	752	32,335	707	33,042
Net assets	366	212	248	826	5,321	6,147
Equity						
Contributed equity	-	-	187	187	4,913	5,100
Retained profits	366	212	61	639	341	980
Total parent entity interest	366	212	248	826	5,254	6,080
Outside equity interest	-	-	-	-	67	67
Total equity	366	212	248	826	5,321	6,147

(1) *Premiums received for investment-linked business contain two elements: firstly, amounts which are in the nature of deposits (ie, policyholder investment contributions) that are recognised as an increase in policy liabilities and secondly, the fee component which is recognised as revenue.*

(2) *Total claims paid or payable for investment-linked business which are in the nature of policyholder investment withdrawals are recognised as reductions in policy liabilities.*

(3) *International life insurance funds refers to investment assets and policy liabilities of foreign-domiciled life insurance entities. These non-Australian life insurers have statutory funds concepts, but they are not directly comparable to the Life Insurance Act 1995 statutory fund concepts.*

57 Life insurance business disclosures (continued)

The disaggregated financial statements of the Group's life insurance businesses for 2000 are summarised below:

	Australian statutory funds Investment-linked business $m	Non-investment-linked business $m	International life insurance funds[3] $m	Total life insurance funds $m	Total shareholder funds[3] $m	Total $m
Disaggregated statement of financial performance						
For the year ended September 30, 2000						
Premium and related revenue						
Total premiums received or receivable[1]	2,989	215	134	3,338	-	3,338
Deduct: Policyholder investment contributions	2,879	2	-	2,881	-	2,881
Fee revenue in premiums	110	213	134	457	-	457
Add: Reinsurance claim recoveries	-	18	12	30	-	30
Total premium and related revenue	110	231	146	487	-	487
Investment revenue						
Equity securities	819	74	25	918	21	939
Debt securities	65	10	-	75	(2)	73
Property	56	1	-	57	1	58
Total investment revenue	940	85	25	1,050	20	1,070
Other income	1	5	11	17	160	177
Total life insurance revenue	1,051	321	182	1,554	180	1,734
Movement in excess of net market value over net assets of controlled entities	-	-	-	-	202	202
Total operating revenue	1,051	321	182	1,554	382	1,936
Claims expense						
Total claims paid or payable[2]	1,950	227	65	2,242	-	2,242
Deduct: Policyholder investment withdrawals	1,950	30	-	1,980	-	1,980
Total claims expense	-	197	65	262	-	262
Change in policy liabilities	747	(89)	6	664	-	664
Outward reinsurance expense	-	39	12	51	-	51
Policy acquisition						
Commission	62	14	12	88	-	88
Other	22	24	3	49	-	49
Policy maintenance						
Commission	16	6	17	39	-	39
Other	55	26	4	85	-	85
Investment management fees	31	7	1	39	(1)	38
Interest expense	3	4	-	7	9	16
Other expenses	-	-	42	42	124	166
Total life insurance expenses	936	228	162	1,326	132	1,458
Significant operating expenses	-	-	-	-	108	108
Profit from ordinary activities before income tax expense	115	93	20	228	142	370
Income tax expense relating to ordinary activities	60	44	4	108	38	146
Net profit	55	49	16	120	104	224
Net profit attributable to outside equity interest	-	-	-	-	2	2
Net profit attributable to parent entity interest	55	49	16	120	102	222

57 Life insurance business disclosures (continued)

	Australian statutory funds Investment-linked business $m	Non-investment-linked business $m	International life insurance funds[(3)] $m	Total life insurance funds $m	Total shareholder funds[(3)] $m	Total $m
Disaggregated MoS shareholder profit analysis						
For the year ended September 30, 2000						
Planned profit margins	46	44	9	99	-	99
Experience variation and other items	(1)	(4)	(2)	(7)	-	(7)
Reversal of capitalised losses/(new business losses)	-	-	(3)	(3)	-	(3)
Operating margins	45	40	4	89	-	89
Revaluation gains after income tax expense	-	-	-	-	153	153
Significant operating expenses after income tax expense	-	-	-	-	(71)	(71)
Investment earnings on contributed equity and retained profits	10	9	6	25	-	25
Other	-	-	6	6	20	26
Net profit attributable to parent entity interest	55	49	16	120	102	222
Disaggregated statement of financial position						
As at September 30, 2000						
Assets						
Investment assets[(3)]	25,258	4,908	650	30,816	287	31,103
Other assets	1,126	335	52	1,513	5,037	6,550
Total assets	26,384	5,243	702	32,329	5,324	37,653
Liabilities						
Policy liabilities[(3)]	24,684	4,250	568	29,502	163	29,665
Unvested policyholder benefits	-	214	-	214	-	214
Other liabilities	1,341	616	29	1,986	944	2,930
Total liabilities	26,025	5,080	597	31,702	1,107	32,809
Net assets	359	163	105	627	4,217	4,844
Equity						
Contributed equity	-	-	105	105	4,271	4,376
Retained profits	359	163	-	522	(100)	422
Total parent entity interest	359	163	105	627	4,171	4,798
Outside equity interest	-	-	-	-	46	46
Total equity	359	163	105	627	4,217	4,844

(1) *Premiums received for investment-linked business contain two elements: firstly, amounts which are in the nature of deposits (ie, policyholder investment contributions) that are recognised as an increase in policy liabilities and secondly, the fee component which is recognised as revenue.*

(2) *Total claims paid or payable for investment-linked business which are in the nature of policyholder investment withdrawals are recognised as reductions in policy liabilities.*

(3) *International life insurance funds refers to investment assets and policy liabilities of foreign-domiciled life insurance entities. These non-Australian life insurers have statutory funds concepts, but they are not directly comparable to the Life Insurance Act 1995 statutory fund concepts.*

58 Reconciliation with US GAAP

In this note, National Australia Bank Limited is referred to as the Company and the Group consists of the Company and all entities over which it has control *(refer to note 44).*

The Company files its annual report (form 20-F) with the United States Securities and Exchange Commission (SEC).

The financial report of the Group is prepared in accordance with generally accepted accounting principles (GAAP) applicable in Australia (Australian GAAP) *(refer to note 1),* which differ in some respects from GAAP in the United States (US GAAP).

58 Reconciliation with US GAAP (continued)

The following are reconciliations of the Group's financial statements for the last three years for any significant adjustments applying to US GAAP instead of Australian GAAP:

		Group		
		2001	2000	1999
	Footnote	**$m**	$m	$m
Statement of income				
For the year ended September 30				
Net profit reported using Australian GAAP		**2,083**	3,239	2,821
Life insurance accounting adjustments				
Movement in excess of net market value over net assets of life insurance controlled entities	a(i)	**(551)**	(202)	-
Amortisation of goodwill	a(i)	**(161)**	(43)	-
Amortisation of present value of future profits (PVFP) asset	a(ii)	**(56)**	(19)	-
Difference in revenue recognition and change in life insurance policy liabilities	a(iii)	**(48)**	(109)	-
Shadow life insurance policy liabilities adjustment	a(iii)	**6**	22	-
Movement in deferred acquisition costs asset	a(iv)	**112**	57	-
Difference in investments relating to life insurance business asset values	a(v)	**(28)**	2	-
Unrealised profits on available for sale securities	a(v)	**29**	(40)	-
Movement in and elimination of deferred tax liabilities	a(vi)	**161**	90	-
Elimination of foreign currency translation losses/(profits) on controlled entities	a(vii)	**(18)**	(9)	-
Movement in market value of subordinated debt	a(viii)	**8**	14	-
Difference in minority interest share of profit	a(ix)	**32**	(1)	-
Other adjustments				
Depreciation charged on the difference between revaluation amount and historical cost of buildings	b	**2**	2	2
Difference in profit/(loss) on sale of land and buildings revalued from historical cost	b	**6**	15	1
Amortisation of goodwill arising from loan loss purchase adjustment	c	**4**	4	4
Amortisation of goodwill	d	**3**	4	6
Amortisation of core deposit intangible	d	**(16)**	(21)	(26)
Amortisation of deferred tax liability associated with core deposit intangible	d	**4**	5	7
Pension expense	e	**44**	35	29
Recognition and amortisation of tax losses resulting from United States Internal Revenue Service (IRS) ruling	f	**2**	3	3
Adjustment of profit on sale-leaseback transactions	g	**(10)**	(12)	-
Amortisation of profit on sale-leaseback transactions over lease term	g	**12**	15	15
Employee share compensation	h	**(26)**	-	-
Difference in lease revenue recognition	i	**(89)**		
Transitional adjustment on adoption of SFAS 133	j	**(232)**	-	-
Movements in fair value of derivative financial instruments and associated impact on provision for mortgage servicing rights	j	**586**	-	-
Difference in profit on sale of foreign controlled entity	d, f	**7**	-	-
Net income according to US GAAP		**1,866**	3,051	2,862
Comprehensive income				
Net income according to US GAAP		**1,866**	3,051	2,862
Other comprehensive income				
Foreign currency translation reserve	a(vii)	**192**	931	(998)
Asset revaluation reserve		**2**	14	(3)
Available for sale securities	a(v), k	**(29)**	41	1
Revaluation surplus		**18**	9	-
Shadow policy liabilities adjustment	a(iii)	**(6)**	(22)	-
Transitional adjustment on adoption of SFAS 133	j	**(17)**	-	-
Movements in fair value of derivative financial instruments	j	**(18)**	-	-
		142	973	(1,000)
Total comprehensive income according to US GAAP		**2,008**	4,024	1,862
Earnings per share according to US GAAP (cents)	l			
Basic		**107.4**	189.8	189.4
Diluted		**108.7**	183.9	184.3

Notes to the financial statements

58 Reconciliation with US GAAP (continued)

	Footnote	Group 2001 $m	2000 $m	1999 $m
Statement of financial position				
As at September 30				
Equity				
Issued and paid-up capital				
Contributed equity reported using Australian GAAP		**10,725**	9,855	9,286
Employee share compensation	h	**26**	-	-
Issued and paid-up capital according to US GAAP		**10,751**	9,855	9,286
Reserves				
Reserves reported using Australian GAAP		**2,427**	2,006	802
Foreign currency translation reserve		**(1,762)**	(1,570)	(639)
Asset revaluation reserve		**(16)**	(14)	-
Reserves according to US GAAP	m	**649**	422	163
Retained profits				
Retained profits less outside equity interest reported using Australian GAAP		**10,337**	9,500	8,432
Life insurance accounting adjustments				
Movement in excess of net market value over net assets of life insurance controlled entities	a(i)	**(5,281)**	(4,582)	-
Recognition and amortisation of goodwill	a(i)	**3,101**	3,146	-
Recognition and amortisation of PVFP asset	a(ii)	**1,746**	1,795	-
Difference in revenue recognition and change in life insurance policy liabilities	a(iii)	**(1,007)**	(893)	-
Shadow life insurance policy liabilities adjustment	a(iii)	**28**	22	
Movement in deferred acquisition cost assets	a(iv)	**275**	163	-
Difference in investments relating to life insurance business asset values	a(v)	**20**	48	-
Unrealised profits on available for sale debt securities	a(v)	**(12)**	(41)	-
Movement in and elimination of deferred tax liabilities	a(vi)	**230**	69	-
Movement in market value of subordinated debt	a(viii)	**10**	14	-
Recalculation of minority interest	a(ix)	**(78)**	(109)	-
Movement in revaluation surplus		**(39)**	(9)	-
Other adjustments				
Elimination of revaluation surplus of land and buildings	b	**(109)**	(107)	(93)
Adjustment of provision for depreciation on buildings revalued	b	**87**	85	83
Additional provisions relating to purchase adjustments, less amortisation	c	**(23)**	(27)	(31)
Amortisation of goodwill, core deposit intangible and associated deferred tax liability	d	**-**	(64)	(52)
Pension expense	e	**75**	31	(4)
Recognition of tax losses resulting from IRS ruling	f	**-**	(40)	(43)
Unamortised profit on sale-leaseback transactions	g	**(72)**	(80)	(83)
Employee share compensation	h	**(26)**	-	-
Difference in lease revenue recognition	i	**(89)**		
Transitional adjustment on adoption of SFAS 133	j	**(232)**	-	-
Movements in fair value of derivative financial instruments and associated impact on provision for mortgage servicing rights	j	**586**	-	-
Unrealised profit on shares in entities and other securities	k	**239**	49	67
Provision for final cash dividend	n	**1,054**	976	861
Retained profits according to US GAAP		**10,820**	9,946	9,137
Outside equity interest				
Outside equity interest reported using Australian GAAP		**68**	46	-
Reclassification of minority interest	a(ix)	**(68)**	(46)	-
Outside equity interest according to US GAAP		**-**	-	-
Accumulated other comprehensive income				
Accumulated other comprehensive income reported using Australian GAAP				
Balance under US GAAP at beginning of year		**1,613**	640	1,640
Foreign currency translation reserve	a(vii), m	**192**	931	(998)
Asset revaluation reserve	m	**2**	14	(3)
Unrealised profit on available for sale securities	a(v), k	**(29)**	41	1
Revaluation surplus		**30**	9	-
Shadow policy liabilities adjustment	a(iii)	**(6)**	(22)	-
Transitional adjustment on adoption of SFAS 133	j	**(17)**	-	-
Movements in fair value of derivative financial instruments	j	**(18)**	-	-
Accumulated other comprehensive income according US GAAP		**1,767**	1,613	640
Total equity according to US GAAP		**23,987**	21,836	19,226

58 Reconciliation with US GAAP (continued)

		Group		
		2001	2000	1999
	Footnote	**$m**	$m	$m
Assets				
Total assets reported using Australian GAAP		**374,720**	343,677	254,081
Life insurance accounting adjustments				
Elimination of excess of net market value over net assets of life insurance controlled entities	a(i)	**(5,281)**	(4,582)	-
Recognition and accumulated amortisation of goodwill	a(i)	**3,101**	3,146	-
Recognition and accumulated amortisation of PVFP asset	a(ii)	**1,746**	1,795	-
Difference in investments relating to life insurance asset values	a(iii)	**20**	48	-
Restatement and reclassification of deferred acquisition costs	a(iv)	**275**	245	-
Assets relating to life insurance statutory funds[(1)]		**-**	-	4,807
Other adjustments				
Revaluation surplus of land and buildings	b	**(109)**	(107)	(93)
Adjustment of provision for depreciation on buildings revalued	b	**87**	85	83
Additional provisions relating to purchase adjustments, less amortisation	c	**(23)**	(27)	(31)
Amortisation of goodwill, and core deposit intangible	d	**-**	(94)	(77)
Pension fund adjustment	e	**75**	31	(4)
Recognition of tax losses resulting from IRS ruling	f	**-**	(40)	(43)
Unrealised profit on available for sale securities	k	**1**	1	1
Difference in lease revenue recognition	i	**(101)**	-	-
Unrealised profit on shares in entities and other securities	k	**239**	49	67
Fair value adjustments to derivative financial instruments and associated impact on provision for mortgage servicing rights	j	**2,417**	-	-
Total assets according to US GAAP		**377,167**	344,227	258,791
Liabilities				
Total liabilities reported using Australian GAAP		**351,163**	322,270	235,561
Life insurance adjustments				
Difference in life insurance policy liabilities and reclassification of deferred acquisition costs	a(iii), a(iv)	**1,007**	975	-
Elimination of present value discounting on deferred tax liabilities	a(vi)	**(230)**	(69)	-
Subordinated debt revaluation from market value to cost	a(viii)	**(10)**	(14)	-
Increase in and reclassification of minority interest	a(ix)	**143**	155	-
Liabilities relating to life insurance statutory funds[(1)]		**-**	-	4,807
Other adjustments				
Deferred tax liability associated with core deposit intangible	d	**-**	(30)	(25)
Unamortised profit on sale-leaseback transactions	g	**72**	80	83
Elimination of dividends provided for but not formally declared prior to balance date	n	**(1,054)**	(976)	(861)
Fair value adjustments to derivative financial instruments	j	**1,964**	-	-
Deferred tax liability associated with difference in lease revenue recognition	i	**(12)**	-	-
Deferred tax liability associated with fair value adjustments to derivative financial instruments	j	**137**	-	-
Total liabilities according to US GAAP		**353,180**	322,391	239,565
Net assets according to US GAAP		**23,987**	21,836	19,226

[(1)] *The adoption of Australian Accounting Standard AASB 1038 "Life Insurance Business" requires the disclosure on the balance sheet of all assets and liabilities of the Group's life insurance entities. Prior to the adoption of this standard, for Australian GAAP, the assets and liabilities of life insurance entities' statutory funds were excluded from the consolidated balance sheet.*

The following is a summary of the significant adjustments made to the Group's net profit, equity and net assets to reconcile from Australian GAAP to US GAAP.

(a) Life insurance accounting

(i) Excess of market value over net assets
For Australian GAAP, the excess of the market value of the interest of life insurance entities in their controlled entities over the net assets is required to be recognised as an asset in the balance sheet with any subsequent movements reflected in the profit and loss account. Deferred tax is provided on the movement recognised in the profit and loss account. For US GAAP, this treatment is not permitted. Goodwill resulting from acquisitions of life insurance companies is recognised on the balance sheet and amortised over a period of 20 years.

(ii) PVFP asset
Under Australian GAAP, the excess of the market value over the net assets is recorded as a separate asset as described in note (a)(i), above. For US GAAP, a PVFP asset is recognised on acquisition of life insurance companies. The PVFP represents the actuarially-determined present value of estimated future US GAAP profits in respect of the inforce business at acquisition. The PVFP is amortised over the life of the acquired inforce business. The excess of the purchase price is recorded as goodwill.

58 Reconciliation with US GAAP (continued)

(iii) Revenue recognition and life insurance policy liabilities
For Australian GAAP, policy liabilities are calculated on a Margin on Services (MoS) basis. For US GAAP, policy liabilities are calculated under SFAS 60 "Accounting and Reporting by Insurance Enterprises", SFAS 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" and SFAS 97 "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realised Gains and Losses from the Sale of Investments", depending on the type of product.

One of the key differences between MoS and US GAAP is that acquisition costs are amortised within the policy liabilities for MoS rather than as a separately identifiable asset for US GAAP as described in note a(iv), below.

Other differences relate to the parameters used to drive the rate of acquisition cost amortisation, and that the MoS method operates to produce liabilities that are consistent with asset values based on market value whereas US GAAP methods are consistent with historical cost accounting concepts.

(iv) Deferred acquisition costs
For Australian GAAP, deferred acquisition costs are held within policy liabilities and are not separately disclosed as an asset. Further, the fixed and variable costs of acquiring new business are included in deferred acquisition costs. For US GAAP, deferred acquisition costs are shown as a separate asset and only costs that vary directly with the acquisition of new business may be deferred. In general, the amounts deferred under Australian GAAP will be higher than those under US GAAP.

Deferred acquisition costs in existence at the date the Group acquired the MLC group of companies have been eliminated in accordance with US GAAP purchase accounting rules.

(v) Investments relating to life insurance business
For Australian GAAP, all assets are carried at net market value in the balance sheet with any movements in the value reflected in the profit and loss account. For US GAAP, this treatment is not permitted and the accounting treatment for investments, where different, is set out below:

- investments in leases are recorded using the provisions within SFAS 13 "Accounting for Leases" in order to recognise income over the term of the lease in proportion to the outstanding investment balance; and
- investments classified as available for sale using the provisions of SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities" are recorded in the balance sheet at fair value with unrealised profits and losses recorded as a separate component of shareholders' equity, being comprehensive income. Income is recognised in the profit and loss account by amortising the purchase price to the maturity value over the life of the security.

(vi) Deferred tax liabilities
Under Australian GAAP life insurance tax liabilities are required to be stated at their net present value and are therefore discounted. US GAAP does not permit the discounting of deferred tax liabilities.

(vii) Foreign currency translation reserve
Under Australian GAAP, exchange gains and losses on foreign subsidiaries are taken to the profit and loss account. Under US GAAP, where the functional currency is not the same as the ultimate parent's reporting currency, exchange profits and losses are reported within a foreign currency translation reserve, which is a separate component of shareholders' equity, being comprehensive income.

(viii) Restatement of subordinated debt to a cost basis
Under Australian GAAP, liabilities of life insurance entities are required to be stated at their net present value with movement taken to the profit and loss account. US GAAP requires that the subordinated debt be held at principal.

(ix) Minority interest reclassification and restatement
Under Australian GAAP, outside equity interest is shown as a component of total equity and does not include a share of the excess of the market value. Under US GAAP, minority interest is shown as a liability in the balance sheet with all balance sheet items reported gross of minority interest, including the PVFP asset. The minority interest under US GAAP is therefore generally larger than outside equity interest under Australian GAAP.

(b) Land and buildings

The Group revalues land and buildings at various intervals *(refer note 1(v))* . The revaluation increments and decrements are included in the Group's reserves (after adjustment for bonus issues) which form part of total equity. Revalued buildings are depreciated over their estimated useful lives to the entity (land is not depreciated). Under US GAAP, revaluation of land and buildings is not permitted. Accordingly, depreciation charges on revalued buildings and profit or loss on sale of revalued buildings are adjusted back to a historical cost basis for US GAAP purposes.

(c) Purchase adjustments

Additional provisions for loan losses relating to loans acquired on the acquisition of the controlled entities in January 1990 were treated as fair value adjustments under Australian GAAP. These additional provisions would have been charged against net income under US GAAP. Appropriate adjustments to goodwill amortisation have been made in subsequent years under US GAAP.

58 Reconciliation with US GAAP (continued)

(d) Amortisation of goodwill, core deposit intangible and associated deferred tax liability

Under US GAAP, purchase adjustments that arise in the acquisition of a US company are required to be reflected in the acquiree's financial report. Following SEC regulations and guidelines, Michigan National Corporation (MNC) was required to separately identify and account for the intrinsic value of its retail deposit base on acquisition. The recognition of the intrinsic value of the retail deposit base, which arose from the premium paid to acquire MNC is considered to be a component of goodwill under Australian GAAP. For US GAAP purposes, the intrinsic value of the retail deposit base is deemed to be a core deposit intangible which is amortised over a period of 10 years. Under Australian GAAP the total goodwill (which includes the core deposit intangible) is amortised over 20 years.

In the calculation of the core deposit intangible under US GAAP, a deferred tax liability was created. This tax liability is amortised over a 10 year period. Under Australian GAAP, the deferred tax liability is not recognised.

(e) Pension plans

For defined benefit pension plans, Australian GAAP recognises the actuarially-determined contribution payable as the expense for the year. Under US GAAP, pension expense for defined benefit plans is a function of service and interest cost, return on fund assets and amortisation of any prior service costs and of any net gains or losses. US GAAP also requires the accrued pension liability to be reconciled with the funded status of the pension plan the funded status being the difference between the projected benefit obligation and the fair value of the plan assets. As a result, under US GAAP, adjustments are required to reflect the appropriate pension expense for the year *(refer to pension and other post-retirement benefit plans, below).*

(f) Recognition of tax losses arising from IRS ruling

In September 1997, MNC merged its wholly owned thrift, Independence One Banking Organization of California (IOBOC), with the Michigan National Bank (MNB). IOBOC contained tax losses that had not previously been brought to account due to doubts surrounding their realisability. Following a private ruling handed down by the IRS, these losses can now be accessed by MNB. Under US GAAP, the tax losses were brought to account and deducted from the goodwill arising on the acquisition of MNC. Under Australian GAAP (Urgent Issues Group Abstract 9 "Accounting for Acquisitions - Recognition of Acquired Tax Losses"), these losses have been recognised in the Group's profit and loss account and represent a permanent tax difference.

(g) Profit on sale-leaseback transactions

Under Australian GAAP, profits and losses on sale and leaseback transactions where the lease is structured as an operating lease are recognised in the period that the sale takes place. Under US GAAP, profits and losses on sale and leaseback transactions are required to be recognised over the term of the lease.

(h) Employee share compensation

The National EVA® share offer entitles eligible employees to free shares each year, depending on how the Group performs against its Economic Value Added (EVA®) target each year. The share issue is shown as a movement in contributed equity under Australian GAAP. Under US GAAP, in accordance with SFAS 123 "Accounting for Stock Based Compensation", this share offer would be considered part of employee compensation and charged to the profit and loss account. *(EVA® is a registered trademark of Stern Stewart & Co.)*

(i) Lease revenue recognition

The Group's accounting policy for finance lease income receivable is to allocate income to reporting periods so as to give a constant periodic rate of return on the investment. Under US GAAP, finance lease income is recognised so as to give a level rate of return on the investment in the lease without taking into account any associated income tax cash flows.

(j) Derivative financial instruments and associated impact

Under Australian GAAP, derivative financial instruments held or issued for trading purposes are recognised on the balance sheet at fair value, with the resultant gains and losses recognised in the profit and loss account. Derivative financial instruments that are held or issued for purposes other than trading may have hedge accounting treatment applied if the hedging derivatives are effective at reducing the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Hedging derivatives are accounted for in a manner consistent with the accounting treatment of the hedged items.

Effective from October 1, 2000, the Group adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) for US GAAP reconciliation purposes only. SFAS 133, as amended, standardises the accounting for derivative instruments and hedging activities and requires that all derivative instruments be recognised as assets and liabilities at fair value. If certain conditions are met, hedge accounting may be applied and the derivative instruments may be specifically designated as: (a) a hedge of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (fair value hedge); (b) a hedge of the exposure to variability of cash flows of a recognised asset, liability or forecasted transaction (cash flow hedge); or (c) a hedge of certain foreign currency exposures. In the case of a qualifying fair value hedge, changes in the value of the derivative instruments that have been highly effective are recognised in current earnings along with the change in value of the designated hedge item. In the case of a qualifying cash flow hedge, changes in the value of the derivative instruments that have been highly effective are recognised in other comprehensive income, until such time that earnings are affected by the cash flows of the underlying hedged item. In either a fair value

58 Reconciliation with US GAAP (continued)

hedge or a cash flow hedge, net earnings are impacted to the extent the changes in the value of the derivative instruments do not perfectly offset the changes in the value of the hedge items (so called ineffectiveness). Derivative instruments that are non-designated or do not meet the relevant hedge accounting criteria are accounted for at fair value with gains and losses recorded to current earnings.

Accordingly, in the reconciliation to US GAAP disclosures, all derivative instruments are recognised on the balance sheet at fair value and are either designated as fair value hedges, cash flow hedges, or are non-designated pursuant to the Group's risk management policies. The hedge accounting conditions are more strict under SFAS 133 than Australian GAAP and inter-company derivatives generally do not meet these conditions. At October 1, 2000, the Group recognised a cumulative-effect transition adjustment of $232 million to decrease post-tax net income according to US GAAP for the effect of the change in accounting principle. This transitional adjustment largely arose due to the extent of inter-company derivatives used in the Group's risk management activities. Additionally, the Group recognised a post-tax cumulative-effect transition adjustment to reduce other comprehensive income by $17 million.

In addition to the above, the application of SFAS 133 affects the US GAAP accounting treatment for HomeSide Lending, Inc.'s mortgage servicing rights under SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). Based on the principles in SFAS 140, an impairment assessment is carried out under both Australian GAAP and US GAAP. Under Australian GAAP, the carrying value of mortgage servicing rights includes deferred hedge gains and losses as certain risk management derivative contracts qualify for Australian GAAP hedge accounting. Under US GAAP, the risk management derivative contracts related to mortgage servicing rights currently do not qualify for fair value hedge accounting under SFAS 133 and on this basis a fair value adjustment to the underlying mortgage servicing rights asset arising from the hedged risk is not permitted. As a result of the impact of SFAS 133, the carrying value of the mortgage servicing rights asset exceeds its fair value and an additional provision for impairment of this asset of $1,895 million is required under SFAS 140 for US GAAP reconciliation purposes as at September 30, 2001.

As mortgage servicing rights risk management derivative contracts are eligible for hedge accounting under Australian GAAP, hedge gains or losses are deferred against the mortgage servicing rights asset. The mortgage servicing rights risk management derivative contracts currently do not qualify for fair value hedge accounting under SFAS 133 and consequently a $1,757 million gain as at September 30, 2001 is required to reflect these derivative instruments at fair value under US GAAP.

The net effect of the combined SFAS 133 adjustment on mortgage servicing rights risk management derivative contracts together with the related SFAS 140 adjustment to the mortgage servicing rights provision is a $138 million pre-tax loss to earnings in 2001. This net effect is included in the caption entitled movements in fair value of derivative financial instruments and associated impact on provision for mortgage servicing rights.

The impact of the accounting for risk management activities pursuant to SFAS 133 is expected to create a level of ongoing volatility in reported financial results reconciled to US GAAP.

(k) Investments

Under Australian GAAP, shares in entities and other securities are carried at original cost less any provision for diminution in value. Under US GAAP, these securities are deemed to be available for sale securities which are carried at market value with unrealised profits and losses in respect of market value adjustments recognised as a separate component of shareholders' equity, being comprehensive income. These securities have been restated to market value with unrealised profit recognised in comprehensive income.

In addition, under Australian GAAP, available for sale debt securities are carried at the lower of aggregate cost or market value with unrealised losses in respect of market value adjustments recognised in the profit and loss account. Under US GAAP, available for sale securities are carried at market value with unrealised profits and losses in respect of market value adjustments recognised as a separate component of shareholders' equity, being comprehensive income. These securities have been restated to market value with unrealised profit recognised in comprehensive income.

(l) Earnings per share

Under Australian GAAP, basic earnings per share is calculated by dividing net profit by the weighted average number of fully paid equivalent ordinary shares outstanding during the year after adjusting for the bonus element of rights and other issues. The fully diluted earnings per share reflects dilution by exercisable options issued under the Group's executive option plans, adjusted for notional interest on uncalled capital associated with partly paid shares and exercisable option and dilution by potential conversion of the exchangeable capital units adjusted for the interest expense on these units. For the purpose of US GAAP, the options issued are considered common stock equivalents and are therefore included in the calculation of primary earnings per share. Net income has been adjusted for notional interest on uncalled capital associated with partly paid shares and options, and dilution by potential conversion of the exchangeable capital units adjusted for the interest expense on these units. The bonus element of rights issues is excluded from US GAAP computations.

(m) General reserves

As with retained profits, the general reserve represents a retention of distributable profits available for general use in the business.

(n) Provisions

The term provisions is used in Australian GAAP to designate accrued expenses with no definitive payment date. Provisions disclosed in note 30 comply in all material respects with US GAAP with the exception of the provision for final cash dividend, which is not formally declared until shortly after balance date Under US GAAP, dividends are recorded as liabilities only if formally declared prior to balance date.

Notes to the financial statements

58 Reconciliation with US GAAP (continued)

Reconciliation of balance sheet categories

The following reconciliations are of significant adjustments to Australian GAAP balance sheet categories disclosed on the statement of financial position and which would be reported in accordance with US GAAP:

		Group		
		2001	2000	1999
	Footnote	**$m**	$m	$m
Assets				
Available for sale securities reported using Australian GAAP		**6,665**	3,047	1,399
Unrealised profit on available for sale securities	j	**1**	1	1
Available for sale securities according to US GAAP		**6,666**	3,048	1,400
Investments relating to life insurance business reported using Australian GAAP		**31,381**	31,103	-
Difference in investment asset values	a(v)	**20**	48	-
Assets relating to life insurance statutory funds[(1)]		**-**	-	4,807
Investments relating to life insurance business according to US GAAP		**31,401**	31,151	4,807
Shares in entities and other securities reported using Australian GAAP		**1,412**	1,376	1,068
Unrealised profit on shares in entities and other securities	j	**239**	49	67
Shares in entities and other securities according to US GAAP		**1,651**	1,425	1,135
Property, plant and equipment reported using Australian GAAP		**2,831**	2,437	2,032
Revaluation surplus of land and buildings	b	**(109)**	(107)	(93)
Provision for depreciation on buildings revalued	b	**87**	85	83
Property, plant and equipment according to US GAAP		**2,809**	2,415	2,022
Goodwill reported using Australian GAAP		**876**	2,617	2,905
Recognition and accumulated amortisation of goodwill for life insurance business	a(i)	**3,101**	3,146	-
Additional provisions relating to purchase adjustments, less amortisation	c	**(23)**	(27)	(31)
Core deposit intangible recognised separately	d	**-**	(173)	(173)
Amortisation of goodwill and core deposit intangible	d	**-**	(94)	(77)
Future income tax benefit resulting from IRS ruling	f	**-**	(40)	(43)
Goodwill according to US GAAP		**3,954**	5,429	2,581
Other assets reported using Australian GAAP		**39,003**	30,224	14,155
Elimination of excess of net market value over net assets of life insurance controlled entities	a(i)	**(5,281)**	(4,582)	-
Restatement and reclassification of deferred acquisition costs	a(iv)	**275**	245	-
Recognition and amortisation of PVFP asset	a(ii)	**1,746**	1,795	-
Pension fund adjustment	e	**75**	31	-
Other assets according to US GAAP		**35,818**	**27,713**	**14,155**
Liabilities				
Life insurance policy liabilities reported using Australian GAAP		**30,257**	29,879	-
Difference in policy liabilities and reclassification of deferred acquisition costs as an asset reported under US GAAP	a(iii), a(iv)	**1,007**	975	-
Life insurance policy liabilities according to US GAAP		**31,264**	30,854	-
Income tax liabilities reported using Australian GAAP		**2,575**	2,920	1,979
Elimination of present value discounting on deferred tax liabilities of life insurance entities	a(vi)	**(230)**	(69)	-
Deferred tax liability associated with core deposit intangible	d	**-**	(30)	(25)
Deferred tax liability associated with difference in lease revenue recognition		**(12)**	-	-
Income tax liabilities according to US GAAP		**2,333**	2,821	1,954
Other liabilities reported using Australian GAAP		**35,731**	26,632	15,235
Subordinated debt revaluation from market value to cost	a(viii)	**(10)**	(14)	-
Increase in minority interests	a(ix)	**75**	109	-
Reclassification of minority interests as a liability	a(ix)	**68**	46	-
Unamortised gain on sale-leaseback transactions	g	**72**	80	83
Other liabilities according to US GAAP		**35,936**	26,853	15,318

(1) *The adoption of Australian Accounting Standard AASB 1038 "Life Insurance Business" requires the disclosure on the balance sheet of all assets and liabilities of the Group's life insurance entities. Prior to the adoption of this standard, for Australian GAAP, the assets and liabilities of life insurance entities' statutory funds were excluded from the consolidated balance sheet.*

58 Reconciliation with US GAAP (continued)

Pension and other post-retirement benefit plans

The Company and its controlled entities provide substantially all employees with pension benefits. Additionally, MNC provided health care and life insurance benefits to retired employees who were eligible for a benefit under the pension plan, were at least 55 years old and had at least 15 years of service.

Set out below are the disclosure requirements of SFAS 132 "Employers' Disclosures about Pensions and Other Post-retirement Benefits" for the Group's significant pension plans.

	Pension benefits			Other benefits		
	2001	2000	1999	**2001**	2000	1999
	$m	$m	$m	**$m**	$m	$m
Change in benefit obligation						
Benefit obligation at beginning of year	**5,242**	4,670	3,456	**-**	43	38
Service cost	**182**	167	115	**-**	-	-
Interest cost	**292**	239	227	**-**	3	3
Plan participants' contributions	**1**	1	2	**-**	-	-
Administrative expenses	**(8)**	(9)	(9)	**-**	-	-
Amendments	**54**	-	-	**-**	-	-
Actuarial gain	**(641)**	66	806	**-**	2	(3)
Benefits paid	**(179)**	(222)	(237)	**-**	(4)	(3)
Benefit obligation at end of year	**4,943**	4,912	4,360	**-**	44	35
Change in plan assets						
Fair value of plan assets at beginning of year	**7,184**	5,778	4,827	**-**	58	48
Actual return on plan assets	**(747)**	1,145	815	**-**	-	-
Acquisition	**53**	-	-	**-**	-	-
Employer contributions	**71**	65	56	**-**	2	2
Administrative expenses	**(9)**	(9)	(9)	**-**	-	-
Plan participants' contributions	**1**	1	2	**-**	-	-
Benefits paid	**(179)**	(222)	(237)	**-**	(4)	(3)
Fair value of plan assets at end of year	**6,374**	6,758	5,454	**-**	56	47
Funded status	**1,432**	1,846	1,095	**-**	44	35
Unrecognised net actuarial loss	**(579)**	(1,220)	(557)	**-**	6	7
Unrecognised prior service cost	**45**	62	76	**-**	5	5
Income taxes	**49**	40	46	**-**	-	-
Prepaid benefit cost	**947**	728	660	**-**	55	47
Weighted-average assumptions						
Discount rate	**5.3%**	6.0%	5.5%	**-**	7.8%	7.8%
Expected return on plan assets	**6.7%**	7.9%	7.4%	**-**		
Rate of compensation increase	**3.3%**	4.2%	3.7%	**-**	5.0%	5.0%

Components of net periodic benefit cost			
Service cost	**169**	159	116
Interest cost	**270**	227	230
Expected return on plan assets	**(493)**	(383)	(359)
Amortisation of transition liability	**21**	20	19
Recognised net actuarial loss	**(33)**	(14)	(34)
Net periodic benefit cost	**(66)**	9	(28)

The Group also sponsors defined contribution plans covering Australian and New Zealand employees *(refer to note 48)*. The Group's contributions are based on salary and amounted to $111 million in the year ended September 30, 2001 (2000: $78 million, 1999: $79 million).

59 Events subsequent to balance date

In November 2001, the Board adopted a continuing policy to buy back shares equal to the shares issued under the Group's various share and option plans. All buy-backs would be subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time. The buy-back policy is considered to be an appropriate capital management strategy given the Group's sound capital position and strong internal capital generation. On November 8, 2001, the Company announced to the Australian Stock Exchange Limited its intention to undertake an on-market buy-back of its ordinary shares.

Directors' declaration

The directors of National Australia Bank Limited declare that:

1. (a) the financial statements, and the notes thereto, as set out on pages 60 to 164, comply with Accounting Standards and the *Corporations Act 2001*;
   (b) the financial statements and notes thereto give a true and fair view of the financial position as at September 30, 2001, and of the performance of the Company and the Group for the year ended September 30, 2001; and
   (c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

2. there are reasonable grounds to believe that the Company and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated August 13, 1998 *(refer to notes 44 and 45 to the financial statements for further details).*

Dated at Melbourne this 8th day of November, 2001 and signed in accordance with a resolution of the Board of directors.

D Charles K Allen
Chairman

Frank J Cicutto
Managing Director

Auditors' report

Independent Audit Report to the Members of National Australia Bank Limited

Scope

We have audited the financial report of National Australia Bank Limited for the financial year ended September 30, 2001 consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes (1 to 59), and the directors' declaration. The financial report includes the consolidated financial statements of the Group, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with the Auditing Standards of Australia and the United States of America to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Company's and the Group's financial position, and performance as represented by the results of their operations and their cash flows.

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

Audit Opinion

In our opinion, the financial report of National Australia Bank Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's and the Group's financial position as at September 30, 2001 and 2000, of the Company's performance for the financial years ended September 30, 2001 and 2000, and of the Group's performance for the financial years ended September 30, 2001, 2000 and 1999;

- (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States of America. An explanation of the major differences between the two sets of principles is presented in note 58 to the financial statements. The application of the United States principles would have affected the determination of consolidated net profit for each of the three years in the period ended September 30, 2001 and the determination of consolidated financial position as of September 30, 2001, 2000 and 1999 to the extent summarised in note 58 to the financial statements.

Signed at Melbourne on this 8th day of November, 2001.

KPMG

KPMG

Peter Matthey

PJ Matthey
Partner

Shareholder information

Shareholder information

The Company, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Major shareholders

The Company is not directly or indirectly controlled by another entity or person or any foreign government. As at October 12, 2001, there is no person or group of persons known to the Company to be the beneficial owner of more than 5% of the ordinary shares on issue at that date.

There are no arrangements known to the Company, the operation of which may after the date of this annual financial report result in a change in control of the Company.

Shareholdings of individual directors of the Company are set out in the report of directors. Aggregate shareholdings of directors of the Company and senior executive officers of the Group, listed below, as at the date of this annual financial report are as follows:

Title of class of shares	Identity of person or group	No. of shares held	% of class of shares
Ordinary shares, fully paid	Directors and senior executive officers (26 persons)	1,007,510	0.07
Ordinary shares, partly paid to 25 cents	Senior executive officers (7 persons)	39,450	-
Total number of ordinary shares held [1]		1,046,960	0.07

[1] *98,119 fully paid ordinary shares and all of the partly paid ordinary shares held by the executive director and senior executive officers are held under employee share schemes of the Company.*

Directors

The directors of the Company at September 30, 2001 were:

Position	Name	Age	Position held since	Directorship held since
Chairman	D Charles K Allen	65	2001	1992
Managing Director	Frank J Cicutto	50	1999	1998
Other directors	Graham J Kraehe	59		1997
	Kenneth J Moss	56		2000
	Geoffrey A Tomlinson	54		2000
	Edward D Tweddell	60		1998
	Catherine M Walter	49		1995

Mr Mark R Rayner, who held a directorship since 1985, resigned as a director of the Company on September 19, 2001.

Subsequent to September 30, 2001, Dr J Brian Clark and Mr Peter JB Duncan were appointed as directors of the Company.

Senior executives

The senior executives of the Group at the date of the annual financial report 2001 were:

Position	Name
Executive General Managers	Glenn LL Barnes *Executive General Manager, eTransformation – position held since 2000* Joined the Group in 1990. Prior to his current position, he held senior positions both within Australia and the UK, including Executive General Manager, Business and Personal Financial Services, Group General Manager, Affiliate Companies, and Managing Director, National Australia Group (UK) Limited. Prior to joining the Group, he held senior management positions with the Mars Incorporated group in Australia, UK and Asia. Christopher D Lewis *Executive General Manager, Risk Management – position held since 2001* Joined the Group in 2001. Prior to joining the Group, he was a senior partner at KPMG.

Ian G MacDonald
Acting Executive General Manager, Business and Personal Financial Services — position held since 2001
Joined the Group in 1971. Prior to his current position, he held the positions of Executive General Manager, National Shared Services, Global General Manager, Operational Services, and Chief Operating Officer, Yorkshire Bank and other senior positions both in Australia and overseas.

Roland F Matrenza
Executive General Manager, Strategic Projects, Office of the CEO — position held since 2000
Joined the Group in 1967. Prior to his current position, he held senior positions within the Group including Executive General Manager, Group Strategic Development and General Manager, Group Projects.

Peter A McKinnon
Executive General Manager, People and Culture — position held since 1999
Initially joined the Group in 1987. He has 25 years strategic management experience in corporate human resources, holding senior positions both within the Company and National Mutual Holdings Limited (now AXA Australia Holdings Limited).

Richard E McKinnon
Chief Financial Officer, Finance and Planning — position held since 2000
Joined the Group in 1986. Prior to his current position, he held positions of Chief Officer, Investments and Advisory and Chief Manager, Mergers and Acquisitions in the Company's wholly owned investment bank, First National Limited. Prior to joining the Group, he also worked in the investment banking industry, including JP Morgan (in Australia).

Ross E Pinney
Executive General Manager, Specialist and Emerging Businesses — position held since 2000
Acting Executive General Manager, National Shared Services — position held since 2001
Joined the Group in 1990. Prior to his current position, he held the positions of Executive General Manager, Products and Services, and Managing Director, National Australia Group Europe Limited and various other senior positions within Australia and overseas.

Robert MC Prowse
Executive General Manager, Office of the CEO — position held since 2000
Joined the Group in 1966. Prior to his current position, he held the senior positions within the Group including Chief Financial Officer, Group General Manager, USA and Asia, Managing Director, Bank of New Zealand and Chief General Manager, Subsidiaries and Investments.

Peter B Scott
Executive General Manager, Wealth Management — position held since 2000
Joined the Group in 2000, when the Company acquired the MLC group of companies from Lend Lease Corporation Limited. He previously held senior positions within Lend Lease Corporation Limited including Chief Executive Officer, MLC Funds Management and Chief Operating Officer, MLC Limited.

Stephen C Targett
Executive General Manager, Wholesale Financial Services — position held since 2000
Joined the Group in 1997. Prior to his current position, he held senior positions within the Group including overseeing the global and Australian markets divisions. Prior to joining the Group, he held senior positions with Australia and New Zealand Banking Group Limited and Cargill Incorporated.

Chief Executive Officers

Stuart I Grimshaw
Chief Executive Officer, Clydesdale Bank and Yorkshire Bank - position held since 2000
Joined the Group in 1991. Prior to his current position, he held the positions of General Manager, Global Business Financial Services and various other senior positions within Australia. Prior to joining the Group, his experience included over 9 years with Australia and New Zealand Banking Group Limited in a variety of senior commercial and relationship management roles.

Michael T Pratt
Chief Executive Officer, Australian Financial Services — position held since 2000
Joined the Group in 1970. Prior to his current position, he held senior positions within the Group including Managing Director, Bank of New Zealand, General Manager, Human Resources and General Manager, Custodian Services.

Shareholder information

Donald Price
Chief Executive Officer of Northern Bank and National Irish Bank - position held since 1998
Joined the Group in 1998. Prior to joining the Group, his experience included 18 years with BP in a variety of commercial management roles in Europe and the Far East. He returned to Ireland in 1992 as Managing Director, Northern Ireland Railways and in 1995 moved to become Managing Director, Belfast Telegraph Newspapers Ltd.

Grahame P Savage
Managing Director, National Australia Group Europe – position held since 1998
Joined the Group in 1990, when the Group acquired Yorkshire Bank PLC, which he joined in 1975 and at which he held a number of senior positions including Managing Director, Yorkshire Bank Retail Services Limited. In 1995, he was seconded to work for the Group in Australia until 1997, when he returned to Great Britain to take up the positions of Chief Executive Officer, Northern Bank and Chief Executive Officer, National Irish Bank.

Peter L Thodey
Managing Director, Bank of New Zealand - position held since 2000
Joined the Group in 1980. Prior to his current position, he held the positions of General Manager, Business Financial Services at Bank of New Zealand and various other senior positions within New Zealand. Prior to joining the Group, he held management positions with General Finance Ltd.

Joseph J Whiteside
Chairman and Chief Executive Officer, HomeSide Lending Inc. - position held since 2001
Joined the Group in 1996 as the Group executive representative in the US, reporting to the Corporate Centre on various matters including, mergers and acquisitions and investor relations. He has over 30 years of experience in the US banking industry and has served as Chief Financial Officer of several publicly owned banking companies. He has also served as Chief Executive Officer of a mortgage banking company.

Group General Counsel

David M Krasnostein
Group General Counsel – position held since 1996
Joined the Group in 1996. Prior to joining the Group, he held the position of General Counsel, Telstra Corporation Limited and partner/attorney positions with legal firms in the US.

Company Secretary

Garry F Nolan
Company Secretary – position held since 1992
Joined the Group in 1970. He has senior management experience in financial management, capital markets, corporate strategy, new business development, corporate restructuring, board affairs, corporate governance, shareholder services and globalisation of business. Prior to joining the Group, he obtained branch banking experience with a major commercial bank and corporate restructuring experience with a firm of chartered accountants.

The directors of the Company are classified as either executive or non-executive, with the former being those directors engaged in the full-time employment of the Company. Mr Cicutto is the only executive director.

The aggregate remuneration paid by the Group during the year ended September 30, 2001 to the directors who held office during that period, the senior executive officers listed above, and those senior executive officers who held positions listed above but retired or resigned during the year, as a group, was $49.6 million in respect of 27 positions. (2000: $20 million paid to directors and senior executive officers in respect of 26 positions).

During the year ended September 30, 2001, 13,258,500 share options were issued to 2,525 senior employees. Of these share options issued, 322,500 lapsed during the period. The share options issued include a total of 3,600,000 share options issued to the executive director, senior executive officers listed above, and those senior executive officers who held positions listed above but retired or resigned during the year, as a group (2000: 11,435,500 share options issued to 604 senior employees; nil lapsed; issue included 3,075,000 share options to the executive director and senior executive officers).

Trading market and price histories

Ordinary shares

The fully paid ordinary shares of the Company are quoted for trading on Australian Stock Exchange Limited (the ASX), a self-regulatory organisation which governs the open market quotation, purchase and sale of the fully paid ordinary shares in Australia. The ASX is the principal market for the Company's fully paid ordinary shares, and operates in the following cities in Australia: Melbourne, Sydney, Brisbane, Perth, Adelaide and Hobart.

The fully paid ordinary shares are also quoted on London Stock Exchange Limited; London Stock Exchange Automated Quotation System; Stock Exchange, New Zealand; and Tokyo Stock Exchange.

Shareholder information

A summary of the rights attaching to the ordinary shares appears under the heading 'the Company's constitution' below.

The following table sets forth, for the calendar quarters indicated and for the years indicated, the high and low sale prices of the fully paid ordinary shares as reported by the ASX.

	Calendar 2001		Calendar 2000		Calendar 1999		Calendar 1998		Calendar 1997	
	High	**Low**	High	Low	High	Low	High	Low	High	Low
	$	**$**	$	$	$		$	$	$	$
March quarter	**30.97**	**26.91**	23.29	19.88	n/a	n/a	n/a	n/a	n/a	n/a
June quarter	**35.05**	**28.32**	27.90	21.50	n/a	n/a	n/a	n/a	n/a	n/a
September quarter	**35.13**	**23.80**	27.70	23.70	n/a	n/a	n/a	n/a	n/a	n/a
December quarter[(1)]	**29.22**	**25.80**	27.40	25.51	n/a	n/a	n/a	n/a	n/a	n/a
Year	**35.13**	**23.80**	27.90	19.88	30.28	21.61	25.04	18.93	22.85	14.37

[(1)] The 2001 December quarter represents the period from October 1 to October 12.

On October 12, 2001 the closing price on the ASX was $29.01 per fully paid ordinary share, with 1,550,413,943 fully paid ordinary shares (excluding partly paid ordinary shares) outstanding, held by 315,998 holders.

The following table sets forth, for the months indicated, the high and low sale prices of the fully paid ordinary shares as reported by the ASX.

October 2001		September 2001		August 2001		July 2001		June 2001		May 2001	
High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
$	$	$	$	$	$	$	$	$	$	$	$
29.22	25.80	30.96	23.80	35.13	32.55	34.55	31.29	35.05	32.54	32.73	29.43

American depositary shares (ADSs)

The Company's fully paid ordinary shares are traded in the United States in the form of ADSs. ADSs are evidenced by American depositary receipts issued by the Bank of New York, as depositary, pursuant to an amended and restated deposit agreement dated as of November 14, 1997, or Morgan Guaranty Trust Company of New York, its predecessor depositary, pursuant to a deposit agreement dated January 16, 1987, as amended as of June 24, 1988. Each ADS represents five fully paid ordinary shares. The ADSs are quoted on New York Stock Exchange (the NYSE), which is the principal market in the United States for the trading of the ADSs. The ADSs trade on the NYSE under the symbol 'NAB'. At October 12, 2001, 5,319,628 ADSs representing 26,598,140 fully paid ordinary shares, or approximately 1.7% of the fully paid ordinary shares outstanding on such date, were held by 332 holders with registered addresses in the United States.

The following table sets forth, for the calendar quarters indicated and for the years indicated, the high and low sale prices per ADS as reported on the NYSE composite tape.

	Calendar 2001		Calendar 2000		Calendar 1999		Calendar 1998		Calendar 1997	
	High	**Low**	High	Low	High	Low	US$	High	US$	Low
	US$	**US$**	US$	US$	US$	US$	US$	US$	US$	US$
March quarter	**82.50**	**67.20**	76.63	61.31	n/a	n/a	n/a	n/a	n/a	n/a
June quarter	**90.60**	**69.70**	83.06	65.56	n/a	n/a	n/a	n/a	n/a	n/a
September quarter	**92.40**	**59.55**	82.00	65.31	n/a	n/a	n/a	n/a	n/a	n/a
December quarter [(1)]	**73.00**	**65.35**	73.00	69.13	n/a	n/a	n/a	n/a	n/a	n/a
Year	**92.40**	**59.55**	83.06	61.31	97.69	70.13	77.00	57.06	81.25	56.13

[(1)] The 2001 December quarter represents the period from October 1 to October 12.

On October 12, 2001, the closing price per ADS as reported on the NYSE composite tape was US$73.00.

The following table sets forth, for the months indicated, the high and low sale prices per ADS as reported on the NYSE composite tape.

October 2001		September 2001		August 2001		July 2001		June 2001		May 2001	
High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
US$	US$	US$	US$	US$	US$	US$	US$	US$	US$	US$	US$
73.00	65.35	81.65	59.55	92.40	85.25	86.70	80.21	90.60	83.00	83.63	76.00

Shareholder information

Trust units exchangeable for preferred shares™ (TrUEPrS℠)

On September 30, 1998, the Company issued 32,008,000 fully paid non-converting non-cumulative preference shares with a liquidation preference of US$12.50 per share (the TrUEPrS preference shares) in connection with an issuance of 16,004,000 TrUEPrS by NAB Exchangeable Preferred Trust. This trust is a non-diversified closed-end managed investment company registered under the *US Investment Company Act of 1940*. The underwriters with respect to the TrUEPrS subsequently exercised an option resulting in a further issuance of 4,000,000 TrUEPrS preference shares.

The TrUEPrS preference shares are represented by American depositary shares, each representing two TrUEPrS preference shares. The TrUEPrS preference shares and the American depositary shares representing the TrUEPrS preference shares have been approved for quotation on the NYSE when exchanged for TrUEPrS. There will be no public market for quotation of the TrUEPrS preference shares and the American depositary shares representing the TrUEPrS preference shares on the NYSE until the TrUEPrS are exchanged for the TrUEPrS preference shares and American depositary shares.

A summary of the rights attaching to TrUEPrS preference shares appears under the heading 'the Company's constitution' below.

TrUEPrS℠ is a service mark of Merrill Lynch & Co., Inc.

National Income Securities (NIS)

The NIS were quoted on July 8, 1999 for trading on the ASX. The ASX is the principal market for the NIS.

A summary of the rights attaching to the preference shares forming part of the NIS appears under the heading 'the Company's constitution' below.

The following table sets forth, for the calendar quarters indicated and for the years indicated, the high and low sale prices of the NIS as reported by the ASX.

	Calendar 2001		Calendar 2000		Calendar 1999		Calendar 1998		Calendar 1997	
	High	**Low**	High	Low	High	Low	High	Low	High	Low
	$	**$**	$	$	$	$	$	$	$	$
March quarter	**96.00**	**92.10**	97.38	90.30	n/a	n/a	n/a	n/a	n/a	n/a
June quarter	**93.75**	**89.75**	95.30	90.00	n/a	n/a	n/a	n/a	n/a	n/a
September quarter	**92.40**	**86.60**	97.40	94.00	n/a	n/a	n/a	n/a	n/a	n/a
December quarter (1)	**89.10**	**87.10**	96.25	95.20	n/a	n/a	n/a	n/a	n/a	n/a
Year	**96.00**	**86.60**	97.40	90.00	103.60	90.00	-	-	-	-

(1) *The 2001 December quarter represents the period from October 1 to October 12.*

On October 12, 2001 the closing price on the ASX was $88.85 per NIS, with 20,000,000 NIS outstanding and such NIS were held by 46,161 holders.

The following table sets forth, for the months indicated, the high and low sale prices of the NIS as reported by the ASX.

October 2001		September 2001		August 2001		July 2001		June 2001		May 2001	
High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
$	$	$	$	$	$	$	$	$	$	$	$
89.10	87.10	91.75	86.60	91.99	91.20	92.40	90.55	91.70	89.75	91.95	91.00

Exchange controls and other limitations affecting security holders

There are no limitations under the Company's constitution restricting the rights of non-resident or foreign owners of ordinary shares to have an interest in or vote on their securities.

Mergers, acquisitions and divestment of Australian public companies listed on the ASX are regulated by detailed and comprehensive legislation and the rules and regulations of the ASX.

In summary, under the *Corporations Act 2001*, a person must not acquire a relevant interest in issued voting shares in an Australian listed company if, broadly, because of the transaction, that person's or someone else's voting power in the company increases from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless those shares are acquired in a manner specifically permitted by law. This restriction also limits the options available to a shareholder wanting to sell a shareholding of more than 20% in an Australian listed company.

Shareholder information

The concepts of relevant interest and voting power are very broadly defined and shareholders should seek their own advice on their scope. In very general terms:

- a person has a relevant interest in securities if they broadly hold the securities or have the power to vote or dispose of the securities or are deemed to have a relevant interest;
- a person's voting power in a company is broadly the total number of votes attached to all the voting shares in the company that the person or an associate has a relevant interest in, divided by the total number of votes attached to all voting shares in the company; and
- an associate is widely defined in Divisions 1 and 2 of Part 1.2 of the *Corporations Act 2001* and includes, depending on the context, parent companies or subsidiaries of the holder and persons with whom the holder has entered into various types of agreements, arrangements or understandings (formal or informal) in relation to certain matters concerning shares, the affairs of the company or the composition of its board of directors.

The *Corporations Act 2001* also imposes certain substantial shareholding disclosure obligations on persons who are or become entitled to 5% or more of the voting shares in a company listed on the ASX, such as the Company.

One of the more common manners in which a controller shareholding is acquired in an Australian listed company is by a takeover offer. The form and content of the documentation is regulated by law. Australian takeover law purports to have extra-territorial force. Therefore, Australian law may apply to transactions outside Australia with respect to non-Australian companies if that transaction affects the control of voting shares in an Australian listed company.

Australian law also regulates acquisitions, which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia, in a state or in a territory.

Acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer of the Commonwealth of Australia under the *Foreign Acquisitions and Takeovers Act 1975* (the 'Act'). This Act applies to any acquisition of 15% or more of the outstanding shares of an Australian listed company or any acquisition, which results in one foreign person (including a company) or group of associated foreign persons controlling 15% or more of total voting power. In addition, the Act applies to any acquisition by non-associated foreign persons controlling, in the aggregate, 40% or more of total voting power or ownership.

In addition, there are specific limitations on the acquisition of a shareholding in a bank under the *Financial Sector (Shareholdings) Act 1998*. Under this Act, a person (including a company) must not acquire an interest in an Australian financial sector company where the acquisition would take that person's voting power (which includes the voting power of the person's associates) in the financial sector company to more than 15% of the voting power of the financial sector company without first obtaining the Treasurer's approval. Even if a person has less than 15% of the voting power, the Treasurer has the power to declare that a person has practical control of that company and, by applying for an order from the Federal Court of Australia may require the person to relinquish that control. The definition of a financial sector company includes banks, such as the Company. It also includes authorised insurance companies or an authorised insurance company's holding company. Three of the Company's controlled entities are authorised insurance companies.

Subject to compliance with the *Foreign Acquisitions and Takeovers Act 1975* and the *Financial Sector (Shareholdings) Act 1998*, non-residents of Australia have the same rights to hold shares and to vote as residents of Australia.

There are no general foreign exchange restrictions in effect in Australia at the present time. However, the specific approval of Reserve Bank of Australia must be obtained in connection with certain payments and transactions having a prescribed connection with countries designated from time to time (currently Iraq, Libya, Federal Republic of Yugoslavia (Serbia and Montenegro), Islamic Emirate of Afghanistan and National Union for Total Independence of Angola), by Reserve Bank of Australia for the purposes of the Banking (Foreign Exchange) Regulations. Regulations in Australia also prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries, named individuals, or entities associated with terrorism.

The Company's constitution

The following is a summary of some of the key aspects of the constitution of the Company.

Objects and purposes

The Company was incorporated on June 23, 1893, in the state of Victoria, Australia. The Company is registered with the Australian and Securities Investments Commission (ASIC) and its Australian Company Number is 004 044 937. The objects and purposes of the Company are not set out in its constitution. Under the *Corporations Act 2001*, the Company has the legal capacity and powers of an individual.

Shareholder information

Directors

The constitution regulates various matters concerning the directors of the Company:

(a) Matters in which the director has a material personal interest

A director who has a material personal interest in a matter that is being considered at a directors' meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following four circumstances permitted by the constitution and the *Corporations Act 2001*:

(i) directors who do not have a material personal interest in the matter have passed a resolution identifying the relevant director, the nature and extent of that director's personal interest and its relation to the affairs of the Company and stating that the remaining directors are satisfied that the relevant director's material personal interest should not disqualify the director from voting or being present;

(ii) ASIC has made a declaration or order under the *Corporations Act 2001* which permits the director to be present and vote notwithstanding the director's material personal interest;

(iii) there are not enough directors to form a quorum for a directors' meeting because of the disqualification of the interested directors, in which event one or more of the directors (including a director with a material personal interest in the matter) may call a general meeting to deal with the matter; and

(iv) the matter is of a type which the *Corporations Act 2001* specifically permits the director to vote upon and to be present at a director's meeting during consideration of the matter notwithstanding the director's material personal interest.

(b) Compensation of directors

The aggregate remuneration of directors is determined by the Company in general meeting. That aggregate remuneration is to be divided among the directors as they agree on or, in the absence of agreement, equally. The division of aggregate remuneration among directors does not require an independent quorum.

(c) Borrowing powers exercisable by directors

Under the constitution, the business of the Company is to be managed by the directors, who may exercise all such powers of the Company as are not required by the *Corporations Act 2001* or the constitution to be exercised by the Company in general meeting. The directors are specifically authorised to exercise all the powers of the Company to borrow or raise money, to charge any property or business of the Company or any or all of its uncalled capital and to issue debentures or give any other security for a debt, liability or obligation of the Company or of any other person. These powers can only be altered by an amendment to the Company's constitution, which would need to be approved by the passage of a special resolution of the Company's members at a general meeting.

(d) Retirement of directors under an age limit requirement

No person over the age of 70 years may be appointed as a director of the Company. A director who attains the age of 70 is deemed to have retired from the Company on that day, unless the remaining directors have previously resolved that the director's retirement will occur at the conclusion of the next annual general meeting of the Company.

(e) Share qualification

Within 2 months after a director's appointment, the director must hold at least 2,000 fully paid ordinary shares in the Company in the director's own right.

Share rights – ordinary shares

Holders of ordinary shares are entitled to receive such dividends on those shares as may be declared by the directors from time to time. Dividends that are paid but not claimed may be invested by the directors for the benefit of the Company until required to be dealt with in accordance with any law relating to unclaimed monies.

Dividends are only payable out of profits of the Company, and a declaration by the directors as to the amount of profits available for dividend is final and binding on all members. Before paying any dividend, directors may set aside, out of the profits of the Company, such reserves as they think proper to be applied at their discretion for any proper purpose, and may carry forward so much of the profits remaining as they consider ought not to be distributed as dividends without transferring those profits to a reserve.

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid ordinary shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital called and paid up on the shares bears to the total issue price of the shares.

Shareholder information

In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any surplus proceeds on liquidation.

Ordinary shareholders have no right to redeem their shares.

Holders of fully paid ordinary shares have no liability for further capital calls by the Company. The holders of partly paid ordinary shares are liable to pay unpaid amounts on the shares upon a call being made in accordance with the terms of issue of the shares and the constitution.

There is no provision of the constitution that discriminates against any existing or prospective holder of ordinary shares as a result of such shareholder owning a substantial number of shares.

Share rights – American depositary shares (ADSs)

Each ADS is comprised of 5 fully paid ordinary shares in the Company which have been deposited with a depositary or custodian. The rights attaching to each fully paid ordinary share comprised in an ADS are the same as the rights attaching to fully paid ordinary shares as described above. These rights are vested in the custodian or depositary as the holder of the fully paid ordinary shares, although holders of American depositary receipts (ADRs), which evidence ADSs, have certain rights against the depositary or custodian under the terms governing the issue of the ADRs.

Share rights – TrUEPrS℠ preference shares

On September 30, 1998, a total of 32,008,000 fully paid non-converting non-cumulative preference shares of the Company with a liquidation preference of US$12.50 per share (the TrUEPrS preference shares) were issued to a depositary in connection with an issue of 16,004,000 Trust Units Exchangeable for Preferred Shares™ (TrUEPrS) by the NAB Exchangeable Preferred Trust, a Delaware business trust that is not controlled by the Company. The underwriters with respect to the TrUEPrS issue subsequently exercised an option resulting in a further issuance of 2,000,000 TrUEPrS (and accordingly, in the issue of a further 4,000,000 TrUEPrS preference shares).

The holders of TrUEPrS receive distributions quarterly in arrears at the rate of 8% per annum on a non-cumulative basis. On December 31, 2047, or the earlier occurrence of certain other 'exchange events', the holders of TrUEPrS can be required to exchange their TrUEPrS for American depositary shares representing TrUEPrS preference shares, or for cash in some limited circumstances. Until that time, the TrUEPrS preference shares do not pay dividends. After such an 'exchange event' occurs the TrUEPrS preference shares will automatically convert into non-cumulative preference shares paying a dividend of 8% per annum, if declared.

If a dividend is not paid on the TrUEPrS preference shares, the Company cannot, in certain circumstances, pay distributions, redeem, buy-back or reduce capital on any other shares of the Company that rank equally with or junior to the TrUEPrS preference shares.

Holders of the TrUEPrS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per TrUEPrS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the TrUEPrS preference shares.

The TrUEPrS preference shares are redeemable, in certain limited circumstances, prior to the fifth anniversary of their issue date, and after the fifth anniversary of the issue date, at the Company's election at a redemption price of US$12.50 plus accrued dividends, if any. The terms of the TrUEPrS preference shares also provide, subject to certain conditions, for a reduction of the share capital of the TrUEPrS preference shares of US$12.49, followed by a redemption of the outstanding share capital attributed to those shares of US$0.01, and for holders to accept a buy-back offer, if made by the Company at a price of US$12.50 plus accrued dividends, if any, for each TrUEPrS preference share.

In a winding-up of the Company, holders of TrUEPrS preference shares will generally rank equally with the holders of other preference shares and will rank for return of capital on the TrUEPrS preference shares in priority to ordinary shareholders. After certain 'exchange events' occur (as referred to above), TrUEPrS preference shares will rank in priority to ordinary shares and equally with other preference shares as to dividends. Presently, the Company's other preference shares consist of the preference shares issued in connection with National Income Securities, which are described below. Preference shares may also be issued by the Company in connection with its exchangeable capital units.

TrUEPrS℠ is a service mark of Merrill Lynch & Co., Inc.

Share rights – National Income Securities (NIS)

On June 29, 1999, the Company issued 20 million National Income Securities (NIS) at A$100 each. These securities are stapled securities, comprising one fully paid note of A$100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (a NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. If the amount unpaid on a NIS preference share becomes due, the holder can, and must, transfer to the Company the note stapled to that NIS preference share. The transfer of the note to the Company will satisfy the holder's obligation to pay up the amount on the NIS preference share. The holder will then hold a fully paid NIS preference share.

Shareholder information

Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears commencing on August 15, 1999. A minimum interest rate of at least 6% per annum was payable until May 15, 2000. Holders of NIS preference shares are not entitled to dividends until the NIS preference shares become fully paid. If the NIS preference shares become fully paid, holders will receive, if declared, a dividend calculated at the same rate and payable on the same basis as for the NIS.

If a dividend is not paid on the NIS preference shares, the Company cannot, in certain circumstances, pay distributions, redeem, buy-back or reduce capital on any other shares of the Company that rank equally with or junior to the NIS preference shares.

Holders of the NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the preference shares.

With the prior consent of the Australian Prudential Regulation Authority, the Company may redeem each note for A$100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. This may take place at any time after the fifth anniversary of the issue date of the NIS or earlier in certain limited circumstances.

NIS have no maturity date, are quoted on the stock market of the ASX and on winding up of the Company will rank for a return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders. In a winding-up of the Company, the holders of fully paid NIS preference shares issued in connection with the NIS will generally rank equally with the holders of other preference shares of the Company with the same number with respect to priority on payment in winding up (as specified in accordance with the constitution), and will rank for a return of capital on the NIS preference shares in priority to the holders of ordinary shares. Presently, the only other class of preference shares on issue are the preference shares issued in connection with the TrUEPrS, which are described above and which rank equally with the NIS preference shares with respect to priority on payment in a winding-up. Preference shares may also be issued by the Company in connection with the exchangeable capital units.

Process for altering share rights

Unless otherwise provided by the terms of issue of a class of shares, the terms of issue of a class of shares in the Company can only be varied or cancelled in any way by a special resolution of the Company and with either the written consent of members holding at least three quarters of the votes in that class of shares or with the sanction of a special resolution passed at a separate meeting of the holders of that class of shares.

Convening of and admission to general meetings

A director may call a meeting of the Company's shareholders. The directors must call and arrange to hold a general meeting of the Company if requested to do so by shareholders who hold at least 5% of the votes that may be cast at the general meeting or 100 shareholders entitled to vote at the meeting. Shareholders who hold at least 5% of the votes that may be cast at a general meeting may also call and arrange to hold a general meeting of the Company at their own expense.

At least 28 days notice must be given of a meeting of the Company's shareholders. Written notice must be given to all shareholders entitled to attend and vote at the meeting. All ordinary shareholders are entitled to attend and, subject to the constitution and the *Corporations Act 2001*, to vote at general meetings of the Company. Voting rights attaching to other classes of shares in the Company are set out above.

The directors may, in accordance with the constitution and the *Corporations Act 2001*, determine a time before a meeting at which membership in the Company (for the purposes of the meeting) is to be ascertained in respect of holdings of shares that are quoted on the stock market of the ASX.

Limitations on ownership and changes in control

The constitution does not contain any limitations on the rights to own securities in the Company. However, there are detailed Australian laws and regulations which govern the acquisition of interests in the Company, and a summary of those is set out in this shareholder information section under the heading 'Exchange controls and other limitations affecting security holders' above.

The constitution requires any sale or disposal of the Company's main undertaking to be subject to ratification by the Company in general meeting. Except for that provision, there are no provisions of the constitution which would have the effect of delaying, deferring or preventing a change in control of the Company which would operate only with respect to a merger, acquisition or corporate restructuring involving the Company or its controlled entities.

Constitution provisions governing disclosure of shareholdings

There are no provisions of the constitution which provide an ownership threshold above which share ownership must be disclosed. However, the *Corporations Act 2001* requires a person to disclose certain prescribed information to the Company and the ASX if the person has or ceases to have a 'substantial holding' in the Company. The term 'substantial holding' is defined in the *Corporations Act 2001*, and is not limited to direct shareholdings.

Shareholder information

The *Corporations Act 2001* also permits the Company or ASIC to direct any member of the Company to make certain disclosures in respect of their interest in the Company's shares and the interest held by any other person in those shares.

Changes in capital

The constitution does not make any provision governing changes in the capital of the Company, which is more stringent than is required by law.

Taxation

The taxation discussion set forth below is intended only as a descriptive summary, and does not purport to be a complete technical analysis or listing of all potential Australian or United States tax effects to United States persons who are American depositary receipt (ADR) holders or holders of shares (US holders), and US holders are advised to satisfy themselves as to the overall tax effects, including state and local tax effects, by consulting their own tax advisers. This summary is based in part on representations of the Depositary, and assumes that each obligation provided for in or otherwise contemplated by the deposit agreement and any related agreement will be performed in accordance with its terms. Except as otherwise noted, the statements of Australian or United States tax laws set out below are based on the laws in force as of the date of this annual financial report, and are subject to any changes in Australian or United States law and in any double taxation convention between Australian and the United States occurring after that date.

Australian taxation

Under Australian taxation law, non-residents of Australia for tax purposes may be subject to withholding tax in respect of dividends received from shares in Australian companies depending upon the extent to which the dividends are franked. Under the foreign dividend account system, the unfranked portion of a dividend paid to non-residents of Australia may not be subject to Australian withholding tax if the unfranked amount is sourced from certain foreign income earned by the Australian company on which foreign tax has been paid. In accordance with the provisions of the Australian/United States double tax agreement, withholding tax on dividend income derived by a non-resident of Australia, who is a resident of the United States, is limited to 15% of the gross amount of the dividend.

Under the current Australian dividend imputation system, to the extent that dividends are paid out of income on which Australian income tax has been levied, such dividends are considered as franked dividends to that same extent. Where an Australian resident shareholder for tax purposes receives a franked dividend, the shareholder receives an imputation tax credit, which can be offset against the Australian income tax payable by the shareholder. The amount of the credit is dependent upon the extent to which the dividend paid is a franked dividend. From July 1, 2000, excess imputation tax credits are refundable to Australian resident shareholders who are individuals, superannuation funds and charities. Non-resident shareholders for tax purposes who do not hold the shares in connection with a permanent establishment in Australia, rather than receiving a credit, are exempt from dividend withholding tax in respect of franked dividends received. Non-resident shareholders for tax purposes are not entitled to a refund of excess imputation tax credits.

The Company paid a fully franked interim dividend out of profits for the half year ended March 31, 2001 and has declared a fully franked final dividend payable out of profits for the year ended September 30, 2001. These franked dividends carry imputation tax credits at a tax rate of 30%, reflecting the reduction in the Australian company tax rate from 34% to 30% from July 1, 2001.

Subject to certain exceptions, a non-resident of Australian for tax purposes disposing of shares in Australian listed companies will be free from tax in Australia. The exceptions relate to capital assets which are treated as having the necessary connection with Australia. The following two exceptions are relevant to disposals of shares:

- shares held as part of a business conducted through a permanent establishment in Australia. In such a case, any profit on disposal would be assessable to ordinary income tax. Losses would constitute allowable deductions; and
- shares held in Australian resident public companies where such shares represent an associate inclusive holding of 10% or more by value in the shares of the company. In such a case, capital gains tax would apply, but not otherwise.

In calculating any capital gains in respect of the disposal of assets (including shares) acquired on or after October 1, 1999, indexation of the cost of the assets for inflation is not available. Individuals are subject to Australian tax on 50% of any actual capital gains (that is, without inflation indexation) on the disposal of assets acquired on or after October 1, 1999 and held for at least 12 months. In the case of superannuation (pension) funds, two-thirds of any actual capital gains on the disposal of assets acquired on or after October 1,1999 are subject to Australian tax, provided the assets have also been held for at least 12 months.

For the disposal of assets acquired prior to October 1, 1999, indexation of the cost of assets is frozen as at September 30 1999. However, for such asset disposals, individuals are able to choose whether to be taxed on any capital gain (after allowing for indexation of the cost to September 30, 1999) or 50% of any actual capital gain. Superannuation (pension) funds are also able to make the same election for the disposal of assets acquired prior to October 1, 1999, however, if an election is made to be taxed on any actual capital gain, two-thirds of the actual capital gain will be subject to Australian tax.

Normal rates of income tax will continue to apply to taxable capital gains so calculated. Capital losses are not subject to indexation; they are available as deductions, but only in the form of an offset against other capital gains (whether capital gains net of the frozen indexation or actual capital gains on assets acquired on or after October 1, 1999). Any excess capital losses can be carried forward for offset against future capital gains.

Shareholder information

United Kingdom dividend plan (UKDP)

The UKDP enables a shareholder of the Company who elects to participate in the UKDP to receive dividends from a United Kingdom controlled entity of the Company, as an alternative to the cash component of dividends paid on ordinary shares in the Company. United Kingdom Advance Corporation Tax was abolished with effect from April 6, 1999. However, dividends from United Kingdom companies continue to carry a tax credit of 10%, which can be utilised by certain shareholders.

The Company's Australian resident corporate shareholders obtain no tax credits on a dividend paid by the United Kingdom controlled entity. Dividends received from the Company on ordinary shares which do not participate in the UKDP carry an Australian imputation tax credit to the extent those dividends are franked.

In addition, participants of the UKDP should not suffer Australian capital gains tax due solely to their participation in, or withdrawal from, the UKDP.

United States federal income taxation

A US holder must include in their gross income, the gross amount of any dividend paid by the Company out of earnings and profits (as determined for US federal income tax purposes), including any Australian income tax withheld from the dividend payment. The dividend will not be eligible for the dividends received deduction generally allowed to United States corporations in respect of dividends paid by United States corporations. Subject to certain limitations, any Australian tax withheld from a dividend will be creditable against a US holder's United States federal income tax liability.

For United States federal income tax purposes, US holders will not be entitled to a tax credit for the 10% United Kingdom withholding tax deducted from dividends paid by the United Kingdom controlled entity under the UKDP.

Exchange rates

Fluctuations in the exchange rate between the Australian dollar and the United States dollar will affect the United States dollar equivalent of the Australian dollar prices of the fully paid ordinary shares and, as a result, may affect the market price of the American depositary shares (ADSs) in the United States. (A description of the ADSs appears under the heading 'American depositary shares (ADSs)' above.) Such fluctuations will also affect the United States dollar conversion by the Depositary of cash dividends paid in Australian dollars on the fully paid ordinary shares represented by the ADSs. Refer to 'selected financial data' on page 14 for the high, low, average and year-end noon buying exchange rates for the Company's last five fiscal years.

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Shareholder information

Twenty largest registered ordinary shareholders of the Company as at October 12, 2001

	Number of shares	%
Chase Manhattan Nominees Limited	193,656,688	12.5
National Nominees Limited	151,886,737	9.8
Westpac Custodian Nominees Limited	123,810,495	8.0
Citicorp Nominees Pty Limited	33,468,264	2.1
Perpetual Trustee Australia Group	30,086,583	1.9
AMP Group	28,814,422	1.9
ANZ Nominees Limited	25,112,074	1.6
Queensland Investment Corporation	23,196,090	1.5
Commonwealth Custodial Services Limited	22,584,956	1.5
MLC Limited	18,495,722	1.2
RBC Global Services Australia Nominees Pty Ltd (Pipooled Account)	16,061,910	1.0
National Australia Trustees Limited	14,689,981	1.0
Mercantile Mutual Life Insurance Group	12,762,414	0.8
HKBA Nominees Limited	11,551,453	0.7
Citicorp Nominees Pty Limited (CFS WSLE Imputation Fund Account)	10,371,970	0.7
NRMA Nominees Pty Limited	9,534,141	0.7
Cogent Nominees Pty Ltd	9,503,032	0.6
RBC Global Services Australia Nominees Pty Ltd (RA Account)	7,086,965	0.5
Australian Foundation Investment Company Limited	6,839,612	0.4
National Mutual Group	6,638,259	0.4
	756,151,768	**48.8**

The 20 largest registered shareholders held 756,151,768 fully paid ordinary shares, which is equal to 48.8% of the total issue of 1,550,413,943 fully paid ordinary shares. As at October 12, 2001 there was no person or group of persons known to the Company to be the beneficial owner of more than 5 per cent of the ordinary shares of the Company on issue at that date.

Distribution of ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range				
1 - 1,000	200,985	63.6	77,721,981	5.0
1,001 - 5,000	91,479	28.9	198,175,326	12.8
5,001 - 10,000	14,030	4.4	98,077,446	6.3
10,001 - 100,000	9,067	2.9	193,297,002	12.5
100,001 and over	437	0.2	983,142,188	63.4
	315,998	**100.0**	**1,550,413,943**	**100.0**

* Shares held in trust under the Company's employee share schemes are registered as one shareholding in the name of the trustee.

	Number of shareholders	% of holders	Number of shares	% of shares
Address of holders				
Australia	294,530	93.2	1,527,108,956	98.5
United Kingdom	11,086	3.4	7,928,796	0.5
New Zealand	7,516	2.4	10,556,284	0.6
United States	473	0.2	525,403	0.1
Other overseas	2,393	0.8	4,294,504	0.3
	315,998	**100.0**	**1,550,413,943**	**100.0**

Voting rights

The Company's constitution provides in summary that every member (and person entitled under Article 6.1 of the constitution, th e transmission article) present in person or by proxy, attorney or representative at a general meeting of shareholders shall have one or more votes as follows:

- on a show of hands, one vote; and
- on a poll, one vote for each share held.

Where a member appoints two proxies that specify different ways to vote on a resolution, the proxy must not vote in a show of hands.

Shareholder information

Twenty largest registered National Income Security (NIS) holders as at October 12, 2001

	Number of securities	%
Commonwealth Custodial Services Limited	771,145	3.9
Perpetual Trustee Australia Group	645,785	3.2
Citicorp Nominees Pty Limited	575,208	2.9
Australian Foundation Investment Company Limited	506,160	2.5
National Nominees Limited	314,403	1.6
Westpac Group	311,887	1.6
AMP Group	264,537	1.3
University Of Melbourne	235,090	1.2
Chase Manhattan Nominees Ltd	234,992	1.1
Folio Nominees Pty Ltd	230,294	1.1
MLC Limited	203,935	1.0
UBS Warburg Private Clients Nominees Pty Limited	201,153	1.0
Tower Trust Limited	184,628	0.9
Commonwealth Custodial Services Limited (No. 15 Account)	180,000	0.9
National Mutual Group	175,000	0.9
Merrill Lynch (Australia) Nominees Pty Limited	158,561	0.8
Questor Financial Services Limited	115,729	0.6
Swiss Re Australia Ltd	112,895	0.6
Mirrabooka Investments Limited	112,480	0.6
ANZ Nominees Limited	111,837	0.5
	5,645,719	**28.2**

The 20 largest registered NIS holders held 5,645,719 NIS, which is equal to 28.2% of the total issue of 20,000,000 NIS.

Distribution of NIS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range				
1 - 1,000	44,495	96.4	7,622,753	38.1
1,001 - 5,000	1,406	3.1	3,001,212	15.0
5,001 - 10,000	125	0.3	919,182	4.6
10,001 - 100,000	112	0.2	2,837,217	14.2
100,001 and over	23	*	5,619,636	28.1
	46,161	**100.0**	**20,000,000**	**100.0**
Address of holders				
Australia	46,026	99.7	19,911,081	99.6
United Kingdom	26	*	9,996	*
New Zealand	32	0.1	19,794	0.1
United States	11	*	9,004	*
Other overseas	66	0.2	50,125	0.3
	46,161	**100.0**	**20,000,000**	**100.0**

** Due to the small number of these security holders the amounts round down to nil.*

Voting rights

NIS comprise a fully paid note and an unpaid preference share. The Company's constitution and the terms of issue of the preference shares provide, in summary, that holders of the preference shares will not be entitled to vote at a general meeting except they may:

- vote together with the holders of ordinary shares on certain limited resolutions; and
- vote as a class on any resolution to vary the rights attaching to the preference shares;

in which case the holders of the preference shares have the same rights as to voting in respect of each preference share as those conferred on the holders of ordinary shares in respect of each ordinary share and will have one vote per preference share.

Shareholder information

National Australia Bank Limited

Chairman
Mr D Charles K Allen AO
MA, MSc, FTSE

Managing Director and Chief Executive Officer
Mr Frank J Cicutto
BCom, FAIBF, FCIBS

Company Secretary
Mr Garry F Nolan
MBus, FAICD, FCIS, FAIBF, ASIA, CFTP

Registered office
24th Floor
500 Bourke Street
Melbourne Victoria 3000
Australia

Auditors

KPMG
161 Collins Street
Melbourne Victoria 3000
Australia

Solicitors

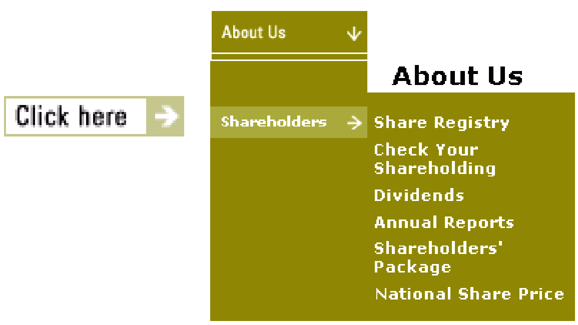
Mallesons Stephen Jaques
525 Collins Street
Melbourne Victoria 3000
Australia

Documents concerning the Company that are referred to in this annual financial report may be inspected at the registered office.

In addition, the Company files reports and other information with the SEC. You can read and copy these reports and other information at the SEC Public Reference Room at 450 Fifth Street, North West, Washington DC 20549. You can telephone the SEC at 1-800-SEC-330 for further information on the Public Reference Room. You can also read and copy these reports and other information at the New York Stock Exchange Inc., 20 Broad Street, New York, NY 10005.

Shareholders' centre internet service

The Group's website at www.national.com.au has a dedicated separate section where shareholders can gain access to a wide range of secure information, including copies of recent announcements, annual financial reports and useful forms, including change of address forms, from Shareholder Services.
Email: Shareholders_Centre@national.com.au



Shareholders' centre information line

There is a convenient 24 hours a day, 7 days a week automated service (Australia Only). To obtain the current balance of your ordinary shareholding and relevant dividend payment details:

Telephone: +61 3 9415 8256

Contact details

These services are fully secure to protect your interests. In all communications with Shareholder Services, please ensure you quote your security reference number (SRN), or in case of broker sponsored shareholders, your holder identification number (HIN).

Principal Share Register and Shareholder Services

24th Floor
500 Bourke Street
Melbourne Victoria 3000
Australia

Postal Address
GPO Box 2333
Melbourne Victoria 8060
Australia

Local call: 1300 367 647
Fax: (03) 8641 4927

Telephone (outside Australia):
+61 3 8641 4200

Fax (outside Australia):
+61 3 8641 4927

United Kingdom Branch Share Register

C/- Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bedminster Down
Bristol BS99 7NH
United Kingdom

Tel: (0870) 702 0000
Fax: (0870) 703 6101
Website: www.computershare.com

United States ADR Depositary, Transfer Agent and Registrar

The Bank of New York
Depositary Receipts Division
620 Avenue of the Americas
New York NY 10011
United States

Tel: (212) 462 6642
Fax: (212) 462 6216
Website : www.adrbny.com

Shareholder information

Official quotation

Ordinary shares of the Company are quoted on the following stock exchanges:

- Australian Stock Exchange;
- The London Stock Exchange;
- The Stock Exchange, New Zealand;
- Tokyo Stock Exchange; and
- New York Stock Exchange.

In the United States, the Company's ordinary shares are traded in the form of American depositary shares evidenced by American depositary receipts issued by The Bank of New York.

The Company has also issued:

- exchangeable capital units which are quoted under the symbol 'NAU' on the New York Stock Exchange Inc., and are also quoted on the Luxembourg Stock Exchange.
- trust units exchangeable for preference shares, which are quoted under the symbol 'NAR Pr' on the New York Stock Exchange.
- National Income Securities which are quoted on the Australian Stock Exchange under the symbol 'NABHA'.

Signatures

The registrant certifies that it meets all of the requirements for filing on form 20-F and that it has duly caused and authorised the undersigned to sign this annual financial report on its behalf.

National Australia Bank Limited
Registrant

Garry F Nolan
Secretary of the Company

Date: November 8, 2001

Forward-looking statements

This annual financial report contains certain 'forward-looking statements' within the meaning of section 21E of the *Securities Exchange Act of 1934*. The *Private Securities Litigation Reform Act of 1995* provides a safe harbour for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation, so long as the information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. The words anticipate, believe, expect, project, estimate, intend, should, could, may, target, goal, objective, plan and other similar expressions are used in connection with forward-looking statements.

In this annual financial report, forward-looking statements may, without limitation, relate to statements regarding:

- economic and financial forecasts, including but not limited to statements under the financial review and report of the directors;
- anticipated implementation of certain control systems and programs, including, but not limited to those described under the financial review – risk management; and
- certain plans, strategies and objectives of management.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control the Group, which may cause actual results to differ materially from those expressed in the statements contained in this annual financial report. For example:

- the economic and financial forecasts contained in this annual financial report will be affected by movements in interest and foreign currency exchange rates, which may vary significantly from current levels, as well as by general economic conditions in each of the Group's major markets. Such variations, if adverse, may materially impact the Group's financial condition and results of operations;
- the implementation of control systems and programs will be dependent on such factors as the Group's ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel, the co-operation of customers, third party vendors and competitors;
- the plans, strategies and objectives of management will be subject to, among other things, governmental regulation, which may change at any time over which the Group has no control. In addition, the Group will continue to be affected by general economic conditions in Australia and worldwide, movements and conditions in capital markets, the competitive environment in each of its markets and political and regulatory policies.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this annual financial report.

The Group is not under any obligation to (and expressly disclaims any such obligation to) update or alter is forward-looking statements, whether as a result of new information, future events, or otherwise.

Form 20-F cross reference index

Principal Establishments

National Australia Bank Limited
Group Offices and Australian
Financial Services
500 Bourke Street
(GPO Box 84A)
Melbourne Vic 3000
Australia
Tel: +61 3 8641 3500
Fax: +61 3 9208 5695
www.national.com.au

National Wealth Management Holdings Limited
Level 6, MLC Building
105 – 153 Miller Street
North Sydney NSW 2060
Australia
Tel: +61 2 9957 8000
Fax: +61 2 9957 6881

MLC Limited
MLC Building
105 – 153 Miller Street
North Sydney NSW 2060
Australia
Tel: +61 2 9957 8000
Fax: +61 2 9957 6881
MLC Adviser Hotline: 13 36 52

National Australia Financial Management Limited
342 Flinders Street
(GPO Box 9895)
Melbourne Vic 3000
Australia
Tel: +61 3 9245 2500
Toll free: 13 22 95
Fax: +61 3 9245 2522

National Custodian Services
5th Floor North, 271 Collins Street
(GPO Box 1460M)
Melbourne Vic 3000
Australia
Tel: +61 3 9659 6218
Fax: +61 3 9659 7922
Telex: 33050
SWIFT: NATAAU3303X

National Australia Trustees Limited
271 Collins Street
(GPO Box 247B)
Melbourne Vic 3000
Australia
Tel: +61 3 9659 7522
Fax: +61 3 9659 7511

HomeSide International, Inc.
7301 Baymeadows Way
Jacksonville
Florida
United States 32256
Tel: +1 904 281 3000
Fax: +1 904 281 3745
www.homeside.com

New York Branch of the Company
34th Floor, 200 Park Avenue
New York NY 10166-0001
United States
Tel: +1 212 916 9500
Fax: +1 212 983 1969

Asia Regional Office and Hong Kong Branch of the Company
Level 27, One Pacific Place
88 Queensway
Hong Kong
Tel: + 852 2822 9800
Fax: + 852 2822 9801
Tel: + 852 2826 8111 (HK Branch)
Fax: + 852 2845 9251 (HK Branch)

Seoul Branch of the Company
16th Floor
Korea Deposit Insurance Bldg.
33 Da-dong, Chung-ku
(PO Box KPO 691)
Seoul, Korea
Tel: + 82 2 3705 4600
Fax: + 82 2 3705 4601

Singapore Branch of the Company
5 Temasek Boulevard
#15-01 Suntec Tower Five
Singapore 038985
Tel: + 65 338 0038
Fax: + 65 338 0039

Tokyo Branch of the Company
Mitsui Nigokan
2-1-1, Nihonbashi Muromachi
Chuo-ku
Tokyo 103-0022
Japan
Tel: + 81 3 3241 8781
Fax: + 81 3 3241 5369
http://tokyo.nabasia.com/tokyo/

Beijing Representative Office
Office 1904, CITIC Building
19 Jianguomenwai Dajie
Beijing 10004
People's Republic of China
Tel: +86 10 6500 3581
Fax: +86 10 6500 3642

Bangkok Representative Office
16/F, Sathorn Thani Building 1
90 North Sathorn Road
Bangkok 10500
Thailand
Tel: +66 2 236 6016/7
Fax: +66 2 236 6018

Jakarta Representative Office
9th Floor, Gedung Bank Bali
Jl. Jend. Sudirman Kav. 27
Jakarta 12920
Indonesia
Tel: + 62 21 2500 685/687
Fax: + 62 21 2500 690

Labuan Branch
Level 12 (C2), Main Office Tower
Financial Park Labuan
Jalan Merdeka
87000 W.P .Labuan
Malaysia
Tel: + 60 87 44 3286/3287
Fax: + 60 87 44 3288

Kuala Lumpur Representative Office
6/F, Wisma Genting
28 Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia
Tel: + 603 2163 6545/6546
Fax: + 603 2163 6559

National Australia Group Europe Limited
The Athenaeum
8 Nelson Mandela Place
Glasgow G2 1BN
Scotland
United Kingdom
Tel: +44 141 223 5958
Fax: +44 141 223 5959

London Office
88 Wood Street,
London EC2V 7QQ
England
United Kingdom
Tel: +44 020 7710 2100
Fax: +44 020 7710 1351

National Australia Life
88 Wood Street
London EC2V 7QQ
England
United Kingdom
Tel: +44 020 7710 2100
Fax: +44 020 7710 1204

Clydesdale Bank PLC
40 St. Vincent Place
Glasgow G1 2HL
Scotland
United Kingdom
Tel: +44 141 248 7070
Fax: +44 141 204 0828
www.cbonline.co.uk

Northern Bank Limited
PO Box 183
Donegall Square West
Belfast BT1 6JS
Northern Ireland
United Kingdom
Tel: +44 28 9024 5277
Fax: +44 28 9089 3214
www.nbonline.co.uk

National Irish Bank Limited
3rd Floor, International House
3 Harbourmaster Place
IFSC
Dublin 1
Republic of Ireland
Tel: +353 1 638 5000
Fax: +353 1 638 5198
www.nib.ie

Yorkshire Bank PLC
20 Merrion Way
Leeds LS2 8NZ
England
United Kingdom
Tel: +44 113 247 2000
Fax: +44 113 247 2115
www.ybonline.co.uk

Bank of New Zealand
BNZ Tower
125 Queen Street
Auckland
New Zealand
Tel: +64 9 375 1300
Fax: +64 9 375 1023
www.bnz.co.nz

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