An **international financial services** group

1998 Annual Report

National Australia Bank Limited ACN004044937

The **National's** International Franchise

United Kingdom

Clydesdale Bank

Yorkshire Bank

Northern Bank

National Australia Life

EVR

Australia

National

County Investment Management

Bank of New Zealand Australia

Custom Fleet

New Zealand

Bank of New Zealand

United States

Michigan National

HomeSide Inc.

Executive Relocation

Ireland

National Irish Bank

Asia

National Australia Bank Asia

Annual Report **1998**

Contents

Financial Calendar

27 November 1998	Record date for final dividend
16 December 1998	Final dividend payable
17 December 1998	Annual general meeting
27 January 1999	1998–99 First Quarter Results
29 April 1999	1998–99 Second Quarter Results
2 July 1999	Record date for interim dividend
21 July 1999	Interim 1998–99 dividend paid
22 July 1999	1998–99 Third Quarter Results
4 November 1999	1998–99 Full Year Results announced
December 1999	Final dividend for 1998–99 paid

Dates may be subject to change

Our Vision

To be the world's leading financial services company.

Our Mission

We tailor financial services to help individuals, families, businesses and communities to achieve their goals.

Our Values

Service to our customers
Quality in everything we do
Professionalism and ethics in all our actions
Competitiveness and a will to win
Growth and development of our people
Continuous productivity improvement
Growing profit for our stakeholders

An **international financial services** group

Financial Highlights

- **Profit after tax** and before abnormals **increased 13%** to over $2.5 billion
- Earnings per share (before abnormals) **increased 15.2%**
- **Profit after abnormals** $2.0 billion
- Dividends per share **up 8.5%** or 8 cents to 102 cents per share
- **Increased** contributions from all the Group's major operating regions

Profitability

- Underlying profit increased 17.7%
- Return on equity 17.9% (before abnormals)
- Return on assets 1.1% (before abnormals)
- Abnormal charges after tax
  - $245 million for statistically based provisioning
  - $252 million for restructuring

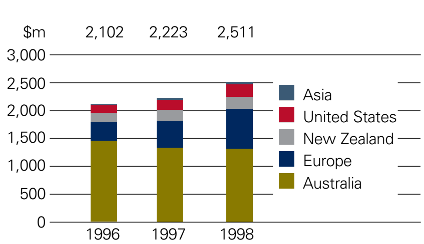
Earnings

- Net Interest income up 9.3%
- Group Interest Margin 3.1%, down from 3.5%
- Other operating income increased 35.9%
- Other operating income to total income 40.3%

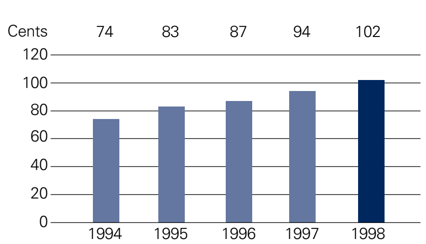
Growth

- Assets increased by 24.6%
- Loans, advances and acceptances increased by 21.1%
- Deposits up by 23.1%
- Changes in exchange rates added approximately 10% to asset growth

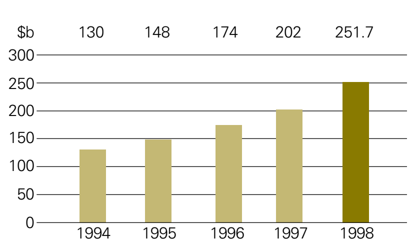
Operating profit (before abnormals)



Dividends per share



Total assets

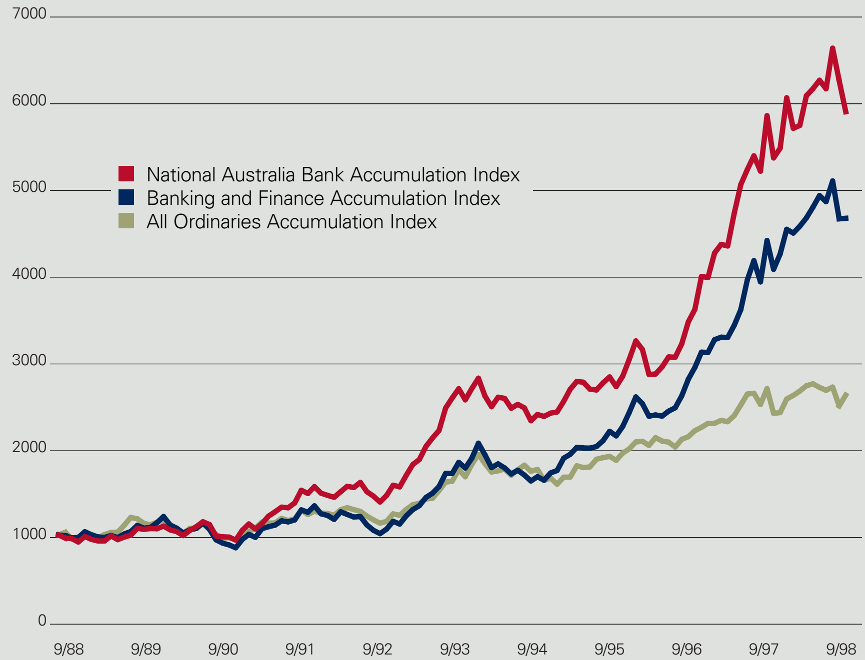


Wealth Index*

Total shareholder returns have increased on average by 19.2% per annum over the last 10 years.

The wealth index measures shareholders' total accumulated value including share price appreciation and dividends.

The chart shows that $1,000 invested in National Australia Bank 10 years ago would now be worth over $5,800.



* Data has been indexed to a common base of 1000

Productivity

- Before exchange rate movements, and excluding HomeSide and County, operating expenses increased by 6.0%
- Cost to income ratio virtually unchanged at 54.4%
- Staff numbers decreased by 0.3%. Excluding the purchase of HomeSide and County, staff numbers decreased by 7.0%

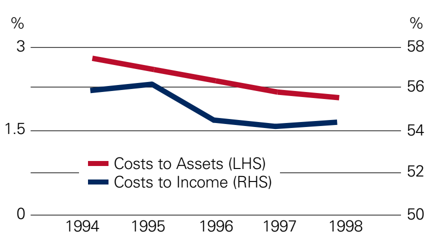
Capital

- Shareholders' funds increased 25.3%
- Regulatory capital ratio 9.2%, up from 8.7%
- Total tier 1 capital 6.4%
- Successful issue of US$450 million preference shares

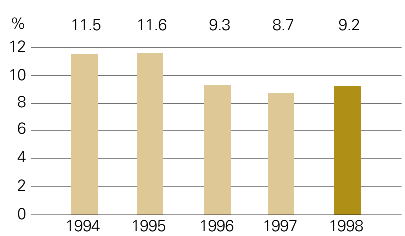
Asset quality

- Ratio of non-accrual loans to risk weighted assets declined from 0.8% to 0.7%
- Introduced a statistically based provisioning methodology for determining the doubtful debt charge
- Total specific and general provision coverage of non-accrual loans equal to 148.6%

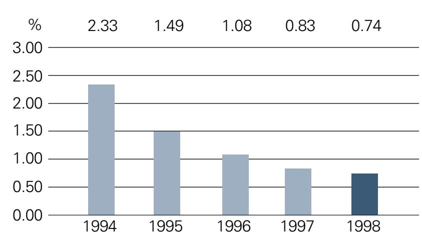
Cost ratios



Total regulatory capital ratio



Non accrual loans to risk-weighted assets



Corporate Highlights

The National further strengthened its strategic position through the year in all its core markets.

International Spread

The National has operations spanning four continents and 15 countries offering a broad range of financial services. The National is now truly 'international' in the spread of its operations and the sources of its income.

- 54.8% of revenues generated;
- 50.7% of total assets; and
- 54.4% of employees

are outside Australia.

Financial Services Activities

The National offers a broad range of financial services across its customer base. These activities were strengthened during the year with the purchase of County Investment Management and HomeSide, Inc.

The National now has over $400 billion in assets under administration globally:

- $27 billion in funds under management
- $174 billion in assets under custody
- $195 billion in mortgage loans serviced
- $20 billion in assets under trusteeship.

New Business Structure

In March 1998, the Group announced a new operating structure to support the transformation of the business from separate regional operations to global lines of business. Establishing a global structure will provide a sharper customer focus, improve economies of scale and reduce duplication of effort.

Key appointments supporting this structure have now been made and initiatives to create global businesses are under way.

Global Consolidation

Through the year the Group finalised the consolidation of the Group's technology centres in the United Kingdom and Ireland into a single centre in Glasgow. In the Asia/Pacific region, the technology operations of the Bank of New Zealand and some of the Group's Asian operations were consolidated into Australia.

Centralising the Group's technology operations into regional centres is an important step in globalising the Group's operations and improving efficiency.

Acquired County Investment Management

On October 1, 1997, the National acquired County Investment Management. With total funds under management of $10.5 billion County has enhanced the Group's funds management capabilities.

Acquired HomeSide, Inc.

HomeSide, Inc. is the ninth largest originator and sixth largest servicer of mortgage loans in the United States and was purchased by the Group on February 10, 1998 for a total consideration of US$1.2 billion.

HomeSide brings to the Group world best practice in mortgage servicing and will become the first of the global product specialists under the National's business model.

Distribution Network

- In Europe, the network has been segmented to deal separately with consumer and business customers. New business banking centres were established while traditional branches are focusing on serving personal customers.
- Michigan National closed three outlets, opened one financial centre and five supermarket branches as part of a major reconfiguration of its network. Michigan National continues to originate more than 50% of consumer loans through its direct banking centre.
- After completing a detailed pilot, Australia began introducing a new streamlined branch and distribution structure across its network.
- The Bank of New Zealand closed 23 outlets in the year and established a new sales-only outlet in Auckland.

Electronic Distribution

The Group has developed a strong capability in the electronic delivery of financial services.

- Telephone banking services are available in all regions.
- The number of ATMs increased by 3% while Eftpos terminals increased by 17%.
- Direct banking operations are now in place in Michigan, Yorkshire and New Zealand.
- Internet services available include traditional banking and transaction services, funds management, mortgage origination and fleet leasing data.

Tailored Financial Solutions

New products and services introduced through the year to meet customers' changing needs included:

- A Gold Card in Australia linked to a new range of premium awards.
- A flexible payment, fixed-rate mortgage in Yorkshire Bank.
- A new deposit product targeted at high net worth clients in Clydesdale Bank.

- A new mortgage secured credit card and a relaunch of its successful RatePLUS product in Michigan National.

Robust Risk Management

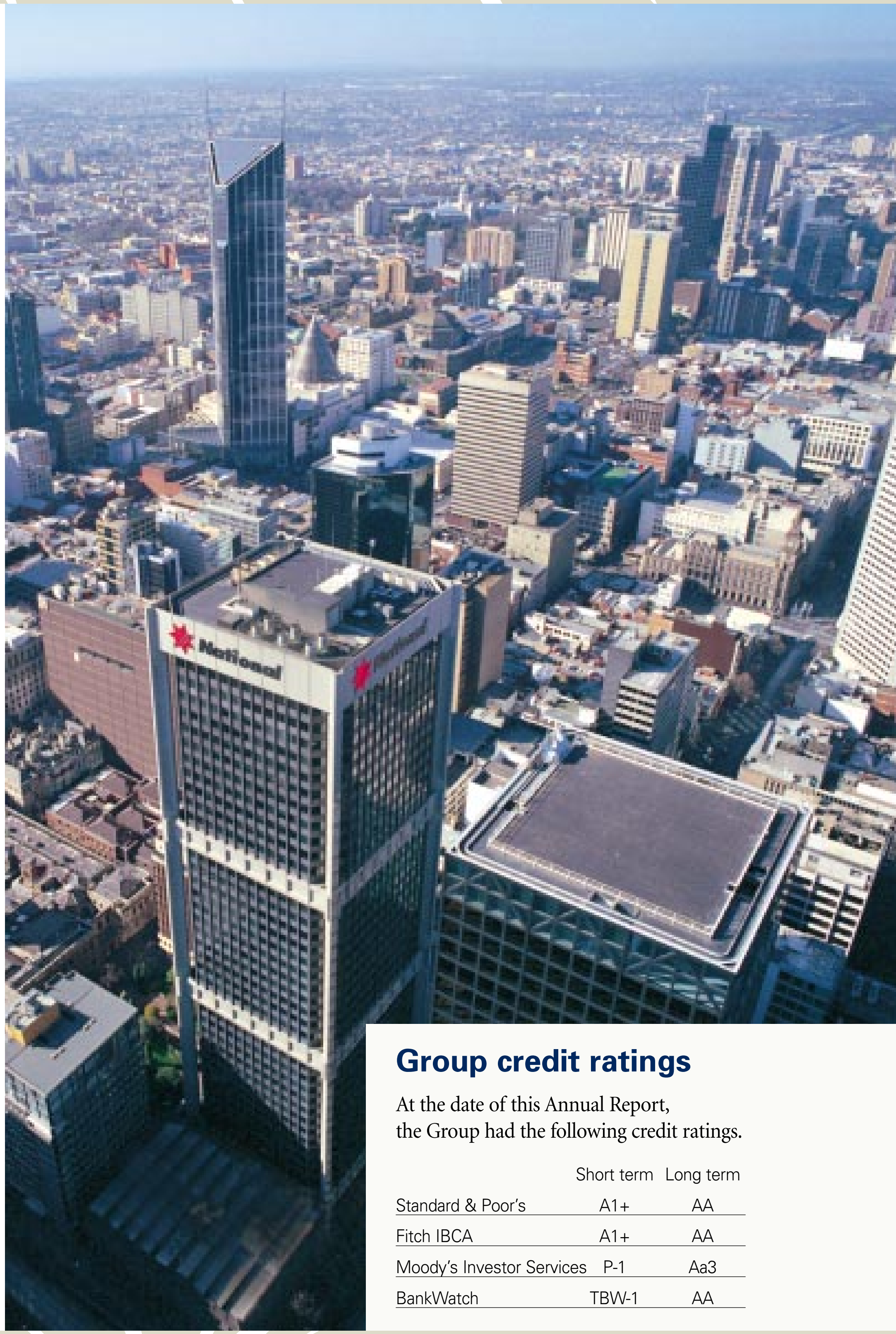
One of the foundations of the Group's success has been the rigour applied to managing risk. This was further reinforced during the year.

- Total exposure in Asia is only 5.6% of assets with facilities classed as non-accrual equalling less than 0.2% of shareholders' equity.
- The Group has no Russian debt.
- The National has no exposure to highly leveraged speculative investment funds or so-called 'Hedge Funds'.
- A common credit analysis and scoring system for customer lending was substantially completed across the Group.

Year 2000

The National continues to progress satisfactorily with its Year 2000 program. In June 1998, the Group submitted a report to the Australian Stock Exchange explaining its Year 2000 program. Since that date, the program has continued to track broadly in line with plan. As at September 30, 1998 the cost of the Group's Year 2000 program was estimated at $284 million of which $153 million had been spent.

As at the end of September 1998, the Group's core systems had been updated for the year 2000 changeover, and were entering the final stages of testing.



The National's global and Australian head office in Melbourne, Australia

Group credit ratings

At the date of this Annual Report, the Group had the following credit ratings.

	Short term	Long term
Standard & Poor's	A1+	AA
Fitch IBCA	A1+	AA
Moody's Investor Services	P-1	Aa3
BankWatch	TBW-1	AA

The Board of Directors

MR Rayner (Mark)

BSc (Hons) Chem Eng
FTSE FAusIMM FAICD
FIE Aust
Chairman and Independent Non-Executive Director
Age 60
Appointed 1985
Elected Chairman September 1997

Experience
35 years with Comalco Limited including 11 years as Chief Executive, 20 years as a Director and 6 years as Deputy Chairman until June 1997.
A Group Executive and Director of CRA Limited until 1995.
Member Principal Board Audit Committee.

Directorships
Director of Bank of New Zealand.
Chairman of Pasminco Limited and Mayne Nickless Limited.
Director of Boral Limited.

DK Macfarlane (David)

Vice Chairman and Independent Non-Executive Director
Age 68
Appointed 1985
Elected Vice Chairman 1992

Experience
33 years with James Hardie Industries Limited, 12 years as Managing Director until 1990.
Chairman Principal Board Audit Committee.

Directorships
National Australia Asset Management Limited.
Chairman of Spicers Paper Limited and DEM Limited.
Director of Schroder Australia Holdings Limited, Pasminco Limited and Australian Foundation Investment Co Limited.

BT Loton AC (Brian)

BMetE FAusIMM FAICD
Vice Chairman and Independent Non-Executive Director
Age 69
Appointed 1988
Elected Vice Chairman 1992

Experience
43 years with The Broken Hill Proprietary Company Limited, 9 years as Managing Director and 5 years as Chairman until May 1997.

Directorships
Chairman of Atlas Copco Australia Pty Limited.
Director of Amcor Limited and Australian Foundation Investment Co Limited.

DR Argus AO (Don)

FAIBF FCPA FAICD
Managing Director and Chief Executive Officer
Age 60
Appointed 1989

Experience
43 years in banking, appointed Managing Director and Chief Executive Officer in 1990. Previous executive positions include Head of Credit Bureau, General Manager Group Strategic Development and Chief Operating Officer.

Directorships
Chairman of National Australia Group Europe Limited.
Director of Clydesdale Bank PLC, National Irish Bank Limited, Northern Bank Limited, Yorkshire Bank PLC, Michigan National Corporation and Bank of New Zealand.
Director The Broken Hill Proprietary Company Limited.

CM Deeley (Michael)

MA DPhil (Oxon)
Independent Non-Executive Director
Age 68
Appointed 1992

Experience
27 years with ICI Australia Limited, 5 years as Managing Director and Chief Executive until 1992.
Member Principal Board Audit Committee.

Directorships
Chairman of North Limited and of Air Liquide Australia Limited.
National President of Greening Australia Limited.
Deputy Chairman of Parks Victoria.

DCK Allen AO (Charles)

MA MSc DIC FAICD
Independent Non-Executive Director
Age 62
Appointed 1992

Experience
21 years with Shell International.
Appointed Executive Director of Woodside Petroleum Limited in 1980 and Managing Director from 1982 to 1996. Member Principal Board Audit Committee.

Directorships
Chairman of National Australia Investment Capital Limited.
Chairman of Commonwealth Scientific and Industrial Research Organisation (CSIRO).
Director of Amcor Limited, Australian Gas Light Company and Air Liquide Australia Limited.

CM Walter (Catherine)

LLB (Hons) LLM MBA FAICD
Independent Non-Executive Director
Age 46
Appointed 1995

Experience
20 years as a solicitor, 8 years as a partner in the firm Clayton Utz, including a period as Managing Partner until 1994.
Member Principal Board Audit Committee.

Directorships
Director National Australia Financial Management Limited. Director of the Australian Stock Exchange Limited, Transport Accident Commission, Melbourne Business School Limited, Orica Limited and Victorian WorkCover Authority.

TP Park (Tom)

BSc MBA
Independent Non-Executive Director
Age 51
Appointed 1996

Experience
24 years in the food industry, 11 years as Managing Director of Kraft Foods Limited and current Executive Vice President Japan and Korea and Area Director – Australia and New Zealand.

GJ Kraehe (Graham)

BEc
Independent Non-Executive Director
Age 56
Appointed 1997

Experience
33 years in the wine, automotive and diversified manufacturing industries before being appointed Managing Director and Chief Executive Officer of Southcorp Limited in 1994.

ED Tweddell (Ed)

BSc MBBS (Hons) FRACGP FAICD
Independent Non-Executive Director
Age 57
Appointed 1998

Experience
22 years in the pharmaceutical and health care fields before being appointed Group Managing Director/Chief Executive Officer of FH Faulding & Co Limited in 1993.

Directorships
Chairman of Faulding Inc.

FJ Cicutto (Frank)

BCom FAIBF FCIBS
Executive Director and Chief Operating Officer
Age 47
Appointed 1998

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

Year in Review *by the Chairman and the Managing Director*

55% of operating revenue is generated outside Australia

The National's strategy of international diversification has delivered significant value to shareholders.

It is with great pleasure that we report to the Group's owners that 1997/98 was another successful year for National Australia Bank.

While producing another year of record profits in a demanding environment, the Group made significant progress in creating an international financial services organisation of world standing.

The Group's return on equity of 17.9% (before abnormals) is significantly higher than our cost of capital and further demonstrates the superior value that has been delivered to shareholders.

Profit after tax and before abnormals increased by 13.0% over the year to $2,511 million with improved results in all of the Group's major operating regions.

The last six consecutive years have each produced record increases in net profit after tax and before abnormals and over the last 10 years net profit has increased on average by 16% annually.

Through the year, the Group incurred abnormal costs totalling $497 million after tax, relating to the global restructuring of the organisation ($252 million after tax) and a change to a statistically based provisioning methodology for determining the doubtful debt charge ($245 million after tax). Given their size and nature, both charges have been classified as abnormal and will assist the Group in its transition to a global organisation.

Profit after abnormal items was $2,014 million, 9.4% lower than the previous year.

A key feature of this year's results has been the success the Group has achieved in diversifying its income streams across geographic and product lines.

Following the purchase of HomeSide in the United States in February this year, the Group now generates 54.8% of its revenues outside Australia and earned 40.3% of its operating income from non-interest sources in the year ended September 30, 1998.

This diversification has provided significant value for shareholders by reducing the Group's reliance on any single market or business. This attribute is particularly relevant in the current volatile economic environment where our spread of operations provides insurance against a deterioration in any one market, currency or business.

The Board has continued its policy of ensuring shareholders receive a strong return on their investment while the Group retains adequate funds for future growth. For the full year, the dividend payout ratio on pre-abnormal profits was 58.4%, translating to 102 cents per share fully franked, an 8.5% increase on the previous year's dividend of 94 cents.

While offshore expansion has been extremely successful in delivering shareholder wealth, it has increased the proportion of earnings outside Australia and reduced the capacity of the Group to maintain fully franked dividends in the future. As a result, in the year ahead, the Board expects that any interim dividend declared will be fully franked while the final dividend may be partially franked.

The level of franking for future dividends will depend on a number of factors including the proportion of profits in Australia and potential changes to the current dividend imputation system.

The Operating Environment

The financial services sector continues to undergo significant change through the globalisation of world economies. Countries are no longer insulated from world events, businesses must compete with a wide range of international companies and individuals are thinking and acting globally.

The financial services sector is at the forefront of these trends and successful companies must have a strategy that recognises and responds to these challenges.

Various financial services institutions already operate globally in products as diverse as credit cards, rural lending and mutual funds. Many more are on the verge of international expansion.

In this environment, scale will be a driver of future returns, a fact that has already been recognised by many international financial institutions.

In the last year, financial services rationalisation continued in the United States, Switzerland, Canada and Germany, while the financial crisis in Asia could accelerate consolidation there. Australia has also experienced a further round of mergers within the financial services sector, whilst competition has increased dramatically.

In a global marketplace, the National has a proven global strategy

Achieving local reach with international scale has been key to the National's success, particularly in an environment where customers are looking for superior service and internationally competitive products.

Pictured is David Cathie, Divisional Manager England, outside Clydesdale Bank's Piccadilly Circus branch and business banking centre.

Diversification reduces risk

With 40% of operating income generated from non-interest sources, the National's broad income base provides greater consistency in shareholder returns.

All of the Group's markets also experienced significant uncertainty over the year, a direct result of the Asian financial meltdown, bad debt burdens in Japanese banks, debt moratoriums in Russia and the weaker financial position of other emerging markets. These events have placed pressure on world economic growth and have impacted the earnings of many financial institutions.

While the National is not immune from these forces, its rigorous and conservative risk management approach and diversified income streams place the Group in a strong position to deal with these uncertainties.

The National's total exposure to Asia is modest, representing 5.6% of total assets. Exposures are predominantly interbank lending, trade finance and lending to the Group's relationship customers operating in the region.

As a result, the Group's Asian portfolio continues to perform satisfactorily. With regard to other emerging markets, the National has no direct exposure to Russia and small exposures to Latin America and Eastern Europe, all of which are performing.

The National's Strategy

The National's vision is to become the *world's leading financial services company.* Achieving this vision will require strategies that deliver:

- Returns for shareholders commensurate with the best financial services companies in the world;
- Superior tailored financial solutions for customers; and
- A preferred working environment for staff.

The National is positioned to achieve this vision with a clear and focused strategy for the markets, products and capabilities in which the Group needs to excel.

The National's core markets are Australia, New Zealand, the United Kingdom, Ireland, the United States and Asia. Within each, the Group is actively building its financial services capabilities while strengthening its position in traditional banking.

As an example, in the year the Group acquired County Investment Management in Australia and HomeSide, Inc. in the United States. These acquisitions have expanded the National's operations in Australia and the United States while enhancing its capabilities in funds management and mortgage servicing, respectively.

In order to better align the Group's services to customer needs, further changes in the Group's distribution network were made over the year.

Changed customer preferences have shifted the balance of customer transactions from branch-based activity towards electronic mediums such as the telephone and the Internet. Accordingly, the Group is investing to improve electronic delivery while ensuring the branch network remains efficient and cost effective.

There were several advancements in electronic banking across the Group:

- Active Internet sites now operate in Australia, Bank of New Zealand, Michigan National, HomeSide, County Investment Management and Asia.
- Online banking has been widely accepted in Australia with over 20,000 businesses using National Online.
- Over one million customers use telephone banking in Australia.
- A direct banking operation selling personal loans and mortgages over the phone was launched in the United Kingdom.
- Michigan National launched Web Banking to complement its advanced telephone banking service.

Changes in the Group's physical outlets also progressed in the year.

In Australia, traditional branches are being reconfigured to focus on processing paper-based transactions and assist customers utilise new, more convenient and efficient distribution channels for transactions such as payments and cash withdrawals.

Branches will continue to write standard products but will be up-skilled to identify and refer customers to personal bankers or other financial service specialists for more complex products. As part of this change, the majority of administrative functions will be transferred from branches to centralised processing offices.

A similar reconfiguration has already taken place in New Zealand and the benefits in terms of productivity and customer service are now being realised.

The National's Business Model

In 1996/97 the National introduced a new business operating model to further enhance its customer focus and improve efficiency through international scale. Substantial progress has been made in implementing this model with a new organisational structure and key transition plans in place.

Implementing this model involves fundamental changes in the way the National is managed, moving away from a traditional business unit and country orientation to a global structure.

Operating across international boundaries realises economies of scale not possible from the Group's current structure while the removal of duplication and streamlining of processes will lead to greater efficiency.

HomeSide

On February 10, 1998, the National acquired HomeSide, Inc., one of the largest mortgage servicers in the United States. Given 35% of the Group's total lending portfolio is in housing lending, considerable value has been identified from the application of HomeSide's proven capabilities and systems.

HomeSide will continue to build its profitable business in the United States while introducing its proprietary software and management practices across the Group – starting with Australia. In the process, HomeSide will create the first of the National's global product specialists.

The Board

The Directors were pleased to announce the appointment of Dr Ed Tweddell and Mr Frank Cicutto to the Board this year.

Dr Tweddell is the Managing Director of FH Faulding & Co Limited and brings a wealth of international experience to the National from an industry that has similar global influences to the financial services industry.

The Bank of New Zealand is the major banker to Skyline Enterprises Limited, owner of the Skyline Gondola Restaurant and Luge overlooking Queenstown and Lake Wakatipu in the South Island of New Zealand.

Frank Cicutto has worked with the National since 1967. Mr Cicutto's depth of banking experience, working in some of the world's major financial centres, will add further to your Board's strength.

Consistent with the Group's Constitution, Mr Peter Cottrell and Sir Bruce Watson retired from the Board during the year, both having reached the age of 70. Both Mr Cottrell and Sir Bruce have been highly active Board members and have made outstanding contributions over many years. On behalf of all shareholders we would like to thank them sincerely for their efforts.

To ensure your Board maintains the highest possible standards, a performance measurement framework was introduced during the year.

The framework maps the Board's key functions and goals and establishes criteria to evaluate the Board's performance. Your Board sees this initiative adding to the Group's high corporate governance standards.

Over $400 billion in assets under administration

The National has been steadily building its financial services activities and these now account for a significant proportion of the Group's business.

A strong management team is at the heart of the Group's success

The Leadership Team

One of the National's strengths is its executive leadership team. The team has a strong financial services background and broad international experience consistent with the needs of an international financial services group.

On average, members of the leadership team have:

- Over 16 years experience working with National Australia Bank;
- Over 22 years experience in the financial services industry; and
- Almost 10 years experience working outside Australia.

The Group's executives are supported by a highly skilled senior management team, sourced from both within and outside the organisation. This balance further ensures the Group is well placed for the changing financial services environment.

Development of the Group's skill base is underpinned by a succession planning model which identifies talent early and ensures individuals have the necessary skills and experience to progress to the Group's senior ranks.

As part of the succession planning process, Frank Cicutto was elevated to the position of Chief Operating Officer in July this year.

People

Staff have responded to the need for change across the organisation while maintaining their focus on growing the business, and this has to be admired. This support from our people has been fundamental to the ongoing success of the National.

The National places a high priority on improving the competency and skill of its employees. Through the year, the Group extended its team-based leadership model to encourage ownership, involvement and creative contribution of all staff. This model is now widely used across the Group and will be an important tool as we transition to a global operating model.

Performance feedback, involving the appraisal of individuals by their peers and subordinates in addition to their managers, was also extended through the year, with 3,000 employees now evaluated under this model.

The Year Ahead

The Group's operating environment is expected to be heavily influenced by the extent and timing of a slowdown in world growth in the next year.

Prospects for non-Japan Asia continue to deteriorate and a strong recovery is not expected across the region in the year ahead. The Asian slowdown has also had a global impact with world growth expected to moderate.

In this environment, credit growth is likely to slow and competition will remain intense across all of the Group's markets.

Despite these trends, earnings growth in the year ahead will be supported by:

- Proven risk management capabilities, strong cash generation and sound capitalisation.
- International diversification, which will minimise the earnings impact from a deterioration in any one of the Group's markets.
- Restructuring programs commenced in 1997/98, which will improve efficiency.
- Over $400 billion in assets under administration, providing substantial opportunities to grow the National's non-interest income streams.

Accordingly, your Board is confident the National will continue to deliver sound returns to its owners in the year ahead.

MR Rayner
Chairman

DR Argus
Managing Director

Human Resources (full-time equivalents)

	As at September 30, 1998	As at September 30, 1997	Change %
Australia	21,124	22,323	(5.4)
Europe	13,755	14,926	(7.8)
New Zealand	4,461	5,124	(12.9)
United States	6,669	3,775	76.7
Asia	291	274	6.2
Total	46,300	46,422	(0.3)

Group Leadership Team

Managing Director and Chief Executive Officer
Don Argus AO

Executive Director and Chief Operating Officer
Frank Cicutto

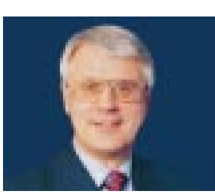
Executive General Manager Products and Services
Ross Pinney

Executive General Manager Wholesale Financial Services
Michael Soden

Executive General Manager Business and Personal Financial Services
Glenn Barnes

Chief Executive Officer Asia/Pacific
Gordon Wheaton

Chief Executive Officer Michigan National Corporation
Doug Ebert



Chief Executive Officer National Australia Group Europe
Grahame Savage

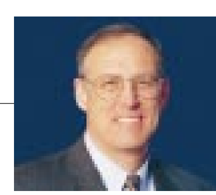
Chief Financial Officer
Bob Prowse

Executive General Manager Group Strategic Development
Roland Matrenza

Chief Information Officer
Michael Coomer

Executive General Manager Risk Management
Bob Miller

Executive General Manager Group Human Resources
Grant Steel



Chairman and Chief Executive Officer HomeSide, Inc.
Joe Pickett

Business and Personal Financial Services

The National has a retail customer base of 7.4 million

Business and Personal Financial Services represents the National's retailing functions, the core of the Group's operations and primary interface with its customers.

Under the National's business model, Business and Personal Financial Services has embraced the concept of retailing providing an integrated solution for customers' total financial services needs.

Twelve months' research in major operating regions of the Group has led to the decision to deliver integrated retailing through six new business units aimed at meeting the needs of each segment. It has also produced a new global direct business which will be progressively built and targeted to the specific needs of the primary customer segments.

These businesses will develop competitive packages of products, service, and channel offerings, highly attractive to segment customers. Packages will be delivered through segment-specific global business systems, tailored to the distinctive needs of the customers, and the competitive and strategic forces of individual markets.

This model provides a more focused investment strategy that delivers optimal returns to all stakeholders.

As Business and Personal Financial Services implements the retailing concept across the Group, it will further develop the regional banking and financial services brands that have been the building blocks of the National's success. The Group is confident that the innovations introduced will enhance our ability to satisfy customer and community financial services needs through the 'tailoring' skills of our teams in our regional businesses.

The businesses include:

Custom Business Financial Services
This is the Group's largest revenue contributor. This business unit provides tailored solutions to meet the financial needs of sophisticated medium to large business customers. Significant opportunities exist to expand this business, particularly in our European and US franchises.

Packaged Business Financial Services
This business unit will service business customers with non-complex needs. It will provide competitive packaged solutions to these customers with an emphasis on speed and simplicity of process.

Rural Financial Services
Our successful model of servicing rural businesses via teams of specialists will be continued and extended through this business segment.

Private Financial Services
Private Financial Services has responsibility for satisfying the sophisticated financial needs of high net worth clients. While the Group has a large number of these clients, it has until recently lacked a dedicated sales and service platform.

Premium Financial Services
Premium Financial Services represents consumers with a strong interest and capacity to build wealth. This business unit will provide tailored financial service solutions to assist clients accumulate, protect and manage their wealth.

Retail Financial Services
This business unit will specialise in providing efficient and effective financial services to segments requiring straightforward solutions.

In addition to these segments, Business and Personal Financial Services also includes **Direct Retailing and Channel Management.** This unit has responsibility for developing the Group's on line business and optimising the network around a new operating design: a distribution model that combines both physical and electronic delivery.

Distribution Network as at September 30, 1998

	Australia	Clydesdale	Northern	Yorkshire	National Irish	Michigan	BNZ	Total
Branches*	903	274	98	255	61	193	197	1,981
Business Centres**	219	42	11	68	6	0	22	368
Eftpos Terminals	71,828	4,500	1,500	2,000	350	13,065	15,000	108,243
ATMs	1,065	384	181	412	39	294	203	2,578

*Including: Customer service centres, agencies and premium banking suites. **Including: Business banking centres and stand-alone business banking suites.

Business banking is a core strength

The National's business banking platform has been extremely successful in building the Group's portfolio of small and medium business customers.

Pictured in front of the Tyne Bridge are Yorkshire Bank's Gary Lumby (right) and customer Joe Daragh of Mandale Properties in Newcastle upon Tyne, England. Newcastle is an important business centre for both Yorkshire and Clydesdale Banks.

Global Products and Services

Products and Services will make globalisation at the National a reality

Global Products and Services manages the development and manufacture of the National's products and services as well as providing the supporting infrastructure to serve the Group's customer base.

The creation of this division was motivated by the need to achieve greater focus and specialisation across the Group's key support functions. To realise this goal, Global Products and Services has been charged with the task of significantly improving the overall efficiency of the Group through process improvement, reduction of duplication and the realisation of economies of scale.

In the process, Global Products and Services will make globalisation at the National a reality.

Teams of product specialists have now been established to manage the end to end processing of particular products and product groups on a global basis. Teams for cards, payments, asset finance, and international trade finance are now in place and plans are under way to further develop these businesses.

Other products not covered by the specialists, such as personal lending, will also be managed globally.

Payment services is a key function conducted by Global Products and Services and is already experiencing significant growth. In Australia, the National is the leading merchant acquirer with 65,000 merchant terminals acquiring 40% of all debit and credit transactions.

During the year, the Group pushed ahead with a number of electronic payment initiatives in Australia, each creating new sources of income for the Group. Initiatives included:

- Launch of an on line system for processing private health insurance claims at point of service called HICAPS. Health funds representing almost 80 per cent of all Australians with private health cover have now joined HICAPS, and there has been strong take-up by doctors and other service providers.
- Creation of the BPay electronic bill payment service along with eight other banks. By October 1998 over 400 utilities and other organisations had become BPay billers. About 300 million household bills are issued in Australia annually, giving BPay considerable growth potential.
- Introduction of mobile Eftpos terminals in taxis.

Cards are regarded as a core product by customers, with card-based transactions rapidly overtaking cheques as the principal payments mechanism. Globally, the Group has issued over 3.4 million credit cards and nearly 3.9 million debit cards. Customers appreciate the convenience, security and low cost of card transactions, and further strong growth in card-based transactions is expected.

The National's asset financing activities were particularly strong over the year. In the Group's core markets, around two thirds of businesses use lease financing to conserve capital and improve liquidity. The National has a proven capability in asset financing, including the leasing of equipment and motor vehicles. At balance date the Group's leasing assets amounted to $9.1 billion. The Group also managed 60,000 vehicles on behalf of lessees.

Global Products and Services is also responsible for a number of the Group's key support functions, including:

- Specialist processing centres which operate across the Group. Initially established to centralise back-office activities, the challenge for these centres will be to further improve efficiency through new technologies and process improvement.
- Dedicated teams to handle the collection and recovery of delinquent loans across the Group. A state of the art collections and recovery centre in Leeds is being used by all of the Group's European operations. A similar centre based on this model will be established in Australia.
- Strategic sourcing (or purchasing) and corporate real estate are two areas where significant savings can be achieved from a more integrated approach.

A proven risk management capability

The consistency of the National's earnings in part reflects the strong management of credit, market and operational risks.

Pictured are Ann Rice, Client Relationship Manager at National Irish Bank, with Frank O'Kane (left) and Joe Morgan who are directors of Mercury Engineering Ltd. Mercury Engineering is Ireland's largest engineering services construction company and the sole provider of mechanical, electrical and fire protection services for the Intel wafer fabrication plant in Leixlip, near Dublin.

Global Information Technology

The National's data centres are among the most efficient in the world

External benchmarking has demonstrated that our European and Asia/Pacific data centres are among the most cost effective in the world.

Under the National's business model, Global Information Technology creates shareholder value by enhancing the return from the Group's information technology resources. It does this in three main ways.

- Exploiting economies of global scale by consolidating data processing operations into larger regional centres. The Melbourne and Glasgow data centres are examples of this process.
- Achieving faster, lower cost innovation by building on the knowledge and experience among the 2,000 information technology specialists working within the Group. The Group-wide diffusion of the proprietary systems developed by HomeSide, Inc. is a case in point.
- Managing strategic partnerships with external organisations, enabling the outsourcing of non-core IT operations and directing resources to value-adding activities. The outsourcing of the Group's United Kingdom communications infrastructure to British Telecom is a good example. The result has been improved management information, better service and lower costs.

The scale of the Group's information technology function means that even small gains in per-unit processing efficiency translate into large benefits. As the Group processes over 10.8 million transactions per day globally – including 1.4 million ATM transactions, 1.8 million Eftpos transactions, and 250,000 telephone transactions – scope for improvement is significant.

External benchmarking shows that our Asia/Pacific and European data centres are among the most cost effective in the world. All of the Group's data centres match or surpass industry benchmarks for unit cost improvements.

During the year, data centre consolidation continued. In August, the Bank of New Zealand migrated its live production systems to the Asia/Pacific data centre in Melbourne. The Group now conducts all of its processing in Melbourne, from where it also monitors and supports its ATM network. In the same month, Seoul and Taipei branches transferred their account processing to Melbourne.

Processing loads in the Belfast and Dublin data centres were shifted to Glasgow without disruption to the business.

Upgrading the Group's information technology capacity is a never-ending task. However, high productivity in systems development makes the task more manageable. For example, our European applications development productivity has increased 30% over the past three years.

Other major IT initiatives developed in the year:

- A comprehensive data warehouse was substantially completed for the Asia/Pacific region. The data warehouse stores and analyses vast volumes of customer and related data, generating high quality management information for purposes such as behavioural monitoring, risk management, portfolio analysis, and competitor responses.
- Australian Financial Services began an Internet banking pilot. Based on a Java platform and using state of the art security, the system will enable customers to review their accounts, pay bills and transfer funds from home.
- The European business units introduced telephone banking, utilising interactive voice response systems and traditional operator calls.
- Michigan National converted its operating system to a new version of the Alltell operating platform within time and budget.
- HomeSide accessed new markets through the Internet via links to the Microsoft Home Advisor and Quicken Mortgage web sites.

The Internet is now an important distribution medium for the Group

The Internet is a distribution medium now widely used throughout the Group. In the United States, customers can access a variety of home loan information from HomeSide's extensive web site.

Key Business Units

Australian Financial Services

Australian Financial Services is the largest of the National's business units covering activities such as traditional banking, funds management, trustee, custody and leasing services.

Economic conditions in Australia were generally favourable through the year although competition across the financial services industry further intensified. As a result, profit increased 8.2% (before abnormals) over the previous year. Underlying profit (before tax and doubtful debt provisions) increased 10.6% to $2,326 million.

The result included an increase in the amount charged to provide for doubtful debts to $207 million. The increase reflects the pro-active approach the Group has taken to writing off bad debts and strong asset growth.

In its mainstream banking operations, the National maintained or improved its market share in most key sectors.

Total loans and acceptances increased 12.7% to $99.3 billion over the year. Housing lending was up 13.0% to $37.8 billion. Credit card outstandings grew by 14.1% to $2.1 billion. The National reinforced its position as the country's leading business lender, with particularly strong growth in the medium/emerging business sector. Good gains were also made in debtor finance (factoring), lease finance, and international trade.

The 22.2% increase in non-interest income reflected strong growth in the Group's other financial services activities and higher income from lending and transaction fees. All of the Group's financial service activities continue to expand at double digit growth rates, increasing the product penetration of the customer base.

A number of initiatives were commenced and/or completed through the year to build on the Group's strong position in Australia. These included:

- Establishment of a private banking division. Twelve private banking suites are now operating.
- Development of a sophisticated information-based system that identifies customers with specific financial service needs. Called *National Leads*, the system provides high quality data and strong customer calling opportunities.
- Establishment of agribusiness development units in five Australian capital cities to provide specialist support for the Group's rural finance teams.

Further customer education initiatives and changes in fee structures were introduced during the year to assist customers utilise low-cost electronic banking facilities where appropriate. These programs have reduced the proportion of branch-based transactions from 19% to 14% of all transactions and increased the number of subscribers using telephone banking to over one million. These developments will yield ongoing savings.

A new distribution framework is being introduced across the Australian retail network. Called the Area Integrated Market (AIM) this initiative involves reconfiguring the branch network to improve efficiency and ensure it is better aligned to customer needs.

National Financial Management enjoyed a strong year, lifting its after-tax profit by 29% to $53 million. Higher sales and well contained expenses were the main factors in this result. Total sales grew by 69% to $1.2 billion. Total retail funds under management were up from $4.4 billion to $5.6 billion over the year.

National Asset Management recorded a strong year, attracting over $600 million in new wholesale funds. Performance of funds has also been sound in a highly volatile market. The business was recognised as the top Fixed Interest Manager over the last one and two years while the Balanced, Australian Equity and Property funds also performed within the top two quartiles.

In October 1997 **County Investment Management** was acquired. The acquisition was well received by County clients and staff with the business continuing to expand. At September 30, 1998 County's funds under management amounted to $10.5 billion compared with $9.2 billion a year earlier.

County's asset management style, and innovative approach to product development and marketing have boosted the National's capabilities in an important and growing market.

National Australia Custodian Services achieved further sound growth continuing to pick up important mandates through the year. At balance date, Custodian Services had $100 billion in assets under custody, making it the largest securities processor in Australia.

Healthy asset growth and improved profitability characterised the year for **National Australia Trustees.** Strong performances by the Common Fund and Corporate Trusts were key factors in this result.

National

COUNTY
Investment Management

Clydesdale Bank

Although the Scottish economy began to slow, Clydesdale achieved a good result, lifting after-tax profit before abnormals for the year by 36% to $286 million. In local currency profit increased 13% to £112 million. The result reflected a 36.8% gain in lending volumes, a 38.6% improvement in other operating income, and firm cost control.

Gains were made across most areas of the Bank's operations.

Business banking grew strongly over the year, helped by a new seasonal loan product that proved popular with customers. Three new business banking centres were opened during the year and new sites were identified in a number of English cities. The Bank's asset finance subsidiary also performed well, continuing to increase market share.

On the personal banking side, new fixed rate and investment housing loan products were introduced with both proving very successful in picking up new customers. Deposit growth was also robust with the instant access savings account attracting over £700 million in new deposits. The Bank also offered a special 'principal account' to win substantial new high net worth business.

Reconfiguration of the branch network continued through the year, some of the initiatives including:

- Introduction of full Saturday trading in selected locations.
- Further removal of administrative processes from branches into centralised processing offices.
- Extension and upgrade of Clydesdale's ATM network.

Clydesdale Bank

Northern Bank

Northern Bank increased after-tax profit before abnormals by 42% to $169 million this year. In local currency the result was up 18% to £66 million, a record profit for the Bank.

Generally favourable business conditions in Northern Ireland assisted the Bank's strong performance. The Good Friday Agreement designed to bring peace in Northern Ireland along with a proposed £315 million Government spending package has buoyed business confidence.

Home loan volumes increased 15%, making a major contribution to revenue growth. The Bank became the fastest growing mortgage finance provider in the Province, leveraging off the 'tailored home loan' concept first developed in Australia.

Northern's financial service activities were particularly successful during the year:

- Insurance and executor and trustee subsidiaries grew profits in excess of 19%.
- Northern Bank Offshore Financial Services won the 1998 Financial Times 'Best Offshore Co' and 'Best Offshore Product' awards.
- A significant increase in National Australia Life products sold.

Progress continued on developing business banking centres, with 20% of the Bank's larger business now managed through these centres. Mobile bankers were extended to agricultural customers over the period with six teams now covering the province. Further changes in retail distribution were also completed including the appointment of area sales and service managers.

NORTHERN BANK

Yorkshire Bank

With after-tax profit up 52% to $344 million (before abnormals), Yorkshire Bank experienced a strong year. The result was helped by a 42% reduction in the charge for doubtful debts. In local currency, the Bank's operating profit increased 26% to £135 million.

Yorkshire completed a major restructuring program splitting branches between personal and business customer segments. In the personal network, 19 branches were merged or closed, three were reconfigured, and two sites were opened in retail centres. Network changes were also supported by the removal of many back office tasks from branches, enabling staff to focus on customer service.

Promotion of more efficient delivery channels continued in the year with the number of customers using telephone banking growing by over 10,000 per month. A new direct sales operation also commenced selling personal loans and mortgages. Over 90% of business was generated from new customers. Mortgage lending grew 50.6%, assisted by a new flexible payment, fixed-rate mortgage and the introduction of mobile managers in the Midlands area.

Business financial services has seen strong improvement with asset finance delivering 40% growth, the fifth successive year of significant growth. Business banking is now managed from 15 business banking centres, including a new office in Birmingham, one of the most important financial centres outside London.

The Bank's contract hire subsidiary, Eden Vehicle Rentals, also enjoyed another year of strong growth with the business increasing by 11.5% over the year.

YorkshireBank

National Australia Life

National Australia Life made considerable progress in the year improving the product penetration of the Group's United Kingdom customer base. Profit after tax was $5 million for the year, a sound result in only its third year of operation.

Overall sales were up 8% in the year, with premium income increasing by 36%. This strong result was driven by increased sales from the personal banker network (up 20%) as well as a concentration on higher value sales. Sales of personal equity plans were particularly strong as were resales to existing customers, demonstrating the strength of providing customers with a more complete package of financial solutions.

At the end of the year, funds under management stood at £336 million, a 70% increase on the prior year despite the increased volatility in financial markets.

In the customer service centre productivity per employee increased by 26.6%, continuing the focus on process improvement.

National Irish Bank

National Irish Bank earned an after-tax profit (before abnormals) of $33 million for the year, unchanged over the previous year. In local currency, the Bank's profit decreased 9% to IR£15 million.

The decline in profit in local currency reflects an unusually low level of provisions in the previous year and increased expenses.

Assisted by the strong Irish economy, National Irish made solid progress over the year. Mortgage volumes grew by 42.6% while business lending increased 41%. The opening of a business banking centre in Limerick brought the number of these specialised centres to six. The Bank's Treasury also enjoyed a record year.

Continuing to focus on customer needs, the Bank expanded its mobile banker network, increased the number of ATMs, increased the usage of its 24 hour telephone banking service and opened a branch at Blackrock, Co. Dublin.

During the year, National Irish was the subject of investigations arising from allegations against certain parts of its operations. While involving unfavourable publicity, none of these investigations demonstrated widespread or systematic misconduct, and the Bank will continue to work constructively with the authorities in order to resolve these matters.

National Irish is well prepared to operate within the European economic and monetary union and is prepared to offer all its customers the option of transacting in either Euros or Irish pounds on January 1, 1999.

Michigan National

Michigan National reported an after-tax profit of $226 million (before abnormals) for the year to September, an increase of 1.8% on the previous year's figure. In local currency, after-tax profit decreased 14% to US$146 million (before abnormals).

The Bank increased its share of total lending from 6.0% to 6.4% over the year to June 30, 1998, reflecting growth in commercial real estate and small business sectors. It also experienced a healthy increase in deposits, growing market share from 5.7% to 6.1% over the same period.

Over the year, Michigan National introduced a program to strengthen its position into the next millennium. This program included:

- Focusing effort and resources on the most valuable elements of the business.
- Realigning the business to selected customer segments in high growth areas.
- Reviewing the product and services mix.
- Exiting non-core businesses.

Michigan National introduced a Relationship Rewards program, launched Equi:Money VISA (a secured credit card), expanded the distribution of its Capital Advantage product, increased its insurance product offerings, and launched Web Banking and Web bill payment facilities.

Through the year, the Bank upgraded its core computing platform providing a more efficient system with higher functionality.

National Australia Life

National Irish Bank

Michigan National

HomeSide, Inc.

The acquisition of the Florida-based HomeSide was completed on February 10, 1998. In the period since acquisition, HomeSide earned an after-tax profit of $92 million, or US$58 million.

HomeSide is the sixth largest mortgage servicer and ninth largest mortgage originator in the United States. It services more than 1.4 million households in a US$115.8 billion loan portfolio as of September 30, 1998.

During the year, HomeSide acquired the mortgage servicing operations and US$16.6 billion loan servicing portfolio of Banc One Mortgage Corporation, and concluded a five-year preferred partner arrangement to purchase the major proportion of its new mortgages.

Low long-term interest rates in the United States have encouraged borrowers to refinance their mortgage loans, increasing the run-off in the servicing portfolio. However, HomeSide's ability to quickly up-scale its operations and its proven hedging techniques have ensured that these developments have not adversely impacted profitability.

HomeSide's value to the Group is in its superior systems and management which have ranked it as one of the most efficient mortgage servicers in the US. With a mortgage portfolio of $57.9 billion, the National believes substantial benefits can be obtained by applying HomeSide's expertise across the Group.

Considerable progress has already been made in identifying how HomeSide's systems can be applied in Australia.

Bank of New Zealand

During the year, the New Zealand economy slowed, and by year's end was in recession.

The Bank of New Zealand's results were affected by these conditions, with profit before abnormals decreasing 5.7% to $280 million. In local currency, the Bank reported a profit of NZ$324 million, a 3.0% decrease. Comparisons with the 1996/97 result were also distorted by a number of one-off factors. Excluding these, underlying profit (before providing for doubtful debts and income tax) increased by 8%.

The area of greatest growth continued to be the Bank's financial services group. Funds under management rose by 17.6% to $1.4 billion, mainly as a result of increases in wholesale funds under management.

In line with the new business model, the Bank was able to gain greater leverage from the Group's scale through the integration of some of its customer service activities into Australia. As part of this program, Bank of New Zealand's main data processing functions were transferred to Melbourne during the year.

The Bank continued to modify its distribution network to ensure it is better aligned to customer needs. A good example of this change was the opening of a new sales-only outlet in Auckland featuring lounge style chairs, music, coffee and Internet access.

The Bank of New Zealand also moved to strengthen its position in Auckland with the relocation of the Bank's head office to that centre.

National Australia Bank Asia

A measured and prudent approach has enabled National Australia Bank Asia to make sound returns in Asia despite the financial instability gripping the region.

The profit contribution before abnormals from the Group's Asian business increased by 64% to $46 million. Underlying profit was up sharply with revenue growing approximately three times faster than costs. Wider margins and an increased demand for debt were important factors in this improvement, as were the Group's foreign exchange and money market trading activities.

The prevailing conditions were used to establish business relationships with major, creditworthy Asian corporations, and with a number of leading financial institutions in the region. As a result, our Group became increasingly involved in debt origination and structuring.

On the consumer side, development of the mortgage business has been slow. In response to prevailing conditions, the emphasis shifted to deposit building, utilising the Group's wealth management strategy.

Specific provisions for lending losses in Asia remain low, being almost totally confined to corporate lending in Thailand and Indonesia. Losses in consumer lending have been negligible.

The Group will continue to actively manage its position within Asia with a focus on quality and customer relationships. Reduced credit limits will limit business volumes and revenue growth in Asia in the immediate future, but this is considered a prudent approach in the current environment.

HomeSide INC.

Bank of New Zealand

National Australia Bank Asia

Global Wholesale Financial Services

Global Wholesale Financial Services is responsible for the Group's 1,500 major institutional relationships worldwide, incorporating all of our capital markets, corporate finance, foreign exchange, money market, financial risk management, and project and structured finance activities. It operates across five regions and 21 financial centres. Its financial performance is included in the reported results of the Group's regional business units.

After its establishment in October 1997, Global Wholesale Financial Services concentrated on enhancing its return on equity, upgrading the overall efficiency of its operations, and deepening relationships with corporate and institutional clients. The introduction of a global market risk system resulted in a more dynamic approach to apportioning capital between the Group's various market activities. A model to determine the return on equity and risk-adjusted return on capital for each client was also developed.

Global Wholesale completed global project and structured financings totalling $10 billion during the year.

Over the year, various industry surveys found our Group to be pre-eminent in:

- Project and structured finance in Australia.
- A$ trading in the United Kingdom.
- A$ swaps globally.
- Interest rate and currency risk management products in Australia.
- Foreign exchange in Australia.
- Relationship management in Australia and New Zealand.

Global scale will be a key driver of future shareholder returns

Creating economies of scale from our international operations will provide a competitive advantage in the years ahead.

Pictured are National Irish Bank's Martin Mulligan (right) with Gerry Purcell from Purcell Brothers Ltd, one of the world's leading livestock exporters to the Middle East. In the background is Dublin's International Financial Services Centre on the bank of the River Liffey.

Financial Information and Analysis

For the Year Ended September 30, 1998

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Introduction

National Australia Bank Limited (the Group) ranks among the world's 40 largest banks in terms of shareholders' equity. At September 30, 1998 the Group had total assets of $251.7 billion.

The Group began in Melbourne in 1858 as The National Bank of Australasia. In its current form, the Group is the result of a merger in 1981 of The National Bank of Australasia Limited and The Commercial Banking Company of Sydney Limited (established in Sydney in 1834).

From its Australian base, the Group has expanded overseas during the past decade and it now conducts full banking and financial service operations in five countries. The overseas expansion has diversified the Group's income streams and asset base.

At September 30, 1998 49.3% of the Group's total assets were domiciled in Australia. The balance was located in Europe (25.4%), United States (12.1%), New Zealand (9.2%) and Asia (4.0%).

At September 30, 1998 the Group had 50,973 full time and part time employees worldwide (equivalent to 46,300 full time positions).

The National's Business Model

The Group introduced a new business structure in April 1998, consisting of a number of initiatives, which are designed to increase the Group's progression towards realising its goal of becoming a leading international financial services group.

The Group's new business operating structure has four key elements:

1. A series of customer focused retailers, dedicated to meeting customers' needs with a range of products sourced from both inside and outside the organisation.

2. Shared customer service operations centralising the common business unit functions such as technology, operations, processing and telephone banking.

3. Product specialists manufacturing products at the lowest possible cost. HomeSide, Inc., based in Florida and acquired in February 1998, is an example of an international product specialist.

4. A streamlined corporate office focused on Group strategy, policy and corporate governance.

Introduction of the National's Business Model has resulted in the need to restructure existing operations across the Group. An abnormal charge of $380 million ($252 million after tax) relating to restructuring costs was taken to account in the Group's 1998 results. Implementation of the model will continue over the next 12 to 18 months.

Australia

The Australian financial system principally consists of four major banks, each with national operations and large branch networks. A number of smaller regional banks also operate in Australia, which are primarily focused on State markets. Most Australian banks including the regional banks are publicly listed and owned by large numbers of private shareholders.

Mutual societies were also a major force in the financial system, many of whom have now demutualised and have widened their range of products and services from insurance, investments and superannuation to compete in the banking industry's traditional markets.

Competition also comes from numerous other non-bank financial intermediaries, including investment/merchant banks, specialist retail fund managers, building societies, credit unions, mortgage originators and finance companies.

In recent years the Group's performance in Australia has seen it emerge as Australia's largest bank in terms of assets. At August, 1998 it held 19.1% of all commercial banking assets in Australia, according to the *Reserve Bank of Australia Bulletin.*

The Group's Australian business (the National) offers a full banking service and selected financial services across personal, business, rural and wholesale markets.

It provides service through 1,122 outlets with a staff of 23,532 (or 21,124 full time equivalent positions). The National is reconfiguring its distribution network as part of a steady shift in transactional activity from branches to alternative distribution channels. Customer demand for these alternatives has led to growth in the number of Automatic Teller Machines (ATMs) and terminals providing electronic funds transfer at point of sale (EFTPOS). The supply of information and services over the telephone has also grown dramatically in the past four years.

The National has a large retail customer base, with around three million customers.

It has direct access to the Australian payments system, allowing it to clear cheques and other instruments for its customers. The National also acts as an agent for other licensed banks and non-bank financial institutions.

Core retail banking services include savings and cheque accounts, passbook accounts, term deposits, credit cards, personal loans, housing loans (for owner occupiers and investors) and lines of credit.

Competition between banks and non-banks is strong, particularly in the housing finance market with a number of product specialists entering the market and competing on price.

Competition from non-banks is also increasing in the credit card market. The National issues MasterCard and Visa card. It also issues Bankcard in conjunction with other major Australian banks for use in Australia and New Zealand. All credit cards can be used to access the National's electronic banking network.

Financial services have become an integral feature of the National's retail market activity. The shift towards financial services began over a decade ago with the establishment of a wholly owned subsidiary, National Australia Financial Management Limited (NFM), to provide personal financial planning, life and disability insurance, superannuation and a range of managed investment funds. The range of financial services was widened in 1989 with the establishment of National Australia Trustees Limited to provide personal trustee services, including wills, power of attorney, and personal asset care and management services.

The sale and distribution of financial services has been progressively integrated with the National's distribution network. Customers are now managed on the basis of segments rather than which product they select or their geographic location.

NFM supports this focus by specialising on the manufacture and service of financial products. It functions alongside National Australia Asset Management Limited (NAAM), which is a wholly owned funds management subsidiary. At September 30, 1998 NAAM's funds under management totalled $6.6 billion.

On October 1, 1997, the National acquired the investment management company County Investment Management Limited (CIM). At September 30, 1998, CIM had $10.5 billion of funds under management. The investment activities of NAAM and CIM remain largely unchanged and operate independently.

The National is a substantial provider of business and rural financial services in Australia. The National's strong position in business markets is the result of carefully targeted initiatives over a number of years. These have included the development of a specialised network of 219 business centres – known as Business Banking Centres and Business Banking Suites.

Services to business customers include interest bearing cheque accounts, deposit accounts, payment facilities and the provision of finance in the form of loans, advances, bill facilities, invoice discounting and leasing. Business banking customers can also select from treasury services, such as foreign exchange and interest rate risk management products.

Other business banking facilities include fleet vehicle leasing, equity finance, nominee and custodian services, corporate trustee services (through National Australia Trustees Limited), life insurance and investment products.

International banking services have been a core part of the National's service to business customers for many decades. The National has an international presence through offshore branches and representative offices in London, New York and 11 major cities in Asia. The primary function of these offices is to provide trade finance and treasury services to the Group's customers.

The National also maintains correspondent banking relationships with approximately 3,000 banks. International services include lending, trade finance, foreign exchange dealing, the provision of credit and liquidity enhancement facilities to bond issuers and other third party borrowers, acceptance of foreign currency deposits, and guarantee and documentary credit business.

Domestic and international money market and foreign exchange operations are conducted through Treasury Divisions, which also manage the National's day to day funding. A global, 24 hour a day dealing capability is maintained through dealing centres in Melbourne, Sydney, Wellington, Tokyo, Hong Kong, Singapore, London and New York. In Australia, the National is a market maker in all major currencies.

The National trades Eurocurrency securities, underwrites and arranges facilities for major corporate clients, and engages in interest rate and cross currency swap transactions. In the Australian money market, the National is a major trader of bill acceptances. It also operates in the financial futures market as a principal and trader.

The National undertakes a number of specialised business activities through other subsidiaries and business units. These include a property company (NBA Properties Limited) which, with its property owning subsidiary companies, is primarily an owner of the National's business related properties and custodian services.

Europe

The Group's operations in Europe are comprised of four regional banks, a life insurance company and a developing wholesale banking operation. The Group also operates a service company, which primarily provides technology support to the regional banks.

These investments make the Group the second largest foreign owned banking and financial services group in the United Kingdom and Ireland in terms of assets, with more than 800 outlets and four million customers.

The Group's regional banks in Europe are Clydesdale Bank PLC of Scotland (Clydesdale Bank), Yorkshire Bank PLC in Northern England (Yorkshire Bank) and Northern Bank Limited in Northern Ireland (Northern Bank). The Group also owns National Irish Bank Limited in the Republic of Ireland (National Irish Bank).

The Group is increasingly active in wholesale financial markets with the provision of treasury, capital market and corporate finance services to both local and international customers.

All four banks offer a broad range of financial services in their own markets.

Clydesdale Bank is the third largest bank in Scotland in terms of assets, with total assets of $20.8 billion at September 30, 1998. It has 316 outlets and 4,679 staff (or 4,274 full time equivalent positions).

Yorkshire Bank operates through 323 outlets in the north of England and the Midlands with a staff of 5,763 (or 5,080 full time equivalent positions). At September 30, 1998 it had total assets of $14.6 billion.

Northern Bank is the largest bank in Northern Ireland, in terms of assets, with total assets of $10.7 billion at September 30, 1998. It has 109 outlets throughout the Province and a staff of 2,362 (or 2,122 full time equivalent positions).

National Irish Bank has 67 outlets in the Republic of Ireland, a staff of 846 (or 819 full time equivalent positions) and assets of $4.5 billion at September 30, 1998.

In 1995, the Group established National Australia Life Limited to provide a selected range of life insurance and investment products. These are marketed through Clydesdale Bank, Yorkshire Bank and Northern Bank as an integrated part of each bank's product and service range.

The Group's European banking subsidiaries also operate a number of finance and leasing businesses, including: Clyde General Finance Limited (Clydesdale Bank); Northern Bank Factors Limited and Northern Bank Leasing Limited (Northern Bank); and Yorkshire Bank Finance Limited and a number of leasing entities (Yorkshire Bank). Other specialised service entities include Northern Bank Executor and Trustee Company Limited.

New Zealand

Bank of New Zealand (BNZ) was acquired by the Group in 1992. It is the second largest financial institution in New Zealand in terms of assets, with a staff of 5,485 (or 4,461 full time equivalent positions) at September 30, 1998 and 219 outlets on the North and South Islands.

BNZ offers a full range of financial services to personal, business and corporate customers. BNZ's total assets were $23.6 billion at September 30, 1998.

On May 17, 1996 BNZ completed the acquisition of the minority interests in the merchant banking subsidiary BNZ Finance Limited.

BNZ's distribution network is being reconfigured resulting in a reduction in the number of traditional branches, the establishment of specialised branches for business customers and the introduction of other initiatives such as 24 hour drive through outlets. A direct banking operation has been established to provide greater convenience to existing customers.

United States

The Group increased its presence in the United States following the acquisition in November, 1995 of Michigan National Corporation (MNC). MNC's principal subsidiary is Michigan National Bank (MNB), which is ranked as the fifth largest bank in Michigan and 58th largest in the US in terms of total assets. At September 30, 1998 MNB had total assets of $16.3 billion and 3,849 employees (or 3,553 full time equivalent positions).

It operates through 193 financial service centres (including 26 supermarket financial services centres) and 294 Automatic Teller Machines (ATMs) across the State of Michigan. MNB also provides a sophisticated telephone and web banking service enabling customers to open accounts, apply for loans and conduct transactions over the phone.

Commercial business represents approximately 74% of MNB's loan portfolio, with the balance in consumer business.

The Group also maintains a branch in New York, which supports Group customers doing business in the US and markets its services to US companies with operations in Australia, New Zealand and the United Kingdom and Ireland.

Asian Operations

From its regional headquarters in Hong Kong, National Australia Bank Asia operates seven branches and four representative offices in Asia's major business capitals. Full time equivalent staff of 291 are employed in the Group's Asian business activities.

The Group's outlets in Asia provide international trade finance and treasury services, primarily to companies which participate in trade flows between Asia and the Group's key markets of Australia, New Zealand, Europe and the United States. The Group offers selected retail banking and financial services in Hong Kong.

Global Business

Wholesale Operations

In 1997, the Group established a Global Wholesale Financial Services Unit (GWFS), combining the management of the Group's capital markets, corporate banking, foreign exchange, money market and project and structured finance operations into a single strategic business unit.

GWFS is focused on managing the Group's relationships with corporate and institutional customers in addition to providing market making activities in traditional treasury products. Regional operations are maintained in Australia, New Zealand, the United States, Europe and Asia and provide support to the Group's retail operations in each of these markets. GWFS operates in financial centres within these five regions.

HomeSide

On February 10, 1998, the Group finalised the acquisition of HomeSide, Inc. (HomeSide), one of the largest originators and servicers of mortgages in the United States. Total consideration of the acquisition was US$1,227 million.

Based in Jacksonville, Florida, HomeSide was formed from the merger of the mortgage operations of the Bank of Boston and Barnett Banks in a transaction designed to create the necessary scale to remain competitive in the highly efficient United States mortgage processing business.

Collecting mortgages from a variety of sources, including brokers and a network of correspondent banks, HomeSide manages the total mortgage process from originating loans and collecting repayments through to the creation of mortgage backed securities, which are sold in the secondary market.

The acquisition of HomeSide is also an important step in transforming the Group under its new operating structure. It is the first of the Group's international product specialists.

On April 2, 1998, the Group announced another major step in the building of its international mortgage business with HomeSide entering into a strategic alliance with Banc One to buy a significant portion of its residential mortgages over the next five years. HomeSide also signed an agreement to acquire the servicing rights to a significant proportion of Banc One's existing mortgage portfolio. The addition of Banc One's mortgages has given HomeSide a mortgage servicing portfolio of approximately US$117 billion, representing approximately 1.2 million loans at the date of the transaction.

At June 30, 1998, HomeSide was the 9th largest originator and the 6th largest servicer of mortgages in the United States and by industry standards is considered one of the most efficient operators in the mortgage market.

Vision and Strategy

The Group is focused on building a leading international financial services group. This vision is being pursued through a strategy of controlled growth and diversification of income streams.

The Group's growth strategy is being achieved through a mixture of organic expansion and acquisitions within its core markets of Australia and New Zealand, as well as in the United Kingdom, Ireland, the United States and Asia. Organic growth has been achieved to date through the Group's retail financial service franchises supported by a strong customer orientation and brand position. This growth has been facilitated through the development of the Group's financial services activities, including life and other insurance products, funds management, custodian and trustee operations, and wholesale financial services.

The Group's acquisition strategy has generally been aimed at enhancing the Group's position within its chosen markets through the purchase of retail banks with strong retail customer franchises. The Group's ability to participate in further rationalisation of the banking industry in Australia has been constrained to date by the continued prohibition of the merger of major banks in Australia as a result of Commonwealth Government policy. In the event that such Government policy changed it would be part of the Group's strategy to seek to extend its position in Australia through acquisition or merger at the appropriate time. More recently the Group's strategy has also focused on building key capabilities to improve efficiency and derive more value from existing operations (e.g. mortgage servicing and funds management), developing critical mass in selected financial services activities (e.g. funds management and insurance) and considering opportunities to expand the Group's participation in selected banking operations in the Asian region.

The Group has also been actively diversifying its non-interest income streams to reduce its reliance on margin income. Improved cost recovery of traditional banking services and an expansion of the Group's financial services activities have been the principal contributors to an increase in the Group's other operating income. As a result of these efforts, for the twelve months ended September 30, 1998, 40.3% of the Group's operating income was derived from non-interest sources.

Regulation of the Banking System

The Commonwealth of Australia's Financial System Inquiry, the Wallis Inquiry, presented its report and recommendations in March 1997. In response, a new organisational framework for the regulation of the financial system has been put in place. This revolves around three agencies:

- Supervision and regulation of the Australian banking system is now the responsibility of the Australian Prudential Regulation Authority (APRA). APRA, an authority established by the Federal Parliament, came into being on July 1, 1998. From that date the bank supervision functions of the Reserve Bank of Australia (the Reserve Bank) were transferred to this new regulatory body, along with responsibility for prudential supervision of insurance companies and superannuation funds. At a later date (expected to be later in 1998), APRA has also acquired responsibility for the prudential supervision of other deposit taking institutions – building societies, credit unions and friendly societies.
- The Reserve Bank remains responsible for monetary policy and maintenance of financial stability, including stability of the payments system; reflecting this, a Payments System Board has been established within the Reserve Bank.
- The Australian Securities and Investments Commission (ASIC) has been established to cover market integrity, disclosure and other consumer protection issues.

APRA has initially adopted the prudential standards that the Reserve Bank had applied to banks in Australia. Australia has long been a signatory to the Basle Concordats and, as a consequence, these standards generally comply with the various recommendations and principles of the Basle Committee on Banking Supervision.

Under the new regulatory framework, banks are now designated as Authorised Deposit Taking Institutions (ADIs). The term 'bank' will capture any ADI permitted by APRA to use the word 'bank' or like word; current policy provides that for an ADI to obtain bank status it is required to have a minimum equity capitalisation of $50 million and also hold an exchange settlement account with the Reserve Bank.

Also, prior to July 1, 1998 the Banking Act did not allow the use of 'non-operating holding company' (NOHC) structures for the ownership of banks and other financial entities. In addition, regulatory policy prohibited financial groups from holding more than one bank or deposit taking entity licence. A NOHC is now allowed where a bank or ADI is present, and also financial groups may hold multiple licences in order to enable greater commercial flexibility.

APRA now carries the responsibility for depositor protection in relation to the ADIs it supervises. To achieve this it has been given stronger and more defined powers to direct the activities of an ADI in the interests of depositors or when it has contravened a prudential standard or regulation. These 'direction powers' enable the prudential regulator to impose corrective action without actually taking control – it also has this ultimate power – and is intended to facilitate early intervention to prevent a crisis from emerging.

APRA discharges its responsibilities by requesting regular information from, and setting prudential controls for, banks operating in Australia. The information reported to APRA forms the basis of supervisory assessment of banks. These reports are supplemented by meetings between senior executives of APRA and the banks it regulates and also periodic 'on site' visits by APRA specialist teams to overview discrete areas of banks' operations, eg. those relating to 'asset quality' and 'market risk'. Close attention is paid to capital adequacy, liquidity, sustainability of earnings, loan loss experience, concentration of risks, the maturity structure of assets and liabilities, potential exposures through equity association and international banking operations.

APRA has the power to appoint any person (for example, an auditor) to investigate and report on prudential matters relating to a bank. This power provides a statutory fallback to the existing cooperative arrangements whereby external auditors review and report on certain prudential aspects of their operations. External auditors provide APRA with additional assurance that prudential standards agreed with banks are being observed, that statutory data provided is reliable, and that statutory and other banking requirements are being met.

The Chief Executive Officer of a bank is also required to make an annual declaration to APRA that the bank's management systems limiting risks to prudent levels are operating effectively.

The Reserve Bank has the authority, with the approval of the Treasurer of the Commonwealth of Australia, to fix interest rates paid or charged by ADIs and institutions undertaking banking operations. This authority is currently not being exercised and Australian banks are free to determine their own rates based on market conditions. However, at the direction of the Federal

Government, housing loans under A$100,000 entered into prior to April 1986 are still subject to an interest rate ceiling of 13.5%; actual rates are currently well below this ceiling level.

There are no formal prohibitions on the diversification by banks through equity involvements or investments in subsidiaries. Currently, the controls recommended and supervised by APRA are of a consensual nature. 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.

Prudential requirements currently applying to Australian banks include the following:

- APRA's risk based capital adequacy guidelines, which are generally consistent with the approach, agreed upon by the Basle Committee on Banking Supervision. Reflecting this, from January 1, 1998, 'Market Risk' (the risk of losses as a result of movements in interest rates, exchange rates, equity prices or commodity prices) is factored into capital adequacy calculations. Refer to Capital Adequacy on page 47 for the current measurement detail.
- The Prime Assets Ratio (PAR) arrangements, in which banks are required to hold a proportion of their domestic assets in specified, high quality liquefiable assets, (eg. cash, balances with the Reserve Bank, Commonwealth Government securities, and other Australian dollar securities issued by the central borrowing authorities of State and Territory Governments). The minimum PAR ratio was reduced in June 1997 from 6% to 3% of total liabilities (other than shareholders' equity) invested in Australian dollar assets within Australia. At September 30, 1998 the Group's PAR ratio was 5.6%.
- Banks are required to lodge in a special Non Callable Deposit (NCD) account with the Reserve Bank an amount equivalent to 1.0% of total liabilities (other than shareholders' equity) funding Australian dollar assets in Australia. The interest rate paid on NCD accounts is set at a rate equal to the average yield at tender in the previous month on 13 week Treasury Notes less 500 basis points or zero% if the reference rate falls below 5%.

In April 1998, the RBA issued the revised Prudential Statement D1 on Liquidity Management. This allows for the removal of existing PAR requirements upon the adoption by banks and the approval of APRA of banks' new liquidity management systems based on cash flow projections. The removal of the NCD requirement was approved by Parliament in June 1998 as part of the legislative package establishing APRA and is to be effected by the end of June, 2000 at the latest.

Following the decisions to abolish both of these requirements, banks will be expected to hold adequate quantities of high quality liquid assets for prudent liquidity management. It is no longer considered appropriate to mandate a common ratio or minimum holdings for all banks. APRA is meeting with individual banks to review their approaches to liquidity management prior to implementation of this prudential policy change. The removal of the NCD requirement was approved by Parliament in June 1998 as part of the legislative package establishing APRA and is to be effected by the end of June, 2000 at the latest.

APRA 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. Oversight by the Reserve Bank now relates to payments system matters including the operations of Australia's real time gross settlement (RTGS) system.

The Group's banking subsidiaries in the United Kingdom, the Republic of Ireland, New Zealand and the United States are subject to supervision by the Financial Services Authority, the Central Bank of Ireland, the Reserve Bank of New Zealand, and the US Federal Reserve Board and the Office of the Comptroller of the Currency, respectively, and associated banking legislation.

In the United Kingdom, 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 guidelines in accordance with the convergence framework developed by the Bank for International Settlements. Additionally, the regulators monitor the adequacy of liquidity and portfolio concentrations, including lending to individuals, economic or business sector exposures and cross border risk.

In addition, the Federal Reserve Board (FRB) and the Office of the Comptroller of the Currency in the United States (OCC) have taken a number of steps to enhance the effectiveness of their examinations and inspections by sharpening their focus on the areas of greatest risk to the soundness of banking organisations. These efforts have been directed at adapting examination and inspection processes so that they remain responsive to changing market realities, while retaining those practices that have proven most successful in supervising institutions under a variety of economic circumstances and industry conditions. The FRB and OCC both practise a supervision by risk program, which considers the new risks and different combinations of risks that banks will undertake in the changing financial services environment.

The emphasis of the Reserve Bank of New Zealand's regulatory framework is primarily on capital adequacy and systemic risk management. It represents a move 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 currently is in full compliance with the operating requirements of local regulatory authorities.

Overview

The Financial Review on pages 31 to 65 is prepared in accordance with Generally Accepted Accounting Principles applicable in Australia ('Australian GAAP').

For years ended September 30 *Dollars in Millions unless otherwise stated*	***1998 AUD***	***1998 USD***[(1)]	*Consolidated* *1997 AUD*	*1996 AUD*	*1995 AUD*	*1994 AUD*
Summary of Consolidated Statements of Income						
Australian GAAP						
Interest income	**15,427**	**9,148**	12,936	12,088	10,169	7,913
Interest expense	**9,569**	**5,674**	7,578	6,958	5,646	3,716
Net interest income	**5,858**	**3,474**	5,358	5,130	4,523	4,197
Charge to provide for doubtful debts	**572**	**339**	332	333	116	179
Net interest income after provision for doubtful debts	**5,286**	**3,135**	5,026	4,797	4,407	4,018
Other operating income	**3,953**	**2,344**	2,909	2,631	2,447	2,358
Other operating expenses	**5,516**	**3,271**	4,619	4,366	4,008	3,757
Operating profit before abnormal items	**3,723**	**2,208**	3,316	3,062	2,846	2,619
Abnormal items	**(749)**	**(444)**	–	–	33	50
Operating profit	**2,974**	**1,764**	3,316	3,062	2,879	2,669
Income tax expense (benefit) attributable to:						
Operating profit	**1,211**	**718**	1,095	959	906	953
Abnormal items	**(252)**	**(149)**	–	–	–	–
Total income tax expense	**959**	**569**	1,095	959	906	953
Operating profit after income tax	**2,015**	**1,195**	2,221	2,103	1,973	1,716
Outside equity interests in operating profit (loss) after tax	**1**	**1**	(2)	1	4	8
Operating profit after income tax attributable to members of the Company	**2,014**	**1,194**	2,223	2,102	1,969	1,708

(1) Translated at the Noon Buying Rate on September 30, 1998 of US$0.5930 = A$1.00. See 'Selected Financial Data for five years ended September 30, 1998 – Exchange Rates' on page 33.

- Net interest income in 1998 increased by 9.3% to $5,858 million after increases of 4.4% and 13.4% in 1997 and 1996 respectively.
- Charge to provide for doubtful debts increased by 72.3% to $572 million from $332 million in 1997 and $333 million in 1996.
- Other operating income in 1998 increased by 35.9% to $3,953 million after increases of 10.6% and 7.5% in 1997 and 1996 respectively.
- Other operating expenses in 1998 increased by 19.4% to $5,516 million after increases of 5.8% and 8.9% in 1997 and 1996 respectively.
- Operating profit before income tax and abnormal items increased by 12.3% to $3,723 million in 1998 after increasing by 8.3% to $3,316 million in 1997 and 7.6% to $3,062 million in 1996.
- Operating profit after income tax and abnormal items decreased by 9.4% to $2,014 million in 1998 after increasing 5.8% to $2,223 million in 1997 and 6.8% to $2,102 million in 1996. Before abnormal items, operating profit after tax of $2,511 million increased by 13.0% over 1997.
- Total provisions for doubtful debts increased 87.8% in 1998 to $2,563 million from $1,365 million in 1997 and $1,312 million in 1996. Gross non-accrual loans of $1,470 million in 1998 decreased by 14.7% from $1,281 million in 1997.
- The Group's Tier 1 capital ratios as at September 30, 1998, 1997 and 1996 were 6.4%, 6.8% and 7.6% respectively. The total risk weighted capital ratios at September 30, 1998, 1997 and 1996 were 9.2%, 8.7% and 9.3% respectively.

In Australia, activity is expected to slow significantly over the next year. Following a relatively strong performance in 1997/98, both the household and business sectors are expected to record slower growth. At the same time, external demand is likely to slow further. Overall, the National expects GDP growth to slow from around 4% in the past financial year to below 2% in 1998/99. In light of the weakening international economy and subdued inflationary pressures, official interest rates are most likely to be lowered during the next year. However, the slowdown in world industrial production and, in turn, weak commodity prices, should maintain the $A at an historically low level.

The UK is likely to remain somewhat of a dual economy. Activity in manufacturing is likely to continue to stagnate and the services sector continue to expand, albeit at a slower rate. The persistent strength of Sterling, worsening global trade conditions and relatively tight monetary policy will see UK growth fall well below its potential in 1999. In fact, there is a growing risk that economic growth could stall in the UK with large parts of the economy experiencing recessionary conditions in 1999. Interest rates have already started to decline and should fall further. The Irish economy, on the other hand, is anticipated to expand at a healthy pace, in contrast to weaker conditions in other EU countries.

The New Zealand economy is likely to experience little growth in the next year. Subdued domestic demand and a bleak outlook for exports underpins this expectation. The rapid growth in household debt, the weak housing market, weakening labour market conditions and low levels of consumer confidence will prevent consumer spending from recovering strongly. Poor trading conditions in key commodity export sectors will also keep activity subdued.

US economic activity is also likely to slow, albeit from a relatively strong pace. Slower exports and increased import competition from Asia will slow activity, particularly in manufacturing. The emergence of financial stress and associated wealth effects will also impact negatively on domestic activity, but it is still unclear how severe this 'credit squeeze' will be. While sectors of the economy outside manufacturing are holding up well thus far, there is a good chance that growth will stall through much of 1999. In the Michigan economy, growth has begun to slow, reflecting the State's reliance on manufacturing.

Selected Financial Data for Five Years Ended September 30, 1998

The Consolidated Entity's financial statements are prepared in accordance with accounting principles generally accepted in Australia, which differ in certain material respects from accounting principles generally accepted in the United States (see Note 49 to the Financial Statements 'Reconciliation with US GAAP'). The information hereunder has been derived from the audited Financial Statements of the Consolidated Entity, or where certain items are not shown in those consolidated Financial Statements, has been prepared for the purpose of this Annual Report and should be read in conjunction with and qualified in its entirety by reference to the Financial Statements and Notes included elsewhere in this report. For details of credit quality data refer to pages 52 to 54. Comparative amounts have been reclassified to accord with changes in presentation made in 1998, except where otherwise stated.

			Consolidated			
For years ended September 30	*1998*[1]	*1998*[1][2]	*1997*	*1996*[3]	*1995*	*1994*
Dollars in Millions unless otherwise stated	*AUD*	*USD*	*AUD*	*AUD*	*AUD*	*AUD*
Share Information						
Dividends paid/payable[4][5]	**1,467**	**870**	1,367	1,276	1,173	1,003
Earnings per share (before abnormal items) ($)[6]						
– basic	**1.75**	**1.04**	1.52	1.45	1.39	1.24
– diluted	**1.71**	**1.01**	1.49	1.43	1.38	1.23
Earnings per share (after abnormal items) ($)[6]						
– basic	**1.40**	**0.83**	1.52	1.45	1.41	1.27
– diluted	**1.38**	**0.82**	1.49	1.43	1.40	1.27
Dividends per share ($)[4][5]	**1.02**	**0.60**	0.94	0.87	0.83	0.74
Dividends per ADS ($)[4][5]	**5.10**	**3.02**	4.70	4.35	4.15	3.70
Dividends per ADS (US$)[4][5][7]	**N/A**	**N/A**	3.24	3.40	3.02	2.70
Dividend cover (times) before abnormal items	**1.71**	**1.71**	1.63	1.65	1.65	1.65
Dividend cover (times) after abnormal items	**1.37**	**1.37**	1.63	1.65	1.68	1.70
Net tangible asset backing per ordinary share ($)[8][9]	**8.24**	**4.89**	7.40	6.97	7.00	6.12
Share prices for the year						
– High[10]	**23.50**	**15.44**	22.85	13.30	12.54	13.06
– Low[10]	**16.87**	**11.09**	13.15	10.98	10.16	9.97
– End($)	**20.39**	**12.09**	21.22	13.30	11.70	10.32
Adjusted to Accord with US GAAP						
Net income	**2,099**	**1,244**	2,289	2,147	2,013	1,807
Earnings per share[6]						
– basic	**1.46**	**0.87**	1.56	1.48	1.44	1.35
– diluted	**1.44**	**0.85**	1.53	1.46	1.43	1.34
Earnings per ADS[6]						
– basic	**7.30**	**4.35**	7.80	7.40	7.20	6.75
– diluted	**7.20**	**4.25**	7.65	7.30	7.15	6.70
Summary of Consolidated Balance Sheets						
Australian GAAP						
Loans and advances						
(after provision for doubtful debts)	**160,001**	**94,881**	131,036	111,963	91,538	79,168
Total assets	**251,714**	**149,266**	201,969	173,710	148,123	130,436
Risk weighted assets	**197,057**	**116,855**	154,309	133,313	108,985	96,115
Deposits and other borrowings	**158,084**	**93,744**	128,469	109,158	88,529	79,451
Perpetual floating rate notes	**421**	**250**	347	424	459	480
Exchangeable capital units[11]	**1,262**	**1,000**	1,262	–	–	–
Bonds, notes and subordinated debt	**15,115**	**8,963**	9,569	6,958	4,067	3,980
Issued and paid up capital	**6,675**	**3,958**	1,413	1,477	1,429	1,369
Shareholders' equity[9]	**15,761**	**9,346**	12,579	12,519	11,381	9,852
Book value per share	**10.87**	**6.45**	8.88	8.45	7.94	7.17
Book value per ADS	**54.35**	**32.23**	44.40	42.25	39.70	35.85
Adjusted to Accord with US GAAP						
Shareholders' equity[9]	**16,359**	**9,701**	13,153	13,011	11,761	10,119
Total assets	**251,643**	**149,224**	201,851	173,552	147,789	130,273

	Consolidated				
For years ended September 30	***1998*** *%*	*1997* *%*	*1996* *%*	*1995* *%*	*1994* *%*
Selected Financial Ratios					
Australian GAAP					
Operating profit (before abnormal items) as a percentage of:					
Average total assets	**1.1**	1.2	1.3	1.4	1.4
Average shareholders' equity	**17.9**	16.7	17.0	17.8	17.5
Year end total assets	**1.0**	1.1	1.2	1.3	1.3
Year end shareholders' equity	**15.9**	17.7	16.8	17.0	16.8
Operating profit (after abnormal items) as a percentage of:					
Average total assets	**0.8**	1.2	1.3	1.4	1.4
Average shareholders' equity	**14.3**	16.7	17.0	18.1	18.1
Year end total assets	**0.8**	1.1	1.2	1.3	1.3
Year end shareholders' equity	**12.8**	17.7	16.8	17.3	17.3
Dividends as a percentage of operating profit(4)(5)	**72.8**	61.5	60.7	59.6	58.7
Average shareholders' equity as a percentage of average total assets	**5.9**	7.1	7.5	8.0	7.8
Capital: risk asset ratios(12)					
– Tier 1	**6.4**	6.8	7.6	9.2	8.5
– Tier 2	**3.1**	2.2	1.9	2.6	3.2
– deductions	**(0.3)**	(0.3)	(0.2)	(0.2)	(0.2)
– total	**9.2**	8.7	9.3	11.6	11.5
Net average interest margin	**3.1**	3.5	3.9	4.2	4.4
Adjusted to Accord with US GAAP					
Net income as a percentage of period end:					
Total assets	**0.8**	1.1	1.2	1.4	1.4
Shareholders' equity	**12.8**	17.4	16.5	17.1	17.9
Dividends as percentage of net income(4)(5)	**69.9**	59.7	59.4	58.3	55.5
Shareholders' equity as percentage of total assets	**6.5**	6.5	7.5	7.9	7.8
Exchange Rates (Average and Closing)					
Average					
– British pound	**0.3914**	0.4714	0.5000	0.4672	0.4705
– Irish punts	**0.4530**	0.4934	0.4846	0.4622	0.4824
– United States dollar	**0.6468**	0.7695	0.7710	0.7424	0.7108
– New Zealand dollar	**1.1576**	1.1240	1.1426	1.1439	1.2292
– Singapore dollar	**1.0720**	1.1052	1.0880	1.0604	1.1037
Closing					
– British pound	**0.3480**	0.4467	0.5082	0.4773	0.4687
– Irish punts	**0.3972**	0.4940	0.4959	0.4683	0.4723
– United States dollar	**0.5934**	0.7197	0.7935	0.7550	0.7400
– New Zealand dollar	**1.1880**	1.1272	1.1341	1.1491	1.2276
– Singapore dollar	**1.0017**	1.1043	1.1172	1.0725	1.0989

For each of the National Australia Bank's fiscal years indicated, the high, low, average and year end Noon Buying Rates were as set forth below.

	1999(13)	*1998*	*1997*	*1996*	*1995*	*1994*
(US$ per A$1.00)						
High	**0.6328**	**0.7386**	0.8180	0.8017	0.7778	0.7467
Low	**0.5887**	**0.5550**	0.7455	0.7350	0.7100	0.6450
Average(14)	**0.6175**	**0.6571**	0.7639	0.7591	0.7394	0.7099
September 30		**0.5930**	0.7250	0.7912	0.7555	0.7400

On October 23, 1998 the Noon Buying Rate was US$0.6184 per A$1.00.

	1998	1997	1996	1995	1994
Other Information (Numbers)					
Consolidated Entity Branches and business outlets	**2,349**	2,421	2,513	2,356	2,373
Consolidated Entity Staff					
– full time and part time[15]	**50,973**	52,226	52,912	52,567	49,163
– full time equivalent[16]	**46,300**	46,422	47,178	45,585	43,871

Notes:

(1) *Includes the amounts relating to HomeSide, Inc. from February 10, 1998, the date on which the Consolidated Entity acquired this entity.*

(2) *Translated at the Noon Buying Rate on September 30, 1998 of US$0.5930 = A$1.00.*

(3) *Includes the amounts relating to MNC from November 2, 1995, the date on which the Consolidated Entity acquired this bank.*

(4) *Dividend amounts are for the year for which they are declared. Dividends and book value per share and per ADS calculations are based on year end fully paid equivalent shares, adjusted for loans and rights issues as appropriate.*

(5) *Includes issues under the Bonus Share Plan in lieu of cash and scrip dividends.*

(6) *See Note 49 of the Financial Statements, 'Reconciliation with US GAAP' for explanation of earnings per share.*

(7) *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 1998 final ordinary dividend of A$0.53 per share is not payable until December 16, 1998. Accordingly, the total US dollar dividend per ADS cannot be determined until that date.*

(8) *After deducting goodwill.*

(9) *Excludes outside equity interests and preference shares.*

(10) *Translated at the daily average of the Noon Buying Rates.*

(11) *The Exchangeable Capital Units of US$1 billion are recorded in the financial statements at the historical rate of 0.7923.*

(12) *Based on Tier 1 and Tier 2 capital, as defined by Australian Prudential Regulation Authority, related to risk weighted assets. See 'Capital Adequacy' on pages 47 to 50. Also see 'Regulation of the Banking System' on page 29.*

(13) *Through to October 23, 1998.*

(14) *The daily average of the Noon Buying Rates.*

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

(16) *Full time equivalent includes part time staff (pro rated).*

Net Interest Income

1998	*$5,858 million*
1997	*$5,358 million*
1996	*$5,130 million*

The principal source of income for the Group is net interest income which 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 investment, available for sale and trading securities. Net interest income in 1998 increased by 9.3% to $5,858 million after increases of 4.4% to $5,358 million in 1997 and 13.4% to $5,130 million in 1996. Of the increase in net interest income in 1998, $380 million was attributable to the impact of exchange rate movements.

Interest income increased by 19.3% to $15,427 million in 1998 after increasing by 7.0% to $12,936 million in 1997 and by 18.9% to $12,088 million in 1996. This was primarily due to increases in lending volumes across the Group together with the impact of exchange rate movements which added $987 million to interest income. Interest expense increased by 26.3% to $9,569 million in 1998 after increasing by 8.9% to $7,578 million in 1997, and by 23.2% to $6,958 million in 1996. Exchange rate movements added $607 million to interest expense.

Average interest earning assets increased by 21.6% to $184.9 billion from $152.1 billion in 1997, an increase of 16.4% from $130.7 billion in 1996.

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, was 3.1% in 1998 compared with 3.5% in 1997 and 3.9% in 1996. The interest spread (the difference between the average interest rate earned and the average interest rate paid) decreased to 2.6% from 2.8% in 1997 and 3.2% in 1996.

Volume and Rate Analysis

The following table allocates changes in net interest income between changes in volume and changes in rate for the latest three years. 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.

For years ended September 30	***1998 over 1997***			*1997 over 1996*			*1996 over 1995*		
	Increase/(decrease) due to change in			*Increase/(decrease) due to change in*			*Increase/(decrease) due to change in*		
Dollars in Millions	***Average Balance***	***Average Rate***	***Total***	*Average Balance*	*Average Rate*	*Total*	*Average Balance*	*Average Rate*	*Total*
Interest earning assets									
Due from other financial institutions									
Australia	**7**	**(23)**	**(16)**	(7)	(31)	(38)	9	(3)	6
Overseas	**40**	**44**	**84**	60	(2)	58	17	(52)	(35)
Regulatory deposits									
Australia	**1**	**(7)**	**(6)**	1	(11)	(10)	4	(25)	(21)
Overseas	**–**	**–**	**–**	1	–	1	1	(2)	(1)
Marketable debt securities									
Australia	**85**	**(97)**	**(12)**	11	(53)	(42)	37	(4)	33
Overseas	**235**	**62**	**297**	135	(51)	84	169	(41)	128
Loans and advances									
Australia	**870**	**(1,032)**	**(162)**	953	(874)	79	803	61	864
Overseas	**1,420**	**175**	**1,595**	747	(186)	561	1,064	(211)	853
Other interest earning assets	**275**	**436**	**711**	(13)	168	155	46	46	92
Change in interest income	**2,933**	**(442)**	**2,491**	1,888	(1,040)	848	2,150	(231)	1,919
Interest bearing liabilities									
Time deposits									
Australia	**283**	**(445)**	**(162)**	66	(410)	(344)	235	73	308
Overseas	**479**	**205**	**684**	532	(19)	513	599	(69)	530
Savings deposits									
Australia	**(9)**	**(21)**	**(30)**	(2)	(29)	(31)	(35)	25	(10)
Overseas	**112**	**140**	**252**	30	(43)	(13)	51	(60)	(9)
Other demand deposits									
Australia	**139**	**(175)**	**(36)**	217	(210)	7	217	(8)	209
Overseas	**50**	**25**	**75**	31	(50)	(19)	55	(26)	29
Government and official institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**11**	**(2)**	**9**	7	–	7	4	1	5
Due to other financial institutions									
Australia	**(32)**	**(39)**	**(71)**	(28)	(33)	(61)	63	(36)	27
Overseas	**355**	**55**	**410**	(4)	(41)	(45)	30	(15)	15
Short term borrowings									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**146**	**(49)**	**97**	6	–	6	104	(11)	93
Long term borrowings									
Australia	**216**	**7**	**223**	158	(7)	151	113	(23)	90
Overseas	**84**	**8**	**92**	(18)	(10)	(28)	20	5	25
Other interest bearing liabilities	**167**	**209**	**376**	(32)	457	425	(26)	29	3
Other debt issues									
Australia	**3**	**5**	**8**	–	–	–	–	(1)	(1)
Overseas	**56**	**8**	**64**	45	7	52	(1)	(1)	(2)
Change in interest expense	**2,060**	**(69)**	**1,991**	1,008	(388)	620	1,429	(117)	1,312
Change in net interest income	**873**	**(373)**	**500**	880	(652)	228	721	(114)	607

For years ended September 30 *Dollars in millions, except percentages*	***1998***	*1997*	*1996*
Interest Margins and Spreads			
Australia			
Net interest income	**2,896**	2,864	2,870
Average interest earning assets	**85,748**	73,954	63,699
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.6**	3.0	3.5
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[1] %	**2.5**	2.9	3.4
Benefit of net free liabilities, provisions, and equity %	**0.8**	0.9	1.0
Interest margin[2] %	**3.3**	3.8	4.4
Overseas			
Net interest income	**2,962**	2,494	2,260
Average interest earning assets	**99,127**	78,106	66,946
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.7**	2.8	3.0
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[1] %	**2.6**	2.7	2.9
Benefit of net free liabilities, provisions, and equity %	**0.3**	0.5	0.5
Interest margin[2] %	**2.9**	3.2	3.4
Group			
Net interest income	**5,858**	5,358	5,130
Average interest earning assets	**184,875**	152,060	130,645
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.7**	2.9	3.3
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[1] %	**2.6**	2.8	3.2
Benefit of net free liabilities, provisions, and equity %	**0.5**	0.7	0.7
Interest margin[2] %	**3.1**	3.5	3.9

[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 decreased to 8.1 % from 8.8% in 1997 and 10.0% in 1996 while the interest rate on interest bearing liabilities also decreased to 5.5% from 5.9% in 1997 and from 6.5% in 1996. Interest income in Australia increased 5.1% while interest expense increased 8.3% in 1998. The interest margins in Australia remained tight, particularly in the highly competitive housing lending market, and with the lower interest rate environment of 1998. Strong competition from both traditional and non-traditional competitors is expected to continue in the foreseeable future.

The interest rate on overseas interest earning assets increased to 8.6% in 1998 from 8.1% in 1997 which was a decrease from 8.5% in 1996 while the interest rate on interest bearing liabilities increased to 5.9% in 1998 from 5.4% in 1997 which was a decrease from 5.6% in 1996. Overseas interest income increased 33.8% while interest expense increased 43.6 % in 1998. The overseas interest margins continued to tighten due to increased competition from banks, building societies and non-financial institutions.

During the twelve months to September 1998, net interest income increased $500 million or by 9.3% to $5,858 million. Australian net interest income increased marginally by 1.1% to $2,895 million, while overseas net interest income increased 18.8% to $2,963 million. Average interest earning assets increased 21.6% to $184.9 billion during the year. Australian interest earning assets grew by 16.0% to $85.7 billion, while overseas grew by 26.9 % to $99.1 billion due to increased lending and business activity generally.

Bad and Doubtful Debts[1]

1998	*$572 million*
1997	*$332 million*
1996	*$333 million*

The total charge for bad and doubtful debts (specific and general) for 1998 amounted to $572 million, $240 million higher than the 1997 charge of $332 million. Of the increase in the total charge for 1998, $47 million was attributable to the impact of exchange rate movements. The charge represented a $422 million specific provision charge and a $150 million general provision charge.

Higher specific provisions were recorded in Australia, Europe and the United States while the absence of significant writebacks in Bank of New Zealand caused an increase in the New Zealand charge. Additional specific provisions were also required in Asia.

The charge for the Australian Group's specific provision increased to $164 million from $94 million in 1997 and $135 million in 1996, partly reflecting strong balance sheet growth and the deteriorating economic environment.

The specific provision charge in Europe was $183 million, an increase of 11.6% over the charge of $164 million in 1997 which was 20.4% lower than the charge of $206 million in 1996. Clydesdale Bank's specific provision charge increased by $59 million to $105 million reflecting an extensive and rigorous review of lending assets during the current period. Increased specific provision charges were also recorded by Northern Bank (up $5 million to $8 million) and National Irish Bank (up from zero to $5 million). Yorkshire Bank's specific provision charge decreased by $48 million to $67 million reflecting the success of Yorkshire's asset quality initiatives.

The New Zealand Group recorded a specific provision charge of $11 million in 1998 compared to net specific provision writebacks of $20 million in 1997 and $77 million in 1996. The United States Group recorded a specific charge of $37 million in 1998 compared to a charge of $15 million in 1997. MNC's specific provision charge decreased to $22 million from $27 million in 1997 while HomeSide, Inc. recorded a specific provision charge of $16 million. The 1996 figure for the United States Group also reflects a large recovery in the New York branch.

The general provision charge of $150 million for 1998 was $70 million higher than the $80 million charge in 1997 and reflects the strong growth in risk weighted assets which occurred during 1998.

[1] This section excludes the impact of the adoption of a statistically based provisioning methodology to determine the general provision for doubtful debts on September 30, 1998. The impact of the adoption of this method is discussed in the 'Abnormal Items' section on page 41 and Notes 1 and 3 of the financial statements on pages 80 and 87 respectively.

Charge to Provide for Doubtful Debts

For years ended September 30	***1998*** ***$M***	*1997* *$M*	*1996* *$M*	*1998/1997* *%*
Specific provision				
Australian Group	**164**	94	135	74.5
European Group:				
Clydesdale Bank	**105**	46	40	large
Northern Bank	**8**	3	9	large
National Irish Bank	**5**	–	4	–
Yorkshire Bank	**67**	115	155	(41.7)
Other	**(2)**	–	(2)	–
Total European Group	**183**	164	206	11.6
New Zealand Group	**11**	(20)	(77)	large
United States Group	**37**	15	3	large
Asia Group	**27**	(1)	(4)	large
General provision	**150**	80	70	87.5
Total	**572**	332	333	72.3

Net write offs (advances written off less recoveries) in 1998 were $457 million compared with $348 million in 1997 and $277 million in 1996. As a percentage of risk weighted assets, net write offs were 0.2% in 1998, 0.2% in 1997 and 0.2% in 1996.

Percentage of Risk Weighted Assets

For years ended September 30	***1998*** **%**	*1997* %	*1996* %
Australian Group[1]			
Charge	**0.18**	0.11	0.18
Net write offs	**0.17**	0.15	0.16
European Group[1]			
Charge	**0.37**	0.48	0.74
Net write offs	**0.48**	0.51	0.57
New Zealand Group[1]			
Charge	**0.07**	(0.13)	(0.57)
Net write offs	**0.05**	0.08	0.14
United States Group[1]			
Charge	**0.11**	0.09	0.02
Net write offs	**0.06**	0.24	(0.18)
Group			
Charge	**0.21**	0.16	0.20
Net write offs	**0.23**	0.23	0.21

[1] *Ratio calculated as a percentage of Risk Weighted Assets of Australian Group, European Group, New Zealand Group and United States Group, as appropriate.*

The Group maintains a conservative and prudent approach to actual and potential loan losses. The overall provision for doubtful debts (see Notes 1 and 14 to the Financial Statements) 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 on page 56.

Other Operating Income

1998	*$3,953 million*
1997	*$2,909 million*
1996	*$2,631 million*

Other operating income includes loan fees from banking, money transfer fees, net mortgage servicing fees, trading income, foreign exchange income, fees and commissions and other income including rental income, dividends received and profit on sale of fixed assets.

Other operating income increased by $1,044 million or 35.9% in 1998 after an increase of 10.6% in 1997. Exchange rate movements added $293 million to other operating income in 1998. HomeSide, Inc. added $340 million to other operating income predominantly in the form of net mortgage servicing fees and net mortgage origination revenue.

The strong growth in other operating income demonstrates the success the Group has achieved in reducing its reliance on interest income through improved cost recovery of services provided to customers and continued growth in non-banking activities. As a result of this growth, 40.3% of net income was derived from non-interest sources for the September 1998 year (1997: 35.2%).

Money Transfer Fees

1998	*$1,050 million*
1997	*$853 million*
1996	*$784 million*

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

Money transfer fees in 1998 increased by $197 million or 23.1% after increasing 8.8% in 1997. The increase in 1998 is primarily due to changes in fee structures in New Zealand and improved fee collection in Australia.

Loan Fees from Banking

1998	*$938 million*
1997	*$794 million*
1996	*$738 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 1998 increased by $144 million or 18.1% after increasing 7.6% in 1997. The increase in 1998 predominantly reflects the increased lending volumes during the year.

Net Mortgage Servicing Fees

1998	*$197 million*

Following the acquisition of HomeSide, Inc. in February 1998, the Consolidated Entity now derives fees from mortgage servicing. Net mortgage servicing fee income represents fee income derived from mortgage servicing activities less amortisation of capitalised cost. Refer to Note 1 of the accounts, 'Principal Accounting Policies', for more details.

Net Mortgage Origination Revenue

1998	*$126 million*

Following the acquisition of HomeSide, Inc. in February 1998, the Consolidated Entity now derives fee income from mortgage origination and selling activities. Net mortgage origination revenue is comprised of 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.

Fees and Commissions

1998	*$829 million*
1997	*$650 million*
1996	*$522 million*

Fees and commissions consist of fees charged to cover the costs of establishing credit card facilities and commissions earned from the provision of insurance and financial services activities.

Fees and commissions income increased by $179 million or 27.5% in 1998 after increasing 21.5% in 1997. The increase in 1998 is primarily due to increases in credit card income and use of electronic channels.

Trading Income

1998	*$360 million*
1997	*$269 million*
1996	*$219 million*

Trading 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. Trading income increased by $91 million or 33.8% in 1998 after increasing by 22.8% in 1997.

Other Income

1998	*$453 million*
1997	*$343 million*
1996	*$368 million*

Other income includes rental income, dividends received, profit on sale of fixed assets, foreign exchange income and other income.

Other income increased by $110 million or 32.1% after decreasing by 6.8% in 1997. The increase for 1998 is primarily due to increased profit on sale of properties predominantly in Australia and Europe, and $17 million in other income collected by HomeSide, Inc.

Other Operating Expenses (Excluding Goodwill Amortisation and Abnormal Items)

1998	*$5,335 million*
1997	*$4,477 million*
1996	*$4,229 million*

In 1998 other operating expenses, incorporating personnel, occupancy and other general expenses (but excluding goodwill amortisation and abnormal items) increased $858 million or 19.2% over 1997. This compares with an increase of 5.9% in 1997. Of the increase in 1998, $589 million was attributable to the impact of exchange rate movements and the inclusion of HomeSide and County. The movement in expenses resulted from:

– personnel costs increasing $409 million or 15.6% in 1998 after increasing 7.2% in 1997. Of the increase in 1998, $193 million was attributable to exchange rate movements.

– occupancy costs increasing $45 million or 10.3% in 1998 after increasing 7.7% in 1997. Of the increase in 1998, $6 million was attributable to exchange rate movements.

– general expenses (excluding goodwill amortisation) increasing $404 million or 28.6% in 1998 after increasing 2.9% in 1997. Of the increase in 1998, $136 million was attributable to exchange rate movements.

The increase in personnel costs in 1998 is due primarily to the impact of Australian enterprise bargaining increases together with the inclusion of HomeSide, Inc. The increase in occupancy costs in 1998 is largely attributable to the inclusion of HomeSide, Inc. and higher rental costs on properties sold and leased back during the current year. The increase in general expenses in 1998 is due primarily to increases in non-lending loss provisions, expenditure on information technology, communication expenses, fees and commissions and the inclusion of HomeSide which added $82 million to general expenses.

The Group's cost to income ratio was 54.4% in 1998 compared to 54.2% in 1997. Cost to income ratio details (including restructuring costs in comparative periods where these costs were not classified as abnormal items) for the key business units are provided in the table below. The cost to income ratios have been calculated after taking into account the changes in financial statement presentation as set out in Note 1 to the financial statements. 1997 and 1996 figures have been adjusted for comparative purposes.

Refer to Note 2 of the Financial Statements for details of income and expense items.

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Dollars in Millions, except percentages					
Australian Financial Services:					
Other operating expenses[1]	2,291	2,098	1,991	2,073	1,918
Operating income[2]	4,617	4,201	4,013	3,961	3,647
%	49.6	49.9	49.6	52.3	52.6
Clydesdale Bank:					
Other operating expenses[1]	518	415	400	438	426
Operating income[2]	1,037	777	697	717	707
%	49.9	53.4	57.4	61.1	60.3
Northern Bank:					
Other operating expenses[1]	237	207	185	213	190
Operating income[2]	491	389	348	345	324
%	48.3	53.2	53.2	61.7	58.5
National Irish Bank:					
Other operating expenses[1]	114	88	82	86	81
Operating income[2]	172	141	131	131	120
%	66.3	62.4	62.6	65.6	67.5
Yorkshire Bank:					
Other operating expenses[1]	576	484	464	487	422
Operating income[2]	1,141	940	864	860	802
%	50.5	51.5	53.7	56.6	52.6
Bank of New Zealand:					
Other operating expenses[1]	506	501	513	509	456
Operating income[2]	885	895	852	816	685
%	57.2	56.0	60.2	62.4	66.6

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Dollars in Millions, except percentages					
Michigan National Corporation:					
Other operating expenses[(1)]	472	365	320	–	–
Operating income[(2)]	844	668	578	–	–
%	55.9	54.6	55.4	–	–
HomeSide, Inc.					
Other operating expenses[(1)]	217	–	–	–	–
Operating income[(2)]	387	–	–	–	–
%	56.1	–	–	–	–
Group:					
Other operating expenses[(1)]	5,335	4,477	4,229	3,916	3,665
Operating income[(2)]	9,811	8,267	7,761	6,970	6,555
%	54.4	54.2	54.5	56.2	55.9

[(1)] *Including Restructuring Costs in comparative periods where these costs were not classified as abnormal items, and before Charge to Provide for Doubtful Debts and Goodwill Amortisation.*

[(2)] *Represents Net Interest Income plus Other Operating Income.*

Abnormal Items

During 1998, the Group recognised restructuring costs of $380 million ($252 million after tax) resulting from its transition to a fully integrated financial services organisation. This transition, which will be implemented over the next 12 to 18 months, includes migration to a new operating framework and distribution, technology and workforce initiatives to improve operational efficiency and productivity.

The new operating framework comprises a streamlined management structure covering global, regional and local business unit levels. Distribution initiatives comprise a new sales and service organisational and operational model, a customer focused management model supporting and supported by a branch rationalisation program. Technology initiatives include large scale rationalisation and convergence of operating platforms through centralisation of common business unit functions. It is estimated that the restructuring expenditure will achieve a payback in approximately two years.

The total restructuring charge includes $248 million for redundancy and outplacement, $80 million for surplus lease space resulting from branch rationalisation, $23 million for asset writedowns associated with restructuring business operations and $29 million for other restructuring initiatives. The restructuring charge has been classified as an abnormal item due to its size and effect on the Group's result.

The $248 million in redundancy and outplacement costs relates to redundancies for approximately 3,470 positions. At September 30, 1998, payments of $132 million were made in respect of approximately 1,490 positions made redundant.

At September 30, 1998 approximately $180 million of the total restructuring charge of $380 million has been expended. The provision for restructuring (refer to note 25) represents the liability relating to future payments for redundancies, occupancy and general costs that will be made in 1999 and 2000. Future expenditure relating to the liability will not have a significant effect on the liquidity or financial position of the Group.

Additional restructuring costs that did not qualify for recognition in 1998 will be expensed as incurred. Such costs are not expected to be material. Refer to Note 3 of the financial statements for further details regarding restructuring cost.

Adoption of a Statistically Based Provisioning Methodology

Effective September 30, 1998, the Consolidated Entity adopted a statistically based provisioning methodology for its general provision for doubtful debts.

On initial adoption of this methodology, the existing general provision was tax effected. A future income tax benefit of $469 million was recognised and the general provision was grossed up by a corresponding amount through the balance sheet.

To bring the tax effected general provision to its required level under this methodology, a profit and loss charge of $369 million and a related tax credit of $124 million were recognised as abnormal items. Refer to Note 1 of the financial statements for additional information.

Operating Profit After Income Tax

Profitability

Operating Profit after income tax (before abnormal items) increased by 13.0% to $2,511 million in 1998 from $2,223 million in 1997. This compares with a 5.8% increase in 1997. The profit after tax before abnormal items for 1998 included $200 million from exchange rate movements. This resulted from increased income in Australian dollar terms partly offset by increased expenses. Operating profit after income tax and abnormal items was $2,014 million in 1998. The profit after tax and abnormal items for the year included $164 million from exchange rate movements.

This increase in earnings after tax before abnormal items primarily reflected:

– a $500 million or 9.3% increase in net interest income in 1998 after a $228 million or 4.4% increase in 1997;

– a $1,044 million or 35.9% increase in other operating income in 1998 after a $278 million or 10.6% increase in 1997;

– the Group's other operating expenses rose by 19.2% or $858 million after a $248 million or 5.9% increase in 1997 (before goodwill amortisation).

The result reflects the Group's continued efforts to diversify its income streams across geographies and business lines. The acquisition of HomeSide, Inc. on February 10, 1998 has particularly assisted in this regard. As a result, for the September year, 40.3% of net income was derived from non interest sources while 47.2% of the Group's operating profit after tax was generated outside Australia.

Despite an increase in expenditure associated with technology improvements and the introduction of new products, the Group's cost to income ratio only increased marginally to 54.4% in 1998 compared with 54.2% in 1997.

For years ended September 30	***1998 $M***	*1997 $M*	*1996 $M*	*1995 $M*	*1994 $M*	*Average Compound Growth %*
Operating profit						
(after tax and outside equity interest and before abnormal items)	**2,511**	2,223	2,102	1,936	1,658	10.9
Abnormal items	**(749)**	–	–	33	50	–
Income tax expense	**1,211**	1,095	959	906	953	6.2
Operating profit (before tax after outside equity interest)	**2,973**	3,318	3,061	2,875	2,661	2.8

Adjusted to Accord with US GAAP

Prepared in accordance with US GAAP, consolidated net income for the year to September 30, 1998 was $2,099 million compared to $2,289 million in 1997 and $2,147 million in 1996. There were no individually material adjustments between US GAAP net income and Australian GAAP net profit for the years ended September 30, 1998, 1997 and 1996. See Note 49 to the Financial Statements for a detailed reconciliation of Australian GAAP net profit to US GAAP net income.

Underlying Profit

Underlying profit shows the growth in the core business of the organisation, and provides an indication of its capacity to absorb current and possible future bad debt charges.

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Dollars in Millions					
Operating profit before tax, doubtful debt expense and goodwill amortisation	**4,476**	3,790	3,532	3,054	2,890
Goodwill amortisation	**(181)**	(142)	(137)	(92)	(92)
Underlying Profit	**4,295**	3,648	3,395	2,962	2,798
Deduct:					
Charge to provide for doubtful debts	**(572)**	(332)	(333)	(116)	(179)
Income tax expense	**(1,211)**	(1,095)	(959)	(906)	(953)
Operating profit before abnormal items and outside equity interest	**2,512**	2,221	2,103	1,940	1,666
Add/(Deduct) abnormal items net of tax	**(497)**	–	–	33	50
Operating profit after income tax before outside equity interest (per Statements of Profit and Loss)	**2,015**	2,221	2,103	1,973	1,716

Operating Profit By Segments

During 1998, the Group's operating profit before abnormal items increased by 13.0% to $2,511 million. This result reflects the Group's continued efforts to diversify its income streams across geographic and business lines. For the September 1998 year, 47.2% of the Group's operating profit after tax was generated outside Australia, up from 26.5% in 1994.

Contributions to Consolidated Operating Profit by Major Business Areas:

For years ended September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	*1995*	*1994*
Australian Group:					
Australian Financial Services [(a)]	**1,403**	1,297	1,239	1,167	1,054
Other[(b)]	**(81)**	32	209	229	152
Less: Goodwill amortisation	**(6)**	–	–	–	–
Abnormal items (after tax)	**(253)**	–	–	33	50
Total Australian Group	**1,063**	1,329	1,448	1,429	1,256
European Group:					
Clydesdale Bank	**286**	211	162	164	156
Northern Bank	**169**	119	97	80	87
Yorkshire Bank	**344**	227	159	190	195
National Irish Bank	**33**	33	27	25	12
National Australia Life	**5**	5	(9)	(35)	–
Other[(c)]	**(62)**	(45)	(33)	(4)	(24)
Less: Goodwill amortisation	**(62)**	(62)	(62)	(62)	(62)
Abnormal items (after tax)	**(236)**	–	–	–	–
Total European Group	**477**	488	341	358	364
New Zealand Group:					
Bank of New Zealand	**280**	277	241	238	137
NAG(NZ)	**(42)**	(49)	(49)	(47)	(60)
Less: Goodwill amortisation	**(31)**	(31)	(31)	(30)	(30)
Abnormal items (after tax)	**(18)**	–	–	–	–
Total New Zealand Group	**189**	197	161	161	47
United States Group:					
Michigan National Corporation	**226**	222	158	–	–
HomeSide, Inc.	**92**	–	–	–	–
Other[(d)]	**(7)**	8	17	3	14
Less: Goodwill amortisation	**(82)**	(49)	(44)	–	–
Abnormal items (after tax)	**13**	–	–	–	–
Total United States Group	**242**	181	131	3	14
Asian Group					
Asian Branches	**34**	18	13	9	10
Other[(e)]	**12**	10	8	9	17
Less: Abnormal items (after tax)	**(3)**	–	–	–	–
Total Asian Group	**43**	28	21	18	27
Operating Profit after Tax and Outside Equity Interests	**2,014**	2,223	2,102	1,969	1,708

(a) Australian Financial Services includes Personal Banking, Business Banking, Wholesale Banking, the Australian Property Companies, Custom Service Leasing Limited, National Australia Trustees Limited, National Australia Financial Management Limited, National Australia Asset Management Limited and County Investment Management.

(b) Australian Other includes ARDB Limited, National Equities Limited, Corporate Centre and BNZ Australia (prior to BNZA becoming part of Australian Financial Services' operations in June 1997).

(c) Europe Other includes National Australia Group (Europe) Limited, London Branch, NAB Investments Limited and NAB Finance (Ireland) Limited.

(d) US Other includes New York Branch, National Australia Funding (Delaware) Inc., National Americas Investments Inc. and HomeSide Investment, Inc.

(e) Asia Other includes Nautilus Insurance Pte Limited.

Australian Group

Australian Financial Services

Australian Financial Services includes Personal Banking, Business Banking, Wholesale Banking, National Australia Financial Management Limited, National Australia Asset Management Limited, the Australian Property Companies, Custom Service Leasing Limited, National Australia Trustees Limited, Custodian Services and County Investment Management. Corporate centre costs and National Equities Limited have been excluded from the Australian Financial Services figures.

Australian Financial Services produced a strong result with operating profit after tax (before abnormal items) increasing by $106 million or 8.2% to $1,403 million from $1,297 million in 1997 and $1,239 million in 1996. The cost income ratio improved during the period from 49.9% to 49.6%, the improvement attributable to increased income over the period.

Net interest income increased by $73 million or 2.7% in 1998 notwithstanding continued pressure on margins. Australian Financial Services' interest margin fell from 3.6% to 3.1% over the year with the majority of the decline occurring in the first half. The margin decline slowed over the second half. The growth in net interest income was mainly due to significant growth in lending volumes, particularly home loans and fixed rate business lending. Deposit volumes also showed an increase, notably variable rate at call deposits.

Other operating income showed strong growth increasing by $343 million or 22.2% over the previous corresponding period. This was mainly due to growth in fee income, in particular loan fees, transaction fees and credit card fees. With volatility in world financial markets increasing, income from foreign exchange and money market trading activities rose.

Higher personnel costs resulted from salary increases flowing from enterprise bargaining. General expenses growth resulted from increased depreciation for data processing equipment together with general expense growth to support the business. Higher credit card activity was the main contributor to an increase in fees and commissions expense.

Asset quality has remained steady reflecting the pro-active policy of debt write-offs although the charge for doubtful debts during the year increased, partly reflecting strong balance sheet growth and the deteriorating economic environment.

National Australia Financial Management (NFM) produces protection income, superannuation, investment trust and retirement income products for retail clients. NFM contributed a profit of $53 million, a 29% increase over the corresponding period in 1997. This was driven by increases in sales across all product lines. Product innovation, coupled with improved distribution channels, have been the main drivers of this result.

National Australia Asset Management (NAM) is a full service fund manager, managing NFM's retail products portfolio, a portfolio of wholesale assets and funds for institutional clients. Wholesale and retail funds under management increased by 14% over the year with the major growth occurring in the retail sector. NAM's contributed a profit after tax of $3 million for the year.

County Investment Management (County) is a specialist fund manager, managing a range of products from funds and portfolios for institutional clients to retail and wholesale trust products. County became a member of the National Australia Bank Group on October 1, 1997. Wholesale and retail funds under management grew by 14% over the year bringing funds under management at September 30, 1998 to $10.5 billion.

European Group

The European Group profit contribution (before goodwill amortisation of $62 million and abnormal items of $236 million) increased by 40.9% to $775 million from $550 million in 1997 and $403 million in 1996.

Clydesdale Bank's profit before abnormals increased by 35.5% (12.8% in local currency) to $286 million in 1998 from $211 million in 1997 and $162 million in 1996. Northern Bank's profit before abnormals increased by 42.0% (17.6% in local currency) to $169 million from $119 million and $97 million in 1996. Yorkshire Bank's profit before abnormals increased by 51.5% (26.0% in local currency) to $344 million from $227 million in 1997 and $159 million in 1996. National Irish Bank's profit before abnormals was $33 million in 1998, the same as the prior year (a 9.1% reduction in local currency) and up from $27 million in 1996. National Australia Life once again contributed a profit of $5 million in 1998 the same as the prior year after posting a loss of $9 million in 1996.

Together with the positive impact of exchange rate movements, major factors contributing to the overall European result were:

– increase in net interest income of $357 million or 24.6% to $1,805 million reflecting increased lending volumes, particularly in housing loans with strong growth contributed by each of the European Banks;

– other operating income increased by $230 million or 18.7% to $1,230 million predominantly due to higher loan and money transfer fees arising through the growth in lending and greater automation of the collection process;

– specific charge for doubtful debts increased by $19 million or 11.6% to $183 million. For full discussion of this matter, refer to the Bad and Doubtful Debts section on page 37.

New Zealand Group

The New Zealand Group contributed a profit after tax of $238 million (before goodwill amortisation of $31 million and abnormal items of $18 million) compared to $228 million in 1997, an increase of 4.4%.

BNZ (including its offshore operations) contributed a profit of $280 million in 1998 compared to $297 million in 1997, a decrease of 5.7%. The profit reduction reflects the impact of a one off non lending loss provision writeback booked in the 1997 year ($20 million) and the impact of the transfer to Australian Financial Services of BNZ Australia ($16 million). Underlying profit excluding these factors has increased by 8% over the previous corresponding period. This improvement is largely due to the BNZ's continued focus on reducing underlying costs, cost recovery of transactional activity and delivering improved products and services.

Net interest income (excluding the transfer of BNZA), was constant reflecting the bank's ability to grow volume while margins have been reducing. The depreciating NZ Dollar, subdued economic conditions, competition and interest rate volatility has put further pressure on bank lending margins.

Other operating income has increased 11%, mainly due to good growth in underlying fees and commissions, particularly in credit cards and insurance commissions, and trading profits resulting from a volatile exchange and interest rate environment.

Non-interest expenses have increased over the previous corresponding period. Excluding the impact of the one off non debt credit received last year and the transfer of BNZA, non-interest expenses were held flat.

United States Group

The United States Group contributed a profit after tax of $311 million (before goodwill amortisation of $82 million and abnormal items of $13 million) compared to $230 million in 1997, an increase of 35.2%.

MNC contributed a profit of $226 million in 1998 compared to $222 million in 1997, an increase of 1.8%. In local currency terms net profit before abnormals decreased by 14.4% over the previous corresponding period. This reduction was largely due to the booking of US$35 million in income tax credits in 1997 following the merger of two of Michigan National's controlled entities. Excluding the impact of the 1997 tax credits, the 1998 result increased by 7% in local currency terms. Net interest income increased by 27% over the previous corresponding period primarily through increased core lending, mainly in Fixed Commercial Loans. Other operating income increased by 25% over the previous corresponding period primarily from strong growth in lending fees driven by increased lending volumes and the contribution of fee income in the current period from Boatman's Relocation Corporation which was acquired in July 1997. Non-interest expenses increased predominantly through higher project activity including Year 2000 related costs.

HomeSide, Inc., which was acquired on February 10, 1998, contributed a profit of $92 million for the period from acquisition date to September 30, 1998.

Asian Group

The Asian Group contributed a profit after tax before abnormal items of $46 million compared to $28 million in 1997, an increase of 64.3%. The increased profit largely reflects the positive impact of exchange rate movements together with an increased contribution from treasury and corporate banking activities in the Asian branches. Included in the 1997 profit was a large recovery recorded by National Australia Merchant Bank (Singapore).

Assets and Shareholders' Equity

Year end assets increased to $251.7 billion after an increase to $202.0 billion at September 30, 1997 from $173.7 billion in 1996. Exchange rate movements added $21 billion to total assets in 1998. Of the $49.7 billion increase in 1998 in Australian dollar terms, $28.9 billion was attributable to growth in lending of which $8.4 billion related to real estate lending and $8.9 billion to other commercial and industrial lending. Over the same period shareholders' equity in the Group increased to $15.8 billion in 1998 from $12.6 billion in 1997 and $12.5 billion in 1996.

In 1998, the increase in shareholder's equity was attributable mainly to an increase of $736 million in retained profits and the issue of preference shares of $733 million (for further discussion on this point refer to 'Liquidity and Capital Resources' on page 46).

In Australia during 1998, assets grew by $16.5 billion to $124.1 billion with gross loans and acceptances increasing by 19.9% to $101.6 billion. The major contributor to this increase was housing loans which grew by 13.0% to $37.8 billion. There was also growth in assets in Europe of 35.4% to $64.0 billion in 1998 largely due to growth in lending assets, particularly in Clydesdale Bank and Yorkshire Bank which both experienced strong increases in housing lending. Excluding the impact of exchange rate fluctuations, total assets in Europe increased by 3.4%. In New Zealand, assets grew 11.9% to $23.1 billion in 1998 due largely to increases in BNZ's lending assets. Excluding the impact of exchange rate movements, total assets in New Zealand increased by 17.9%. In the United States, total assets increased by 81.0% to $30.5 billion in 1998 largely due to growth in MNC's lending assets and the inclusion of HomeSide which added

$9.5 billion. Excluding the impact of exchange rate movements and the inclusion of HomeSide, Inc., total assets in the United States increased by 1.4%.

Assets and Shareholders' Equity Adjusted to Accord with US GAAP

Year end assets under US GAAP increased to $251.6 billion in 1998 after an increase to $201.9 billion at September 30, 1997 from $173.6 billion in 1996. The increase in assets in 1998 of $49.7 billion is mainly attributable to the factors outlined above under 'Assets and Shareholders' Equity'. In 1997, shareholders' equity under US GAAP increased marginally to $16.4 billion from $13.2 billion in 1997 and $13.0 billion in 1996. (See Note 49 for a detailed reconciliation of total assets and shareholders' equity according to US GAAP).

Return on Average Shareholders' Equity

Profitability, as measured by return on average shareholders' equity after goodwill, increased to 17.9% in 1998 from 16.7% in 1997 and 17.0% in 1996. In 1998, the return increased primarily as a result of the increase in profitability before abnormal items. In 1997 and 1996, profit also grew by 5.6% and 6.6% respectively.

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Dollars in Millions, except percentages					
Weighted average shareholders' equity	**14,054**	13,312	12,386	10,905	9,454
Return (before abnormal item) on average equity %	**17.9**	16.7	17.0	17.8	17.5

Dividends and Earnings per Share

Basic earnings per share (after goodwill and before abnormal items) in 1998 were 174.6 cents (151.6 cents in 1997).

The increase in basic earnings per share (before abnormal items) from 1996 of 144.8 cents to 151.6 cents in 1997 and 174.6 cents in 1998 reflects improved profitability in 1997 and 1998 and the benefits of the share buy back program, part of the Group's active capital management policy.

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Cents					
EPS – Basic (before abnormal items)	**174.6**	151.6	144.8	138.7	123.5
– Diluted (before abnormal items)	**170.6**	148.7	143.1	137.5	123.0
EPS – Basic (after abnormal items)	**140.0**	151.6	144.8	141.0	127.3
– Diluted (after abnormal items)	**137.9**	148.7	143.1	140.6	127.3
Dividend	**102.0**	94.0	87.0	83.0	74.0

Interim dividends of 49, 45 and 43 Australian cents per Ordinary Share were paid during the years ended September 30, 1998, 1997 and 1996, respectively. The final dividend of 53 Australian cents (1997: 49 cents, 1996: 44 cents) declared from the 1998 profit is payable on December 16, 1998.

In 1988, the Company introduced the Bonus Share Plan (BSP) 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. With effect from the 1990 final dividend these Ordinary Shares were issued at a discount of 7.5% to market value. Furthermore, the Dividend Reinvestment Plan (DRP) was amended in 1988 to permit reinvestment of cash dividends in new Ordinary Shares issued at a discount of 7.5% to market value. In 1989, the dividend scheme was further amended to permit shareholders to receive dividends paid out of the profits of a United Kingdom subsidiary. The discount rate was reduced from 7.5% to 2.5% on September 30, 1994 and applied from the 1994 final dividend. The discount rate was removed on May 16, 1996.

Liquidity and Capital Resources

As at September 30	***1998***	*1997*	*1996*
Dollars in Millions			
Shareholders' equity	**15,761**	12,579	12,519
Outside equity interest	**3**	2	–
Perpetual floating rate notes	**421**	347	424
Exchangeable capital units	**1,262**	1,262	–
Total	**17,447**	14,190	12,943

As indicated in the above table, the Group has significantly increased its capital position over the past three years. The increase in shareholders' equity has resulted mainly from improved profitability and higher issued and paid up capital resulting from the issue of preference shares on September 30, 1998 (refer to Note 30 of the financial statements for full details) and the reinvestment of dividends under the Group's Dividend Reinvestment Plan ('DRP'). During the three years ended September 30, 1998, 1997 and 1996, 18.8 million, 20.8 million and 36.2 million Ordinary Shares, respectively, were issued under the DRP to shareholders at varying prices. This increase in shareholders' equity has been offset by the impact of the Bank's share buy back which was completed on October 7, 1997.

As is the case with most major banking groups, the Company has traditionally relied on retained earnings to augment its capital resources to allow for real and inflation induced growth in its asset base.

On March 19, 1997, 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.

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.

The Company has the right to redeem all or part of the Exchangeable Capital Units or purchase any or all of the Convertible Non-Cumulative Preference Shares under a special offer at any time after March 19, 2007.

Changes in Financial Condition

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Average balances (Dollars in Billions)					
Total assets	**238**	192	168	139	122
Total liabilities	**224**	179	155	128	112

Average total assets in 1998 increased by 23.9% to $238 billion from $193 billion in 1997 and $168 billion in 1996. Year end total assets increased 24.6% from 1997. See 'Assets and Shareholders' Equity' above for an explanation of major movements in 1998. A discussion of changes in significant assets and liabilities follows.

Capital Adequacy

As of September 30, 1998 the Group's total risk weighted capital was 9.2%, consisting of Tier 1 capital of 6.4% and Tier 2 capital of 3.1% and deductions of 0.3%.

Capital Adequacy Ratios

As at September 30	***1998*** *%*	*1997* *%*	*1996* *%*
Tier 1	**6.4**	6.8	7.6
Tier 2	**3.1**	2.2	1.9
Deductions	**(0.3)**	(0.3)	(0.2)
Total	**9.2**	8.7	9.3

The decline in Tier 1 capital ratio to 6.4% from 6.8% is principally due to the growth in the risk weighted assets associated with the acquisition of Homeside, Inc. in February 1998 as well as the impact of exchange rate movements. The decline also reflects the introduction of capital requirements for market risk which became effective on January 1, 1998. Refer below for a discussion on introduction of market risk measurement.

Tier 2 capital rose to 3.1% up from 2.2% as at September 1997 due to new capital raising of an additional $2.4 billion term subordinated debt in the Australian and US markets. As a result of the adoption of a statistically based provisioning methodology during the September quarter, the larger general provision for doubtful debts balance has also contributed to a higher Tier 2 ratio. Refer to page 41 for a discussion on the adoption of statistically based provisioning.

The principal objective of the Australian Prudential Regulation Authority's (APRA) capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a bank's balance sheet, in particular 'credit risk'. The risk based capital adequacy framework is consistent with the international standards of The Basle Committee on Banking Supervision. The framework has three basic aspects – the capital base elements, the required capitalisation level and the risk weighting regime.

The capital base for regulatory purposes is comprised of two elements; namely Tier 1 and Tier 2 capital, after making certain deductions. Tier 1 capital includes paid up ordinary capital, paid up non-cumulative irredeemable preference shares, retained earnings, reserves (other than asset revaluation reserves) less goodwill and other intangible assets. Additionally, where future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital. This was not the case as at September 30, 1998 and as such no adjustment was required.

Tier 2 capital includes asset revaluation reserves, general provision for doubtful debts (net of associated future income tax benefits), hybrid debt/equity instruments and subordinated term debt with an original maturity of at least seven years.

Net assets in 'non-consolidated' controlled entities and holdings of other banks' capital instruments are deducted from total Tier 1 and 2 capital.

Australian banks are required to maintain a minimum capital to risk asset ratio of 8%. Tier 1 capital must be at least 50% of the minimum capital requirements.

In order to determine the capital adequacy ratio, all assets are weighted in order to provide a broad indication of relative credit risk. From August, 1998 the number of risk weightings categories was reduced from five to four (0%, 20%, 50%, and 100%) and the assets to which those weightings apply are described more fully below. (See '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 a risk category.

Off-balance sheet activities are categorised as follows:

– Direct credit substitutes eg financial guarantees and standby letters of credit.
– Trade and performance related contingent items eg performance bonds, warranties, and documentary letters of credit.
– Long term commitments eg formal credit lines with a residual maturity exceeding one year.
– Market related transactions eg foreign exchange contracts, currency and interest rate swaps and forward rate agreements.

In addition to holding sufficient levels of capital to cover credit risk, APRA has prescribed capital requirements for market risk to be applicable to all Australian banks with effect from January 1, 1998. This approach is outlined in Prudential Statement C3 (PS C3) – 'Capital adequacy of Banks: Market Risk' and is broadly consistent with the Basle Committee on Banking Supervision's January, 1996 recommendations.

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 bank.

PS C3 requires the measure of market risk to be multiplied by 12.5 (ie. the reciprocal of the minimum capital ratio of 8 per cent) to determine a notional risk weighted assets figure.

The total of the risk weighted assets plus risk assessed off-balance sheet business plus the notional market risk amount is then related to the capital base and the resultant risk ratio is used as a measure of capital adequacy.

On August 28, 1998, APRA announced several amendments to the capital adequacy requirements for banks. These amendments were made either to achieve consistency between the capital regime which applies to banks and that for building societies and credit unions, or to adopt amendments made by the Basle Committee on Banking Supervision to its international guidelines on the capital adequacy of banks.

The amendments were as follows:–

– Provided they were covered with an adequate level of mortgage insurance through an acceptable mortgage insurer, housing loans with a loan to valuation ratio above 80 per cent will qualify for a 50 per cent risk weight.
– The risk weight applied to the bank's holdings of government securities and other claims on governments is reduced from 10 per cent to zero.
– There will be an extension of the matrix of credit conversion factors which allow derivative contracts to be included in the calculation of the credit component of risk weighted capital. This follows changes made by the Basle Committee on Banking Supervision in recognition of the widening range of risk in derivatives activity. The extension of the matrix differentiates equities, precious metals and commodities as separate classes of risk and adds an extra maturity category for contracts extending beyond five years.

The following tables provide details of Tier 1 and Tier 2 capital position, risk adjusted assets and off-balance sheet exposure.

Regulatory Capital

As at September 30	***1998***	*1997*	*1996*
Dollars in Millions			
Tier 1			
Issued and paid up capital	**6,675**	1,413	1,477
Reserves	**1,782**	4,598	5,421
Retained profits	**7,304**	6,568	5,530
Minority interests	**3**	2	–
Estimated reinvestment under dividend reinvestment plan[1]	**276**	208	194
Less:			
Asset revaluation reserve	**(3)**	(200)	(252)
Goodwill	**(3,095)**	(2,122)	(2,218)
Other	**(290)**	(3)	(3)
Total Tier 1 capital	**12,652**	10,464	10,149

As at September 30	***1998***	*1997*	*1996*
Dollars in Millions			
Tier 2			
Asset revaluation reserve	**3**	200	252
General provisions for doubtful debts	**1,544**	771	664
Perpetual floating rate notes	**421**	347	315
Dated subordinated debts	**3,014**	777	1,342
Exchangeable capital units	**1,262**	1,262	–
Notional revaluation of investment securities to market	**26**	38	17
Total Tier 2 capital	**6,270**	3,395	2,590
Total Tier 1 and 2 capital	**18,922**	13,859	12,739
Less Deductions:			
Eliminations of net assets in life insurance and trustee controlled entities[2]	**(281)**	(179)	(129)
Holdings of other financial institutions' capital instruments	**(219)**	(206)	(127)
Total regulatory capital	**18,422**	13,474	12,483

[1] *The amount is derived from reinvestment experience on the Group's dividend reinvestment and bonus share plans.*

[2] *Refer to Note 1 of the Financial Statements for description of accounting policies.*

Risk Adjusted Assets and Off Balance Sheet Exposures

	Balance			*Risk Weights*	*Risk Adjusted Balance*[1]		
As at September 30	***1998***	*1997*	*1996*		***1998***	*1997*	*1996*
	$M	*$M*	*$M*	*%*	***$M***	*$M*	*$M*
Assets							
Cash claims on APRA and short term claims on Australian Commonwealth Government[2]	**19,053**	7,944	6,055	0	**–**	–	–
Longer term claims on Australian Commonwealth Government, claims on State governments, OECD governments and Central Banks other than APRA	**–**	9,081	7,732	10	**–**	908	773
Claims on OECD banks and local governments	**23,975**	22,564	20,604	20	**4,795**	4,513	4,121
Housing loans[3]	**56,311**	44,263	37,655	50	**28,156**	22,132	18,827
All other assets	**137,827**	110,055	96,029	100	**137,827**	110,055	96,029
Total assets[4]	**237,166**	193,907	168,075		**170,778**	137,608	119,750

As at September 30	***Contract or Notional Amount 1998***	***Credit Equivalent Amount 1998***	*Risk Weights*	*Risk Adjusted Balance*[1] *1998*	*1997*	*1996*
	$M	*$M*	*%*	*$M*	*$M*	*$M*
Off Balance Sheet Exposures						
Financial guarantees, standby letters of credit and other letters of credit	**7,031**	**6,038**	0–100	**5,696**	5,395	4,803
Performance related guarantees, warranties and indemnities	**3,068**	**1,534**	0–100	**1,446**	709	719
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**80,401**	**20,427**	0–100	**15,240**	8,168	6,496
Foreign exchange, interest rate and other market related transactions	**647,767**	**12,998**	0–50	**3,897**	2,429	1,545
Total off-balance sheet exposures	**738,267**	**40,997**		**26,279**	16,701	13,563
Total risk adjusted assets				**170,778**	137,608	119,750
Total risk adjusted assets and off-balance sheet exposures – credit risk				**197,057**	154,309	133,313
Add: Risk adjusted assets – market risk[5]				**2,419**	0	0
Total assessed risk exposure				**199,476**	154,309	133,313

[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. Following the August 1998 APRA amendments discussed previously, these items will now attract 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 discussed previously, 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 Prudential Statement C3 (PS C3), Australian Banks are now required to hold sufficient levels of capital to cover market risk. PS C3 requires the measure of market risk charge to be multiplied by 12.5 (ie. the reciprocal of the minimum capital ratio of 8%) to determine a notional risk weighted asset figure. Refer to page 48 for more discussion on PS C3.

Gross Loans and Advances

Average Balances

1998	Australia	$76 billion
	Overseas	$73 billion
1997	Australia	$66 billion
	Overseas	$58 billion
1996	Australia	$56 billion
	Overseas	$49 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 37.0% of loans at September 30, 1998 maturing within one year and 24.9% maturing between 1 year to 5 years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after 5 years. The average balance of loans in 1998 was 62.8% of average total assets. This compares with 64.2% in 1997.

Average Australian loans and advances accounted for 51.0% of the total average loans and advances in 1998, 53.3% in 1997 and 53.2% in 1996.

Average net loans and advances were $149.5 billion in 1998 an increase of 21.1% over the 1997 balance of $123.5 billion, which followed an increase of 17.3% over the 1996 balance of $105.1 billion. The increase for 1998 was principally due to growth in business and housing loans. Low inflation and falling interest rates assisted the growth in volumes.

Year End Loans by Industry

	Australian Group		European Group		New Zealand Group		United States Group	
As at September 30, 1998	$M	%	$M	%	$M	%	$M	%
Government & public authorities	929	1.2	835	1.8	106	0.6	69	0.5
Agriculture, forestry & fishing	5,794	7.2	2,414	5.1	2,190	12.0	143	1.0
Financial, investment & insurance	4,940	6.1	2,560	5.4	3,003	16.4	1,187	8.0
Real estate construction	1,367	1.7	999	2.1	171	0.9	328	2.2
Real estate mortgage	37,763	47.0	11,950	25.3	6,789	37.2	733	5.0
Manufacturing	2,524	3.1	2,643	5.6	1,408	7.7	2,083	14.1
Instalment loans to individuals	7,272	9.0	7,215	15.3	1,182	6.5	2,695	18.2
Lease financing	5,981	7.4	4,602	9.7	1	0.0	104	0.7
Other commercial & industrial	13,885	17.3	13,999	29.7	3,419	18.7	7,443	50.3
Total	**80,455**	**100.0**	**47,217**	**100.0**	**18,269**	**100.0**	**14,785**	**100.0**
Less Unearned income	(876)		(631)		–		(9)	
Provision for doubtful debts	(1,224)		(709)		(157)		(408)	
Net loans and advances	**78,355**		**45,877**		**18,112**		**14,368**	

In Australia, there was strong asset growth experienced mainly in the areas of housing, business investment loans, leasing, overdrafts and credit cards. Net lending assets (including acceptances) increased 13.6% to $99.5 billion in 1998 with residential mortgage loans increasing by $5.8 billion or 18.3% and lease financing increasing by $755 million or 14.4% over 1997.

The European Group's net loans and advances increased by 47.1% to $45.9 billion in 1998 with exchange rate movements contributing $10.0 billion of the increase. The major areas of growth in Europe during 1998 were in real estate mortgages increasing by 42.0% and in corporate and business lending.

The New Zealand Group's net loans and advances grew by 4.1% to $18.1 billion in 1998 with the depreciation of the New Zealand dollar against the Australian dollar contributing a $977 million reduction. One of the areas of growth was real estate related lending (gross) which increased by $166 million to $6.8 billion in 1998.

The United States Group continued to perform strongly, particularly in the business markets, with net loans and advances increasing by 34.9% to $14.4 billion in 1998. Exchange rate movements contributed $2.5 billion of the growth and the inclusion of HomeSide, Inc. added $19.5 million in gross lending.

Impaired Assets, Provisions and Allowance for Loan Losses

Non-Accrual Loans

Total non-accrual loans less specific provisions for credit losses at September 30, 1998 were $1,067 million, an increase of 51.0% from the 1997 balance of $706 million. The increased net non-accruals are a reflection of the decrease in specific provisioning as a result of the Group's adoption of a statistically based provisioning methodology. At September 1996, non-accrual loans less specific provisions for credit losses were $803 million. As a ratio to year end risk weighted assets, net non-accrual loans represented 0.5%, constant from 1997. In 1996, the ratio of net non-accrual loans to year end risk weighted assets was 0.6%.

Gross non-accrual loans in 1998 were $1,470 million, a $189 million or 14.8% increase from the 1997 balance of $1,281 million. In 1996, gross non-accrual loans amounted to $1,444 million

The Australian Group component of gross non-accrual loans in 1998 amounted to $602 million (representing a $49 million or 8.9% increase from the 1997 balance). In Europe, gross non-accrual loans were $580 million in 1998 (representing a $106 million or 22.4% increase from the 1997 balance). In New Zealand, gross non-accrual loans were $120 million in 1998 (representing a $10 million or 9.1% increase from the 1997 balance). In the United States, gross non-accrual loans were $141 million in 1998 (representing a $16 million or 12.8% increase from the 1997 balance). Increased financial uncertainty and deteriorating global conditions resulted in a higher level of activity in new impaired assets during the year. Despite this the Group's impaired book showed only a moderate increase year on year. This favourable result is attributable to the introduction of specialist Asset Structuring Units in each of the Group's regions which have enabled earlier identification and workout of problem loans.

		September 30, 1998			*September 30, 1997*	
Dollars in Millions	*Gross*	*Specific[(1)] Provisions*	*Net*	*Gross*	*Specific[(1)] Provisions*	*Net*
Australian Group	**602**	**189**	**413**	553	189	364
European Group	**580**	**162**	**418**	474	164	310
New Zealand Group	**120**	**23**	**97**	110	20	90
United States Group	**141**	**16**	**125**	125	187	(62)
Other	**27**	**13**	**14**	19	15	4
Total	**1,470**	**403**	**1,067**	1,281	575	706
Percentage of risk weighted assets	**0.7**	**0.2**	**0.5**	0.8	0.4	0.5

	1998	*1997*
Net non-accrual loans	**1,067**	706
Shareholders' equity	**15,764**	12,581
%	**6.8**	5.6

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

Doubtful Debts Closing Balance by Geographic Group

As at September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Dollars in Millions					
Australian Group					
General(1)	**1,031**	422	378	325	283
Specific(2)	**193**	193	218	178	272
Total	**1,224**	615	596	503	555
European Group					
General(1)	**542**	169	134	125	115
Specific(2)	**167**	174	162	126	192
Total	**709**	343	296	251	307
New Zealand Group					
General(1)	**133**	76	73	65	55
Specific(2)	**24**	21	55	150	252
Total	**157**	97	128	215	307
United States Group(3)					
General(1)	**403**	89	74	26	26
Specific(2)	**5**	180	175	11	25
Total	**408**	269	249	37	51
Other					
General(1)	**34**	15	5	10	10
Specific(2)	**13**	15	12	15	12
Total	**47**	30	17	25	22
Group					
General(1)	**2,143**	771	664	551	489
Specific(2)	**402**	583	622	480	753
Total	**2,545**	1,354	1,286	1,031	1,242
% of Risk Weighted Assets	**1.3**	0.9	1.0	0.9	1.3

(1) *General provision balance includes the impact of the adoption of a statistically based provisioning methodology which was adopted 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 Consolidated Entity, 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 current trends evident in those segments of the loan portfolios. This amount is included in the prior period specific provision figure quoted in the above table (1997: $168 million, 1996 $135 million). Due to the nature of the MNC provisioning methodology, the above table did not include gross loan amounts to which this portion of the specific provision relates. Following the adoption of a statistically based provisioning methodology by the Consolidated Entity, the corresponding provision is included in the general provision at September 30, 1998.*

Total allowance for loan losses, excluding off-balance sheet credit exposures, held at September 30, 1998 were $2,545 million or 1.3% of risk weighted assets. This compares with $1,354 million or 0.9% of risk weighted assets in 1997 and $1,286 million or 1.0% of risk weighted assets in 1996. Of the total at September 30, 1998, general provisions represented $2,143 million or 1.1% of risk weighted assets.

Credit Quality Data

As at September 30, 1998, the Group adopted a statistically based provisioning methodology in determining its general provision for doubtful debts. Comparative information has not been restated to reflect the change in methodology. For further information, see Note 1 of the Financial Statements 'Principal Accounting Policies' on page 80.

For further information on Asset Quality Disclosures, see Note 15 of the Financial Statements 'Asset Quality Disclosures' on page 100.

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Dollars in Millions					
Provision for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**402**	583	622	480	753
General	**2,143**	771	664	551	489
Gross non-accrual and restructured loans	**1,476**	1,286	1,507	1,866	2,487
Charge to the profit and loss account	**572**	332	333	116	179

For years ended September 30	***1998***	*1997*	*1996*	*1995*	*1994*
Dollars in Millions					
Ratios[1]					
Provision for doubtful debts at end of year as a percentage of end of year loans (before provisions)					
Specific	**0.25**	0.44	0.54	0.51	0.93
General	**1.31**	0.58	0.58	0.58	0.61
	1.56	1.02	1.12	1.09	1.54
Provision for doubtful debts at end of year as a percentage of end of year loans and acceptances (before provisions)					
Specific	**0.22**	0.38	0.47	0.43	0.77
General	**1.15**	0.50	0.50	0.49	0.50
	1.37	0.88	0.97	0.92	1.27
Provision for doubtful debts at end of year as a percentage of risk weighted assets					
Specific	**0.20**	0.38	0.47	0.44	0.78
General	**1.07**	0.50	0.50	0.51	0.51
	1.27	0.88	0.97	0.95	1.29
Non-accrual and restructured loans as a percentage of end of year loans (before provisions)	**0.90**	0.96	1.32	1.97	3.12
Charge to profit and loss as a percentage of:					
Year end loans	**0.35**	0.25	0.29	0.12	0.22
Year end loans and acceptances	**0.31**	0.22	0.25	0.10	0.19
Average loans	**0.38**	0.27	0.32	0.13	0.24
Risk weighted assets	**0.29**	0.22	0.25	0.11	0.18

[1] *Ratios exclude specific provisions for off-balance sheet credit exposures.*

Provisioning Coverage Ratio

The level of provisioning for non-accrual loans (the 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 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 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 level of effective coverage for loan losses, reflecting the Group's policy, can be determined by notionally adding back write offs taken during the course of the year, to both the gross receivables and specific provision balances.

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 (effective coverage):

For years ended September 30	***1998***	*1997*	*1996*
	%	*%*	*%*
Actual coverage	**27.2**	45.8	42.7
Effective coverage	**50.4**	61.7	56.7
Total coverage	**148.6**	103.7	89.8

The coverage ratios include specific provisions for off-balance sheet credit exposures.

In addition to the specific provision, the Group maintains a general provision to provide cover for bad debts which are inherent in lending but which are not yet 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 credit 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, specific provisions will be raised by making a transfer from the general provision for the specific provision required. The general provision is then re-established based on the remaining book of performing credit exposures. Refer to Note 1 of the financial statements for additional information.

The general provision provides further coverage against these loans of 98.2% at September 30, 1998, bringing total effective coverage to 148.6%.

The decrease in both the actual and effective coverage rates reflects the adoption of the statistically based provisioning methodology which resulted in the transfer of unallocated specific provisions to the general provision. Refer to Note 15 of the financial statements for further information.

Deposits and Other Borrowings

Total deposits and other borrowings (net of set offs) increased to $158.1 billion at September 30, 1998 or by 23.1% compared to $128.5 billion or a 17.7% increase in 1997 and $109.2 billion in 1996. Deposits not bearing interest at September 30, 1998 represent 8.3% of total deposits compared to 7.4% in 1997.

In Australia, deposits increased by $12.5 billion or 22.2%. In Europe, deposits increased by $10.8 billion or 31.7% (excluding the impact of UK/Irish exchange rate movements, deposits increased by $956 million). In New Zealand deposits remained relatively steady with 1997 with exchange rate movements offsetting volume growth. In the United States deposits grew by $5.6 billion (excluding the impact of exchange rate movements, deposits increased by $1.7 billion).

	Australian Group		*European Group*		*New Zealand Group*		*United States Group*	
As at September 30, 1998	*$M*	*%*	*$M*	*%*	*$M*	*%*	*$M*	*%*
Not bearing interest (net)	3,935	5.7	5,802	12.9	703	4.7	2,607	11.9
Demand & short term deposits	31,472	45.6	25,816	57.6	3,500	23.6	6,274	28.8
Certificates of deposit	6,080	8.8	3,933	8.8	2,658	17.8	159	0.7
Term deposits	18,511	26.8	9,284	20.7	8,032	53.9	5,847	26.8
Other debt obligations	9,052	13.1	–	–	–	–	6,931	31.8
Total deposits	69,050	100.0	44,835	100.0	14,893	100.0	21,818	100.0

Risk Elements

Interest Rates

	1998	*1997*	*1996*
	%	*%*	*%*
NAB Base Lending Rate (published average)	**8.8**	9.9	11.1
NAB Benchmark Lending Rate (published average)	**8.6**	9.4	10.7
NAB Housing Loan Rate (regulated)[(1)]	**13.5**	13.5	13.5
NAB Housing Rate (deregulated)	**6.7**	7.8	10.3
US Prime Rate	**8.3**	8.5	8.3

(1) Relates to housing loans under $100,000 entered into prior to 1986.

Cross Border Outstandings by Industry Category

The following table analyses the aggregate cross border outstandings due from countries 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.

	Government $M	*Banks and other financial institutions $M*	*Other commercial and industrial $M*	*Total $M*	*% of Group assets %*	*Commitments including irrevocable letters of credit $M*
As at September 30, 1998						
United Kingdom	–	**1,092**	**440**	**1,532**	**0.6**	**1,746**
Japan	–	**2,061**	–	**2,061**	**0.8**	**1,080**
New Zealand	**29**	**3,873**	–	**3,901**	**1.5**	**128**
United States	–	**1,089**	**285**	**1,373**	**0.5**	**3,188**
As at September 30, 1997						
United Kingdom	–	957	212	1,169	0.6	950
Japan	–	3,048	44	3,092	1.5	278
New Zealand	–	2,094	11	2,105	1.0	136
United States	–	1,290	310	1,600	0.8	1,694
As at September 30, 1996						
United Kingdom	–	112	49	161	0.1	1,681
Japan	–	3,024	114	3,138	1.8	1,265
New Zealand	90	1,567	7	1,664	1.0	81
United States	–	738	39	777	0.4	1,490

Highly Leveraged Finance Transactions ('HLTs')

The Group's outstandings to HLTs as defined by the criteria issued by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System in the United States at September 30, 1998 which includes traditional Leveraged Buy Out business, totalled $806 million (1997: $547 million) or 0.3% (1997: 0.3%) of total Group assets. Increased exposure to HLTs has occurred mainly in MNC and is also due to exchange rate movements during the period. The transactions are relatively small and risk is well spread across various industries.

	1998	*1997*	*1996*
The geographic spread of the portfolio as at September 30 is approximately:	%	%	%
Australia	–	–	7
New Zealand	**6**	11	15
United States	**44**	34	29
Europe	**50**	55	49
	100	100	100

The HLT portfolio consists of 76 (1997: 87) transactions diversified over broad industry groups. Generally, these transactions are subject to relatively prompt reduction in outstandings from a combination of asset sales and/or cash flow.

Human Resources

The table below summarises the Group's staffing position.

	1998	*1997*	*1996*	*1995*	*1994*
Number of employees – full time and part time(1)	**50,973**	52,226	52,912	52,567	49,163
Number of employees – full time equivalents(2)	**46,300**	46,422	47,178	45,585	43,871
Operating profit after tax (before abnormal items) per full time employee	**55,529**(3)	47,918	44,885(4)	42,470	37,793

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

(2) *Full time equivalents include part time staff (pro-rated).*

(3) *Calculation has been adjusted to include HomeSide full time equivalent staff at September 30, 1998 in proportion to the 232 day period during which they contributed to the profit of the Group.*

(4) *Calculation has been adjusted to include MNC full time equivalent staff at September 30, 1996 in proportion to the 332 day period during which they contributed to the profit of the Group.*

The Group's full time equivalent employee numbers decreased by 122 or 0.3% from 1997 to 1998. This compares with a 1.6% decrease from 1996 to 1997. The decrease in Australia of 1,199 people or 5.4% reflected the current focus on cost management and was largely achieved through natural attrition. The decrease in the European Group of 1,171 people or 7.8% and the decrease in the New Zealand Group of 663 people or 12.9% is also the result of cost management and of various strategic initiatives currently under way. US Group full time equivalent staff numbers increased by 2,894 or 76.7% primarily reflecting the acquisition of HomeSide, Inc. which added 2,987 full time equivalent employee numbers.

Approximately 56% of the employees of the Australian Financial Services (which is the largest employer within the Group) are members of the Finance Sector Union of Australia (FSU). In 1997, the National and the FSU reached agreement on a three and a half year Enterprise Agreement which provides salary increases totalling 12.8% over the period July 1997 until November 2000. Under the agreement, annual salary adjustments take place each April. The annual adjustment for 1998 was 1.5%. Over the last twelve months, application of the Global Business Model has resulted in significant restructuring of the organisation which has been achieved in a period of industrial stability. The enterprise agreement allows for the unrestricted use of part time and temporary staff and this has given the National greater flexibility as restructuring continues. Also arising from implementation of the agreement, negotiations with the FSU are continuing on a range of site/functional agreements which are expected to be in place before the end of calendar year 1998.

Risk Management

Management of risk is fundamental to the business of banking and is an essential element of the Group's strategy. Banks face an array of risks and increasingly the success or otherwise of the institution relies upon its proactive rather than reactive management of risk.

The risk management model structure implemented throughout the Group comprises of a common policy framework and 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 and procedures.

Overview and monitoring of this process throughout the Group is undertaken by Group Risk Management. Group Risk Management comprises Group Credit Bureau, Group Audit, Group Insurance and Operational Risk, Country Risk, Group Independent Risk Oversight of Treasury and Capital Markets Risk Management, Group Credit Policy and Systems and Prudential Control functions. Group 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. Group Risk Management also promotes Group awareness of the need to manage risk and the achievement of a balance between risk minimisation and reward for risks accepted.

Annually, Group Risk Management prepares and submits to the Principal Board 'The Group Risk Profile'. This document profiles the major recognised balance sheet, 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 senior management, is the principal risk policy decision making body within the Group. A Risk Policy Committee also exists in each regional member bank except for the Europe Banks where a centralised risk management structure is in operation. These Risk Policy Committees operate under delegated approval authorities aligned to a 'Risk Management Template'.

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

Refer to Note 39, 'Derivative Financial Instruments' on page 135 for a profile of the Group's derivatives risk exposures and further information on risk management.

Certain sections of the Annual Report contain forward looking statements. These statements are subject to assumptions, risks and uncertainties, as discussed in this section and referred to elsewhere in the report. Actual results could differ materially from the forward looking statements.

Market Risk

This recognises the potential change in earnings as a result of movement in interest rates, asset prices, foreign exchange rates and the level of concentration and volatility in any or all of these markets.

Member banks of the Group have Earnings at Risk limits approved by the Principal Board to cover both structural balance sheet exposure and transactional exposure.

Overview of the Group's global structural balance sheet risk is managed against approved policies by Group Balance Sheet Management and reported on a regular basis to the Group Asset and Liability Committee (ALCO). Overview of transactional risk is performed by the Global Market Risk Unit and Regional Middle Offices of Group Wholesale Financial Services (GWFS). The segregation of the risk control function from trading units within GWFS ensures day to day market risk control and compliance responsibility is separated from the front office. This is designed to enhance the skills and disciplines dedicated to the market risk management function. In addition, the Group Independent Risk Oversight (GIRO) Unit of Group Risk Management provides a totally independent market risk oversight function external to GWFS. It operates the new Global Market Risk Management System in parallel to the dealing systems for monitoring daily trading exposures. Between GIRO and GWFS Middle Offices, a comprehensive global market risk control framework is created.

Limits for the management of trading positions and interest rate mismatch assumed in the normal course of business are delegated to regional management in accordance with the Group Balance Sheet Management policies, the Group Risk Management Template and the operational strategic plan. These limits take into account the capacity of regional management to identify and manage both structural and transactional risks and the relative sophistication and liquidity of the local market.

Reporting of foreign exchange risk and exposures are regularly provided to local regulators, eg. in Australia to the Australian Prudential Regulation Authority.

Operational Risk

Operational risk is the potential risk of financial loss arising from the performance of operational business processes and activities.

To enhance the Group's ability to identify, measure and manage operational risks, a systematic framework and methodology for operational risk management has been developed and implemented in each regional bank. Group Insurance and Operational Risk is responsible for the overview of action plans to mitigate high risks, and administration of the methodology and process discipline, including maintenance of a Group Risk profile to ensure changes occurring within the organisation and industry are reviewed in a timely manner.

Asset and Liability Management

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, Group Structural Foreign Exchange Risk and Liquidity Risk.

Each member regional bank in the Group has an Asset and Liability Committee 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

The table below presents the earnings at risk of the non-trading assets and liabilities that are sensitive to changes in interest rates and represents a break down, by currency, of the forecast net interest income for banks and operating income for non-banking entities over the next year between current rates and forward interest rate scenarios as at September 30, 1998.

For the banking units the interest rate scenarios are based on 95% confidence interval yield curves given the historical behaviour of rates. For example, the effect on net interest income from rising rates over the coming year is calculated by assuming that rates will rise to a level which is exceeded only in five out of 100 cases. 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 twelve months.

	Forecast effect on Income 1999(1)(2)		*Forecast effect on Income 1998*(1)	
Australian Dollars in Millions	*Rising Rates*	*Declining Rates*	*Rising Rates*	*Declining Rates*
Australian dollars	25	(28)	46	(44)
Non-Australian dollars	6	(17)	21	(20)

(1) *Represents forecast effect as at September 30, 1998 and 1997 respectively for the ensuing 12 months.*

(2) *1999 includes the impact of HomeSide, Inc.*

In carrying out its business activities, each entity in the Group strives to meet customer demands for products of various structures and maturities. As interest rates and yield curves change over time, the Group may be exposed to a loss or gain 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.

Structural interest rate risk is calculated using balance sheet simulation processes that are undertaken across the Group's banking operations. Interest rate risk relating to trading activities is captured within the Value at Risk process discussed separately within the annual report (Refer table 2 of Note 39).

The balance sheet simulation process is based on business unit planned product volumes and margins, which are regularly updated to reflect the Group's latest views on the business and interest rate environments.

The overall interest rate risk management process within the banking units is conducted in accordance with Group Balance Sheet Management policies, approved by the Group Asset and Liability Committee, and structural earnings at risk limits, which are approved by both the Board of Directors and Group Asset and Liability Committee. The banking units manage structural interest rate risk according to these policies and within these limits. 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.

The banking units' data, together with other balance sheet risk management information and strategies, is routinely presented and reviewed by individual bank and Group Asset and Liability Committees, and the Board of Directors on a periodic basis. Within the non-banking entities, management actively monitors and manages its interest rate risk exposure. Various analyses of exposure to interest rate risk are reviewed on at least a monthly basis by the relevant entity's Asset and Liability Committee which reports to their Board of Directors. The non-banking entities do not hold any market risk sensitive instruments for trading purposes.

Group Structural Foreign Exchange Risk

Group Structural Foreign Exchange (GSFX) 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 shareholders' funds are subject to movement in exchange rates as a result of the need to translate earnings and net assets of the foreign operations into the Group's Australian dollar consolidated accounts. This susceptibility of reported earnings and capital 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 real shareholder wealth.

No foreign exchange hedging activity is undertaken with respect to subsidiary earnings. 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 cashflows could result from the repatriation of profits or capital back to the parent entity.

Liquidity Risk

Liquidity risk is the risk that the bank is unable to service its cashflow obligations today or in the future. The Group manages liquidity risk by maintenance of portfolios of high quality liquid assets and diversification of its funding base.

Liquidity in the Group is managed on a regional basis with both Regional and Group ALCO oversight. Policies established by Group ALCO clearly commit all members of the Group to ensuring that all Group entities manage their liquidity prudently, within the guidelines and policy. Responsibility for day to day liquidity management resides with member bank, offshore branch and regional treasury operating divisions.

Liquidity standards are set by Group ALCO to ensure that suitable liquefiable assets in addition to any regulatory requirements for any member bank are held at all times. The prudential requirements are set by Group Balance Sheet Management in unison with the member bank Asset and Liability Units.

It is a continuing objective of the member banks to diversify the range of funding sources which, together with the holdings of discretionary liquefiable assets, underpin the liquidity of the Group.

Credit Risk

Credit risk is the potential risk of financial loss resulting from the failure of a customer to settle its financial and contractual obligations to the Group, as and when they fall due.

The administration of the Group's lending is the responsibility of Group Credit Bureau, an independent unit which formulates and disseminates required Group wide credit policies, practices and procedures. This control ensures that common prudential standards and practices are applied across the Group in order to maintain the quality of the lending portfolio. Effective monitoring procedures and systems are used to control exposures to individual customers and industries with prudential limits as appropriate.

Lending authority is delegated by the Principal Board in various layers through the Group, including Group Credit Bureau and other Regional Credit Bureaux, and down to appropriate levels of line management.

For the most part, in regard to credit approval, these Regional Credit Bureaux have replaced the separate Credit Control Committees that previously operated in member Banks. The Board of each member Bank or a delegated Board Committee is required to note the respective Bank's larger lending, following approval by Regional Credit Bureau. Fundamental to the Group's lending culture and philosophy, is a system of overview of lending approvals by the next level of authority.

However, for mass market consumer lending the Company has made a strategic decision to utilise credit scoring techniques to support management of these portfolios. Activity is well advanced in all regions to introduce best practise credit process backed by automated scoring technology and dedicated support units.

All scoring solutions are implemented via robust packaged operational software and supported by the mandatory introduction of appropriate monitoring tools. These monitoring tools coupled with the dedicated regional support teams ('Decision Tools Units') provide the essential continual review of data integrity, scorecard performance and the strategies in place that determine decisions made. To support data integrity and prevent fraudulent activity, software to validate and verify data is also being introduced on a global basis.

Each member Bank now has an established Asset Structuring Unit (ASU), which is staffed by personnel skilled in the restructuring or workout of impaired assets. Once an asset has been designated as doubtful or impaired by the relevant approving authority, decision making in respect of the asset passes to the ASU where it receives an appropriate categorisation. Once this occurs loans are either designated as retention or exit and appropriate action plans are implemented to either restore the asset to non-impaired status or to quit the exposure.

To assist in the maintenance of acceptable asset quality within the Group, Risk Asset Review Units are established in each member bank. The prime objective of the units is to provide a positive and constructive assessment of the quality of a Relationship Manager's loan portfolio, identifying any assets of unacceptable quality and also to undertake a comprehensive review of lending process effectiveness. An overall report and 'score' is produced, along with recommendations for improvements and actions taken at the regional level. These reports ultimately feed into the Group Credit Bureau, which in the light of positions revealed, issues policy directives and/or process changes. Consolidated reports are placed before the Principal Board Audit Committee quarterly.

The Company provides quarterly information to the Australian Prudential Regulation Authority, on a no-names basis, of exposures to individual customers or groups of related customers in excess of 10% of Tier 1 and Tier 2 capital. Notification to the Australian Prudential Regulation Authority is required in advance of the occurrence of exceptionally large exposures.

Group Credit Bureau currently monitors exposure through a Global Limits Control System, however, this is being replaced by a Global Exposure Risk Management System which is expected to be progressively implemented across the whole Group over the next 12–15 months. The new system will greatly enhance the Group's ability to monitor its exposure to derivatives and other Treasury related products as well as cross border exposures.

Country Risk

International lending requires 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 to repay loans made by the Group, notwithstanding the fact that the borrower's own credit standing domestically might not have been impaired. The Banking Group has an established process for measuring country risk which is used in setting and monitoring its cross border exposures. Each country is graded from AAA (least risky) to D (most risky). Grading depends upon the analysis of various economic indicators and the assessment of social and political factors. On the basis of the country credit grading, together with the relative size of the country, the Group sets prudential cross border limits. For each country, separate prudential limits are established for debt with maturity of 12 months or less and debt with a maturity in excess of 12 months. The Group's Principal Board approves these individual country limits.

European Economic Monetary Union ('EMU')

The Group has been preparing for the introduction of the Euro currency (Euro) within the European Economic Monetary Union (EMU) on January 1, 1999 with Group's regional EMU programs in Europe commencing in May 1997. The regional EMU programs are being coordinated at a Group level and involve a review of the Group's operations worldwide to identify areas affected by the introduction of the euro and to manage the transition with minimum disruption to customers.

In line with other banks and financial institutions operating in Europe, the Group is considering the opportunities and challenges provided by the introduction of the Euro. In this respect the Group plans to have Payment Capability to satisfy fundamental payment requirements for customers (paying and receiving the Euro, and domestic currencies, during the transition) and operational capability to enable the Group's procedures and systems to operate where necessary in a dual currency environment during the transition period.

The introduction of EMU is not expected to have a materially adverse effect on the Group. However, it is not possible to predict all strategic practical implications of 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.

Year 2000

In common with many business users of computers around the world, the Company has investigated to what extent the date change from 1999 to 2000 may affect its businesses. The Company has established a program designed to ensure that the impact of the change to 2000 on the Group and its customers is minimised. The Board of Directors has made the work associated with the change to 2000 a key priority for management.

The Company's program involves an extensive review of the Group's operations and scoping the work that needs to be completed to minimise any potential impact. This includes reviewing the possible effects on the Group arising out of how third parties manage their transition to 2000. The work demonstrates that there are two possible key impacts:

- Internal – the change to 2000 could cause interruptions, errors in calculations or delays to the Group's critical business processes via unexpected system or application malfunctioning or changed customer behaviour causing interruption to business services and functioning.
- External – the impact on the Group's own operations from third parties, including customer, suppliers, interbank counterparties, regulators and electronic distribution channels which may be impacted by the change to 2000. This includes any secondary or systemic impact that may arise from the change to 2000 on governments in the countries in which these third parties operate.

Year 2000 Program

The Company's formal Year 2000 Program was established in September 1996. At that time, an outside firm was engaged to assist the Company in the mobilisation and assessment phase. That firm continues to play an active role in the Year 2000 Program. Prior to September 1996, Year 2000 work had been under way on specific systems and applications for some years.

The Year 2000 Program is sponsored by the Chief Information Officer and the Executive General Manager Group Risk Management both of whom report directly to the Managing Director. The program is structured on a geographical basis with programs located in the countries where the Group has business infrastructure. At the Group level, the Year 2000 Program is coordinated by the Year 2000 Group Program Director, who heads a dedicated team in the Group Program Office. The Year 2000 Group Program Director works directly with the two sponsors.

The Company has designed its Year 2000 Program across the total Group around four key areas:

1. Business Information Systems – mainframe and mid range computers, operating systems and applications whether developed in house or acquired from vendors. This is the main area of code repair and testing with the Year 2000 Program. Code is repaired, either by the Company or vendors, it is then tested, returned to production and then tested again with other repaired applications and systems. Repair may involve expanding date fields to four digits, or use of windowing solutions.

2. End User Computing – all aspects of desktop computing, including personal computer hardware, operating systems, vendor packages and user developed applications, databases and tools. The remediation options include repair and testing, or replacement of hardware, operating systems and software. Most user developed applications are to be individually scrutinised to verify their readiness for 2000.

3. Business Support Infrastructure – all buildings and associated services (electricity, air conditioning, security, telecommunications, etc.) used by the Group in its businesses. This area of the program involves the greatest concentration of embedded chips. The Company is working with manufacturers and suppliers to ensure that all infrastructure is tested and embedded chips or other date related logic are upgraded or replaced where necessary.

4. Business Dependencies – all the potential impacts of the change to 2000 other than the work associated with replacement, repair and testing. This work incorporates management of the impacts of the change to 2000 on third parties and their associated effects on the Group. These third parties include suppliers of products and services used by the Group in its operations. Other work involves contingency planning associated with the risk of internal or external failures during the change. Also included is credit risk, counterparty risk, investment risk, liquidity risk, electronic channels risk, systemic risk, trading and investment portfolio risk and legal and regulatory risk.

Third party dependencies occur in all four key areas of the Year 2000 Program. However, it is not possible in all cases to obtain complete, accurate and timely information regarding the Year 2000 Programs of third parties. Further, the Company's ability to direct their behaviour or to change relationships with these parties is in some cases limited. There can be no guarantee that third parties on which the Company relies will complete their Year 2000 programs on time, in which event there may be impacts on the Group's business.

The Company cannot operate its business without uninterrupted access to local, national and international telecommunications services and a continuous power supply wherever it has a business presence. The Company's trading partners, customers and suppliers likewise are unlikely to be able to operate their businesses without access to similar levels of services from these utilities. The Company is involved in industry groups in Australia and internationally which are focused on the preparation of utilities for the change to 2000. Part of that work includes contingency planning in the event of outages; however, no assurance can be given that such industry wide contingency planning will successfully ensure 'business as usual' in the event of a major power or telecommunication failure.

In addition, the Company is dependent on the proper functioning of payment systems and financial system infrastructure. The Company is a member of the Australia Interlink Working Group, which is involved in the planned testing of the payments systems, management of telecommunications providers and vendor management where there is commonality of vendors between members, and building support infrastructure. The Company also supports, via a sub-group of the Interlink Working Group, a Global Year 2000 coordinating group that was set up early this year. Overseas member banks within the Group are also part of industry Year 2000 groups in their respective countries.

Contingency Planning

The Company's Year 2000 Program is based on the assumption that 100% impact coverage is neither feasible nor practical. In these circumstances, it is possible that the Group or third parties on which the Group depends may have unplanned system difficulties during the transition through 2000, or that third parties may not successfully manage the change to 2000. The Business Dependencies area of the Year 2000 Program will involve the review and adjustment of existing business continuity planning to incorporate these circumstances to seek to ensure that the Company meets its primary objective of business as usual before, during and through 2000.

State of Readiness

The Company uses large and complex systems and its extensive customer and supplier base means that the Year 2000 Program spans nearly all aspects of its operations. Accordingly, there is no single meaningful measure of the status of the Year 2000 Program. It is the Company's aim to substantially complete code repair for core and support systems with return to production by the target date of November 1998 in line with the Basle Committee on Banking Supervision and other regulators' suggested completion dates for core systems.

The reality of the Year 2000 work, its breadth, dependencies and linkages (including satisfactory and timely delivery by key vendors) means that there will be some of that work which will be completed after the target date of November 1998. The main exemptions to the target date are in the Global Wholesale Financial Services Year 2000 Program, where work is likely to continue through to March 1999, predominantly due to changes in the delivery schedule of a key vendor. HomeSide is working towards regulatory targets of December 1998.

Estimated Cost

The estimated financial impact of the Company's Year 2000 Program, including depreciation, is currently budgeted at $284 million for the period September 1996 through to March 2000. This amount includes a provision for the costs of HomeSide. Other additional expenses may arise from new acquisitions or business expansions which might occur from time to time. As of September 30, 1998, the Company had spent approximately $153 million in connection with the Year 2000 Program.

In calculating the cost of the Company's Year 2000 Program, the costs associated with the identified impacts across the four key areas have been included. These costs include the costs of employees, contractors and consultants engaged on Year 2000 work, even though many of the employees are permanent employees of the Company representing costs which would be incurred in the ordinary course of business. The costs also include the depreciation charges associated with the upgrade, repair or replacement of systems. They also include the costs of effort in each business unit as well as in the dedicated project teams.

Given the costs associated with Year 2000, the Company is taking the opportunity to further drive process improvement across the Group. One example is the use of an enhanced understanding of the alignment between processes, products, services and technology to assist ongoing convergence activities.

The Year 2000 Program is complex and reliant upon coordination with customers and suppliers. Accordingly, the effort and costs in any given period will depend upon progress. The figure of $284 million is based on the current status of the Year 2000 Program and may be subject to change. The figure of $284 million does not take into account any damage to the Group's businesses, or any claims for loss or damage against the Group by third parties, which may result if the Group or third parties do not successfully manage the effect of the Year 2000 date change in time.

For further information with respect to the cost of the Year 2000 initiative, refer to Note 2 on page 85.

Year 2000 Risk

While working to ensure that the Company's primary objective of 'business as usual' before, during and through 2000 is achieved, there can be no guarantee that its Year 2000 Program will be successful in all respects or that the date change from 1999 to 2000 will not materially affect the business in some form.

Accounting Developments

The following is a summary of recently issued accounting standards and exposure drafts which may impact the accounting and reporting of the Group's transactions when adopted in future periods:

Revenue

In June 1998, the Australian Accounting Research Foundation (AARF) reissued Australian Accounting Standards Board (AASB) 1004 'Revenue'. AASB 1004 prescribes the accounting treatment of revenue arising from various types of transactions and events, and the disclosures to be made. AASB 1004 applies to revenue arising from sale of goods, rendering of services, rents, interest, royalties and dividends, sale/contribution of assets and extinguishment of debt and must be measured at the fair value of the consideration or contribution received/receivable. The standard will apply to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Accounting Policies

In October 1998, the AARF reissued AASB 1001 'Accounting Policies'. AASB 1001 requires disclosure of specific accounting policies necessary for a proper understanding of the financial report, measurement bases used, details of material uncertainties that cast doubt on the going concern basis and the basis of report preparation if the going concern basis is not adopted. AASB 1001 also includes a hierarchy of authoritative guidance to be used for transactions not covered by specific standards. The standard will apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Leases

In October 1998, the AARF reissued AASB 1008 'Leases'. AASB 1008 prescribes that leveraged leases with lease terms beginning on or after October 1, 1999 be accounted for as finance leases thereby removing the ability to continue to utilise the net cash investment method. Existing leveraged leases may continue to be accounted for under the net cash investment method. The standard will apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact on the Group's financial statements, however it is likely to have a significant impact on leverage leasing, as a product.

Financial Reporting of Life Insurance Business

In May 1998, the AARF issued draft standard 'Financial Reporting of Life Insurance Business', for comment. The draft standard proposes specific measurement, presentation and disclosure requirements for the financial reporting of life insurance business, and requires parent entities of life insurance companies to consolidate both policyholder and shareholder interests on a line by line basis. Currently, only shareholder interests are included in the parent entity's consolidated result. The standard arising from this draft standard is likely to apply to the Group's financial statements for the year ending September 30, 2000 and is not expected to have a significant impact.

Joint Ventures

In June 1997, the AARF issued exposure draft ED 79 'Joint Ventures', for comment. ED 79 proposes to amend AASB1006 'Accounting for Interests in Joint Ventures'. ED 79 prescribes the accounting treatment of a venturer's interests in a joint venture and the disclosures to be made about those interests, requiring a venturer's interests in joint venture operations to be recognised in the venturer's own financial report. A venturer who has an investment that is classified as an associate or as a partnership must comply with AASB 1016 'Accounting for Investments in Associates'. The amended standard arising from ED 79 is likely to apply to the Group's financial statements for the year ending September 30, 1999 and is not expected to have a significant impact.

Acquisition of Assets

In October 1997, the AARF issued exposure draft ED 84 'Acquisition of Assets', for comment. ED 84 proposes amending AASB 1015 'Accounting for the Acquisition of Assets' to require an adoption of the purchase method as the only method to be used in accounting for acquisitions/business combinations. It also proposes excluding acquisitions of assets that are 'reconstructions' within economic entities from the scope of AASB 1015. The amended standard arising from ED 84 is likely to apply to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Earnings per Share

In October 1997, the AARF issued exposure draft ED 85 'Earnings per Share', for comment. ED 85 proposes to amend AASB 1027 'Earnings per Share' so as to harmonise with IAS 33 'Earnings per Share'. Basic and diluted EPS will be calculated using 'operating profit after income tax and extraordinary items' rather than 'operating profit after income tax'. A 'trigger test' will be used to determine if a dilutive EPS exists and to require the disclosure of diluted EPS. The amended standard arising from ED 85 is likely to apply to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Foreign Currency Translation

In December 1997, the AARF issued exposure draft ED 86 'Foreign Currency Translation', for comment. ED 86 proposes to amend AASB 1012 'Foreign Currency Translation' to include in its scope the accounting treatment for speculative dealings. Exchange differences on a severe devaluation should be recognised as revenue or expenses in the period of the exchange rate change. On disposal of a self-sustaining foreign operation, the balance of the foreign currency translation reserve should be recognised as revenue or expense in the same reporting period in which the gain/loss on the disposal is recognised. ED 86 proposes that the tax effect of exchange differences on monetary items forming part of the net investment in a self-sustaining foreign operation and hedge of those items, be taken to the foreign currency translation reserve on consolidation. The amended standard arising from ED 86 is likely to apply to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Income Taxes

In December 1997, the AARF issued exposure draft ED 87 'Income Taxes', for comment. ED 87 proposes to amend AASB 1020 'Accounting for Income Tax (Tax-effect Accounting)' to require income tax to be accounted for using the 'balance sheet' method of tax-effect accounting in contrast to the current 'income statement' method. ED 87 focuses on temporary differences rather than timing differences with tax payable on the taxable income of a reporting period recognised as an expense in the profit/loss for the period and referred to as current tax. Tax remaining 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 amended standard arising from ED 87 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Provisions and Contingencies

In December 1997, the AARF issued exposure draft ED 88 'Provisions and Contingencies', for comment. ED 88 defines provisions as liabilities for which the amount or timing of future sacrifices of economic benefits is uncertain. Provisions are to be discounted to their present value using a discount rate equivalent to the current market yield on high quality corporate bonds. Provisions for restructurings are not to be recognised until the entity has compiled and publicly announced a detailed formal plan and has no realistic possibility of withdrawal at the reporting date. ED 88 prohibits recognition of provisions for future operating losses. The standard arising from ED 88 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Segment Reporting

In March 1998, the AARF issued exposure draft ED 90 'Segment Reporting', for comment. ED 90 proposes amending AASB 1005 'Financial Reporting by Segments', in line with IAS 14 'Segment Reporting'. ED 90 requires information to be reported for business segments and geographical segments, each segment being designated as either the primary or secondary segment. Detailed disclosures are required for primary segments with considerably less disclosures for secondary segments. The amended standard arising from ED 90 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Financial Report Disclosures

In April 1998, the AARF issued exposure draft ED 91 'Financial Report Disclosures', for comment. ED 91 proposes amending AASB 1034 'Information to be Disclosed in Financial Reports' to harmonise with IAS 1 'Financial Report Disclosures'. ED 91 specifies the items to be included on the face of the profit and loss statement and the balance sheet. ED 91 requires assets and liabilities to be presented in the current/non-current format or in an order that reflects their relative liquidity. It requires expenses from operating activities to be classified according to their nature or function with disclosure of equity accounted investments, and share of profits is also proposed. The amended standard arising from ED 91 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Revaluation of Non-Current Assets

In June 1998, the AARF issued exposure draft ED 92 'Revaluation of Non-Current Assets', for comment. ED 92 proposes to amend AASB 1010 'Accounting for the Revaluation of Non-Current Assets' in line with IAS 16 'Property, Plant and Equipment' and allows an entity to value non-current assets at cost or fair value. An entity that adopts the fair value method under the proposed standard cannot subsequently revert to the cost basis and must ensure that revaluations are made regularly. ED 92 prevents revaluation decrements of a non-current asset from being offset against revaluation increments of another non-current asset. The amended standard arising from ED 92 is likely to apply to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Statement of Financial Performance and Ancillary Amendments

In July 1998, the AARF issued exposure draft ED 93 'Statement of Financial Performance and Ancillary Amendments', for comment. ED 93 proposes amending AASB 1018 'Profit and Loss Accounts' and AASB 1001 'Accounting Policies' in line with IAS 8 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies' and replaces the requirement to disclose abnormal items on the face of the profit and loss statement with a requirement to disclose separately in the notes, revenues and expenses that are of the size, nature or incidence that their disclosure is relevant in explaining the performance of the entity. Non-owner changes in equity are included in a separate section of the profit and loss statement and restated comparative information is included in the notes for the effects of fundamental errors and changes in accounting policies. The amended standards arising from ED 93 are likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Concise Financial Reports

In August 1998, the AARF issued exposure draft ED 94 'Concise Financial Reports', for comment. ED 94 specifies the minimum content of a concise financial report that can be issued to shareholders in place of a full financial report under the Corporations Law. A concise financial report consists of a Statement of Profit and Loss, Balance Sheet and a Statement of Cash Flows as well as discussion and analysis of these financial statements, and includes specific disclosure of Extraordinary Items, Dividends, Earnings per Share, Subsequent Events and Changes in Accounting Policies and Estimates. The standard arising from ED 94 is likely to apply to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Discontinuing Operations

In October 1998, the AARF issued exposure draft ED 95 'Discontinuing Operations', for comment. ED 95 requires disclosure of information about a discontinuing operation when the Board of Directors have approved a detailed formal plan for the discontinuance and either the plan has been announced or the entity has entered into a binding sale agreement for the assets of the discontinuing operation. Disclosure in subsequent periods includes actual sales of assets or settlement of liabilities, binding agreements for such sales, spin-offs of assets to shareholders, and legal or regulatory approvals. The standard arising from ED 95 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Interim Financial Reporting

In October 1998, the AARF issued exposure draft ED 96 'Interim Financial Reporting', for comment. ED 96 proposes amending AASB 1029 'Half Year Accounts and Consolidated Accounts' to harmonise with IAS 34 'Interim Financial Reporting'. ED 96 proposes principles for preparing and reporting financial information for a period less than a financial year. An interim report should contain condensed statements of income and cash flow, a condensed balance sheet and selected note disclosures. The entity should apply the same accounting policies in its interim and annual financial reports. The amended standard arising from ED 96 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Employee Benefits

In October 1998, the AARF issued exposure draft ED 97 'Employee Benefits: Amendments to AAS 30/AASB 1028', for comment. ED 97 proposes amending AASB 1028 'Accounting for Employee Entitlements' to harmonise with IAS 19 'Employee Benefits'. ED 97 proposes specific recognition criteria for employee benefit liabilities relating to wage and salaries, compensated absences, profit sharing and bonus plans, post-employment benefits and termination benefits. The entity will be required to disclose aggregate and individual components of employee benefit liabilities and expenses in addition to information about share options issued to employees that have been exercised or have expired during the year. The amended standard arising from ED 97 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Presentation and Disclosure of Financial Instruments

In October 1998, the AARF issued exposure draft ED 98 'Presentation and Disclosure of Financial Instruments: Proposed Amendments to AASB 1033/AAS 33', for comment. ED 98 proposes amending AASB 1033 'Presentation and Disclosure of Financial Instruments'. ED 98 proposes that a financial instrument that mandatorily converts to ordinary shares of the issuer be classified as a financial liability of the issuer to the extent that the holder of the instrument is not exposed to changes in the fair value of the issuer's ordinary shares. The amended standard arising from ED 98 is likely to apply to the Group's financial statements for the year ending September 30, 2000 and will not have a significant impact.

Reporting Comprehensive Income

In June 1997, the FASB issued SFAS 130 'Reporting Comprehensive Income' that specifies standards for defining and disclosing comprehensive income in financial statements. Comprehensive income is defined as the change in equity of an entity from transactions/events not originated from owners' sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners'. SFAS130 requires an entity to show separately in the profit and loss account, net income and other comprehensive income. Net income items should be classified as currently the case, and other comprehensive income items should be grouped according to their nature, forming part of a separate component of equity and disclosed on the face of the balance sheet, in a statement of changes in equity, or in the notes to financial statements. The Standard will apply to the Group's financial statements for the year ending September 30, 1999 and is not expected to have a significant impact.

Disclosures about Segments of an Enterprise and Related Information

In June 1997, the FASB issued SFAS 131 'Disclosures about Segments of an Enterprise and Related Information'. SFAS 131 amends the existing US accounting standards on segment reporting, requiring entities to disclose segment data based on the way management makes decisions about allocating resources to segments and measuring performance. Entities should provide disclosures about products, services, countries in which material assets are held, revenues and major customers. The Standard will apply to the Group's financial statements for the year ending September 30, 1999 and is not expected to have a significant impact.

Employers' Disclosures about Pensions and Other Postretirement Benefits

In February 1998, the FASB issued SFAS 132 'Employers' Disclosures about Pensions and Other Postretirement Benefits'. SFAS 132 amends the disclosure requirements of existing US standards on pensions, postretirement benefits and pension plans to require additional disclosure on changes in the benefit obligations and fair value of plan assets. The standard will apply to the Group's financial statements for the year ending September 30, 1999 and is not expected to have a significant impact.

Accounting for Derivative and Similar Financial Instruments and Hedging Activities

In June 1998, the FASB issued SFAS 133 'Accounting for Derivative and Similar Financial Instruments and Hedging Activities', for comment. SFAS 133 prescribes that all derivatives are to be recognised as assets/liabilities in the balance sheet at fair value. A derivative may be specifically designated as a hedge of a recognised asset, liability or firm commitment; cash flows of a forecasted transaction; or net investment in foreign operations. The accounting for the change in fair value of a derivative depends upon its intended use. An entity applying hedge accounting must establish at the beginning of the hedge, the method to assess the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The standard will apply to the Group's financial statements for the year ending September 30, 2000 and will have a significant impact.

Accounting for Costs of Computer Software Developed or Obtained for Internal Use

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98–1 'Accounting for Costs of Computer Software Developed or Obtained for Internal Use'. SOP 98–1 requires entities to capitalise and amortise (as opposed to expense as incurred) costs related to developing or acquiring computer software for internal use. SOP 98–1 applies to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Using Cash Flow Information in Accounting Measurements

In June 1997, the FASB issued FASB Proposed Statement of Accounting Concepts ED 174–B 'Using Cash Flow Information in Accounting Measurements'. FASB ED 174–B sets out the principles on the use of present value calculations, especially when the amounts/timing of future cash flows are uncertain. The ED also proposes four principles on the techniques used to estimate cash flows and three measurement objectives for liabilities. The standard arising from ED 174–B is likely to apply to the Group's financial statements for the year ending September 30, 1999 and will not have a significant impact.

Harmonisation and Adoption of International Accounting Standards

The Australian Government proposes the harmonisation and adoption of International Accounting Standards (IAS) in two steps. Firstly, Australian standards are to be harmonised with IAS with the Australian Accounting Standards Board modifying existing and/or developing new Australian standards to achieve compliance with IAS. The project is due to be completed by December 1998. Secondly, from January 1, 1999, Australian standards issued will be identical to IAS, subject to any relevant modifications to comply with Australian law. The full effect of the harmonisation process is not known at this stage, however, it is not expected to have a significant impact on the Group's financial statements.

Corporate Governance

The main Corporate Governance practices that were in place throughout the financial year are outlined below.

Responsibilities and Functions of the Board

The Board of Directors is responsible for the Corporate Governance of National Australia Bank Limited and its controlled entities. 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 and reputation of the Company and Consolidated Entity;
- 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 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, monitoring budgetary control and corrective actions (if required); and
- authorising and monitoring major investment and strategic commitments.

There is a Board Audit Committee and Board Committees are set up to consider large credit facilities and large borrowing programs. Other Board committees are established from time to time to consider matters of special importance including capital strategies, major commitments, capital expenditure, delegation of authorities to act and the allocation of resources.

Board Appraisal

During the year, the Board implemented a process to review and evaluate the performance of the Board. The process involves all of the Board's key areas of responsibility listed above.

Composition of the Board

At present, the composition of the Board of Directors of the Company is two executive directors and nine independent non-executive directors including the Chairman. Details in respect of individual directors are contained on pages 6 and 7 of this Annual Report.

The composition of the Board is set having regard to the following factors:

- The Constitution (Articles of Association) of the Company provide for the number of directors to be not less than five nor more than fourteen as the directors determine from time to time;
- The Chairman of the Board should be a non-executive director;
- The Board should comprise a majority of non-executive directors; and
- The Board should comprise directors with a broad range of expertise and knowledge. Current or previous experience as the chief executive of a significant enterprise is highly regarded.

In accordance with the Constitution at least one third of the directors retire from office at the annual general meeting each year. Such retiring directors may be eligible for re-election. When a vacancy exists, the full Board identifies candidates with the appropriate expertise and experience utilising 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.

Directors' Arrangements with the Company

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 Law. 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. Disclosure of related party transactions is set out in Note 45 to the financial statements.

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 whilst 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.

Board and Committee Agendas

Board and Committee agendas are structured throughout the year in order to give the Board 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 and operational reports from senior management during the year and management is available to discuss the reports with the Board.

Independent Professional Advice

Each director has the right to seek independent professional advice at the Consolidated Entity's expense subject to the prior approval of the Chairman.

Sale/Purchase of Securities by Directors

A director or officer must not buy, sell or subscribe for securities in the Company if they are in possession of 'inside information', i.e. information that 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. The Corporations Law provides that a reasonable person would be taken to expect information to have a material effect on the price or value of securities of a body corporate if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities.

Directors may only trade in the Company's securities (subject to the insider trading restrictions above), during each of the four weeks following each quarterly profit announcement or the date of issue of a prospectus. Directors should discuss their intention to trade in the Company's securities with the Chairman of the Company prior to trading.

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.

Confidential Information

National Australia Bank Limited through its operations possesses confidential information in respect of a number of 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 organisation is fostered to ensure that confidential customer information is not disclosed outside the organisation or used for individual personal gain nor for the gain of any entity within the Group.

Remuneration of Directors

The remuneration policy for directors and the remuneration of each director is set out in the Directors' Report on pages 69 to 74 of this Annual Report and the formula for calculation of retirement allowances of directors is set out in Note 46 to the financial statements.

Remuneration and Succession Planning for Executives

The full Board reviews the succession planning for executive management and sets the remuneration packages applicable to the Managing Director and Chief Executive Officer and senior executives. The remuneration policy for executives and the remuneration of the five Australian executives receiving the highest emoluments is set out in the Directors' Report on pages 69 to 74 of this Annual Report. Further details on the remuneration of executives is set out in Note 47 to the financial statements.

Communicating with Shareholders

It is the intention of the Board that shareholders are informed of all major developments that impact on the Company. Information is communicated to shareholders through:

- the Annual Report, which is available in a concise form and in a full form (unless a shareholder has requested not to receive either of the documents);
- 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 quarterly profits and other matters of interest; and
- the Internet on www.national.com.au

Audit Committee

The Company has an Audit Committee whose role is documented in a Charter which has been approved by the Board. The Charter defines the purpose, authority and responsibility of the Committee. In accordance with this Charter, all members of the Committee must be non-executive directors.

The members of the Audit Committee at the date of the Report of the Directors are:

Mr DK Macfarlane (Chairman)

Mr DCK Allen

Dr CM Deeley

Mr MR Rayner

Mrs CM Walter

The internal and external auditors, the Managing Director and Chief Executive Officer, the Executive Director and Chief Operating 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 include:

- reporting to the Board on its activities, and formally tabling the agendas and minutes of the intervening Audit Committee meetings;
- directing and evaluating the internal audit function;
- reviewing internal and external audit reports to ensure that any potential major deficiencies or breakdowns in controls or procedures may be identified and that prompt action is taken by management;
- liaising with the external auditors and ensuring that the annual statutory audit, half year and quarterly limited reviews are conducted in an effective manner;
- reviewing internal controls and recommending enhancements;
- reviewing Consolidated Entity accounting policies and practices; and
- reviewing the consolidated financial statements.

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 auditors' continuance and achievement of their terms of engagement.

The Principal Board Audit Committee is supported by regional audit committees in Asia/Pacific (including Australia and New Zealand), Europe and the United States. The audit committees are comprised of non-executive directors of the relevant operating companies within the Group.

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 the Group Risk Management division on areas where significant business risk or exposure concentrations may exist, and on the management of these risks.

More comprehensive details on risk management appear on pages 56 to 59 of this Annual Report.

Ethical Standards

The operations of the Company and the Consolidated Entity are driven by the Group Mission Statement and Values listed on page 1 of this Annual Report. All the Values are important and cover every aspect of daily banking and financial service practices. An ongoing training program has been developed to assist staff to live the Values.

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

- Personal conduct;
- Honesty;
- Relations with customers;
- Prevention of fraud;
- Financial advice to customers;
- Conflict of interest; and
- Disclosure.

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 statements of the Company and of the Consolidated Entity, being the Company and its controlled entities, for the year ended September 30, 1998 and the auditors' report thereon.

Directors

The Board has the 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.

Directors of the Company in office at the date of this Report are:

DR Argus
DCK Allen
FJ Cicutto
CM Deeley
GJ Kraehe
BT Loton
DK Macfarlane
TP Park
MR Rayner
ED Tweddell
CM Walter

Details of each Director's qualifications, experience and special responsibilities are included on pages 6 and 7 of this Annual Report and the information on those pages is deemed to be included in this report.

Board Changes

Since the previous Annual Report, Mr PJW Cottrell and Sir Bruce Watson retired as Directors of the Company.

Mr Cottrell retired on May 25, 1998 and was a Director of the Company since 1985. Sir Bruce Watson retired on August 1, 1998 having first joined the Board in 1984.

Dr ED Tweddell was appointed as a Director of the Company on March 26, 1998. Mr FJ Cicutto was appointed as a Director of the Company on July 28, 1998.

The Board has recorded its thanks to Mr Cottrell and to Sir Bruce Watson for their contributions as Directors of the Company during a period of significant development.

Indemnification

Since the end of the previous financial 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 Company Law Review Act 1998.

Insurance

During the financial year, the Company paid a premium under a contract insuring each of certain Group Officers of the Company and its controlled entities against liability incurred in that capacity. Those Group Officers consist of the Directors of the Company named earlier in this Report, the Company Secretary Mr GF Nolan and other officers of the Company, including certain Excluded Officers within the meaning of that Class Order whose functions include the management of banking operations, financial management, strategic development, risk management and human resources management of the Company and its related bodies corporate.

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.

Rounding of Amounts

Pursuant to Class Order 98/0100 made by the Australian Securities and Investments Commission on July 10, 1998, the Company has rounded off amounts in this Report and the accompanying financial statements to the nearest million dollars.

Principal Activities

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

There were no significant changes in the nature of the principal activities of the Consolidated Entity during the financial year.

Review of Operations

A review of the operations of the Consolidated Entity during the financial year, and the results of those operations are contained in the Chairman's and Managing Director's Review on pages 8 to 12 of the Annual Report and the information on these pages is deemed to be contained in this report.

Consolidated Entity Results

The operating profit after tax of the Consolidated Entity for the year ended September 30, 1998 attributable to the Members of the Company was $2,014 million, a decrease of $209 million (9.4%) on the previous year's results. Included in the results for the current period is an abnormal loss of $497 million (after tax) reflecting restructuring costs booked during the period and the financial effect of the adoption of a statistically based provisioning methodology. If the abnormal items are excluded, operating profit after tax and outside equity interests amounted to $2,511 million, an increase of $288 million (13.0%) on the previous year's result.

Dividends

The Final Dividend in respect of the previous financial year ended September 30, 1997 paid by the Company on December 17, 1997 was $692 million being a dividend of 49 cents per share fully franked to 36%.

This sum of $692 million comprises a cash payment of $491 million, an amount of $167 million that was reinvested by participants in the Dividend Reinvestment Plan ('DRP'), $33 million that was paid in lieu of dividends to participants in the Bonus Share Plan ('BSP') and an amount of $1 million being the entitlement of participants under the UK Dividend Reinvestment Plan.

The Interim Dividend for 1998 of 49 cents per share fully franked to 36% paid on July 22, 1998 amounted to $700 million. This sum comprises a cash payment of $450 million, an amount of $214 million that was reinvested by participants in the DRP, $35 million that was paid in lieu of dividends to participants in the BSP and an amount of $1 million being the entitlement of participants under the UK Dividend Plan.

A Final Dividend has been declared of 53 cents per share fully franked to 36% and is payable on December 16, 1998 totalling $767 million.

Since the mid 1980s the National has embarked on an international expansion strategy to diversify the Group's income streams, increase the customer base and realise global economies of scale. By any measurement, this strategy has been very successful for both the Group and shareholders.

However, while significantly increasing shareholder value, this strategy has impacted on the capacity of the Group to maintain fully franked dividends in the future. Based on current internal estimates, the Group expects that any interim dividend declared for the 1999 financial year will be fully franked while the final dividend may be partly franked. However, the level of franking for future dividends will depend on a number of factors including the proportion of Australian and offshore profits and any changes to the current dividend imputation system.

In the Federal Government's proposed tax reform package changes to the dividend imputation system were foreshadowed. The Government has announced that a business tax review committee will be formed to consider proposals for the reform of the business tax system, including dividend imputation. The committee is expected to present its report to the Government by the end of the first half of 1999. At this stage, the impact of any proposed changes of the Group and its shareholders is uncertain. The Group will be involved in the consultation process with the committee.

State of Affairs

On January 23, 1998, the Company announced that its Directors had decided to convert the Company's existing Australian certificated share subregisters to uncertificated issuer sponsored subregisters. The conversion became effective on May 11, 1998.

On February 10, 1998, the Company formally settled its acquisition of HomeSide, Inc. The Florida based HomeSide is ranked (at June 30, 1998) as the ninth largest residential mortgage originator and the sixth largest mortgage servicer in the United States. Completion of the acquisition followed acceptance of the Company's offer by HomeSide's shareholders, and receipt of the necessary regulatory approvals. The Company paid US$27.825 for each HomeSide share, equivalent to a total of US$1,227 million.

On April 2, 1998, the Company announced that HomeSide, Inc. and a Banc One Corporation Mortgage subsidiary, Banc One Mortgage Corporation (Banc One), had entered into a strategic alliance. Under a Preferred Partner arrangement, Banc One will sell a significant portion of its residential mortgage loans over the next five years to HomeSide. HomeSide and Banc One have also signed a definitive agreement for HomeSide to acquire the mortgage servicing assets of Banc One. Banc One will retain the right to cross sell products to its customers. The purchase consideration was US$201 million.

On April 3, 1998, the Company announced a number of key initiatives designed to increase the pace of its development into a global integrated financial services group. Included in the initiatives were details of restructuring activities designed to improve the Company's branch network distribution system.

On September 30, 1998, the Company issued 32,008,000 fully paid Preference Shares and the underwriters exercised an option resulting in a further issue of 4,000,000 Preference Shares.

The Preference Shares initially have no entitlements to dividends, however, the ultimate investors have entitlements to non-cumulative distributions at an annual rate of 8% payable quarterly in arrears, via a holding of Trust Units Exchangeable for Preference Shares (the 'Trust Units'). The Trust Units were issued by a Delaware business trust that is unrelated to the Company. Distributions to holders of the Trust Units are funded by income distributions made by the Group.

On December 31, 2047, or upon the earlier occurrence of certain defined events, the Preference Shares will become dividend paying Preference Shares and the Trust Units will be exchanged for the dividend paying Preference Shares. Holders of the dividend paying Preference Shares will have entitlements to non-cumulative dividends at an annual rate of 8% payable quarterly in arrears.

With the prior consent of the Australian Prudential Regulation Authority, the Preference Shares are subject to redemption, buy back or reduction of a portion of the share capital followed by redemption of the remaining capital for their liquidation value of US$12.50 per Preference Share, plus accrued dividends (if any), prior to the fifth anniversary of the issue date upon the occurrence of certain specified events and at any time after the fifth anniversary of the issue date at the Company's discretion.

No other significant change in the state of affairs of the Consolidated Entity occurred during the year under review.

Events after End of Financial Year

No 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 Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Future Developments

Disclosure of information relating to likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years which will not, in the opinion of the Directors, unreasonably prejudice the interests of the Consolidated Entity are contained in the Chairman's and Managing Director's Review on pages 8 to 12 of the Annual Report.

Options

Disclosure of information relating to the granting and exercise of options over unissued ordinary shares are shown in Notes 32, 46 and 47 to the financial statements. No options have been granted over any other securities or interests of the Company or the Consolidated Entity.

Remuneration Policy and Relationship to Company Performance

Board Members

The fees paid to members of the Principal Board are based on advice 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 Bank. The long term performance of the Bank, relative to other large corporations, is considered among other factors in setting the fee pool, periodically proposed to Shareholders at the Annual General Meeting for approval.

Fees are established annually for the positions of Chairman, Deputy Chairman and Director. Additional fees are paid, where applicable, for participation in Board Committees and for serving on the boards of subsidiary entities. The total fees paid to members of the Principal Board, including fees paid for Board Committees and Subsidiary Boards, are kept within the total approved by shareholders from time to time.

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.

Senior Executives

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

Senior executives have a direct impact on the performance of the company 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 bank is able to attract and retain the best available executive talent.

Remuneration for senior executives of the Company is determined in accordance with remuneration structures set by the Board. The Board receives advice on the level and form the remuneration should take from the Company'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 Company, the individual business unit and the individual executive. The weighting of these components varies depending on the nature of the specific executive role. This aspect of the reward program looks back at actual achievements over the last year.

The performance of the corporation 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 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 company over the next three to five years.

Before executive share options can be exercised a performance hurdle must be met. The hurdle set by the board for recent option issues is among the most demanding that we are aware of in the Australian corporate environment.

We aim to be competitive in each of these three components in each of the various geographic and specialist remuneration markets in which the company must compete to secure top quality executives. Over the last few years the emphasis in our 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.

Directors' and Executives' Benefits

Directors' related party disclosures are set out in Note 45 to the financial statements.
The following table shows the remuneration details for each Director of the Company.

	1998			
	Salary Package (a)	Performance Based Bonuses (b)	Other Benefits (c)	Total Remuneration
	$	$	$	$
Executive Directors				
DR Argus	1,438,502	1,000,000	268,407	2,706,909
FJ Cicutto (d)	179,764	–	8,904	188,668
Non Executive Directors				
DCK Allen	130,167	–	–	130,167
PJW Cottrell (e)	56,000	–	319,349	375,349
CM Deeley	100,417	–	–	100,417
GJ Kraehe	85,267	–	–	85,267
BT Loton	134,400	–	–	134,400
DK Macfarlane	178,200	–	–	178,200
TP Park	89,867	–	–	89,867
MR Rayner	289,832	–	–	289,832
ED Tweddell (f)	46,039	–	–	46,039
CM Walter	127,708	–	–	127,708
Sir Bruce Watson (g)	72,833	–	149,851	222,684

(a) Executive Directors' remuneration consists of both basic salary and packaged benefit components. Non-executive Directors' remuneration represents fees in connection with attending Board, Board sub-committee and Subsidiary Board meetings.

(b) Reflects performance based remuneration in respect of prior year performance

(c) Reflects non-salary package remuneration and includes company contributions to superannuation, benefits received under the National Australia Bank Limited Staff Reward Scheme and retirement benefits.

(d) Appointed July 28, 1998. Remuneration reflects amounts paid or payable subsequent to date of appointment as Director.

(e) Retired May 25, 1998.

(f) Appointed March 26, 1998.

(g) Retired August 1, 1998.

The following table shows the remuneration details for the top five Australian executives.

Name and Position (a)	Year	Salary Package (b)	Performance Based Bonuses (c)	Other Benefits (d)	Total Remuneration	Options Granted (No.)	Exercise Price (e)	Date First Exercisable
		$	$	$	$		$	
DR Argus *Managing Director and Chief Executive Officer*	**1998**	1,438,502	1,000,000	268,407	2,706,909	500,000	19.90	26-Feb-01
GLL Barnes (f) *Executive General Manager Business and Personal Financial Services*	**1998**	673,489	300,000	33,909	1,007,398	200,000	19.90	26-Feb-01
FJ Cicutto *Executive Director and Chief Operating Officer*	**1998**	784,178	200,000	39,394	1,023,572	200,000	19.90	26-Feb-01
RMC Prowse *Chief Financial Officer*	**1998**	759,009	250,000	141,512	1,150,521	200,000	19.90	26-Feb-01
MD Soden *Executive General Manager Global Wholesale Financial Services*	**1998**	948,193	500,000	682,980	2,131,173	200,000	19.90	26-Feb-01

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

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

(c) Reflects performance based remuneration in respect of prior year performance.

(d) Reflects non-salary package remuneration and includes company contributions to superannuation, benefits received under the National Australia Bank Limited Staff Share Plans and expatriate benefits.

(e) Refer to Note 32 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.

(f) Appointed to new position on November 17, 1997. Remuneration prior to the date of appointment has not been disclosed as GLL Barnes worked solely outside Australia during the period and therefore did not meet the definition of executive as set out in Note 47.

Directors' Meetings

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 financial year were:

Directors	*Directors' Meetings of the Company*		*Audit Committee Meetings of the Company*		*Directors' Meetings of Controlled Entities*		*Additional Meetings*[1]
	No. of Meetings attended	*No. of Meetings held*	*No. of Meetings attended*	*No. of Meetings held*	*No. of Meetings attended*	*No. of Meetings held*[2]	*No. of Meetings attended*
MR Rayner	17	17	5	6	15	15	25
DK Macfarlane	15	17	6	6	20	22	8
BT Loton	17	17	–	–	10	10	14
DR Argus	17	17	–	–	26	32	13
DCK Allen	15	17	5	6	20	21	9
FJ Cicutto[3]	4	4	–	–	5	5	1
PJW Cottrell[4]	10	10	–	–	6	6	4
CM Deeley	15	17	6	6	8	10	15
GJ Kraehe	16	17	–	–	10	10	5
TP Park	17	17	–	–	9	10	10
ED Tweddell[5]	10	10	–	–	6	6	2
CM Walter	17	17	6	6	14	14	24
Sir Bruce Watson[6]	13	13	–	–	10	10	6

[1] *Reflects the number of additional formal meetings attended during the year by each Director, including committee meetings (other than the Audit 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 Group 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 entity during the year.*

[3] *Mr FJ Cicutto commenced as a Director of the Company on July 28, 1998.*

[4] *Mr PJW Cottrell retired as a Director of the Company on May 25, 1998.*

[5] *Dr ED Tweddell commenced as a Director of the Company on March 26, 1998.*

[6] *Sir Bruce Watson retired as a Director of the Company on August 1, 1998.*

Directors' Interests

The table below shows the interests of each Director in the share capital of the Company as at the date of this report:

	Ordinary Shares of $1 each		*Options over Ordinary Shares*
	Held Beneficially	*Held Non-Beneficially*	*Held Beneficially*
MR Rayner	19,772		
DK Macfarlane	9,650		
BT Loton	159,837	7,200	
DR Argus	59,612*		1,600,000
DCK Allen	11,050		
FJ Cicutto	26,864*		700,000
CM Deeley	25,550		
GJ Kraehe	5,900		
TP Park	12,327		
ED Tweddell	2,050		
CM Walter	13,150		

* *includes Staff Share Scheme Issues.*

All of the Directors have disclosed interests in organisations related to the Consolidated Entity, and are to be regarded as interested in any contract or proposed contract that may be made between the Company and any such organisations.

Dated at Melbourne, Australia this 6th day of November, 1998 and signed in accordance with a resolution of the Directors.

MR Rayner

DR Argus

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Statements of Profit and Loss

	Note	Consolidated			The Company		
For years ended September 30 *Dollars in Millions*		***1998***	*1997*	*1996*	***1998***	*1997*	*1996*
Interest income	2	**15,427**	12,936	12,088	**9,287**	8,021	7,407
Interest expense	2	**9,569**	7,578	6,958	**6,741**	5,429	4,777
Net interest income		**5,858**	5,358	5,130	**2,546**	2,592	2,630
Charge to provide for doubtful debts	2 ,14	**572**	332	333	**294**	131	169
Net interest income after provision for doubtful debts		**5,286**	5,026	4,797	**2,252**	2,461	2,461
Other operating income	2	**3,953**	2,909	2,631	**1,997**	1,703	1,576
Total operating income		**9,239**	7,935	7,428	**4,249**	4,164	4,037
Other operating expenses	2	**5,516**	4,619	4,366	**2,484**	2,324	2,205
Operating profit before abnormal items		**3,723**	3,316	3,062	**1,765**	1,840	1,832
Abnormal items	3	**(749)**	–	–	**(348)**	–	–
Operating profit before tax		**2,974**	3,316	3,062	**1,417**	1,840	1,832
Income tax expense (benefit) attributable to:							
Operating profit		**1,211**	1,095	959	**543**	555	455
Abnormal items		**(252)**	–	–	**(127)**	–	–
Total income tax expense	4	**959**	1,095	959	**416**	555	455
Operating profit after income tax		**2,015**	2,221	2,103	**1,001**	1,285	1,377
Outside equity interests in operating profit after income tax		**1**	(2)	1	**–**	–	–
Operating profit after income tax attributable to members of the Company		**2,014**	2,223	2,102	**1,001**	1,285	1,377
Retained profits at the beginning of the financial year		**6,568**	5,621	3,625	**3,171**	3,117	1,972
Dividend provisions not required	5	**65**	83	55	**84**	102	74
Aggregate of amounts transferred from reserves	30	**184**	66	1,162	**45**	35	971
Total available for appropriation		**8,831**	7,993	6,944	**4,301**	4,539	4,394
Dividends provided for or paid	5	**1,467**	1,367	1,276	**1,467**	1,367	1,276
Trust distributions	30	**7**	–	–	**–**	–	–
Aggregate of amounts transferred to reserves	30	**53**	58	47	**–**	1	1
Retained profits at the end of the financial year		**7,304**	6,568	5,621	**2,834**	3,171	3,117
Earnings per ordinary share before abnormal items (cents)	6						
– Basic		**174.6**	151.6	144.8			
– Diluted		**170.6**	148.7	143.1			
Earnings per ordinary share after abnormal items (cents)	6						
– Basic		**140.0**	151.6	144.8			
– Diluted		**137.9**	148.7	143.1			
Dividends per ordinary share (cents)	5						
– Interim		**49**	45	43			
– Final		**53**	49	44			

The Statements of Profit and Loss are to be read in conjunction with the notes to the financial statements set out on pages 80 to 158.

Balance Sheets

	Note	Consolidated			The Company		
As at September 30 *Dollars in Millions*		***1998***	*1997*	*1996*	***1998***	*1997*	*1996*
Assets							
Cash and short term liquid assets	7	**4,152**	4,454	4,355	**1,519**	1,396	1,018
Due from other financial institutions	8	**9,303**	10,360	9,675	**5,465**	7,770	6,370
Due from customers on acceptances	9	**22,353**	19,605	17,283	**21,371**	18,888	16,382
Trading securities	10	**11,446**	9,987	8,406	**9,394**	8,182	6,748
Available for sale securities	11	**937**	1,815	364	**749**	1,642	–
Investment securities	12	**9,725**	7,448	6,574	**6,838**	5,082	2,990
Loans and advances	13	**160,001**	131,036	111,963	**82,921**	71,817	61,645
Mortgage loans held for sale		**3,473**	–	–	**–**	–	–
Mortgage servicing rights	16	**2,998**	–	–	**–**	–	–
Due from controlled entities		**–**	–	–	**20,745**	14,920	13,941
Shares in entities and other securities	17	**1,013**	280	175	**5,383**	3,522	3,201
Regulatory deposits	18	**1,155**	1,016	905	**961**	847	736
Fixed assets	19	**2,219**	2,229	2,258	**544**	573	606
Goodwill	20	**3,095**	2,122	2,218	**–**	–	–
Other assets	21	**19,844**	11,617	9,534	**12,191**	8,189	6,442
Total Assets		**251,714**	201,969	173,710	**168,081**	142,828	120,079
Liabilities							
Due to other financial institutions	22	**16,541**	12,746	12,795	**11,675**	11,178	11,234
Liability on acceptances	9	**22,353**	19,605	17,283	**21,371**	18,888	16,382
Deposits and other borrowings	23	**158,084**	128,469	109,158	**84,739**	70,200	57,529
Income tax liability	24	**1,953**	1,629	1,638	**756**	806	956
Provisions	25	**1,680**	1,292	1,324	**1,182**	989	944
Due to controlled entities		**–**	–	–	**13,313**	11,890	7,665
Bonds, notes and subordinated debt	26	**15,115**	9,569	6,958	**12,735**	9,439	6,844
Other debt issues	27	**1,683**	1,609	424	**421**	347	315
Other liabilities	28, 29	**18,541**	14,469	11,611	**12,174**	10,270	8,055
Total Liabilities		**235,950**	189,388	161,191	**158,366**	134,007	109,924
Net Assets		**15,764**	12,581	12,519	**9,715**	8,821	10,155
Shareholders' Equity							
Issued and paid up capital	30	**6,675**	1,413	1,477	**6,675**	1,413	1,477
Reserves	30	**1,782**	4,598	5,421	**206**	4,237	5,561
Retained profits		**7,304**	6,568	5,621	**2,834**	3,171	3,117
Shareholders' equity attributable to members of the Company		**15,761**	12,579	12,519	**9,715**	8,821	10,155
Outside equity interests in controlled entities	31	**3**	2	–	**–**	–	–
Total Shareholders' Equity		**15,764**	12,581	12,519	**9,715**	8,821	10,155

Contingent liabilities and commitments are excluded from this balance sheet and are listed in Notes 38, 39 and 41 to 44 inclusive.

The Balance Sheets are to be read in conjunction with the notes to the financial statements set out on pages 80 to 158.

Statements of Cash Flows

For years ended September 30 *Dollars in Millions*	*Consolidated* ***1998***	 *1997*	 *1996*	*The Company* ***1998***	 *1997*	 *1996*
Cash inflows (outflows) from operating activities:						
Interest received	**15,720**	12,417	11,325	**9,169**	7,697	6,416
Dividends received	**21**	47	33	**273**	259	248
Fees and other income received	**3,879**	3,631	2,962	**1,716**	2,161	1,647
Interest paid	**(9,528)**	(7,166)	(6,315)	**(6,578)**	(5,121)	(3,683)
Personnel costs paid	**(3,211)**	(2,528)	(2,351)	**(1,533)**	(1,352)	(1,159)
Occupancy costs paid	**(477)**	(362)	(332)	**(284)**	(239)	(182)
General expenses paid	**(1,224)**	(1,344)	(1,211)	**(470)**	(692)	(684)
Income taxes paid	**(1,547)**	(1,153)	(1,153)	**(893)**	(701)	(711)
Net movement in trading instruments	**(1,442)**	(1,527)	(491)	**(1,210)**	(1,434)	(465)
Net movement in mortgage loans held for sale	**(1,672)**	–	–	**–**	–	–
Net cash provided by operating activities	**519**	2,015	2,467	**190**	578	1,427
Cash inflows (outflows) from investing activities:						
Investment securities:						
Purchases	**(20,009)**	(8,954)	(8,166)	**(16,586)**	(8,056)	(1,840)
Proceeds on maturity	**19,182**	8,825	7,870	**14,831**	5,964	1,901
Available for sale securities:						
Purchases	**(69)**	(2,020)	(2,648)	**(29)**	(2,017)	(1,299)
Proceeds on sale	**6**	56	578	**–**	–	208
Proceeds on maturity	**1,323**	549	1,821	**922**	375	1,091
Net movement in shares in entities and other securities	**(732)**	(96)	(8)	**(1,866)**	(311)	(8)
Payment for entities	**(2,173)**	(47)	(2,089)	**–**	–	–
Payment for minority interest in controlled entity	**–**	–	(68)	**–**	–	–
Net movement in loans and advances represented by:						
Banking activities	**(16,583)**	(14,501)	(14,504)	**(11,072)**	(10,111)	(9,023)
Non-banking activities – new loans and advances	**(3,260)**	(1,601)	(1,196)	**–**	–	–
Non-banking activities – repayments	**715**	1,357	807	**–**	–	–
Acquisition of mortgage servicing rights	**(130)**	–	–	**–**	–	–
Lodgement of regulatory deposits	**(89)**	(91)	(93)	**(114)**	(111)	(83)
Net amounts due to (from) controlled entities	**–**	–	–	**(4,402)**	3,246	(1,235)
Expenditure on fixed assets	**(599)**	(180)	(144)	**(321)**	(104)	(119)
Net proceeds from sale of fixed assets	**397**	441	356	**61**	53	12
Net movement in other assets	**(3,154)**	284	(991)	**(721)**	303	(453)
Net cash used in investing activities	**(25,175)**	(15,978)	(18,475)	**(19,297)**	(10,769)	(10,848)

For years ended September 30 *Dollars in Millions*	*Consolidated* **1998**	*1997*	*1996*	*The Company* **1998**	*1997*	*1996*
Cash inflows (outflows) from financing activities:						
Net movement in bank deposits	**15,333**	13,900	11,164	**14,540**	12,671	7,032
Net movement in other deposits and borrowings represented by non-banking activities:						
New deposits and borrowings	**8,346**	109	2,138	**–**	–	–
Repayments	**(9,947)**	(261)	–	**–**	–	–
New share issues:						
Ordinary share capital	**155**	10	4	**155**	10	4
Preference share capital	**654**	–	–	**654**	–	–
Premium on shares issued	**–**	108	40	**–**	108	40
Buyback of shares:						
Ordinary share capital	**(3)**	(98)	–	**(3)**	(98)	–
Premium on shares purchased	**–**	(1,714)	–	**–**	(1,714)	–
Redemption of perpetual floating rate notes	**–**	(85)	–	**–**	–	–
Proceeds from exchangeable capital units	**–**	1,262	–	**–**	–	–
Net movement in bonds, notes and subordinated debt represented by:						
New long term debt issues	**7,052**	4,646	3,906	**5,262**	4,646	3,906
Repayments	**(2,443)**	(2,247)	(903)	**(2,772)**	(2,247)	(903)
Net movement in other liabilities	**471**	(378)	1,461	**(123)**	(461)	894
Payments from provisions	**(279)**	(205)	(318)	**(137)**	(46)	(171)
Dividends paid	**(941)**	(895)	(760)	**(941)**	(877)	(740)
Net cash provided by financing activities	**18,398**	14,152	16,732	**16,635**	11,992	10,062
Net inflow (outflow) in cash and cash equivalents	**(6,258)**	189	724	**(2,472)**	1,801	641
Cash and cash equivalents at beginning of period	**2,068**	1,235	(47)	**(2,012)**	(3,846)	(4,654)
Effects of exchange rate changes on balance of cash held in foreign currencies	**1,045**	644	(196)	**(207)**	33	167
Cash and cash equivalents acquired	**59**	–	754	**–**	–	–
Cash and cash equivalents at end of period[1]	**(3,086)**	2,068	1,235	**(4,691)**	(2,012)	(3,846)

Details of Reconciliation of Operating Profit and Extraordinary Items After Income Tax to Net Cash Provided by Operating Activities, Reconciliation of Cash, Controlled Entities Acquired and Non Cash Financing and Investment Facilities are provided in Note 36. Details of Financing Arrangements are provided in Note 44.

[1] For the purpose of reporting cash flows, cash and cash equivalents consist of cash and other short term liquid assets and balances due to and due from other financial institutions. Negative cash and cash equivalents at certain balance dates reflects the net interbank funding position on those dates. These balances fluctuate widely in the normal course of business. The Group holds a significant store of liquidity in the form of trading securities. Trading securities are not classified as cash and cash equivalents for statement of cash flow purposes; cash flows arising from the acquisition and sale of trading securities are reflected as cash flows arising from operating activities.

The Statements of Cash Flows are to be read in conjunction with the notes to the financial statements set out on pages 80 to 158.

1 Principal Accounting Policies

In these financial statements and notes thereto National Australia Bank Limited, the 'Parent Entity' is referred to as 'the Company', and the 'Consolidated Entity' consists of the Company and all entities in which it has control. The consolidated accounts comprise the accounts of the Consolidated Entity.

The financial statements and notes thereto of the Company and the consolidated accounts of the Consolidated Entity are general purpose financial reports prepared in accordance with the requirements of the Banking Act, Corporations Law and all applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

The financial statements and notes thereto also include disclosures required by the United States Securities & Exchange Commission (SEC) in respect of foreign registrants. Other prescribed SEC disclosures, which are not required to be included in the financial statements, are presented elsewhere in this Annual Report.

The preparation of the financial statements and notes thereto 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 Consolidated Entity 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.

Historical Cost

The consolidated accounts are based on historical cost and therefore do not reflect changes in the purchasing power of money or current valuations of non-monetary assets, except where indicated.

Currency of Presentation

All amounts are expressed in Australian currency and all references to '$' are to Australian dollars unless otherwise stated.

Rounding of Amounts

In accordance with Australian Securities and Investment Commission Class Order 98/0100 dated July 10, 1998 all amounts have been rounded to the nearest million dollars except where indicated.

Principles of Consolidation

All entities which are 'controlled' by the Company are included in the consolidated accounts. 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.

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 profit and loss. Equity accounting for associates is not adopted, as its impact on the Consolidated Entity financial statements would not be material.

Foreign Currency Translation

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

Differences arising on the translation of financial statements of the Consolidated Entity'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 financial statements of all other overseas controlled entities and overseas branches are recognised immediately in the profit and loss account.

It is the Consolidated Entity'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.

Derivative Financial Instruments Held or Issued for Trading Purposes

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 gains 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.

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 Consolidated Entity. 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 income 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 Other Operating Income.

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 statements. 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 Income.

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.

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 gains 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.

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 gains 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.

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.

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.

Acceptances

The Consolidated Entity's liability under acceptances is reported in the Balance Sheet. The Consolidated Entity has equal and offsetting claims against its customers which are reported as an asset. The Consolidated Entity'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.

Leasing

(i) Finance Leases

Finance leases, in which the Consolidated Entity is the lessor, are included in Loans and Other Receivables 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 Consolidated Entity is a lessee, leased assets are capitalised and the corresponding liability is recognised in Other Liabilities.

(ii) Operating Leases

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

(iii) Leveraged Leases

Investments in leveraged leases 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 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.

Unearned Income

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

Bad and Doubtful Debts

The specific provision 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 provision in the period in which they are classified as irrecoverable.

Effective September 30, 1998, the Consolidated Entity adopted a statistically based provisioning methodology for its general provision for doubtful debts. Under this methodology, the Consolidated Entity estimates the level of losses inherent, but unidentified, in its existing credit portfolio, 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. The general provision is then re-established based on the remaining portfolio of performing credit exposures.

On initial adoption of this methodology, the existing general provision was tax effected. A future income tax benefit of $469 million was recognised and the general provision was grossed up by a corresponding amount through the balance sheet.

To bring the tax effected general provision to its required level under this methodology, a profit and loss charge of $369 million and a related tax credit of $124 million were recognised as abnormal items.

Prior to adopting this methodology, charges to the profit and loss statement in respect of the general provision were recognised having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk weighted factors and without regard to tax deductibility. Comparative figures have not been restated to reflect the change in methodology.

All loans are subject to continuous management surveillance.

Asset Quality

The Consolidated Entity has disclosed, in Note 15, certain components of its loan portfolio as impaired assets according to the classifications discussed below.

– **Non-accrual loans** which 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 Consolidated Entity'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 Consolidated Entity'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.

Income Recognition on Non-Accrual Loans

When a loan is classified as non-accrual, 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.

All cash receipts on non-accrual loans which are contractually past due are applied against the carrying value of the loans and not recognised in the profit and loss account as interest income until the principal has been fully repaid.

Cash receipts on non-accrual loans which are not contractually past due are recognised in the profit and loss account as interest income to the extent that the cash receipt represents unaccrued interest.

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.

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 notes. Impairment is recognised through a valuation reserve for each impaired stratum and is included in amortisation of mortgage servicing rights.

Shares in Entities

Shares in entities are stated at original cost less any necessary provision for diminution in value, or at Directors' valuation. Unrealised losses relating to diminution in the value of shares in entities are recognised in the profit and loss account.

Fixed Assets

It is the Consolidated Entity's policy to revalue land and buildings annually to reflect their current market value. The Directors value land and buildings on the basis of open market values, discounted appropriately. Such values are based on advice received from independent valuers and assume existing use, being continuing occupation of properties by the Consolidated Entity, tenancies to external parties, or vacancies, as applicable. All land and buildings are subject to an independent valuation on a three year cycle.

Increments arising from property revaluations are credited to the Asset Revaluation Reserve. Revaluation decrements, being reversals of increments previously credited to, and included in the balance of the Asset Revaluation Reserve are charged against that reserve.

In revaluing land and buildings, the Directors have not taken into account the potential impact of capital gains tax on the grounds that such assets are an integral part of the Consolidated Entity's operations and there is no current intention to sell these assets. In addition, a large proportion of the Consolidated Entity's land and buildings were acquired prior to the introduction of capital gains tax legislation.

All other fixed assets and land and buildings acquired since the last revaluation are carried at the lower of cost, less accumulated depreciation, and recoverable amount.

If the carrying amount of a fixed asset 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.

With the exception of land, all fixed assets are depreciated or amortised by the straight line method at the rates appropriate to their estimated useful lives to the Consolidated Entity. For major classes of fixed assets, the rates are: buildings – 3.3%, furniture, fixtures and fittings – 10% and data processing equipment – 20%.

Profit or loss on the sale of fixed assets, which is determined as the difference between the carrying amount of fixed assets at the time of disposal and the sale proceeds, is treated as operating income or expense. Any Asset Revaluation Reserve amount relating to assets sold is transferred to Retained Profits.

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 controlled entity, is recognised as an asset. Goodwill is amortised from the date of acquisition by systematic charges on a straight line basis against income 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.

Life Insurance Business

The Consolidated Entity conducts life insurance business through its controlled entities National Australia Financial Management Limited, National Australia Life Company Limited and BNZ Life Insurance Limited.

The Consolidated Entity's interest in the profits of the life insurance statutory funds have been included in the consolidated profit and loss account. The profits have been determined in accordance with the 'Margin on Services' methodology for the valuation of policy liabilities under Actuarial Standard 101, 'Valuation of Policy Liabilities', issued by the Life Insurance Actuarial Standards Board. These profits are transferred to the General Reserve until available for distribution under the requirements of the Life Insurance Act (1995) and local statutory accounting practices.

Policyholders' interest in the statutory funds, as disclosed in Note 51 are not included in the consolidated accounts as the Consolidated Entity does not have direct or indirect control of such funds as defined by AASB 1024 'Consolidated Accounts'.

Trustee and Funds Management Activities

The consolidated accounts include the shareholders' interest in trustee companies, which act as the trustee and/or manager of a number of investments and trusts. These funds and trusts, as disclosed in Note 51, are not included in the consolidated accounts as the Consolidated Entity does not have direct or indirect control of the funds and trusts as defined by 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 consolidated accounts.

Commissions and fees earned in respect of the Consolidated Entity's trust and funds management activities are included in the profit and loss account.

Recognition of Loan Related Fees and Costs

Loan origination fees, if material, are recognised in income over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income 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 in income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period. Loan related administration and service fees are recognised in income over the period of service. Credit card fees are recognised in income over the card usage period. In addition, syndication fees are recognised 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 in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Loan origination fees and direct loan origination costs are recognised in income as an adjustment of yield using the constant yield method of amortisation. All other loan related fees are recognised in income using the straight line method of amortisation.

Superannuation

The expense represents the Consolidated Entity'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 Consolidated Entity has no control over them.

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.

Income Tax

The Consolidated Entity 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 accounts, is included in the provision for deferred income tax or future income tax benefits, as applicable, at current taxation rates. 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.

Following the adoption of a statistically based provisioning methodology, charges to the general provision for doubtful debts are now tax effected. Prior to the adoption of this methodology, future income tax benefits associated with the general provision were not recognised.

Capital gains tax, if applicable, is provided for in determining period income tax expense when an asset is sold.

Share Capital

On July 1, 1998 the Company Law Review Act (the Act) abolished the concept of par value and the share premium account for new and existing shares. The Act also required the balance of the Company's share premium account to become part of the issued and paid up capital account. To effect the required amalgamation, the Company transferred its share premium account to its issued and paid up capital account.

Changes in Financial Statement Presentation

Effective from October 1, 1997, the following guidance from International Accounting Standard IAS 1, 'Presentation of Financial Statements', has been applied to existing accounting policies:

– Offsetting in the income statement should occur to reflect the substance of the transaction or event to assist the users in understanding the transactions undertaken and to assess the future cash flows of the enterprise; and
– Expenditure that is reimbursed under a contractual arrangement with a third party (a subletting agreement, for example) should be netted against the related reimbursement.

Application of the above guidance has resulted in the following items being presented net in the financial statements:

a) Merchant service fees and card issuer reimbursement costs;

b) Customer ATM reimbursement fees and ATM interchange fees paid; and

c) Operating lease rental income and depreciation expense (net to be recorded as interest income).

Operating lease assets have been presented as loans, and the residual value presented as other assets.

There was no profit or loss impact as a result of these presentation changes.

Comparative Amounts

Comparative amounts have been reclassified to accord with changes in presentation made in 1998, except where otherwise stated.

Definitions

'The Company' is National Australia Bank Limited.

Amounts booked in branches and controlled entities outside Australia are classified as 'overseas'.

For years ended September 30 Dollars in Millions	*Consolidated* **1998**	*Consolidated* *1997*	*Consolidated* *1996*	*The Company* **1998**	*The Company* *1997*	*The Company* *1996*

2 Operating profit before income tax expense

Operating profit is determined after including:

Income

Interest Income						
Other financial institutions	**643**	575	555	**478**	416	377
Marketable debt securities	**1,293**	1,008	966	**924**	678	609
Loans to customers[1]	**12,484**	11,051	10,411	**5,957**	5,976	5,881
Controlled entities	–	–	–	**1,117**	731	509
Other interest (incl. regulatory deposits, interest on swaps etc.)	**1,007**	302	156	**811**	220	31
Total Interest Income	**15,427**	12,936	12,088	**9,287**	8,021	7,407
Other Operating Income						
Dividends received from:						
Controlled entities	–	–	–	**258**	229	218
Other entities	**21**	57	33	**15**	40	30
Profit on sale of fixed assets	**53**	30	13	**8**	6	2
Loan fees from banking	**938**	794	738	**753**	633	585
Money transfer fees	**1,050**	853	784	**355**	280	268
Net mortgage servicing fees	**197**	–	–	–	–	–
Net mortgage origination revenue	**126**	–	–	–	–	–
Trading income:[2]						
Foreign exchange derivatives	**367**	145	151	**267**	70	85
Trading securities	**160**	228	95	**150**	223	93
Interest rate derivatives	**(167)**	(104)	(27)	**(168)**	(98)	(10)
Net profit (loss) on available for sale securities	**(1)**	–	(1)	**(2)**	–	–
Foreign exchange income	**(8)**	–	53	**(24)**	(11)	30
Fees and commissions	**829**	650	522	**308**	268	217
Other income	**388**	256	270	**77**	63	58
Total Other Operating Income	**3,953**	2,909	2,631	**1,997**	1,703	1,576

Expenses

Interest Expense						
Other financial institutions	**972**	633	739	**661**	537	634
Deposits and other borrowings	**7,333**	6,108	5,563	**4,345**	3,874	3,454
Controlled entities	–	–	–	**946**	476	243
Bonds, notes and subordinated debt	**1,116**	761	632	**760**	522	426
Other debt issues	**148**	76	24	**29**	20	20
Total Interest Expense	**9,569**	7,578	6,958	**6,741**	5,429	4,777
Charge to Provide for Doubtful Debts – Note 14						
Specific	**422**	252	263	**189**	85	114
General[3]	**150**	80	70	**105**	46	55
Total Charge to Provide for Doubtful Debts	**572**	332	333	**294**	131	169

[1] *Included within interest income is rental income of $344million (1997: $287 million, 1996: $186 million) and depreciation of $215 million (1997: $175 million, 1996: $114 million) in relation to operating leases where the Consolidated Entity is the lessor.*

[2] *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.*

[3] *Represents the general provision charge during the year using the pre-statistically based provisioning method of determining the provision.*

For years ended September 30 Dollars in Millions	Consolidated 1998	Consolidated 1997	Consolidated 1996	The Company 1998	The Company 1997	The Company 1996
Other Operating Expenses[(1)]						
Personnel						
Salaries	**2,201**	1,915	1,781	**1,069**	995	920
Related personnel costs:						
Superannuation	**66**	87	106	**42**	54	71
Payroll tax	**133**	119	107	**70**	72	62
Fringe benefits tax	**37**	55	47	**33**	50	40
Charge to provide for:						
Annual leave	**15**	17	13	**14**	17	12
Long service leave and retiring allowances	**25**	16	6	**23**	14	4
Performance based compensation	**133**	94	69	**63**	55	36
Restructuring costs [(2)]	**–**	30	57	**–**	17	24
Depreciation of motor vehicles provided to employees	**4**	4	4	**–**	–	–
Other	**422**	290	260	**167**	123	107
Total Personnel Costs	**3,036**	2,627	2,450	**1,481**	1,397	1,276
Occupancy Costs						
Depreciation of buildings and amortisation of leaseholds	**76**	72	73	**35**	34	38
Rental on operating leases	**197**	178	154	**165**	165	175
Other	**207**	185	177	**78**	74	77
Total Occupancy Costs	**480**	435	404	**278**	273	290
General						
Depreciation and amortisation of furniture, fixtures, fittings and equipment	**192**	168	166	**63**	53	53
Loss on sale of fixed assets	**23**	7	6	**3**	1	1
Rental on operating leases	**43**	35	46	**31**	29	41
Charge to provide for:						
Non-lending losses/contingencies	**60**	7	21	**32**	15	8
Diminution in value of shares in entities	**8**	3	8	**–**	2	4
Fees and commissions	**91**	76	75	**69**	56	58
Communications, postage and stationery	**378**	310	280	**144**	144	128
Computer equipment and software	**201**	173	152	**87**	77	77
Other expenses[(3)]	**823**	636	621	**296**	277	269
Total General Expenses	**1,819**	1,415	1,375	**725**	654	639
Amortisation of Goodwill						
County Investment Management	**6**	–	–	**–**	–	–
United Kingdom and Irish Banks	**62**	62	62	**–**	–	–
Bank of New Zealand	**31**	31	31	**–**	–	–
Michigan National Corporation	**49**	49	44	**–**	–	–
HomeSide Inc.	**33**	–	–	**–**	–	–
Total Amortisation of Goodwill	**181**	142	137	**–**	–	–
Total Other Operating Expenses	**5,516**	4,619	4,366	**2,484**	2,324	2,205

(1) Included within other operating expenses are the costs associated with addressing the Year 2000 initiative. These costs are included within the various categories of other expenses and total $120 million (1997: $33 million). Refer to page 59 for further detail on the Year 2000 initiative.

(2) Restructuring costs incurred during the 1998 year have been classified as abnormal items.

(3) Included within other expenses are the following donations to political parties paid by the Company on September 30, 1998 – Australian Liberal Party $50,000; Australian Labor Party $25,000; and Australian National Party $25,000.

For years ended September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996

3 Abnormal items

Restructuring costs						
Personnel	**248**	–	–	**94**	–	–
Occupancy	**80**	–	–	**41**	–	–
Fixed asset writedowns	**23**	–	–	**13**	–	–
General	**29**	–	–	**19**	–	–
Total restructuring costs before income tax	**380**	–	–	**167**	–	–
General provision charge upon adoption of statistically based provisioning	**369**	–	–	**181**	–	–
Total Abnormal Items before Income Tax	**749**	–	–	**348**	–	–
Income Tax Expense (Benefit)						
Restructuring costs	**(128)**	–	–	**(61)**	–	–
General provision charge upon adoption of statistically based provisioning	**(124)**	–	–	**(66)**	–	–
Total Income Tax Expense (Benefit)	**(252)**	–	–	**(127)**	–	–
Abnormal Items after Income Tax	**497**	–	–	**221**	–	–

During 1998, the Consolidated Entity recognised restructuring costs of $380 million resulting from its transition to a fully integrated financial services organisation. This transition, which will be implemented over the next 12 to 18 months, includes migration to a new operating framework and distribution, technology and workforce initiatives to improve operational efficiency and productivity.

The new operating framework comprises a streamlined management structure covering global, regional and local business unit levels. Distribution initiatives comprise a new sales and service organisational and operational model, a customer focussed management model supporting and supported by a branch rationalisation program. Technology initiatives include large scale rationalisation and convergence of operating platforms through centralisation of common business unit functions. It is estimated that the restructuring expenditure will achieve a payback in approximately two years.

Personnel costs of $248 million relate to redundancies for approximately 3,470 positions. At September 30, 1998, payments of $132 million were made in respect of approximately 1,490 positions made redundant. The reduction in staff numbers will occur in both managerial and non-managerial positions in the following regions:

	Number of Positions to be made Redundant	*Number of Positions made Redundant at September 30,1998*
Australia	870	490
Europe	1,390	510
New Zealand	430	210
United States	780	280
Total	3,470	1,490

The provision for restructuring (refer to Note 25) represents the liability relating to future payments for redundancies, occupancy and general costs that will be made in 1999 and 2000.

Refer to Note 1 for an explanation of a statistically based provisioning methodology.

For years ended September 30 Dollars in Millions	Consolidated 1998	 1997	 1996	The Company 1998	 1997	 1996

4 Income tax expense

Reconciliation of income tax expense shown in the statement of profit and loss, with prima facie tax payable on the pre-tax accounting profit:						
Operating Profit before income tax and abnormal items						
Australia	**1,977**	2,026	2,045	**1,718**	1,822	1,810
Overseas	**1,746**	1,290	1,017	**47**	18	22
Total Operating Profit before income tax and abnormal items	**3,723**	3,316	3,062	**1,765**	1,840	1,832
Prima facie income tax at 36%	**1,340**	1,194	1,102	**635**	662	660
Add (or deduct) tax effect of permanent differences:						
Non-allowable depreciation on buildings	**10**	7	10	**–**	1	1
Charge to fund general provision for doubtful debts	**49**	27	25	**36**	18	19
Investment allowance	**–**	–	(8)	**–**	–	–
Rebate of tax on dividends, interest, etc.	**(79)**	(40)	(14)	**(104)**	(103)	(90)
Foreign tax rate differences	**(53)**	(41)	(37)	**10**	2	(1)
Amortisation of goodwill	**65**	51	49	**–**	–	–
Future income tax benefits no longer recognised	**4**	–	(8)	**2**	–	(3)
Over provision in prior years	**(70)**	(21)	(124)	**(4)**	(22)	(120)
Recognition of tax losses resulting from IRS ruling [1]	**–**	(49)	–	**–**	–	–
Other	**(55)**	(33)	(36)	**(32)**	(3)	(11)
Total income tax expense on operating profit before abnormal items	**1,211**	1,095	959	**543**	555	455
Abnormal items before tax	**(749)**	–	–	**(348)**	–	–
Prima facie income tax at 36%	**(270)**	–	–	**(125)**	–	–
Add (or deduct) tax effect of permanent differences:						
Foreign tax rate differences	**18**	–	–	**(2)**	–	–
Total income tax expense (benefit) on abnormal items	**(252)**	–	–	**(127)**	–	–
Total Income Tax Expense	**959**	1,095	959	**416**	555	455

[1] In September 1997, Michigan National Corporation 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 U.S. Internal Revenue Service (IRS), these losses can now be accessed by MNB. Under Abstract 9 issued by the Urgent Issues Group (Accounting for Acquisitions – Recognition of Acquired Tax Losses), these losses were recognised in the Group's Profit and Loss Statement and represent a permanent tax difference.

5 Dividends

Dividends provided for or paid (fully franked)						
49c Interim cash provided (1997: 45c, 1996: 43c)	**700**	675	626	**700**	675	626
53c Final cash payable (1997: 49c, 1996: 44c)	**767**	692	650	**767**	692	650
Total Dividends Provided for or Paid	**1,467**	1,367	1,276	**1,467**	1,367	1,276
Dividend provisions not required						
Bonus share issues	**34**	60	57	**34**	60	57
Dividends paid under U.K. Dividend Plan	**(19)**	(19)	(19)	**–**	–	–
Dividend over provided	**50**	42	17	**50**	42	17
Total Dividend Provisions not required	**65**	83	55	**84**	102	74

Dividend Imputation

The franking credits available to the Consolidated Entity at September 30, 1998 after allowing for tax payable in respect of the current year's profits and the payment of the final dividend are estimated to be nil (1997: $275 million). The franking credits that will be available to the Consolidated Entity at June 30, 1999 (being the end of the Consolidated Entity's franking year), after allowing for the instalment of tax payable in June 1999 in respect of the 1999 financial year, total an estimated $147 million (1997: $512 million). These franking credits are Class 'C' credits representing tax paid at the 36% corporate rate.

Based on current projections of franking credits to be generated from the payment of Australian income tax on Consolidated Entity profits for the franking year ending June 30, 2000, it is anticipated that the interim dividend for the 1999 financial year will be fully franked while the final dividend may be partly franked.

However, the level of franking for future dividends will depend on a number of factors including the proportion of Australian and offshore profits and any changes to the current dividend imputation system.

In determining the dividends to be paid, the Consolidated Entity pursues a balance between achieving an increase in shareholder wealth through the payment of dividends, and retaining sufficient earnings to augment its capital resources to allow for growth in its business base, taking into account prudential and liquidity requirements.

There are presently no restrictions on the payment of dividends from controlled entities to the Company and no restrictions on payment of dividends by the Company other than:

– reductions of 'Shareholders' Equity' through payment of cash dividends is monitored by management having regard to the regulatory requirements to maintain a specified capital adequacy ratio.

6 Earnings per share

	Consolidated					
For years ended September 30	***1998***		*1997*		*1996*	
	Basic	***Diluted***	*Basic*	*Diluted*	*Basic*	*Diluted*
Weighted average ordinary shares (000's)						
Weighted average ordinary shares	**1,433,616**	**1,433,616**	1,465,771	1,465,771	1,451,744	1,451,744
Potential dilutive ordinary shares:						
– Options	**–**	**15,541**	–	24,444	–	25,124
– Exchangeable capital units	**–**	**65,460**	–	35,151	–	–
– Partly paid shares	**–**	**2,446**	–	3,332	–	4,280
Total weighted average ordinary shares	**1,433,616**	**1,517,063**	1,465,771	1,528,698	1,451,744	1,481,148
Earnings per share (Millions)						
Earnings	**2,014**	**2,014**	2,223	2,223	2,102	2,102
Trust distribution	**(7)**	**(7)**	–	–	–	–
Potential dilutive adjustments						
– Options	**–**	**6**	–	12	–	16
– Exchangeable capital units	**–**	**78**	–	37	–	–
– Partly paid shares	**–**	**1**	–	1	–	2
Adjusted earnings	**2,007**	**2,092**	2,223	2,273	2,102	2,120
Abnormal items	**497**	**497**	–	–	–	–
Adjusted earnings before abnormal items	**2,504**	**2,589**	2,223	2,273	2,102	2,120
Earnings per share						
– before abnormal items (cents)	**174.6**	**170.6**	151.6	148.7	144.8	143.1
– after abnormal items (cents)	**140.0**	**137.9**	151.6	148.7	144.8	143.1

There has been no:

(a) conversion to, calls of, or subscriptions for ordinary shares, or

(b) issues of potential ordinary shares since September 30, 1998 and before the completion of these accounts.

The weighted average diluted number of ordinary shares includes the impact of options, partly paid shares and the potential conversion of exchangeable capital units.

7 Cash and short term liquid assets

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	***1998***	*1997*	*1996*
Coins, notes and cash at bank	**1,015**	1,228	1,724	**338**	330	871
Money at short call	**586**	2,435	1,096	**251**	1,620	27
Other (including bills receivable and remittances in transit)	**2,551**	791	1,535	**930**	(554)	120
Total Cash and Short Term Liquid Assets	**4,152**	4,454	4,355	**1,519**	1,396	1,018

Cash and short term liquid assets are items readily convertible into cash and generally repayable on demand.

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996

8 Due from other financial institutions

Australia						
Due from other banks	**1,219**	989	752	**1,161**	936	168
Due from non-bank financial institutions	**418**	133	119	**418**	133	119
	1,637	1,122	871	**1,579**	1,069	287
Overseas						
Due from other banks	**7,652**	9,122	8,597	**3,872**	6,616	6,047
Due from non-bank financial institutions	**14**	116	207	**14**	85	36
	7,666	9,238	8,804	**3,886**	6,701	6,083
Total Due From Other Financial Institutions	**9,303**	10,360	9,675	**5,465**	7,770	6,370

Amounts due from financial institutions are amounts incurred through use of the payments system and are generally settled within 30 days.

Maturity Analysis of Due From Other Financial Institutions[1]	1998	1997
Overdraft	**438**	381
At Call	**2,737**	1,625
Due in less than 3 months	**5,592**	6,780
Due after 3 months through to 1 year	**64**	1,308
Due after 1 year through to 5 years	**52**	206
Due after 5 years	**420**	51
No Maturity Specified	**–**	9
	9,303	10,360

[1] *Comparatives prior to 1997 are not available.*

9 Due from customers on acceptances

Australia						
Government and public authorities	**18**	23	113	**18**	23	113
Agriculture, forestry and fishing	**1,466**	1,162	874	**1,466**	1,162	862
Financial, investment and insurance	**5,083**	4,313	3,230	**5,083**	4,313	3,209
Real estate – construction	**1,032**	700	601	**1,032**	700	592
Manufacturing	**4,033**	3,473	3,207	**4,033**	3,473	3,168
Instalment loans to individuals and other personal lending (including credit cards)	**385**	455	562	**385**	455	548
Other commercial and industrial	**9,159**	8,679	7,771	**9,159**	8,679	7,684
	21,176	18,805	16,358	**21,176**	18,805	16,176
Overseas						
Agriculture, forestry and fishing	**–**	–	1	**–**	–	–
Financial, investment and insurance	**817**	618	739	**76**	42	178
Real estate – construction	**19**	1	16	**–**	–	–
Manufacturing	**236**	78	98	**83**	10	6
Lease financing	**–**	2	1	**–**	2	1
Other commercial and industrial	**105**	101	70	**36**	29	21
	1,177	800	925	**195**	83	206
Total Due from Customers on Acceptances	**22,353**	19,605	17,283	**21,371**	18,888	16,382

Maturity Analysis of Due From Customers on Acceptances[1]	1998	1997
Due in less than 3 months	**15,588**	14,123
Due after 3 months through to 1 year	**6,716**	5,482
Due after 1 year through to 5 years	**29**	–
Due after 5 years	**20**	–
	22,353	19,605

[1] *Comparatives prior to 1997 are not available.*

As at September 30 Dollars in Millions	Consolidated *1998*	 *1997*	 *1996*	The Company *1998*	 *1997*	 *1996*

10 Trading securities

Australian government treasury notes	**2,945**	2,064	2,951	**2,945**	2,064	2,926
Australian government bonds and securities	**2,641**	3,607	1,096	**2,641**	3,607	1,096
Securities of Australian local and semi-government authorities	**790**	388	317	**790**	388	317
Securities of or guaranteed by UK/Irish governments	**48**	71	30	**48**	71	30
Securities of or guaranteed by New Zealand government	**923**	922	769	**–**	–	–
US Treasury and Other US Government Agencies	**–**	7	–	**–**	7	–
US and Political Sub-divisions	**114**	20	3	**93**	–	–
Private corporations – Eurobonds	**1,822**	9	–	**1,822**	9	–
Private corporations/Other financial institutions' CDs/bills	**856**	737	509	**–**	–	–
Other securities	**1,307**	2,162	2,731	**1,055**	2,036	2,379
Total Trading Securities at Market Value	**11,446**	9,987	8,406	**9,394**	8,182	6,748

11 Available for sale securities

Carrying Value

Securities of Australian local and semi-government authorities	**–**	–	2	**–**	–	–
Securities of or guaranteed by UK/Irish governments	**4**	48	102	**–**	–	–
Securities of or guaranteed by New Zealand government	**–**	5	8	**–**	–	–
Private corporations/Other financial institutions' CDs/bills	**700**	1,598	105	**700**	1,598	–
Other securities	**233**	164	147	**49**	44	–
Total Available for Sale Securities	**937**	1,815	364	**749**	1,642	–

Market Value

Securities of Australian local and semi-government authorities	**–**	–	2	**–**	–	–
Securities of or guaranteed by UK/Irish governments	**4**	48	102	**–**	–	–
Securities of or guaranteed by New Zealand government	**–**	5	8	**–**	–	–
Private corporations/Other financial institutions' CDs/bills	**700**	1,598	105	**700**	1,598	–
Other securities	**233**	164	148	**49**	44	–
Total Available for Sale Securities at Market Value	**937**	1,815	365	**749**	1,642	–

The following table reconciles gross unrealised gains and losses of the Consolidated Entity's holdings of available for sale securities at September 30, 1998.

Dollars in Millions	*Amortised Cost*	*Gross Unrealised Losses*	*Gross Unrealised Gains*	*Market Value*
Securities of or guaranteed by UK/Irish governments	4	–	–	4
Private corporations/Other financial institutions' CDs/bills	703	3	–	700
Other	233	–	–	233
Total	940	3	–	937

Maturities of Available for Sale Securities

The following tables analyse the maturities of the Consolidated Entity's holdings of available for sale securities at September 30, 1998.

	Maturing 1 Year or less		Maturing 1 year through 5 years		Maturing 5 years through 10 years		Maturing after 10 years	
Dollars in Millions	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
Securities of or guaranteed by UK/Irish governments	–	–	4	6.7%	–	–	–	–
Private corporations/Other financial institutions' CDs/bills	685	5.3%	15	6.2%	–	–	–	–
Other	25	5.8%	39	6.3%	10	6.5%	159	5.4%
Total	710		58		10		159	
Maturities at market value	710		58		10		159	

Proceeds from maturities of available for sale securities during 1998 were $1,323 million (1997: $549 million, 1996: $1,821 million). Proceeds from sales of available for sale securities during 1998 were $6 million (1997: $56 million, 1996: $578 million). Gross gains of $1 million (1997: nil, 1996: $1 million) and gross losses of nil (1997: nil and 1996: $2 million) were realised on sales.

	Consolidated	
	1998	1997
Maturity Analysis of Available for Sale Securities[1]		
At Call	**25**	112
Due in less than 3 months	**674**	1,563
Due after 3 months through to 1 year	**11**	95
Due after 1 year through to 5 years	**58**	33
Due after 5 years	**169**	12
	937	1,815

[1] *Comparatives prior to 1997 are not available.*

As at September 30 Dollars in Millions	Consolidated **1998**	1997	1996	The Company **1998**	1997	1996

12 Investment securities

	Consolidated			The Company		
	1998	1997	1996	**1998**	1997	1996
Carrying Value						
Australian government bonds and securities	**24**	23	23	**24**	23	23
Securities of Australian local and semi-government authorities	**197**	192	336	**197**	192	336
Securities of or guaranteed by UK/Irish governments	**2,143**	649	632	**1,497**	–	–
Securities of or guaranteed by New Zealand government	**–**	–	139	**–**	–	135
US Treasury and other US government agencies	**1,910**	1,375	1,608	**63**	200	120
US and Political Sub-divisions	**19**	23	28	**–**	–	–
Private corporations – Eurobonds	**58**	50	101	**58**	50	101
Private corporations/Other financial institutions' CDs/bills	**3,643**	3,180	3,110	**3,585**	3,180	1,839
Other securities	**1,731**	1,956	597	**1,414**	1,437	436
Total Investment Securities	**9,725**	7,448	6,574	**6,838**	5,082	2,990
Market Value						
Australian government bonds and securities	**24**	26	26	**24**	26	26
Securities of Australian local and semi-government authorities	**222**	218	360	**222**	218	360
Securities of or guaranteed by UK/Irish governments	**2,145**	656	638	**1,497**	–	–
Securities of or guaranteed by New Zealand government	**–**	–	139	**–**	–	135
US Treasury and other US government agencies	**1,932**	1,383	1,611	**63**	200	120
US and Political Sub-divisions	**20**	23	28	**–**	–	–
Private corporations – Eurobonds	**58**	50	101	**58**	50	101
Private corporations/Other financial institutions' CDs/bills	**3,633**	3,183	3,112	**3,576**	3,183	1,836
Other securities	**1,755**	1,997	601	**1,431**	1,476	443
Total Investment Securities at Market Value	**9,789**	7,536	6,616	**6,871**	5,153	3,021

The following table reconciles gross unrealised gains and losses of the Consolidated Entity's holdings of investment securities at September 30, 1998.

Dollars in Millions	*Amortised Cost*	*Gross Unrealised Gains*	*Gross Unrealised Losses*	*Market Value*
Australian government bonds and securities	24	–	–	24
Securities of Australian local and semi-government authorities	197	25	–	222
Securities of or guaranteed by UK/Irish governments	2,143	6	4	2,145
Securities of or guaranteed by New Zealand government	–	–	–	–
US Treasury and other US government agencies	1,910	22	–	1,932
US and Political Sub-divisions	19	1	–	20
Private corporations – Eurobonds	58	–	–	58
Private corporations/Other financial institutions' CDs/bills	3,643	2	12	3,633
Other securities	1,731	40	16	1,755
Total	9,725	96	32	9,789

Maturities of Investment Securities

The following tables analyse the maturities of the Consolidated Entity's holdings of investment securities at September 30, 1998.

	Maturing 1 Year or less		*Maturing 1 year through 5 years*		*Maturing 5 years through 10 years*		*Maturing after 10 years*	
Dollars in Millions	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
Australian government bonds	–	–	24	12.0%	–	–	–	–
Securities of Australian local and semi-government authorities	9	13.8%	163	13.5%	25	7.6%	–	–
Securities of or guaranteed by UK/Irish governments	1,909	6.3%	207	5.5%	27	5.8%	–	–
US Treasury and other US government agencies and entities	207	5.6%	66	5.7%	214	5.9%	1,423	3.8%
US and Political Sub-divisions	4	4.5%	9	5.0%	3	5.4%	3	5.3%
Private corporations – Eurobonds	17	5.3%	41	3.9%	–	–	–	–
Private corporations/Other financial institutions' CDs/bills	1,681	6.1%	1,962	8.4%	–	–	–	–
Other securities	555	5.3%	1,090	4.2%	86	5.2%	–	–
Total book value	4,382		3,562		355		1,426	
Maturities at market value	3,455		3,671		1,138		1,525	

Proceeds from maturities of investment securities during 1998 were $19,182 million (1997: $8,825 million, 1996: $7,865 million). The majority of these relate to the maturity of short dated investment securities. There were no proceeds from sales of investment securities during 1998 (1997: nil, 1996: $5 million). The investment securities sold in 1996 were as a result of the initial adoption of the FASB implementation guide to Statement 115. There were no gross gains or gross losses realised during 1998 or the preceding two years.

	Consolidated	
	1998	*1997*
Maturity Analysis of Investment Securities[1]		
At Call	**14**	2
Due in less than 3 months	**2,513**	1,769
Due after 3 months through to 1 year	**1,855**	2,072
Due after 1 year through to 5 years	**3,562**	2,754
Due after 5 years	**1,781**	851
	9,725	7,448

[1] *Comparatives prior to 1997 are not available.*

As at September 30 Dollars in Millions	Consolidated 1998	Consolidated 1997	Consolidated 1996	The Company 1998	The Company 1997	The Company 1996

13 Loans and advances

	Consolidated 1998	Consolidated 1997	Consolidated 1996	The Company 1998	The Company 1997	The Company 1996
Australia						
Overdrafts	**5,027**	4,173	3,353	**5,027**	4,173	3,264
Credit card outstandings	**2,073**	1,817	1,624	**2,073**	1,817	1,624
Market rate advances	**476**	317	140	**476**	317	140
Bills discounted	**–**	–	55	**–**	–	–
Lease finance	**5,300**	4,458	3,823	**5,227**	4,372	3,723
Housing loans	**37,763**	33,420	28,111	**37,763**	33,420	27,457
Other term lending	**24,477**	21,690	21,484	**24,166**	21,132	20,919
Equity participation in leveraged leases	**681**	768	597	**681**	726	596
Redeemable preference share finance	**230**	415	146	**230**	415	146
Other lending	**4,428**	3,931	3,362	**4,207**	3,760	3,159
	80,455	70,989	62,695	**79,850**	70,132	61,028
Overseas						
Overdrafts	**9,883**	7,780	7,011	**2**	4	3
Credit card outstandings	**1,793**	1,470	1,214	**–**	–	–
Market rate advances	**734**	599	572	**–**	–	–
Bills discounted	**70**	284	163	**8**	190	91
Lease finance	**4,750**	2,877	2,060	**43**	2	–
Housing loans	**20,173**	16,103	13,400	**51**	54	36
Other term lending	**38,331**	29,248	23,066	**5,116**	2,639	982
Equity participation in leveraged leases	**–**	3	4	**–**	–	–
Redeemable preference share finance	**3,538**	445	1	**–**	–	–
Other lending	**4,335**	3,836	4,181	**15**	273	883
	83,607	62,645	51,672	**5,235**	3,162	1,995
Total Loans and Advances (Gross)	**164,062**	133,634	114,367	**85,085**	73,294	63,023
Deduct: Unearned income	**(1,516)**	(1,244)	(1,118)	**(866)**	(796)	(730)
Provision for doubtful debts – Note 14	**(2,545)**	(1,354)	(1,286)	**(1,298)**	(681)	(648)
Total Loans and Advances (Net)	**160,001**	131,036	111,963	**82,921**	71,817	61,645
Leasing receivables included in lease finance net of unearned income:						
Current	**2,254**	1,662	1,734	**819**	714	1,010
Non-current	**7,560**	5,685	4,108	**4,471**	3,783	2,770
	9,814	7,347	5,842	**5,290**	4,497	3,780
Maturity Analysis of Loans and Advances[1]						
Overdrafts	**14,910**	11,953				
At Call	**6,465**	8,164				
Due in less than 3 months	**13,357**	11,140				
Due after 3 months through to 1 year	**23,221**	14,881				
Due after 1 year through to 5 years	**39,866**	29,032				
Due after 5 years	**62,887**	56,501				
No Maturity Specified[2]	**(705)**	(635)				
	160,001	131,036				

[1] *Comparatives prior to 1997 are not available.*

[2] *Includes general provision for doubtful debts as disclosed in Note 14.*

The diversification and size of the Consolidated Entity is 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 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.

	Consolidated				
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	*1995*	*1994*
Australia					
Government and public authorities	**929**	1,403	1,083	1,158	1,268
Agriculture, forestry and fishing	**5,794**	4,615	4,365	3,723	3,059
Financial, investment and insurance	**4,940**	4,902	3,854	2,615	2,891
Real estate – construction	**1,367**	1,268	1,191	1,157	1,140
Manufacturing[(1)]	**2,524**	2,749	2,515	3,194	
Real estate – mortgage	**37,763**	33,420	24,449	21,075	17,579
Instalment loans to individuals and other personal lending (including credit cards)	**7,272**	7,223	8,372	8,144	7,956
Lease financing	**5,981**	5,226	4,420	3,933	2,916
Other commercial and industrial[(2)]	**13,885**	10,183	12,446	9,286	10,520
	80,455	70,989	62,695	54,285	47,329
Overseas					
Government and public authorities	**1,010**	543	617	410	269
Agriculture, forestry and fishing	**4,835**	3,881	3,526	2,862	2,637
Financial, investment and insurance	**7,527**	3,135	2,205	1,890	1,679
Real estate – construction	**1,775**	1,373	1,342	1,292	1,199
Manufacturing[(1)]	**6,618**	4,912	4,139	3,127	
Real estate – mortgage	**20,173**	16,103	13,942	12,810	10,571
Instalment loans to individuals and other personal lending (including credit cards)	**11,096**	9,214	8,319	6,223	5,729
Lease financing	**4,750**	2,880	2,064	1,262	1,058
Other commercial and industrial[(2)]	**25,823**	20,604	15,518	9,581	10,902
	83,607	62,645	51,672	39,457	34,044
Total Loans and Advances (Gross)	**164,062**	133,634	114,367	93,742	81,373
Deduct: Unearned income	**(1,516)**	(1,244)	(1,118)	(1,173)	(963)
Provisions for doubtful debts – Note 14	**(2,545)**	(1,354)	(1,286)	(1,031)	(1,242)
Total Loans and Advances (Net)	**160,001**	131,036	111,963	91,538	79,168

[(1)] Comparatives prior to 1995 are not available.

[(2)] At September 30, 1998 there were no concentrations of other commercial and industrial loans exceeding 10% of total loans and advances.

Concentrations of credit risk by geographical location is based on the geographical location of the office in which the loans or advances are booked.

	Consolidated		
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*
Australia	**78,356**	69,562	61,349
Europe	**45,875**	31,275	25,417
New Zealand	**18,113**	17,402	15,137
United States	**14,367**	10,649	8,744
Asia	**3,290**	2,148	1,316
Total	**160,001**	131,036	111,963

The following tables show the maturity distribution of loans and advances to customers and interest rate sensitivity of such loans.

As at September 30, 1998 *Dollars in Millions*	*Due in 1 Year or less*[1]	*Due after 1 Year through 5 Years*	*Due after 5 Years*	*Total*
Australia				
Government and public authorities	301	313	315	929
Agriculture, forestry and fishing	3,247	2,149	398	5,794
Financial, investment and insurance	3,145	1,431	364	4,940
Real estate – construction	760	384	223	1,367
Manufacturing	1,667	566	291	2,524
Real estate – mortgage	5,572	1,788	30,403	37,763
Instalment loans to individuals and other personal lending (including credit cards)	3,429	2,967	876	7,272
Lease financing	1,065	4,729	187	5,981
Other commercial and industrial	7,820	3,796	2,269	13,885
	27,006	18,123	35,326	80,455
Overseas				
Government and public authorities	780	155	75	1,010
Agriculture, forestry and fishing	2,379	1,076	1,380	4,835
Financial, investment and insurance	4,684	2,525	318	7,527
Real estate – construction	1,032	592	151	1,775
Manufacturing	4,005	1,863	750	6,618
Real estate – mortgage	1,379	2,120	16,674	20,173
Instalment loans to individuals and other personal lending (including credit cards)	5,660	3,182	2,254	11,096
Lease financing	1,420	2,252	1,078	4,750
Other commercial and industrial	12,364	8,943	4,516	25,823
	33,703	22,708	27,196	83,607
Gross Loans and Advances	60,709	40,831	62,522	164,062
Interest Rate Sensitivity of Lending				
Variable interest rates[2]				
Australia	17,042	4,387	23,799	45,228
Overseas	21,762	12,891	16,240	50,893
Fixed interest rates				
Australia	9,964	13,736	11,527	35,227
Overseas	11,941	9,817	10,956	32,714
Total	60,709	40,831	62,522	164,062

[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 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.

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996

14 Provisions for doubtful debts

	Consolidated 1998	1997	1996	The Company 1998	1997	1996
Specific Provision						
Opening balance	**594**	648	535	**218**	256	258
Transfers to general provision[(1)]	**(268)**	–	–	–	–	–
Provisions acquired	**36**	–	148	–	2	–
Bad debts recovered	**238**	191	215	**54**	60	64
Bad debts written off	**(695)**	(539)	(492)	**(247)**	(185)	(179)
Charge to profit and loss	**422**	252	263	**189**	85	114
Foreign currency translation and consolidation adjustments	**93**	42	(21)	**1**	–	(1)
Closing balance	**420**	594	648	**215**	218	256
General Provision						
Opening balance	**771**	664	551	**473**	416	364
Restatement to reflect future income tax benefit	**469**	–	–	**329**	–	–
Abnormal charge upon adoption of a statistically based provisioning methodology	**369**	–	–	**181**	–	–
Transfers from specific provision[(1)]	**268**	–	–	–	–	–
Provisions acquired	**28**	–	55	–	6	–
Charge to profit and loss[(2)]	**150**	80	70	**105**	46	55
Foreign currency translation adjustments	**88**	27	(12)	**7**	5	(3)
Closing balance	**2,143**	771	664	**1,095**	473	416
Total Provisions	**2,563**	1,365	1,312	**1,310**	691	672

[(1)] *Represents the transfer of the MNC unallocated specific provision previously reported in the specific provision.*

[(2)] *Represents the general provision charge during the year using the pre-statistically based provisioning method of determining the provision.*

Total Specific Provision for Doubtful Debts

The total specific provision for doubtful debts of the Consolidated Entity is comprised as follows. For further information refer to Note 15 of the Financial Statements, 'Asset Quality Disclosures'.

	Consolidated 1998	1997	1996	The Company 1998	1997	1996
On-balance sheet exposures	**402**	583	622	**203**	208	232
Off-balance sheet credit related commitments[(3)]	**18**	11	26	**12**	10	24
Total Specific Provision for Doubtful Debts (as per above)	**420**	594	648	**215**	218	256
Total provision for doubtful debts	**2,563**	1,365	1,312	**1,310**	691	672
Deduct: Specific provision against off-balance sheet credit related commitments[(3)]	**18**	11	26	**12**	10	24
Total Provision for Doubtful Debts Deducted from Loans (per Note 13)	**2,545**	1,354	1,286	**1,298**	681	648

[(3)] *The specific provision for off-balance sheet credit related commitments is shown as a liability in the financial statements (Refer to Note 25).*

Specific Provision as a percentage of Risk Weighted Assets	Consolidated 1998	1997	1996
On-balance sheet exposures – specific provision	**0.20%**	0.38%	0.47%
Off-balance sheet credit related commitments – specific provision	**0.01%**	0.01%	0.02%
Total Specific Provision for Doubtful Debts	**0.21%**	0.39%	0.49%

Specific Provision for Doubtful Debts by Industry Category

The following table provides an analysis of the Consolidated Entity's total specific provision for doubtful debts including off-balance sheet exposures by industry category

	Consolidated				
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	*1995*	*1994*
Australia					
Agriculture, forestry and fishing	**26**	16	13	7	25
Financial, investment and insurance	**45**	43	46	39	113
Real estate – construction	**14**	11	12	49	27
Manufacturing[(1)]	**63**	50	58	79	
Real estate – mortgage	**2**	2	–	–	–
Instalment loans to individuals and other personal lending (including credit cards)	**25**	30	18	16	35
Lease financing	**4**	1	2	–	–
Other commercial and industrial	**18**	40	93	99	198
	197	193	242	289	398
Overseas					
Agriculture, forestry and fishing	**12**	12	13	14	21
Financial, investment and insurance	**2**	6	12	11	22
Real estate – construction	**15**	27	28	19	23
Manufacturing[(1)]	**32**	43	55	45	
Real estate – mortgage	**13**	18	15	7	26
Instalment loans to individuals and other personal lending (including credit cards)	**48**	84	71	38	56
Lease financing	**5**	3	2	3	15
Other commercial and industrial	**96**	208	210	109	252
	223	401	406	246	415
Total Specific Provision for Doubtful Debts	**420**	594	648	535	813

Analysis of Movements in Total Provision for Doubtful Debts

The following table provides an analysis of the Consolidated Entity's total specific provision for doubtful debts including off-balance sheet exposures for each of the five years ended September 30. For further information, refer to Note 15 of the Financial Statements 'Asset Quality Disclosures'.

	Consolidated				
For years ended September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	*1995*	*1994*
Balance at beginning of year	**1,365**	1,312	1,086	1,302	1,849
Provisions at acquisition date of entities acquired	**64**	–	203	–	–
Less Write offs:					
Australia					
Agriculture, forestry and fishing	**9**	15	10	8	9
Financial, investment and insurance	**6**	10	7	23	32
Real estate – construction	**8**	7	5	10	10
Manufacturing[(1)]	**19**	9	32	22	
Real estate – mortgage	**11**	8	4	3	2
Instalment loans to individuals and other personal lending (including credit cards)	**97**	78	59	44	7
Lease financing	**7**	6	3	2	2
Other commercial and industrial	**60**	50	74	53	134
	217	183	194	165	196

[(1)] Comparatives prior to 1995 are not available.

For years ended September 30 *Dollars in Millions*	*Consolidated* **1998**	*1997*	*1996*	*1995*	*1994*
Overseas					
Agriculture, forestry and fishing	**9**	9	7	4	19
Financial, investment and insurance	**16**	1	3	2	22
Real estate – construction	**18**	8	21	31	57
Manufacturing[1]	**32**	27	29	26	
Real estate – mortgage	**24**	5	7	4	36
Instalment loans to individuals and other personal lending (including credit cards)	**243**	175	121	88	73
Lease financing	**2**	4	1	10	8
Other commercial and industrial	**134**	127	109	125	306
	478	356	298	290	521
Total write offs	**695**	539	492	455	717
Plus Recoveries:					
Australia					
Agriculture, forestry and fishing	**4**	2	1	2	2
Financial, investment and insurance	**2**	7	17	10	6
Real estate – construction	**1**	1	1	1	2
Manufacturing[1]	**2**	3	2	4	
Real estate – mortgage	**1**	1	–	1	1
Instalment loans to individuals and other personal lending (including credit cards)	**27**	20	19	17	21
Lease financing	**1**	1	–	–	1
Other commercial and industrial	**16**	25	15	16	29
	54	60	55	51	62
Overseas					
Agriculture, forestry and fishing	**1**	3	1	1	1
Financial, investment and insurance	**15**	4	4	3	21
Real estate – construction	**17**	4	23	5	4
Manufacturing[1]	**15**	22	10	9	
Real estate – mortgage	**1**	1	2	–	1
Instalment loans to individuals and other personal lending (including credit cards)	**40**	38	32	24	20
Lease financing	**–**	2	1	1	–
Other commercial and industrial	**95**	57	87	37	33
	184	131	160	80	80
Total recoveries	**238**	191	215	131	142
Net write offs	**(457)**	(348)	(277)	(324)	(575)
Charge to profit and loss	**572**	332	333	116	179
Restatement of general provision to reflect future income tax benefit	**469**	–	–	–	–
Abnormal charge upon adoption of statistically based provisioning	**369**	–	–	–	–
Provisions no longer required	**–**	–	–	–	(71)
Foreign currency translation adjustments	**181**	69	(33)	(8)	(80)
Balance at end of year	**2,563**	1,365	1,312	1,086	1,302
Ratio of net write offs during the year to average loans and advances outstanding during the year (Refer 'Average Balance Sheet' – Note 33)	**0.31%**	0.28%	0.26%	0.37%	0.76%
Ratio of balance at end of year to risk weighted assets	**1.28%**	0.88%	0.98%	1.00%	1.35%

[1] *Comparatives prior to 1995 are not available*

15 Asset quality disclosures

The Consolidated Entity provides for doubtful debts as discussed in Note 1. 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 profit when their payment is considered to be unlikely.

Gross amounts have been prepared without regard to security available for such loans. The inclusion of past due loans and restructured loans in both tables does not necessarily indicate that such loans are doubtful.

	Consolidated				
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	*1995*	*1994*
Non-Accrual Loans[(1)(2)]					
Gross					
Australia	**602**	553	579	818	1,057
Overseas[(3)]	**868**	728	865	807	1,181
	1,470	1,281	1,444	1,625	2,238
Specific Provisions					
Australia	**189**	189	228	284	395
Overseas[(3)]	**214**	386	413	246	413
	403	575	641	530	808
Net					
Australia	**413**	364	351	534	662
Overseas[(3)]	**654**	342	452	561	768
	1,067	706	803	1,095	1,430
Restructured Loans					
Australia	**–**	–	57	241	247
Overseas	**6**	5	6	–	2
	6	5	63	241	249
Assets Acquired through Security Enforcement					
Real Estate					
Australia	**–**	–	–	–	–
Overseas	**5**	6	6	–	–
	5	6	6	–	–
Other Assets					
Australia	**–**	–	–	–	–
Overseas	**7**	6	4	3	1
	7	6	4	3	1
Total Impaired Assets					
Gross					
Australia	**602**	553	636	1,059	1,304
Overseas[(3)]	**886**	745	881	810	1,184
	1,488	1,298	1,517	1,869	2,488
Specific Provisions					
Australia	**189**	189	228	284	395
Overseas[(3)]	**214**	386	413	246	413
	403	575	641	530	808
Net					
Australia	**413**	364	408	775	909
Overseas[(3)]	**672**	359	468	564	771
	1,085	723	876	1,339	1,680

(1) Includes loans amounting to $184 million gross, $116 million net (1997: $153 million gross, $90 million net, 1996: $220 million gross, $134 million net, 1995: $296 million gross, $188 million net, 1994: $366 million gross, $200 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. Such loans were previously classified as 'additional provisioning'.

[2] Includes off-balance sheet credit exposures amounting to $51 million gross, $33 million net (1997: $43 million gross, $32 million net; 1996: $72 million gross, $46 million net).

[3] Prior to the adoption of a statistically based provisioning methodology by the Consolidated Entity, Michigan National Corporation (MNC) 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 current trends evident in those segments of the loan portfolios. This amount was included in the specific provision figure quoted in the table on page 100 (1997: $168 million, 1996: $135 million). Due to the nature of the MNC provisioning methodology, the table on page 100 did not include gross loan amounts to which this portion of the specific provision relates. Following the adoption of a statistically based provisioning methodology by the Consolidated Entity, the corresponding provision is included in the general provision at September 30, 1998.

	Consolidated				
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	*1995*	*1994*
Memorandum Disclosures:					
Accruing loans past due 90 days or more with adequate security					
Australia	**15**	11	8	7	10
Overseas	**91**	92	91	96	159
	106	103	99	103	169
Accruing portfolio facilities past due 90 to 180 days					
Gross					
Australia	**33**	31	22	14	5
Overseas	**68**	76	36	7	19
	101	107	58	21	24
Specific Provisions					
Australia	**7**	6	4	4	3
Overseas	**10**	13	3	1	2
	17	19	7	5	5
Net					
Australia	**26**	25	18	10	2
Overseas	**58**	63	33	6	17
	84	88	51	16	19

Further analysis of non-accrual loans and interest received and forgone under the Australian Prudential Regulation Authority asset quality disclosure guidelines is as follows.

	Consolidated								
As at September 30	***1998***			*1997*			*1996*		
Dollars in Millions	***Gross***	***Specific Provisions***	***Net***	*Gross*	*Specific Provisions*	*Net*	*Gross*	*Specific Provisions*	*Net*
Non-Accrual Loans With Provisions and No performance									
Australia	**259**	**167**	**92**	254	173	81	256	206	50
Overseas	**378**	**163**	**215**	390	331	59	372	174	198
	637	**330**	**307**	644	504	140	628	380	248
Partial performance									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**8**	**2**	**6**	32	6	26	12	2	10
	8	**2**	**6**	32	6	26	12	2	10
Full performance									
Australia	**85**	**22**	**63**	51	15	36	60	22	38
Overseas	**107**	**49**	**58**	129	50	79	277	237	40
	192	**71**	**121**	180	65	115	337	259	78

As at September 30 Dollars in Millions	Consolidated 1998 Gross	 Specific Provisions	 Net	 1997 Gross	 Specific Provisions	 Net	 1996 Gross	 Specific Provisions	 Net
Non-Accrual Loans Without Provisions and No performance									
Australia	**248**	–	**248**	241	–	241	260	–	260
Overseas	**316**	–	**316**	173	–	173	193	–	193
	564	–	**564**	414	–	414	453	–	453
Full performance									
Australia	**11**	–	**11**	6	–	6	2	–	2
Overseas	**58**	–	**58**	5	–	5	12	–	12
	69	–	**69**	11	–	11	14	–	14
Total	**1,470**	**403**	**1,067**	1,281	575	706	1,444	641	803

Interest Income Received and Forgone

As to the non-accrual and restructured loans referred to above, the gross interest income that would have been recorded during 1998 had interest on such loans been included in income, amounted to $45 million (1997: $44 million, 1996: $75 million) for Australian loans and $68 million (1997: $54 million, 1996: $62 million) for overseas loans. Actual interest income received for the period ended September 30, 1998 subsequent to these balances becoming non-accrual or restructured was $8 million (1997: $5 million, 1996: $20 million) for Australian loans and $12 million (1997: $10 million, 1996: $7 million) for overseas loans.

Additional Information in respect of Impaired Assets

As at September 30 Dollars in Millions	Consolidated 1998	 1997	 1996
Fair Value of Security[(1)]			
Non-Accrual Loans			
Australia	**382**	336	378
Overseas	**583**	450	541
	965	786	919
Restructured Loans			
Australia	–	–	–
Overseas	**6**	5	6
	6	5	6
Loans newly classified into impaired asset categories during the period:			
Australia	**826**	508	188
Overseas	**658**	475	164
	1,484	983	352

(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.

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996

16 Mortgage servicing rights

Additions	**4,002**	–	–	–	–	–
Sale of servicing rights	**(17)**	–	–	–	–	–
Deferred hedge gain	**(664)**	–	–	–	–	–
Amortisation	**(323)**	–	–	–	–	–
Total Mortgage Servicing Rights	**2,998**	–	–	–	–	–

Net deferred hedge gains of $657 million consists of gains of $664 million, less $7 million of amortisation recognised as a component of amortisation of mortgage servicing rights.

Maturity Analysis of Mortgage Servicing Rights

Due after 3 months through to 1 year	**1**
Due after 1 year through to 5 years	**17**
Due after 5 years	**2,980**
	2,998

17 Shares in entities and other securities

Carrying value						
Shares in other entities (at cost)	**326**	286	184	**239**	227	149
Deduct: Provision for diminution in value	**(18)**	(9)	(12)	**(2)**	(2)	(6)
	308	277	172	**237**	225	143
Shares in controlled entities						
At cost	**–**	–	–	**4,961**	3,112	2,873
At Directors' valuation 1987	**–**	–	–	**185**	185	185
Deduct: Provision for diminution in value	**–**	–	–	**–**	–	–
	–	–	–	**5,146**	3,297	3,058
	308	277	172	**5,383**	3,522	3,201
Units in unlisted trust (at cost)	**705**	3	3	**–**	–	–
Total carrying value of Shares in Entities and Other Securities	**1,013**	280	175	**5,383**	3,522	3,201
Market value						
Shares in other entities	**406**	297	201	**333**	253	171
Units in unlisted trust	**705**	3	4	**–**	–	–
Total market value of Shares in Entities and Other Securities	**1,111**	300	205	**333**	253	171

18 Regulatory deposits

Reserve Bank of Australia	**953**	838	746	**953**	838	733
Central Banks Overseas	**202**	178	159	**8**	9	3
Total Regulatory Deposits	**1,155**	1,016	905	**961**	847	736

Regulatory deposits represent deposits held by the regulatory bodies of the industry in which operations are conducted as a pre-condition for conducting business.

As at September 30 Dollars in Millions	Consolidated 1998	 1997	 1996	The Company 1998	 1997	 1996

19 Fixed assets

Land and buildings						
Freehold						
At cost (acquired subsequent to previous valuation date)	**72**	46	57	**29**	28	43
At Directors' valuation 1998	**1,059**	–	–	**108**	–	–
At Directors' valuation 1997	**–**	1,208	–	**–**	156	–
At Directors' valuation 1996	**–**	–	1,318	**–**	–	225
Leasehold						
At cost (acquired subsequent to previous valuation date)	**4**	3	2	**–**	–	–
At Directors' valuation 1998	**101**	–	–	**–**	–	–
At Directors' valuation 1997	**–**	77	–	**–**	–	–
At Directors' valuation 1996	**–**	–	65	**–**	–	–
Less: Accumulated depreciation and amortisation on buildings	**(6)**	(8)	(5)	**(1)**	(1)	(1)
	1,230	1,326	1,437	**136**	183	267
Leasehold improvements						
At cost	**490**	456	388	**352**	349	298
Less: Accumulated amortisation	**(224)**	(208)	(171)	**(168)**	(154)	(125)
	266	248	217	**184**	195	173
Furniture, fixtures and fittings and other equipment						
At cost	**705**	654	650	**124**	118	105
Under finance lease	**21**	13	1	**–**	–	–
Less: Accumulated depreciation and amortisation	**(358)**	(368)	(355)	**(72)**	(65)	(56)
	368	299	296	**52**	53	49
Data processing equipment						
At cost	**1,296**	1,197	1,038	**570**	499	441
Under finance lease	**18**	16	17	**7**	8	10
Less: Accumulated depreciation and amortisation	**(959)**	(857)	(747)	**(405)**	(365)	(334)
	355	356	308	**172**	142	117
Total Fixed Assets	**2,219**	2,229	2,258	**544**	573	606

General Information

The Consolidated Entity is a substantial property owner in its own right due to the scale and nature of its operations. The majority of properties are in Australia with the largest proportion of the remainder being in the United Kingdom.

The Consolidated Entity's Australian operations are conducted through a network of 1,122 branches and other outlets. Operations outside Australia are conducted through 1,227 branches and other offices, principally in the United Kingdom, United States, Ireland and New Zealand. Included in the Australian properties is the computer centre in Knoxfield, Melbourne which provides the Consolidated Entity with facilities for data processing operations.

A wholly owned entity, NBA Properties Limited together with its controlled entities, owns, operates and maintains the majority of the Consolidated Entity's properties in Australia. These entities do not invest in properties other than in conjunction with the Consolidated Entity's normal business operations. The leases, entered into between the property entities and other Consolidated Entity members, are on terms, including rentals, comparable to those that could be obtained from unrelated third parties.

As at September 30 Dollars in Millions	Consolidated 1998	 1997	 1996	The Company 1998	 1997	 1996

20 Goodwill

At cost	**4,017**	2,863	2,817	**–**	–	–
Less: Accumulated amortisation	**(922)**	(741)	(599)	**–**	–	–
Total Goodwill	**3,095**	2,122	2,218	**–**	–	–

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996

21 Other assets

Development land acquired and held for resale:						
Cost of acquisition	**13**	5	11	**–**	–	–
Future income tax benefits[1]	**1,138**	497	470	**605**	178	182
Accrued interest receivable	**3,081**	2,710	2,114	**2,240**	2,052	1,662
Prepayments	**304**	100	53	**78**	53	10
Receivables under contracts of sale	**22**	9	9	**–**	–	–
Fair value of trading derivative financial instruments	**8,219**	5,571	3,708	**7,575**	5,163	3,466
Receivables from liquidator[2]	**17**	30	39	**17**	30	39
Other assets[3]	**7,050**	2,695	3,130	**1,676**	713	1,083
Total Other Assets	**19,844**	11,617	9,534	**12,191**	8,189	6,442
[1]Future income tax benefits comprise:						
Specific provision for doubtful debts	**74**	137	142	**69**	71	84
General provision for doubtful debts[4]	**680**	–	–	**393**	–	–
Other provisions	**152**	135	149	**87**	81	81
Tax losses	**6**	30	39	**–**	–	–
Other	**226**	195	140	**56**	26	17
Total Future Income Tax Benefits	**1,138**	497	470	**605**	178	182

[2] Represents the liquidators' estimation 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.

[3] Includes prepaid pension costs, securities sold but not yet settled and accrued fees receivable.

[4] In prior periods, the general provision for doubtful debts was not tax effected.

22 Due to other financial institutions

Australia						
Due to other banks	**113**	2,307	3,996	**113**	2,307	3,838
Due to non-bank financial institutions	**1,106**	1,223	865	**1,106**	1,223	865
	1,219	3,530	4,861	**1,219**	3,530	4,703
Overseas						
Due to other banks	**14,670**	8,464	6,558	**9,805**	6,950	5,270
Due to non-bank financial institutions	**652**	752	1,376	**651**	698	1,261
	15,322	9,216	7,934	**10,456**	7,648	6,531
Total Due to Other Financial Institutions	**16,541**	12,746	12,795	**11,675**	11,178	11,234

Amounts due to financial institutions are amounts incurred through use of the payments system and are generally settled within 30 days.

Maturity Analysis of Due To Other Financial Institutions[1]

Overdraft	**270**	–
At Call	**8,223**	3,598
Due in less than 3 months	**6,563**	7,923
Due after 3 months through to 1 year	**638**	1,003
Due after 1 year through to 5 years	**608**	18
Due after 5 years	**239**	196
No Maturity Specified	**–**	8
	16,541	12,746

[1] Comparatives prior to 1997 are not available.

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996

23 Deposits and other borrowings

Australia						
Deposits						
Deposits not bearing interest	**3,935**	2,335	1,878	**3,935**	2,335	1,865
On demand and short term deposits[1]	**31,472**	29,364	23,441	**31,472**	29,364	22,844
Certificates of deposit	**6,080**	3,954	3,551	**6,020**	3,899	3,515
Term deposits	**18,511**	17,050	17,425	**18,404**	16,946	17,302
Borrowings	**9,052**	3,823	3,259	**9,047**	3,823	3,260
Total Australia	**69,050**	56,526	49,554	**68,878**	56,367	48,786
Overseas						
Deposits						
Deposits not bearing interest	**9,115**	7,126	6,501	**19**	10	9
On demand and short term deposits[1]	**35,645**	26,726	25,314	**1,031**	579	76
Certificates of deposit	**6,750**	6,280	4,627	**3,965**	3,932	2,287
Term deposits	**30,593**	26,414	18,117	**10,687**	9,279	6,243
Borrowings	**6,931**	5,397	5,045	**159**	33	128
Total Overseas	**89,034**	71,943	59,604	**15,861**	13,833	8,743
Total Deposits and Other Borrowings	**158,084**	128,469	109,158	**84,739**	70,200	57,529

[1] *Deposits available on demand or lodged for periods of less than 30 days.*

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.

As at September 30	Consolidated 1998	1997	1996
Australia	**69,050**	56,526	49,554
Europe	**44,835**	34,054	27,458
New Zealand	**14,894**	14,949	13,248
United States	**21,818**	16,202	13,843
Asia	**7,487**	6,738	5,055
Total	**158,084**	128,469	109,158

Maturities of Deposits

The following tables show the maturity profile of the Consolidated Entity's certificates of deposit and time deposits:

As at September 30, 1998 Dollars in Millions	3 months or less	Over 3 months through 6 months	Over 6 months through 12 months	Over 12 months	Total
Australia					
Certificates of deposit	843	1,923	–	3,314	6,080
Time deposits	11,878	1,569	1,569	3,495	18,511
Total	12,721	3,492	1,569	6,809	24,591
Overseas					
Certificates of deposit	4,621	1,217	809	103	6,750
Time deposits	21,795	3,202	2,331	3,265	30,593
Total	26,416	4,419	3,140	3,368	37,343
Total Certificates of Deposit and Time Deposits	39,137	7,911	4,709	10,177	61,934

As at September 30 Dollars in Millions	Consolidated 1998	1997
Maturity Analysis of Deposits and Other Borrowings[(1)]		
At Call	**74,374**	56,744
Due in less than 3 months	**58,878**	47,025
Due after 3 months through to 1 year	**14,333**	18,283
Due after 1 year through to 5 years	**9,168**	2,908
Due after 5 years	**819**	902
No Maturity Specified	**512**	2,607
	158,084	128,469

[(1)] *Comparatives prior to 1997 are not available.*

Short Term Borrowings

The following table sets forth information concerning the Consolidated Entity's short term borrowings for each of the last three years ended September 30.

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996
Balance at end of year:			
Commercial paper USA	**4,313**	4,826	4,430
Other secured borrowings	**1,597**	–	–
Unsecured notes and deposits	**–**	–	581
Weighted average interest rate at year end:			
Commercial paper USA	**4.6%**	4.8%	5.6%
Other secured borrowings	**5.5%**	–	–
Unsecured notes and deposits	**–**	–	5.4%
Maximum amount outstanding at any month end during year:			
Commercial paper USA	**6,374**	4,826	4,519
Other secured borrowings	**3,997**	–	–
Unsecured notes and deposits	**–**	–	1,055
Average amount outstanding during year:			
Commercial paper USA	**4,805**	4,418	3,527
Other secured borrowings	**2,548**	–	–
Unsecured notes and deposits	**–**	–	538
Weighted average interest rate during year:			
Commercial paper USA	**5.6%**	5.2%	5.6%
Other secured borrowings	**5.8%**	–	–
Unsecured notes and deposits	**–**	–	5.4%

Short term borrowings of the Consolidated Entity consist of commercial paper programs of National Australia Funding (Delaware) Inc. and lines of credit for HomeSide, Inc.

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996

24 Income tax liability

Australia						
Provision for income tax	**320**	405	515	**261**	313	447
Provision for deferred income tax(1)	**479**	498	511	**477**	491	503
	799	903	1,026	**738**	804	950
Overseas						
Provision for income tax	**627**	586	449	**18**	2	6
Provision for deferred income tax(1)	**527**	140	163	**–**	–	–
	1,154	726	612	**18**	2	6
Total Income Tax Liability	**1,953**	1,629	1,638	**756**	806	956
(1)Provision for deferred income tax comprises:						
Lease finance	**189**	172	153	**130**	109	99
Leveraged leasing	**284**	315	340	**282**	310	334
Depreciation	**165**	57	76	**3**	2	–
Other	**368**	94	105	**62**	70	70
Total Provision for Deferred Income Tax	**1,006**	638	674	**477**	491	503

25 Provisions

Final dividend	**767**	692	650	**767**	692	650
Employee entitlements	**321**	325	303	**271**	260	241
Non-lending losses/contingencies	**87**	76	117	**37**	23	26
Restructuring costs(1)	**252**	18	31	**68**	–	–
Specific provision for off-balance sheet credit related commitments	**18**	11	26	**12**	10	24
Other provisions	**235**	170	197	**27**	4	3
Total Provisions	**1,680**	1,292	1,324	**1,182**	989	944

(1 The restructuring costs provision consists of $146 million relating to redundancy and outplacement costs, $92 million for occupancy and $14 million other restructuring costs. Included in these balances are provisions acquired of $7 million, $10 million and $7 million, respectively. Refer to Note 3 for further details regarding restructuring costs.

As at September 30 Dollars in Millions		Consolidated 1998	1997	1996	The Company 1998	1997	1996

26 Bonds, notes and subordinated debt

Bonds, notes and subordinated debt consist of the following currencies and maturity dates:

1996	USD 31m medium term notes due 10/11/96[1]	–	–	37	–	–	37
	USD 250m medium term notes due 2/10/96[1]	–	–	315	–	–	315
	USD 250m medium term notes due 4/10/96[1]	–	–	315	–	–	315
1997	AUD 6% notes due 28/2/97	–	–	100	–	–	100
	AUD 9.75% notes due 24/11/97	–	100	100	–	100	100
	CHF 50m Euro medium term notes due 13/11/97	–	48	50	–	48	50
	HKD 160m Euro medium term notes due 10/11/97	–	29	26	–	29	26
	JPY 10b subordinated debt due 30/7/97[2]	–	–	113	–	–	113
	JPY 700m Euro medium term notes due 29/8/97	–	–	8	–	–	8
	JPY 3b Euro medium term notes due 19/12/97	–	34	34	–	34	34
	JPY 3b Euro medium term notes due 30/12/97	–	34	34	–	34	34
	NLG 25m Euro medium term notes due 15/9/97	–	–	18	–	–	18
	USD 50m medium term notes due 28/2/97[1]	–	–	63	–	–	63
	USD 100m floating rate notes due 26/7/97	–	–	126	–	–	126
	USD 33m Euro medium term notes due 29/9/97[3]	–	–	42	–	–	42
	USD 250m medium term notes due 3/10/97[1]	–	347	–	–	347	–
	USD 250m medium term notes due 10/10/97[1]	–	347	–	–	347	–
	USD 500m floating rate notes due 21/2/97	–	–	630	–	–	630
1998	AUD 6.5% notes due 9/11/98	**100**	100	100	**100**	100	100
	AUD 7.75% notes due 31/3/98	–	100	100	–	100	100
	AUD 8.25% notes due 10/8/98	–	100	100	–	100	100
	AUD 10.5% notes due 23/2/98	–	200	200	–	200	200
	CHF 100m Euro medium term notes due 23/2/98	–	95	100	–	95	100
	GBP 150m variable rate notes due 10/9/98[4]	–	336	295	–	336	295
	HKD 116m Euro medium term notes due 20/3/98	–	21	19	–	21	19
	JPY 1b Euro medium term notes due 26/2/98	–	11	11	–	11	11
	JPY 2b Euro medium term notes due 5/3/98	–	23	23	–	23	23
	JPY 3b 5.7% fixed rate debt due 29/12/98	**37**	34	34	**37**	34	34
	JPY 5b Euro medium term notes due 13/11/98	**62**	57	57	**62**	57	57
	JPY 10b Euro medium term notes due 23/10/98	**124**	115	113	**124**	115	113
	NZD 100m Euro medium term notes due 29/7/98	–	89	–	–	89	–
	NZD 100m 8.75% notes due 4/9/98	–	89	88	–	89	88
	USD 100m medium term notes due 5/3/98[1]	–	139	–	–	139	–
	USD 150m floating rate subordinated debt due 30/3/98	–	208	189	–	208	189
	USD 250m medium term notes due 5/10/98[1]	**421**	–	–	**421**	–	–
	USD 250m medium term notes due 13/10/98[1]	**421**	–	–	**421**	–	–
	USD 300m 6.25% notes due 17/6/98	–	417	378	–	417	378
	USD 350m 9.7% subordinated notes due 15/10/98	**590**	486	441	**590**	486	441
	USD 300m floating rate notes due 16/10/98	**506**	417	–	**506**	417	–
	USD 500m floating rate notes due 13/11/98	**843**	695	–	**843**	695	–
	USD 500m Euro medium term notes due 23/12/98	**843**	695	–	**843**	695	–
1999	AUD 6.25% notes due 29/3/99	**250**	250	250	**250**	250	250
	AUD 7.75% notes due 4/1/99	**125**	125	125	**125**	125	125
	AUD 8% notes due 22/6/99	**75**	75	75	**75**	75	75
	AUD 8.5% notes due 24/5/99	**125**	125	125	**125**	125	125
	AUD 8.5% notes due 20/8/99	**100**	100	100	**100**	100	100
	AUD 9.25% notes due 23/9/99	**100**	100	100	**100**	100	100
	AUD 9.5% notes due 26/10/99	**100**	100	100	**100**	100	100
	AUD 12% subordinated notes due 15/7/99	**300**	300	300	**300**	300	300
	CHF 100m 3.25% notes due 19/4/99	**122**	95	100	**122**	95	100
	JPY 3.08b subordinated debt due 23/2/99[5]	**38**	35	34	**38**	35	34
	USD 10m Euro medium term notes due 26/8/99	**17**	–	–	**17**	–	–
	USD 50m Euro medium term notes due 13/8/99	**84**	–	–	**84**	–	–

As at September 30 Dollars in Millions		Consolidated 1998	Consolidated 1997	Consolidated 1996	The Company 1998	The Company 1997	The Company 1996
	USD 250m 5.375% notes due 9/2/99	**421**	347	315	**421**	347	315
	USD 250m 6% notes due 26/3/99	**421**	347	–	**421**	347	–
2000	AUD 6.5% notes due 17/3/2000	**150**	150	–	**150**	150	–
	AUD 8.5% notes due 11/8/2000	**100**	100	100	**100**	100	100
	AUD 8.75% notes due 10/7/2000	**175**	175	175	**175**	175	175
	AUD 7.50% notes due 8/12/2000	**150**	150	–	**150**	150	–
	AUD subordinated floating rate notes due 8/6/2000[(6)]	**–**	–	10	**–**	–	10
	CHF 300m floating rate notes due 22/9/2000	**365**	–	–	**365**	–	–
	HKD 155m Euro medium term notes due 12/6/2000	**34**	28	–	**34**	28	–
	JPY 6.5b Euro medium term notes due 3/7/2000	**81**	74	–	**81**	74	–
	JPY 10b Euro medium term notes due 18/9/2000	**124**	115	–	**124**	115	–
	NZD 100m Euro medium term notes due 21/1/2000	**84**	–	–	**84**	–	–
	NZD 100m Euro medium term notes due 3/3/2000	**84**	–	–	**84**	–	–
	NZD 100m Euro medium term notes due 15/6/2000	**84**	–	–	**84**	–	–
	USD 60m medium term notes due 20/3/2000[(7)]	**101**	–	–	**–**	–	–
	USD 250m medium term notes due 15/5/2000[(7)]	**422**	–	–	**–**	–	–
2001	AUD 7.5% notes due 26/11/2001	**100**	100	–	**100**	100	–
	AUD 8% notes due 10/4/2001	**200**	200	200	**200**	200	200
	ECU 400m floating rate notes due 18/6/2001	**792**	–	–	**792**	–	–
	GBP 15m Euro medium term notes due 6/3/2001	**43**	34	30	**43**	34	30
	GBP 57.792m variable rate notes due 20/6/2001	**166**	130	114	**–**	–	–
	USD 15m medium term notes due 2/7/2001[(7)]	**26**	–	–	**–**	–	–
	USD 40m medium term notes due 2/7/2001[(7)]	**68**	–	–	**–**	–	–
	USD 45m medium term notes due 17/9/2001[(7)]	**76**	–	–	**–**	–	–
	USD 125m medium term notes due 24/4/2001[(7)]	**211**	–	–	**–**	–	–
2002	AUD 7.25% notes due 5/2/2002	**100**	100	–	**100**	100	–
	AUD 100m Euro medium term notes due 31/12/2002	**100**	–	–	**100**	–	–
	AUD subordinated floating rate notes due 8/6/2002[(6)]	**–**	–	190	**–**	–	190
	CHF 100m 2.75% notes due 12/6/2002	**122**	95	–	**122**	95	–
	JPY 3bn Euro medium term notes due 12/11/2002	**37**	–	–	**37**	–	–
	LUF 2b 6.875% notes due 30/12/2002	**98**	76	80	**98**	76	80
	USD 200m medium term notes due 30/6/2002[(7)]	**337**	–	–	**–**	–	–
	USD 110.5m subordinated floating rate notes due 30/8/2002[(8)]	**184**	153	139	**184**	153	139
2003	HKD 116.25m Euro medium term notes due 2/9/2003	**25**	21	19	**25**	21	19
	USD 225m medium term notes due 15/5/2003[(7)]	**379**	–	–	**–**	–	–
	USD 129.965m 11.25% senior secured second priority notes due 15/5/2003	**257**	–	–	**–**	–	–
2004	AUD subordinated floating rate notes due 8/6/2004[(6)]	**90**	90	–	**90**	90	–
	AUD 200m Euro medium term notes due 23/7/2004	**200**	200	–	**200**	200	–
	USD 200m medium term notes due 1/8/2004[(7)]	**337**	–	–	**–**	–	–
2005	AUD 100m Euro medium term notes due 9/2/2005	**100**	–	–	**100**	–	–
2007	AUD 6.25% subordinated notes due 25/11/2007	**150**	–	–	**150**	–	–
	AUD subordinated floating rate notes due 25/11/2007	**250**	–	–	**250**	–	–
	USD 10m Euro medium term notes due 16/9/2007	**17**	14	–	**17**	14	–
	USD 30m subordinated Euro medium term notes due 20/11/2007	**51**	–	–	**51**	–	–
	USD 400m medium term notes due 10/12/2007[(9)]	**674**	–	–	**674**	–	–
	USD 400m medium term notes due 10/12/2007[(9)]	**674**	–	–	**674**	–	–
2008	USD 150m subordinated Euro medium term notes due 15/9/2008	**253**	–	–	**253**	–	–
	USD 200m subordinated Euro medium term notes due 23/1/2008	**337**	–	–	**337**	–	–
2009	JPY10b Euro medium term notes due 24/4/2009	**124**	115	–	**124**	115	–
	USD 100m subordinated Euro medium term notes due 15/6/2009	**169**	–	–	**169**	–	–

As at September 30 Dollars in Millions		Consolidated 1998	1997	1996	The Company 1998	1997	1996
2012	JPY 1b Euro medium term notes due 25/6/2012	**12**	11	–	**12**	11	–
	JPY 2b Euro medium term notes due 21/8/2012	**25**	23	–	**25**	23	–
	USD 55.95m Euro medium term notes due 20/8/2012	**94**	78	–	**94**	78	–
2027	AUD 7.50% subordinated notes due 15/12/2027	**20**	–	–	**20**	–	–
2028	AUD 7.50% subordinated notes due 15/6/2028	**20**	–	–	**20**	–	–
Total Bonds, Notes and Subordinated Debt		**15,097**	9,597	6,940	**12,717**	9,467	6,826
Add: Net premiums and deferred gains/(losses)		**18**	(28)	18	**18**	(28)	18
Net Bonds, Notes and Subordinated Debt		**15,115**	9,569	6,958	**12,735**	9,439	6,844

Where proceeds have been employed in currencies other than that of the ultimate repayment liability, swap or other hedge arrangements have been entered into.

(1) The Company has established a medium term deposit note program through the New York branch under which it may issue notes up to an aggregate amount of US$1 billion for terms of 9 months to 30 years. The medium term deposit note program through New York branch was updated on June 13, 1997. Under the program, the Company may still issue notes up to an aggregate amount of US$1 billion for terms of 9 months or more. As at September 30, 1998, the Company had US$500 million outstanding on the program (1997: US$600 million, 1996: US$580 million). A further medium term note program was established during 1991 under which the Company may issue notes up to an aggregate amount of US$500 million for terms of 9 months to 30 years. This program was updated on April 1, 1997 and the Company may now issue notes up to an aggregate of US$7.5 billion for terms of 9 months or more.

(2) On July 30, 1997 JPY10 billion subordinated debt due 31/7/99 was redeemed in full.

(3) The call option to redeem the US$33 million Euro medium term notes due 29/9/2004 on the interest payment date 29/9/97 was exercised, and the notes were redeemed in full.

(4) The call option to redeem the GBP150 million Variable Rate Notes due 6/9/2000 on any interest payment date falling in or after September 1997 was exercised on the interest payment date September 10, 1998. The Notes were redeemed in full.

(5) Originally JPY 10 billion, on 22/7/96 JPY 6.92 billion was bought back to leave JPY 3.08 billion outstanding.

(6) Notes had an initial maturity of June 8, 2000 but were extended by two years, 30 days prior to the fifth anniversary of the issue date of June 8, 1990 and may be extended by two years each two years thereafter until 2003. On June 10, 1997, A$10 million of 8/6/2000 and A$100 million of 8/6/2002 were redeemed.

(7) HomeSide Lending, Inc. has established a Medium Term Note program under which it may issue notes up to an aggregate amount of US$1.5 billion for terms of 9 months or more. As at September 30, 1998, HomeSide Lending, Inc. had US$1.16 billion outstanding on the program.

(8) US$531,643.61 of the US$110,500,000 Subordinated Floating Rate Notes due 2002 was redeemed on August 26, 1991. A further US$901,157.71 was redeemed on February 26, 1998.

(9) The Company has established a Medium Term Deposit Note program under which it may issue notes up to an aggregate amount of US$3 billion for terms of 9 months or more. As at September 30, 1998 the Company had US$800 million outstanding on the program.

27 Other debt issues

As at September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996
Perpetual Floating Rate Notes						
Issued by the Company	**421**	347	315	**421**	347	315
Issued by Bank of New Zealand	–	–	109	–	–	–
Exchangeable Capital Units						
Issued by National Australia Capital Securities (UK) Limited	**1,262**	1,262	–	–	–	–
Total Other Debt Issues	**1,683**	1,609	424	**421**	347	315

Perpetual Floating Rate Notes

Issued by the Company

US$250 million (A$421 million) Undated Subordinated Floating Rate Notes (the 'Notes') were issued by the Company on October 9, 1986. Interest is payable semi-annually in arrears in April and October at a rate of 0.15 per cent per annum above the arithmetic average of the rates offered by the reference banks for six month U.S. 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 twelve 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 are undated and have no final maturity. All or some of the Notes may be redeemed at the option of the Company on any interest payment date falling in or after October 1991. No redemption occurred in October 1997 or April 1998.

Exchangeable Capital Units

On March 19, 1997 National Australia Capital Securities (UK) Limited, 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, National Australia Bank Limited 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. 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 National Australia Bank Limited initially at the rate of 1.6365 ordinary shares per Exchangeable Capital Unit or Convertible Non-cumulative Preference Share, subject to anti-dilution provisions.

National Australia Bank Limited has the right to redeem all or part of the Exchangeable Capital Units or purchase any or all of the Convertible Non-cumulative Preference Shares under a special offer at any time after March 19, 2007.

	Consolidated			*The Company*		
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	***1998***	*1997*	*1996*

28 Other liabilities

Accrued interest payable	**3,621**	3,302	2,796	**2,791**	2,628	2,320
Fair value of trading derivative financial instruments	**8,228**	6,395	3,949	**7,501**	6,000	3,664
Notes in circulation	**1,775**	1,314	1,142	**–**	–	–
Other liabilities	**4,917**	3,458	3,724	**1,882**	1,642	2,071
Total Other Liabilities	**18,541**	14,469	11,611	**12,174**	10,270	8,055

29 Finance lease commitments

Data processing and other equipment						
Due within 1 year	**9**	7	4	**3**	4	2
Due within 1–2 years	**6**	6	3	**–**	3	2
Due within 2–5 years	**12**	8	4	**–**	1	2
Due after 5 years	**2**	2	6	**–**	–	4
Total commitments under finance leases	**29**	23	17	**3**	8	10
Deduct: Future finance charges (not provided for in the accounts)	**(3)**	(2)	(3)	**(3)**	(2)	(1)
Finance Lease Liabilities (included under other liabilities)	**26**	21	14	**–**	6	9

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	***1998***	*1997*	*1996*

30 Changes in shareholders' equity

Issued and Paid Up Capital (a)						
Ordinary Share Capital						
Opening balance (ordinary shares of $1.00 each)	**1,413**	1,477	1,429	**1,413**	1,477	1,429
Dividend reinvestment plan (b)	**225**	21	36	**225**	21	36
Bonus share plan (b)	**2**	4	5	**2**	4	5
Staff share scheme (b)	**–**	1	4	**–**	1	4
Executive option plan (b)	**24**	4	–	**24**	4	–
Staff share ownership plan (b)	**1**	–	–	**1**	–	–
Share top up plan (b)	**35**	3	3	**35**	3	3
Share buy back (c)	**(1)**	(97)	–	**(1)**	(97)	–
Transfer from share premium reserve (refer to Note 1)	**4,243**	–	–	**4,243**	–	–
Closing balance (d)	**5,942**	1,413	1,477	**5,942**	1,413	1,477
Preference Share Capital						
Preference shares issued (b)	**733**	–	–	**733**	–	–
Closing balance (d)	**733**	–	–	**733**	–	–
Total closing balance (d)	**6,675**	1,413	1,477	**6,675**	1,413	1,477
General Reserve						
Opening balance	**92**	62	955	**5**	4	772
Transfer from retained profits	**50**	40	47	**–**	1	1
Transfer to retained profits	**–**	(10)	(940)	**–**	–	(769)
Closing balance	**142**	92	62	**5**	5	4
Capital Reserve						
Opening balance	**–**	–	222	**–**	–	202
Transfer to retained profits	**–**	–	(222)	**–**	–	(202)
Closing balance	**–**	–	–	**–**	–	–
Asset Revaluation Reserve						
Opening balance	**200**	252	288	**214**	255	265
Revaluation of properties	**19**	22	(31)	**5**	(2)	(8)
Revaluation of certain properties to recoverable amounts	**(32)**	(14)	–	**(9)**	(8)	–
Transfer to retained profits	**(184)**	(56)	–	**(45)**	(31)	–
Other	**–**	(4)	(5)	**–**	–	(2)
Closing balance	**3**	200	252	**165**	214	255
Share Premium Reserve						
Opening balance	**3,982**	5,266	4,811	**3,982**	5,266	4,811
Premium on issue of shares	**846**	490	512	**846**	490	512
Bonus issue	**(34)**	(60)	(57)	**(34)**	(60)	(57)
Share buyback (c)	**(551)**	(1,714)	–	**(551)**	(1,714)	–
Transfer to issued and paid up capital (refer to Note 1)	**(4,243)**	–	–	**(4,243)**	–	–
Closing balance	**–**	3,982	5,266	**–**	3,982	5,266
Foreign Currency Translation Reserve						
Opening balance	**324**	(159)	51	**36**	36	36
Currency translation adjustments	**1,310**	465	(210)	**–**	4	–
Transfer to retained profits	**–**	–	–	**–**	(4)	–
Transfer from retained profits	**3**	18	–	**–**	–	–
Closing balance	**1,637**	324	(159)	**36**	36	36
Total Reserves	**1,782**	4,598	5,421	**206**	4,237	5,561

Details of movements in retained profits are contained in the Statements of Profit and Loss on page 76.

(a) The issues of ordinary shares were for general purposes of the Consolidated Entity

(b) Details of Issued and Paid up Capital

	The Company					
	September 1998		September 1997		September 1996	
	No. of Shares	Issue Price	No. of Shares	Issue Price	No. of Shares	Issue Price
Dividend Reinvestment	**8.688,383**	**$19.33**	9,407,685	$19.26	22,061,526	$11.87
Plan Issues	**10,147,467**	**$21.41**	11,396,063	$14.52	14,130,915	$11.32
Bonus Share Plan Issues	**1,748,744**	**$19.33**	1,676,138	$19.26	2,548,160	$11.87
	1,700,020	**$21.41**	1,886,582	$14.52	2,413,176	$11.32
National Australia Bank Staff Share Scheme						
Executive Staff Share Scheme Issues						
	40,900	**$4.72**	58,940	$4.72	55,830	$4.72
	50,190	**$4.25**	68,760	$4.25	68,700	$4.25
	62,045	**$5.54**	98,630	$5.54	79,376	$5.54
	80,390	**$5.56**	130,160	$5.56	109,837	$5.56
	111,315	**$6.15**	158,484	$6.15	129,120	$6.15
	141,388	**$9.07**	191,751	$9.07	122,470	$9.07
	173,346	**$10.97**	242,947	$10.97	108,360	$10.97
	192,240	**$10.83**	257,542	$10.83	113,778	$10.83
	155,543	**$11.03**	190,916	$11.03	1,696,554	$11.03
					794,579 (i)	$11.03
General Staff Share Scheme Issues					1,249,357	$11.03
					162,036 (i)	$11.03
National Australia Executive Option						
Plan Issues	**176,500**	**$11.76**	4,333,500	$11.76		
	200,000	**$16.62**				
	8,809,400	**$10.55**				
National Australia Bank Limited						
Staff Reward Scheme Issues					191,471	$12.16
National Australia Bank Staff Share						
Allocation Plan Issues	**800**	**$20.71**				
National Australia Bank Staff Share						
Ownership Plan Issues	**66,072**	**$20.70**				
	4,113	**$20.71**				
Share Top Up Plan Issues	**1,669,819**	**$19.33**	1,969,342	$14.52	1,698,154	$11.87
	1,568,501	**$21.41**	1,238,672	$19.26	1,633,263	$11.04
Preference Share Issues	**32,008,000**	**$20.92**				
	4,000,000	**$20.23**				

All shares issued were fully paid ordinary unless otherwise noted (i). Shares noted (i) are partly paid.

Preference Shares

On September 30, 1998, the Company issued 32,008,000 fully paid Preference Shares and the underwriters exercised an option resulting in a further issue of 4,000,000 Preference Shares.

The Preference Shares initially have no entitlements to dividends, however, the ultimate investors have entitlements to non-cumulative distributions at an annual rate of 8% payable quarterly in arrears, via a holding of Trust Units Exchangeable for Preference Shares (the "Trust Units'). The Trust Units were issued by a Delaware business trust that is unrelated to the Company. Distributions to holders of the Trust Units are funded by income distributions made by the Group.

On December 31, 2047, or upon the earlier occurrence of certain defined events, the Preference Shares will become dividend paying Preference Shares and the Trust Units will be exchanged for the dividend paying Preference Shares. Holders of the dividend paying Preference Shares will have entitlements to non-cumulative dividends at an annual rate of 8% payable quarterly in arrears.

With the prior consent of the Australian Prudential Regulation Authority, the Preference Shares are subject to redemption, buy back or reduction of a portion of the share capital followed by redemption of the remaining capital for their liquidation value of US$12.50 per Preference Share, plus accrued dividends (if any), prior to the fifth anniversary of the issue date upon the occurrence of certain specified events and at any time after the fifth anniversary of the issue date at the Company's discretion.

(c) Share Buy back Details

On October 7, 1997, the on market share buy back was completed with 98,146,432 ordinary shares bought back and cancelled at an average price of $18.58. The highest price paid was $22.42 and the lowest price paid was $15.60.

(d) Details of Closing Balance of Issued and Paid up Capital

	The Company		
For years ended September 30 *Dollars in Millions*	***1998***	*1997*	*1996*
Ordinary Share Capital			
Fully paid ordinary shares	**5,942**	1,412	1,476
Partly paid ordinary shares ($1.00 each, paid to 10 cents as to capital and 15 cents as to premium)	**–**	1	1
Total Ordinary Share Capital	**5,942**	1,413	1,477
Preference Share Capital			
Fully paid preference shares	**733**	–	–
Total Preference Share Capital	**733**	–	–
Total Issued and Paid up Capital	**6,675**	1,413	1,477
Number of Shares Issued			
Ordinary Share Capital			
Fully paid ordinary shares	**1,447,649,492**	1,412,396,637	1,476,540,600
Partly paid ordinary shares ($1.00 each, paid to $1.00 as to capital and 38 cents as to premium)	**–**	–	162,036
Partly paid ordinary shares ($1.00 each, paid to 10 cents as to capital and 15 cents as to premium)	**2,777,748**	3,785,105	5,183,215
Total Number of Ordinary Shares Issued	**1,450,427,240**	1,416,181,742	1,481,885,851
Preference Share Capital			
Fully paid preference shares	**36,008,000**	–	–
Total Number of Preference Shares Issued	**36,008,000**	–	–
Total Number of Shares Issued	**1,486,435,240**	1,416,181,742	1,481,885,851

Share Options

For details of share options issued under the 'National Australia Executive Option Plan' refer to Note 32 below.

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*	***1998***	*1997*	*1996*

31 Outside equity interests

Reserves	**5**	5	–	**–**	–	–
Retained profits	**(2)**	(3)	–	**–**	–	–
Total Outside Equity Interests	**3**	2	–	**–**	–	–

32 Employee share, bonus and option schemes

(a) National Australia Bank Staff Share Scheme (Staff Share Scheme)

The Staff Share Scheme was approved by shareholders in 1986. Shares issued under the scheme in 1996 are shown in Table 1. Following approval by shareholders of the Staff Share Allocation Plan and the Staff Share Ownership Plan in January 1997 there is no intention of issuing further shares under this scheme.

Under the terms of the scheme, eligible employees were offered ordinary shares in the Company. The offer was generally open for a period of four weeks. Full time and part time employees of the Consolidated Entity were eligible to participate in the scheme if they were at least 18 years of age and had 12 months continuous service on the date the offer opened. For executive participants the 12 months continuous service requirement was waived.

As from January 19, 1995, employees of controlled entities in the United Kingdom (UK) and Republic of Ireland (RoI) were no longer eligible to participate in the Staff Share Scheme.

Shares were offered to executive participants (management status and above) generally on the basis of 10 shares for each A$1,000 of annual salary or part thereof. General participants (non-executive) were generally offered 200 shares each year.

Executive participants could elect to either fully or partly pay for their entitlement on subscription. If fully paid, the price was the initial market price, being 97.5% (92.5% for issues prior to September 30, 1994) of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer. If partly paid, an up-front payment of A$0.25 per share was required. Partly paid shares are only entitled to pro rata dividends based on the amount subscribed.

Executive participants may elect to pay the balance on partly paid shares during the 28 days following each half yearly and yearly profit announcement. When a call is made, either at the request of the executive participant or upon retirement, or otherwise leaving the Consolidated Entity, partly paid shares must be fully paid. To fully pay up their shares, executive participants must pay the lower of the initial market price at the time of the issue, or 97.5% (92.5% for issues prior to September 30, 1994) of the market price immediately before the call is made, less the A$0.25 originally subscribed.

General participants may also elect to either fully or partly pay for their entitlement on subscription. Whether fully or partly paid, the price is the initial market price, being 97.5% (92.5% for issues prior to September 30, 1994) of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer. If partly paid, an up-front payment of 12.5% of the initial market price per share is required. General participants were required to fully pay up their partly paid shares by paying 25 equal fortnightly instalments, less the 12.5% originally subscribed.

Executive and general participants electing to fully pay for their entitlement on subscription, could pay such amount by cash, or by utilising the National Australia Bank Limited Staff Loan Scheme (Staff Loan Scheme) approved by shareholders in 1992 for this purpose. Generally, loans under the Staff Loan Scheme are interest free. As at September 30, 1998, aggregate loans receivable under the Staff Loan Scheme amounted to $26 million.

Executive and general participants domiciled outside Australia and New Zealand could be subject to different acceptance and payment conditions due to local legal requirements. In many cases, payment in full on subscription was required and the Staff Loan Scheme may not have been available. Where the loan was available it was made with the Company in Australian dollars.

The aggregate of partly paid shares on issue under the Staff Share Scheme, and shares where subscription has been funded by a loan under the Staff Loan Scheme, shall not at any time exceed 5% of the total number of fully paid ordinary shares of the Company on issue.

(b) National Australia Bank Limited Staff Reward Scheme (Executive Staff Bonus Share Scheme)

The Executive Staff Bonus Share Scheme was approved by shareholders in 1992. Shares issued under the scheme in 1996 are as shown in Table 1.

Under the terms of the scheme, the Board of Directors (Board) could invite employees of the Consolidated Entity to participate and resolve to pay a performance based bonus which, after satisfying taxation and legislative requirements, was applied towards the acquisition of fully paid ordinary shares in the Company. The effect of this scheme was to require senior members of staff who were awarded a performance bonus to use half of the after tax value of the bonus to subscribe for ordinary shares in the Company at the market price on the date of subscription.

The subscription price was the weighted average market price of the Company's shares in the week preceding the dispatch of the offer.

At the Board's discretion, the number of shares may be rounded up to the next whole share or rounded down to the last whole share with any remaining balance of the performance based bonus payment being paid to the participant.

The aggregate number of shares issued under the scheme in any financial year shall not exceed 1% of the total number of fully paid ordinary shares of the Company on issue.

(c) National Australia Executive Option Plan (Executive Option Plan)

The Executive Option Plan was approved by shareholders in 1994. Options issued under the plan for 1996 are shown in Table 2. Following approval by shareholders of the Executive Share Option Plan No 2 in January 1997 there is no intention of issuing further options under this plan.

Under the plan, the Board could offer options to executives of the Consolidated Entity to subscribe for ordinary shares in the Company. The Board determined eligibility and entitlements having regard to each executive's contribution and potential contribution to the Consolidated Entity and to any other matters which the Board considered relevant.

During the year ended September 30, 1996 share options were issued to 359 executives covering a total of 14,120,000 share options.

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 must 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 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. As a precondition of the exercise of any option, the market price of the Company's shares after three years 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, or if the Board makes a determination that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any company in the Consolidated Entity and the option is to be forfeited. The plan's rules do not provide for options to lapse by reason only of the holder's ceasing to be employed by the Consolidated Entity.

Options may only be exercised within the limitations imposed by the Corporations Law 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 options (and shares resulting from exercise of those options) to the Managing Director at the annual general meetings.

A loan may be available to executives if and when they wish to exercise their options. The plan's 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.

As at September 30, 1998, 4,510,000 options from the January 31, 1994 issue and 8,809,400 options from the February 13, 1995 issue have been exercised.

(d) 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 in 1998, 1997 and 1996 are shown in Table 3.

Full time and part time employees of controlled entities in the United Kingdom (UK) and Republic of Ireland (RoI), 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 two percent) 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 participating 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 are required to 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 first savings period under the plan began on August 1, 1995 and continued for six months, ending on January 31, 1996 for which there were 13,961 eligible participants. The plan has continued 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 one percent of salary until otherwise determined.

(e) 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.

The Staff Share Allocation Plan provides for the Board to invite any employee to participate in an offer under the plan. Offers approved by the Board up to September 30, 1998 have been for 25 shares per participant. The Company provides funds for a Trustee to subscribe for or purchase, fully paid, ordinary shares in the Company on behalf of the participating employee at no cost to the employee. The shares are held by the Trustee for three years, or until the employee ceases employment with the Consolidated Entity, and may then be dealt with by the employee. It is intended that the Staff Share Allocation Plan will apply to all permanent staff not covered by the Employee Share Savings Plan in the UK and RoI.

Shares may not be issued under this plan if the total number of options and shares issued in the past five years under employee share or option plans, including the proposed offer, exceeds 5% of the number of shares in the issued capital of the Company at the date of the proposed offer.

(f) 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.

Under the Staff Share Ownership Plan the Board may 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 provides funds for a Trustee to subscribe for or purchase, fully paid ordinary shares in the Company on behalf of the employee. The Trustee must subscribe for or purchase the shares within a predetermined time frame.

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. If the employee ceases employment with the Consolidated Entity the loan must be repaid. In the event that when an employee ceases employment and sells the shares, and the proceeds of the sale are insufficient to fully repay the outstanding loan balance, the Company will forgive the difference. It is intended that the loan provisions of the Staff Share Ownership Plan will be made available to all permanent staff not covered by the Employee Share Savings Plans in the UK and RoI.

Shares obtained with funds provided by the Company will also be held in Trust and may not be dealt with by the employee until 10 years after they were acquired, unless otherwise determined by the Board. The shares may also be forfeited in the event the employee is dismissed for serious misconduct involving dishonesty. It is currently intended that this aspect of the plan will apply only to management staff in Australia as part of their flexible remuneration arrangements.

Shares may not be issued under this plan if the total number of options and shares issued in the past five years under employee share or option plans, including the proposed offer, exceeds 5% of the number of shares in the issued capital of the Company at the date of the proposed offer.

(g) 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. It is very similar to the Executive Share Option Plan and options issued under the plan are shown in Table 2.

Under the plan, the Board may offer options to executives of the Consolidated Entity to subscribe for ordinary shares in the Company. Options may not be issued if the total number of options and shares issued in the past five years under employee share or option plans, including the proposed offer, exceeds 5% of the number of shares on issue in the Company at the date of the proposed offer.

During the year ended September 30, 1998 share options were issued to 520 executives (1997: 424) covering a total of 10,976,000 share options (1997: 9,890,000).

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 value of the Company's ordinary shares as at the date the option was issued. The market value is the weighted average market price of the Company's ordinary shares, on the Australian Stock Exchange, in the five trading days preceding the issue of the option.

Generally an option may not be exercised before the third anniversary of its issue, and must be exercised by the fifth anniversary of its issue. The Board may determine such other terms for the issue of options consistent with the Listing Rules and the terms of the plan. The Board has determined for the offers made on February 27, 1997 and February 26, 1998 that options may only be exercised if on any day during the period between the third and fifth anniversaries of the issue of the options the total return to shareholders exceeds 65% of the Exercise Price. The total return includes the value of dividends and the share price growth over the relevant period.

Options may be exercised before the third anniversary of issue and notwithstanding the Total Return criteria in the event that the Executive ceases employment with the Consolidated Entity as the result of death or total and permanent disability. The Board may also allow the option holders to exercise the options irrespective of the normal criteria in the event of certain events involving the capital restructure of the Consolidated Entity.

Options will lapse if unexercised on or before their expiry date, or if the Board makes a determination that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any company in the Consolidated Entity and the option is to be forfeited. The plan's rules do not provide for options to lapse by reason only of the holder's ceasing to be employed by the Consolidated Entity.

Options may only be exercised within the limitations imposed by the Corporations Law 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 options (and shares resulting from exercise of those options) to the Managing Director at the annual general meetings.

A loan may be available to executives if and when they wish to exercise their options. The plan's 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.

Amounts loaned to participants, where applicable, are included in Loans and Advances and the costs in administering the above schemes and plans are expensed as incurred. Shares issued under the above schemes and plans rank pari passu with existing shares of the Company.

As at September 30, 1998, 200,000 options from the February 27, 1997 issue have been exercised.

Table 1

	Ordinary Shares issued	*Issue price*	*Subscription details*
National Australia Bank Staff Share Scheme			
Executive participants			
1998	Nil		
1997	Nil		
1996	2,491,141	$11.03	807,137 partly paid ($0.10 capital and $0.15 premium) 1,684,004 paid in full (1,609,623 under loan scheme)
General participants			
1998	Nil		
1997	Nil		
1996	1,411,393	$11.03	166,551 partly paid ($1.00 capital and $0.38 premium) 1,244,842 paid in full (1,096,944 under loan scheme)
National Australia Bank Limited Staff Reward Scheme			
1998	Nil		
1997	Nil		
1996	191,471	$12.16	paid in full

Table 2

Option Plans

Issue Date of Option	*Exercise Period of Option*	*Latest Date for Exercise of Option*	*Exercise Price of Option*	*No. of Options Held at Sep 30, 1998*	*No. of Options Exercised During the Year*[(1)]	*Fair Value of Options Granted During the Year*[(2)]
National Australia Executive Option Plan						
Jan 31, 1994	Jan 31, 1997 – Jan 31, 1999	Jan 31, 1999	$11.76	70,000	176,500	
Feb 13, 1995	Feb 13, 1998 – Feb 13, 2000	Feb 13, 2000	$10.55	1,350,600	8,809,400	
Jan 2, 1996	Jan 2, 1999 – Jan 2, 2001	Jan 2, 2001	$12.16	13,380,000	–	17,126,400
Jan 25, 1996	Jan 25, 1999 – Jan 25, 2001	Jan 25, 2001	$12.54	500,000	–	645,000
Jun 27, 1996	Jun 27, 1999 – Jun 27, 2001	Jun 27, 2001	$11.52	240,000	–	290,400
National Australia Bank Executive Share Option Plan No. 2						
Feb 27, 1997	Feb 27, 2000 – Feb 27, 2002	Feb 27, 2002	$16.62	9,670,000	200,000	14,903,700
Feb 26, 1998	Feb 26, 2001 – Feb 26, 2003	Feb 26, 2003	$19.90	10,976,000	–	39,294,080

(1) Subsequent to balance date no options were exercised.

(2) Comparative information for 1994 and 1995 option issues is not available.

The market price of the Company's shares at September 30, 1998 was $20.39 (1997: $21.22; 1996: $13.30).

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 Executive Option Plan and the National Australia Bank Executive Share Option Plan No. 2 (the Plans). Under the intrinsic value method, a nil value is ascribed to the options issued under the Plans, as the exercise price and market value of the options at issue date are equivalent. Accordingly, Note 47, 'Remuneration of Executives' ascribes a nil value to the options issued under the Plans.

US 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 during the year were valued at $3.58 each (1997: $1.51 each).

The fair value of options granted were estimated using a numerical extension of the Black-Scholes options pricing methodology adopting the following significant assumptions:

	1998	*1997*	*1996*
Risk free interest rate	**5.91%**	6.01%	7.40%
Life of options	**5 Years**	5 Years	5 Years
Volatility of share price	**20.0%**	16.0%	15.6%
Dividend rate	**4.86%**	5.65%	7.30%

If the fair value basis of accounting had been applied to account for compensation costs as stipulated in SFAS123, the following operating profit after income tax expense and earnings per share would have appeared:

	1998		*1997*		*1996*	
	As Reported	***Pro Forma***	*As Reported*	*Pro Forma*	*As Reported*	*Pro Forma*
Net profit after income tax expense	**2,014**	**1,989**	2,223	2,213	2,102	2,090
Basic earnings per share	**140.0**	**138.3**	151.6	151.0	144.8	144.0
Diluted earnings per share	**137.9**	**136.3**	148.7	148.0	143.1	142.3

Refer to (c) and (g) above for details of the Plans and the hurdles that must be achieved before the options can be exercised.

Table 3

Current Employee Share Plans

Savings Period	*Number of Eligible Participants*	*Average Price*	*Fully Paid Ordinary Shares*
Employee Share Savings Plan – United Kingdom and Republic of Ireland			
Aug 1, 1995 – Jan 31, 1996	13,961	$12.76	199,700
Feb 1, 1996 – Jul 31, 1996	15,096	$12.36	320,724
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[1]	13,241		
Staff Share Allocation Plan			
1998	34,137	$20.71	784,375
Staff Share Ownership Plan[2]			
1998	34,137	$20.71	7,563,668

[1] No shares have been acquired at September 30, 1998 but $1.3 million has been contributed to the Trust in respect of this Savings Period. Shares will be purchased at the end of the Savings Period.

[2] US employees contributed amounts totalling $0.7 million toward the acquisition of the shares.

33 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. Amounts classified as 'overseas' represent interest earning assets or interest bearing liabilities of the Group's controlled entities and overseas branches.

Non-accrual loans are included with Interest Earning Assets under 'Loans and Advances'.

Average Assets and Interest Income

Years ended September 30	**1998** Average Balance	**1998** Interest	**1998** Average Rate	*1997* Average Balance	*1997* Interest	*1997* Average Rate	*1996* Average Balance	*1996* Interest	*1996* Average Rate
	$M	$M	%	$M	$M	%	$M	$M	%
Interest earning assets									
Due from other financial institutions									
Australia	**1,347**	**48**	**3.5**	1,235	64	5.2	1,314	102	7.8
Overseas	**10,273**	**595**	**5.8**	9,550	511	5.4	8,417	453	5.4
Regulatory deposits									
Australia	**904**	**1**	**0.1**	782	7	0.9	701	17	2.4
Overseas	**151**	**3**	**1.8**	148	3	1.7	124	2	1.8
Marketable debt securities									
Australia	**7,086**	**359**	**5.1**	5,613	371	6.6	5,458	413	7.6
Overseas	**13,122**	**934**	**7.1**	9,777	637	6.5	7,741	553	7.1
Loans and advances									
Australia	**76,213**	**5,794**	**7.6**	65,772	5,956	9.1	55,939	5,877	10.5
Overseas	**73,279**	**6,690**	**9.1**	57,682	5,095	8.8	49,288	4,534	9.2
Other interest earning assets[1]	**2,500**	**1,003**	**N/A**	1,501	292	N/A	1,663	137	N/A
Total interest earning assets	**184,875**	**15,427**	**8.3**	152,060	12,936	8.5	130,645	12,088	9.3
Non-interest earning assets									
Acceptances									
Australia	**20,898**			18,292			17,092		
Overseas	**1,245**			969			916		
Fixed assets									
Australia	**557**			1,063			1,093		
Overseas	**1,329**			1,126			1,135		
Other assets									
Australia	**13,267**			9,871			8,256		
Overseas	**17,313**			10,253			9,773		
Total non-interest earning assets	**54,609**			41,574			38,265		
Provision for doubtful debts									
Australia	**(668)**			(598)			(566)		
Overseas	**(883)**			(730)			(712)		
Total assets	**237,933**			192,306			167,632		
Percentage of total average assets applicable to overseas operations	**49.6%**			46.7%			46.6%		

[1] *Includes interest on derivatives and escrow deposits.*

Average Liabilities and Interest Expenditure

Years ended September 30	1998 Average Balance	1998 Interest	1998 Average Rate	1997 Average Balance	1997 Interest	1997 Average Rate	1996 Average Balance	1996 Interest	1996 Average Rate
	$M	$M	%	$M	$M	%	$M	$M	%
Interest bearing liabilities and loan capital									
Time deposits									
Australia	**29,719**	**1,409**	**4.7**	24,674	1,571	6.4	23,815	1,915	8.0
Overseas	**40,393**	**2,888**	**7.1**	33,524	2,204	6.6	25,441	1,691	6.6
Savings deposits									
Australia	**4,534**	**189**	**4.2**	4,723	219	4.6	4,759	250	5.3
Overseas	**16,359**	**778**	**4.8**	13,741	526	3.8	13,006	539	4.1
Other demand deposits									
Australia	**26,046**	**812**	**3.1**	22,066	848	3.8	17,006	841	4.9
Overseas	**9,774**	**336**	**3.4**	8,278	261	3.1	7,404	280	3.8
Government and Official Institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**590**	**29**	**4.9**	377	20	5.3	249	13	5.2
Due to other financial institutions									
Australia	**3,047**	**110**	**3.6**	3,800	181	4.8	4,339	242	5.6
Overseas	**14,445**	**862**	**6.0**	8,414	452	5.4	8,481	497	5.8
Short term borrowings									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**7,294**	**328**	**4.5**	4,177	231	5.5	4,065	225	5.5
Long term borrowings									
Australia	**9,605**	**654**	**6.8**	6,423	431	6.7	4,062	280	6.9
Overseas	**3,459**	**191**	**5.5**	1,927	99	5.2	2,245	127	5.7
Other interest bearing liabilities	**175**	**835**	**N/A**	134	459	N/A	351	34	N/A
Other debt issues									
Australia	**382**	**28**	**7.2**	326	20	6.1	324	20	6.1
Overseas	**1,581**	**120**	**7.6**	834	56	6.7	119	4	3.6
Total interest bearing liabilities	**167,403**	**9,569**	**5.7**	133,418	7,578	5.7	115,666	6,958	6.0
Non-interest bearing liabilities									
Deposits not bearing interest									
Australia	**3,857**			3,460			1,770		
Overseas	**7,374**			6,123			5,583		
Liability on acceptances									
Australia	**20,898**			18,292			17,092		
Overseas	**1,245**			969			916		
Other liabilities									
Australia	**12,906**			9,215			8,145		
Overseas	**10,196**			7,517			6,074		
Total non-interest bearing liabilities	**56,476**			45,576			39,580		
Shareholders' equity	**14,054**			13,312			12,386		
Total liabilities and shareholders' equity	**237,933**			192,306			167,632		
Percentage of total average liabilities applicable to overseas operations	**50.4%**			48.1%			47.6%		

34 Interest rate risk

The following tables represent a break down, by currency and repricing date or contractual maturity, (whichever is the earlier), of the Consolidated Entity's balance sheet as at September 30, 1998. As interest rates and yield curves change over time the bank 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.

Australian Dollars

As at September 30, 1998	*0 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Not Bearing Interest*	*Total*	*Weighted Average Effective Interest Rate*
Australian Dollars in Millions							
Financial Assets							
Cash and short term liquid assets	–	–	–	–	1,877	1,877	–
Due from other financial institutions	1,873	45	–	–	–	1,918	4.8%
Due from customers on acceptances	–	–	–	–	21,179	21,179	–
Trading securities	9,036	–	–	–	1	9,037	5.4%
Investment/AFS securities	89	209	25	35	140	498	9.8%
Loans and advances	52,630	7,467	17,895	405	3,025	81,422	7.1%
Mortgage loans held for sale	–	–	–	–	204	204	–
Mortgage servicing rights	–	–	–	–	–	–	–
Regulatory deposits	947	–	–	–	–	947	–
Other assets	–	30	36	–	12,290	12,356	–
Total assets	64,575	7,751	17,956	440	38,716	129,438	
Financial Liabilities							
Due to other financial institutions	3,318	499	6	–	1,742	5,565	4.4%
Liability on acceptances	–	–	–	–	21,179	21,179	–
Deposits and other borrowings	51,630	17,263	1,355	106	3,935	74,289	4.2%
Bonds notes and subordinated debt	8,531	975	1,175	400	2	11,083	6.7%
Other debt issues	421	–	–	1,262	–	1,683	6.6%
Other liabilities	1,219	–	–	–	9,491	10,710	–
Shareholders' equity	–	–	–	–	6,529	6,529	–
Total liabilities and shareholders' equity	65,119	18,737	2,536	1,768	42,878	131,038	
On-balance sheet interest rate sensitivity	(544)	(10,986)	15,420	(1,328)	(4,162)	(1,600)	
Off-balance sheet interest rate sensitivity	4,899	652	(5,342)	(209)	–	–	
Total interest rate repricing gap	4,355	(10,334)	10,078	(1,537)	(4,162)	(1,600)	
Cumulative interest rate repricing gap	4,355	(5,979)	4,099	2,562	(1,600)		
As at September 30, 1997							
Total assets	55,609	11,617	13,088	603	34,458	115,375	6.0%
Total liabilities and shareholders' equity	51,762	13,852	3,974	305	46,431	116,324	3.1%
On-balance sheet interest rate sensitivity	3,847	(2,235)	9,114	298	(11,973)	(949)	
Off-balance sheet interest rate sensitivity	4,426	(115)	(4,192)	(119)	–		
Total interest rate repricing gap	8,273	(2,350)	4,922	179	(11,973)	(949)	
Cumulative interest rate repricing gap	8,273	5,923	10,845	11,024	(949)		

The above table provides 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 lines refer to Note 33, 'Average Balance Sheet'.

British Pounds and Irish Punts

As at September 30, 1998	*0 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Not Bearing Interest*	*Total*	*Weighted Average Effective Interest Rate*
Australian Dollars in Millions							
Financial Assets							
Cash and short term liquid assets	302	–	–	–	1,899	2,201	0.5%
Due from other financial institutions	2,994	113	–	–	83	3,190	7.1%
Due from customers on acceptances	326	–	–	–	716	1,042	–
Trading securities	46	–	–	–	–	46	7.6%
Investment/AFS securities	1,522	555	484	39	16	2,616	7.2%
Loans and advances	31,763	3,362	6,477	743	–	42,345	9.7%
Mortgage loans held for sale	–	–	–	–	–	–	–
Mortgage servicing rights	–	–	–	–	–	–	–
Regulatory deposits	80	–	–	–	44	124	2.0%
Other assets	1,325	120	198	–	2,058	3,701	–
Total assets	38,358	4,150	7,159	782	4,816	55,265	
Financial Liabilities							
Due to other financial institutions	3,151	63	–	–	22	3,236	7.1%
Liability on acceptances	326	–	–	–	716	1,042	
Deposits and other borrowings	37,440	1,398	306	8	5,849	45,001	5.1%
Bonds notes and subordinated debt	166	–	–	–	–	166	7.0%
Other debt issues	–	–	–	–	–	–	–
Other liabilities	365	–	–	–	4,602	4,967	–
Shareholders' equity	34	–	–	–	3,219	3,253	–
Total liabilities and shareholders' equity	41,482	1,461	306	8	14,408	57,665	
On-balance sheet interest rate sensitivity	(3,124)	2,689	6,853	774	(9,592)	(2,400)	
Off-balance sheet interest rate sensitivity	(968)	(678)	1,596	50	–	–	
Total interest rate repricing gap	(4,092)	2,011	8,449	824	(9,592)	(2,400)	
Cumulative interest rate repricing gap	(4,092)	(2,081)	6,368	7,192	(2,400)		
As at September 30, 1997							
Total assets	27,291	3,774	4,839	1,182	4,736	41,822	8.5%
Total liabilities and shareholders' equity	29,068	1,033	446	286	11,179	42,012	4.4%
On-balance sheet interest rate sensitivity	(1,777)	2,741	4,393	896	(6,443)	(190)	
Off-balance sheet interest rate sensitivity	116	265	(103)	(278)	–		
Total interest rate repricing gap	(1,661)	3,006	4,290	618	(6,443)	(190)	
Cumulative interest rate repricing gap	(1,661)	1,345	5,635	6,253	(190)		

The above table provides 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 lines refer to Note 33, 'Average Balance Sheet'.

New Zealand Dollars

As at September 30, 1998	*0 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Not Bearing Interest*	*Total*	*Weighted Average Effective Interest Rate*
Australian Dollars in Millions							
Financial Assets							
Cash and short term liquid assets	–	–	–	–	56	56	–
Due from other financial institutions	1,119	90	–	–	–	1,209	3.3%
Due from customers on acceptances	–	–	–	–	–	–	–
Trading securities	1,909	–	–	–	–	1,909	8.0%
Investment/AFS securities	1	–	31	–	–	32	6.9%
Loans and advances	8,724	2,428	6,086	76	53	17,367	8.4%
Mortgage loans held for sale	–	–	–	–	–	–	–
Mortgage servicing rights	–	–	–	–	–	–	–
Regulatory deposits	–	–	–	–	–	–	–
Other assets	–	388	18	3	2,054	2,463	–
Total assets	11,753	2,906	6,135	79	2,163	23,036	
Financial Liabilities							
Due to other financial institutions	1,153	100	–	–	–	1,253	2.1%
Liability on acceptances	–	–	–	–	–	–	–
Deposits and other borrowings	11,301	2,043	124	49	551	14,068	5.6%
Bonds notes and subordinated debt	–	–	–	–	–	–	–
Other debt issues	–	–	–	–	–	–	–
Other liabilities	750	–	–	–	1,119	1,869	–
Shareholders' equity	–	–	–	–	1,038	1,038	–
Total liabilities and shareholders' equity	13,204	2,143	124	49	2,708	18,228	
On-balance sheet interest rate sensitivity	(1,451)	763	6,011	30	(545)	4,808	
Off-balance sheet interest rate sensitivity	3,169	1,971	(4,840)	(300)	–	–	
Total interest rate repricing gap	1,718	2,734	1,171	(270)	(545)	4,808	
Cumulative interest rate repricing gap	1,718	4,452	5,623	5,353	4,808		
As at September 30, 1997							
Total assets	11,987	1,917	4,761	33	1,252	19,950	9.1%
Total liabilities and shareholders' equity	12,494	1,920	381	52	2,323	17,170	5.6%
On-balance sheet interest rate sensitivity	(507)	(3)	4,380	(19)	(1,071)	2,780	
Off-balance sheet interest rate sensitivity	3,989	(267)	(3,691)	(31)	–		
Total interest rate repricing gap	3,482	(270)	689	(50)	(1,071)	2,780	
Cumulative interest rate repricing gap	3,482	3,212	3,901	3,851	2,780		

The above table provides 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 lines refer to Note 33, 'Average Balance Sheet'.

United States Dollars and Other Currencies

As at September 30, 1998	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not Bearing Interest	Total	Weighted Average Effective Interest Rate
Australian Dollars in Millions							
Financial Assets							
Cash and short term liquid assets	18	–	–	–	–	18	–
Due from other financial institutions	2,244	251	–	–	491	2,986	4.6%
Due from customers on acceptances	131	–	–	–	1	132	–
Trading securities	454	–	–	–	–	454	4.9%
Investment/AFS securities	4,785	825	1,081	824	1	7,516	6.8%
Loans and advances	11,302	2,032	4,372	1,161	–	18,867	7.8%
Mortgage loans held for sale	3,269	–	–	–	–	3,269	7.0%
Mortgage servicing rights	–	–	–	–	2,998	2,998	–
Regulatory deposits	7	–	–	–	77	84	–
Other assets	3,080	1	–	–	4,570	7,651	–
Total assets	25,290	3,109	5,453	1,985	8,138	43,975	
Financial Liabilities							
Due to other financial institutions	5,552	603	253	79	–	6,487	5.8%
Liability on acceptances	131	–	–	–	1	132	–
Deposits and other borrowings	17,850	2,863	1,193	105	2,715	24,726	5.1%
Bonds notes and subordinated debt	1,432	221	2,213	–	–	3,866	6.6%
Other debt issues	–	–	–	–	–	–	–
Other liabilities	3,113	–	2	–	1,513	4,628	–
Shareholders' equity	46	–	–	–	4,898	4,944	–
Total liabilities and shareholders' equity	28,124	3,687	3,661	184	9,127	44,783	
On-balance sheet interest rate sensitivity	(2,834)	(578)	1,792	1,801	(989)	(808)	
Off-balance sheet interest rate sensitivity	(1,135)	898	2,042	(204)	9,250	10,851	
Total interest rate repricing gap	(3,969)	320	3,834	1,597	8,261	10,043	
Cumulative interest rate repricing gap	(3,969)	(3,649)	185	1,782	10,043		
As at September 30, 1997							
Total assets	13,887	3,358	3,137	2,306	2,134	24,822	6.6%
Total liabilities and shareholders' equity	16,365	2,601	1,138	2,192	4,167	26,463	4.6%
On-balance sheet interest rate sensitivity	(2,478)	757	1,999	114	(2,033)	(1,641)	
Off-balance sheet interest rate sensitivity	(657)	447	660	(450)	–		
Total interest rate repricing gap	(3,135)	1,204	2,659	(336)	(2,033)	(1,641)	
Cumulative interest rate repricing gap	(3,135)	(1,931)	728	392	(1,641)		

The above table provides 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 lines refer to Note 33, 'Average Balance Sheet'.

35 Financial reporting by segments

In accordance with Australian Accounting Standard AASB1005, 'Financial Reporting By Segments', the allocation of assets, income and profit is based on geographical location of the office in which transactions are booked. There are no material inter-segment transactions.

Risk weighted assets include off-balance sheet exposures.

	Consolidated					
For years ended September 30 Dollars in Millions	**1998**	%	1997	%	1996	%
Geographical						
Assets						
Australia	**124,106**	**49.3**	107,573	53.3	93,998	54.1
Europe	**63,988**	**25.4**	47,273	23.4	39,748	22.9
New Zealand	**23,128**	**9.2**	20,674	10.2	18,927	10.9
United States	**30,454**	**12.1**	16,825	8.3	14,433	8.3
Asia	**10,038**	**4.0**	9,624	4.8	6,604	3.8
	251,714	**100.0**	201,969	100.0	173,710	100.0
Risk Weighted Assets						
Australia	**93,468**	**46.9**	84,389	54.7	76,767	57.6
Europe	**49,350**	**24.7**	34,197	22.2	27,750	20.8
New Zealand	**16,823**	**8.4**	15,433	10.0	13,488	10.1
United States	**34,134**	**17.1**	15,960	10.3	12,564	9.4
Asia	**5,701**	**2.9**	4,330	2.8	2,744	2.1
	199,476	**100.0**	154,309	100.0	133,313	100.0
Gross Income						
Australia	**8,763**	**45.3**	8,208	51.8	7,964	54.1
Europe	**5,442**	**28.1**	3,904	24.6	3,369	22.9
New Zealand	**2,157**	**11.1**	2,003	12.6	1,906	12.9
United States	**2,176**	**11.2**	1,214	7.7	1,104	7.5
Asia	**842**	**4.3**	516	3.3	376	2.6
	19,380	**100.0**	15,845	100.0	14,719	100.0
Operating Profit Before Tax						
Australia	**1,582**	**53.2**	2,026	61.1	2,045	66.8
Europe	**687**	**23.1**	749	22.6	545	17.8
New Zealand	**234**	**7.9**	276	8.3	234	7.6
United States	**419**	**14.1**	235	7.1	215	7.0
Asia	**52**	**1.7**	30	0.9	23	0.8
	2,974	**100.0**	3,316	100.0	3,062	100.0
Operating Profit After Tax and Outside Equity Interests						
Australia	**1,063**	**52.8**	1,329	59.8	1,448	68.9
Europe	**477**	**23.7**	488	22.0	341	16.2
New Zealand	**189**	**9.4**	197	8.9	161	7.7
United States	**242**	**12.0**	181	8.1	131	6.2
Asia	**43**	**2.1**	28	1.2	21	1.0
	2,014	**100.0**	2,223	100.0	2,102	100.0

For years ended September 30 Dollars in Millions	Consolidated 1998	%	1997	%	1996	%
Industry						
Assets						
Banking	**237,802**	**94.5**	200,635	99.3	172,611	99.4
Finance and Life Insurance	**10,786**	**4.3**	352	0.2	215	0.1
Merchant and Investment Banking	**3,126**	**1.2**	982	0.5	884	0.5
	251,714	**100.0**	201,969	100.0	173,710	100.0
Gross Income						
Banking	**18,415**	**95.0**	15,582	98.3	14,481	98.4
Finance and Life Insurance	**810**	**4.2**	154	1.0	132	0.9
Merchant and Investment Banking	**155**	**0.8**	109	0.7	106	0.7
	19,380	**100.0**	15,845	100.0	14,719	100.0
Operating Profit Before Tax						
Banking	**2,747**	**92.3**	3,222	97.2	2,995	97.8
Finance and Life Insurance	**160**	**5.4**	64	1.9	33	1.1
Merchant and Investment Banking	**67**	**2.3**	30	0.9	34	1.1
	2,974	**100.0**	3,316	100.0	3,062	100.0
Operating Profit After Tax and Outside Equity Interests						
Banking	**1,857**	**92.2**	2,135	96.0	2,050	97.5
Finance and Life Insurance	**112**	**5.6**	68	3.1	29	1.4
Merchant and Investment Banking	**45**	**2.2**	20	0.9	23	1.1
	2,014	**100.0**	2,223	100.0	2,102	100.0

36 Notes to the statements of cash flows

For years ended September 30 Dollars in Millions	Consolidated 1998	1997	1996	The Company 1998	1997	1996
(i) Reconciliation of Operating Profit after Income Tax to Net Cash Provided by Operating Activities						
Operating profit after income tax	**2,014**	2,223	2,102	**1,001**	1,285	1,377
Adjustments to reconcile net profit to net cash provided by operating activities:						
(Increase)/decrease in interest receivable	**294**	(436)	(617)	**(118)**	(324)	(482)
Increase/(decrease) in interest payable	**40**	412	643	**163**	308	585
Depreciation and amortisation	**272**	244	243	**98**	87	91
Provision for doubtful debts	**572**	332	333	**294**	131	169
Provision for adoption of a statistically based provisioning methodology	**369**	–	–	**181**	–	–
Provision for restructuring	**380**	30	57	**167**	17	24
Amortisation of goodwill	**181**	142	137	**–**	–	–
Increase/(decrease) in provision for income tax	**(44)**	27	(135)	**(34)**	(138)	(109)
Net increase/(decrease) in provision for deferred tax and future income tax benefit	**(478)**	(63)	(39)	**(443)**	(8)	(147)
Net (increase)/decrease in trading instruments	**(1,442)**	(1,527)	(491)	**(1,210)**	(1,434)	(465)
Net movement in mortgage loans held for sale	**(1,672)**	–	–	**–**	–	–
Other provisions and non cash items	**33**	631	234	**91**	654	384
Total adjustments	**(1,495)**	(208)	365	**(811)**	(707)	50
Net cash provided by operating activities	**519**	2,015	2,467	**190**	578	1,427

For years ended September 30 Dollars in Millions	Consolidated **1998**	 1997	 1996	The Company **1998**	 1997	 1996

(ii) Reconciliation of Cash

For the purposes of reporting cash flows, cash and cash equivalents include 'cash and short term liquid assets', 'due from other financial institutions' and 'due to other financial institutions'.

Cash and cash equivalents as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheets as follows:

Cash	**1,015**	1,228	1,724	**338**	330	871
Other short term liquid assets[1]	**3,137**	3,226	2,631	**1,181**	1,066	147
Due from other financial institutions	**9,303**	10,360	9,675	**5,465**	7,770	6,370
Due to other financial institutions	**(16,541)**	(12,746)	(12,795)	**(11,675)**	(11,178)	(11,234)
	(3,086)	2,068	1,235	**(4,691)**	(2,012)	(3,846)

[1] *Other short term liquid assets include remittances in transit which represent funds flows which are in the process of imminent conversion into cash.*

(iii) Non Cash Financing and Investing Activities

New Share Issues:						
Dividend reinvestment plan	**385**	347	421	**385**	347	421
Bonus share plan	**70**	59	57	**70**	59	57
Movement in assets under finance lease	**10**	10	(12)	**(1)**	(2)	2

These amounts are not reflected in the Statements of Cash Flows.

(iv) Financing Arrangements

Refer to Note 44.

(v) Acquisitions

The following acquisitions have been made during the 1998 and comparative financial years:

- On June 5, 1998, the Company acquired the mortgage servicing assets of Banc One Mortgage Corporation for cash consideration.
- On February 10, 1998, the Company acquired 100% of the share capital of HomeSide Inc. for cash consideration.
- On October 1, 1997, the Company acquired 100% of the share capital of County NatWest Australia Investment Management Limited for cash consideration.
- On November 2, 1995, the Company acquired 100% of the share capital of Michigan National Corporation for cash consideration.

The operating results of the acquired entities have been included in the consolidated profit and loss account from their acquisition dates. Details of the acquisitions were as follows:

For years ended September 30 Dollars in Millions	 **1998**	Consolidated 1997	 1996
Fair Value of Net Assets Acquired			
Cash and short term liquid assets	**59**	–	541
Due from other financial institutions	**–**	–	358
Trading securities	**–**	–	10
Investment securities	**–**	–	1,479
Loans and advances	**–**	–	7,963
Mortgage loans held for sale	**1,801**	–	–
Mortgage servicing rights	**2,868**	–	–
Available for sale securities	**–**	–	304
Fixed assets	**44**	–	127
Other assets	**1,135**	–	535
Deposits and other borrowings	**(4,369)**	–	(145)
Income tax liability	**(206)**	–	(9,626)
Provisions	**(18)**	–	–
Other liabilities	**(295)**	–	(407)
Total net assets acquired	**1,019**	–	1,139
Goodwill on acquisition	**1,154**	–	950
Total net assets acquired after goodwill	**2,173**	–	2,089
Cash Consideration Paid	**2,173**	–	2,089

37 Particulars in relation to controlled entities

The following table highlights those controlled entities with contributions to consolidated operating profit of $5 million or more, or those that are deemed to be of particular interest. Those controlled entities with contributions to consolidated operating profit of less than $5 million have been aggregated and disclosed as 'other' under their immediate parent entity.

Entity Name *Dollars in Millions*	*Incorporated in*	*Contribution to Consolidated Operating Profit after Tax before Goodwill and Abnormal Items* *1998*	*1997*		*Nature of Business*
National Australia Bank Limited	Australia	**964**	1,055		Banking
Controlled Entities of National Australia Bank Limited					
National Equities Limited	Australia	**225**	136	a	Parent entity
National Americas Investment, Inc.	United States of America	**–**	–	b	Parent entity
Homeside Investment, Inc.	United States of America	**(30)**	–	b	Parent entity
HomeSide International, Inc.	United States of America	**(8)**	–	b	Parent entity
HomeSide Holdings, Inc.	United States of America	**–**	–	b	Investment company
HomeSide Lending, Inc.	United States of America	**98**	–	b	Mortgage lender and servicer
HomeSide Lending Inc. controlled entities	United States of America	**2**	–		Mortgage banker, issues mortgage backed securities
National Australia Financial Management Ltd and its controlled entities	Australia	**59**	43		Life insurance and funds management
National Australia Group (NZ) Limited	New Zealand	**(45)**	(50)	b	Parent entity
Bank of New Zealand	New Zealand	**164**	241	b	Banking
BNZ Finance Limited	New Zealand	**17**	18	b	Registered bank
BNZ Investments Limited	New Zealand	**95**	51	b	Investment company
BNZ Property Investments Limited and its controlled entities	New Zealand	**(22)**	(22)	b	Property company
BNZ Life Insurance Limited	New Zealand	**7**	10	b	Life insurance
Other BNZ Investments Limited controlled entities	New Zealand	**18**	(2)		Property company, investment company
Other Bank of New Zealand controlled entities	New Zealand, Hong Kong	**–**	(1)		Motor vehicle leasing and non-trading
National Australia Group Europe Limited	England	**(172)**	(37)	b	Parent entity
Clydesdale Bank PLC (Group)	Scotland	**240**	179	b	Banking
Clydesdale Bank Equity Limited	Scotland	**17**	10	b	Venture/development
Clydesdale Bank Insurance Brokers Limited	Scotland	**20**	16	b	Insurance brokers
Other Clydesdale Bank PLC controlled entities	Scotland	**9**	6		Lease finance, pension trustee and nominee entity
National Americas Holdings Ltd	England	**7**	10	b	Parent entity
Michigan National Corporation	United States of America	**59**	95	b	Parent entity
Michigan National Bank and its controlled entities	United States of America	**166**	127	b	Banking
Other Michigan National Corporation controlled entities	United States of America	**1**	–		Asset management, investment advisory and underwriting
National Australia Life Company Ltd	England	**5**	5	b	Life insurance
National Australia Group Europe Services Limited	Scotland	**15**	(16)	b	Computer services
National Australia Group Europe Investments Limited	Scotland	**82**	(10)	b	Investment company
National Irish Holdings Ltd	England	**(1)**	–	b	Parent entity
National Irish Bank Limited and its controlled entities	Republic of Ireland	**33**	33	b	Banking

Entity Name *Dollars in Millions*	*Incorporated in*	*Contribution to Consolidated Operating Profit after Tax before Goodwill and Abnormal Items* *1998*	*1997*		*Nature of Business*
Northern Bank Ltd	Northern Ireland	**132**	99	b	Banking
Northern Bank Financial Services Ltd	Northern Ireland	**–**	–	b	Parent entity
Northern Bank Development Corporation Ltd and its controlled entities	Northern Ireland	**6**	4	b	Merchant bank
Other Northern Bank Financial Services controlled entities	Northern Ireland	**8**	3		Non-trading and lease financing
Other Northern Bank Ltd controlled entities	Northern Ireland	**23**	13		Factoring, nominee and trustee entities
Yorkshire Bank PLC	England	**319**	218	b	Banking
Yorkshire Bank Retail Services Ltd and its controlled entity	England	**(2)**	(14)	b	Finance entity
Eden Vehicle Rentals Ltd	England	**4**	6	b	Vehicle contract hire
Yorkshire Bank Home Loans Ltd	England	**15**	11	b	Mortgage finance
Other Yorkshire Bank PLC controlled entities	England	**10**	4		Lease finance, insurance, property owner and non-trading entities
Other National Australia Group Europe controlled entities	England	**4**	(1)		Finance, investment, management and computer services
National Australia Group Services Limited	Australia	**37**	40		Parent entity – finance provider
Custom Service Leasing Limited	Australia	**12**	25	a	Serviced lease finance
Other National Australia Group Services controlled entities	Australia	**1**	–		Property developer and nominee entities
NBA Properties Limited and its controlled entities	Australia	**44**	19		Property owner
CSPL Securities Pty Limited	Australia	**–**	4		Finance provider
National Australia Merchant Bank (Singapore) Limited	Singapore	**17**	13	b	Merchant bank
National Australia Corporate Services Limited	Australia	**–**	–	a	Parent entity
Nautilus Insurance Pte. Ltd.	Singapore	**11**	10	b	General insurer under restricted licence
National Markets Group Limited	Australia	**–**	–		Holding Company
Australian Market Automated Quotation (AUSMAQ) System Limited	Australia	**(8)**	(4)		On-line client investment administration service
Vilexton Pty Limited	Australia	**8**	10		Finance provider
National Australia Finance (Asia) Limited	Hong Kong	**17**	7	b	Money lender
National Australia Trustees Limited and its controlled entity	Australia	**8**	5		Trustee entity
Other National Australia Bank Limited Controlled Entities	Australia	**1**	–		Investment, research and development, underwriting, infrastructure borrowings and nominee entities
Sub-Total		**2,692**	2,369		
Adjustments on Consolidation		**–**	(4)		
Goodwill Amortisation		**(181)**	(142)		
Abnormal items		**(497)**	–		
Operating profit after income tax (excluding outside equity interests)		**2,014**	2,223		

Beneficial interest in the shares of all entities listed above is 100% with the exception of Eden Vehicle Rentals Ltd (75%).

a) These controlled entities and those listed hereunder have entered into a deed of cross guarantee with the Company (National Australia Bank Limited) pursuant to Australian Securities and Investment 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 Law requirements for preparation, audit and publication of financial statements.

ARDB Ltd
Australian Banks' Export Re-Finance Corporation Ltd
C.B.C. Holdings Ltd
C.B.C. Investments Ltd
C.B.C. Investments Services Ltd
Commercial Nominees Pty Ltd
Groundsel Ltd
National Nominees (London) Ltd
National Australia Investment Brokers Ltd
National Australia Leasing (Qld.) Pty Ltd
NBA Leasing Pty Ltd
VPL Securities Pty Ltd

b) Denotes controlled entities audited by overseas KPMG member firms. In addition to those highlighted, the following controlled entities are also audited by overseas KPMG member firms:

Allerton House Properties Ltd
Angelsea Assets Ltd
Belfast Bank Executor & Trustee Co. Ltd
Belfast Banking Co. Ltd
BNZ Branch Properties Ltd
BNZ Capital Guaranteed Growth Fund Ltd
BNZ Corporation Ltd
BNZ Equipment Ltd
BNZ Funding Ltd
BNZ International (Hong Kong) Ltd
BNZ International Ltd
BNZ Investment Management Ltd
BNZI Securities No.1 Ltd
BNZI Securities No.2 Ltd
BNZ Nominees Ltd
BNZ Properties (Auckland) Ltd
BNZ Properties Ltd
BNZ Services Ltd
Brunswick Collection Services Ltd
Causeway Credit Ltd
CB House Purchase Ltd
CB Nominees Ltd
CB Shelfco No. 1 Ltd (In liquidation)
CB Trustee Nominees Ltd
CFC, Inc.
CGF No. 3 Ltd
CGF No. 6 Ltd
CGF No. 9 Ltd
CGF No. 12 Ltd
Clydesdale Bank Asset Finance Ltd
Clydesdale Bank Custodian Nominees Ltd
Clydesdale Bank (Head Office) Nominees Ltd
Clydesdale Bank (London) Nominees Ltd
Clydesdale Bank Pension Trustee
Clydesdale Bank (Piccadilly) Nominees Ltd
Clydesdale-Murray Nominees Ltd.
Collinstown Property Holding Co Ltd
Comm Properties Ltd
Custom Fleet (NZ) Ltd
Detroit Diesel Capital Corporation
Executive Relocation Corporation
Fairhalsen Collections Ltd
Flamingo Holdings Incorporated
Forward Trust (Ireland) Ltd
Gael Developments Ltd
General Audit Systems
HomeSide Mortgage Securities, Inc.
HMC Financial, Inc.
HSL Realty Tax Services Corporation
Ibis of West Palm Beach, Inc.
Ibis Real Estate Sales Corp. (Inactive)
Iraklis 11 Ltd
Independence One Brokerage Services, Inc.
Independence One Capital Management Corp
Independence One Financial Services, Inc.
Independence One Life Insurance Co.
Independence One Mortgage Corporation
Jacglen Ltd
Maroro Leasing Ltd
Meridian Investments, Inc.
MNB Community Development Corporation
MNB Interactive Services, Inc. (Integrion)
MNB Leasing Corp.
MNB Mondex Originator, Inc. (Inactive)
MNB Smartcard Technologies, Inc. (Inactive)
MNC Operations & Services, Inc.
NAB Finance (Ireland) Ltd
NAB Investments Ltd
NAF Trustee Ltd
NAM Nominees Ltd
National Australia Capital Securities (Jersey) Ltd
National Australia Capital Securities (UK) Ltd
National Australia Finance (Commercial Leasing) Ltd
National Australia Finance (Equipment Leasing) Ltd
National Australia Finance (Industrial Leasing) Ltd
National Australia Finance (Leasing) Ltd
National Australia Funding (Delaware) Inc
National Australia Group CIF Trustee Ltd
National Australia Group SSP Trustee Ltd
National Australia Group SSP (ROI) Trustee Ltd
National Australia Group UK Pension Trustee Ltd
National Australia Life Services Ltd
National Australia Ltd
National Australia Trust Management Company Ltd
National Irish Bank Financial Services Ltd
National Irish Bank Leasing Ltd
National Irish Bank Nominees Ltd
National Irish Bank Pensions Ltd
National Irish Bank Trust Company Ltd
National Irish Investment Bank Ltd
National Irish Investment Bank Nominees Ltd
National Irish Investment Bank Pensions Ltd
New Zealand Card Services Ltd
Nordev Properties Ltd
Norfin Investments Ltd
North British Finance Group Ltd
North British Finance Ltd
North British Leasing Ltd
North British Motor Finance Ltd
Northern and General Finance Ltd
Northern Asset Finance Ltd
Northern Bank (I.O.M.) Ltd
Northern Bank Commercial Leasing Ltd
Northern Bank Equipment Leasing Ltd
Northern Bank Executor & Trustee Co. Ltd
Northern Bank Factors Ltd
Northern Bank Industrial Leasing Ltd
Northern Bank Insurance Services Ltd
Northern Bank Nominees Ltd
Northern Bank Pension Trust Ltd
Northern Bank Trust Company (IOM) Ltd
North of Scotland Bank Ltd
North of Scotland Bank London Nominees Ltd
Peterel Financing Ltd
Project Development (Balmoral) Ltd
Quill Financing Ltd
RIMCO XIV, Inc.
RIMCO XVII, Inc.
Screen Holdings Ltd
Stockton Plaza, Inc.
Storecard Ltd
SWD Properties, Inc.
Warren Collections Ltd
Warspite Nominees Ltd
YB Lease Ltd
YB Trust Company Ltd
Yorbank Nominees Ltd
Yorkshire Bank Commercial Leasing Ltd
Yorkshire Bank Equipment Leasing Ltd
Yorkshire Bank Finance Ltd
Yorkshire Bank Financial Services Ltd
Yorkshire Bank Investments Ltd
Yorkshire Bank Nominees Ltd
Yorkshire Bank Retail Financial Services Ltd
Yorkshire International Finance B.V.
Yorlease Ltd

38 Contingent liabilities and credit commitments

	Consolidated				The Company			
	Notional Amount[1]		Credit Equivalent[2]		Notional Amount[1]		Credit Equivalent[2]	
As at September 30 Dollars in Millions	1998	1997	1998	1997	1998	1997	1998	1997
Contingent Liabilities (a)								
Guarantees	**1,952**	2,178	**1,952**	2,178	**3,024**	4,870	**3,024**	4,870
Standby letters of credit	**2,450**	1,760	**2,450**	1,760	**1,524**	1,123	**1,524**	1,123
Bill endorsements	**3**	10	**3**	10	**3**	10	**3**	10
Documentary letters of credit	**622**	575	**68**	88	**365**	365	**47**	61
Performance related contingencies	**2,489**	1,411	**1,244**	706	**1,360**	575	**680**	287
Other	**621**	514	**621**	514	**525**	397	**525**	397
Total Contingent Liabilities	**8,137**	6,448	**6,338**	5,256	**6,801**	7,340	**5,803**	6,748

The Consolidated Entity has shared its exposure on letters of credit with other financial institutions to the extent of $14 million credit equivalent (1997: $12 million). This amount is not included in the above figures. The Consolidated Entity has recourse arrangements with customers and others in respect of the major portion of the remaining contingent liabilities.

	Consolidated				The Company			
Credit Related Commitments (b)								
Outright forward purchases and forward deposits	**7,044**	5	**7,044**	5	**–**	–	**–**	–
Underwriting facilities	**253**	237	**127**	118	**253**	237	**126**	118
Other binding credit commitments	**62,494**	46,619	**14,476**	11,567	**43,138**	33,000	**10,970**	9,289
Total Credit Related Commitments	**69,791**	46,861	**21,647**	11,690	**43,391**	33,237	**11,096**	9,407

(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 also to, 'Capital Adequacy' on page 47).

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 Consolidated Entity to various degrees of credit risk.

(a) Contingent Liabilities

The Consolidated Entity'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 Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity 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 is essentially the same as that involved in extending loan facilities to customers. The Consolidated Entity 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 the 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.

Legal Proceedings

There are also contingent liabilities in respect of claims, potential claims and court proceedings against entities in the Consolidated Entity, the aggregate of potential liability, in respect thereof, cannot be accurately assessed. Where appropriate, provisions have been made.

The Consolidated Entity is defendant from time to time in legal proceedings arising from the conduct of its business. The Consolidated Entity does not consider that the outcome of any current proceedings, either individually or in the aggregate, are likely to have a material effect on its operations or financial position.

A claim was lodged in the New South Wales Supreme Court against the Company and other related parties on September 24, 1998 for an amount ranging from $0.19 billion to $8 billion. The case will be vigorously defended.

(b) 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 Consolidated Entity evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Consolidated Entity 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.

(c) Parent Entity Guarantees and Undertakings

Excluded from the consolidated amounts disclosed above are the following guarantees and undertakings to entities in the Consolidated Entity:

- Commercial paper issued by National Australia Funding (Delaware) Inc. totalling $4,313 million (1997: $4,826 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, 1998 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.
- The Company has guaranteed the repayment of debenture stock of Custom Credit Corporation Limited (in Liquidation) and payment of interest thereon. Debenture stock outstanding at September 30, 1998 was nil (1997: $0.1 million).
- Pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated August 13, 1998, relief was granted to certain controlled entities (refer Note 37, footnote a) from the Corporations Law requirements for preparation, audit and publication of financial statements. 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 Law. If a winding up occurs under other provisions of the Law, 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 statement of profit and loss and balance sheet are presented for the Company and controlled entities which are a party to the Deed.

  It is not envisaged that any material unrecorded loss is likely to arise from transactions described in this note.

Statement of Profit and Loss for the Company and Controlled Entities which are a Party to the Deed

For year ended September 30 *Dollars in Millions*	*1998*
Operating profit before tax	1,843
Income tax expense attributable to operating profit	526
Operating profit after income tax	1,317
Outside equity interests in operating profit after tax	2
Operating profit after income tax attributable to members of the Company	1,319
Retained profits at the beginning of the financial year	4,322
Dividend provisions not required	84
Aggregate of amounts transferred from reserves	155
Total available for appropriation	5,880
Dividends provided for or paid	1,495
Aggregate of amounts transferred to reserves	1
Retained profits at the end of the financial year	4,384

Balance Sheet for the Company and Controlled Entities which are a Party to the Deed

As at September 30 *Dollars in Millions*	*1998*
Assets	
Cash and short term liquid assets	1,519
Due from other financial institutions	5,465
Due from customers on acceptances	21,371
Trading securities	9,393
Available for sale securities	749
Investment securities	6,838
Loans and advances	83,253
Shares in entities and other securities	5,770
Regulatory deposits	962
Fixed assets	775
Goodwill	15
Other assets	12,946
Total Assets	149,056
Liabilities	
Due to other financial institutions	11,675
Liability on acceptances	21,371
Deposits and other borrowings	84,800
Income tax liability	864
Provisions	1,182
Bonds, notes and subordinated debt	12,735
Other debt issues	421
Other liabilities	4,381
Total Liabilities	137,429
Net Assets	11,627
Shareholders' Equity	
Issued and paid up capital	6,675
Reserves	568
Retained profits	4,384
Total Shareholders' Equity	11,627

39 Derivative financial instruments

In recent years there has been a well publicised growth in the use of derivative financial instruments. This growth is the result of a number of factors. The most significant has been the prevalence, in the past twenty years, of considerable price volatility and uncertainty in financial markets. This has caused a widespread desire among users of these markets to find various ways of limiting their exposure to the associated risks.

However, derivatives should not be regarded entirely as a contemporary phenomenon. Although swaps were first devised in the early 1980s, other derivatives like forwards and options have been employed in commercial ventures for centuries. It is the recent emergence of powerful mathematical tools, coupled with rapid advances in technology and communications, that has brought about the creation of a global market dealing in the many variations of these basic instruments.

Whatever their form, derivatives continue to enable holders of actual or anticipated assets or liabilities – whose value may vary with movements in interest rates, foreign exchange rates or the prices of equities or commodities – to modify or eliminate those risks by transferring them to other entities willing to assume them.

Accounting methodologies have limited capacity to measure or portray the risks associated with derivatives. This can only be done through quantitative disclosure and narrative explanations. The purpose of the following discussion is to inform users of the financial statements of the type of instruments used by the Consolidated Entity, the reasons for using them, the accompanying risks, and how those risks are managed.

Definition of a Derivative

A derivative financial instrument is a contract or agreement whose value depends on (or derives from) the value of an underlying instrument, reference rate or index. As indicated above, derivatives are usually separated into three generic classes; forwards, options and swaps, although individual products may combine the features of more than one class. The principal features of each of these classes are summarised below.

Forward and Futures Contracts

Forward and futures contracts are contracts for delayed delivery of financial instruments in which the seller agrees to settle at a specified future date at a specified price or yield. A forward rate agreement is a confirmed agreement between two parties to exchange an interest rate differential on a notional principal amount at a given future date.

Options

Options are contracts that allow the holder of the option the right but not the obligation to purchase or sell a financial instrument at a specified price and within a specified period. Interest rate caps and floors are option contracts, and included as such in the disclosures below. They require the seller to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to the notional principal amount.

Swaps

Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying notional principal amount. A cross currency swap takes the form of an agreement to exchange one currency for another and to re-exchange the currencies at the maturity of the swap, using the same exchange rate, with the exchange of interest payments throughout the swap period.

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

Definition

Market risk of derivative financial instruments held or issued for trading purposes 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. Market risk is relevant to the Consolidated Entity's trading activities in which it primarily acts as an intermediary to satisfy customer needs. However, 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.

Derivative Financial Instruments Held or Issued for Trading Purposes

General Description of Activities

The Consolidated Entity 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 Consolidated Entity 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 gain or loss is recognised immediately in the profit and loss account.

Table 1 shows the fair value of all derivative instruments held or issued for trading and other than trading purposes as at September 30, 1998 and September 30, 1997, together with the average fair values that applied during those years. 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 Assets (Liabilities) Arising from Instruments Held or Issued.

Consolidated	Other Than Trading Fair Value[1]		Trading Fair Value[1]		Trading Average Fair Value	
For years ended September 30 *Dollars in Millions*	**1998**	1997	**1998**	1997	**1998**	1997
Foreign Exchange Rate Related Contracts						
Spot and forward contracts to purchase foreign exchange						
In a favourable position	**1,146**	511	**5,484**	3,944	**5,572**	2,995
In an unfavourable position	**(129)**	(105)	**(5,307)**	(4,451)	**(4,957)**	(3,115)
Cross currency swaps						
In a favourable position	**37**	62	**40**	30	**37**	41
In an unfavourable position	**(12)**	(12)	**(105)**	(77)	**(93)**	(54)
Futures	**–**	–	**–**	1	**1**	1
Options						
Purchased	**–**	–	**357**	136	**304**	47
Written	**–**	–	**(226)**	(108)	**(217)**	(57)
Total Foreign Exchange Rate Related Contracts	**1,042**	456	**243**	(525)	**647**	(142)
Interest Rate Related Contracts						
Forward rate agreements						
In a favourable position	**2**	–	**29**	20	**16**	20
In an unfavourable position	**(6)**	–	**(24)**	(19)	**(19)**	(18)
Swaps						
In a favourable position	**423**	261	**2,201**	1,375	**1,598**	908
In an unfavourable position	**(513)**	(420)	**(2,450)**	(1,717)	**(1,960)**	(1,197)
Futures	**106**	(1)	**(36)**	23	**(19)**	(1)
Options						
Purchased	**133**	1	**103**	35	**51**	20
Written	**–**	–	**(68)**	(22)	**(40)**	(15)
Total Interest Rate Related Contracts	**145**	(159)	**(245)**	(305)	**(373)**	(283)
Total	**1,187**	297	**(2)**	(830)	**274**	(425)

[1] *The positive fair value represents the credit risk to the Consolidated Entity if all the Consolidated Entity's counterparties were to default.*

Foreign Exchange Rate Related Contracts

The table shows that the bulk of fair value 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 twelve months.

The fair value of foreign exchange rate related contracts amounted to a net unrealised gain at September 30, 1998 of $243 million (1997: loss of $525 million). Total net realised and unrealised gains and losses on foreign exchange rate related contracts during the year totalled $367 million (1997: $145 million). Refer to Note 2.

Interest Rate Related Contracts

The table shows that the bulk of fair value is concentrated in interest rate swaps.

The fair value of interest rate related contracts amounted to a net unrealised loss at September 30, 1998 of $245 million (1997: loss of $305 million). Total net realised and unrealised gains and losses on both interest rate related contracts and physical securities, during the year totalled $7 million (1997: $124 million). Refer to Note 2.

Values at Risk

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 Consolidated Entity 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 Consolidated Entity manages volatility from market risk. Table 2 shows the Consolidated Entity'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 gains or losses across products and regions in which the Consolidated Entity operates.

Table 2: Values at Risk for physical and derivative positions

Consolidated	*Average Value During Reporting Period*		*Minimum Value During Reporting Period*		*Maximum Value During Reporting Period*	
For years ended September 30 Dollars in Millions	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*
Values at risk at a 95% confidence level						
Foreign exchange risk	**3**	2	**2**	1	**4**	3
Interest rate risk	**7**	5	**5**	4	**10**	7

Derivative Financial Instruments Held or Issued for Purposes Other Than Trading

General Description

The operations of the Consolidated Entity are subject to risk of interest rate fluctuations, to the extent that there is a difference between the amount of the Consolidated Entity'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.

Interest Rate Risk Analysis

The Consolidated Entity 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.

Anticipated Transactions

The Consolidated Entity 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 offshore controlled entities.

Table 3 shows the net deferred realised gains and losses arising from hedging contracts entered into 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

Consolidated	*Foreign Exchange Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 Dollars in Millions	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*
Within 6 Months	**–**	–	**(2)**	–	**(2)**	–
6 Months – 1 Year	**–**	–	**–**	–	**–**	–
1 – 2 Years	**–**	–	**–**	–	**–**	–
2 – 5 Years	**–**	–	**–**	–	**–**	–
After 5 Years	**–**	–	**664**	–	**664**	–
Total	**–**	–	**662**	–	**662**	–

Table 4 shows the net deferred gains and losses from hedging contracts entered into 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

Consolidated	*Foreign Exchange Rate Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 Dollars in Millions	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*
Within 6 Months	–	–	(1)	1	(1)	1
6 Months – 1 Year	–	–	(1)	–	(1)	–
1 – 2 Years	–	–	–	–	–	–
2 – 5 Years	–	–	–	–	–	–
After 5 Years	–	–	–	–	–	–
Total	–	–	(2)	1	(2)	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 Consolidated Entity 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 Consolidated Entity. 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 Consolidated Entity which create a potential for credit risk.

The Consolidated Entity's credit exposure has been determined in accordance with the Australian Prudential Regulation Authority's 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 as at September 30, 1998 and September 30, 1997. 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.

Credit risk is constantly assessed, measured and managed in strict accordance with the Bank's risk management policies. Member banks of the Consolidated Entity 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.

Table 5: Notional Principal, Estimated Credit Equivalent and Fair Value of all Derivative Financial Instruments

Consolidated	*Notional Principal*		*Credit Equivalent*		*Fair Value*		*Average Fair Value*[2]	
As at September 30 Dollars in Millions	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*
Foreign Exchange Rate Related Contracts								
Spot and forward contracts to purchase foreign exchange[1]								
Trading	**209,856**	211,510	**7,121**	5,752	**177**	(507)	**615**	(120)
Other than trading	**25,495**	23,974	**1,241**	586	**1,017**	406		
Total Foreign Exchange	**235,351**	235,484	**8,362**	6,338	**1,194**	(101)	**615**	(120)
Cross currency swaps[1]								
Trading	**6,164**	4,904	**457**	245	**(65)**	(47)	**(56)**	(13)
Other than trading	**3,571**	1,359	**103**	106	**25**	50		
Total Cross Currency Swaps	**9,735**	6,263	**560**	351	**(40)**	3	**(56)**	(13)
Total Futures Trading	**216**	196	**–**	–	**–**	1	**1**	1
Options								
Trading	**13,740**	12,386	**393**	207	**131**	28	**87**	(10)
Other than trading	**–**	–	**–**	–	**–**	–		
Total Options	**13,740**	12,386	**393**	207	**131**	28	**87**	(10)
Total Foreign Exchange Rate Related Contracts	**259,042**	254,329	**9,315**	6,896	**1,285**	(69)	**647**	(142)

[1] 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.

[2] Average fair values of other than trading contracts are not captured.

Consolidated	*Notional Principal*		*Credit Equivalent*		*Fair Value*		*Average Fair Value*[(2)]	
As at September 30 Dollars in Millions	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*
Interest Rate Related Contracts								
Forward rate agreements								
Trading	**33,241**	41,880	**32**	61	**5**	1	**(3)**	2
Other than trading	**2,604**	1,544	**5**	–	**(4)**	–		
Total Forward Rate Agreements	**35,845**	43,424	**37**	61	**1**	1	**(3)**	2
Swaps								
Trading	**156,481**	96,181	**3,206**	1,849	**(249)**	(342)	**(362)**	(289)
Other than trading	**22,244**	22,191	**309**	185	**(90)**	(159)		
Total Swaps	**178,725**	118,372	**3,515**	2,034	**(339)**	(501)	**(362)**	(289)
Futures								
Trading	**99,194**	90,322	**–**	–	**(36)**	23	**(19)**	(1)
Other than trading	**10,131**	1,265	**–**	–	**106**	(1)		
Total Futures	**109,325**	91,587	**–**	–	**70**	22	**(19)**	(1)
Options								
Trading	**68,493**	86,580	**121**	50	**35**	13	**11**	5
Other than trading	**16,718**	137	**10**	5	**133**	1		
Total Options	**85,211**	86,717	**131**	55	**168**	14	**11**	5
Total Interest Rate Related Contracts	**409,106**	340,100	**3,683**	2,150	**(100)**	(464)	**(373)**	(283)
Other Index Related Contracts								
Swaps								
Other than trading	**11**	12	**–**	–	**–**	–		
Total Index Related Contracts	**11**	12	**–**	–	**–**	–		
Total	**668,159**	594,441	**12,998**	9,046	**1,185**	(533)	**274**	(425)

(1) 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.

(2) Average fair values of other than trading contracts are not captured.

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. It shows that 66% (1997: 72%) of the exposure is confined to maturities of one year or less and 89% (1997: 94%) matures within five years.

Table 6: Maturity Profile of Total Derivative Financial Instruments Counterparty Exposure by Credit Equivalent Amounts

Consolidated	*Foreign Exchange Rate Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 Dollars in Millions	***1998***	*1997*	***1998***	*1997*	***1998***	*1997*
Within 6 Months	**5,237**	4,259	**297**	121	**5,534**	4,380
6 Months – 1 Year	**2,537**	1,911	**540**	244	**3,077**	2,155
1 – 2 Years	**626**	449	**522**	476	**1,148**	925
2 – 5 Years	**597**	213	**1,183**	828	**1,780**	1,041
After 5 Years	**318**	64	**1,141**	481	**1,459**	545
Total	**9,315**	6,896	**3,683**	2,150	**12,998**	9,046

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 Consolidated Entity'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. It shows that 67% (1997: 75%) of credit exposure is to government authorities and other financial institutions. In excess of 91% (1997: 94%) of the Consolidated Entity's derivative financial instruments outstandings in terms of the credit equivalent are to customers with a credit rating of investment grade or above under the Consolidated Entity's loan grading system.

Table 7: Credit Equivalent of Derivative Financial Instruments Allocated to the Sectors and Geographic Locations of the Ultimate Obligors

Consolidated	*Governments*	*Banks*	*Non Bank Financial Institutions*	*Corporate and All Other Sectors*	*Total*
As at September 30, 1998					
Dollars in Millions					
Australia	433	3,949	584	2,543	7,509
Europe	–	1,848	30	119	1,997
New Zealand	9	288	3	419	719
United States of America	–	137	70	11	218
Asia	–	2,073	288	194	2,555
Total	442	8,295	975	3,286	12,998

Liquidity Risk

Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will force the Consolidated Entity 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 Consolidated Entity concentrates its derivative activity in highly liquid markets. Table 5, for example, shows that approximately 51% (1997: 55%) 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 clients. 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 Consolidated Entity hedges the risks of customised swap structures by using a combination of other 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 (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 Consolidated Entity would not be forced to compete for ever diminishing liquidity in order to dispose of, or hedge, its existing positions.

40 Fair value of financial instruments

Disclosed below is the estimated fair value of the Consolidated Entity's financial instruments presented in accordance with the requirements of Statement of Financial Accounting Standards No. 107 (SFAS 107), issued by the Financial Accounting Standards Board of the United States of America.

A financial instrument is defined by SFAS 107 as cash, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver to or receive cash or another financial instrument from a second entity on potentially favourable or unfavourable terms.

The following disclosures include all financial instruments other than items exempted from the provisions of the standard such as leases, controlled and associated entity investments and pension fund obligations. The disclosures also exclude the effect of any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax consequences, estimated transaction costs that may result from bulk sales or the relationships that may exist between various financial instruments.

There are various limitations inherent in this disclosure. First, it excludes a wide range of intangible, franchise and relationship benefits which are integral to a full assessment of the Consolidated Entity's financial position and the value of its net assets. Of prime significance among these exclusions, is the inability to assign a premium to non-interest bearing and call (ie. current account) deposits, notwithstanding that such deposits represent a stable source of long term funding to the Consolidated Entity. The value of that premium is positively correlated with interest rates – it increases as interest rates rise. However, an interest rate rise will adversely affect the valuation of those longer term fixed rate financial assets which are, in part, funded by those deposits. Therefore, in the absence of any recorded increase in the premium value of such deposits, SFAS 107 disclosures will tend to indicate an interest rate sensitivity within the Consolidated Entity which in reality may not exist.

Additionally, some items are excluded from the SFAS 107 requirements even where they may be bought and sold in the market. For example, the intangible value of credit card relationships represent the value attributable to a credit card customer base, and are based on the expected duration of customer relationships. Recorded sales of credit card receivables in other entities indicate that this intangible carries significant premium market value. This market value has not been recognised in the disclosure below.

Furthermore, the valuation of other loans and deposits which, as explained below, generally involved the use of discounted cash flow techniques takes no account of the value to the Consolidated Entity of the customer relationships so formed and on which the Consolidated Entity's continued financial health depends.

Finally, although management has employed its best judgment in the estimation of fair values, there is inevitably a significant element of subjectivity involved in the calculations. This is particularly so in the case of those financial instruments which are non performing or which, like the majority of the Consolidated Entity's financial assets and liabilities, have a thin or non existent market. Therefore, the fair value estimates presented below are not necessarily indicative of the amounts the Consolidated Entity could have realised in a sales transaction at September 30.

Methodologies

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

Liquid assets

The carrying values of certain on-balance sheet financial instruments approximate fair values. These include cash and short term liquid assets, due to and from other financial institutions, acceptances outstanding and customers' acceptance liability, and accrued interest receivable and payable. These financial instruments are short term in nature and the related amounts approximate fair value or are receivable or payable on demand.

Debt securities

The fair values of Trading, Investment, and Available for Sale securities, together with any related hedge contracts where applicable, are based on quoted market prices at September 30.

Loans and advances

The fair value of loans and advances that reprice within six months of balance date is assumed to equate to the carrying value. The fair value of all other loans and advances were calculated using discounted cash flow models based on the maturity of the loans. The discount rates applied in this exercise were based on the current interest rates of similar types of loans, if the loans were performing at reporting date.

Mortgage loans held for sale

The fair value of mortgage loans held for sale is based on the sale contract prices or if not committed for sale, the current market price.

Mortgage servicing rights

The fair value of mortgage servicing rights is 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.

Shares in entities and other securities

The fair value of shares in entities and other securities was based on quoted market prices where available. Where quoted market prices did not exist, the fair values were estimated after taking into account the underlying financial position of the investee or quoted market prices for similar instruments.

Regulatory deposits

The Consolidated Entity is required by law, in several of the countries in which it operates, to lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that 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 table for Australian reporting purposes.

Deposits and other borrowings

As noted above, the 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 fair value of other term deposits was calculated using discounted cash flow models, based on the deposit type and its related maturity.

Bonds, notes and subordinated debt/other debt issues

The fair value of bonds, notes and subordinated debt was 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 instrument was used.

The fair value of off-balance sheet financial instruments that qualify as accounting hedges for the Consolidated Entity's long term debt was included in the fair value amount of the hedged debt.

Commitments to extend credit, letters of credit and guarantees, warranties and indemnities issued

These financial instruments are generally not sold nor traded and estimated fair values are not readily ascertainable. Fair value of these items was not calculated for the following reasons. First, very few of the commitments extending beyond six months would commit the Consolidated Entity to a predetermined rate of interest. Secondly, 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.

Other off-balance sheet financial instruments

The fair values of 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 fair values of these instruments are disclosed in Note 39, 'Derivative Financial Instruments' on page 135.

Summary

The following table provides comparison of carrying and fair values for each item discussed above, where applicable.

	Carrying Value[1]	*Fair Value*[2]	*Carrying Value*[1]	*Fair Value*[2]
As at September 30	***1998***		*1997*	
Dollars in Millions				
Financial Assets				
Liquid assets	**4,152**	**4,152**	4,454	4,454
Due from other financial institutions	**9,303**	**9,303**	10,360	10,360
Due from customers on acceptances	**22,353**	**22,353**	19,605	19,605
Debt securities	**22,108**	**22,172**	19,250	19,338
Loans and advances	**150,789**	**153,166**	124,177	124,121
Mortgage loans held for sale	**3,473**	**4,996**	–	–
Mortgage servicing rights	**2,998**	**3,197**	–	–
Regulatory deposits[3]	**1,155**	**1,155**	1,016	1,016
Lease finance[3]	**10,050**	**10,041**	7,335	7,341
Shares in entities and other securities	**1,013**	**1,111**	280	300
Total Financial Assets	**227,394**	**231,646**	186,477	186,535
Financial Liabilities				
Due to other financial institutions	**16,541**	**16,541**	12,746	12,746
Liability on acceptances	**22,353**	**22,353**	19,605	19,605
Deposits and other borrowings	**158,084**	**159,589**	128,469	128,618
Bonds, notes and subordinated debt	**15,115**	**15,259**	9,569	9,687
Other debt issues	**1,683**	**2,173**	1,609	1,582
Total Financial Liabilities	**213,776**	**215,915**	171,998	172,238

(1) *The credit risk on financial assets of the Consolidated Entity is their carrying value as listed above.*

(2) *The net fair value of the financial assets and financial liabilities are materially the same as the fair values disclosed above.*

(3) *For the purposes of SFAS 107 disclosures of lease finance and regulatory deposits are excluded from the definition of financial asset and have been included in this table for Australian reporting purposes.*

41 Superannuation commitments

The Consolidated Entity sponsors a range of superannuation funds for employees which principally offer two types of benefits:

a) defined benefits which provide a pension with the option of commutation of part of the pension on retirement; and

b) 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 Consolidated Entity'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 Consolidated Entity are obliged to contribute sufficiently to cover specified minimum benefit levels. These obligations are legally enforceable. The relevant trust deed allows for the permanent cessation of these contributions. Member and employer contributions are calculated as percentages of members salaries or wages. In the case of some funds, member contributions are not required.

The Consolidated Entity contributed $87 million in respect of all superannuation funds for the year ended September 30, 1998 (1997: $106 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.

Listed below are details of the major funds with total assets in excess of $10 million. The accrued benefits, plan assets at net market value, net surplus and vested benefits of these funds (converted as at September 30, 1998 exchange rates) were:

Name of Fund *Dollars in Millions*		*1998*				*1997*			
Defined Benefit Funds	*Last Assessment Date and Actuary Name*	*Accrued Benefits*	*Plan Assets*	*Net Surplus*	*Vested Benefits*	*Accrued Benefits*	*Plan Assets*	*Net Surplus*	*Vested Benefits*
National Australia Bank Group Superannuation Fund A[(1)]	September 30, 1997 Mr. SJ Schubert FIA, FIAA	**1,449**	**1,559**	**110**	**1,208**	1,124	1,648	524	1,220
Clydesdale Bank Pension Scheme[(2)]	June 30, 1998 Watson Wyatt Partners Consulting Actuaries	**1,376**	**1,644**	**268**	**1,213**	925	1,088	163	828
Northern Bank Pension Scheme[(2)]	June 30, 1998 Watson Wyatt Partners Consulting Actuaries	**891**	**1,305**	**414**	**842**	600	893	293	551
National Irish Bank Pension Scheme[(2)]	June 30, 1998 Watson Wyatt Partners Consulting Actuaries	**244**	**368**	**124**	**171**	166	249	83	123
National Australia Bank UK Retirement Benefits Plan[(2)(3)]	June 30, 1998 Watson Wyatt Partners Consulting Actuaries	**86**	**89**	**3**	**75**	47	51	4	40
Yorkshire Bank Pension Scheme[(2)]	June 30, 1998 Watson Wyatt Partners Consulting Actuaries	**1,121**	**1,678**	**557**	**954**	712	1,144	432	595
Bank of New Zealand Officers Provident Association[(4)]	October 31, 1997 William M Mercer Ltd Consulting Actuaries	**168**	**272**	**104**	**166**	206	306	100	204
Michigan National Corporation Pension Scheme[(5)]	September 30, 1998 William M Mercer Ltd Consulting Actuaries	**189**	**212**	**23**	**147**	132	158	26	97
Total Defined Benefit Funds		**5,524**	**7,127**	**1,603**	**4,776**	3,912	5,537	1,625	3,658

(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 September 30, 1997. Plan Assets and Vested Benefits are as at September 30, 1998. The majority of the surplus relates to the members fluctuation reserve which does not pertain to the employer.

(2) Accrued Benefits, Plan Assets and Vested Benefits are at the date of the last actuarial assessment, which was June 30, 1998. Comparative amounts are as at the actuarial assessment date of June 30, 1997.

(3) Employees working for National Australia Bank, National Australia Group, National Australia Group Services and National Australia Life Services 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 for the Plan are as at the date of the last actuarial assessment which was September 30, 1998.

As at September 30 *Dollars in Millions*	*Consolidated* **1998**	*Consolidated* *1997*	*The Company* **1998**	*The Company* *1997*

42 Operating lease commitments

Estimated minimum lease commitments:				
Due within 1 year	**284**	231	**179**	161
Due within 1–2 years	**226**	159	**131**	95
Due within 2–3 years	**188**	139	**109**	78
Due within 3–4 years	**153**	122	**82**	66
Due within 4–5 years	**120**	98	**54**	46
Due after 5 years	**1,154**	790	**203**	30
Total Operating Lease Commitments[(1)(2)(3)]	**2,125**	1,539	**758**	476
Commitments by type:				
Commercial and residential buildings	**2,052**	1,465	**710**	403
Data processing and other equipment	**73**	74	**48**	73
	2,125	1,539	**758**	476

[(1)] *Figures include liabilities taken up for surplus leased space and lease incentives.*

[(2)] *Includes non-cancellable operating lease commitments consisting of:*

Due within 1 year	**81**	64	**–**	–
Due within 1–2 years	**75**	60	**–**	–
Due within 2–3 years	**66**	57	**–**	–
Due within 3–4 years	**60**	52	**–**	–
Due within 4–5 years	**54**	48	**–**	–
Due after 5 years	**847**	693	**–**	–
Total Non-cancellable Operating Lease Commitments	**1,183**	974	**–**	–

[(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 ten years for major properties. There is no ongoing involvement in the properties other than rental payments.*

43 Capital expenditure commitments

Land and buildings				
Due within 1 year	**5**	32	**–**	20
Due within 2–5 years	**–**	1	**–**	–
Data processing and other equipment				
Due within 1 year	**17**	45	**–**	38
Total Capital Expenditure Commitments	**22**	78	**–**	58

44 Financing arrangements

	Consolidated			
	Amount Accessible	*Amount Unused*	*Amount Accessible*	*Amount Unused*
	September 1998		*September 1997*	
The Company and other controlled entities have access to the following financing arrangements:				
Standby lines of credit	**2,528**	**2,528**	259	259
	2,528	**2,528**	259	259

The standby line of credit facility available at September 30, 1998 is subject to an expiry date of February 14, 2000.

45 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 Consolidated Entity, 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 in the balance sheet of the Company.

Directors of the Company who have held office during the financial year:

DCK Allen
DR Argus
FJ Cicutto
PJW Cottrell
CM Deeley
GJ Kraehe
BT Loton
DK Macfarlane
T P Park
MR Rayner
ED Tweddell
CM Walter
Sir Bruce Watson

Details of remuneration paid or payable to these Directors and Directors of related entities, are set out in the Report of the Directors and Note 46. Australian banks and the Australian parent entities of Australian banks have been exempted under Australian Securities and Investment Commission Class Order 98/0110 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 Investment Commission. The declaration must provide confirmation that the Company has instigated 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 accounts.

The Company will lodge such a declaration with its annual return to the Australian Securities and Investment Commission for the year ended September 30, 1998.

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 Consolidated Entity.

Under the Class Order referred to above, disclosure is limited to the aggregate amount of loans made or guaranteed by:
(i) the Company and its controlled entities to Directors of all entities within the Consolidated Entity, and
(ii) controlled non-banking entities to the related parties of Directors of all entities within the Consolidated Entity.

The aggregate amounts of such loans made, repayments received and amounts outstanding were:

	Consolidated		*The Company*	
Dollars in Thousands	***1998***	*1997*	***1998***	*1997*
Balance outstanding at September 30	**42,421**	23,052	**420**	–
Loans made during the year				
– Normal terms and conditions	**20,309**	4,744	**120**	–
– Employee terms and conditions	**4,336**	2,836	**–**	–
Repayments received during the year				
– Normal terms and conditions	**14,625**	2,992	**–**	–
– Employee terms and conditions	**5,489**	4,723	**–**	–

	Consolidated 1998	Consolidated 1997
DCK Allen	–	1,2,3
JO Anderson	1,2,4	2,4
MT Anderson	1,3,4	–
G Armbruster	1,2,3,4	1,2,3,4
AMR Aynsley	2,3	1,2,3
DA Baillie	1,2,4	2,4
BA Baker	1,2,4	1,2,4
I Ballard	2,3,4	1,2,3,4
SD Barbour	1,2,3	–
GLL Barnes	1,2,4	1,2,4
JK Berry	1,2,4	1,2,4
NR Berryman	1,2,4	2,4
ND Birrell	1,4	–
CJ Black	1,2,4	–
WB Black	1,2,3	–
TG Blake	2,4	2,4
RK Both	2,4	–
RC Bowden	2,4	2,4
RK Boyce	1,3	2,3
PP Boyle	2,3,4	1,2,3,4
CW Breeze	–	2,3
JF Brennan	2,4	2,4
R Briers	1,2,3	2,3
MM Brown	2,4	2,4
RC Brown	1,2,4	–
PM Buckton	2,4	2,4
POA Byrne	2,3,4	1,2,3,4
WH Byrne	1,2,3	–
RJ Caldwell	1,2,4	1,2,4
CR Campbell	2,4	–
WJE Canning	1,2,3,4	2,3,4
JS Carton	2,3	2,3
BT Case	3	3
AJ Casey	2,3,4	1,2,3,4
MA Cassino	4	4
FJ Cicutto	3	1,2,3
A Clarke	1,2,3,4	2,3,4
PM Conacher	2,4	2,4
J Cook	1,3	–
IL Coulson	1,2,3,4	2,3,4
KF Courtney	1,3	–
DD Cowlishaw	1,2,3,4	–
PA Crutchley	2,4	1,2,4
GG Cullen	–	1,2,4
SJ Cushing	2,3	–
MS Darling	2,3	1,2,3
R Day	2,4	–
DG Devonport	1,3	–
RR Dobbins	2,3	1,2,3
BG Donhardt	1,2,4	–
J Donlon	2,3	2,3
WK Doonan	2,4	2,4
AJ Douglas	4	2,4
MC Dowland	1,2,4	–
CW Duncan	2,3,4	1,2,3,4
DE Ebert	2,3	1,2,3
MM Elliott	1,2,3	2,3

	Consolidated 1998	Consolidated 1997
BG Everitt	2,4	2,4
PG Flavel	1,3	1,2,3
J Foley	2,3,4	2,3,4
SE Forbes	1,3	–
HG Ford	1,2,3	–
NJ Frost	1,2,4	–
DT Gallagher	2,4	2,4
IH Gill	2,4	2,4
M Gilligan	2,3,4	3,4
P Gilligan	1,3,4	1,3,4
PR Goldsbrough	2,4	2,4
DA Grubb	1,2,3,4	2,3,4
AG Haintz	4	4
CK Hall	2,3	3
P Halpin	2,3,4	2,3,4
GR Hamilton	4	4
AR Hart	1,2,4	–
P Harty	2,4	2,4
A Haslam	1,2,4	1,2,4
L Healy	–	1,2,3
DJ Heaney	1,2,4	1,2,4
JJ Henson	1,2,4	–
EM Hetherington	1,2,3,4	1,2,3,4
DC Holden	1,2,4	–
TM Howard	2,4	1,2,4
G Hunt	2,3,4	2,3,4
JC Hurst	2,4	2,4
RJ Hutchinson	1,2,3,4	–
GA Hyde	1,2,4	2,4
JJ Inglis	1,2,3,4	1,2,3
PA Jeffries	1,2,3	–
MF Johnstone	2,4	2,4
DC Jones	1,4	–
LS Jones	1,2,3	–
T Keefe	1,2,4	2,4
BM Kelly	2,3	2,3
DS Kelly	1,2,3	–
MA King	1,3	–
IS Knowles	1,2,4	–
V Koh Yoke Har	1,4	1,2,4
IS Knowles	1,2,4	–
GJ Kraehe	1,3	–
DM Krasnostein	1,2,3,4	1,3
PAK Laband	1,2,4	1,4
J Lacey	–	2
MT Laing	2,3,4	1,2,3,4
KJ Lawford	–	2,4
DIW Lawson	1,2,3,4	1,2,3,4
BR Lenz	1,2,4	–
SP Littlebury	1,2,4	2,4
D Loftus	–	2,4
EA Lomas	2,3	–
NV Lucas	2,4	1,2,4
AD MacDonald	2,4	1,2,4
IG MacDonald	4	4
C Macek	1,2,4	–
B MacKay	2,4	3

	Consolidated 1998	Consolidated 1997
JT Macken	1,2,4	1,2,4
RF Matrenza	2,4	2,4
TJ Matthews	2,3,4	1,2,3,4
IG Mattiske	1,4	2,4
D Maull	2,4	2,4
BS McComish	2,3	1,2,3,4
M McCormick	2,3,4	2,3,4
J McDonald	2,3,4	2,3,4
P McGrath	4	2,4
TD McKee	2,4	2,4
B McKenzie	1,3,4	–
RA McKimm	1,2,3	–
RE McKinnon	1,2,4	–
DC Mead	1,2,4	1,2,4
S Melia	1,2,4	–
JB Meyer	2,3	2,3
RB Miller	1,2,4	2,4
JD Moir	2,3	3
RI Montgomery	2,4	2,4
LE Moon	1,2,3	–
C Moore	4	1,2,4
MJ Moorhouse	2,4	2,4
RJ Murphy	1,2,3,4	–
FL Nelson	2,3	1,2,3
WR Nixon	1,2,4	1,2,4
GF Nolan	1,2,4	1,2,4
S O'Connor	3	2,3
AJ O'Grady	1,2,4	2,4
P O'Sullivan Lacy	1,2,3,4	1,2,4
M Oliver	–	2,4
DN Parry	2,4	–
GR Pellett	1,2,3,4	2,3,4
WN Peters	2,3,4	2,3,4
WF Pickard	1,2,3	–
MA Pinder	1,2,3,4	1,2,4
RP Pinney	1,2,3,4	1,2,3,4
RH Polkinghorne	1,2,3,4	1,2,4
I Porter	1,2,4	2,4
RMC Prowse	1,2,4	4
JE Queen	1,2,3,4	2,4
CA Russell	2,4	2,4
TC Rutland	1,2,4	–
LR Ryan	2,4	1,2,4
Lord Sanderson of Bowden	–	1,2,3
G Savage	2,3,4	1,2,4
RG Scholes–Robertson	1,2,3	1,2,3
RR Schwarzlose	1,2,4	–
AL Sedgwick	2,4	–
PJ Senior	2,4	2,4
MR Shaw	1,2,3,4	2,3,4
MD Soden	2,4	2,4
AJ Spain	–	2,3
JE Stevenson	2,4	2,4
AA Stewart	1,2,4	2,4
JD Storey	2,3	1,2,3
EJ Talbot	2,3	–
GA Targett	–	2,4

	Consolidated			Consolidated			Consolidated	
	1998	*1997*		*1998*	*1997*		*1998*	*1997*
JD Taylor	1,4	1,2,3,4	DJ Tuck	2,3	2,3	RC Webb	2,3	–
TS Tennent	1,2,4	–	RE Unger	2,4	2,4	GJ Wheaton	2,3	2,3
PL Thodey	2,4	–	J Urwin	2,4	–	G Willcock	2,4	2,4
PJS Thomas	1,2,4	–	SA Van Andel	2,3	3	OA Wilhelm	2,4	–
AC Thomson	1,2,3	1,2,3	O Vanzuyden	2,3	2,3	GD Willis	2,4	2,4
H Thomson	2,3,4	1,2,3,4	JD Walmsley	2,3,4	1,2,3,4	S Wright	2,4	1,2,4
J Treloar	1,2,4	2,4	P Weanie	2,4	2,4	NL Youren	1,2,3	–

(1) Loan made to this person during the year. Refer to page 146 for aggregate amounts.

(2) Repayment made by this person during the year. Refer to page 146 for aggregate amounts.

(3) Loan made in ordinary course of business on commercial terms and conditions. Refer to page 146 for aggregate amounts.

(4) Loan made on employee terms and conditions. Refer to page 146 for aggregate amounts.

Loans made by the Consolidated Entity in 1998 and 1997 to Directors, or to any associate of such persons, as defined by the Securities & Exchange Commission of the United States of America, at no time exceeded 5% of shareholders' equity.

Shares and share options of Directors

The aggregate number of shares and share options issued during the years ended September 30, 1998 and September 30, 1997 by the Company, including shares issued under the Dividend Reinvestment Plan, the Bonus Share Plan, the UK Dividend Plan and, where applicable, the Employee Share Scheme and Executive Option Plan, to Directors of the Company and to parties related to them were as follows:

	The Company	
	1998 No.	1997 No.
Ordinary shares of $1.00 each, fully paid	**19,585**	2,007
Share options over ordinary shares of $1.00 each	**500,000**	300,000

Shares disposed of by Directors of the Company and by parties related to them during the year ended September 30, 1998 totalled nil (1997: 300,000 shares). Share options exercised by Directors of the Company and by parties related to them during the year ended September 30, 1998 totalled 100,000 (1997: 300,000).

The aggregate number of shares and share options held directly, indirectly or beneficially by Directors of the Company and by parties related to them at September 30, 1998 and September 30, 1997 were as follows:

	The Company	
	1998 No.	1997 No.
Ordinary shares of $1.00 each, fully paid	**337,569**	380,831
Share options over ordinary shares of $1.00 each	**2,300,000**	1,200,000

All these transactions were conducted on the same terms and conditions applicable to all ordinary shareholders or, where applicable, to all employees of the Company under the Employee Share Scheme.

Other transactions of Directors

Directors and director related parties have acquired personal investments, including contributions to superannuation products, and used motor vehicles from controlled entities during the year. These transactions are within normal customer relationships on terms and conditions no more favourable than those available to customers.

1. Directors of Eden Vehicle Rentals Ltd (EVR), Mr M Gilligan and Mr P Gilligan are also Directors of the County Garage Group of Companies (CG) who are motor vehicle traders. CG owns 25% of the issued capital of EVR. During the year CG entered into transactions with EVR involving the supply of new cars (total amount paid: $21,329,200) (1997: $18,471,546), disposal of used cars (total amount received $22,049,750, commission paid of $1,982,923) (1997: $14,400,789 and $1,147,176 respectively), rental of property (total amount paid $26,827) (1997: $27,843) and service and repair work (total amount paid : $620,603) (1997: $450,471). All transactions with CG were in the ordinary course of business and were on normal terms and conditions.
2. A Director of Michigan National Corporation (MNC), Mr S Forbes is a Partner in FCN Associates, a general partnership. FCN Associates has a majority ownership interest in an office building in which a subsidiary of MNC was a tenant. During the year the total rental paid for this tenancy was $1,382,010 (1997: $1,783,123). In the prior year, MNC entered into an agreement to partially terminate the tenancy and made a one off payment of $175,775 to FCN Associates. All transactions with FCN Associates were in the ordinary course of business and on normal terms and conditions.
3. A former Director of MNC, Mr R Dobbins (resigned December 11, 1997) is a Director in OmniCare Health Plan. Health insurance premiums paid to OmniCare Health Plan by MNC during the year were $128,250 (1997: $130,159). All transactions with OmniCare Health Plan were in the ordinary course of business and on normal terms and conditions.

4. Directors of Nautilus Insurance Pty Ltd (Nautilus), Mr RW Bovill, Mr G Tarabaras (resigned January 23, 1998) and Mr BD Peele (appointed January 23, 1998), are/were also Directors of Sedgwick Management Services Pty Ltd (SMS). This company provides management services to Nautilus. During the year, the total amount paid for management services was $119,776 (1997: $113,898). All transactions with SMS were in the ordinary course of business and on normal terms and conditions.
5. A Director of Swychco Infrastructure Services Pty Ltd (Swychco), Mr I Shepherd is also a Director of The Partnership Group Pty Ltd. This company provides management services to Swychco. During the year, the total amount paid for management services was $300,000 (1997: $223,500). All transactions with The Partnership Group Pty Ltd were in the ordinary course of business and on normal terms and conditions.
6. A Director of National Australia Trustees Ltd, Mr M J Sharpe was also a Partner in the firm of Coopers & Lybrand, Chartered Accountants, for the period to March 31, 1998. During this period, Coopers & Lybrand rendered accounting services to the Group. The total amount paid for accounting services was $2,797,898 (1997: $294,841). All transactions with Coopers & Lybrand were in the ordinary course of business and on normal terms and conditions.

Controlled entities

Refer to Note 17 for details of the Company's investment in controlled entities. Refer to Note 37 for details of controlled entities.

Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in Note 2.

In the context of the Consolidated Entity's operations, the Directors do not consider it practicable to collate details of dealings with related parties 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 Consolidated Entity. These are set out in Note 38.

46 Remuneration of Directors

Total income paid or payable, or otherwise made available, to all Directors of the Company and each entity in the Consolidated Entity, directly or indirectly, by the Company or any related party consist of the following:

	Consolidated		*The Company*	
For years ended September 30 *Dollars in Thousands*	***1998***	*1997*	***1998***	*1997*
Salary package	**7,695**	5,325	**2,929**	2,575
Performance based bonuses[1]	**1,990**	1,071	**1,000**	500
Other benefits	**3,509**	3,868	**747**	2,319
Total Remuneration	**13,194**	10,264	**4,676**	5,394

[1] Represents bonuses paid in respect of prior year performance.

Options issued during the year to Executive Directors under the Executive Option Plan have an exercise price equivalent to the market value of the Company's ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be nil. Refer to Note 32 for details of all options issued under the Executive Option Plan.

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:

Remuneration	*The Company*			*The Company*	
(Dollars)	*1998*	*1997*		*1998*	*1997*
0 – 10,000	–	1	170,001 – 180,000	1	–
40,001 – 50,000	1	–	180,001 – 190,000	1	–
80,001 – 90,000	2	5	220,001 – 230,000	*1	–
100,001 – 110,000	1	1	280,001 – 290,000	1	–
110,001 – 120,000	–	1	330,001 – 340,000	–	*1
120,001 – 130,000	1	1	370,001 – 380,000	*1	–
130,001 – 140,000	2	–	1,890,001 – 1,900,000	–	1
150,001 – 160,000	–	*1	2,070,001 – 2,080,000	–	*1
160,001 – 170,000	–	1	2,700,001 – 2,710,000	1	–
Total number of Directors				13	14

** Includes retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

Agreements between the Company and Non-Executive Directors provide that, upon and in 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 in accordance with the following table. Such amounts are included in Directors' remuneration.

Period of Service	*Amount of Retirement Benefit*
Less than 15 years	One third of the average yearly emoluments paid by the Company to the Director: (a) during the last 3 years of service; or (b) when the period of such service is less than 3 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 or more years	Five times the average yearly emoluments paid by the Company to the Director during the last 3 years of service as a non-executive Director.

The Company's Constitution provides that the non-executive Directors shall be paid out of the funds of the Company an aggregate sum to be fixed by the Company in general meetings from time to time in respect of their salary package. At the Annual General Meeting held on January 25, 1996 this sum was set by shareholders at $1,750,000, such sum being divided among the Directors as they may agree.

47 Remuneration of Executives

Executives' remuneration received or due and receivable, directly or indirectly, by Executives of the Company and controlled entities from the Company and related parties consists of the following:

	Consolidated		*The Company*	
For years ended September 30 *Dollars in Thousands*	***1998***	*1997*	***1998***	*1997*
Salary package	**23,287**	18,078	**21,964**	17,061
Performance based bonuses[(1)]	**7,666**	4,020	**7,218**	3,722
Other benefits	**10,552**	2,197	**10,486**	2,140
Total Remuneration	**41,505**	24,295	**39,668**	22,923

[(1)] *Represents bonuses paid in respect of prior year performance.*

Options issued during the year to executives under the Executive Option Plans have an exercise price equivalent to the market value of the Company's ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be nil. Refer to Note 32 for details of all options issued under the Executive Option Plans.

The table which follows shows the number of executives of the Company and controlled entities who work wholly or mainly within Australia receiving gross remuneration in each of the ranges stated from the Company and related bodies corporate:

Remuneration	*Consolidated*		*The Company*			*Consolidated*		*The Company*	
(Dollars)	***1998***	*1997*	***1998***	*1997*		***1998***	*1997*	***1998***	*1997*
110,001 – 120,000	2	–	2	–	480,001 – 490,000	1	–	1	–
120,001 – 130,000	1	–	1	–	500,001 – 510,000	1	–	1	–
140,001 – 150,000	–	3	–	3	510,001 – 520,000	*2	–	*2	–
150,001 – 160,000	2	–	2	–	520,001 – 530,000	1	–	1	–
160,001 – 170,000	*1	–	*1	–	560,001 – 570,000	–	2	–	2
170,001 – 180,000	2	1	2	1	570,001 – 580,000	2	–	2	–
180,001 – 190,000	–	1	–	1	580,001 – 590,000	–	2	–	2
190,001 – 200,000	2	2	2	2	600,001 – 610,000	*1	1	*1	1
200,001 – 210,000	1	1	–	1	630,001 – 640,000	–	1	–	1
210,001 – 220,000	2	1	2	1	650,001 – 660,000	–	2	–	2
220,001 – 230,000	2	2	2	1	680,001 – 690,000	–	1	–	1
230,001 – 240,000	1	3	1	3	700,001 – 710,000	*1	–	*1	–
240,001 – 250,000	1	4	1	3	720,001 – 730,000	1	–	1	–
250,001 – 260,000	*2	*1	*2	*1	740,001 – 750,000	2	–	1	–
260,001 – 270,000	*4	1	*3	1	780,001 – 790,000	*1	–	*1	–
270,001 – 280,000	1	*1	1	*1	830,001 – 840,000	*1	–	*1	–
280,001 – 290,000	2	1	1	1	840,001 – 850,000	–	1	–	1
290,001 – 300,000	1	3	1	3	850,001 – 860,000	1	–	1	–
300,001 – 310,000	*3	2	*3	2	890,001 – 900,000	–	1	–	1
310,001 – 320,000	*3	2	*3	2	900,001 – 910,000	–	1	–	1
320,001 – 330,000	1	–	1	–	930,001 – 940,000	*1	–	*1	–
330,001 – 340,000	2	2	1	2	990,001 – 1,000,000	–	1	–	1
340,001 – 350,000	1	1	1	1	1,000,001 – 1,010,000	1	–	1	–
350,001 – 360,000	1	1	1	1	1,020,001 – 1,030,000	1	–	1	–
360,001 – 370,000	2	–	2	–	1,150,001 – 1,160,000	1	–	1	–
370,001 – 380,000	2	*2	2	*2	1,510,001 – 1,520,000	*1	–	*1	–
380,001 – 390,000	2	2	2	2	1,650,001 – 1,660,000	*1	–	*1	–
390,001 – 400,000	–	2	–	1	1,700,001 – 1,710,000	*1	–	*1	–
410,001 – 420,000	–	2	–	2	1,810,001 – 1,820,000	*1	–	*1	–
420,001 – 430,000	1	2	1	2	1,890,001 – 1,900,000	–	1	–	1
440,001 – 450,000	1	1	1	1	2,130,001 – 2,140,000	1	–	1	–
450,001 – 460,000	*1	1	*1	–	2,250,001 – 2,260,000	*1	–	*1	–
460,001 – 470,000	1	–	1	–	2,700,001 – 2,710,000	1	–	1	–
470,001 – 480,000	1	–	1	–					
Total number of Executives						75	59	70	55

** Includes retention, retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

Arrangements or understandings between Executive Officers, Executive Directors and the Company are covered by a standard memorandum of agreement. Under the agreement, remuneration of Executive Officers and Executive Directors is at such rates and payable at such times as the Company shall from time to time determine.

An executive includes persons who work in or mainly in Australia receiving gross remuneration in excess of $100,000, who are Board appointees, Executive Directors of controlled entities, or Group employees responsible for the strategic direction and management of major business units.

For years ended September 30 Dollars in Thousands	Consolidated 1998	 1997	 1996	The Company 1998	 1997	 1996

48 Remuneration of Auditors

Total amounts received or due and receivable for audit and review of the financial statements by:						
Auditors of the Company	**4,937**	4,712	4,524	**1,742**	2,003	1,911
Total amounts received or due and receivable for other services by:						
Auditors of the Company	**4,013**	4,905	4,980	**2,085**	2,450	2,826
Other auditors of entities in the Consolidated Entity	**140**	–	–	**–**	–	–
Total Remuneration of Auditors	**9,090**	9,617	9,504	**3,827**	4,453	4,737

By virtue of Australian Securities and Investment Commission Class Order 98/2000 dated September 30, 1998, the auditors of National Australia Bank Limited and its controlled entities, KPMG, have been exempted from compliance with Section 324(1) and 324(2) of the Corporations Law. The Class Order exemption applies in that members and associates of KPMG (other than those members and associates engaged on the audit of National Australia Bank Limited and/or controlled entities) may be indebted to National Australia Bank Limited and its controlled entities provided that:

(1) such indebtedness does not exceed $5,000; or

(2) section 324(3) applies to the relevant indebtedness; or

(3) 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 National Australia Bank Limited and/or its controlled entities prior the member becoming a member of KPMG where the arrangement was not entered into in connection with becoming a member of KPMG.

49 Reconciliation with US GAAP

In this note, National Australia Bank Limited is referred to as 'the Company' and the 'Consolidated Entity' consists of the Company and those controlled entities listed in Note 37.

The Company files its annual report (Form 20-F) with the Securities and Exchange Commission of the United States of America.

The consolidated financial statements of the Consolidated Entity are prepared in accordance with Generally Accepted Accounting Principles applicable in Australia ('Australian GAAP') (refer Note 1) which differ in some respects from Generally Accepted Accounting Principles in the United States ('US GAAP').

The following are reconciliations of the accounts, for any significant adjustments, applying to US GAAP instead of Australian GAAP.

For years ended September 30 Dollars in Millions	Consolidated 1998	 1997	 1996
Consolidated Statements of Profit and Loss			
Net profit before abnormal item reported using Australian GAAP	**2,511**	2,223	2,102
Abnormal item reported using Australian GAAP	**(497)**	–	–
Net profit reported using Australian GAAP	**2,014**	2,223	2,102
Tax effect of increase in general provision for doubtful debts(1)	**–**	32	23
Depreciation charged on the difference between revaluation amount and historical cost of buildings(2)	**2**	5	7
Difference in profit or loss on disposal of land and buildings revalued from historical cost(2)	**93**	56	11
Amortisation of goodwill – difference resulting from treatment of loan losses as a purchase adjustment(3)	**4**	4	4
Amortisation of goodwill(4)	**5**	5	4
Amortisation of core deposit intangible(4)	**(26)**	(23)	(22)
Amortisation of deferred tax liability associated with core deposit intangible(4)	**7**	6	6
Pension expense(5)	**25**	30	12
Recognition of tax losses resulting from IRS Ruling(6)	**3**	(49)	–
Amortisation of profit on sale-leaseback over lease term(7)	**(28)**	–	–
Net income according to US GAAP(8)	**2,099**	2,289	2,147
Earnings per share (cents) according to US GAAP(9)			
Basic	**145.9**	156.2	147.9
Diluted	**143.5**	153.0	146.2

For years ended September 30 Dollars in Millions	*Consolidated* **1998**	*1997*	*1996*
Shareholders' Equity[10]			
Shareholders' equity reported using Australian GAAP	**15,761**	12,579	12,519
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end[1]	**–**	246	214
Elimination of revaluation surplus of land and buildings[2]	**(95)**	(292)	(334)
Adjustment of provision for depreciation on buildings revalued[2]	**81**	79	74
Additional provisions relating to purchase adjustments, less amortisation[3]	**(35)**	(39)	(43)
Pension expense [5]	**(33)**	(58)	(88)
Provision for final cash dividend[11]	**767**	692	650
Unrealised profit on shares in entities and other securities[12]	**96**	20	30
Unrealised profit on available for sale debt securities[12]	**–**	–	1
Amortisation of goodwill, core deposit intangible and associated deferred tax liability[4]	**(39)**	(25)	(12)
Recognition of tax losses resulting from IRS Ruling[6]	**(46)**	(49)	–
Unamortised profit on sale-leaseback transactions[7]	**(98)**	–	–
Shareholders' equity according to US GAAP[8]	**16,359**	13,153	13,011
Consolidated Balance Sheets			
Total assets reported using Australian GAAP	**251,714**	201,969	173,710
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end[1]	**–**	246	214
Revaluation surplus of land and buildings[2]	**(95)**	(292)	(334)
Adjustment of provision for depreciation on buildings revalued[2]	**81**	79	74
Additional provisions relating to purchase adjustments, less amortisation[3]	**(35)**	(39)	(43)
Pension fund adjustment	**(33)**	(58)	(88)
Unrealised profit on shares in entities and other securities[12]	**96**	20	30
Unrealised profit on available for sale debt securities[12]	**–**	–	1
Amortisation of goodwill, core deposit intangible and associated deferred tax liability[4]	**(39)**	(25)	(12)
Recognition of tax losses resulting from IRS Ruling[6]	**(46)**	(49)	–
Total assets according to US GAAP[13]	**251,643**	201,851	173,552

The following is a summary of the significant adjustments made to consolidated net profit, shareholders' equity and total assets to reconcile from Australian GAAP to US GAAP.

Income Taxes (1)

The Consolidated Entity has applied SFAS109 `Accounting for Income Taxes' in preparing its US GAAP information. There is no significant difference between the provisions of SFAS109 and Australian GAAP. In prior periods, the only significant difference was the tax effecting of the general provision for doubtful debts. Under US GAAP, a deferred tax asset must be taken up in respect of the general provision for doubtful debts. Under Australian GAAP, a deferred tax asset (referred to as future income tax benefits) should only be carried forward where realisation of the asset can be regarded as being assured beyond any reasonable doubt. The timing of the realisation of the deferred tax asset associated with a bank's general provision was regarded as uncertain and therefore the asset was not recognised under Australian GAAP. For US GAAP reconciliation purposes, the related deferred tax asset was reinstated. As at September 30, 1998, the general provision for doubtful debts is now tax effected under Australian GAAP due to the adoption of a statistically based provisioning methodology.

Land and Buildings (2)

The Consolidated Entity revalues land and buildings at various intervals (refer Note 1). The revaluation increments and decrements are included in the Consolidated Entity's reserves (after adjustment for bonus issues) which form part of shareholders' 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 and loss on sale of revalued buildings, are adjusted back to an historical cost basis for US GAAP purposes.

Purchase Adjustments (3)

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.

Amortisation of Goodwill, Core Deposit Intangible and Associated Deferred Tax Liability (4)

Under US GAAP, purchase adjustments that arise in the acquisition of a US company are required to be reflected in the acquiree's financial statements.

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.

Pension Plans (5)

For defined benefit pension plans, Australian GAAP recognises the actuarially determined contribution payable as the expense for the year.

The disclosure requirements of SFAS87 'Employers' Accounting for Pensions' have been included in these financial statements in respect of the years ended September 30, 1998, 1997 and 1996. 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. Such a reconciliation is included under 'Details of Pension Expense and Reconciliation to Funded Status of Pension Plans' below.

Recognition of Tax Losses Arising from IRS Ruling (6)

In September 1997, Michigan National Corporation 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 US Internal Revenue Service (IRS), these losses can now be accessed by MNB. Under US GAAP the tax losses are brought to account and deducted from the goodwill arising on the acquisition of MNC. Under Australian GAAP (Abstract 9 issued by the Urgent Issues Group, 'Accounting for Acquisitions – Recognition of Acquired Tax Losses'), these losses have been recognised in the Group's Profit and Loss Statement and represent a permanent tax difference.

Profit on Sale-Leaseback over Lease Term (7)

Under US GAAP profits and losses on sale and leaseback transactions are required to be recognised over the term of the lease. 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.

Net Income (8)

Under US GAAP the concept of 'operating profit' is not recognised and only a limited number of items can be included under the headings of 'extraordinary items' and 'abnormal items'. Net profit under Australian GAAP is operating profit after income tax, including extraordinary items and excluding outside equity interests.

In performing the US GAAP profit reconciliation, the starting point is net profit reported using Australian GAAP (after goodwill amortisation and extraordinary or abnormal items).

Earnings Per Share (9)

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 Executive Option Plans, adjusted for notional interest on uncalled capital associated with partly paid shares and exercisable options, 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.

General and Capital Reserves (10)

As with Retained Profits, the General Reserve represents a retention of distributable profits available for general use in the business. This may include payment of cash dividends. The Capital Reserve, while also legally distributable as cash dividends, represents a reserve which the Directors have no long term intention to utilise for distribution.

Provisions (11)

The term 'provisions' is used in Australian GAAP to designate accrued expenses with no definitive payment date. Provisions disclosed in Note 25 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. This difference in treatment has been amended in the US GAAP reconciliation of Shareholders' Equity.

Investments (12)

Under Australian GAAP, 'Shares in entities and other securities' (Note 17) 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 in Shareholders' Equity. These securities have been restated to market value with unrealised profit recognised in Shareholders' Equity.

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 profit and loss. Under US GAAP, available for sale securities are carried at market value with unrealised profits and losses in respect of market value adjustments recognised in Shareholders' Equity. Under US GAAP, available for sale securities have been restated to market value with unrealised profit recognised in Shareholders' Equity.

Consolidated Balance Sheets (13)

The following are reconciliations of balance sheet categories, for any significant adjustments, applying to US GAAP instead of Australian GAAP.

	Consolidated		
As at September 30 *Dollars in Millions*	***1998***	*1997*	*1996*
Other Assets using Australian GAAP	**19,844**	11,617	9,534
Deferred tax asset on general provision for doubtful debts(1)	**–**	246	214
According to US GAAP	**19,844**	11,863	9,748
Fixed Assets using Australian GAAP	**2,219**	2,229	2,258
Revaluation surplus of properties(2)	**(95)**	(292)	(334)
Provision for depreciation on buildings revalued(2)	**81**	79	74
According to US GAAP	**2,205**	2,016	1,998
Goodwill using Australian GAAP	**3,095**	2,122	2,218
Additional provisions relating to purchase adjustments, less amortisation(3)	**(35)**	(39)	(43)
Core deposit intangible recognised separately under US GAAP(4)	**(173)**	(173)	(173)
Amortisation of core deposit intangible and goodwill(4)	**(57)**	(36)	(18)
Future income tax benefit resulting from IRS Ruling(6)	**(46)**	(49)	–
According to US GAAP	**2,784**	1,825	1,984
Shares in entities and other securities using Australian GAAP	**1,013**	280	175
Unrealised profit/loss on shares in entities and other securities(12)	**96**	20	30
According to US GAAP	**1,109**	300	205
Available for sale debt securities using Australian GAAP	**937**	1,815	364
Unrealised profit on available for sale debt securities(12)	**–**	–	1
According to US GAAP	**937**	1,815	365
Income Tax Liability using Australian GAAP	**1,953**	1,629	1,638
Deferred tax liability associated with core deposit intangible(4)	**19**	12	6
According to US GAAP	**1,972**	1,641	1,644
Other Liabilities using Australian GAAP	**4,917**	3,458	3,724
Unamortised gain on sale-leaseback transactions(7)	**98**	–	–
According to US GAAP	**5,015**	3,458	3,724

Life Insurance Controlled Entities

For Australian GAAP the assets of the statutory funds and the liabilities of these funds to their policyholders are excluded from the consolidated balance sheet. No adjustment has been made in the reconciliation to US GAAP. The gross assets of the funds, representing the liability to members of approximately the same amount, are $5,128 million at September 30, 1998 (1997: $3,892 million, 1996: $2,997 million) which is not material to the Consolidated Entity's total assets of $251,714 million (1997: $201,969 million, 1996: $173,710 million).

Details of Pension Expense and Reconciliation to Funded Status of Pension Plans

The Company and its controlled entities provide substantially all employees with pension benefits. Effective October 1, 1989, the Consolidated Entity adopted the disclosure requirements of SFAS87 'Employers' Accounting for Pensions' for its significant pension plans.

The following table sets out the funded status at the measurement dates June 30, 1998, 1997 and 1996.

	UK, US and NZ Plan Assets' Excess over Accumulated Benefits		
Dollars in Millions	***1998***	*1997*	*1996*
Actuarial present value of benefit obligations:			
Vested	**(2,705)**	(2,318)	(1,933)
Non-Vested	**(5)**	(3)	(30)
Accumulated benefit obligation	**(2,710)**	(2,321)	(1,963)
Effect of projected wage increases	**(392)**	(341)	(342)
Projected benefit obligation	**(3,102)**	(2,662)	(2,305)
Plan assets at fair value	**4,348**	3,824	3,155
Plan assets in excess of projected benefit obligation	**1,246**	1,162	850
Unrecognised gain net of amortisation	**(834)**	(810)	(606)
Unrecognised asset at transition, net of amortisation	**82**	99	98
Income taxes	**54**	72	58
Prepaid pension cost	**548**	523	400

Bank of New Zealand and Yorkshire Bank PLC were acquired on November 9, 1992 and January 18, 1990 respectively as business combinations and were accounted for by the purchase method. The assignment of the purchase price in the determination of goodwill resulted in the recognition of an on-balance sheet pension asset, which in turn eliminated any previously unrecognised amounts.

The expected long term rate of return on plan assets ranged from 7.5% to 9.5% for the year to June 30, 1998 (1997: 8.5% to 9.5%, 1996: 7.5% to 9.5%). The rate of increase in future compensation levels ranged from 4.0% to 5.0% (1997: 5.0% to 6.5%, 1996: 5.0% to 6.5%). The discount rate used ranged from 6.5% to 7.0% (1997: 7.8% to 8.5%, 1996: 7.0% to 8.5%). The rate of increase of pensions ranged from 2.5% to 3.5% (1997: 2.7% to 4.0%, 1996: 2.7% to 5.5%). These assumptions are as at June 30 and September 30, 1998.

The Consolidated Entity also sponsors defined contribution plans covering Australian and New Zealand employees (Refer Note 41). The Consolidated Entity's contributions are based on salary and amounted to $52 million in the year ended September 30, 1998 (1997: $69 million, 1996: $86 million).

For plans reporting under the provisions of SFAS87, the elements of the net pension expense are shown below:

	UK, US and NZ Plans		
Dollars in Millions	***1998***	*1997*	*1996*
Service Cost-Benefits Earned during the year	**78**	83	73
Interest Cost on Projected Benefit Obligation	**177**	190	180
Actual Return on Plan Assets	**(276)**	(314)	(257)
Net Amortisation and Deferral	**(12)**	9	3
Net Pension Expense	**(33)**	(32)	(1)

Post-Retirement Benefits

Michigan National Corporation (MNC) provides health care and life insurance benefits to retired employees who are eligible for a benefit under the pension plan, are at least 55 years old and have at least 15 years of service.

The following table reconciles the actuarial present value of the accumulated post-retirement benefit obligation (APBO) relating to health care and life insurance to the amount recorded in the Consolidated Balance Sheet.

	September 30		
Dollars in Thousands	***1998***	*1997*	*1996*
Actuarial present value of APBO:			
Retirees	**39,397**	29,316	33,163
Fully eligible active plan participants	**1,766**	1,521	3,664
Other active plan participants	**1,092**	850	875
Total	**42,255**	31,687	37,702
Unrecognised net gain	**4,375**	6,367	2,662
Unrecognised prior service cost	**6,562**	5,898	–
Accrued post-retirement benefit liability	**53,192**	43,952	40,364

The following table sets out the elements of the net periodic post-retirement benefit expense.

	September 30		
Dollars in Thousands	***1998***	*1997*	*1996*
Service cost	**66**	73	122
Interest cost	**2,648**	2,454	2,561
Unrecognised prior service cost	**(869)**	(456)	–
Net periodic post-retirement cost	**1,845**	2,071	2,683
Curtailment gain	**–**	(339)	–
Total periodic post-retirement cost	**1,845**	1,732	2,683

MNC funds the cost of its post-retirement obligations as benefits are paid.

The 'projected unit credit' method is used in the determination of the accumulated post-retirement benefit obligation and net periodic post-retirement cost. At September 30, 1998 the assumed discount rate used in determining the actuarial present value of the accumulated benefit obligation was 7.3% (1997: 7.8%, 1996: 7.8%). The assumed annual rate of increase in the per capita cost of covered benefits (ie health care cost trend rate) was 7.1% at September 1998, 7.3 % at September 1997 and 7.5% at September 1996. The 1998 rate was further assumed to decline linearly to 5.5% over 10 years. A 1% increase in the assumed health care cost trend rate for each year would increase the accumulated post-retirement benefit obligation as of September 30, 1998 by an estimated $1.3 million (1997: $1.3 million, 1996: $3.9 million) and the annual net periodic post-retirement health care cost by an estimated $52 thousand (1997: $0.1 million, 1996: $0.3 million).

50 Proforma consolidation information

The following table presents proforma financial data in respect of the acquisition of Michigan National Corporation (MNC). The proforma effects on the Consolidated Entity's consolidated results assuming the acquisition of MNC occurred on October 1, 1995 (the beginning of the 1996 fiscal year) would be as follows:

	As reported for		*Pro-forma and consolidated*	
	Australian GAAP	*US GAAP*	*Australian GAAP*	*US GAAP*
Year ended September 30, 1996 Dollars in Millions				
Net Profit ($ millions)	2,102	2,147	2,108	2,153
Basic Earnings per Share (cents)	144.8	147.9	145.2	148.3
Diluted Earnings per share (cents)	143.1	146.2	143.5	146.6

The following table presents proforma financial data in respect of the acquisition of HomeSide, Inc. The proforma effects on the Consolidated Entity's consolidated results assuming the acquisition of HomeSide, Inc. occurred on October 1, 1997 (the beginning of the 1998 fiscal year) would be as follows:

	As reported for		*Pro-forma and consolidated*	
	Australian GAAP	*US GAAP*	*Australian GAAP*	*US GAAP*
Year ended September 30, 1998 Dollars in Millions				
Net Profit ($ millions)	2,014	2,099	2,031	2,116
Earnings per Share (cents)	140.0	145.9	141.2	147.1
Diluted Earnings per share (cents)	137.9	143.5	139.0	144.6

51 Fiduciary activities

The Consolidated Entity's fiduciary activities consist of life insurance business conducted through controlled entities and investment management activities conducted as trustee and/or manager for a number of investments and trusts including approved deposit and investment trusts. The aggregate amounts of funds concerned, which are not included in the Consolidated Entity's balance sheet, are as follows:

	September 30	
Dollars in Millions	***1998***	*1997*
Trustee and funds management	**44,254**	26,379
Life insurance business	**5,128**	3,892

Directors' Declaration

The Directors of National Australia Bank Limited declare:

1. (a) that the financial statements and notes thereto have been made out in accordance with accounting standards and the Corporations Law;
   (b) that the financial statements and notes thereto as set out on pages 76 to 158 are drawn up so as to give a true and fair view of the financial position at September 30, 1998 and the performance for the financial year ended September 30, 1998, of the Company and the Consolidated Entity; and
   (c) that 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 fall due.
2. There are reasonable grounds to believe that the Company and certain controlled entities will, as a Consolidated Entity, 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 Investment Commission Class Order 98/1418 dated August 13, 1998 (refer to Notes 37 and 38 to the financial statements for further details).

Dated at Melbourne this 6th day of November, 1998 and signed in accordance with a resolution of the Board of Directors.

MR Rayner | DR Argus

Independent Auditors' 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, 1998 consisting of the profit and loss accounts, balance sheets, statements of cash flows, accompanying notes, and the directors' declaration set out on pages 76 to 159. The financial report includes the consolidated financial statements of the Consolidated Entity, 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 Australian Auditing Standards (which are substantially the same as auditing standards generally accepted in 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 so as to present a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and performance is 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 Law, including:
  (i) giving a true and fair view of the the Company's and the Consolidated Entity's financial position as at September 30, 1998, 1997, and 1996, and of their performance for the financial years ended on those dates;
  (ii) complying with Accounting Standards and Corporations Regulations; 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 49 to the financial report. 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, 1998 and the determination of the consolidated financial position as of September 30, 1998, 1997 and 1996 to the extent summarised in Note 49 to the financial statements.

Signed at Melbourne this 6th day of November, 1998.

KPMG

KPMG
Chartered Accountants

NW Smart
Partner

Form 20-F Cross Reference Index

Notes:

[1] Not required in this annual report
[2] (a) (b) None
[3] (a) (b) None (c) Not applicable (d) No changes
[4] Not applicable as Item 18 complied with
[5] As listed under Item 19

Control of Registrant

The Company is not directly or indirectly controlled by another entity or any foreign government. As at October 23, 1998, there is no person(s) or Group known to the Company to be the owner of more than 10% of the Ordinary Shares on issue at that date. Shareholdings of Directors and Executive Officers of the Company at that date are as follows:

Title of Class	*Identity of Person or Group*	*Amount of Shares Owned*[1]	*% of Class*
Ordinary Shares	Directors and Executive Officers (24 persons)	561,413	0.04%

[1] *Includes 44,076 Ordinary Shares held by Executive Directors and Officers under the Company's Staff Share Scheme.*

Directors and Officers

The Directors and Executive Officers of National Australia Bank Limited at September 30, 1998 were:

Position	*Name*	*Position Held Since*	*Directorship Held Since*
Chairman[1]	Mark Richard Rayner	1997	1985
Vice-Chairman	Brian Thorley Loton AC	1992	1988
Vice-Chairman	David Kennedy Macfarlane	1992	1985
Managing Director	Donald Robert Argus AO	1990	1989
Executive Director & Chief Operating Officer	Francis John Cicutto[2]		1998
Other Directors	David Charles Keith Allen AO		1992
	Dr. Christopher Michael Deeley		1992
	Graham John Kraehe		1997
	Thomas Pearson Park		1996
	Edward Desmond Tweddell[2]		1998
	Catherine Mary Walter		1995

Position	*Name*	*Position Held Since*	*Year Joined Group*
Executive General Managers	Glenn Lawrence Lord Barnes[3]	1998	1990
	(Executive General Manager, Business & Personal Financial Services)		
	Roland Frank Matrenza	1994	1967
	(Executive General Manager, Strategic Development)		
	Robert Bliss Miller[3]	1997	1960
	(Executive General Manager, Risk Management)		
	Ross Edward Pinney[3]	1998	1973
	(Executive General Manager, Products and Services)		
	Michael Donald Soden	1997	1997
	(Executive General Manager, Global Wholesale Financial Services)		
	Edwin Grant Steel	1996	1993
	(Executive General Manager, Human Resources)		
Chief Executive Officers	Michael Brian Coomer	1996	1995
	(Chief Information Officer)		
	Doug Ebert[3]	1995	1993
	(Chief Executive Officer, Michigan National Corporation)		
	Joe Keith Pickett[3]	1998	1998
	(Chief Executive Officer, HomeSide, Inc.)		
	Robert Malcolm Charles Prowse[3]	1998	1966
	(Chief Financial Officer)		
	Grahame Peter Savage[3]	1998	1973
	(Managing Director, National Australia Group Europe)		
	Gordon John Wheaton[3]	1998	1986
	(Chief Executive Officer, Asia Pacific)		
Group General Counsel	David Milton Krasnostein	1996	1996
Company Secretary	Garry Francis Nolan	1992	1970

[1] Mr PJW Cottrell retired as a Director of the Company May 25, 1998. Sir Bruce Watson retired as a Director of the Company on August 1, 1998.

[2] Dr ED Tweddell was appointed as a Director of the Company on March 26, 1998. Mr FJ Cicutto was appointed as an Executive Director and Chief Operating Officer of the Company on July 28, 1998.

[3] The following changes took place during the 1997/98 financial year:
– Mr BS McComish, Chief Financial Officer, left the Company in March 1998.
– Mr RI Fyfe, Group General Manager Business Solutions, left the Company in June 1998.
– Mr CW Breeze, Group General Manager Corporate Centre, retired from service in March 1998.
– Mr LR Ryan, Group General Manager Group Risk Management, retired from service in January 1998.
– Mr RMC Prowse was appointed Chief Financial Officer in March 1998.
– Mr GLL Barnes was appointed Executive General Manager Business and Personal Financial Services effective April 1998.
– Mr RB Miller was appointed Executive General Manager Risk Management effective November 1997.
– Mr RE Pinney was appointed Executive General Manager Products and Services effective November 1998.
– Mr JK Pickett joined the Group as Chief Executive Officer of HomeSide in February 1998.
– Dr GP Savage was appointed Managing Director National Australia Group Europe effective November 1998.
– Mr G Wheaton was appointed Chief Executive Officer Asia Pacific effective April 1998.
– Mr D Ebert as Chief Executive Officer Michigan National Corporation has reported to the Executive General Manager Business and Personal Financial Services since April 1998.

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 Donald Argus and Mr Francis Cicutto are the only Executive Directors. During the year, it was announced that Mr DR Argus will stand down from his current positions of Managing Director and Chief Executive Officer of the Group towards the end of the first half of calendar 1999.

The aggregate remuneration paid by the Company and its subsidiaries during the year ended September 30, 1998 to all Directors and Executive Officers listed above as a group (24 persons in 1998 and 25 persons in 1997) was $18 million (1997: $12 million).

During the year ended September 30, 1998, Share Options were issued to 520 executives covering a total of 10,976,000 share options as per the Bank's Share Option register. A total of 2,660,000 options were issued to 15 of the 24 Directors and Officers listed above as a group.

Nature of Trading Market

Ordinary Shares

The Ordinary Shares are listed for trading on the Australian Stock Exchange Limited, a self-regulatory organisation which governs the open market quotation, purchase and sale of the Ordinary Shares in Australia. The Australian Stock Exchange Limited is the principal market for the Ordinary Shares, and operates in the following cities in Australia: Melbourne, Sydney, Brisbane, Perth, Adelaide and Hobart. The Ordinary Shares are also listed for quotation on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited; the London Stock Exchange Automated Quotation System; the Stock Exchange, New Zealand; and the Tokyo Stock Exchange. American Depository Shares ('ADSs') are listed on the New York Stock Exchange (refer below). The following table sets forth, for the calendar quarters indicated, the high and low sale prices of the Ordinary Shares as reported by the Australian Stock Exchange Limited.

	1998		*1997*		*1996*		*1995*	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	**22.70**	**18.93**	$17.22	$14.37	$13.04	$11.40	$11.56	$10.16
June Quarter	**23.40**	**20.55**	19.05	15.20	12.10	10.98	12.54	10.98
September Quarter	**23.50**	**19.95**	22.85	18.60	13.30	11.17	12.00	10.84
December Quarter[1]	**20.34**	**18.99**	21.95	16.87	15.65	13.15	11.80	11.12

[1] The 1998 December quarter represents the period from October 1 to October 23.

On October 23, 1998 the closing price on the Australian Stock Exchange Limited was $20.25 per Ordinary Share, with 1,447,679,984 Ordinary Shares (excluding partly paid shares) outstanding and such shares were held by 253,457 holders.

American Depositary Shares ('ADSs')

The Ordinary Shares are traded in the United States in the form of ADSs evidenced by American Depositary Receipts ('ADRs') issued by Morgan Guaranty Trust Company of New York, as Depositary (the 'Depositary'), pursuant to a Deposit Agreement dated January 16, 1987, as amended as of June 24, 1988 (the 'Deposit Agreement'). Each ADS represents five Ordinary Shares. The ADSs are listed on the 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 23, 1998, 4,599,590 ADSs representing 22,997,950 Ordinary Shares, or approximately 1.6% of the Ordinary Shares outstanding on such date, were held by 193 holders with registered addresses in the United States. The following table sets forth, for the calendar quarters indicated, the high and low sale prices per ADS as reported on the NYSE composite tape.

	1998		*1997*		*1996*		*1995*	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	**US$73.88**	**US$65.38**	US$66.13	US$56.13	US$49.25	US$44.75	US$42.000	US$38.500
June Quarter	**76.38**	**61.25**	72.75	60.05	48.25	43.25	46.375	40.000
September Quarter	**73.25**	**59.06**	81.25	68.25	53.00	44.25	45.500	39.625
December Quarter[1]	**63.25**	**57.06**	71.00	66.44	62.50	52.50	44.875	42.250

[1] The 1998 December quarter represents the period from October 1 to October 23.

On October 23, 1998 the closing price per ADS as reported on the NYSE composite tape was US$62.88.

Exchange Controls and Other Limitations Affecting Security Holders

There are no limitations under the Company's Memorandum and Articles of Association 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 Australian Stock Exchange are regulated by detailed and comprehensive legislation and the rules and regulations of the Australian Stock Exchange.

In summary, under the current Corporations Law a person or group of persons cannot 'acquire' voting shares in a public company if that person or group of persons or another person would then be 'entitled' to more than 20% of the voting shares in the public company 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 public company.

The concept of 'entitlement' and 'acquire' are very broadly defined and shareholders should seek their own advice on their scope. In very general terms:

– a person is 'entitled' to the shares in which that person has (or is deemed to have) a 'relevant interest' (basically, power to vote or dispose of the share) and to any shares in which any 'associate' of that person has (or is deemed to have) a 'relevant interest';

– a person 'acquires' shares in a company if, as a direct or indirect result of a 'transaction' in relation to securities of any body corporate, that person acquires a 'relevant interest', in those shares (as a result of extensive tracing provisions concerning 'relevant interest', a person may be taken to have 'acquired' shares in the Company as a result of the purchase of securities in another body corporate);

– an 'associate' is widely defined in division 2 of part 1.2 of the Corporations Law and includes, among others, 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 concept of 'relevant interest' involves any sort of power to vote or to dispose of a share, including the power to control the voting or disposal of any share. It is subject to extensive deeming and tracing provisions.

The Corporations Law 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 Australian Stock Exchange, such as National Australia Bank.

One of the more common manners in which a controller shareholding is acquired in an Australian public 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 company.

Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, or substantially lessening competition in a market in Australia, in a State or in a Territory.

Acquisitions of certain interests in Australian 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 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 financial sector company, the Treasurer has the power to declare that a person has 'practical control' of that company and require the person to relinquish that control. The definition of a financial sector company includes banks, such as the Company. It also includes authorized insurance companies or an authorized insurance company's holding company. One of the Company's subsidiaries is an authorized insurance company.

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 and vote shares as residents of Australia.

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 tax effects to US persons who are 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 tax laws set out below are based on the laws in force as of the date of this annual report, and are subject to any changes in Australian law, and in any double taxation convention between the US and Australia, occurring after that date.

Australian Taxation

Under Australian revenue law, non-residents 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. Also, in limited circumstances, such non-resident shareholders may be subject to Australian income tax in respect of gains made on the disposal of shares in Australian companies. 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 receives a franked dividend, the shareholder receives a 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. Non-resident shareholders, 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.

The company paid a fully franked interim dividend out of profits for the half year ended March 31, 1998 and has declared a fully franked final dividend payable out of profits for the year ended September 30, 1998.

Subject to two exceptions, a non-resident disposing of shares in Australian public companies will be free from tax in Australia. The exceptions are as follows:

– Shares held as part of a trade or 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.

– Shares held in public companies where such shares represent a holding of 10% or more by value in the shares to the company. In such a case, capital gains tax would apply, but not otherwise.

Capital gains tax in Australia is payable on real gains over the period in which the shares have been held, ie the difference between the disposal price and the original cost indexed for inflation over that period. Indexing does not apply where the shares are disposed of within 12 months of acquisition. Normal rates of income tax would apply to real gains so calculated. Capital losses are not subject to indexing; they are available as deductions, but only in the form of offset against other capital gains.

United Kingdom Dividend Plan

The United Kingdom Dividend Plan ('UKDP') enables a shareholder who elects to participate, to receive dividends from a United Kingdom subsidiary of the Company, as an alternative to the cash component of dividends paid on Ordinary Shares in the Company.

The Company's Australian resident corporate shareholders obtain no UK Advanced Corporation Tax credits or imputation 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 credit to the extent those dividends are 'franked'.

In addition, participants should not suffer Australian capital gains tax due solely to their participation in, or withdrawal from the UKDP.

Certain US Holders eligible for the benefits of the Income Tax Convention between the United States and the United Kingdom, and participating in the UKDP should on application to the US Internal Revenue Service (in the case of a first application) or the UK Inland Revenue (in the case of subsequent application), receive a refund of a portion of the UK Advance Corporation Tax from the United Kingdom pursuant to the provisions of the Income Tax Convention between the United States and the United Kingdom.

In addition, US Holders may be able to claim a credit for United States Federal income tax purposes for the unrefunded portion of the UK Advanced Corporation Tax. The practice of overissuance may, however, affect a US Holder's ability to claim such credit.

Currency of presentation, exchange rates and certain definitions

All dollar amounts are expressed in Australian dollars unless otherwise stated. Merely for the convenience of the reader, this Annual 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$0.5930=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, 1998.

Exchange Rates

Fluctuations in the exchange rate between the Australian dollar and the US dollar will affect the US dollar equivalent of the Australian dollar prices of the Ordinary Shares and, as a result, may affect the market price of the American Depository Shares (ADSs) in the United States. Such fluctuations will also affect the US dollar conversion by the Depository of cash dividends paid in Australian dollars on the Ordinary Shares represented by the ADSs (see 'American Depository Shares (ADSs)' on page 162 for a description of the ADSs). For each of the National Australia Bank's fiscal years, the high, low, average and year end Noon Buying Rates, see 'Selected Financial data for five years ended September 30, 1998' on page 33.

Certain Definitions

The National Australia Bank's fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 1998 is referred to as 1998 and other fiscal years are referred to in a corresponding manner.

'Financial Statements' means the National Australia Bank consolidated Financial Statements for the years ended September 30, 1998, September 30, 1997 and September 30, 1996 included herein at pages 69 to 159.

Any discrepancies between total and sums of components in tables contained in this Annual report are due to rounding.

Shareholders of the Bank as at October 23, 1998

	Number of Shares	%
Westpac Custodian Nominees Limited	117,332,816	8.1
National Nominees Limited	100,408,871	6.9
Chase Manhattan Nominees Limited	99,076,540	6.9
ANZ Nominees Limited	55,288,262	3.8
Permanent Trustees Group	54,030,869	3.7
Perpetual Trustees Australia Group	51,663,951	3.6
Australian Mutual Provident Group	32,945,327	2.3
BT Custodial Services Pty Limited	30,908,151	2.1
Queensland Investment Corporation	26,986,450	1.9
Citicorp Nominees Pty Limited	24,654,399	1.7
SAS Trustee Corporation	23,589,465	1.6
Commonwealth Custodial Services Limited	19,766,461	1.4
MLC Life Limited	14,999,289	1.1
NRMA Group	13,520,956	1.0
Mercantile Mutual Life Group	9,329,537	0.6
National Australia Trustees Limited	7,870,054	0.5
Invia Custodian Pty Limited	7,540,565	0.5
Australian Foundation Investment Company Ltd	6,839,612	0.5
HKBA Nominees Limited	6,495,178	0.4
GIO Personal Investment Services	6,373,315	0.4
	709,620,068	49.0

The twenty largest shareholders held 709,620,068 shares which is equal to 49.0% of the total issued capital of 1,447,679,984 ordinary shares of $1.00 each fully paid.

As at October 23, 1998 there was no person or corporation with a shareholding in excess of 10 percent of the nominal capital of National Australia Bank Limited.

Distribution of Shareholdings

	Number of Shareholders	% of Holders	Number of Shares	% of Shares
Range				
1 - 1,000	151,056	59.6	63,988,007	4.4
1,001 - 5,000	79,473	31.3	179,078,109	12.4
5,001 - 10,000	13,396	5.3	94,995,183	6.5
10,001 - 100,000	9,006	3.6	194,986,962	13.5
100,001 and over	526	0.2	914,631,723	63.2
	253,457	**100.0**	**1,447,679,984**	**100.0**
Less than marketable parcel	**9,269**	**3.7**		
Address of Holders				
Australia	233,938	92.3	1,425,074,062	98.4
United Kingdom	12,232	4.8	7,581,825	0.6
New Zealand	4,921	2.0	10,184,984	0.7
United States	316	0.1	365,836	0.1
Other Overseas	2,050	0.8	4,473,277	0.2
	253,457	**100.0**	**1,447,679,984**	**100.0**

Voting Rights

The Holding Company's Articles provide in summary that every member (and person entitled under Article 39(1), the 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*

On a poll – one vote for each share held.

** Where a member appoints two proxies, neither proxy is entitled to vote on a show of hands.*

National Australia Bank Limited

Mr MR Rayner, BSc (Hons), Chem Eng FTS, FAusIMM, FIEAust
Chairman

Mr DR Argus, FAIBF, FCPA, FAICD
Managing Director and Chief Executive Officer

Mr GF Nolan, MBus, FCIS, FAIBF, FAICD, ASIA, CFTP
Company Secretary

Registered Office and Principal Share Register

24th Floor, 500 Bourke Street
Melbourne Victoria 3000
Australia
Postal Address:
GPO Box 2333V
Melbourne Victoria 3001
Australia
Local call: 1300 367 647
Fax: (03) 9641 4927
Telephone (outside Australia):
+61 3 9641 4200
Fax (outside Australia):
+61 3 9641 4297

Shareholder's Centre

To ensure shareholders are fully informed about their investment, a separate section of the National's web site has been dedicated to shareholders. Called the Shareholder's Centre, the site contains a range of information including copies of recent result announcements, the Annual Report and excerpts from the National's Fact Book as well as useful forms from our Share Registry.

The National's web site can be found at www.national.com.au

United Kingdom Branch Share Register

c/- Computershare Services Plc
The Pavilions
Bridgwater Road
Bedminster Down
Bristol BS13 8AR
United Kingdom
Telephone: (0117) 941 7120
Fax: (0117) 941 7123

United States ADR Depositary, Transfer Agent and Registrar

The Bank of New York
ADR Department
101 Barclay Street
New York NY 10286
United States
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Fax: (212) 571 3050

Investor Relations

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Fax (outside Australia):
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Solicitors

Mallesons Stephen Jaques
525 Collins Street
Melbourne Victoria 3000
Australia

Auditors

KPMG
Chartered Accountants
161 Collins Street
Melbourne Victoria 3000
Australia

Official Quotation

National Australia Bank is quoted on the following exchanges:

The Australian Stock Exchange;
The International Stock Exchange, London;
The Stock Exchange, New Zealand;
Tokyo Stock Exchange;
New York Stock Exchange.

In the United States the Company's ordinary shares are traded in the form of American Depositary Shares (ADSs) evidenced by American Depositary Receipts (ADRs) issued by The Bank of New York.

The company has also issued:

Exchangeable Capital Units which are listed under the symbol 'NAU' on the New York Stock Exchange Inc., and are also listed on the Luxembourg Stock Exchange.

Trust Units Exchangeable for Preference Shares™ which are listed under the symbol 'NAR Pr' on the New York Stock Exchange.

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has caused this annual report to be signed on its behalf by the undersigned thereunto duly authorised.

National Australia Bank Limited

Registrant

Garry F Nolan

Secretary of the Company

Date: November 6, 1998

Principal Establishments

National Australia Bank Limited
Group Offices and Australian Financial Services
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Toll free: 13 22 95
Fax: +61 3 9612 4321

National Australia Asset Management Limited
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Fax: +61 3 9205 3440
or +61 3 9205 3436

National Australia Custodian Services
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Fax: +61 3 9659 7922

National Australia Trustees Limited
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County Investment Management Limited
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As a world-class financial services group, the National will never lose sight of the foundations of its success:

- A focus on maximising shareholder wealth
- A customer service ethic
- An uncompromising approach to risk management
- A cost-conscious culture
- Well trained and professional staff

National