An international financial services group

Annual Report 1999

National

National Australia Bank Limited ACN004044937

The National's International Franchise

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

Financial Calendar

15 December 1999 Final dividend payable

16 December 1999 Annual General Meeting

27 January 2000 1999–2000 Q1 Results

4 May 2000 1999–2000 Q2 Results

July 2000 Interim 1999–2000 dividend paid

27 July 2000 1999–2000 Q3 Results

2 November 2000 1999–2000 Full Year Results

December 2000 Final dividend for 1999–2000 paid

Dates may be subject to change

United Kingdom

Clydesdale Bank

Yorkshire Bank

Northern

National Australia Life

EVR

Ireland

National Irish Bank

Asia

National Australia Bank Asia

Australia

National

County Investment Management

HomeSide Lending

Custom Fleet

New Zealand

Bank of New Zealand

United States

Michigan National

HomeSide International, Inc.

Executive Relocation

Contents

1999 @ a Glance

- Profit after tax and before abnormals **increased 12.3%** to **$2.82 billion**
- Earnings per share (before abnormals) **increased 6.9%**
- Dividends per share **up 9.8%** or 10 cents **to 112 cents** per share
- **Increased** contribution from overseas and **greater** revenue diversity
- **Strong growth** in financial services and e-commerce
- Capital position **strengthened**

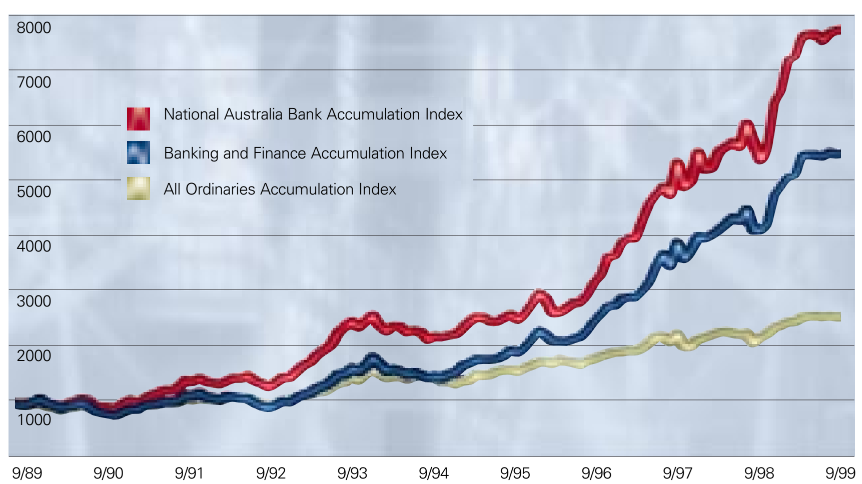
Bernard Ronchi, Assistant Manager, Investor Relations, talks to an investor about the financial performance of the National and its international strategy.

Wealth Index*

Total shareholder returns have increased on average by 22.7% 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 $7,700.

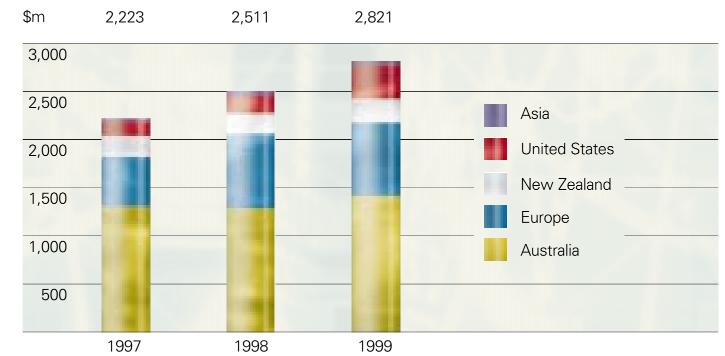


* Data has been indexed to a common base of 1000

Profitability

- International activities contributed 50% of profit after tax
- Other operating income increased 15.4% and represents 42.9% of total income
- Cost to income ratio reduced to 54.0%
- Operating profit (before abnormal items) per employee increased 11.2%

Operating profit (before abnormals)

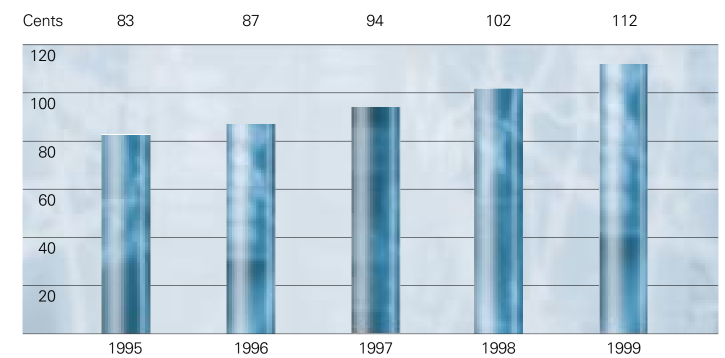


Shareholder Value

- Cash earnings per share (before goodwill amortisation) of 201 cents
- Dividends per share increased 9.8%
- Economic profit* up 16.2%
- Return on equity of 17.3%

*Economic profit represents the excess of cash earnings (earnings adjusted for goodwill amortisation) over the cost of capital employed plus the value of franking credits generated.

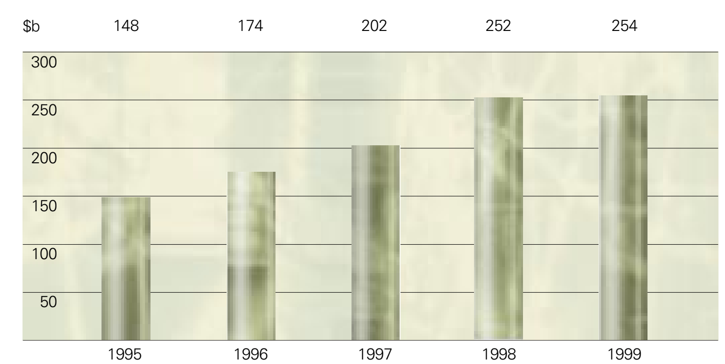
Dividends per share



Growth

- Movements in exchange rates reduced total assets by $15 billion
- Underlying growth of 6.7% in total assets in local currency terms
- Loans and advances increased 9.2% in local currency terms
- National Income Securities raised $2 billion

Total assets



Corporate Highlights

The financial services industry is now a 24 hour global business. The National is well placed geographically, and through our management structure and our products and services, to take advantage of this.

International Growth

The geographic diversity of the National's operations does more than reduce the risk of being dependent on one market. Our international operations create economies of scale and a customer base that, in aggregate, are well above the ability of any one bank to achieve in a market the size of Australia.

In 1999, half of the Group's profit came from our international operations. The key international regions, Europe, New Zealand and the United States all increased their profit contribution.

The benefits of recent international acquisitions, such as the United States based HomeSide International, Inc., a mortgage origination and service operation, go beyond the addition of revenues and profits in the near term. These businesses fit within the National's overall growth strategy and provide key benefits in sustaining shareholder value.

Tailored Financial Solutions

As well as robust and diversified growth across geographic regions, core product lines showed impressive growth. This was especially so in the credit card and leasing sectors of the market. One of our strategic objectives is to ensure all product lines meet volume and profit targets.

Another strategic objective is to achieve at least 50% of our profit from non interest income sources. Further progress was made toward this goal during the year. Other operating income rose from 40% to 43% of total income. Financial services such as investments, insurance and custody increased their contribution by 19.4%.

As part of our global business we are developing the ability to market common products and services to our estimated nine million customers throughout the Group network.

E-Commerce

Investment in web-based technologies and e-commerce initiatives enhanced the opportunities within the National's operations. Our electronic distribution channels embrace both business-to-business and retail consumer market segments. Significant advances have been made on the Internet over the last year. All National operations have an Internet presence and we have over 100,000 Internet and PC banking customers globally.

Strong Capital Base

The National Income Securities public offer in Australia was an enormous success. Investors took up $2 billion of the publicly listed securities, which offer a floating rate set at 1.25% above the 90 day bank bill rate. The National Income Securities provided an innovative way to raise additional tier one capital, and reduce the average cost of capital.

Year 2000 Readiness

The National's systems and people are prepared for the date change to 2000. The Group's objective of business as usual remains unchanged. In August 1999, as demonstration of its confidence in its preparations, the National published its Customer Commitments to its Australian banking customers, covering safety of deposits and term deposits and security of records.

Lisa Thomson, Mobile Mortgage Manager, (far right) provides advice to first home buyers at their convenience.

In September 1999, the Group submitted an update on its progress to the Australian Stock Exchange. Since that date, preparations have continued broadly in line with the plan. As at September 1999, the cost of the Group Year 2000 Program is expected to be $296 million of which $254 million has been spent.

Corporate Governance

The Board of Directors is responsible for the Corporate Governance of National Australia Bank Limited and its controlled entities. The Directors of the Company have a duty to act honestly, transparently, diligently, independently and in the best interests of all shareholders, in order to increase shareholder value. The major processes by which the Directors meet their duties are described in the Corporate Governance Statement set out on pages 72 to 74 of the full Annual Report.

Group Credit Ratings

	Short term	Long term
Standard & Poor's	A1+	AA
Fitch IBCA	F1+	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 61
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 of Principal Board Audit Committee.

Directorships
Chairman of Pasminco Limited and Mayne Nickless Limited.
Director of Boral Limited.

DK Macfarlane (David)
Vice Chairman and
Independent Non-Executive Director
Age 69
Appointed 1985
Elected Vice Chairman
1992

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

Directorships
Chairman of National Australia Asset Management Limited.
Chairman of Spicers Paper Limited and DEM Limited.
Director of Schroders Australia Limited, Pasminco Limited and Australian Foundation Investment Company Limited.

FJ Cicutto (Frank)
BCom FAIBF FCIBS
Managing Director and
Chief Executive Officer
Age 48
Appointed 1998

Experience
31 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. Appointed Managing Director and Chief Executive Officer in June 1999.

Directorships
Chairman of National Australia Group Europe Limited.
Chairman of Australian Bankers' Association.
Director Bank of New Zealand, Michigan National Corporation, Michigan National Bank and HomeSide International, Inc.
Director Melbourne Business School Limited at the University of Melbourne.

CM Deeley (Michael)
MA DPhil (Oxon)
Independent Non-Executive Director
Age 69
Appointed 1992

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

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

DCK Allen AO (Charles)
MA MSc DIC FAICD
Independent Non-Executive Director
Age 63
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 of 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, The Australian Gas Light Company and Air Liquide Australia Limited.

CM Walter (Catherine)
LLB (Hons) LLM MBA
FAICD
Independent Non-Executive Director
Age 47
Appointed 1995

Experience
20 years as a solicitor, 8 years as a partner in the firm Clayton Utz, until 1994, including a period as Managing Partner of the Melbourne office.
Member of Principal Board Audit Committee.
Member National Australia Financial Management Limited Audit Committee.

Directorships
Director National Australia Financial Management Limited.
Director of the Australian Stock Exchange Limited, Melbourne Business School Limited, Transport Accident Commission, Orica Limited, Victorian WorkCover Authority and Vodafone Pacific Pty Limited and a council member of the University of Melbourne.

TP Park (Tom)
BSc MBA
Independent Non-Executive Director
Age 52
Appointed 1996

Experience
25 years in the food industry, 12 years as Managing Director of Kraft Foods Limited.
Currently Executive Vice President North Asia, South-East Asia, Australia and New Zealand.

GJ Kraehe (Graham)
BEc
Independent Non-Executive Director
Age 57
Appointed 1997

Experience
34 years in the wine, automotive and diversified manufacturing industries. 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 58
Appointed 1998

Experience
23 years in the pharmaceutical and health care fields.
Appointed Group Managing Director and Chief Executive Officer of FH Faulding & Co Limited in 1993.

Directorships
Chairman of Faulding Inc. in the United States of America.
Chairman, Adelaide Festival.
Director of subsidiaries in the Faulding Group in Australia/New Zealand, Asia, Europe and North America.

WF Blount AM (Frank)
BS (Elect.Eng) MBA
(Mgmt) MS (Mgmt)
Independent Non-Executive Director
Age 61
Appointed 1999

Experience
Extensive experience in the telecommunications industry. Appointed Chief Executive Officer of Telstra in 1992, a position he held until March 1999. Prior to his appointment he was Group President AT&T.

Directorships
Director of Broken Hill Proprietary Company Limited (BHP) and Pioneer International.
Director Entergy Corporation, First Union National Bank of Georgia, Caterpillar Inc and Adtran Corp in the United States and Alcatel in France.

Group Leadership Team

Managing Director and Chief Executive Officer
Frank Cicutto

Executive General Manager Business and Personal Financial Services
Glenn Barnes

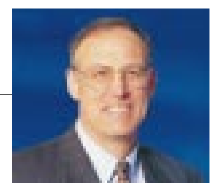
Executive General Manager Products and Services
Ross Pinney

Chief Financial Officer
Bob Prowse

Executive General Manager Global Wholesale Financial Services
Michael Soden

Executive General Manager Group Strategic Development
Roland Matrenza

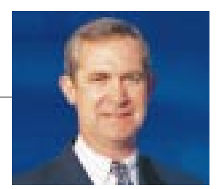
Chief Executive Officer Australian Financial Services
Gordon Wheaton



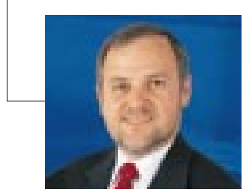
Chairman and Chief Executive Officer HomeSide International, Inc.
Joe Pickett

Executive General Manager Group Risk Management
Bob Miller

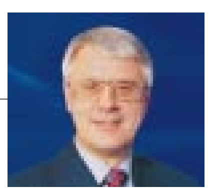
Chief Executive Officer Michigan National Corporation
Doug Ebert



Chief Information Officer
Michael Coomer



Executive General Manager Group Human Resources
Peter McKinnon



Managing Director National Australia Group Europe
Grahame Savage

Year in Review by the Chairman and the Managing Director

The past decade has clearly been one of outstanding success for our Group. It has also prepared us well for the dramatic changes expected in the next. In the past year profit after tax before abnormal items increased 12.3% to $2,821 million. This was our seventh successive record profit. During the past decade our net profit has increased by an average of 16% per annum.

Consistent earnings, a strong credit culture, a healthy return on equity and prudent investment to underpin future growth have always been the hallmarks of the National. More recently, we have added to this the rapid globalisation of our operations, a sustained focus on efficiency in all our operations and the acceleration of our e-commerce involvement. The pace of change has increased dramatically.

The changes we are making in the way we deliver banking and financial services – whether in Australia, Europe, the United States, New Zealand or Asia – are welcomed enthusiastically by the majority in the communities we serve, for the enhanced service, convenience and value they provide. Conversely, however, some are discomforted, even threatened, by the pace of change. Understandably, these changes are attracting increased public scrutiny and often criticism.

The challenge for industry leaders such as the National is to ensure that the nature and impact of the changes it is implementing, and the reasons for them, are both understood and valued by its key stakeholders.

The National is operating in one of the world's most competitive and rapidly transforming industry sectors. Few industries match banking and financial services in terms of the pace and extent of change in their structure, participants, technology and variety of products and services. To consistently deliver record profits in such an environment reflects well on the core strategies, operating skills and management depth of the National.

Against this background, it is reassuring that the fundamental strategy of the National is largely unchanged since it was first articulated in the second half of the 1980s.

The National seeks to be a pre-eminent global provider of banking and financial services under strong brands in geographically diverse, developed economies which have generally similar cultures, language, and legal and political systems.

It endeavours to generate strongly growing, diversified earnings streams by providing a wide range of products and services in each of the regions in which it operates, to realise the economies of scale offered by its combined customer base. At the same time it seeks to achieve the scale which will make it a leading participant in each of the regions it serves.

This scale will be achieved both by organic growth of its existing operations in each region and by acquisition. Acquisitions will be undertaken to expand the customer base or to introduce into the Group new capabilities, skills and products which complement and strengthen its existing activities and services. Frequently, an acquisition can fulfil both objectives. However, acquisitions will only be undertaken when they can be anticipated confidently to create value for our shareholders.

Over the past decade the National's approaches to the implementation of this strategy have been progressively refined.

Perhaps the most significant refinement has been the recent development and deployment of the National Business Model, which has reorganised the Group on a global line of business, rather than a regional basis. The deployment of the model is progressing on schedule.

Within this Business Model best practices are being transferred between regions, and global product specialists have been established or, where appropriate, acquired as going concerns.

The latest phase in this process of strategy implementation involves the transformation of the National to a digital, web-based environment.

An important element of the Group's strategy and a key feature of the National's success in recent years has been its ability to reduce its dependency on interest income. The combination of lower interest rates and intense competition in the Group's markets has resulted in reduced interest margins.

The Group has long anticipated this trend and has moved to reduce the impact on its profits by aggressively developing diversified streams of non-interest income. It has steadily increased its involvement in businesses that have substantial fee income potential. In the past year the National earned nearly 43% of its income from non-interest sources such as fees from mortgage servicing in the United States, treasury income and fees from the marketing of a variety of innovative financial services products. It has an objective of achieving at least 50% of its income from non-interest sources.

Two examples illustrate this point. The acquisition of HomeSide International, Inc. – one of the largest mortgage servicers in the United States – provided $536 million in mortgage origination and servicing fees for the Group during the past year. Similarly, the Group increased its financial services income last year from businesses such as custodial services, funds management and superannuation, by 19.4%.

The National recognised some years ago that banking and financial services would become global markets with little difference between the types of products and services demanded throughout the world's developed economies. The Group also believed that technology would enable global production and marketing of its products and services. It realised these trends would encourage the formation of large banking and financial services conglomerates competing throughout the world.

The National has demonstrated an unusual capacity to successfully acquire and manage operations in a variety of countries. This will be a key capability in the years ahead as the industry continues to globalise and competition intensifies. Importantly, the National is developing the ability to market common products and services to its estimated nine million customers throughout its worldwide Group network.

This ability is being enhanced by the National's growing investment in web-based technologies and e-commerce and its own information technology expertise. This combination of a multinational customer base, growing e-commerce capability and increasing globalisation of its operations will be one of the keys to the National's future growth.

The security of earnings flowing from its geographic diversification is emphasised by the fact that the National now earns 50% of its income outside Australia. Its ability to rapidly integrate acquisitions and gain revenue benefits from them is evident from the first full year's contribution of HomeSide. In its debut year with the Group, HomeSide contributed $153 million to consolidated profits.

The National's Financial Solutions Kiosk at Coles Southland, Melbourne, Australia is a National initiative that provides convenient financial services.

The benefits of the Group's international acquisitions are not simply the quantitative addition to revenues and profits from the current operations of the acquired businesses – impressive as these have been. The National's overall growth strategy also seeks significant synergy benefits from its various acquisitions.

During the past year the globalisation of banking and financial services has continued unabated. Major bank mergers were announced in the United States, Europe and Asia. The repeal of the Glass-Steagall legislation in the United States is expected to set off a new round of consolidation in the finance sector.

Australia will not remain insulated from these forces. For the size of its economy and population it is heavily 'overbanked'. This curtails efficiency and imposes substantial but unnecessary extra costs, which ultimately flow to the consumer.

It is unfortunate that the Federal Government maintains its ban on mergers between Australia's major banks. This seems inconsistent with worldwide trends and runs the risk that no Australian-based bank will be able to achieve the domestic scale required to build a truly global business. It also appears to be inconsistent with Australia's ambition to be a regional banking and financial services centre. Indeed, it is likely over time to lead to a loss of talent and expertise from Australia as its domestic banks become less relevant and less competitive in the world industry.

While international banks and financial services groups have been growing in size, they have also been turning increasingly to new forms of electronic product and service distribution, and particularly to the use of web-based technologies.

Whilst the National is investing heavily in these new distribution channels to remain competitive, it must still maintain its traditional branch network, particularly in Australia. However, it is critically significant that in the past year, less than 20% of its total transactions occurred in its branches, which only a decade or so ago handled virtually 100% of its business.

The emergence of very large, globally focused institutions is literally redefining the way banking and financial services are being developed and marketed across the world.

The National has estimated that 'non traditional' sources of bank revenue such as asset management, risk protection and insurance products will account for about 50% of our industry's profitability within the coming decade.

These trends underlie and reinforce the concentration of the National on building an international portfolio of banking and financial services assets that can be managed to generate high returns individually, organised to provide a collective customer base for economies of scale in global marketing efforts, or leveraged for the building of a larger global presence.

During the past year, the National ran all of its key businesses and services on a global basis for the first time. This was a most significant achievement and was a further demonstration of the Group's ability to garner benefits from globalisation.

As an important illustration of this success, all of the National's information technology operations are now managed by a single global unit, National Services Information Technology Enterprises. During the year, this unit used the global operating model to substantially improve its efficiency. The National is now recognised as being in the top 10% of all companies worldwide for the efficiency of its mainframe information technology operations.
The National gains significant benefits from this leadership in information technology efficiency, not the least being its ability to successfully develop and manage the e-commerce strategy of the Group.

The Group has developed and begun to implement an electronic commerce strategy that has three key elements – Intranet, Internet and 'business- to-business'. During the past year each of these was progressed as part of an overall strategy to ensure the Group is fully equipped to utilise the operational and marketing benefits offered by major technology advances.

While attention is usually focused on the extent to which the Internet is employed as a product and service distribution channel to individual consumers, the National believes a comprehensive e-commerce strategy requires at least equal attention to other areas, particularly the use of electronic distribution to service business clients and to reduce internal costs. The National now has over 100,000 Internet and PC banking customers globally.

This broad area will continue to be a major focus of the Group in the coming year.

The pace of change in its operating environment and organisation structure has inevitably placed great pressure on the people of the National everywhere. Directors recognise the remarkable contribution of all its staff members throughout this diverse Group. The workload required to successfully manage the transition to a global organisation in one of the world's most competitive industries is immense. It requires great commitment and skill – both of which have been displayed in outstanding measure by the people of the National.

During the year Mr Frank Cicutto was appointed Managing Director and Chief Executive Officer of the National Australia Bank Group. He succeeded Mr Don Argus who completed a remarkable 44 year career with the National.

Directors, his senior management colleagues and the staff of the National Australia Bank Group sincerely thank Don Argus for his service and for his accomplishments, particularly during his term as CEO. We wish him every success in the future.

In accordance with the Company's Constitution, in May 1999 Mr Brian Loton retired from the Board on attaining the age of 70. Mr Loton joined the Board in 1988 and became a Vice Chairman in1992. His significant contribution is greatly appreciated.

Mr Frank Blount was appointed as a Director during the year. Mr Blount was Group President of AT&T prior to his appointment as Chief Executive Officer of Telstra Corporation Limited in 1992.

The Year Ahead

In Australia, economic activity appears to have strengthened since mid 1999 with few signs of wage and price pressures. Gross Domestic Product growth is expected to be around 3% for the next 12 to 18 months with underlying inflation, excluding the once-off impact of the new taxation system, to show only a modest increase.

The Group's strategic focus will continue to be on leveraging shareholder value from its unique international business portfolio. Value will be generated through the growth of current market share and thus revenue in the existing business; the expansion of the Group's global production and marketing capability through the National Business Model; and appropriate acquisition of new businesses, where this creates adequate value for shareholders. There will also be increased attention to the value of alliances in furthering the Group's development.

The National has ensured that its balance sheet provides maximum flexibility for expansion, through acquisition or organic growth. Should worthwhile acquisition opportunities in Australia or overseas not present themselves in the shorter term, the alternative avenues of active capital management will be pursued.

The Group is well placed to grasp a range of opportunities and has a mix of capital, revenue, market share, people and geographic spread of assets that is unique. This gives your Board confidence in the continued success of the National in the year ahead.

MR Rayner
Chairman

FJ Cicutto
Managing Director

Business and Personal Financial Services

Business and Personal Financial Services is the National's integrated retailing function dedicated to providing customers with the optimum combination of global knowledge and local experience in financial services.

These retail operations are managed in several global business portfolios. These include:

Global Business Financial Services

Global Business Financial Services is comprised of three customer segments, namely Custom, Package and Agribusiness. This structure ensures that there is a global and consistent approach to this key customer base.

Custom Business Financial Services is our largest revenue and profit contributor, and is focused on providing tailored solutions to meet the financial needs of our sophisticated medium to large business customers.

The National combines global knowledge with local experience

The Package Business Financial Services segment is being created to focus on the financial needs and business solutions of small businesses and sole traders. The aim is to integrate interactive financial solutions, advice management and information across multiple channel access points for our business customers' major personal and business life cycle events.

We are committed to the agribusiness sector and by establishing and implementing a truly global Agribusiness Financial Services division we are aiming to further strengthen and deepen our relationship with this key industry sector and customer base.

Global Premium and Private Financial Services

Global Premium and Private Financial Services is focused on building relationships with high net worth individuals through teams of specialist financial professionals such as Private Bankers, Personal and Executive Bankers, Financial Planners and Mobile Mortgage Managers.

We want all of our premium and private customers – wherever they are around the world – to find us convenient and enjoyable to deal with and to experience a seamless delivery of the best and most appropriate financial solutions.

In Australia we have successfully introduced the Area Integrated Market initiative over the past 18 months.

As an example of the success of the premium platform in Australia, we have achieved over $2.5 billion of total financial services sales in the past financial year through our network of over 200 financial planners.

The development and rollout of Private Banking throughout Asia Pacific, covering Australia, New Zealand and the main commercial centres of Asia, is in a rapid growth phase with around 30 Private Banking suites and a number of satellite offices in place throughout the region.

Europe and the United States, in particular, offer exciting prospects for Private Banking given the potential of these markets. Leveraging the experience in the Asia Pacific region, it is our intention to aggressively develop capabilities in these regions, looking to identify and strengthen relationships with existing high net worth customers and acquire new Private Banking customers.

Personal Investment Consultant, Penny Carroll (left), discusses investment options, including National Income Securities, with retirees at the National's new Financial Services Centre in Hawthorn, Australia.

Retail Financial Services and Channel Management

Retail Financial Services provides for the core financial services needs of 6.8 million customers and provides transactional support to all segments. The Channel Management function is responsible for integrated distribution of financial services across channels, including customer response centres, ATMs and the development of online Internet services.

Across the National, the focus of distribution has shifted from traditional branches to differentiated outlets focusing on the individual needs of customers and the convenience of 2,703 ATMs, six major call centres and leading transactional Internet capabilities.

Products and Services

Products and Services is a diverse global operation. It consists of six global product specialist units, a global product management function and a range of shared services including operations, collections, corporate real estate, strategic sourcing and re-engineering.

By combining product specialists, product management and shared services, Products and Services is able to drive end to end performance utilising a value chain approach.

A single manufacturing platform lowers the cost to serve customers. It also provides for the delivery of quality solutions and transference of best practices, satisfied customers and increased shareholder value.

The key for Products and Services is to build once globally; to utilise our scale, functional expertise and global customer base to drive efficiencies, convergence and lower unit costs.

The Products and Services Leadership Team has summarised the key financial objectives ahead in terms of a simple '30/80/100/200' framework:

- 30% reduction in unit costs by 2001
- 80% product and process convergence by 2001
- 100% achievement of service standards
- doubling profit by 2001.

These objectives are also underlined by the fundamental requirement of Products and Services to assist the retailers achieve their profit objectives.

A major effort has been made to communicate these objectives to Products and Services employees around the globe as well as to focus on performance management and employee development programs.

International transfer of best practices provides quality financial solutions

The past 12 months have seen Products and Services make globalisation a reality at the National. The National Business Model has been substantially implemented with global lines of business managing product development and processing on a global basis. During the year, two new lines of business were established – Global Collections and Global Investment and Insurance (which includes National Australia Financial Management, County Investment Management, National Australia Asset Management and National Australia Life business operations).

This process is already delivering real benefits. Our Group Collection Centre in Leeds is now exporting its best practice debt collection processes throughout the Group. This expertise is currently being leveraged in Australia and New Zealand as we restructure our operations in these areas.

Similar best practice transfers are occurring throughout Products and Services. The highly successful New Zealand Gold Card upgrade strategy has been successfully exported to Australia and is now being implemented in Europe. Global Securities Services is also exporting the successful Master Custody capability to the United Kingdom.

HomeSide International's online site allows customers in the US and overseas to obtain information about its mortgage services from the comfort of their home.

Global Wholesale Financial Services

Global Wholesale Financial Services is responsible for the Group's 1,500 major corporate and institutional relationships worldwide. Incorporating debt markets, corporate finance, foreign exchange, money market, financial risk management, and project and structured finance activities, Global Wholesale Financial Services operates across four continents and 21 financial centres.

We expanded our capability in interest rate and foreign exchange products and introduced commodity risk management and credit derivatives to meet customer needs. Project finance was established in Europe and structured finance extended in the United States.

The National focuses on strengthening corporate and institutional relationships

Following the successful launch of FX Autodealing in Australia and New Zealand, this electronic foreign exchange dealing system will shortly be introduced into the United Kingdom to give our customers more efficient access to foreign exchange services and to assist us in acquiring new customers.

The National achieved a world first by executing the first official Euro transaction following its launch on 1 January 1999.

Our continued focus on enhancing return on equity, together with the growing demand by both borrowers and investors for a broader range of debt instruments, has seen the further development of the Group's debt markets capability.

Of particular note was the establishment of Titan Securitisation Limited, which enabled us to securitise assets in Australia, and our United States Reg Y capability, which when fully licensed, will enable us to sell securities to investors in the US.

Global Wholesale Financial Services continues to pursue a relationship management strategy and is currently in the process of repositioning the Corporate and Institutional Services team along industry sector lines.

To ensure that the wholesale business platform is continually developed to efficiently meet the changing needs of our business, the functional responsibilities within Global Wholesale Financial Services have been formed into a dedicated support services group.

Over the year, various industry surveys noted our market leading capabilities in:

- Relationship management in Australia and New Zealand
- Project finance in Asia Pacific
- A$ cross currency swaps globally
- Interest rate and currency risk management products in Australia.

This is an indication of both the National's success in the past and the capabilities we have to grow our business in the future. Our focus continues to be return on equity, efficiency gains and deepening relationships with corporate and institutional clients.

At Country Road's Head Office in Melbourne, Australia, Christian Paterson, Jane Merrick and Sarah Hill utilise the National's online services.

National Services
Information Technology Enterprises

National Services Information Technology Enterprises (formerly Global Information Technology) is responsible for the technology infrastructure and systems that support the Group's business and keep our customer data secure. We create shareholder value by enhancing the return from the Group's information technology resources.

Globalisation has been the focus throughout the year and will continue to be in 2000. As the National strives to become a truly global player, technology becomes a critical component of the delivery chain in an increasingly complex and sophisticated environment.

Investment in technology enhances customer support

Our strengths lie in the capabilities of our people and our ability to leverage this globally.

This was evidenced by the number of innovative projects undertaken throughout the year, including:

- The successful implementation of a foreign exchange deal capture system for our customers in Australia and New Zealand. This system has given the National market leadership in this specialised area of e-commerce.
- The implementation of a world class 'stand-by' disaster recovery strategy for the Bank of New Zealand. This is a significant achievement for both the Group and our customers. Over the next year we will implement this stand-by strategy in Australia.
- A sophisticated, front office, real-time, treasury deal capture and position keeping system has been implemented in three major Asian financial centres.
- Better use of the existing European ATM and point of sale platform to create a system that will be the basis of all future Mondex launches globally. The system uses the latest chip card technology available in the marketplace today.
- The successful implementation of an online global credit risk exposure system for Global Wholesale Financial Services. This centralised service allows us to manage and monitor credit limits and exposures around the globe.

We have also invested substantial resources in the Group Year 2000 Program and the introduction of the Euro.

This year, we have once again proven that our data centres are among the most cost effective in the world, retaining our position in the top decile globally.

National customers in the UK can access financial services electronically through the latest information technology.

Community Relations

The National is actively involved in communities around the world

The major changes underway in the global banking and financial services sector are having a significant impact on the staff and customers of the National, and also on the Group's other key stakeholders including shareholders and the communities where the National conducts its various businesses. Understanding and responding to the various needs and interests of its stakeholders is what the National believes constitutes its 'Corporate Social Responsibility'.

A socially responsible company is one that attends not only to the need to run efficient and profitable businesses in a commercial sense. It also endeavours to run its businesses in a manner consistent with general public expectations of an ethical and fair organisation and one prepared to assist in addressing community issues.

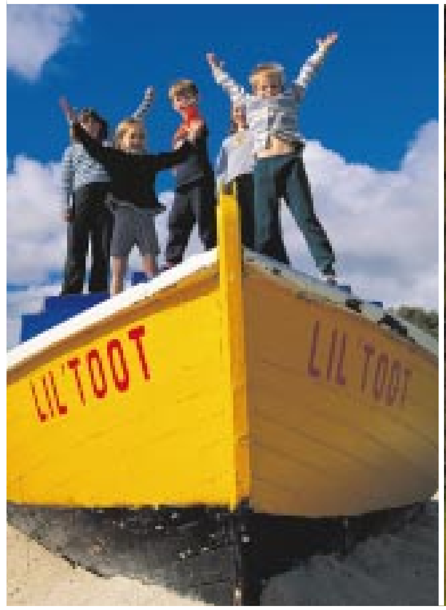
A key objective of the National is to operate as a socially responsible corporation and to earn community recognition for doing so. During the year it completed a major review of community relations activities throughout the Group. The results were pleasing. The review confirmed that a number of highly innovative and important community relations programs are already underway, throughout the Group. These will form the basis of its plans to expand considerably and enhance its community relations effort.

The Group intends to focus on four key community relations activities: community consultation; the involvement of employees in community projects; community investment; and partnerships with major community service and volunteer organisations. It will integrate a number of the highly successful community projects currently underway in Australia, New Zealand, the United Kingdom and the United States into a common approach to community relations.

Some of the key programs forming the basis of the Group's community emphasis include:

- National CommunityLink, a program developed in Australia which will be extended to all areas of the Group in the coming year. CommunityLink is a unique series of projects that promotes the value of community service and volunteer organisations. It includes the largest volunteer awards program in Australia and a series of partnerships with some of Australia's leading community organisations such as the Red Cross, Salvation Army, City Missions Network and the Australian Conservation Foundation.
- Michigan National's highly innovative Community Action Plan, which includes the provision of credit and services to low and moderate income neighbourhoods. This approach may well provide a model for other areas of the Group, given the fact that access to financial services is a significant issue in all developed economies.
- Various programs involving volunteers from Group Banks, which highlight the potential of 'community outreach' activities as key components of community relations. Yorkshire Bank is a founding member of Leeds Cares which provides employees within the company the opportunity to support disadvantaged community groups. In Australia, the National offers its high potential managers the opportunity to assist 12 leading community organisations with their strategy development, marketing, financial control and human resource management.
- Partnerships with community organisations which address issues as diverse as low cost housing, substance abuse, effective parenting and environmental protection. This is another key aspect of the National's community relations. In New Zealand, concern about the potential extinction of the kiwi led to a joint program involving the Bank of New Zealand, the Department of Conservation and the Royal Forest and Bird Protection Society. In Scotland, Clydesdale Bank has a major partnership with Historic Scotland, the Government agency responsible for the maintenance of Scotland's monuments and historic buildings.

The Group plans to use the learning gained from these various activities and combine them into a concerted community relations effort under the banner of an expanded National CommunityLink. This will be supported by direct consultation with community service and volunteer organisations throughout the Group's key operating areas.



Top, Emma Carney, Australian triathlete, is a proud member of Team National.

Bottom left, The National's CommunityLink Program supported a local initiative to build the Yoganup Regional Playground at Busselton, Western Australia.

Bottom right, The Bank of New Zealand is involved in the Kiwi Recovery Program.

Key Business Units

Australian Group

Profit after tax before abnormal items for the Australian Group increased 7.3% over the previous year.

The major business unit is Australian Financial Services which lifted its profit after tax before abnormal items by 2.3% to $1,435 million.

Total net loans and acceptances increased by 6.3% to $105.6 billion and home lending rose by 11.1% to $42 billion during 1999.

The year's highlights include:

- Business Financial Services continued to meet the needs of customers through a strong relationship management strategy that links Business Bankers with other key product specialists. Core improvement plans were focused on building a better management platform for the Custom, Agribusiness and Package Business segments. As part of this, two core products were launched – the National Commercial Mortgage (a lending product for small businesses) and the Farm Deposit Management Account (to meet the seasonal requirements of agribusiness customers).
- The National began trialling a number of convenience banking initiatives in outlets located in southern metropolitan Melbourne, Australia. Additional staff have been hired to demonstrate the benefits of convenience banking facilities.
- In April 1999, the National became the preferred financial services provider to the Institute of Chartered Accountants in Australia, launching an affinity package (including a co-branded Visa Gold Credit Card) to the Institute's 40,000 members, postgraduates and students.
- Over the past 12 months, the National has expanded its Private Banking network, establishing seven new Private Banking suites, satellite offices and specialist and investment services units. The National now has 16 Private Banking units throughout Australia, and significant specialist services have been added in the areas of estate and tax planning and specialised financial planning.

The National's wealth creation entities in Australia comprising National Australia Financial Management, National Australia Asset Management and County Investment Management had a successful year. Operating profit for 1999 increased by 11.1% to $65.5 million.

As at 30 September 1999, total funds under management were $20.7 billion.

Clydesdale Bank

Clydesdale Bank's profit after tax before abnormal items decreased by 8.4% to $262 million this year.

The current year profit includes a charge (after tax) of $55 million (£22 million) in respect of a realignment of the statistically determined general provision across the European entities. Excluding this amount, Clydesdale's profit was £125 million, an increase of 11.6% on the previous year.

Clydesdale performed strongly under increasingly competitive market conditions.

Retail Financial Services contributed the major proportion of profits. Low UK interest rates, combined with an upsurge in the housing market, saw a record £350 million of new mortgages written during the year.

Business Financial Services also performed strongly despite difficult conditions in Scottish agriculture, in which Clydesdale has a significant interest. Increased emphasis on the management of farm accounts, together with the provision of flexible repayment loans geared to cashflow, were among measures taken in support of agribusiness customers.

Northern Bank

Northern Bank's profit after tax before abnormal items increased by 1.2% to $171 million. In local currency, the result increased 1.5% to £67 million.

The main thrust of activity during the year was a radical restructure of the Bank which has affected every area of operation.

The branch network has been reorganised into three segments: business, retail and premium, with dedicated staff able to cater for the needs of their customers.

Branch services are now supplemented by dedicated business centres to look after business and agricultural customers. Ten business centres are now in operation and 50 additional business and agricultural relationship managers were appointed.

A Premium Financial Services unit has been established to cater for high net worth individuals.

Yorkshire Bank

Yorkshire Bank's profit after tax before abnormal items for 1999 was $343 million (£135 million), consistent with 1998.

Premium Financial Services was launched in Yorkshire Bank in April 1999 and by the end of the year had written £10 million of mortgage business and opened 700 principal accounts.

In March 1999, Yorkshire Bank was re-accredited with the prestigious 'Investors in People' status, reflecting the value the Bank places on training and developing its people. This is the first time that a UK bank has been re-accredited for the third consecutive year. In addition, the Bank also received its third 'Your Mortgage Award', this time for best regional lender.

Yorkshire Bank's telephone banking service, launched in 1997, continued to grow, with customer registrations in excess of 10,000 per month.

Mortgage outstandings increased by 30% and retail deposits experienced solid growth of 3%.

Asset Finance delivered 16% growth, the fifth successive year of significant growth, with overall business lending increasing by 13%.

National Irish Bank

National Irish Bank's profit after tax before abnormal items decreased by 6.1% to $31 million in 1999. In local currency, the result decreased 6.7% to £14 million.

During 1999, National Irish Bank successfully implemented key aspects of the National Business Model, launch of the Euro and a Branch Service Centre.

Financial performance during the year was impacted by these changes and the continuing cost of external investigations arising from various allegations made against certain parts of its operations.

The traditional branch network has been reorganised into three segments: business, retail and premium, with dedicated staff able to cater for the specific needs of their individual customers.

A Premium Financial Services unit has been established to cater for high net worth individuals while dedicated business centres cater for the needs of business and agricultural customers.

National Australia Life

National Australia Life's profit after tax was $10 million (£4 million) compared with $5 million (£2 million) for 1998. New annualised premium income was up 7.7% to £36 million.

In April 1999, National Australia Life launched a new tax free Individual Savings Account (ISA). Investment options available to customers now include equity funds geared to growth or income, a high income bond fund, a sheltered growth equity fund and cash deposits.

Michigan National

Michigan National's profit after tax before abnormal items increased 12.4% to $254 million for the current year. In local currency, the result increased 11.6% to US$163 million.

Solid loan growth in the Custom Business segment, combined with an increase in fee income from non-traditional banking sources, have contributed to the upward trend in profits.

Michigan National mutual funds under management grew 17% during 1999 and now ranks seventh in the state of Michigan with US$1.5 billion assets under management.

HomeSide International, Inc.

HomeSide's profit after tax increased 66.3% to $153 million during 1999. In local currency, the result increased 69% to US$98 million. The 1999 result reflects HomeSide's first full year with the Group and strong volume growth.

HomeSide's mortgage servicing portfolio grew 26% to US$146 billion at 30 September 1999.

This growth was fuelled by bulk servicing acquisitions and flow from preferred partners of US$43 billion and production from wholesale channels of US$22 billion.

Internet based business-to-business linkages are fundamental to HomeSide's operating strategy. During the year, HomeSide extended this technology to include Internet access for our borrowers and expanded its broker and correspondent origination websites.

HomeSide now services the mortgages of approximately 1.7 million households.

HomeSide is poised to extend its mortgage expertise to Australia and is assessing opportunities in Europe.

Bank of New Zealand

In a difficult environment Bank of New Zealand achieved a profit after tax of $302 million, an increase of 7.9% from 1998 (before abnormal items). In local currency, the result increased 12% to NZ$363 million.

The Bank's Financial Services Group continued to grow with a significant increase in funds under management. Credit Cards continue to perform strongly – one of every two Gold cards issued in New Zealand now comes from Bank of New Zealand.

The wholesale division was a strong performer and was rated as 'Relationship Bank of the Year'. The division led three major syndications including the largest ever New Zealand dollar syndicated facility.

The Business Bank confirmed its pre-eminent position in the market with interest bearing assets increasing by nearly 10% to NZ$6.7 billion and interest bearing liabilities up 15% to NZ$3.2 billion.

Bank of New Zealand further modified its distribution network to ensure it is aligned to customer needs. Key initiatives were the establishment of the Private Bank, to service high net worth customers, and the launch of Internet Banking.

National Australia Bank Asia

The Asian operations achieved impressive growth during 1999. However, a significant rise in profit from wholesale activities and increased business confidence was offset by unfavourable exchange rate movements on translation of the Group's operations in Asia. Profit after tax for 1999 was $32 million.

The Asian Group continues to focus on developing lasting customer relationships, diversifying income streams and prudent credit quality management.

Financial Information and Analysis

For the Year Ended September 30, 1999

Table of Contents

Description of Business

Introduction

National Australia Bank Limited (hereinafter referred to as 'the National' or 'the Company') is an international financial services group providing a comprehensive and integrated range of financial services across four continents and 15 countries. Globally, at September 30, 1999 the National had:

- Total assets of over $250 billion
- Over $400 billion in assets under administration
- More than 9 million customers

Today, the National is the largest financial services institution listed on the Australian Stock Exchange and ranks among the world's 40 largest banks in terms of shareholders' equity.

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

From its Australian base, the National has expanded through acquisition overseas into those markets where it believes it can implement its successful financial services strategies. This diversification has reduced the National's reliance on any one market and improved the quality of its income streams. At September 30, 1999, 49.7% of the National's total assets were domiciled in Australia, the balance were located in Europe (United Kingdom and Republic of Ireland, 23.1%), United States (12.9%), New Zealand (9.5%) and Asia (4.8%).

Vision and Strategy

The National is focused on building a leading international financial services group. With the assistance of a global business model, 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 acquisition within its core markets of Australia, New Zealand, the United Kingdom, Ireland, the United States and Asia. Organic growth has been achieved through the National's Business, Personal and Wholesale financial service franchises supported by a strong customer orientation and brand position. This growth has been further supported by the development of the National's financial services activities, including life and other insurance products, funds management, custodian and trustee operations.

The National'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. More recently the strategy has also focused on building key capabilities and developing critical mass in selected financial services activities through acquisitions and internal growth. The National's ability to participate in further rationalisation of the banking industry in Australia has been constrained to date by the prohibition of the merger of major banks in Australia by the Commonwealth Government. In the event that such Government policy changed it would be part of the National's strategy to seek to extend its position in Australia through acquisition or merger at an appropriate time.

The Group has also been actively diversifying its income streams to reduce its reliance on interest income. Improved cost recovery of traditional banking services and an expansion of other financial services activities have been the principal contributors to the increase in other operating income. As a result of these efforts, for the twelve months ended September 30, 1999, 42.9% of operating income was derived from non-interest sources.

The National's Business Model

In April 1998, the National introduced a new business operating model to accelerate its transition to an international financial services group and assist in achieving its vision. The key strength of this operating model is that it will enable the National to sharpen its customer focus while gaining greater leverage from the National's international operations. The National's business operating model has four key elements:

Integrated Retailers

The integrated retailers represent the National's customer facing functions. This element of the model requires the National's customer service activities to operate along customer segment rather than geographic lines. Each business segment is then dedicated to meeting the needs of that customer segment with a range of products sourced from both inside and outside the organisation. The integrated retailers are the responsibility of the Business and Personal Financial Services Division.

Product Specialists

Product specialists manage the end to end processes of selected product sets on a global basis. Managing independent business units focused on single products is intended to enable the National to improve efficiency though increased specialisation and scale. Ultimately, the National's product specialists are aiming to deliver world class levels of efficiency in product manufacture and distribution.

Shared Customer Services

Shared customer services centralise common business unit functions such as technology, operations, processing and telephone banking. Through the specialisation of functions and the removal of duplication, substantial opportunities exist to improve efficiency.

Principal responsibility for developing and managing the National's Product Specialist and Shared Services activities is the responsibility of the Global Products and Services Division.

Corporate Centre

A streamlined corporate office focuses on the National's strategy, policy and corporate governance.

Implementation of the National's business model progressed during the year. Key organisational changes have been completed and the National is currently executing the strategies necessary to achieve global scale.

In April 1998, the National announced a restructuring to prepare the National for the implementation of the business model. For the year ended September 30, 1998 a charge of $380 million after tax was made in respect of the restructuring. At September 30, 1999 approximately 70% of the restructuring charge had been utilised. For a detailed discussion of the restructuring charge and its utilisation during the past year refer to page 47.

Business and Personal Financial Services

Structured along global lines, Business and Personal Financial Services (B&PFS) manages the National's integrated retailers which represent the majority of the National's revenue generating activities. The B&PFS is structured along four key customer segments with business units aligned to each segment. These segments comprise: Custom and Rural Business, Packaged Business, Private and Premium Financial Services and Retail Financial Services. Separate businesses have also been established for Direct Retailing and Channel Management.

A brief discussion of the National's retailing activities in each of its operating regions follows. For a detailed discussion of results by geographic segment, refer to pages 49 to 51.

Australia

In Australia, the National's retailing activities are principally conducted through Australian Financial Services which provides a full range of financial services to over 3 million customers across all segments.

Core retail banking services include savings and cheque accounts, passbooks accounts, term deposits, credit cards, personal loans, housing loans and lines of credit. The National is the largest of the major Australian banks.

Within the personal segments, the National is one of the largest providers of credit and deposit facilities in Australia. Other financial services are also provided to these segments through the Company's wholly owned subsidiary National Australia Financial Management Limited. Services include personal financial planning, life and disability insurance, superannuation and a range of managed investment funds. In addition, personal trustee services, including wills, power of attorney, and personal asset care and management services are provided through the National's subsidiary, National Australia Trustees Limited. Importantly, the sale and distribution of all financial services is integrated with the National's distribution network with customers managed on the basis of segments rather than products.

The National is also 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 specialist business and rural banking teams with expert business knowledge and a sound understanding of how to tailor financial solutions to the needs of customers.

Services to business customers comprise a full range of deposit, lending and payments facilities supplemented with a range of other financial services. Some of these services include foreign exchange and interest rate risk management products, fleet vehicle leasing, equity finance, nominee and custodian services, corporate trustee services and life insurance and investment products.

Services are provided through a network of traditional branches and electronic distribution channels. Financial service centres and financial service suites are the primary sales outlets for the personal segments while transactions are conducted through over 1,100 outlets, 1,000 Automatic Teller Machines (ATMs) and 67,000 point of sale terminals. Customers are also able to conduct a range of transactions and other information services over the telephone or via the Internet. As at September 30, 1999 Australia Financial Services had staff of 24,213 (or 21,210 full time equivalent positions).

Business customer sales are primarily conducted through a network of business centres – known as Business Banking Centres and Business Banking Suites. Businesses also have online access to their accounts though a dedicated application called National Online.

Europe

The Group's retailing operations in the United Kingdom and Republic of Ireland primarily consist of four regional banks and a life insurance company. These investments make the National the largest foreign owned banking and financial services group in the United Kingdom and Ireland in terms of assets, with more than four million customers.

The National'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 National also owns National Irish Bank Limited in the Republic of Ireland (National Irish Bank). Each bank offers a broad range of financial services.

Clydesdale Bank is the third largest bank in Scotland in terms of assets, with total assets of $19.2 billion at September 30, 1999. Clydesdale has a well balanced business and personal portfolio, achieving particular success in the custom and packaged business segments. It had 307 outlets and a staff of 4,013 (or 3,640 full time equivalent positions) at September 30, 1999.

Yorkshire Bank operates through 313 outlets in the north of England and the Midlands and at September 30, 1999 had an asset base of $14.4 billion. Yorkshire has traditionally focused on the personal lending market although in recent years it has been actively expanding its presence in personal segments, through the provision of mortgages, and in the business segments by applying the National's business banking template. At September 30, 1999, it had a staff of 5,330 (or 4,685 full time equivalent positions).

Northern Bank is the largest bank in Northern Ireland with total assets of $9.2 billion at September 30, 1999. Northern has a strong business banking presence and over recent years has expanded its profile in the personal segments utilising the National's tailored home loan product. It had 109 outlets and a staff of 2,167 (or 1,933 full time equivalent positions) at September 30, 1999.

National Irish Bank had total assets of $3.7 billion at September 30, 1999 and operates throughout the Republic of Ireland. It had 68 outlets and a staff of 758 (or 730 full time equivalent positions) at September 30, 1999.

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

The National's European banking subsidiaries also operate a number of finance and leasing businesses to support their operations across the region. Other specialised services entities include Northern Bank Executor and Trustee Limited.

New Zealand

Bank of New Zealand (BNZ) was acquired by the National in 1992. It has a strong brand name and franchise with comprehensive coverage of both the North and South Islands of New Zealand, offering a full range of financial services to personal, business and corporate customers.

At September 30, 1999 BNZ had 197 outlets and 5,458 staff (or 4,433 full time equivalent staff positions) and a total asset base of A$24.6 billion which is well balanced between the business and personal segments.

The reconfiguration of the distribution network is continuing with the underlying objective being to provide customers with a variety of cost efficient delivery mechanisms as a platform to grow the BNZ brand franchise within the bank's chosen market segments. The distribution network includes, 194 branch outlets (including 28 business centres), one specialist 'Financial Store' sales outlet and 2 private banking suites, 220 ATMs, and 16,388 point of sale terminals. In addition, BNZ maintains an advanced telephone banking service which is presently being expanded in capacity and functionality. The BNZ has developed an Internet banking capability which is currently being trialled and will be launched in the market in the coming year.

United States

The National's retail presence in the United States was established in 1995 with the purchase of Michigan National Corporation (MNC). MNC's principal subsidiary is Michigan National Bank (MNB), which is ranked as the sixth largest bank in Michigan and 56th largest in the US in terms of total assets, as at June 30, 1999. As at September 30, 1999, total assets were A$15.7 billion.

MNB has a strong presence in both business and personal segments. Commercial business represented approximately 76% of MNB's loan portfolio as at September 30, 1999, with the balance in consumer business.

At September 30, 1999, MNB operated through 188 financial service centres (including 33 supermarket financial services centres) and 312 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. At September 30, 1999, it had staff of 3,833 (or 3,397 full time equivalent positions).

During the year, MNB established a joint venture with Rock Financial, a leading provider of retail mortgages that will offer a full range of residential mortgage products to Michigan National's customer base. This initiative provides benefits for both partners, improving the penetration of MNB's customer base while providing additional scale to Rock Financial.

Products and Services

The Products and Services division is responsible for the manufacture and distribution of the National's products and improving the efficiency of it's supporting infrastructure.

Since the creation of this division in 1998, separate product specialists have been established for credit cards, leasing, payments, international, funds management and insurance. Similarly, shared services divisions have been established for strategic sourcing, properties, accounting, human resources and product management.

As an indication of the size of the Group's product businesses, the National has:
- over 3.8 million credit cards on issue;
- $10 billion in leasing receivables;
- $25 billion in funds under management;
- $42 billion in trade and related turnover during the year; and
- $180 billion of assets under custody.

Credit Cards

The National issues MasterCard and Visa. 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 Group's electronic banking network.

Leasing Receivables

The National's Leasing business comprises the provision of motor vehicle operating leases under fleet management agreements, tax effective leasing of business related equipment and purchase finance for funding of motor vehicles and equipment.

Predominantly all of the National's leasing receivables relate to small and middle ticket transactions.

These products are delivered through the National Group business banking connections as well as through direct sales force to non-bank customers and via third party referrals.

Across the entire portfolio roughly 50% by value are motor vehicles and the balance are agricultural, manufacturing and other equipment types.

Funds under management

National Australia Asset Management and County Investment Management, each wholly owned funds management subsidiaries of the National, function alongside National Australia Financial Management. The investment activities of National Australia Asset Management and County Investment Management operate independently of each other and National Australia Financial Management. At September 30, 1999, the total funds under management was $20.7 billion.

Trade Finance

International and Business Finance comprises two separate business units delivering sales, processing, settlement and finance services for import and export trade and invoice discounting and factoring.

The business provides value added financial services to internal and external customers and has significant market share in the areas where it operates.

National Services Information Technology Enterprises (NSITE)

The largest of the National's shared services activities is the National's global technology operations. NSITE is responsible for the majority of the National's technology infrastructure, software, support and technology research and development and employs approximately 2,373 staff (or 2,256 full time equivalent positions) across all of the National's operating regions.

As with all of the shared services operations, NSITE is responsible for driving greater value and improving the efficiency of what is one of the largest cost components of any financial service company.

For a description of the National's Year 2000 Readiness see pages 66 to 69 under the Management Discussion and Analysis.

Global Wholesale Financial Services

The National's wholesale activities are conducted through a dedicated division called Global Wholesale Financial Services (GWFS). This division combines the management of the National's capital markets, corporate banking, foreign exchange, money market and project and structured finance operations into a single strategic business unit.

GWFS trades 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 principal and trader.

GWFS is focused on managing the National's relationships with corporate and institutional customers in addition to providing market-making activities in traditional treasury products. GWFS also supports the National's retailing operations with foreign currency and interest rate risk management products designed for the custom and rural business segment.

GWFS operations are maintained in Australia and New Zealand, with branches in London, New York, Hong Kong, Singapore, Tokyo, Seoul, Labuan, Bangkok, and Taipei and through representative offices maintained in Beijing, Kuala Lumpur, Jakarta, New Delhi and Mumbai.

International Banking Relations is a division within GWFS managing the National's banking relationships with approximately 3,000 correspondent banks. These relationships enable the National to provide a comprehensive range of services across the globe.

GWFS manages the National's Asian network providing a range of international trade finance and treasury services, primarily to companies which participate in trade flows between Asia and the National's key markets of Australia, New Zealand, United Kingdom, Republic of Ireland and the United States.

Asian Operations

From its regional headquarters in Hong Kong, National Australia Bank Asia operates seven branches and four representative offices in the major Asian business capitals. A full time equivalent staff of 291 is employed in the Asian region.

HomeSide

On February 10, 1998 the National acquired HomeSide International, Inc. (HomeSide), one of the largest originators and servicers of mortgages in the United States.

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. HomeSide's strength is its exclusive focus on the mortgage process, from originating loans and collecting repayments through to the creation of mortgage backed securities, which are sold in the secondary market.

In collecting mortgages from a variety of sources, HomeSide has established preferred partnership agreements with Bank of Boston, Bank One and Peoples Bank. HomeSide expanded its relationship with Bank One in March 1999 to include the servicing of First Chicago NBD Mortgage Company's US$18 billion mortgage loan portfolio. These agreements provide HomeSide with a strong source of originations without the need to maintain a costly distribution network.

In addition, HomeSide has also entered into a strategic alliance with Cendant Mortgage in June 1999 which agreed to sell HomeSide up to US$7 billion in mortgages annually.

As at June 30, 1999 HomeSide was the 8th 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.

A program is well progressed to apply HomeSide's processing systems and procedures in Australia and is assessing opportunities in Europe.

Other activities

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 Group's business related properties and custodian services.

Competition

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

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

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

Regulation of the Financial Services System

Australia

Effective from July 1, 1998 the Australian Prudential Regulation Authority (APRA) assumed responsibility for the prudential and regulatory supervision of Australian banks, insurance companies and superannuation funds. Subsequently, on July 1, 1999 APRA also assumed responsibility for the prudential supervision of building societies, credit unions and friendly societies.

The Reserve Bank of Australia, the prior supervisor of the Australian banking system has overall responsibility for monetary policy, financial system stability and, through a Payments System Board, payments system regulation including the operations of Australia's real time gross settlement system (RTGS).

The Australian Securities and Investments Commission (ASIC) has responsibility for market integrity, disclosure and other consumer protection issues.

APRA has initially adopted the prudential standards that the Reserve Bank had applied to banks. Australia has long been a signatory to the Basle Accords 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 to also hold an exchange settlement account with the Reserve Bank.

The Banking Act now permits the use of 'non-operating holding company' (NOHC) structures for the ownership of banks and other financial entities. A NOHC is allowed where a bank or ADI is present. In addition, financial groups may hold multiple ADI licences.

APRA 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 an ADI has contravened a prudential standard or regulation. These 'direction powers' enable the prudential regulator to impose correcting action without assuming control. It also has the power to intervene to prevent a crisis from emerging.

APRA requires banks to provide regularly reports covering a broad range of information, including financial and statistical data relating to their financial position and prudential matters. APRA gives special attention to capital adequacy (see pages 54 to 57 for current details), sustainability of earnings, loan loss experience, liquidity (see below), concentration of risks, potential exposures through equity investments, funds management and securitisation activities and international banking operations.

In April 1998, a revised Prudential Statement D1 on Liquidity Management foreshadowed the removal of the Prime Assets Ratio (PAR) arrangements (the holding of a proportion of domestic assets in high quality liquefiable assets) upon the adoption by banks of new liquidity management systems based on cash flow projections. The PAR arrangements were abolished on August 16, 1999. The requirement for banks to maintain funds in a special Non Callable Deposit account with the Reserve Bank was abolished on July 1, 1999.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from banks with selective 'on site' visits by specialist teams to overview discrete areas of banks' operations. These include 'asset quality' and 'market risk' reviews and formal meetings with banks' senior management and external auditors. APRA has also formalised a consultative relationship with each bank's external auditors with the agreement of the banks. The external auditors provide additional assurance to APRA that prudential standards agreed with the banks are being observed, and that statutory and other banking requirements are being met. External auditors also undertake targeted reviews of specific risk management areas selected at the annual meeting between the bank, its external auditors and APRA. In addition, each bank's Chief Executive Officer attests to the adequacy and operating effectiveness of the bank's management systems to control exposures and limit risks to prudent levels.

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%, although actual rates are currently well below this 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.

Non-Australian Jurisdictions

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

The National'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.

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 adequacy guidelines in accordance with the convergence framework developed by the National for International Settlements. Also, 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 Financial Services Authority in the United Kingdom, the Federal Reserve Board and the Office of the Comptroller of the Currency in the United States have each taken 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 emphasis of the Reserve Bank of New Zealand's regulatory framework is primarily on capital adequacy and systemic risk management. The framework has moved away from detailed rules and private monitoring by the supervisor, in favour of enhanced public disclosure of financial information, a relaxation of supervisory regulation and increased emphasis on the role of bank directors.

In other offshore areas of activity, including the overseas branch banking operations and the various non-bank operating subsidiaries, the National believes it is currently in full compliance with the operating requirements of local regulatory authorities.

Description of Property

The Group is a substantial property owner due to the scale and nature of its operations. The majority of its operations are in Australia with the largest proportion of the remainder being in the United Kingdom. For further detail on the Group's property holding, refer to Note 19 of the financial statements.

Certain Legal Proceedings

Companies within the Group are defendants from time to time in legal proceedings arising from the conduct of their businesses. For further information on contingent liabilities of the Group, refer to Note 38 of the financial statements.

Financial Review

Overview

The Financial Review on pages 36 to 74 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*	*1999* *AUD*	*1999* *USD*[(1)]	*Consolidated* *1998* *AUD*	*1997* *AUD*	*1996* *AUD*	*1995* *AUD*
Summary of Consolidated Statements of Income						
Australian GAAP						
Interest income	**15,066**	**9,835**	15,427	12,936	12,088	10,169
Interest expense	**9,000**	**5,875**	9,569	7,578	6,958	5,646
Net interest income	**6,066**	**3,960**	5,858	5,358	5,130	4,523
Charge to provide for doubtful debts	**540**	**353**	572	332	333	116
Net interest income after provision for doubtful debts	**5,526**	**3,607**	5,286	5,026	4,797	4,407
Other operating income	**4,563**	**2,979**	3,953	2,909	2,631	2,447
Other operating expenses	**5,948**	**3,883**	5,516	4,619	4,366	4,008
Operating profit before abnormal items	**4,141**	**2,703**	3,723	3,316	3,062	2,846
Abnormal items	**–**	**–**	(749)	–	–	33
Operating profit	**4,141**	**2,703**	2,974	3,316	3,062	2,879
Income tax expense (benefit) attributable to:						
Operating profit	**1,321**	**862**	1,211	1,095	959	906
Abnormal items	**–**	**–**	(252)	–	–	–
Total income tax expense	**1,321**	**862**	959	1,095	959	906
Operating profit after income tax	**2,820**	**1,841**	2,015	2,221	2,103	1,973
Outside equity interests in operating profit (loss) after tax	**(1)**	**(1)**	1	(2)	1	4
Operating profit after income tax attributable to members of the Company	**2,821**	**1,842**	2,014	2,223	2,102	1,969

(1) *Translated at the Noon Buying Rate on September 30, 1999 of US$0.6528 = A$1.00. See 'Selected Financial Data for five years ended September 30, 1999 – Exchange Rates' on Page 39.*

- Net interest income in 1999 increased 3.6% to $6,066 million after increases of 9.3% and 4.4% in 1998 and 1997 respectively.
- Charge to provide for doubtful debts decreased 5.6% to $540 million from $572 million in 1998 after an increase from $332 million in 1997.
- Other operating income in 1999 increased by 15.4% to $4,563 million after increases of 35.9% and 10.6% in 1998 and 1997 respectively.
- Other operating expenses in 1999 increased by 7.8% to $5,948 million after increases of 19.4% and 5.8% in 1998 and 1997 respectively.
- Operating profit before income tax and abnormal items in 1999 increased by 11.2% to $4,141 million after increases of 12.3% and 8.3% respectively in 1998 and 1997 respectively.
- Operating profit after income tax and abnormal items increased 40.1% in 1999 to $2,821 million in 1999 after decreasing by 9.4% to $2,014 million in 1998 and increasing by 5.8% to $2,223 million in 1997.
- The 1998 result included abnormal items of $497 million after tax. There were no abnormal items in 1999. Excluding the effect of abnormal items, operating profit after tax grew by 12.3% from $2,511 million in 1998 to $2,821 million.
- Gross loans and advances grew 3.4% during 1999 from $164.1 billion in 1998 to $169.7 billion. Excluding the effect of exchange rate movements, the increase in 1999 was 9.2%.
- Total provision for doubtful debts decreased during 1999 by 1.3% from $2,563 million in 1998 to $2,529 million. Gross non-accrual loans increased during 1999 by 6.8% from $1,470 million to $1,570 million. Gross non-accrual loans as a percentage of risk weight assets is a modest 0.8%.
- The $2 billion issue of National Income Securities during 1999 has strengthened the Group's capital ratios. The Tier 1 capital ratio as at September 30, 1999 was 7.8% compared with 6.4% in 1998 and 6.8% in 1997. The total risk weighted capital ratios at September 30, 1999, 1998 and 1997 were 10.4%, 9.2% and 8.7% respectively.

In Australia, economic activity appears to have strengthened since mid 1999 with few signs of wage and price pressures. Expenditure on year 2000 and GST implementation is expected to continue to underpin growth in the latter half of 1999. However, a slowdown in business investment and housing lending and de-stocking after January 1, 2000 are all expected to contribute to a general slowdown in the economy. GDP growth is expected to be around 3% for both 1999/2000 and 2000/2001 with underlying inflation (excluding the one-off impact of the new taxation system) only showing a modest increase.

The Reserve Bank of Australia (RBA) is expected to increase official further in the first half of 2000. However the current tightening phase will be modest, provided growth slows and the introduction of the GST does not result in large wage increases being negotiated.

Economic activity in the US is expected to moderate during 2000 as domestic demand eases. With the economy operating at very high levels and continued tightness in the labour market, inflationary risks are now increasing. This is causing upward pressure on interest rates with a moderate increase in short term US official interest rates anticipated during the first half of 2000.

In Europe, the economic recovery currently underway in the UK is expected to continue in 2000. Buoyant growth in household spending, continued expansion in the services sector and a moderate recovery in manufacturing activity will support continued growth of around 3% in 2000.

Although a moderation in activity is forecast for Ireland in 2000, the pace of economic activity should remain well above the Euro area average.

In New Zealand, economic recovery temporarily slowed in mid 1999, but activity is expected to improve during the latter half of 1999 and into 2000. A gradual strengthening of exports over the latter half of 1999 will drive a recovery in business activity, while an improvement in the labour market will support moderate growth in consumer spending. Considerable uncertainty regarding the external environment, high levels of household debt and a high current account deficit, however, is expected to moderate the extent of the recovery. Interest rates are expected to also increase during the next year.

Selected Financial Data for Five Years

The Consolidated Entity's financial report is 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 report of the Consolidated Entity or where certain items are not shown in the consolidated financial report, 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 financial report. For details of credit quality data refer to pages 59 to 60. Comparative amounts have been reclassified to accord with changes in presentation made in 1999, except where otherwise stated.

			Consolidated			
For years ended September 30	*1999*	*1999*[(1)]	*1998*[(2)]	*1997*	*1996*[(3)]	*1995*
Dollars in Millions unless otherwise stated	*AUD*	*USD*	*AUD*	*AUD*	*AUD*	*AUD*
Share Information						
Dividends paid/payable[(4)(5)]	**1,655**	**1,080**	1,467	1,367	1,276	1,173
Earnings per share (before abnormal items)($)[(6)]						
– basic	**1.87**	**1.22**	1.75	1.52	1.45	1.39
– diluted	**1.82**	**1.19**	1.71	1.49	1.43	1.38
Earnings per share (after abnormal items)($)[(6)]						
– basic	**1.87**	**1.22**	1.40	1.52	1.45	1.41
– diluted	**1.82**	**1.19**	1.38	1.49	1.43	1.40
Cash earnings per share (before abnormals)($)[(7)]						
– basic	**2.01**	**1.31**	1.87	1.61	1.54	1.45
– diluted	**1.95**	**1.27**	1.83	1.58	1.52	1.44
Dividends per share($)[(4)(5)]	**1.12**	**0.73**	1.02	0.94	0.87	0.83
Dividends per ADS($)[(4)(5)]	**5.60**	**3.65**	5.10	4.70	4.35	4.15
Dividends per ADS (US$)[(4)(5)(8)]	**N/A**	**N/A**	3.17	3.24	3.40	3.02
Dividend cover (times) before abnormal items	**1.70**	**1.70**	1.71	1.63	1.65	1.65
Dividend cover (times) after abnormal items	**1.70**	**1.70**	1.37	1.63	1.65	1.68
Net tangible asset backing per ordinary share($)[(9)(10)]	**8.67**	**5.66**	8.24	7.40	6.97	7.00
Share prices for the year						
– High[(11)]	**30.28**	**19.90**	23.50	22.85	13.30	12.54
– Low[(11)]	**18.99**	**12.48**	16.87	13.15	10.98	10.16
– End($)	**22.43**	**14.64**	20.39	21.22	13.30	11.70
Adjusted to Accord with US GAAP						
Net income	**2,862**	**1,870**	2,099	2,289	2,147	2,013
Earnings per share[(7)]						
– basic	**1.89**	**1.23**	1.46	1.56	1.48	1.44
– diluted	**1.84**	**1.20**	1.44	1.53	1.46	1.43
Cash earnings per share[(7)]						
– basic	**2.03**	**1.33**	1.59	1.66	1.57	1.51
– diluted	**1.99**	**1.30**	1.56	1.62	1.55	1.50
Earnings per ADS[(6)]						
– basic	**9.45**	**6.15**	7.30	7.80	7.40	7.20
– diluted	**9.20**	**6.00**	7.20	7.65	7.30	7.15

For years ended September 30 *Dollars in Millions unless otherwise stated*	*1999* *AUD*	*1999[1]* *USD*	*1998[2]* *AUD*	*1997* *AUD*	*1996[3]* *AUD*	*1995* *AUD*
Summary of Consolidated Balance Sheets						
Australian GAAP						
Loans and advances						
(after provision for doubtful debts)	**165,620**	**108,117**	160,001	131,036	111,963	91,538
Total assets	**254,081**	**165,864**	251,714	201,969	173,710	148,123
Risk weighted assets	**194,269**	**126,819**	197,057	154,309	133,313	108,985
Deposits and other borrowings	**162,468**	**106,059**	158,084	128,469	109,158	88,529
Perpetual floating rate notes	**383**	**250**	421	347	424	459
Exchangeable capital units [12]	**1,262**	**824**	1,262	1,262	–	–
Bonds, notes and subordinated debt	**13,437**	**8,772**	15,115	9,569	6,958	4,067
Ordinary shares	**6,611**	**4,316**	5,942	1,413	1,477	1,429
Equity instruments	**2,675**	**1,746**	733	–	–	–
Issued and paid up capital	**9,286**	**6,062**	6,675	1,413	1,477	1,429
Shareholders' equity[10]	**18,520**	**12,090**	15,761	12,579	12,519	11,381
Book value per share	**12.46**	**8.13**	10.87	8.88	8.45	7.94
Book value per ADS	**62.30**	**40.67**	54.35	44.40	42.25	39.70
Adjusted to Accord with US GAAP						
Shareholders' equity[10]	**19,226**	**12,551**	16,359	13,153	13,011	11,761
Total assets	**258,816**	**168,955**	256,771	205,743	173,552	147,789

For years ended September 30	*1999* %	*1998* %	*1997* %	*1996* %	*1995* %
Selected Financial Ratios					
Australian GAAP					
Operating profit (before abnormal items) as a percentage of:					
Average total assets	**1.1**	1.1	1.2	1.3	1.4
Average ordinary shareholders' equity	**17.3**	17.8	16.7	17.0	17.8
Year end total assets	**1.1**	1.0	1.1	1.2	1.3
Year end ordinary shareholders' equity	**17.3**	16.7	17.7	16.8	17.3
Operating profit (after abnormal items) as a percentage of:					
Average total assets	**1.1**	0.8	1.2	1.3	1.4
Average ordinary shareholders' equity	**17.3**	14.3	16.7	17.0	18.1
Year end total assets	**1.1**	0.8	1.1	1.2	1.3
Year end ordinary shareholders' equity	**17.3**	13.4	17.7	16.8	17.3
Dividends as a percentage of operating profit [4][5]	**60.2**	73.1	61.5	60.7	59.6
Average shareholders' equity as a percentage of average total assets	**6.7**	5.9	7.1	7.5	8.0
Cash return before abnormals on average tangible Shareholders' funds[18]	**22.8**	22.9	21.2	21.1	21.4
Capital: risk asset ratios[13]					
– Tier 1	**7.8**	6.4	6.8	7.6	9.2
– Tier 2	**2.9**	3.1	2.2	1.9	2.6
– deductions	**(0.3)**	(0.3)	(0.3)	(0.2)	(0.2)
– total	**10.4**	9.2	8.7	9.3	11.6
Net average interest margin	**3.00**	3.17	3.53	3.93	4.21
Adjusted to Accord with US GAAP					
Net income as a percentage of period end:					
Total assets	**1.1**	0.8	1.1	1.2	1.4
Shareholders' equity	**14.9**	12.8	17.4	16.5	17.1
Dividends as percentage of net income[4][5]	**57.8**	69.9	59.7	59.4	58.3
Shareholders' equity as percentage of total assets	**7.4**	6.4	6.5	7.5	7.9

For years ended September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Exchange Rates (Average and Closing)					
Average					
– British pound	**0.3934**	0.3914	0.4714	0.5000	0.4672
– Irish punts	**0.4592**	0.4530	0.4934	0.4846	0.4622
– United States dollar	**0.6404**	0.6468	0.7695	0.7710	0.7424
– New Zealand dollar	**1.2012**	1.1576	1.1240	1.1426	1.1439
– Singapore dollar	**1.0804**	1.0720	1.1052	1.0880	1.0604
Closing					
– British pound	**0.3697**	0.3480	0.4467	0.5082	0.4773
– Irish punts	**0.4840**	0.3972	0.4940	0.4959	0.4683
– United States dollar	**0.6528**	0.5934	0.7197	0.7935	0.7550
– New Zealand dollar	**1.2589**	1.1880	1.1272	1.1341	1.1491
– Singapore dollar	**1.1116**	1.0017	1.1043	1.1172	1.0725

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.

For years ended September 30	*2000*[(14)]	*1999*	*1998*	*1997*	*1996*	*1995*
(US$ per A$1.00)						
High	**0.6633**	**0.6712**	0.7386	0.8180	0.8017	0.7778
Low	**0.6440**	**0.5887**	0.5550	0.7455	0.7350	0.7100
Average[(15)]	**0.6527**	**0.6404**	0.6571	0.7639	0.7591	0.7394
September 30		**0.6528**	0.5930	0.7250	0.7912	0.7555

On October 22, 1999 the Noon Buying Rate was US$0.6503 per A$1.00.

For years ended September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Other Information (Numbers)					
Consolidated Entity Branches and business outlets	**2,339**	2,349	2,421	2,513	2,356
Consolidated Entity Staff					
– full time and part time [(16)]	**51,566**	50,973	52,226	52,912	52,567
– full time equivalent[(17)]	**45,676**	46,300	46,422	47,178	45,585

Notes:

(1) *Translated at the Noon Buying Rate on September 30, 1999 of US$0.6528 = A$1.00.*

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

(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. Operating profit is based on amounts attributable to ordinary shareholders after deducting distributions to other equity holders.*

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

(6) *See Note 6 and 49 of the financial statements for explanation of earnings per share.*

(7) *Cash earnings are based on earnings attributable to ordinary shareholders excluding goodwill amortisation.*

(8) *Dividend amounts are translated into US dollars per ADS (representing five ordinary shares) at the exchange rate on each of the respective payment dates for interim and final dividends. The 1999 final ordinary dividend of A$0.58 per share is not payable until December 15, 1999. Accordingly, the total US dollar dividend per ADS cannot be determined until that date.*

(9) *After deducting goodwill.*

(10) *Excludes outside equity interests.*

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

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

(13) *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 54 to 57. Also see 'Regulation of the Financial Services System' on pages 34 to 35.*

(14) *Through to October 22, 1999.*

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

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

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

(18) *Based on cash earnings as a percentage of average shareholders equity excluding goodwill.*

Net Interest Income

1999	*$ 6,066 million*
1998	*$ 5,858 million*
1997	*$ 5,358 million*

The principal source of income 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 1999 increased by 3.6% to $6,066 million after increases of 9.3% to $5,858 million in 1998 and 4.4% to $5,358 million in 1997. During 1999, movements in exchange rates reduced net interest income by $19 million, in contrast to 1998, where the weakening of the Australian dollar, increased net interest income by $380 million. Excluding the effect of exchange rate movements, the increase in 1998 was 2.2%.

Interest income decreased by 2.3% to $15,066 million in 1999 after increasing by 19.3% to $15,427 in 1998 and by 7.0% to $12,936 million in 1997. Excluding the impact of exchange rate movements the decrease in 1999 was 2.0% and in 1998 the increase was 11.6%. In 1999, strong lending growth across the Group substantially offset the fall in interest margins.

Interest expense decreased 5.9% to $9,000 million during 1999 after increasing 26.3% to $9,569 million in 1998 and by 8.9% to $7,578 million in 1997. Exchange rate movements added $607 million, to interest expense in 1998.

Average interest earning assets for 1999 increased by 9.3% to $202.1 billion from $184.9 billion in 1998 and $152.1 billion in 1997.

The interest margin (net interest as a percentage of average interest earning assets), which includes the impact of non-accrual loans on net interest income, was 3.00% in 1999 compared with 3.17% in 1998 and 3.53% in 1997. The interest spread (the difference between the average interest rate earned and the average interest rate paid) decreased to 2.47% from 2.63% in 1998 and 2.83% in 1997.

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	***1999 over 1998***			*1998 over 1997*			*1997 over 1996*		
	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	**(11)**	**5**	**(6)**	7	(23)	(16)	(7)	(31)	(38)
Overseas	**(101)**	**44**	**(57)**	40	44	84	60	(2)	58
Regulatory deposits									
Australia	**(1)**	**–**	**(1)**	1	(7)	(6)	1	(11)	(10)
Overseas	**(1)**	**–**	**(1)**	–	–	–	1	–	1
Marketable debt securities									
Australia	**131**	**(34)**	**97**	85	(97)	(12)	11	(53)	(42)
Overseas	**31**	**(235)**	**(204)**	235	62	297	135	(51)	84
Loans and advances									
Australia	**512**	**(493)**	**19**	870	(1,032)	(162)	953	(874)	79
Overseas	**726**	**(1,130)**	**(404)**	1,420	175	1,595	747	(186)	561
Other interest earning assets	**176**	**20**	**196**	275	436	711	(13)	168	155
Change in interest income	**1,462**	**(1,823)**	**(361)**	2,933	(442)	2,491	1,888	(1,040)	848

For years ended September 30	1999 over 1998			1998 over 1997			1997 over 1996		
	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 bearing liabilities									
Time deposits									
Australia	**224**	**(84)**	**140**	283	(445)	(162)	66	(410)	(344)
Overseas	**470**	**(942)**	**(472)**	479	205	684	532	(19)	513
Savings deposits									
Australia	**(3)**	**(2)**	**(5)**	(9)	(21)	(30)	(2)	(29)	(31)
Overseas	**46**	**(210)**	**(164)**	112	140	252	30	(43)	(13)
Other demand deposits									
Australia	**52**	**(52)**	**–**	139	(175)	(36)	217	(210)	7
Overseas	**29**	**(83)**	**(54)**	50	25	75	31	(50)	(19)
Government and official institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**8**	**1**	**9**	11	(2)	9	7	–	7
Due to other financial institutions									
Australia	**1**	**2**	**3**	(32)	(39)	(71)	(28)	(33)	(61)
Overseas	**27**	**(70)**	**(43)**	355	55	410	(4)	(41)	(45)
Short term borrowings									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**(114)**	**135**	**21**	146	(49)	97	6	–	6
Long term borrowings									
Australia	**27**	**(114)**	**(87)**	216	7	223	158	(7)	151
Overseas	**(62)**	**12**	**(50)**	84	8	92	(18)	(10)	(28)
Other interest bearing liabilities	**65**	**68**	**133**	167	209	376	(32)	457	425
Other debt issues									
Australia	**(1)**	**(2)**	**(3)**	3	5	8	–	–	–
Overseas	**(1)**	**4**	**3**	56	8	64	45	7	52
Change in interest expense	**768**	**(1,337)**	**(569)**	2,060	(69)	1,991	1,008	(388)	620
Change in net interest income	**694**	**(486)**	**208**	873	(373)	500	880	(652)	228

For years ended September 30 Dollars in millions, except percentages	1999	1998	1997
Interest Margins and Spreads			
Australia			
Net interest income	**2,951**	2,896	2,864
Average interest earning assets	**95,106**	85,748	73,954
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.34**	2.63	2.97
Interest foregone on non-accrual and restructured loans %	**(0.05)**	(0.05)	(0.05)
Interest spread(1) %	**2.29**	2.58	2.92
Benefit of net free liabilities, provisions, and equity %	**0.83**	0.80	0.92
Interest margin(2) %	**3.12**	3.38	3.84
Overseas			
Net interest income	**3,115**	2,962	2,494
Average interest earning assets	**106,946**	99,127	78,106
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.67**	2.74	2.79
Interest foregone on non-accrual and restructured loans %	**(0.05)**	(0.05)	(0.06)
Interest spread(1) %	**2.62**	2.69	2.73
Benefit of net free liabilities, provisions, and equity %	**0.28**	0.30	0.46
Interest margin(2) %	**2.90**	2.99	3.19

For years ended September 30 *Dollars in millions, except percentages*	***1999***	*1998*	*1997*
Group			
Net interest income	**6,066**	5,858	5,358
Average interest earning assets	**202,052**	184,875	152,060
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.51**	2.68	2.88
Interest foregone on non-accrual and restructured loans %	**(0.04)**	(0.05)	(0.05)
Interest spread[(1)] %	**2.47**	2.63	2.83
Benefit of net free liabilities, provisions, and equity %	**0.53**	0.54	0.70
Interest margin[(2)] %	**3.00**	3.17	3.53

[(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 7.5% from 8.1% in 1998 and 8.8% in 1997, while the interest rate on interest bearing liabilities also decreased to 5.1% from 5.5% in 1998 and from 5.9% in 1997. Interest margins in Australia were lower in 1999 largely a reflection of strong lending margins and a continued low interest rate environment resulting in lower retail deposit margins.

The interest rate on overseas interest earning assets decreased to 7.5% in 1999 from 8.6% in 1998 and 8.1% in 1997 while the interest rate on interest bearing liabilities decreased to 5.0% in 1999 from 5.9% in 1998 and 5.4% in 1997. Overseas interest margins reduced in 1999 and were also mainly impacted by a lower interest rate environment which affected retail deposit margins in New Zealand and Europe. This was partly offset by favourable net interest income derived from investment of proceeds from the Preference Share issue in September 1998 and National Income Securities issued in June 1999.

During the twelve months to September 1999, net interest income increased $208 million. Australian net interest income increased marginally by 2.3% to $2,964 million, while overseas net interest income increased 4.7% to $3,102 million. Average interest earning assets increased 9.3% to $202.1 billion during the year. Australian interest earning assets grew by 10.9% to $95.1 billion, while overseas grew by 7.9% to $106.9 billion.

Bad and Doubtful Debts

1999	*$540 million*
1998[(1)]	*$572 million*
1997	*$332 million*

The total charge for bad and doubtful debts for 1999 amounted to $540 million, $32 million lower than the 1998 charge of $572 million.

The charge for the Australian Group decreased to $180 million in 1999 from $256 million mainly reflecting lower specific provisions.

The charge in Europe was $264 million, an increase of $57 million or 27% over the charge of $207 million in 1998 which in turn was $27 million higher than the charge of $180 million in 1997.

The 1999 doubtful debts charge for each of the European entities includes the impact of a realignment of the statistically determined general provision, adopted in 1998, between European Group Other and the individual Banks. The realignment has impacted the European Banks and Europe Other by the following amounts: Clydesdale Bank (up $79 million), Northern Bank (down $11 million), Yorkshire Bank (up $9 million), National Irish Bank (up $3 million) and Other Europe (down $74 million). The net impact on the European Group charge was an increase of $6 million ($4 million after tax).

Excluding these realignments, Clydesdale Bank's charge increased by $26 million reflecting a number of new specific provisions raised during the year and increased lending volumes. Yorkshire Bank's charge increased by $26 million due to a change in the mix of the loan book. Northern Bank's charge increased by $16 million reflecting new specific provisions raised during the year. National Irish Bank's charge decreased by $4 million reflecting higher recoveries. The charge in Other European units decreased by $14 million.

The charge in the New Zealand Group decreased to $19 million in 1999 from $24 million in 1998, due to the improved quality of the loan portfolio.

The charge in the United States Group decreased by $5 million mainly due to lower charges in HomeSide of $10 million reflecting a decrease in provisioning for 1999 as well as a decrease in HomeSide's reserve for credit losses which is consistent with lower delinquencies and foreclosures throughout the industry in the US. This was partly offset by higher charges in New York of $3 million and Michigan National Corporation of $2 million.

[(1)] *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 methodology is discussed in the Abnormal Items section on page 47 and Notes 1 and 3 to the financial statements on pages 84 and 91 respectively.*

Charge to Provide for Doubtful Debts

For years ended September 30	***1999*** **$M**	*1998* *$M*	*1997* *$M*	*1999/1998* *% change*
Total Charge				
Australian Group	**180**	256	135	(29.7)
European Group[1]:				
Clydesdale Bank	**216**	111	52	94.6
National Irish Bank	**7**	8	1	(12.5)
Northern Bank	**14**	9	6	55.6
Yorkshire Bank	**104**	69	118	50.7
Other	**(77)**	10	3	large
Total European Group	**264**	207	180	27.5
New Zealand Group	**19**	24	(12)	(20.8)
United States Group	**49**	54	23	(9.3)
Asia Group	**28**	31	6	(9.7)
Total	**540**	572	332	(5.6)

Net write-offs (advances written off less recoveries) in 1999 were $422 million compared with $457 million in 1998 and $348 million in 1997. As a percentage of risk weighted assets, net write-offs were 0.2% in 1999, 0.2% in 1998 and 0.2% in 1997.

(1) *The 1999 doubtful debts charge for each of the European entities includes the impact of a realignment of the statistically determined general provision, adopted in 1998, between European Group Other and the individual Banks. The realignment has impacted the European Banks and Europe Other by the following amounts: Clydesdale Bank (up $79 million), Northern Bank (down $11 million), Yorkshire Bank (up $9 million), National Irish Bank (up $3 million) and Other Europe (down $74 million). The net impact on the European Group charge was an increase of $6 million ($4 million after tax).*

Percentage of Risk Weighted Assets

For years ended September 30	***1999*** **%**	*1998* *%*	*1997* *%*
Australian Group[1]			
Charge	**0.19**	0.27	0.16
Net write-offs	**0.19**	0.17	0.15
European Group[1]			
Charge	**0.57**	0.42	0.53
Net write-offs	**0.40**	0.48	0.51
New Zealand Group[1]			
Charge	**0.11**	0.14	(0.08)
Net write-offs	**0.07**	0.05	0.08
United States Group[1]			
Charge	**0.15**	0.16	0.14
Net write-offs	**0.07**	0.06	0.24
Group			
Charge	**0.27**	0.29	0.22
Net write-offs	**0.21**	0.23	0.23

(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 Consolidated Entity 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 Consolidated Entity's lending and risk analysis policies is provided within the Risk Management section on pages 63 to 65.

Other Operating Income

1999	*$4,563 million*
1998	*$3,953 million*
1997	*$2,909 million*

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

Other operating income increased by $610 million or 15.4% in 1999 after an increase of 35.9% in 1998. Exchange rate movements during 1999 reduced other operating income by $9 million. In 1998 exchange rate movements added $293 million to other operating income. The 1999 year reflects a full year's contribution from HomeSide with mortgage origination revenue and servicing fees increasing $213 million. Another important revenue source during 1999 was income from treasury operations, the contribution from which increased 26.9% during the year. Loan fees from banking grew 14.8% due to increased banking activity and higher volumes resulting in increased fee and commission income of 15.2%.

As a result of this growth, 42.9% of net income was derived from non-interest sources for the 1999 year (1998: 40.3%). The change in income mix demonstrates the success the Group has been able to achieve to date in its strategy of diversifying the income base to provide greater stability in income streams.

Loan Fees from Banking

1999	*$1,077 million*
1998	*$938 million*
1997	*$794 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 1999 increased by $139 million or 14.8% after increasing 18.1% in 1998. The increase in 1999 reflects increased activity across all geographic regions. In Australia, strong growth was recorded in bill acceptance fees.

Money Transfer Fees

1999	*$1,030 million*
1998	*$1,050 million*
1997	*$853 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 1999 decreased by $20 million or 1.9% after increasing 23.1% in 1998. The reduction reflects the migration of customers to lower cost electronic distribution channels.

Net Mortgage Servicing Fees

1999	*$312 million*
1998	*$197 million*

Following the acquisition of HomeSide in February 1998, the Group 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 to the financial statements, for more details.

Net Mortgage Servicing Fees in 1999 increased by $115 million or 58.4% over 1998, reflecting a full year's contribution from HomeSide compared to 8 months in 1998 and higher volumes from strategic alliances entered into during 1999.

Net Mortgage Origination Revenue

1999	*$224 million*
1998	*$126 million*

Following the acquisition of HomeSide in February 1998, the Group 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.

Net Mortgage Origination Revenue in 1999 increased by $98 million or 77.8% over 1998, reflecting a full year's activity, compared to 10 months in 1998, and higher production volumes.

Fees and Commissions

1999	*$955 million*
1998	*$829 million*
1997	*$650 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 $126 million or 15.2% in 1999 after increasing 27.5% in 1998. The increase in fee and commission income is due primarily to higher personal insurance income and credit card fees related to growth in volumes.

Trading Income

1999	*$457 million*
1998	*$360 million*
1997	*$269 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 $97 million or 26.9% in 1999 after increasing by 33.8% in 1998.

Other Income

1999	*$508 million*
1998	*$453 million*
1997	*$343 million*

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

Other income increased by $55 million or 12.1% after increasing by 32.1% in 1998. The 1998 year included higher dividend income, the impact of which was partly offset, in 1999, by gains on disposal of investments.

Other Operating Expenses (Excluding Goodwill Amortisation and Abnormal Items)

1999	*$5,742 million*
1998	*$5,335 million*
1997	*$4,477 million*

In 1999 other operating expenses, including personnel, occupancy and other general expenses (but excluding goodwill amortisation and abnormal items) increased $407 million or 7.6% over 1998. This compares with an increase of 19.2% in 1998.

Expenses were impacted by the inclusion of the first full year results for HomeSide, and a number of one-off factors including the cessation of the superannuation holiday in Australia, restructuring costs (in 1998 restructuring costs were included in abnormal items) and an adjustment to the residual value of operating leased vehicles reflecting the prospective impact of Australian Goods and Services Tax. When these factors are excluded expenses increased by 3.6%

The movement in expenses resulted from:

– personnel costs increasing $231 million or 7.6% in 1999 after increasing 15.6% in 1998;
– occupancy costs increasing $18 million or 3.8% in 1999 after increasing 10.3% in 1998; and
– general expenses (excluding goodwill amortisation) increasing $158 million or 8.7% in 1999 after increasing 28.6% in 1998.

Personnel costs for the September 1999 quarter increased by $32 million or 4.0% compared with the previous quarter, largely due to restructuring costs in Australia and market based remuneration increases in Australia, effective 1 July, 1999.

For the year to September 1999, the underlying increase in salaries was 0.9%. Total personnel costs are 7.6% higher than the year to September 1998 of which 2.5% is attributable to the full year impact of HomeSide. The 1999 year includes a charge for restructuring in Australian of $30 million. In 1998, restructuring costs were treated as abnormal items. The remaining increase of 4.1% reflects increased long service leave charges and superannuation contributions.

Occupancy costs for the year to September 1999, increased 3.8%, of which a full year of HomeSide's costs accounts for 1.6% with the balance attributable to higher rental expense resulting from the sale and leaseback activities in Australia and Europe partly offset by reduced depreciation.

General expenses rose 8.7% compared with the year to September 1998. Of the increase, HomeSide accounted for 1.5% with the balance attributable to higher teleprocessing and communication costs ($36 million) and an adjustment to the residual value of leased vehicles ($18 million). These increases were partially offset by the impact of software capitalisation from 1 October, 1998.

The Group's cost to income ratio was 54.0% in 1999 compared to 54.4% (excluding abnormal items) in 1998. Cost to income ratio details (excluding restructuring costs in 1998 which were classified as abnormal items) for the key business units are provided in the table below.

Refer to Note 2 to the financial statements for details of income and expense items.

For years ended September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Dollars in Millions, except percentages					
Australian Financial Services:					
Other operating expenses[1]	**2,501**	2,291	2,098	1,991	2,073
Operating income[2]	**4,928**	4,617	4,201	4,013	3,961
%	**50.8**	49.6	49.9	49.6	52.3
Clydesdale Bank:					
Other operating expenses[1]	**550**	518	415	400	438
Operating income[2]	**1,147**	1,037	777	697	717
%	**48.0**	49.9	53.4	57.4	61.1
Northern Bank:					
Other operating expenses[1]	**243**	237	207	185	213
Operating income[2]	**506**	491	389	348	345
%	**48.0**	48.3	53.2	53.2	61.7
National Irish Bank:					
Other operating expenses[1]	**127**	114	88	82	86
Operating income[2]	**181**	172	141	131	131
%	**70.2**	66.3	62.4	62.6	65.6
Yorkshire Bank:					
Other operating expenses[1]	**571**	576	484	464	487
Operating income[2]	**1,172**	1,141	940	864	860
%	**48.7**	50.5	51.5	53.7	56.6
Bank of New Zealand:					
Other operating expenses[1]	**476**	506	501	513	509
Operating income[2]	**837**	885	895	852	816
%	**56.9**	57.2	56.0	60.2	62.4
Michigan National Corporation:					
Other operating expenses[1]	**474**	472	365	320	–
Operating income[2]	**891**	844	668	578	–
%	**53.2**	55.9	54.6	55.4	–
HomeSide					
Other operating expenses[1]	**386**	217	–	–	–
Operating income[2]	**640**	387	–	–	–
%	**60.3**	56.1	–	–	–
Group:					
Other operating expenses[1]	**5,742**	5,335	4,477	4,229	3,916
Operating income[2]	**10,629**	9,811	8,267	7,761	6,970
%	**54.0**	54.4	54.2	54.5	56.2

(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

There have been no abnormal items recorded in 1999. The information set out below relates to abnormal items recorded in 1998 and provides an update of the restructuring exercise initiated in 1998.

Restructuring Costs

During 1998, the Consolidated Entity recognised restructuring costs of $380 million resulting from its transition to a fully integrated financial services organisation. This transition, will be finalised over the next 12 months, including 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 by the end of 2000.

The total restructuring charge included $248 million for redundancy and outplacement, $80 million for surplus leased 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 was classified as an abnormal item due to its size and effect on the Consolidated Entity's result.

The $248 million in redundancy and outplacement costs related to redundancies for approximately 3,470 positions. For the year ended September 30, 1999, payments of $86 million (1998: $132 million) were made in respect of approximately 1,180 positions (1998: 1,490 positions) made redundant.

At September 30, 1999 the provision for restructuring was $131 million. The provision for restructuring (refer to Note 25) represents the liability relating to future payments for redundancies, occupancy and general costs that will predominantly be made in 2000. Future expenditure relating to the liability will not have a significant effect on the liquidity or financial position of the Consolidated Entity.

Additional restructuring costs incurred in 1999 have been expensed as incurred. Such costs were not material. Refer to Notes 2 and 3 to the financial statements for further details regarding restructuring costs.

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 in 1998. Refer to Note 1 to the financial statements for additional information.

Operating Profit After Income Tax

Profitability

Operating Profit after income tax (before abnormal items) increased by 12.3% to $2,821 million in 1999 from $2,511 million in 1998 and $2,223 million in 1997. This compares with a 13.0% increase in 1998. The profit after tax before abnormal items for 1999 included $9 million from exchange rate movements compared with $200 million in 1998. Operating profit after income tax and abnormal items was $2,014 million in 1998 which included $164 million from exchange rate movements. There were no abnormal items in the 1999 year.

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

- a $208 million or 3.6% increase in net interest income in 1999 after a $500 million or 9.3% increase in 1998 (1998: 2.2% excluding exchange rate movements);
- a $610 million or 15.4% increase in other operating income in 1998 after a $1,044 million or 35.9% increase in 1998 (1998: 25.8% excluding exchange rate movements);
- a $407 million or 7.6% increase in operating expenses (excluding goodwill amortisation) after a $858 million or 19.2% increase in 1998 (1998: 11.7% excluding exchange rate movements).

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 1999 year, 42.9% of net income was derived from non interest sources while 49.9% of the Group's operating profit after tax was generated outside Australia. Despite market based increases in personnel costs and higher teleprocessing expenditure, associated with the migration of customers to new distribution channels, the Group's cost to income ratio was 54.0% compared with 54.4% in 1998.

For years ended September 30	***1999***	*1998*	*1997*	*1996*	*1995*	*Average Compound Growth*
Dollars in Millions						*%*
Operating profit						
(after tax and outside equity interest and before abnormal items)	**2,821**	2,511	2,223	2,102	1,936	9.9
Abnormal items	**–**	(749)	–	–	33	
Income tax expense	**1,321**	1,211	1,095	959	906	9.9
Operating profit (before tax after outside equity interest)	**4,142**	2,973	3,318	3,061	2,875	9.6

Adjusted to Accord with US GAAP

Prepared in accordance with US GAAP, consolidated net income for the year to September 30, 1999 was $2,862 million compared to $2,099 million in 1998 and $2,289 million in 1997. There were no individually material adjustments between US GAAP net income and Australian GAAP net profit for the years ended September 30, 1999, 1998 and 1997. 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	***1999***	*1998*	*1997*	*1996*	*1995*
Dollars in Millions					
Operating profit before tax, doubtful debt expense and goodwill amortisation	**4,887**	4,476	3,790	3,532	3,054
Goodwill amortisation	**(206)**	(181)	(142)	(137)	(92)
Underlying Profit	**4,681**	4,295	3,648	3,395	2,962
Deduct:					
Charge to provide for doubtful debts	**(540)**	(572)	(332)	(333)	(116)
Income tax expense	**(1,321)**	(1,211)	(1,095)	(959)	(906)
Operating profit before abnormal items and outside equity interests	**2,820**	2,512	2,221	2,103	1,940
Add/(Deduct) abnormal items (after tax)	**–**	(497)	–	–	33
Operating profit after income tax before outside equity interest (per Statements of Profit and Loss)	**2,820**	2,015	2,221	2,103	1,973

Operating Profit By Segments

Contributions to Consolidated Operating Profit by Major Operating Segments

In April 1998, the Group introduced a new business operating model, designed to leverage its global scale while improving its customer focus. The Group's business is organised into five major operating segments based on similar products and services provided globally to customers or activities undertaken solely for the Group's own account, and managed by individuals who report directly to the Chief Executive Officer.

The major operating segments are:

- Business & Personal Financial Services;
- Products and Services;
- Global Wholesale Financial Services;
- HomeSide; and
- Information Technology.

Refer to Note 35 to the financial statements for further detail on the Group's major operating segments and All Other.

The following table shows the contribution by each of the major operating segments to the National's consolidated operating profit after tax. The contribution from these operating segments is after intersegment revenue and expense charges.

As the Company believes it is impracticable to provide prior year comparative information for the operating segments used by management during 1999, the discussion and analysis of 1999 performance is based on the segmentation adopted in previous periods.

For years ended September 30	*1999*
Dollars in Millions	
Operating Segments:	
Business and Personal Financial Services	**2,130**
Products and Services	**69**
Global Wholesale Financial Services	**551**
HomeSide	**153**
Information Technology	**(37)**
All Other	**(45)**
Operating Profit after Tax and Outside Equity Interests	**2,821**

Contributions to Consolidated Operating Profit by Major Business Areas

During 1999, the Group's operating profit after income tax increased 40.1% to $2,821 million after decreasing by 9.4% to $2,014 million in 1998 (after abnormal items) and increasing by 5.8% to $2,223 million in 1997. The 1998 result included abnormal items of $497 million after tax. There were no abnormal items in 1999. Excluding the effect of abnormal items, operating profit after tax grew by 12.3% in 1999 to $2,821 from $2,511 million in 1998.

The 1999 result reflects strong growth in lending and the benefits of the Group's income diversification deriving from a broad geographic and business spread, operating efficiency and risk management.

The Group's international operations contributed $1,409 million in 1999 or 49.9% of the operating profit after tax compared to 47.2% in 1998. This compares with five years ago when the Group only derived 27.4% of the profit after tax from operations outside Australia.

For years ended September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Dollars in Millions					
Australian Group:					
Australian Financial Services [(a)]	**1,435**	1,403	1,297	1,239	1,167
Other [(b)]	**(12)**	(81)	32	209	229
Less: Goodwill amortisation	**(11)**	(6)	–	–	–
Abnormal items (after tax)	**–**	(253)	–	–	33
Total Australian Group	**1,412**	1,063	1,329	1,448	1,429
European Group:					
Clydesdale Bank	**262**	286	211	162	164
Northern Bank	**171**	169	119	97	80
Yorkshire Bank	**343**	344	227	159	190
National Irish Bank	**31**	33	33	27	25
National Australia Life	**10**	5	5	(9)	(35)
Other [(c)]	**6**	(62)	(45)	(33)	(4)
Less: Goodwill amortisation	**(62)**	(62)	(62)	(62)	(62)
Abnormal items (after tax)	**–**	(236)	–	–	–
Total European Group	**761**	477	488	341	358
New Zealand Group:					
Bank of New Zealand	**298**	280	277	241	238
NAG(NZ)	**(27)**	(42)	(49)	(49)	(47)
Less: Goodwill amortisation	**(31)**	(31)	(31)	(31)	(30)
Abnormal items (after tax)	**–**	(18)	–	–	–
Total New Zealand Group	**240**	189	197	161	161
United States Group:					
Michigan National Corporation	**254**	226	222	158	–
HomeSide	**153**	92	–	–	–
Other [(d)]	**71**	(7)	8	17	3
Less: Goodwill amortisation	**(102)**	(82)	(49)	(44)	–
Abnormal items (after tax)	**–**	13	–	–	–
Total United States Group	**376**	242	181	131	3
Asian Group:					
Asian Branches	**22**	34	18	13	9
Other [(e)]	**10**	12	10	8	9
Less: Abnormal items (after tax)	**–**	(3)	–	–	–
Total Asian Group	**32**	43	28	21	18
Operating Profit after Tax and Outside Equity Interests	**2,821**	2,014	2,223	2,102	1,969

[(a)] *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, Global Securities Services, County Investment Management Limited, ARDB Limited, National Australia Investment Capital Limited, Australian Market Automated Quotation (Ausmaq) System Limited and Alice Corporation Pty Limited. Corporate centre costs and National Equities Limited have been excluded from the Australian Financial Services figures.*

[(b)] *Australian Other includes National Equities Limited, Corporate Centre and HomeSide Lending (formerly BNZ Australia) (prior to HomeSide Lending 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.*

Operating Profit by Major Business Areas

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, Global Securities Services and County Investment Management Limited and National Australia Investment Capital Limited. Corporate centre costs and National Equities Limited have been excluded from the Australian Financial Services figures.

Australian Financial Services produced a steady result with operating profit after tax (before goodwill amortisation and abnormal items) increasing by $32 million or 2.3% to $1,435 million in 1999 from $1,403 million in 1998 and $1,297 million in 1997. The cost income ratio increased during the period from 49.6% to 50.8%, reflecting higher teleprocessing costs and commissions from the migration of customers to new distribution channels and an adjustment to the carrying value of leased vehicles.

Net interest income increased by $94 million or 3.4 % in 1999. Higher volume growth offset strong competitive pressure on lending margins and change in product mix. Net interest margin for 1999 was 3.01% compared to 3.10% for 1998.

Other operating income showed strong growth increasing by $217 million or 11.5% due to volume related growth in fee income and higher income from treasury activities. The increase in treasury income reflects the introduction of new products together with increased volumes.

Other operating expenses increased by 9.2% during 1999. Contributing to the increase was an adjustment to the carrying value of leased vehicles, higher teleprocessing costs and commissions reflecting the change in distribution channels, higher personnel on-costs (such as long service leave and superannuation) and restructuring charges. In 1998, restructuring charges were included as abnormal items. The underlying increase in salary expenses was 1.6%.

National Australia Financial Management Limited (NFM) produces protection income, superannuation, investment trust and retirement income products for retail clients. NFM contributed a profit of $57 million, a 7.5 % increase over the corresponding period in 1998. The result reflects strong growth in all major product lines and an 18% increase in retail funds under management to $6.9 billion.

National Australia Asset Management Limited (NAM) is a full-service fund manager, managing NFM's retail products portfolio, and a portfolio of wholesale assets and funds for institutional clients. NAM's profit contribution increased from $3.0 million for 1998 to $3.8 million in 1999 year.

County Investment Management Limited (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. County contributed a profit of $4.4 million in 1999 consistent with the 1998 year. Funds under management grew by 14.2% during the 1999 year to $12.0 billion.

Total funds under management of NFM, NAM and County increased over the year by $3.0 billion to $20.7 billion as at September 30, 1999.

National Australia Investment Capital Limited (NAICL) was established in March 1996 to provide equity and quasi equity finance to small to medium sized private and public enterprises. NAICL contributed a profit of $10.3 million, as a result of the sale of investments, compared with a loss of $7.0 million in 1998.

European Group

The European Group comprises the National's UK operations and National Irish Bank based in the Republic of Ireland. The European Group profit contribution (before goodwill amortisation and abnormal items) increased by 6.2 % to $823 million from $775 million in 1998 and $550 million in 1997.

The contributions from each of the European entities was impacted by the realignment of the statistically determined general provision, adopted in 1998, between Europe Other and the individual Banks. The impact on each entity's contribution after tax was as follows: Clydesdale Bank (a charge of $55 million), Northern Bank (a credit of $8 million), Yorkshire Bank (a charge of $6 million), National Irish Bank (a charge of $2 million) and Other Europe (a credit of $51 million). The overall impact was a net reduction in operating profit after tax of $4 million.

The major factors contributing to the European result were;

- higher net interest income of $122 million, up 6.8% over 1998, reflecting strong growth in lending particularly housing loans in Clydesdale and Yorkshire banks;
- other operating income grew by $95 million, or 8.8%, to $1,176 million predominantly volume related increases in lending and money transfer fees and gains on sale of property;
- increased other operating costs caused by on-going investigations at National Irish Bank and higher advertising and marketing expenses across the Banks; and
- increase in charge for doubtful debts of $56 million, reflecting a number of specific provisions raised during the year in Clydesdale Bank, a change in the mix of the loan book at Yorkshire Bank and increased lending volumes.

Clydesdale Bank's profit before abnormals decreased by 8.4% (7.9% in local currency) to $262 million in 1999 from $286 million in 1998 and $211 million in 1997. The Clydesdale result was impacted by a higher doubtful debts charge reflecting a number of new specific provisions raised during the 1999 year, increased lending volumes and a refinement of the statistically based methodology, introduced in 1998, for calculating the general provision (as described above).

Yorkshire Bank's profit was $343 million, steady compared with 1998 of $344 million (before abnormal items), and 51.5% higher than 1997 of $227 million. Yorkshire's result was impacted by a higher charge for doubtful debts due to an increase in general provisions which rose partly from a change in the loan book and partly from a refinement of the statistically based methodology, introduced in 1998, for calculating the general provision (as described above).

Northern Bank's profit increased by 1.2% (1.8% in local currency) to $171 million from $169 million in 1998 (before abnormal items) and $119 million in 1997.

National Irish Bank's profit was $31million in 1999, $33 million in 1998 and $33 million in 1997.

National Australia Life contributed a profit of $10 million in 1999 up from $5 million in 1998 and 1997.

New Zealand Group

The New Zealand Group contributed a profit after tax (before goodwill amortisation and abnormal items) of $271 million compared to $238 million in 1998, an increase of 13.9%.

Bank of New Zealand (BNZ), (including its offshore operations), contributed a profit of $298 million in 1999 compared to $280 million in 1998, an increase of 6.4%. The profit increase reflects higher other operating income partly offset by the impact of lower margins. The 1999 result also benefited from a lower tax rate due to a number of tax effective financing transactions.

Net interest income fell by 14.9% during the 1999 year to $498 million. The impact of strong lending growth was more than offset by lower margins. BNZ's net interest margin declined from 2.7% to 2.1% during the 1999 year, reflecting a lower interest rate environment impacting retail deposit margins.

Other operating income rose by $39 million from $300 million to $339 million, due to growth in treasury related income and higher insurance and credit card fee income. Higher credit card fee income reflects the introduction of new products and loyalty programs.

Other operating expenses decreased 5.9% from $506 million in 1998 to $476 million in 1999 reflecting lower FTE numbers and lower information technology costs.

United States Group

The United States Group contributed a profit after tax of $478 million (before goodwill amortisation of $102 million) compared to $311 million (before goodwill amortisation of $82 million and abnormal items of $13 million) in 1998, an increase of 53.7 %.

MNC contributed a profit of $254 million in 1999 compared to $226 million in 1998, an increase of 12.4 %. Net interest income increased by 6.0% with higher volumes and interest recoveries more than offsetting tightening margins. Other operating income grew by 4.5% reflecting volume growth in lending fees, increased syndication income and money transfer fees. MNC's cost to income ratio improved from 55.9% in 1998 to 53.2% in 1999 due to higher income and steady other operating expenses.

HomeSide, which was acquired on February 10, 1998, contributed a profit of $153 million compared to $92 million in 1998, an increase of $61 million or 66.3% reflecting a full year's operation.

Asian Group

The contribution from the Asian operations decreased from $46 million (before abnormal items) for 1998 to $32 million in 1999. However, the results for both 1998 and 1999 were affected by the translation of the Group's investment in its integrated Asian operations. Excluding the translation component for both years, the underlying 1999 result for Asia showed a significant increase from the previous year. The 1999 result reflects strong performance from treasury activities and increasing consumer and business confidence.

Assets and Shareholders' Equity

Year end assets increased to $254.1 billion after an increase to $251.7 billion at September 30, 1998 from $202.0 billion in 1997. The appreciation of the Australian dollar primarily against the US dollar, and Sterling reduced total assets by $14.2 billion in 1999. Excluding the impact of exchange rate movements, total assets grew $17.6 billion or 6.6% during 1999, reflecting strong growth in lending.

Over the same period shareholders' equity in the Consolidated Entity increased to $18.5 billion in 1999 from $15.8 billion in 1998 and $12.6 billion in 1997. The increase in shareholders' equity was primarily attributable to the issue of National Income Securities ($1.9 billion net of issuing costs), an increase of $1.1 billion in retained profits, dividend reinvestment and share issues totalling $0.7 billion, partially offset by exchange rate movements of $1.0 billion. For further discussion on the National Income Securities refer to 'Liquidity and Capital Resources' on page 50).

In Australia during 1999, assets grew by $2.2 billion to $126.3 billion with gross loans and advances increasing by 7.2% to $86.2 billion. The major contributor to this increase was housing loans which grew by 11.1% to $42.0 billion. In Australian dollar terms, assets in Europe fell by 8.2% to $58.7 billion. Excluding the effect of exchange rate movements, European assets grew by 4.6%, reflecting strong growth in lending, particularly in housing lending, overdraft facilities and credit card outstandings. In New Zealand, assets grew 4.6% to $24.2 billion in 1999 due largely to increases in BNZ's lending assets. Excluding the impact of exchange rate movements, total assets in New Zealand increased by 10.8%. In the United States, total assets increased by 7.6% to $32.8 billion in 1999. Excluding the impact of exchange rate movements, total assets in the United States increased by 18.4% largely due to growth in HomeSide's mortgage servicing rights and MNC's lending assets. In Asia, total assets grew by 20.4% to $12.1 billion reflecting a significant increase in amounts receivable from other financial institutions.

Assets and Shareholders' Equity Adjusted to Accord with US GAAP

Year end assets under US GAAP increased to $258.8 billion in 1999 after an increase to $256.8 billion at September 30, 1998 from $205.7 billion in l997. In US dollar terms, year end total assets grew by $16.7 billion, or 10.9%, from $152.3 billion in 1998 to $169.0 billion, having increased by $ 4.2 billion or 2.8% in 1998 from $148.1 million at end of 1997. The increase in assets in l999 is mainly attributable to the factors outlined above under 'Assets and Shareholders' Equity'. In 1999, shareholders' equity under US GAAP reported in Australian dollars increased to $19.2 billion from $16.4 billion in 1998 and $13.2 billion in 1997. (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, decreased to 17.3% in 1999 from 17.8% in 1998 and 16.7% in 1997. The impact of higher earnings in 1999 was offset by an increase of 13.2% in average shareholders' equity due to retention of profits and funding of business growth.

Cash return attributable to ordinary shareholders, as measured by earnings before abnormal items excluding goodwill and related amortisation expense on tangible shareholders' equity (excluding goodwill), remained steady in 1999, with both cash earnings and average tangible shareholders' equity growing by around 10%.

For years ended September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Dollars in Millions, except percentages					
Weighted average shareholders' equity*	**15,915**	14,054	13,312	12,386	10,905
Return* (before abnormal items) on average equity %	**17.3**	17.8	16.7	17.0	17.8
Cash return* (before goodwill amortisation and abnormal items) on average tangible equity %	**22.8**	22.9	21.2	21.1	21.4

* *based on amounts attributable to ordinary shareholders.*

Shareholder Value

The National is committed to growing value for its shareholders. Value for shareholders is created by generating returns which are greater than the cost of capital employed in the business. The National measures its success in generating value in terms of economic profit. Economic profit represents the excess of cash earnings (earnings adjusted for non-cash items) over the cost of capital employed in the business plus the value of franking credits generated. The major non-cash item for a financial services organisation is goodwill amortisation. Goodwill is included in the calculation of capital employed. The cost of capital reflects the cost of equity capital adjusted for risk.

Economic profit for the year was $1,703 million, an increase of 16.2% from the economic profit of $1,465 million generated during 1998. The increase was primarily due to the higher level of cash earnings and imputed franking credits (generated by higher Australian earnings) partially offset by a higher level of capital employed from growth in business volumes.

For years ended September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Dollars in Millions, except percentages					
Economic profit	**1,703**	1,465	1,312	999	865
Cost of capital %	**10.5**	10.5	11.0	13.0	13.5

Dividends and Earnings per Share

Basic earnings per share (after goodwill amortisation and before abnormal items) increased 6.8% during 1999 from 174.6 cents to 186.6 cents.

The increase in basic earnings per share (before abnormal items) from 1997 of 151.6 cents to 174.6 cents in 1998 and 186.6 cents in 1999 reflects strong growth in profitability and active capital management.

For years ended September 30	***1999***	*1998*	*1997*	*1996*	*1995*
Cents					
EPS – Basic (before abnormal items)	**186.6**	174.6	151.6	144.8	138.7
– Diluted (before abnormal items)	**181.6**	170.6	148.7	143.1	137.5
EPS – Basic (after abnormal items)	**186.6**	140.0	151.6	144.8	141.0
– Diluted (after abnormal items)	**181.6**	137.9	148.7	143.1	140.6
Dividend	**112.0**	102.0	94.0	87.0	83.0

Interim dividends of 54, 49 and 45 Australian cents per Ordinary Share were paid during the years ended September 30, 1999, 1998 and 1997 respectively. The final dividend declared from the 1999 profit was 58 Australian cents an increase of 5 cents, or 9.4% compared with 1998 of 53 cents (1997: 49 cents). The 1999 final dividend is payable on December 15, 1999.

In 1998, 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 re-investment 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	***1999***	*1998*	*1997*
Dollars in Millions			
Shareholders' equity	**18,520**	15,761	12,579
Outside equity interest	**–**	3	2
Perpetual floating rate notes	**383**	421	347
Exchangeable capital units	**1,262**	1,262	1,262
Total	**20,165**	17,447	14,190

As indicated in the above table, the Group has significantly increased its capital position over the past three years. On June 29, 1999 the Group concluded one of the largest hybrid equity issues in the form of National Income Securities. This innovative instrument lifted shareholders equity by $1.95 billion (after costs of issue). Refer Note 30 of the financial statements for full details. The balance of the increase in shareholders' equity is due to improved profitability, higher issued capital resulting from re-investment of dividends under the Company's Dividend Re-investment Plan (DRP) and share issues pursuant to option plans. On September 30, 1998 the Group issued preference shares (as detailed in Note 30 of the financial statements) which contributed to an increase in shareholders' equity of $733 million.

During the three years ended September 30, 1999, 1998 and 1997, 15.6 million, 18.8 million and 20.8 million Ordinary Shares were issued under the DRP to shareholders at varying prices. The increase in shareholders' equity has been offset by the impact of the Company'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	***1999***	*1998*	*1997*	*1996*	*1995*
Average balances (Dollars in Billions)					
Total assets	**255**	238	192	168	139
Total liabilities	**238**	224	179	155	128

Average total assets in 1999 increased by 7.1% to $255 billion from $238 billion in 1998 and $192 billion in 1997. Year end total assets increased 0.9% from 1998. See 'Assets and Shareholders' Equity' above for an explanation of major movements in 1999. A discussion of changes in significant assets and liabilities follows.

Capital Adequacy

As of September 30, 1999 the Consolidated Entity's total risk weighted capital was 10.4%, consisting of Tier 1 capital of 7.8% and Tier 2 capital of 2.9% and deductions of 0.3%.

Capital Adequacy Ratios

As at September 30	***1999*** *%*	*1998* *%*	*1997* *%*
Tier 1	**7.8**	6.4	6.8
Tier 2	**2.9**	3.1	2.2
Deductions	**(0.3)**	(0.3)	(0.3)
Total	**10.4**	9.2	8.7

The increase in Tier 1 capital ratio from 6.4% to 7.8% is primarily due to the issue of National Income Securities on June 29, 1999, which increased issued and paid up capital by $1,945 million. The impact of National Income Securities, share issues and higher retained profits was partially offset by exchange rate movements, which decreased shareholders' equity by $1.0 billion.

The reduction in 1998 from 6.8% in 1997 to 6.4% reflects the growth in risk weighted assets associated with the acquisition of HomeSide in February 1998, the impact of exchange rate movements and the introduction of capital requirements for market risk which became effective on January 1, 1998. Refer below for a discussion on market risk environment.

The marginal reduction in Tier 2 capital ratio from 3.1% in 1998 to 2.9% in 1999 is primarily attributable to the impact of a stronger Australian dollar on the balance of subordinated debt, denominated in US dollars.

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 (including hybrid instruments such as National Income Securities), paid up non-cumulative irredeemable preference shares, retained earnings, reserves (other than asset revaluation reserves) less goodwill and other intangible assets. In addition, where future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital.

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

Net assets in 'non consolidated' controlled entities and holdings of other bank's 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 such as financial guarantees and standby letters of credit;
– Trade and performance related contingent items such as performance bonds, warranties, and documentary letters of credit;
– Long term commitments such as formal credit lines with a residual maturity exceeding one year; and
– Market related transactions such as foreign exchange contracts, currency and interest rate swaps and forward rate agreements.

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 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 *Dollars in Millions*	*1999*	*1998*	*1997*
Tier 1			
Issued and paid up capital	**9,286**	6,675	1,413
Reserves	**802**	1,782	4,598
Retained profits	**8,432**	7,304	6,568
Minority interests	**–**	3	2
Estimated reinvestment under dividend reinvestment plan[1]	**245**	276	208
Less:			
Asset revaluation reserve	**–**	(3)	(200)
Goodwill	**(2,905)**	(3,095)	(2,122)
Other	**(523)**	(290)	(3)
Total Tier 1 capital	**15,337**	12,652	10,464
Tier 2			
Asset revaluation reserve	**–**	3	200
General provisions for doubtful debts	**1,390**	1,544	771
Perpetual floating rate notes	**383**	421	347
Dated subordinated debts	**2,586**	3,014	777
Exchangeable capital units	**1,262**	1,262	1,262
Notional revaluation of investment securities to market	**(5)**	26	38
Total Tier 2 capital	**5,616**	6,270	3,395
Total Tier 1 and 2 capital	**20,953**	18,922	13,859
Less Deductions:			
Eliminations of net assets in life insurance and trustee controlled entities[2]	**(354)**	(281)	(179)
Holdings of other financial institutions' capital instruments	**(219)**	(219)	(206)
Total regulatory capital	**20,380**	18,422	13,474

[1] *The amount is derived from reinvestment experience on the Consolidated Entity's dividend reinvestment and bonus share plans.*
[2] *Refer to Note 1 to the financial statements Principal accounting policies on pages 84 to 88.*

Risk Adjusted Assets and Off-Balance Sheet Exposures

	Balance			*Risk Weights*	*Risk Adjusted Balance*[1]		
As at September 30	*1999 $M*	*1998 $M*	*1997 $M*	*%*	*1999 $M*	*1998 $M*	*1997 $M*
Assets							
Cash claims on APRA and short term claims on Australian Commonwealth Government[2]	**18,192**	19,053	7,944	0	**–**	–	–
Longer term claims on Australian Commonwealth Government, claims on State governments, OECD governments and Central Banks other than APRA	**–**	–	9,081	10	**–**	–	908
Claims on OECD banks and local governments	**24,810**	23,975	22,564	20	**4,962**	4,795	4,513
Housing loans[3]	**60,579**	56,311	44,263	50	**30,289**	28,156	22,132
All other assets	**135,860**	137,827	110,055	100	**135,861**	137,827	110,055
Total assets[4]	**239,441**	237,166	193,907		**171,112**	170,778	137,608

As at September 30	*Contract or Notional Amount 1999 $M*	*Credit Equivalent Amount 1999 $M*	*Risk Weights %*	*Risk Adjusted Balance [1] 1999 $M*	*1998 $M*	*1997 $M*
Off-Balance Sheet Exposures						
Financial guarantees, standby letters of credit and other letters of credit	**7,976**	**7,047**	0–100	**6,332**	5,696	5,395
Performance related guarantees, warranties and indemnities	**2,873**	**1,436**	0–100	**1,311**	1,446	709
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**77,570**	**15,365**	0–100	**12,368**	15,240	8,168
Foreign exchange, interest rate and other market related transactions	**746,996**	**11,209**	0–50	**3,146**	3,897	2,429
Total off-balance sheet exposures	**835,415**	**35,057**		**23,157**	26,279	16,701
Total risk adjusted assets				**171,112**	170,778	137,608
Total risk adjusted assets and off-balance sheet exposures – credit risk				**194,269**	197,057	154,309
Add: Risk adjusted assets – market risk [5]				**2,827**	2,419	–
Total assessed risk exposure				**197,096**	199,476	154,309

(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 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 55 for more discussion on PS C3.*

Gross Loans and Advances

Average Balances

1999	*Australia*	*$83 billion*
	Overseas	*$80 billion*
1998	*Australia*	*$76 billion*
	Overseas	*$71 billion*
1997	*Australia*	*$66 billion*
	Overseas	*$58 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 38.9% of the loans at September 30, 1999 maturing with one year and 23.2% 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 1999 was 63.9% of average total assets. This compares with 62.6% in 1998 and 64.2% in 1997.

Average Australian loans and advances accounted for 51.1% of the total average loans and advances in 1999, 51.7% in 1998 and 53.3% in 1997. The increase in average Australian loans and advances reflects strong growth in housing lending, lease finance and credit card outstandings.

Overseas growth was achieved in all regions and products, particularly in overdraft facilities, housing loans and lease finance.

Average net loans and advances were $162.8 billion in 1999, an increase of 10.4% over the 1998 balances of $147.5 billion, which followed an increase of 21.1% over the 1997 balance of $123.5 billion. The increase for 1999 is due to strong growth in housing loans, overdraft facilities and credit card outstandings. Low interest rates assisted growth in lending volumes.

Year End Loans by Industry

As at September 30, 1999	Australian Group $M	%	European Group $M	%	New Zealand Group $M	%	United States Group $M	%
Government & public authorities	1,270	1.5	592	1.3	130	0.6	53	0.4
Agriculture, forestry & fishing	5,039	5.8	2,176	4.8	2,232	11.0	200	1.4
Financial, investment & insurance	5,006	5.8	2,744	6.0	3,763	18.6	1,424	9.8
Real estate construction	1,637	1.9	1,008	2.2	181	0.9	430	3.0
Real estate mortgage	41,968	48.7	11,644	25.5	6,999	34.6	732	5.0
Manufacturing	2,714	3.1	2,697	5.9	1,035	5.1	2,211	15.2
Instalment loans to individuals	8,098	9.4	7,128	15.6	1,145	5.7	2,167	14.9
Lease financing	6,522	7.6	5,385	11.8	2	0.0	57	0.4
Other commercial & industrial	13,956	16.2	12,280	26.9	4,764	23.5	7,233	49.9
Total	**86,210**	**100.0**	**45,654**	**100.0**	**20,251**	**100.0**	**14,507**	**100.0**
Less Unearned income	(938)		(643)		–		(4)	
Provision for doubtful debts	(1,226)		(692)		(154)		(392)	
Net loans and advances	**84,046**		**44,319**		**20,097**		**14,111**	

In Australia, net loans and advances grew by 7.3% during 1999, with strong growth in housing lending, lease finance, overdraft facilities and credit card outstandings. Residential mortgage loans increased 11.1% from $37.8 billion to $42.0 billion. Lease finance grew by $589 million or 11.1% over 1998. Overdraft facilities and credit card outstandings grew by 11.4% and 18.0% respectively.

The European Groups net loans and advances at September 30, 1999 were $44.3 billion compared with $45.9 billion at September 30, 1998. In local currency terms, net loans and advances grew by 10.2% during 1999. The major areas of growth in Europe during 1999, based on gross balances (in local currency), were in real estate mortgages increasing by 11.3%, leasing finance up 33.4% and overdraft facilities up 20.4%.

The United States net lending, in local currency terms, was up 8.0%, principally in business term lending.

The New Zealand Group's net loans and advances grew by $2 billion from $18.1 billion to $20.1 billion. In local currency terms, the New Zealand Group's net loans and advances grew 17.5%, mainly strong growth in real estate, credit card outstandings and corporate lending.

Impaired Assets, Provisions and Allowance for Loan Losses

Non-Accrual Loans

Total non-accrual loans less specific provision for credit losses at September 30, 1999 were $1,113 million, an increase of 4.3% from the 1998 balance of $1,067 million. The increase in net non-accrual loans in Australia and Europe showed small increases, whereas the New Zealand Group showed a significant reduction. In Asia the increase reflected the higher levels of gross non-accrual loans.

Gross non-accrual loans at September 30, 1999 were $1,570 million, an increase of $100 million, or 6.8%, from the 1998 balance of $1,470 million. In 1997, gross non-accrual loans were $1,281 million.

As at September 30, 1999, the Group's non-accrual loans to risk weighted assets showed a moderate increase from 0.7% to 0.8%, primarily a reflection of financial uncertainty and deteriorating economic conditions in Asia. The Australian Group's component of the gross non-accrual loans in 1999 was $644 million, representing a $42 million or 7.0% increase from the 1998 balance of $602 million. In Europe, gross non-accrual loans increased by $6 million, or 1.0%, from $580 million to $586 million. In New Zealand, gross non-accrual loans reduced from $120 million at September 30, 1998 to $89 million, a reduction of $31 million or 25.8%. During 1999, gross non-accrual loans in the United States rose by $19 million, or 13.5% from $141 million to $160 million. In Asia, gross non-accrual loans rose by $64 million from $27 million at September 30, 1998 to $91 million at September 30, 1999.

The Group has specialist Asset Structuring Units operating in each region which have resulted in earlier identification and work out of problem loans.

	September 30, 1999			September 30, 1998		
Dollars in Millions	Gross	Specific[(1)] Provisions	Net	Gross	Specific[(1)] Provisions	Net
Australian Group	**644**	**226**	**418**	602	189	413
European Group	**586**	**162**	**424**	580	162	418
New Zealand Group	**89**	**20**	**69**	120	23	97
United States Group	**160**	**24**	**136**	141	16	125
Asian Group	**91**	**25**	**66**	27	13	14
Total	**1,570**	**457**	**1,113**	1,470	403	1,067
Percentage of risk weighted assets	**0.8**	**0.2**	**0.6**	0.7	0.2	0.5

	1999	1998
Net non-accrual loans	**1,113**	1,067
Shareholders' equity	**18,520**	15,764
%	**6.0**	6.8

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

Doubtful Debts Closing Balance by Geographic Group

As at September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Dollars in Millions					
Australian Group					
General (1)	**995**	1,031	422	378	325
Specific (2)	**231**	193	193	218	178
Total	**1,226**	1,224	615	596	503
European Group					
General (1)	**528**	542	169	134	125
Specific (2)	**164**	167	174	162	126
Total	**692**	709	343	296	251
New Zealand Group					
General (1)	**132**	133	76	73	65
Specific (2)	**22**	24	21	55	150
Total	**154**	157	97	128	215
United States Group (3)					
General (1)	**377**	403	89	74	26
Specific (2)	**15**	5	180	175	11
Total	**392**	408	269	249	37
Other					
General(1)	**23**	34	15	5	10
Specific(2)	**26**	13	15	12	15
Total	**49**	47	30	17	25
Group					
General(1)	**2,055**	2,143	771	664	551
Specific(2)	**458**	402	583	622	480
Total	**2,513**	2,545	1,354	1,286	1,031
% of Risk Weighted Assets	**1.3**	1.3	0.9	1.0	0.9

(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 and 1999.*

Total allowance for loan losses, excluding off-balance sheet credit exposures, held at September 30, 1999 were $2,513 million or 1.3% of risk weighted assets. This compares with $2,545 million or 1.3% of risk weighted assets in 1998 and $1,354 million or 0.9% of risk weighted assets in 1997. Of the total at September 30, 1999, general provisions represented $2,055 million or 1.0% of risk weighted assets.

Credit Quality Data

As at September 30, 1998, the Consolidated Entity adopted a statistically based provisioning methodology to determine its general provision for doubtful debts. Comparative information for 1997, 1996 and 1995 has not been restated to reflect the change in methodology. For further information see Note 1 to the financial statements 'Principal Accounting Policies' on pages 84 to 88.

For further information on Asset Quality Disclosures, see Note 15 to the financial statements 'Asset Quality Disclosures' on pages 103 to 105.

For years ended September 30	*1999*	*1998*	*1997*	*1996*	*1995*
Dollars in Millions					
Provision for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**458**	402	583	622	480
General	**2,055**	2,143	771	664	551
Gross non-accrual and restructured loans	**1,573**	1,476	1,286	1,507	1,866
Charge to the profit and loss account	**540**	572	332	333	116

For years ended September 30 *Dollars in Millions*	*1999*	*1998*	*1997*	*1996*	*1995*
Ratios[1]					
Provision for doubtful debts at end of year as a percentage of end of year loans (before provisions)					
Specific	**0.27**	0.25	0.44	0.54	0.51
General	**1.21**	1.31	0.58	0.58	0.58
	1.48	1.56	1.02	1.12	1.09
Provision for doubtful debts at end of year as a percentage of end of year loans & acceptances (before provisions)					
Specific	**0.24**	0.22	0.38	0.47	0.43
General	**1.07**	1.15	0.50	0.50	0.49
	1.31	1.37	0.88	0.97	0.92
Provision for doubtful debts at end of year as a percentage of risk weighted assets					
Specific	**0.23**	0.20	0.38	0.47	0.44
General	**1.04**	1.07	0.50	0.50	0.51
	1.27	1.27	0.88	0.97	0.95
Non-accrual and restructured loans as a percentage of end of year loans (before provisions)	**0.93**	0.90	0.96	1.32	1.97
Charge to profit and loss as a percentage of:					
Year end loans	**0.32**	0.35	0.25	0.29	0.12
Year end loans and acceptances	**0.28**	0.31	0.22	0.25	0.10
Average loans and acceptances	**0.33**	0.39	0.27	0.32	0.13
Risk weighted assets	**0.27**	0.29	0.22	0.25	0.11

[1] *Ratios exclude specific provision 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 Consolidated Entity has sufficiently covered the fall in security values through a combination of provisions and write-offs. It is considered a more prudent approach in addressing the immediate loss of security value than maintaining high levels of provisions.

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

For years ended September 30	*1999* *%*	*1998* *%*	*1997* *%*
Specific Provision Coverage	**28.8**	27.2	45.8
Total Provision Coverage	**158.4**	171.2	103.7

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

In addition to the specific provision, the Consolidated Entity 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 Consolidated Entity adopted a statistically based provisioning methodology. 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 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 to the financial statements for additional information.

The general provision provides further coverage against these loans of 129.6% at September 30, 1999, bringing total effective coverage to 158.4%.

The reduction in coverage rates from 1997 to 1998 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 to the financial statements for further information.

Deposits and Other Borrowings

Total deposits and other borrowings (net of set-offs) increased to $162.5 billion at September 30, 1999 or 2.8% compared with $158.1 billion in 1998 and $128.5 billion in 1997. Excluding the effect of exchange rate movements during 1999, the increase in deposits was 9.0%.

Non interest bearing deposits at September 30, 1999 represent 7.8% of total deposits compared to 8.3% in 1998 and 7.4% in 1997.

In Australia, deposits increased by $5.3 billion or 7.7%. In Europe, deposits decreased by $1.7 billion or 3.8%, however in local currency terms, deposits increased 9.6%. In New Zealand, deposits rose by $1.4 billion or 9.2%. In local currency terms, New Zealand deposits rose by 15.8%. In the United States, deposits were steady in Australian dollar terms with volume growth entirely offset by exchange rate movements. Excluding the impact of exchange rate movements, United States deposits rose 8.7%.

	Australian Group		*European Group*		*New Zealand Group*		*United States Group*	
As at September 30, 1999	*$M*	*%*	*$M*	*%*	*$M*	*%*	*$M*	*%*
Not bearing interest (net)	4,154	5.6	5,253	12.2	690	4.2	2,604	12.1
Demand & short term deposits	33,712	45.3	22,583	52.3	3,590	22.1	5,832	27.0
Certificates of deposit	9,365	12.6	7,399	17.2	3,169	19.5	1,036	4.8
Term deposits	19,144	25.8	7,884	18.3	7,190	44.2	5,837	27.1
Other debt obligations	7,963	10.7	–	–	1,632	10.0	6,253	29.0
Total deposits	74,338	100.0	43,119	100.0	16,271	100.0	21,562	100.0

Risk Elements

Interest Rates

	1999	*1998*	*1997*
	%	*%*	*%*
National's Base Lending Rate (published average)	**8.6**	8.8	9.9
National's Benchmark Lending Rate (published average)	**8.4**	8.6	9.4
National's Housing Loan Rate (regulated)[1]	**13.5**	13.5	13.5
National's Housing Rate (deregulated)	**6.5**	6.7	7.8
US Prime Rate	**7.8**	8.3	8.5

[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 other than Australia where such outstandings individually exceed 0.75% of the Consolidated Entity'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, 1999						
United Kingdom	–	**2,648**	**1,067**	**3,715**	**1.0**	**4,234**
Japan	–	**2,154**	–	**2,154**	**0.6**	**1,129**
United States	–	**2,434**	**637**	**3,071**	**0.8**	**7,125**
As at September 30, 1998						
United Kingdom	–	3,188	1,285	4,473	1.0	1,990
Japan	–	4,397	–	4,397	1.0	566
United States	–	3,956	1,035	4,991	1.2	7,397
As at September 30, 1997						
United Kingdom	–	3,242	718	3,960	1.1	772
Japan	–	5,572	80	5,652	1.6	25
United States	–	3,332	801	4,133	1.2	1,794

Highly Leveraged Finance Transactions (HLTs)

The Consolidated Entity'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, 1999 which includes traditional Leveraged Buy Out business, totalled $1,298 million (1998: $806 million) or 0.5% (1998: 0.3%) of total assets.

Increased exposure to HLTs has occurred mainly in MNC and is also due to exchange rate movements during the year. The transactions are relatively small risk and well spread across various industries.

	1999	*1998*	*1997*
The geographic spread of the portfolio as at September 30 is approximately:	%	%	%
Australia	–	–	–
New Zealand	**3**	6	11
United States	**60**	44	34
Europe	**37**	50	55
	100	100	100

The HLT portfolio consists of 112 (1998: 76) 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 Consolidated Entity's staffing position.

	1999	*1998*	*1997*	*1996*	*1995*
Number of employees – full time and part time[(1)]	**51,566**	50,973	52,226	52,912	52,567
Number of employees – full time equivalents[(2)]	**45,676**	46,300	46,422	47,178	45,585
Operating profit after tax (before abnormal items) per full time employee	**61,761**	55,529[(3)]	47,918	44,885[(4)]	42,470

(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 Consolidated Entity.*
(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 Consolidated Entity.*

The Group's full time equivalent employee numbers decreased by 624 people or 1.3% to 45,676 for 1999 from 46,300 for 1998. This compares with a 0.3% decrease from 1997 to 1998. During the year 1,180 positions were made redundant under the restructuring provision that was created during 1998. A further 550 positions remain under the restructuring provision.

In Australia full time equivalent employees increased by 86 people as new capacity was created to provide enhanced customer service levels and to meet the demands of increased volumes of business. The introduction of new lines of business and a number of other initiatives both in Australia and overseas have also resulted in new positions being created.

Employee numbers in the European and New Zealand Groups fell marginally in 1999 having decreased by 1,171 and 663 employees respectively in 1998. The 1998 reductions resulted from strategic initiatives designed to improve operational efficiency and production. In the US Group, the reduction in employee numbers of 549, or 8.2%, mostly relate to HomeSide and is a reflection of lower production volumes and repayment activity. HomeSide's operations are structured to adjust to changing market conditions and sizes.

Approximately 52% of Group employees in Australia are members of the Finance Sector Union of Australia (FSU). Over the last twelve months, the National has continued to maintain a good relationship with the FSU and there has been no industrial disruption at a time of increasing reform and reductions in staff numbers brought on by constant technological changes and dynamics associated with the application of the National's Business Model. The union has been consulted on key initiatives including restructuring as the result of globalisation, transaction migration from traditional 'bricks and mortar' branches to various electronic distribution channels, greater emphasis on sales and customer service, supermarket operations, HomeSide operations within Australia, security matters and a broad range of issues associated with Y2K. Site arrangements have been achieved in several Products and Services areas together with HomeSide. During the past year a broad range of discussions with the FSU have taken place on the introduction of a National Australia Bank enterprise award and, at the date of this report, 'in principle' agreement has been reached. Through the FSU, consultation has also taken place with unions representing employees of the Group in Europe and New Zealand.

Risk Management

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

An enterprise-wide risk management model structure implemented throughout the Consolidated Entity comprises a common policy framework and set of controls to achieve standardisation of risk/reward practices across the Consolidated Entity. 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 Consolidated Entity is undertaken by the globally focussed divisions of Risk Management. Risk Management comprises Global Credit Bureau, Global Internal Audit, Global Operational Risk, Insurance and Compliance, Global Market Risk and Prudential Control and Group Legal.

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

Developments are being made in the quantification of risks, and the allocation of appropriate risk capital. Portfolio Management methods are being adopted to manage the Group's risk profile. The use of modelling to forecast future risk management trends is being used increasingly to assist in decision-making.

Periodically, 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 executive and senior management, is the principal risk policy decision-making body within the Consolidated Entity. A Risk Policy Committee also exists in each region. These Risk Policy Committees operate under criteria detailed in a 'Risk Management Template'.

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

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 value of assets and liabilities 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.

Trading Risk

Member banks of the Consolidated Entity have an Earnings at Risk Limit approved by the Principal Board to cover trading activities. From October 1, 1999 onwards, the transactional Earnings at Risk methodology will be changed to a Value at Risk methodology to align to the regulatory framework.

Overview of trading risk is performed by the Global Market Risk and Prudential Control Department of Risk Management Division. The risk control function is fully segregated from trading units within Global Wholesale Financial Services (GWFS) to ensure its independence meets internal and external requirements. A comprehensive global market risk control framework is created by having five regional market risk teams supported by a global team located in Head Office.

Limits for the management of trading assumed in the normal course of business are delegated to regional or global management in accordance with the structure of GWFS. These limits take into account the capacity of regional and global management to identify and manage trading risks and the relative sophistication and liquidity of each market.

Refer to Note 39, 'Derivative Financial Instruments' on pages 141 to 146 for a profile of the Consolidated Entity's derivatives risk exposures and further information on risk management.

Balance Sheet Risk

The Group Asset and Liability Management Committee (Group ALCO), under delegated Board authority, sets policies in relation to the management of structural balance sheet exposures. These exposures include structural interest rate risk, structural foreign exchange risk and liquidity risk. Overview of the Consolidated Entity'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 ALCO. Member banks have a Structural Earnings at Risk Limit approved by the Principal Board to cover balance sheet interest rate exposure.

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

Structural Interest Rate Risk

In carrying out its business activities, each member bank in the Consolidated Entity strives to meet customer demands for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of assets and liabilities.

As interest rates and yield curves change over time, the size and nature of these mismatches may result in a loss or gain in earnings.

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

Structural interest rate risk is calculated using balance sheet simulation processes which are undertaken across the National's banking operations. 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 business projections and interest rate environments. The results of balance sheet simulations, together with other balance sheet risk management information and strategies, are presented and reviewed by regional ALCOs, Group ALCO and the Board of Directors on a monthly basis.

The table below presents a summary of the non consolidated structural earnings at risk relating to non-trading assets and liabilities that are sensitive to changes in interest rates. Based on the structural interest rate risk position at balance date, the table shows the possible impact on income, for the 12 months ended September 30, 2000, under a rising or declining interest rate environment.

For member banks, the rising and declining interest rate scenarios are calculated using a 95% confidence interval around the current yield curve. For example, the effect on net interest income from rising interest rates over the coming year is calculated by assuming that interest rates will rise to a level which is exceeded only 5 times out of 100 cases (based on the historical behaviour of rates).

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 2000[(1)]		*Forecast effect on Income 1999*[(1)]	
Australian Dollars in Millions	*Rising Rates*	*Declining Rates*	*Rising Rates*	*Declining Rates*
Australian dollars	39	(43)	25	(28)
Non-Australian dollars	(16)	(13)	6	(17)

[(1)] *Represents forecast effect as at September 30, 1999 and 1998 respectively for the ensuing 12 months.*

Within the non-Australian dollars, exposure to interest rates in some currencies is biased towards rising rates and in others to falling rates.

The non banking entities do not hold any market risk sensitive instruments for trading purposes.

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 to the financial statements).

Group Structural Foreign Exchange Risk

Structural foreign exchange risk arises from investments in the Consolidated Entity'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 exposed to movement in exchange rates as a result of the need to translate earnings and net assets of the foreign operations into the Australian dollar consolidated accounts. This exposure of reported earnings and 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 underlying economic exposures.

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

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

Liquidity Risk

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

Throughout the year, the Group managed liquidity risk by a combination of positive cash flow management, the maintenance of portfolios of high quality liquid assets and diversification of its funding base. Liquidity standards approved by Group ALCO ensure that suitable liquid assets are held to meet prudential and regulatory liquidity requirements.

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

Operational Risk

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

To enhance the Consolidated Entity'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. Global Operational Risk, Insurance and Compliance 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. Documented action plans are in place to control the Group's most significant operational risks and reported to Executive Management and Principal Board on a regular basis for their information and approval.

Credit Risk

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

The administration and management of the Group's lending assets is the responsibility of Global Credit Bureau, an independent unit within Risk Management. Global Credit Bureau formulates and disseminates Group wide credit policies, practices and standards based on best practice, and assesses and approves all large credit proposals. This control ensures that common prudential policies and practices are being applied across the Group, in order to maintain the quality of each member Bank's lending portfolio.

Lending authority is delegated by the Principal Board to executive management of the Group, and then sub-delegated to Global Credit Bureau and other Regional/Member Bank Credit Bureaux. Further delegation aligned to the designated customer segments under the National Business Model then takes place.

The Board of each member Bank or a Delegated Board Committee is still required to overview or note the respective Bank's larger lending approvals, following approval by either Global Credit Bureau or the Regional/Member Bank Credit Bureaux. A system of overview of lending approvals by the next level of authority is fundamental to the Group's lending culture and philosophy.

For mass market consumer lending, the Group has made a strategic decision to utilise credit scoring techniques to support management of consumer portfolios. Under the control and management of specialist personnel within Global Credit Bureau, decision tools based activity is well advanced in all regions to introduce best practice credit processes, backed up by automated scoring technology and dedicated regional Decision Tools 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 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 input data has also been introduced on a global basis.

Using the skills provided by the Portfolio Management Unit now established in Global Credit Bureau, effective monitoring procedures and systems are used to control exposures to individual customers and industries, and within prudential limits as appropriate. The Portfolio Management Unit has also been responsible for introducing statistically based provisioning across the Group.

Statistically based provisioning is an approach which establishes a general loan loss provision based on the level of losses expected to arise from the existing level of credit commitments. It is based on the characteristics of the borrower and the term of the commitment, and is applicable across all member Banks of the Group.

The provision is established at the outset of the borrowing transaction, and is able to be used to fund the creation of specific provisions, should a credit exposure need to be classified as non-accrual.

Relationship Managers and Global Credit Bureau currently monitor all large derivatives exposures through a global Risk and Exposure Measurement (RXM) System. Implementation of this system in all member Banks was completed during 1999. This new system significantly enhances the Group's ability to more effectively monitor its cross-border exposures globally, and derivatives and other Treasury related products on a mark-to-market basis.

To assist in the maintenance of acceptable asset quality and process effectiveness within the Group, Risk Asset Review Units are established in each member Bank. The prime objective of these 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 review 'score' is produced, along with recommendations for improvements and actions taken at the regional level. These reports ultimately feed into Global Credit Bureau, which in the light of feedback information received, issues policy directives and/or process changes. Consolidated reports are also collated and placed before the Principal Board Audit Committee quarterly.

Each region globally 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 or Risk Asset Review Unit, decision-making in respect of the asset passes to the ASU, where it receives an appropriate impaired categorisation. Once this occurs, loans are designated as either retention or exit, and appropriate action plans are implemented to either restore the asset to non-impaired status, or to quit the exposure.

The Group 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 before approving any exceptionally large 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 Consolidated Entity, 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, its ability to produce foreign exchange reserves and meet financial obligations, the Consolidated Entity sets prudential cross-border limits for each country which are apportioned to each member of the banking group.

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

European Economic Monetary Union

January 1, 1999 saw the introduction of the Euro currency in eleven member countries of the European Union (EU) and the Group successfully implemented the first phase of its European Economic Monetary Union (EMU) program. International and wholesale financial operations now support trading, all types of accounts and payments in Euro. National Irish Bank is already operating domestically with Euro capability.

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

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

Further developments in respect of the EMU and possible UK entry are not expected to have a materially adverse effect on the Group, however, it is not possible to predict all strategic practical implications of 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 Readiness Disclosures

In addition to the disclosure set forth below, investors should consult the Company's responses, dated September 30, 1999 to the Australian Stock Exchange's request dated August 10, 1999 for information about the Company's Year 2000 Program. The Company's responses were filed with the US Securities and Exchange Commission on Form 6-K. The Company's responses contain more detailed information about the Group's Year 2000 program, including (i) the Company's state of readiness and progress in addressing the Year 2000 problem, (ii) the particular risks faced by the Group and the Group's key risk mitigation activities for those risks and (iii) the Group's business continuity plans.

State of Readiness

The Company is continuing to focus on its preparations for the date change from 1999 to 2000 (the 'date change'). The Year 2000 work is the largest program ever undertaken by the Company and its investment is aimed at maintaining safe, accurate and accessible financial systems for all National customers. All core business systems in Australia, New Zealand, United States, Europe and Asia have been updated and the program's objective of business as usual remains unchanged.

The Company's Year 2000 Program is now in the Transition Phase. In this phase, the Company will integrate its completed Year 2000 preparations, continue to test core systems to assure previous testing and the effectiveness of change management, review the position of critical suppliers and finalise business contingency plans to deal with Year 2000 issues which might arise. Another activity during Transition is the establishment of situation management centres in Europe, Michigan Bank, HomeSide, Global Wholesale Financial Services, the Australian retail bank, BNZ and at Group level to ensure that any Year 2000 situations can be managed at the appropriate level. These situation management centres will operate to assist command teams at their local level as well as the senior executives within the command team at Group level. This approach is consistent with similar structures within other businesses and regulators in the financial services sector.

While the Company cannot predict or guarantee the outcomes of the date change, it is committed to minimising any impacts of the date change on its customers. The Company believes that all the work it plans to do in Transition will be completed before the date change to 2000. The Company plans to maintain its Year 2000 Program in operational mode until after February 29, 2000 in the event that any unanticipated date related events occur.

Description of Year 2000 Problem

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

The Company's program has involved an extensive review of the Group's operations and scoping the work that needed to be completed to minimise any potential impact. This included reviewing the possible effects on the Group arising out of how third parties manage the date change. The work demonstrated that there are two possible key impacts:

- Internal – the date change could cause interruptions, errors in calculations or delays to the Group's business critical 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 customers, suppliers, interbank counterparties, regulators and electronic distribution channels which may be impacted by the date change. This includes any secondary or systemic impact that may arise from the date change 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 underway 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, 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 inhouse or acquired from vendors. This is the main area of code repair and testing within 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 year date fields to four digits, expanding date fields to eight 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 have been individually scrutinised to verify their readiness for 2000.
3. Business Support Infrastructure – all buildings and associated services (electricity, airconditioning, security, telecommunications etc.) used by the Company in its businesses. This area of the program involves the greatest concentration of embedded chips. The Company has worked with manufacturers and suppliers to ensure that infrastructure is tested where appropriate and embedded chips or other date-related logic have been upgraded or replaced where necessary.
4. Business Dependencies – all the potential impacts of the date change to 2000 other than the work associated with replacement, repair and testing. This work incorporates management of the impacts of the date change to 2000 on third parties and their associated effects on the Company. These third parties include suppliers of products and services used by the Company 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.

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.

Risks

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 has back-up power capacity at all its major business sites which allow it to continue processing even when there is no utility supplied mains power. The Company is involved in industry groups in Australia and internationally which are focused on the preparation of utilities for the date change. 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 telecommunications failure.

In addition, the Company is dependent on the way in which those with whom it exchanges data or relies on for provision of services, including data exchange capabilities, address the date change to 2000. The Company's key risk mitigation activity in this respect is its external testing programs with such major trading partners. There are one-to-one and many-to-many testing programs in most countries where the Company does business which aim to reduce the probability of unplanned system outages of this nature. Payments systems are also wholly dependent on power and national and international telecommunications grids. The Company has participated in testing of payments streams in Europe, America, Asia, Australia and New Zealand. All these tests have been completed successfully. SWIFT was included in this testing.

By way of example, in Australia, the Company was involved in the testing of the Australian Payments Clearing Association's (APCA) testing of payment and card systems between the banks. These tests included EFTPOS and Bpay.

The Company is a member of the Australian Interbank 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 Interbank Working Group, a Global Year 2000 coordinating group that was set up at the beginning of 1998. Overseas member banks within the Group are also part of industry Year 2000 groups in their respective countries.

International risks may be higher insofar as it is generally believed that some countries may not be addressing their Year 2000 issues on a timely basis. The Company's credit risk associated with borrowers may increase to the extent that borrowers fail to adequately address the date change to 2000. As a result there may be increases in problem loans and credit losses in the future. The Company's key risk mitigation activity for this risk is its Year 2000 credit assessment program.

The program covers country and counterparty credit risk using information gathered directly from bank counterparties, central banks and other publicly available information from a number of sources which is held in a database and used to manage these exposures. It also covers selected business borrowers ('qualifying borrowers') who were asked to complete a Year 2000 questionnaire which was then analysed by the Relationship Manager and reviewed periodically depending on the outcome of the analysis. The data provides aggregate views and is managed regionally and globally. The information provided by most qualifying business borrowers underwent an audit by the Company's Risk Asset Review Units globally as a verification measure in the first quarter of 1999. Where appropriate, visits to identified business borrowers are also used to manage Year 2000 credit risk.

Liquidity issues may arise if the flow of funds in and out of the Company over the date change to 2000 are significantly different than what the Company has projected. The projections the Company has made assume a greater volatility than normal over the date change period with some customers depositing less, withdrawing more or changing the settlement times for their funding facilities. The Company has steps in place to manage the projections it has made. Liquidity trends will be monitored throughout the remaining months of 1999 to ensure that the Company's projections remain appropriate.

Contingency Planning

The Company does not intend to claim at any particular time that it has achieved complete compliance. In these circumstances, it is possible that the Company or third parties on which the Company depends may have unplanned system difficulties during the transition through 2000, or that third parties may not successfully manage the date change. The Company's business continuity plans will seek to assist the Company to meet its primary objective of business as usual before, during and through 2000.

The Company has completed the adaptation of its business continuity plans for the date change to Year 2000. The adaptation work leveraged off the work associated with the Australian Prudential Regulation Authority ('APRA') 1998 annual tripartite review which focussed on business continuity. This 1998 review extended across all the Company's business units in Australia and overseas. As with the technology change work done over the past two years, the general process of adapting the business continuity plans for Year 2000 events involved the stages of assessment, strategy development, planning of the implementation of the strategy, implementation, testing and change control. Additional work was undertaken in the special interest areas such as market liquidity, cash liquidity, legal and regulatory and credit which affect a number of business units. Business continuity plans do not guarantee that there will be no interruption to service levels but they do aim to return service levels to normal as quickly as is practicable.

The Company's business continuity planning for the date change to 2000 focuses on identified risks as well as preparedness for unexpected events. By doing this, the Company is planning to have the capability to respond rapidly to disruptive situations should they occur. Quality assurance of business continuity plans began in July and is ongoing until the end of September 1999. As part of the quality assurance process, the Company, working with an independent third party, commenced a global program of business recovery exercises which involved preparing for a range of events which could impact on customer service.

Consistent with the quality assurance purpose of the exercises, most sessions have identified actions to be taken to strengthen the depth and breadth of business unit plans. Similar exercises have been staged in New Zealand, Europe, United States (excluding HomeSide which planned equivalent internal exercises) and Asia. County Funds Management in Australia also use equivalent internal exercises in substitution for these tests. The development and testing of business continuity plans does not provide a guarantee that there will be no disruptions arising from the date change to 2000.

The financial services sectors in the various countries where the Company operates are also undertaking their own industry-wide business continuity planning for the date change and the Company is involving itself in those plans to the extent that they are appropriate to the Company's business. Likewise, the Company is involved in aspects of the various country-wide plans for the date change in association with regulators and government authorities.

Estimated Cost

The estimated financial impact of the Company's Year 2000 program, including depreciation, is currently budgeted at $296 million for the period September 1996 through to March 2000. Other additional expenses may arise from new acquisitions or business expansions which might occur from time to time. As of September 30, 1999, the Company had spent approximately $254 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.

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 $296 million is based on the current status of the Year 2000 program and may be subject to change. The figure of $296 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. It also does not include costs such as those of relationship managers working with business borrowers or the costs of liquidity preparations.

For further information with respect to the cost of the Year 2000 initiative, refer Note 2 on page 90.

Forward Looking Statements

Those statements contained in this section on Year 2000 Readiness Disclosures that are not historical facts are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act. The Company's actual results may differ materially from those included in the forward-looking statements. Forward looking statements are typically identified by words or phrases such as ‘will depend’, ‘could cause’, ‘includes’, ‘aim’, ‘may’.

These forward looking statements involve risks and uncertainties including but not limited to how utilities manage the date change, representations made by vendors, suppliers, trading partners and borrowers regarding their date change preparations and results of testing, the results of the Company’s own testing, the adequacy and ability to implement business continuity plans, the impact on global economic conditions of the date change, how the Company’s borrowers manage the date change, the actual cost of Year 2000 claims arising from the date change, if any, the possibility that the Company will be unable to achieve anticipated levels of operational efficiencies and cost savings initiatives because of interruptions caused by the date change and similar uncertainties. Any such forward looking statements speak only of the date of this annual report. Subject to any specific legal requirement to the contrary, the Company undertakes no obligation and disclaims any responsibility to publicly announce the result of any revisions to any forward-looking statements contained in this section to reflect future developments or events.

Goods and Services Tax

Australian Goods and Services Tax (GST) Legislation received Royal Assent on July 8, 1999 and will be effective from July 1, 2000.

The National established a major program in December 1998 to prepare for the implementation of GST and to ensure compliance with the law. The total cost of implementing the GST compliance regime , including significant system and other costs, is estimated to be $30 million. Of this amount, $3 million was expended to September 30, 1999 with the remainder to be incurred by September 30, 2000.

The National’s primary financial products will be ‘input taxed’ and therefore GST will generally not be added directly to the consumer's price for financial services and products. However, leasing, general insurance and a range of other products will be subject to GST like most goods and services. The National already operates in a number of countries which have a similar tax to the GST.

Wholesale Sales Tax will be abolished on July 1, 2000 when GST is introduced. The benefit is expected to flow progressively through to the National. Removal of other taxes and stamp duties that affect both the National and its customers has been delayed. For example, Financial Institutions Duty (FID) will not be abolished until July 1, 2001.

As most products will be input taxed, the National will not be able to directly recover the net increase in the cost of its purchases. Accordingly, there will be a need to review fees, charges and interest margins in order to reduce the impact on the business of the additional costs arising from the GST regime.

Any increases in costs to consumers will fully comply with the pricing guidelines released by the Australian Competition and Consumer Commission.

Accounting Developments

The following is a summary of accounting standards and exposure drafts, that may impact the accounting and reporting of the Group’s transactions when adopted in future years.

Leases

In October 1998, the Australian Accounting Research Foundation (AARF) reissued Australian Accounting Standard (AASB) 1008 ‘Leases’. The revised 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 amended standard will apply to the Group’s financial report for the year ending September 30, 2000 and will not have a significant impact on the Group’s financial report, however it is likely to have a significant impact on leverage leasing as a product.

Financial reporting of Life Insurance Business

In November 1998, the AARF issued AASB 1038 ‘Life Insurance Business’. AASB 1038 prescribes specific measurement, presentation and disclosure requirements for the financial reporting of life insurers, and requires parent entities of life insurers to consolidate both policyholder and shareholder interests on a line by line basis. Previously, policyholders’ interests were not required to be consolidated. The standard will apply to the Group’s financial report for the year ending September 30, 2000 and will not have a significant impact.

Joint Ventures

In December 1998, the AARF reissued AASB 1006 ‘Joint Ventures’. The revised AASB 1006 requires that a venturer with an investment classified as an associate or a partnership, comply with the equity method of accounting as set out in AASB 1016 ‘Accounting for Investment in Associates’. The standard will apply to the Group’s financial report for the year ending September 30, 2000 and will not have a significant impact.

Accounting Policies

In March 1999, the AARF reissued AASB 1001 ‘Accounting Policies’. AASB 1001 provides a hierarchy of authoritative guidance to be used for transactions not covered by specific standards. It permits a change in accounting policy only when it is necessary to comply with another standard or an Urgent Issues Group (UIG) Abstract, or when the change will improve the relevance and reliability of financial information. AASB 1001 also requires where practicable, that an adjustment be recorded in the current year to record the impact of the revised accounting policy as if it had been in place since inception. The standard will apply to the Group’s financial report for the year ending September 30, 2000 and will not have a significant impact.

Acquisition of Assets

In October 1997, the AARF issued exposure draft ED 84 ‘Acquisition of Assets’ and in December 1998, they issued an invitation to comment on additional issues raised after deliberation of ED 84. ED 84 proposes amending AASB 1015 'Accounting for the Acquisition of Assets' to require 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. The invitation to comment proposes excluding certain internal reconstructions from the scope of the standard arising from ED 84. The amended standard emanating from ED 84 and the invitation to comment is likely to apply to the Group's financial report for the year ending September 30, 2000 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' to harmonise with IAS 33 'Earnings per Share'. Basic and diluted EPS are to be calculated using 'operating profit after income tax and extraordinary items' rather than 'operating profit after income tax'. A 'trigger test' is to be used to determine if a dilutive EPS exists and to require the disclosure of dilutive EPS. The amended standard emanating from ED 85 is likely to apply to the Group's financial report for the year ending September 30, 2001 and will not have a significant impact.

Foreign Currency Translation

In December 1997, the AARF issued exposure draft ED 86 'Foreign Currency Translation'. 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. The tax effects of exchange differences on monetary items forming part of the net investment in a self-sustaining foreign operation and hedge of those items should be taken to the foreign currency translation reserve on consolidation.

In November 1998, the AARF issued Invitation to Comment 'Application of Foreign Currency Translation to Equity'. The paper proposes to translate equity denominated in a foreign currency at the rate applicable at issue date without subsequent retranslation. Returns of equity and returns on equity denominated in a foreign currency will be required to be translated at the rate prevailing on transaction date.

The amended standard emanating from ED 86 and the invitation to comment is likely to apply to the Group's financial report for the year ending September 30, 2001 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 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. It focuses on temporary differences rather than timing differences. The tax payable on the taxable income of a reporting period is to be recognised as an expense in the profit/loss for the period and referred to as current tax. The tax, which remains unpaid at reporting date, is recognised as a current tax liability in the balance sheet. Future tax consequences of transactions recognised give rise to deferred tax liabilities/assets in the period in which the transactions are recognised. The amended standard emanating from ED 87 is likely to impact the Group's financial report for the half year ending March 31, 2003 and financial year ending September 30, 2003 and will not have a significant impact.

Provisions and Contingencies

In December 1997, the AARF issued exposure draft ED 88 'Provisions and Contingencies' and in February 1999, AASB issued an invitation to comment 'Provisions and Contingencies: Restructuring Upon Acquisitions, and Transitional Provisions' dealing with additional issues raised after deliberation of ED 88. ED 88 defines provisions as liabilities for which the amount or timing of future sacrifice 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. The invitation to comment paper proposes that restructuring provisions do not exist at acquisition date, and therefore are excluded from the fair value calculation of the net assets acquired, unless the acquiree has entered into firm contracts, publicly announced restructuring plans or commenced restructuring before acquisition date. Similarly, provisions do not exist for future losses or other costs estimated to be incurred as a result of the acquisition. The standard emanating from ED 88 is likely to impact the Group's financial report for the year ending September 30, 2001 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' to harmonise 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 disclosure for secondary segments. The amended standard emanating from ED 90 is likely to apply to the Group's financial report for the year ending September 30, 2001 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. It requires expenses from operating activities to be classified according to their nature or function. Disclosure of equity-accounted investments and share of profits is also proposed. The amended standard emanating from ED 91 is likely to apply to the Group's financial report 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 basis cannot subsequently revert to the cost basis and must ensure revaluations are made regularly. Progressive revaluation of a class of assets is permitted. The initial proposal to disallow offsetting revaluation increments and decrements by asset class has been overturned in a statement from the AASB. The amended standard emanating from ED 92 is likely to apply to the Group's financial report for the year ending September 30, 2001 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' to harmonise 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 the nature and the amount of significant items in the notes. The concept of fundamental errors is introduced for the first time, whereby a correction of a fundamental error is recognised as revenue or expense in the period that the error is discovered. Non-owner changes in equity are included in a separate section of the profit and loss statement. Restated comparative information is required in the notes for prior period fundamental errors. The amended standard emanating from ED 93 is likely to apply to the Group's financial report for the year ending September 30, 2000 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 emanating from ED 95 is likely to apply to the Group's financial report 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 prescribes 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 emanating from ED 96 is likely to apply to the Group's interim financial report for the half year ending March 31, 2001 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 wages 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 emanating from ED 97 is likely to apply to the Group's financial report for the year ending September 30, 2001 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' to require that a financial instrument that mandatorily converts to equity instruments 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 emanating from ED 98 is likely to apply to the Group's financial report for the year ending September 30, 2000 and will not have a significant impact.

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued statement of Financial Accounting Standards (SFAS) 133 'Accounting for Derivative Instruments and Hedging Activities'. SFAS 133 requires all derivatives to be recognised as assets or liabilities and measured at fair value. The accounting for gains or losses on a derivative depends on the intended use of the derivative and the type of the designation of the related hedge. 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. In July 1999, the Statement was deferred by one year and will be adopted as a US GAAP reconciling item in the Group's financial report for the year ending September 30, 2001. At the date of this report, we are assessing the impact of this standard on the Group, however as yet we are unable to determine its full impact.

Consolidated Financial Statements

In February 1999, the FASB issued proposed SFAS ED 194-B 'Consolidated Financial Statements: Purpose and Policy'. ED 194-B revises the existing ED 154-D by proposing that a parent entity consolidate all entities that it controls, unless the control is temporary when the entities are acquired. Control involves having the decision-making ability that is not shared with others. The standard emanating from the ED is likely to apply to the Group's financial report for the year ending September 30, 2001 and will not have a significant impact.

Using Cash Flow Information and Present Value in Accounting Measurements

In March 1999, the FASB issued proposed SFAS ED 195-A 'Using Cash Flow Information and Present Value in Accounting Measurements'. ED 195-A revises the existing ED 174-B 'Using Cash Flow Information in Accounting Measurements' by setting out the principles on the use of present value calculations, especially when the amounts/timing of future cash flows are uncertain. The ED proposes that present values used in the measurement of assets and liabilities be based on fair value and that the measurement of liabilities include the credit standing of the entity obligated to pay. The ED also proposes four principles on the techniques used to estimate cash flows. The standard emanating from the ED is likely to apply to the Group's financial report for the year ending September 30, 2001 and will not have a significant impact.

Accounting for Transfers of Financial Assets

In June 1999, the FASB issued proposed SFAS ED 198-C 'Accounting for Transfers of Financial Assets, an amendment of FASB Statement 125'. SFAS ED 198-C revises the requirement for transfers of financial assets by modifying the criteria and guidance for determining whether the transferor has relinquished control and the transfer is accounted for as a sale. ED 198-C revises the accounting requirements for pledged collateral and requires new disclosures about securitisations and collateral. The amended standard emanating from ED 198-C is likely to apply to the Group's financial report for the year ending September 30, 2001 and will not have a significant impact.

Business Combinations and Intangible Assets

In September 1999, the FASB issued proposed SFAS ED 201-A 'Business Combinations and Intangible Assets'. FASB ED 201-A addresses the method of accounting for business combinations and eliminates the pooling of interests method. ED 201-A also establishes new accounting standards for identifiable and unidentifiable intangible assets acquired, including goodwill, whether acquired singularly, in a group, or part of a business combination. The standard emanating from ED 201-A is likely to apply to the Group's financial report for the year ending September 30, 2001 and will not have a significant impact.

Corporate Governance

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

The Board of Directors is responsible for the Corporate Governance of National Australia Bank Limited and its controlled entities. The Directors of the Company have a duty to act honestly, transparently, diligently, independently and in the best interests of all shareholders, in order to increase shareholder value. The major processes by which the Directors meet their duties are described in this Corporate Governance Statement.

Responsibilities and Functions of the Board

The most significant responsibilities of the Board are:

- reporting to shareholders and the market;
- ensuring regulatory compliance;
- ensuring compliance with prudential regulations and standards;
- ensuring the maintenance of credit quality;
- ensuring adequate risk management processes;
- reviewing internal controls and internal and external audit reports;
- monitoring and influencing the culture, reputation and ethical standards of the Company and 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 investments and commitments, capital expenditure, delegation of authorities to act and the allocation of resources.

Board Appraisal

The Board has 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 one executive director and nine independent non-executive directors including the Chairman. Details in respect of individual directors are contained on pages 8 and 9 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 provides 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 an independent non-executive director;
- The Board should comprise a majority of independent 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 with international operations 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 ensure that each of the significant responsibilities of the Board, referred to earlier, is addressed. This includes the Board receiving a detailed overview of the performance of, and significant issues confronting, each business unit and the Corporate Centre, and identification of major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

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

Independent Professional Advice

Each director has the right to seek independent professional advice at the Company'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', ie 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

The Company 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 Consolidated Entity.

Remuneration of Directors

The remuneration policy for directors is set out in the Directors' Report on pages 75 to 78 of this Annual Report and the remuneration of each director 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 is set out in the Directors' Report on page 77 of this Annual Report. Further details on the remuneration of executives, including the remuneration of the five executives receiving the highest emolument, 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 independent non-executive directors, a majority of whom are financially sophisticated.

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 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 report.

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 and management committees in the areas in which the Consolidated Entity conducts its business activities. Audit committees are comprised of non-executive directors of the relevant operating companies within the Consolidated Entity.

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 63 to 65 of this financial report.

Ethical Standards

The operations of the Company and the Consolidated Entity are driven by the Group Mission Statement and Values listed on the inside front cover of this Annual Report. All the Values are important and cover every aspect of daily banking and financial service practices.

The Values include the requirement that the business be conducted ethically and with professionalism to achieve the highest standards of behaviour. 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' or 'the National') present their report together with the financial report of the Company and of the Consolidated Entity, being the Company and its controlled entities, for the year ended September 30, 1999 and the Auditors' report thereon.

Directors

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

Details of Directors of the Company in office at the date of this Report, and each Director's qualifications, experience and special responsibilities are included on pages 8 and 9 of the Annual Report.

Board Changes

Since the previous Annual Report, Mr BT Loton and Mr DR Argus retired as Directors of the Company. Mr Loton retired on May 17, 1999 and had been a Director of the Company since 1988. Mr Argus retired as a Director on May 31, 1999 and had been a Director of the Company since 1989.

Mr WF Blount was appointed as a Director of the Company on March 2, 1999. Mr FJ Cicutto was appointed as Managing Director and Chief Executive Officer of the Company on June 1, 1999.

The Board has recorded its thanks to Mr Loton for his contribution as a Director of the Company during a period of significant growth and globalisation.

Mr Argus joined the National Bank of Australasia in Queensland in 1955 and held a number of branch management appointments. In 1983 he assumed credit risk management responsibility and was appointed Head of Group Credit Bureau in 1986 with global responsibility for major lending exposures. He also led the due diligence team in the National's United Kingdom acquisitions. Following this, he held the appointments of General Manager, Group Strategic Development; Executive Director, Banking; and Executive Director and Chief Operating Officer, before being appointed Managing Director and Chief Executive Officer in October 1990.

Mr Argus led the National during a period of unprecedented change. During his period as Chief Executive, annual operating profit after tax and before abnormal items increased from $756 million to more than $2.5 billion; total assets increased from $94 billion to $254 billion; and the share price increased from $5.78 to $25.46 at the date of his retirement as a Director (having been as high as $30.28). The Company is now the largest financial institution in Australia, with significant global operations, and is the third largest company in Australia by stock market capitalisation. These developments and successes were achieved during a period of intense competition following deregulation of banking and finance in Australia; and at a time during which many Australian companies considered it necessary to recruit chief executives from the United States and the United Kingdom, in order to manage the pressures of globalisation.

The transition to Mr Cicutto, as the new Managing Director and Chief Executive Officer has been seamless, reflecting the success of Mr Argus in the key responsibility of providing for comprehensive succession planning at all senior levels of management.

The Board of Directors has thanked Mr Argus for his leadership, his strategic insights, his wisdom and his very diligent efforts during a long and distinguished career with the Company. The Board wished Don Argus a long, healthy and happy retirement from the Company, and wished him every possible success in his future roles.

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 Corporations Law, other than to enter into deeds providing for indemnity, insurance and access to documents with the Directors of the Company in accordance with a resolution of the shareholders at the Annual General Meeting held on December 17, 1998, and similar deeds in favour of certain officers of the company and related bodies corporate.

Insurance

During the financial year, the Company paid a premium under a contract insuring each of certain Consolidated Entity Officers of the Company and its controlled entities against liability incurred in that capacity. Those Consolidated Entity Officers consist of the Directors of the Company, 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 98/100 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 report to the nearest million dollars, except where indicated.

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 11 to 15 of this Annual Report.

Consolidated Entity Results

The operating profit after tax of the Consolidated Entity for the year ended September 30, 1999 attributable to the members of the Company was $2,821 million, an increase of $807 million (40.1%) on the previous year's results. Included in the 1998 result was an abnormal loss of $497 million (after tax) reflecting restructuring costs booked during the year and the financial effect of the adoption of a statistically based provisioning methodology. If the abnormal items are excluded, operating profit after tax attributable to members of the Company increased by $310 million (12.3%) on the previous year's result. There were no abnormal items included in the current year's result.

Dividends

Information on the dividends paid and declared to date is contained in Note 5 'Dividends' to the financial statements.

Since the mid 1980's 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 National and its shareholders. The Group's earnings have continued to grow and this has resulted in increased dividends to shareholders.

However, while significantly increasing shareholder value, this strategy has reduced the capacity of the Company to maintain fully franked dividends. Accordingly, the average franking level for the total dividend for 1999 was 89%. After allowing for the effect of partial franking, the full year dividend growth is 5.5%. Based on current internal estimates, the Company expects that the franking level for future dividends will be in the range of 70% to 75%.

The unfranked component of the final dividend for 1999 is sourced from the Company's Foreign Dividend Account. For the Company's shareholders who are not residents of Australia this means that the unfranked component of the dividend will not be subject to Australian dividend withholding tax.

In its submission to the Ralph Review of Australia's business tax system, the National expressed its concerns with the inefficiencies of the current dividend imputation regime which adversely affect Australian multinational companies. The National's submission outlined possible options to address these inefficiencies. While the Ralph Review, in its report to the Government, acknowledged the concerns, it rejected the reform options on the basis that they would represent a substantial revenue cost to the Australian Government. The National will continue to participate in any future consultations with the Government over this issue and other business tax reform proposals.

Year 2000

The Board has established a program designed to ensure that the impact of the change to year 2000 on the Consolidated Entity and its customers is minimised. The details of the program are included on pages 66 to 69 of this Annual Report.

State of Affairs

On December 16, 1998, the Company announced a new Share Purchase Plan, which replaced the Share Top Up Plan. Under the new Plan, shareholders have the opportunity to directly purchase shares in the National free of brokerage and stamp duty. It is anticipated that further offers under this Plan will be made at the time shareholders receive future dividends, subject to the Board's discretion.

On March 4, 1999 HomeSide and Bank One Corporation announced an expansion to their strategic alliance to include loan servicing of the US$18 billion portfolio of First Chicago NBD Mortgage Company.

On June 29, 1999 the Company issued 20 million National Income Securities at AUD$100 each pursuant to a Prospectus dated May 10, 1999 and a Supplementary Prospectus dated May 19, 1999. National Income Securities are stapled securities, comprising one fully paid Note of AUD$100 issued by the Company through its New York branch and one unpaid Preference Share issued by the Company. The amount unpaid on a Preference Share will become due in certain limited circumstances (such as if an event of default occurs). If the amount unpaid on a Preference Share becomes due, the holder can, and must, transfer to the Company the Note stapled to that Preference Share. The transfer of the Note to the Company will fully satisfy the holder's obligation to pay up the amount on the Preference Share. The holder will then hold a fully paid Preference Share.

Holders of National Income Securities are entitled to non-cumulative distributions based on a rate equal to the 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears (a minimum interest rate of at least 6% per annum is payable until May 15, 2000). Should the Preference Shares become fully paid, holders will receive, if declared, a dividend calculated at the same rate and payable on the same basis.

National Income Securities have no maturity date, are listed on the Australian Stock Exchange and on a winding up of the Company rank behind all deposit liabilities and creditors of the Company but ahead of ordinary shareholders for a return of capital.

With the prior consent of the Australian Prudential Regulation Authority, the Company may redeem each Note for AUD$100 (plus any accrued distributions) and buy-back or cancel the Preference Share stapled to the Note for no consideration. This may take place at any time after the fifth anniversary of the issue date of the National Income Securities or earlier in certain limited circumstances.

Interest of 4% per annum was paid on application monies from the date following the receipt of applications until the National Income Securities were issued.

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 result in unreasonable prejudice to the interests of the Consolidated Entity are contained in the Year in Review on pages 11 to 15 of this 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 and data from the Company's remuneration specialists and from external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Company's operations, the achievements of the Company and the responsibilities and workload requirements of Board members.

Because the focus of the Board is on the long term strategic direction of the company there is no direct link between Director remuneration and the short term results of the 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 controlled entities. The total fees paid to members of the Principal Board, including fees paid for Board Committees and Controlled Entity Boards, are kept within the total approved by shareholders from time to time. Non-Executive Directors are not eligible to receive performance based incentive payments or share options.

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 the Company competes 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 Company 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 past year.

  The performance of the Company 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 the Board is aware of in the Australian corporate environment.

The Company aims 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 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.

Directors' and executives' remuneration disclosures are set out in Notes 46 and 47, respectively, to the financial statements.

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	*Scheduled 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	12	12	5	6	18	18	16
DK Macfarlane	12	12	6	6	17	17	11
BT Loton[3]	7	7	–	–	5	5	14
DR Argus[4]	8	8	–	–	12	12	6
DCK Allen	11	12	5	6	21	22	8
WF Blount[5]	7	7	–	–	7	7	6
FJ Cicutto	12	12	–	–	17	17	15
CM Deeley	11	12	6	6	8	10	26
GJ Kraehe	11	12	–	–	10	10	3
TP Park	11	12	–	–	9	10	14
ED Tweddell	12	12	–	–	10	10	13
CM Walter	11	12	5	6	17	19	19

(1) Reflects the number of additional formal meetings attended during the year by each Director, including unscheduled Directors' Meetings and Committee Meetings (other than the Audit Committee).

(2) Reflects the number of meetings held during the time the Director held office during the year. Where an 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 BT Loton retired as a Director of the Company on May 17, 1999.

(4) Mr DR Argus retired as a Director of the Company on May 31, 1999.

(5) Mr WF Blount commenced as a Director of the Company on March 2, 1999.

Directors' Interests

The table below shows the interests of each Director in the issued and paid up capital of the Company and registered schemes of the Consolidated Entity as at the date of this report:

	Ordinary Shares		*Options over Ordinary Shares*	*National Income Securities*		*Registered Schemes*	
	Held Beneficially	*Held Non-Beneficially*	*Held Beneficially*	*Held Beneficially*	*Held Non-Beneficially*	*Held Beneficially*	*Held Non-Beneficially*
MR Rayner	20,888	–	–	–	–	–	–
DK Macfarlane	5,137	–	–	–	–	–	–
DCK Allen	11,528	–	–	–	–	–	–
WF Blount	2,000	–	–	–	–	–	–
FJ Cicutto	33,882*	–	1,100,000	–	–	–	–
CM Deeley	26,677	–	–	1,000	–	–	–
GJ Kraehe	11,811	–	–	670	–	–	–
TP Park	12,933	–	–	–	–	–	–
ED Tweddell	2,263	–	–	–	–	–	–
CM Walter	14,096	–	–	400	–	–	–

** 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 4th day of November, 1999 and signed in accordance with a resolution of the Directors.

MR Rayner FJ Cicutto

Financial Report

Table of Contents

Statements of Profit and Loss

For years ended September 30 Dollars in Millions	Note	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997
Interest income	2	**15,066**	15,427	12,936	**9,123**	9,287	8,021
Interest expense	2	**9,000**	9,569	7,578	**6,514**	6,741	5,429
Net interest income		**6,066**	5,858	5,358	**2,609**	2,546	2,592
Charge to provide for doubtful debts	2, 14	**540**	572	332	**225**	294	131
Net interest income after provision for doubtful debts		**5,526**	5,286	5,026	**2,384**	2,252	2,461
Other operating income	2	**4,563**	3,953	2,909	**2,337**	1,997	1,703
Total operating income		**10,089**	9,239	7,935	**4,721**	4,249	4,164
Other operating expenses	2	**5,948**	5,516	4,619	**2,713**	2,484	2,324
Operating profit before abnormal items		**4,141**	3,723	3,316	**2,008**	1,765	1,840
Abnormal items	3	**–**	(749)	–	**–**	(348)	–
Operating profit before tax		**4,141**	2,974	3,316	**2,008**	1,417	1,840
Income tax expense (benefit) attributable to:							
Operating profit		**1,321**	1,211	1,095	**573**	543	555
Abnormal items		**–**	(252)	–	**–**	(127)	–
Total income tax expense	4	**1,321**	959	1,095	**573**	416	555
Operating profit after income tax		**2,820**	2,015	2,221	**1,435**	1,001	1,285
Outside equity interests in operating profit after income tax		**(1)**	1	(2)	**–**	–	–
Operating profit after income tax attributable to members of the Company		**2,821**	2,014	2,223	**1,435**	1,001	1,285
Retained profits at the beginning of the financial year		**7,304**	6,568	5,621	**2,834**	3,171	3,117
Dividend provisions not required	5	**70**	65	83	**85**	84	102
Aggregate of amounts transferred from reserves	30	**36**	184	66	**–**	45	35
Total available for appropriation		**10,231**	8,831	7,993	**4,354**	4,301	4,539
Dividends provided for or paid	5	**1,655**	1,467	1,367	**1,655**	1,467	1,367
Distributions	30	**74**	7	–	**16**	–	–
Aggregate of amounts transferred to reserves	30	**70**	53	58	**2**	–	1
Retained profits at the end of the financial year		**8,432**	7,304	6,568	**2,681**	2,834	3,171
Earnings per ordinary share before abnormal items (cents)	6						
– Basic		**186.6**	174.6	151.6			
– Diluted		**181.6**	170.6	148.7			
Earnings per ordinary share after abnormal items (cents)	6						
– Basic		**186.6**	140.0	151.6			
– Diluted		**181.6**	137.9	148.7			
Dividends per ordinary share (cents)	5						
– Interim		**54**	49	45			
– Final		**58**	53	49			

The Statements of Profit and Loss are to be read in conjunction with the notes to the financial statements set out on pages 84 to 164.

Balance Sheets

As at September 30 Dollars in Millions	Note	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997
Assets							
Cash and short term liquid assets	7	**3,649**	4,152	4,454	**928**	1,519	1,396
Due from other financial institutions	8	**11,120**	9,303	10,360	**7,516**	5,465	7,770
Due from customers on acceptances	9	**22,851**	22,353	19,605	**21,903**	21,371	18,888
Trading securities	10	**12,853**	11,446	9,987	**11,761**	9,394	8,182
Available for sale securities	11	**1,399**	937	1,815	**1,211**	749	1,642
Investment securities	12	**8,951**	8,228	7,448	**5,598**	5,341	5,082
Loans and advances	13	**165,620**	160,001	131,036	**91,103**	82,921	71,817
Mortgage loans held for sale		**1,980**	3,473	–	**–**	–	–
Mortgage servicing rights	16	**5,345**	2,998	–	**–**	–	–
Due from controlled entities		**–**	–	–	**22,684**	20,745	14,920
Shares in entities and other securities	17	**1,068**	1,013	280	**5,463**	5,383	3,522
Regulatory deposits	18	**153**	1,155	1,016	**6**	961	847
Fixed assets	19	**2,032**	2,219	2,229	**575**	544	573
Goodwill	20	**2,905**	3,095	2,122	**–**	–	–
Other assets	21	**14,155**	21,341	11,617	**8,539**	13,688	8,189
Total Assets		**254,081**	251,714	201,969	**177,287**	168,081	142,828
Liabilities							
Due to other financial institutions	22	**16,203**	16,541	12,746	**13,304**	11,675	11,178
Liability on acceptances	9	**22,851**	22,353	19,605	**21,903**	21,371	18,888
Deposits and other borrowings	23	**162,468**	158,084	128,469	**94,128**	84,739	70,200
Income tax liability	24	**1,979**	1,953	1,629	**856**	756	806
Provisions	25	**1,743**	1,680	1,292	**1,361**	1,182	989
Due to controlled entities		**–**	–	–	**13,032**	13,313	11,890
Bonds, notes and subordinated debt	26	**13,437**	15,115	9,569	**11,287**	12,735	9,439
Other debt issues	27	**1,645**	1,683	1,609	**383**	421	347
Other liabilities	28,29	**15,235**	18,541	14,469	**8,859**	12,174	10,270
Total Liabilities		**235,561**	235,950	189,388	**165,113**	158,366	134,007
Net Assets		**18,520**	15,764	12,581	**12,174**	9,715	8,821
Shareholders' Equity							
Issued and paid up capital	30	**9,286**	6,675	1,413	**9,286**	6,675	1,413
Reserves	30	**802**	1,782	4,598	**207**	206	4,237
Retained profits		**8,432**	7,304	6,568	**2,681**	2,834	3,171
Shareholders' equity attributable to members of the Company		**18,520**	15,761	12,579	**12,174**	9,715	8,821
Outside equity interests in controlled entities	31	**–**	3	2	**–**	–	–
Total Shareholders' Equity		**18,520**	15,764	12,581	**12,174**	9,715	8,821

Contingent liabilities and commitments are excluded from the Balance Sheets and are listed in Notes 29, 38, 39, 41 and 43.

The Balance Sheets are to be read in conjunction with the notes to the financial statements set out on pages 84 to 164.

Statements of Cash Flows

For years ended September 30 Dollars in Millions	Consolidated 1999	 1998	 1997	The Company 1999	 1998	 1997
Cash inflows (outflows) from operating activities:						
Interest received	**16,470**	15,720	12,417	**10,671**	9,169	7,697
Dividends received	**42**	21	47	**340**	273	259
Fees and other income received	**4,479**	3,879	3,631	**1,984**	1,716	2,161
Interest paid	**(10,562)**	(9,528)	(7,166)	**(8,065)**	(6,578)	(5,121)
Personnel costs paid	**(3,192)**	(3,211)	(2,528)	**(1,565)**	(1,533)	(1,352)
Occupancy costs paid	**(425)**	(477)	(362)	**(232)**	(284)	(239)
General expenses paid	**(1,630)**	(1,224)	(1,344)	**(677)**	(470)	(692)
Income taxes paid	**(1,236)**	(1,547)	(1,153)	**(538)**	(893)	(701)
Net movement in trading instruments	**(1,581)**	(1,442)	(1,527)	**(2,368)**	(1,210)	(1,434)
Net movement in mortgage loans held for sale	**1,177**	(1,672)	–	**–**	–	–
Net cash provided by/(used in) operating activities	**3,542**	519	2,015	**(450)**	190	578
Cash inflows (outflows) from investing activities:						
Investment securities:						
Purchases	**(13,883)**	(20,009)	(8,954)	**(10,919)**	(16,586)	(8,056)
Proceeds on maturity	**12,552**	19,182	8,825	**10,662**	14,831	5,964
Available for sale securities:						
Purchases	**(2,624)**	(69)	(2,020)	**(2,579)**	(29)	(2,017)
Proceeds on sale	**5**	6	56	**–**	–	–
Proceeds on maturity	**2,117**	1,323	549	**2,117**	922	375
Net movement in shares in entities and other securities	**(55)**	(732)	(96)	**(75)**	(1,866)	(311)
Payment for entities	**(8)**	(2,173)	(47)	**–**	–	–
Net movement in loans and advances represented by:						
Banking activities	**(15,351)**	(16,583)	(14,501)	**(9,233)**	(11,072)	(10,111)
Non-banking activities – new loans and advances	**(2,019)**	(3,260)	(1,601)	**–**	–	–
Non-banking activities – repayments	**2,285**	715	1,357	**–**	–	–
Acquisition of mortgage servicing rights	**(1,873)**	(1,134)	–	**–**	–	–
Lodgement of regulatory deposits	**978**	(89)	(91)	**956**	(114)	(111)
Net amounts due to (from) controlled entities	**–**	–	–	**(2,219)**	(4,402)	3,246
Expenditure on fixed assets	**(429)**	(599)	(180)	**(194)**	(321)	(104)
Net proceeds from sale of fixed assets	**169**	397	441	**59**	61	53
Net movement in other assets	**2,304**	(2,150)	284	**(1,966)**	(721)	303
Net cash used in investing activities	**(15,832)**	(25,175)	(15,978)	**(9,459)**	(19,297)	(10,769)

For years ended September 30 Dollars in Millions	Consolidated 1999	1998	1997	The Company 1999	1998	1997
Cash inflows (outflows) from financing activities:						
Net movement in bank deposits	**11,809**	15,333	13,900	**9,388**	14,540	12,671
Net movement in other deposits and borrowings						
represented by non-banking activities:						
New deposits and borrowings	**29,237**	8,346	109	**–**	–	–
Repayments	**(28,632)**	(9,947)	(261)	**–**	–	–
New equity issues:						
Ordinary share capital	**277**	155	118	**277**	155	118
Preference share capital	**–**	654	–	**–**	654	–
Net proceeds from the issue of National Income Securities	**1,945**	–	–	**1,945**	–	–
Buy-back 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	**5,183**	7,052	4,646	**5,183**	5,262	4,646
Repayments	**(6,142)**	(2,443)	(2,247)	**(6,134)**	(2,772)	(2,247)
Net movement in other liabilities	**1,198**	471	(378)	**(378)**	(123)	(461)
Payments from provisions	**(172)**	(279)	(205)	**(62)**	(137)	(46)
Dividends paid	**(1,110)**	(941)	(895)	**(1,031)**	(941)	(877)
Net cash provided by financing activities	**13,593**	18,398	14,152	**9,188**	16,635	11,992
Net inflow (outflow) in cash and cash equivalents	**1,303**	(6,258)	189	**(721)**	(2,472)	1,801
Cash and cash equivalents at beginning of period	**(3,086)**	2,068	1,235	**(4,691)**	(2,012)	(3,846)
Effects of exchange rate changes on balance of						
cash held in foreign currencies	**349**	1,045	644	**552**	(207)	33
Cash and cash equivalents acquired	**–**	59	–	**–**	–	–
Cash and cash equivalents at end of period[1]	**(1,434)**	(3,086)	2,068	**(4,860)**	(4,691)	(2,012)

Details of Reconciliation of Operating Profit 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 purposes of reporting cash flows, cash and cash equivalents include cash and short term liquid assets and amounts due to and due from other financial institutions. Negative cash and cash equivalents reflect the net interbank funding position at balance date. These balances fluctuate widely in the normal course of business. The Consolidated Entity 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 84 to 164.

1 Principal accounting policies

In this financial report, 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 financial report is a general purpose financial report which is prepared in accordance with the requirements of the Banking Act, Corporations Law, Australian Accounting Standards and Urgent Issues Group Consensus Views.

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

The preparation of the financial report requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although the 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 financial report is based on historical cost and therefore does not reflect changes in the purchasing power of money or current valuations of non-monetary assets, except 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 98/100 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 financial report. Control means the ability or power of the Company to dominate decision-making directly or indirectly in relation to the financial and operating policies of another entity, to enable that other entity to operate with it in pursuing its objectives.

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

Where controlled entities have been acquired or sold during the year, their operating results have been included from the date of acquisition or to the date of sale.

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. When applied to the consolidated entity, the impact of this method does not differ significantly from accounting for Associates under the equity method.

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 the financial report 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 the financial reports 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 report. Such gains or losses only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is recognised immediately in Other Operating 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 provision for bad and doubtful debts provides for losses inherent in loans, and off-balance sheet credit extensions such as letters of credit, guarantees and undrawn commitments to extend credit.

The specific provision 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.

The general provision is established to cover all doubtful debts that have not been specifically identified. 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 not specifically identified, 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.

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 and off-balance sheet credit extensions 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 straightline 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%, PC and related software – 33.3%, and other data processing equipment and related software – 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 straightline 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 financial report includes 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 financial report.

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. 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 straightline 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.

Change in Accounting Policy

Effective from October 1, 1998, the Consolidated Entity changed its accounting policy from expensing to capitalising and amortising the costs of developing, acquiring and enhancing internal use software. Capitalised software costs are amortised over the estimated useful life of the software, which ranges from three to five years. The change in accounting policy arises from the adoption of the principle of US Statement of Position 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use'.

The change resulted in an increase of $59 million in operating profit after tax for the year ended September 30, 1999.

As a result of the change in accounting policy, basic earnings per share increased by 4.0 cents and diluted earnings per share by 3.8 cents as compared with the amounts of earnings per share that would have been determined using the previous accounting policy.

Comparative Amounts

Comparative amounts have been reclassified to accord with changes in presentation made in 1999, 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 1999	 1998	 1997	The Company 1999	 1998	 1997

2 Operating profit before income tax expense

Operating profit is determined after including:

Income

Interest Income						
Other financial institutions	**580**	643	575	**425**	478	416
Marketable debt securities	**1,186**	1,293	1,008	**938**	924	678
Loans to customers[1]	**12,099**	12,484	11,051	**6,026**	5,957	5,976
Controlled entities	**–**	–	–	**886**	1,117	731
Other interest (incl. regulatory deposits, interest on swaps etc.)	**1,201**	1,007	302	**848**	811	220
Total Interest Income	**15,066**	15,427	12,936	**9,123**	9,287	8,021
Other Operating Income						
Dividends received from:						
Controlled entities	**–**	–	–	**316**	258	229
Other entities	**42**	21	57	**24**	15	40
Profit on sale of fixed assets[2]	**42**	53	30	**11**	8	6
Loan fees from banking	**1,077**	938	794	**868**	753	633
Money transfer fees	**1,030**	1,050	853	**347**	355	280
Net mortgage servicing fees	**312**	197	–	**–**	–	–
Net mortgage origination revenue	**224**	126	–	**–**	–	–
Trading income:[3]						
Foreign exchange derivatives	**251**	367	145	**124**	267	70
Trading securities	**(14)**	160	228	**(20)**	150	223
Interest rate derivatives	**220**	(167)	(104)	**218**	(168)	(98)
Net profit (loss) on available for sale securities	**1**	(1)	–	**2**	(2)	–
Foreign exchange income	**20**	(8)	–	**8**	(24)	(11)
Fees and commissions	**955**	829	650	**369**	308	268
Other income	**403**	388	256	**70**	77	63
Total Other Operating Income	**4,563**	3,953	2,909	**2,337**	1,997	1,703
Total Operating Revenue	**19,629**	19,380	15,845	**11,460**	11,284	9,724

Expenses

Interest Expense						
Other financial institutions	**932**	972	633	**754**	661	537
Deposits and other borrowings	**7,050**	7,333	6,108	**4,477**	4,345	3,874
Controlled entities	**–**	–	–	**676**	946	476
Bonds, notes and subordinated debt	**870**	1,116	761	**582**	760	522
Other debt issues	**148**	148	76	**25**	29	20
Total Interest Expense	**9,000**	9,569	7,578	**6,514**	6,741	5,429
Charge to Provide for Doubtful Debts – Note 14						
Specific	**–**	422	252	**–**	189	85
General[4]	**540**	150	80	**225**	105	46
Total Charge to Provide for Doubtful Debts	**540**	572	332	**225**	294	131

(1) *Included within interest income is rental income of $365 million (1998: $344 million, 1997: $287 million) and depreciation of $237 million (1998: $215 million, 1997: $175 million) in relation to operating leases where the Consolidated Entity is the lessor.*

(2) *Profit on sale of fixed assets of $42 million (the Company $11 million) is the difference between their proceeds from sale of $169 million (the Company $59 million) and their carrying value of $175 million (the Company $53 million) and loss on sale of fixed assets $48 million (the Company $5 million).*

(3) *Under Australian Accounting Standard AASB1032, 'Specific Disclosures by Financial Institutions', separate disclosure of trading income arising from foreign exchange trading, securities trading and interest rate derivatives trading is required. As the Consolidated Entity manages its trading positions utilising a variety of instruments, fluctuations between the disclosed components may occur.*

(4) *For 1998 and 1997, 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* **1999**	*1998*	*1997*	*The Company* **1999**	*1998*	*1997*
Other Operating Expenses[1]						
Personnel						
Salaries	**2,263**	2,201	1,915	**1,083**	1,069	995
Related personnel costs:						
Superannuation	**129**	66	87	**76**	42	54
Payroll tax	**144**	133	119	**74**	70	72
Fringe benefits tax	**24**	37	55	**23**	33	50
Charge to provide for:						
Annual leave	**17**	15	17	**15**	14	17
Long service leave and retiring allowances	**57**	25	16	**54**	23	14
Performance based compensation	**164**	133	94	**79**	63	55
Restructuring costs [2]	**30**	–	30	**29**	–	17
Depreciation of motor vehicles provided to employees	**3**	4	4	**–**	–	–
Other	**436**	422	290	**200**	167	123
Total Personnel Costs	**3,267**	3,036	2,627	**1,633**	1,481	1,397
Occupancy Costs						
Depreciation of buildings and amortisation of leaseholds	**73**	76	72	**33**	35	34
Rental on operating leases	**219**	197	178	**156**	165	165
Other	**206**	207	185	**75**	78	74
Total Occupancy Costs	**498**	480	435	**264**	278	273
General						
Depreciation and amortisation of furniture, fixtures, fittings and equipment	**206**	192	168	**78**	63	53
Loss on sale of fixed assets	**48**	23	7	**5**	3	1
Rental on operating leases	**46**	43	35	**28**	31	29
Charge to provide for:						
Non-lending losses/contingencies	**69**	60	7	**53**	32	15
Diminution in value of shares in entities	**8**	8	3	**36**	–	2
Fees and commissions	**76**	91	76	**53**	69	56
Communications, postage and stationery	**427**	378	310	**157**	144	144
Computer equipment and software	**186**	201	173	**84**	87	77
Other expenses [3]	**911**	823	636	**322**	296	277
Total General Expenses	**1,977**	1,819	1,415	**816**	725	654
Amortisation of Goodwill						
Australia	**11**	6	–	**–**	–	–
United Kingdom and Irish Banks	**62**	62	62	**–**	–	–
Bank of New Zealand	**31**	31	31	**–**	–	–
Michigan National Corporation	**49**	49	49	**–**	–	–
HomeSide	**53**	33	–	**–**	–	–
Total Amortisation of Goodwill	**206**	181	142	**–**	–	–
Total Other Operating Expenses	**5,948**	5,516	4,619	**2,713**	2,484	2,324

(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 $101 million (1998: $120 million, 1997: $33 million). Refer to pages 66 to 69 for further detail on the Year 2000 initiative.

(2) Restructuring costs incurred during 1998 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, 1999 – Australian Liberal Party nil (1998: $50,000); Australian Labor Party nil (1998: $25,000); and Australian National Party nil (1998: $25,000).

For years ended September 30 Dollars in Millions	Consolidated 1999	1998	1997	The Company 1999	1998	1997

3 Abnormal items

	1999	1998	1997	1999	1998	1997
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 will be finalised over the next 12 months, including 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 by the end of 2000.

For the year ended September 30, 1999, payments of $86 million (1998: $132 million) were made in respect of approximately 1,180 positions (1998: 1,490 positions) made redundant. The reduction in staff numbers will occur in both managerial and non-managerial positions in the following regions:

	Original number of Positions to be made Redundant	*Number of Positions made Redundant during 1998*	*Adjustments to the number of Positions to be made Redundant*	*Number of Positions made Redundant during 1999*	*Total number of Positions to be made Redundant as at September 30, 1999*
Australia	870	490	(30)	300	110
Europe	1,390	510	50	580	250
New Zealand	430	210	(30)	130	120
United States	780	280	290[1]	170	40
Total	3,470	1,490	280	1,180	520

[1] *During 1999, HomeSide modified their tactical plan to exit an acquired business. Under the modified plan, approximately 320 positions previously identified for termination will be retained to support business growth. As a result, redundancy costs were reduced by $4.4 million. In addition, general costs were increased by $4.2 million. The net decrease in the restructuring provision of $0.2 million was booked to goodwill because the liability was recognised as part of an acquisition.*

The provision for restructuring (refer to Note 25) represents the liability relating to future payments for redundancies, occupancy and general costs that will be predominantly made in 2000.

Refer to Note 1 for an explanation of the statistically based provisioning methodology.

For years ended September 30 Dollars in Millions	Consolidated 1999	 1998	 1997	The Company 1999	 1998	 1997

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	**2,140**	1,977	2,026	**1,915**	1,718	1,822
Overseas	**2,001**	1,746	1,290	**93**	47	18
Total Operating Profit before income tax and abnormal items	**4,141**	3,723	3,316	**2,008**	1,765	1,840
Prima facie income tax at 36%	**1,491**	1,340	1,194	**723**	635	662
Add (or deduct) tax effect of permanent differences:						
Non-allowable depreciation on buildings	**10**	10	7	**–**	–	1
Charge to fund general provision for doubtful debts[1]	**–**	49	27	**–**	36	18
Rebate of tax on dividends, interest, etc.	**(87)**	(79)	(40)	**(125)**	(104)	(103)
Foreign tax rate differences	**(70)**	(53)	(41)	**(1)**	10	2
Amortisation of goodwill	**74**	65	51	**–**	–	–
Future income tax benefits no longer recognised	**(3)**	4	–	**(3)**	2	–
Over provision in prior years	**(12)**	(70)	(21)	**4**	(4)	(22)
Recognition of tax losses resulting from IRS ruling [2]	**–**	–	(49)	**–**	–	–
Other	**(82)**	(55)	(33)	**(25)**	(32)	(3)
Total income tax expense on operating profit before abnormal items	**1,321**	1,211	1,095	**573**	543	555
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	**1,321**	959	1,095	**573**	416	555

[1] *Following the adoption of a statically based provisioning methodology on September 30, 1998, charges to the general provision for doubtful debts are tax effected. Prior to the adoption of this methodology, future income tax benefits associated with the general provision were not recognised.*

[2] *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, these losses were 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 Consolidated Entity's Profit and Loss Statement and represented a permanent tax difference.*

5 Dividends

Dividends provided for or paid						
54c Interim cash provided (1998: 49c, 1997: 45c)[1]	**794**	700	675	**794**	700	675
58c Final cash payable (1998: 53c, 1997: 49c)[1]	**861**	767	692	**861**	767	692
Total Dividends Provided for or Paid	**1,655**	1,467	1,367	**1,655**	1,467	1,367
Dividend provisions not required						
Bonus share issues	**–**	34	60	**–**	34	60
Dividends paid under U.K. Dividend Plan	**(15)**	(19)	(19)	**–**	–	–
Dividend over provided	**85**	50	42	**85**	50	42
Total Dividend Provisions not required	**70**	65	83	**85**	84	102

Dividends proposed and provided for in the prior year financial report and paid in the current year were $770 million.

[1] *All interim and final dividends for 1998 and 1997 are fully franked at a rate of 36%. The final dividend for 1999 is 79% franked at a tax rate of 36% and the unfranked portion is sourced from the Company's foreign dividend account.*

Dividend Imputation

The interim dividend for 1999 was fully franked while the final dividend for 1999 is franked to 79%. As a result, the average franking level for the total dividend for the year is 89%.

The unfranked component of the final dividend for 1999 is sourced from the Company's Foreign Dividend Account. For the Company's shareholders who are not residents of Australia this means that the unfranked component of the dividend will not be subject to Australian dividend withholding tax.

While significantly increasing shareholder value, the continued diversification of the Consolidated Entity's income streams outside Australia has reduced the capacity of the Consolidated Entity to maintain fully franked dividends. The extent to which future dividends will be franked will depend on a number of factors including the level of the Consolidated Entity's profits that will be subject to Australian income tax and any future changes to Australia's business tax system.

Based on current internal projections for the next two years, the franking level for future dividends in this period is estimated to be in the range of 70 to 75%.

The franking credits available to the Consolidated Entity at September 30, 1999, 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 (1998: nil).

The franking credits that will be available to the Consolidated Entity at June 30, 2000 (being the end of the Consolidated Entity's franking year), after allowing for the instalment of tax payable in June 2000 in respect of the 2000 financial year, are estimated to be nil (1998: $135 million).

6 Earnings per share

	Consolidated					
For years ended September 30	*1999*		*1998*		*1997*	
	Basic	***Diluted***	*Basic*	*Diluted*	*Basic*	*Diluted*
Weighted average ordinary shares (000's)						
Weighted average ordinary shares	**1,472,144**	**1,472,144**	1,433,616	1,433,616	1,465,771	1,465,771
Potential dilutive ordinary shares:						
– Options	**–**	**25,153**	–	15,541	–	24,444
– Exchangeable capital units	**–**	**65,460**	–	65,460	–	35,151
– Partly paid shares	**–**	**1,963**	–	2,446	–	3,332
Total weighted average ordinary shares	**1,472,144**	**1,564,720**	1,433,616	1,517,063	1,465,771	1,528,698
Earnings per share ($ millions)						
Earnings	**2,821**	**2,821**	2,014	2,014	2,223	2,223
Distributions	**(74)**	**(74)**	(7)	(7)	–	–
Potential dilutive adjustments:						
– Options	**–**	**12**	–	6	–	12
– Exchangeable capital units	**–**	**82**	–	78	–	37
– Partly paid shares	**–**	**1**	–	1	–	1
Adjusted earnings	**2,747**	**2,842**	2,007	2,092	2,223	2,273
Abnormal items	**–**	**–**	497	497	–	–
Adjusted earnings before abnormal items	**2,747**	**2,842**	2,504	2,589	2,223	2,273
Earnings per share:						
– before abnormal items (cents)	**186.6**	**181.6**	174.6	170.6	151.6	148.7
– after abnormal items (cents)	**186.6**	**181.6**	140.0	137.9	151.6	148.7

As set out in Note 1, the Consolidated Entity changed its accounting policy with respect to accounting for software costs on October 1, 1998. The effect for the financial year ended September 30, 1999 has been to increase basic earnings per share by 4.0 cents and diluted earnings per share by 3.8 cents as compared with the amounts of earnings per share that would have been determined using the previous accounting policy.

There has been no:
(a) conversion to, calls of, or subscriptions for ordinary shares; or
(b) issues of potential ordinary shares since September 30, 1999 and before the completion of this financial report.

The weighted average diluted number of ordinary shares includes the impact of options, partly paid shares and the potential conversion of exchangeable capital units.

As at September 30 Dollars in Millions	Consolidated 1999	 1998	 1997	The Company 1999	 1998	 1997

7 Cash and short term liquid assets

Coins, notes and cash at bank	**927**	1,015	1,228	**311**	338	330
Money at short call	**1,305**	586	2,435	**618**	251	1,620
Other (including bills receivable and remittances in transit)	**1,417**	2,551	791	**(1)**	930	(554)
Total Cash and Short Term Liquid Assets	**3,649**	4,152	4,454	**928**	1,519	1,396

Cash and short term liquid assets are items readily convertible into cash and generally repayable on demand.

8 Due from other financial institutions

Australia						
Due from other banks	**181**	1,219	989	**117**	1,161	936
Due from non-bank financial institutions	**523**	418	133	**523**	418	133
	704	1,637	1,122	**640**	1,579	1,069
Overseas						
Due from other banks	**10,304**	7,652	9,122	**6,765**	3,872	6,616
Due from non-bank financial institutions	**112**	14	116	**111**	14	85
	10,416	7,666	9,238	**6,876**	3,886	6,701
Total Due from Other Financial Institutions	**11,120**	9,303	10,360	**7,516**	5,465	7,770

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			
Overdraft	**414**	438	381
At Call	**2,290**	2,737	1,625
Due in less than 3 months	**7,331**	5,592	6,780
Due after 3 months through to 1 year	**884**	64	1,308
Due after 1 year through to 5 years	**14**	52	206
Due after 5 years	**187**	420	51
No Maturity Specified	**–**	–	9
	11,120	9,303	10,360

9 Due from customers on acceptances

Australia						
Government and public authorities	**4**	18	23	**4**	18	23
Agriculture, forestry and fishing	**1,563**	1,466	1,162	**1,563**	1,466	1,162
Financial, investment and insurance	**5,069**	5,083	4,313	**5,069**	5,083	4,313
Real estate – construction	**1,476**	1,032	700	**1,476**	1,032	700
Manufacturing	**4,134**	4,033	3,473	**4,134**	4,033	3,473
Instalment loans to individuals and other personal lending (including credit cards)	**363**	385	455	**363**	385	455
Other commercial and industrial	**9,035**	9,159	8,679	**9,035**	9,159	8,679
	21,644	21,176	18,805	**21,644**	21,176	18,805
Overseas						
Financial, investment and insurance	**845**	817	618	**92**	76	42
Real estate – construction	**1**	19	1	**–**	–	–
Manufacturing	**206**	236	78	**97**	83	10
Lease financing	**–**	–	2	**–**	–	2
Other commercial and industrial	**155**	105	101	**70**	36	29
	1,207	1,177	800	**259**	195	83
Total Due from Customers on Acceptances	**22,851**	22,353	19,605	**21,903**	21,371	18,888

As at September 30 Dollars in Millions	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997
Maturity Analysis of Due from Customers on Acceptances						
Due in less than 3 months	**21,115**	15,588	14,123			
Due after 3 months through to 1 year	**1,629**	6,716	5,482			
Due after 1 year through to 5 years	**94**	29	–			
Due after 5 years	**13**	20	–			
	22,851	22,353	19,605			

10 Trading securities

	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997
Australian government treasury notes	**912**	2,945	2,064	**912**	2,945	2,064
Australian government bonds and securities	**3,008**	2,641	3,607	**3,008**	2,641	3,607
Securities of Australian local and semi-government authorities	**581**	790	388	**581**	790	388
Securities of or guaranteed by UK/Irish governments	**42**	48	71	**42**	48	71
Securities of or guaranteed by New Zealand government	**275**	923	922	**–**	–	–
US Treasury and Other US Government Agencies	**31**	–	7	**31**	–	7
US and Political Sub-divisions	**73**	114	20	**70**	93	–
Private corporations – Eurobonds	**44**	8	9	**44**	8	9
Private corporations/Other financial institutions' CDs/bills	**639**	856	737	**24**	–	–
Other securities	**7,248**	3,121	2,162	**7,049**	2,869	2,036
Total Trading Securities at Market Value	**12,853**	11,446	9,987	**11,761**	9,394	8,182

11 Available for sale securities

Carrying Value

	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997
Securities of or guaranteed by UK/Irish governments	**4**	4	48	**–**	–	–
Securities of or guaranteed by New Zealand government	**–**	–	5	**–**	–	–
Private corporations/Other financial institutions' CDs/bills	**1,124**	700	1,598	**1,124**	700	1,598
Other securities	**271**	233	164	**87**	49	44
Total Available for Sale Securities	**1,399**	937	1,815	**1,211**	749	1,642

Market Value

	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997
Securities of or guaranteed by UK/Irish governments	**4**	4	48	**–**	–	–
Securities of or guaranteed by New Zealand government	**–**	–	5	**–**	–	–
Private corporations/Other financial institutions' CDs/bills	**1,124**	700	1,598	**1,124**	700	1,598
Other securities	**271**	233	164	**87**	49	44
Total Available for Sale Securities at Market Value	**1,399**	937	1,815	**1,211**	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, 1999.

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	1,124	–	–	1,124
Other	271	–	–	271
Total	1,399	–	–	1,399

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, 1999.

	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	1,109	5.4%	15	5.5%	–	–	–	–
Other	59	5.4%	13	3.4%	41	5.4%	158	7.2%
Total	1,168		32		41		158	
Maturities at market value	1,168		32		41		158	

Proceeds from maturities of available for sale securities during 1999 were $2,079 million (1998: $1,323 million, 1997: $549 million). Proceeds from sales of available for sale securities during 1999 were $5 million (1998: $6 million, 1997: $56 million). Gross gains of nil (1998: $1 million, 1997: nil) and gross losses of $1 million (1998: nil, 1997: nil) were realised on sales.

	Consolidated		
As at September 30 *Dollars in Millions*	*1999*	*1998*	*1997*
Maturity Analysis of Available for Sale Securities			
At Call	**14**	25	112
Due in less than 3 months	**1,010**	674	1,563
Due after 3 months through to 1 year	**144**	11	95
Due after 1 year through to 5 years	**32**	58	33
Due after 5 years	**199**	169	12
	1,399	937	1,815

12 Investment securities

	Consolidated			*The Company*		
As at September 30 *Dollars in Millions*	*1999*	*1998*	*1997*	*1999*	*1998*	*1997*
Carrying Value						
Australian government bonds and securities	–	24	23	–	24	23
Securities of Australian local and semi-government authorities	**146**	197	192	**101**	197	192
Securities of or guaranteed by UK/Irish governments	**384**	646	649	–	–	–
Securities of or guaranteed by New Zealand government	**724**	–	–	**26**	–	–
US Treasury and other US government agencies	**1,893**	1,910	1,375	**56**	63	200
US and Political Sub-divisions	**13**	19	23	–	–	–
Private corporations – Eurobonds	**25**	58	50	**25**	58	50
Private corporations/Other financial institutions' CDs/bills	**2,015**	3,643	3,180	**1,964**	3,585	3,180
Other securities	**3,751**	1,731	1,956	**3,426**	1,414	1,437
Total Investment Securities	**8,951**	8,228	7,448	**5,598**	5,341	5,082
Market Value						
Australian government bonds and securities	–	24	26	–	24	26
Securities of Australian local and semi-government authorities	**148**	222	218	**103**	222	218
Securities of or guaranteed by UK/Irish governments	**386**	648	656	–	–	–
Securities of or guaranteed by New Zealand government	**723**	–	–	**26**	–	–
US Treasury and other US government agencies	**1,867**	1,932	1,383	**56**	63	200
US and Political Sub-divisions	**13**	20	23	–	–	–
Private corporations – Eurobonds	**25**	58	50	**25**	58	50
Private corporations/Other financial institutions' CDs/bills	**2,015**	3,633	3,183	**1,964**	3,576	3,183
Other securities	**3,795**	1,755	1,997	**3,468**	1,431	1,476
Total Investment Securities at Market Value	**8,972**	8,292	7,536	**5,642**	5,374	5,153

The following table reconciles gross unrealised gains and losses of the Consolidated Entity's holdings of investment securities at September 30, 1999.

Dollars in Millions	*Amortised Cost*	*Gross Unrealised Gains*	*Gross Unrealised Losses*	*Market Value*
Securities of Australian local and semi-government authorities	146	2	–	148
Securities of or guaranteed by UK/Irish governments	384	4	2	386
Securities of or guaranteed by New Zealand government	724	–	1	723
US Treasury and other US government agencies	1,893	6	32	1,867
US and Political Sub-divisions	13	–	–	13
Private corporations – Eurobonds	25	–	–	25
Private corporations/Other financial institutions' CDs/bills	2,015	–	–	2,015
Other securities	3,751	44	–	3,795
Total	8,951	56	35	8,972

Maturities of Investment Securities

The following tables analyse the maturities of the Consolidated Entity's holdings of investment securities at September 30, 1999.

	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 Australian local and semi-government authorities	76	7.8%	25	10.8%	45	5.5%	–	–
Securities of or guaranteed by UK/Irish governments	155	2.7%	207	4.5%	22	7.0%	–	–
Securities of or guaranteed by New Zealand Government	724	4.8%	–	–	–	–	–	–
US Treasury and other US government agencies and entities	102	5.4%	1,394	6.5%	397	6.3%	–	–
US and Political Sub-divisions	2	5.2%	6	6.1%	4	6.3%	1	6.0%
Private corporations – Eurobonds	–	–	25	3.3%	–	–	–	–
Private corporations/Other financial institutions' CDs/bills	1,881	5.6%	134	6.4%	–	–	–	–
Other securities	2,768	5.0%	981	5.1%	2	6.4%	–	–
Total book value	5,708		2,772		470		1	
Maturities at market value	5,735		2,777		459		1	

Proceeds from maturities of investment securities during 1999 were $12,552 million (1998: $19,182 million, 1997: $8,825 million). The majority of these relate to the maturity of short-dated investment securities. There were no proceeds from sales of investment securities during 1999 (1998: nil, 1997: nil). Gross gains of $1 million (1998: nil, 1997:nil) and no gross losses were realised on sales during 1999 or the preceding two years.

	Consolidated		
As at September 30 *Dollars in Millions*	***1999***	*1998*	*1997*
Maturity Analysis of Investment Securities			
At Call	**10**	14	2
Due in less than 3 months	**1,906**	1,016	1,769
Due after 3 months through to 1 year	**3,792**	1,855	2,072
Due after 1 year through to 5 years	**2,772**	3,562	2,754
Due after 5 years	**471**	1,781	851
	8,951	8,228	7,448

As at September 30 Dollars in Millions	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997

13 Loans and advances

	1999	1998	1997	1999	1998	1997
Australia						
Overdrafts	**5,599**	5,027	4,173	**5,599**	5,027	4,173
Credit card outstandings	**2,447**	2,073	1,817	**2,447**	2,073	1,817
Market rate advances	**303**	476	317	**303**	476	317
Lease finance	**5,889**	5,300	4,458	**5,819**	5,227	4,372
Housing loans	**41,968**	37,763	33,420	**41,968**	37,763	33,420
Other term lending	**24,259**	24,477	21,690	**23,942**	24,166	21,132
Equity participation in leveraged leases	**633**	681	768	**633**	681	726
Redeemable preference share finance	**–**	230	415	**–**	230	415
Other lending	**5,112**	4,428	3,931	**4,897**	4,207	3,760
	86,210	80,455	70,989	**85,608**	79,850	70,132
Overseas						
Overdrafts	**10,150**	9,883	7,780	**1,619**	2	4
Credit card outstandings	**1,938**	1,793	1,470	**–**	–	–
Market rate advances	**413**	734	599	**–**	–	–
Bills discounted	**33**	70	284	**6**	8	190
Lease finance	**5,478**	4,750	2,877	**34**	43	2
Housing loans	**19,978**	20,173	16,103	**74**	51	54
Other term lending	**35,781**	38,331	29,248	**3,566**	5,116	2,639
Equity participation in leveraged leases	**–**	–	3	**–**	–	–
Redeemable preference share finance	**1,702**	3,538	445	**–**	–	–
Other lending	**8,037**	4,335	3,836	**2,443**	15	273
	83,510	83,607	62,645	**7,742**	5,235	3,162
Total Loans and Advances (Gross)	**169,720**	164,062	133,634	**93,350**	85,085	73,294
Deduct: Unearned income	**(1,587)**	(1,516)	(1,244)	**(930)**	(866)	(796)
Provision for doubtful debts – Note 14	**(2,513)**	(2,545)	(1,354)	**(1,317)**	(1,298)	(681)
Total Loans and Advances (Net)	**165,620**	160,001	131,036	**91,103**	82,921	71,817
Leasing receivables included in lease finance net of unearned income:						
Current	**2,675**	2,254	1,662	**1,763**	819	714
Non Current	**8,370**	7,560	5,685	**4,002**	4,471	3,783
	11,045	9,814	7,347	**5,765**	5,290	4,497
Maturity Analysis of Loans and Advances[1]						
Overdraft	**15,636**	14,910	11,953			
At Call	**3,990**	6,465	8,164			
Due in less than 3 months	**19,196**	13,357	11,140			
Due after 3 months through to 1 year	**25,681**	23,221	14,881			
Due after 1 year through to 5 years	**38,483**	39,866	29,032			
Due after 5 years	**63,316**	62,887	56,501			
No Maturity Specified	**(682)**	(705)	(635)			
	165,620	160,001	131,036			

[1] *Includes provisions 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.

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997	1996	1995
Australia					
Government and public authorities	**1,270**	929	1,403	1,083	1,158
Agriculture, forestry and fishing	**5,039**	5,794	4,615	4,365	3,723
Financial, investment and insurance	**5,006**	4,940	4,902	3,854	2,615
Real estate – construction	**1,637**	1,367	1,268	1,191	1,157
Manufacturing	**2,714**	2,524	2,749	2,515	3,194
Real estate – mortgage	**41,968**	37,763	33,420	24,449	21,075
Instalment loans to individuals and other personal lending (including credit cards)	**8,098**	7,272	7,223	8,372	8,144
Lease financing	**6,522**	5,981	5,226	4,420	3,933
Other commercial and industrial[1]	**13,956**	13,885	10,183	12,446	9,286
	86,210	80,455	70,989	62,695	54,285
Overseas					
Government and public authorities	**821**	1,010	543	617	410
Agriculture, forestry and fishing	**4,608**	4,835	3,881	3,526	2,862
Financial, investment and insurance	**8,906**	7,527	3,135	2,205	1,890
Real estate – construction	**1,862**	1,775	1,373	1,342	1,292
Manufacturing	**6,536**	6,618	4,912	4,139	3,127
Real estate – mortgage	**19,978**	20,215	16,103	13,942	12,810
Instalment loans to individuals and other personal lending (including credit cards)	**10,443**	11,096	9,214	8,319	6,223
Lease financing	**5,478**	4,750	2,880	2,064	1,262
Other commercial and industrial[1]	**24,878**	25,781	20,604	15,518	9,581
	83,510	83,607	62,645	51,672	39,457
Total Loans and Advances (Gross)	**169,720**	164,062	133,634	114,367	93,742
Deduct: Unearned income	**(1,587)**	(1,516)	(1,244)	(1,118)	(1,173)
Provisions for doubtful debts – Note 14	**(2,513)**	(2,545)	(1,354)	(1,286)	(1,031)
Total Loans and Advances (Net)	**165,620**	160,001	131,036	111,963	91,538

[1] *At September 30, 1999 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. The amounts shown are net of unearned income and provisions.

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997
Australia	**84,046**	78,356	69,562
Europe	**44,319**	45,875	31,275
New Zealand	**20,097**	18,113	17,402
United States	**14,111**	14,367	10,649
Asia	**3,047**	3,290	2,148
Total	**165,620**	160,001	131,036

The following tables show the maturity distribution of loans and advances to customers and interest rate sensitivity of such loans.

As at September 30, 1999 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	720	340	210	1,270
Agriculture, forestry and fishing	3,203	1,427	409	5,039
Financial, investment and insurance	3,281	1,286	439	5,006
Real estate – construction	1,030	362	245	1,637
Manufacturing	1,832	561	321	2,714
Real estate – mortgage	9,947	1,479	30,542	41,968
Instalment loans to individuals and other personal lending (including credit cards)	4,297	3,053	748	8,098
Lease financing	2,037	4,259	226	6,522
Other commercial and industrial	7,810	3,481	2,665	13,956
	34,157	16,248	35,805	86,210

As at September 30, 1999 Dollars in Millions	Due in 1 Year or less [1]	Due after 1 Year through 5 Years	Due after 5 Years	Total
Overseas				
Government and public authorities	598	148	75	821
Agriculture, forestry and fishing	2,152	960	1,496	4,608
Financial, investment and insurance	5,930	2,549	427	8,906
Real estate – construction	1,176	513	173	1,862
Manufacturing	3,592	2,219	725	6,536
Real estate – mortgage	1,736	2,849	15,393	19,978
Instalment loans to individuals and other personal lending (including credit cards)	5,511	2,836	2,096	10,443
Lease financing	900	2,827	1,751	5,478
Other commercial and industrial	10,850	8,368	5,660	24,878
	32,445	23,269	27,796	83,510
Gross Loans and Advances	66,602	39,517	63,601	169,720
Interest Rate Sensitivity of Lending				
Variable interest rates [2]				
Australia	21,963	3,486	23,731	49,180
Overseas	20,814	12,929	16,961	50,704
Fixed interest rates				
Australia	12,194	12,762	12,074	37,030
Overseas	11,631	10,340	10,835	32,806
Total	66,602	39,517	63,601	169,720

[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.

14 Provisions for doubtful debts

As at September 30 Dollars in Millions	Consolidated 1999	Consolidated 1998	Consolidated 1997	The Company 1999	The Company 1998	The Company 1997
Specific Provision						
Opening balance	**420**	594	648	**215**	218	256
Transfer (to)/from general provision [1]	**505**	(268)	–	**260**	–	–
Provisions acquired	–	36	–	–	–	2
Bad debts recovered	**205**	238	191	**65**	54	60
Bad debts written off	**(627)**	(695)	(539)	**(262)**	(247)	(185)
Charge to profit and loss	–	422	252	–	189	85
Foreign currency translation and consolidation adjustments	**(29)**	93	42	**(2)**	1	–
Closing balance	**474**	420	594	**276**	215	218
General Provision						
Opening balance	**2,143**	771	664	**1,095**	473	416
Restatement to reflect future income tax benefit	–	469	–	–	329	–
Abnormal charge upon adoption of a statistically based provisioning methodology	–	369	–	–	181	–
Transfer (to)/from specific provision [1]	**(505)**	268	–	**(260)**	–	–
Provisions acquired	–	28	–	–	–	6
Charge to profit and loss [2]	**540**	150	80	**225**	105	46
Foreign currency translation adjustments	**(123)**	88	27	**(8)**	7	5
Closing balance	**2,055**	2,143	771	**1,052**	1,095	473
Total Provisions	**2,529**	2,563	1,365	**1,328**	1,310	691

[1] The 1998 figure represents the transfer of the MNC unallocated specific provision previously reported in the specific provision.

[2] For 1998 and 1997, represents the general provision charge during the year using the pre-statistically based provisioning method of determining the provision.

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997	The Company 1999	1998	1997

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 to the financial statements, 'Asset Quality Disclosures'.

	Consolidated 1999	1998	1997	The Company 1999	1998	1997
On-balance sheet exposures	**458**	402	583	**265**	203	208
Off-balance sheet credit related commitments (3)	**16**	18	11	**11**	12	10
Total Specific Provision for Doubtful Debts (as per above)	**474**	420	594	**276**	215	218
Total provision for doubtful debts	**2,529**	2,563	1,365	**1,328**	1,310	691
Deduct: Specific provision against off-balance sheet credit related commitments (3)	**16**	18	11	**11**	12	10
Total Provision for Doubtful Debts Deducted from Loans (per Note 13)	**2,513**	2,545	1,354	**1,317**	1,298	681

(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

	1999	1998	1997
On-balance sheet exposures – specific provision	**0.23%**	0.20%	0.38%
Off-balance sheet credit related commitments – specific provision	**0.01%**	0.01%	0.01%
Total Specific Provision for Doubtful Debts	**0.24%**	0.21%	0.39%

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.

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997	1996	1995
Australia					
Agriculture, forestry and fishing	**46**	26	16	13	7
Financial, investment and insurance	**50**	45	43	46	39
Real estate – construction	**14**	14	11	12	49
Manufacturing	**76**	63	50	58	79
Real estate – mortgage	**2**	2	2	–	–
Instalment loans to individuals and other personal lending (including credit cards)	**21**	25	30	18	16
Lease financing	**8**	4	1	2	–
Other commercial and industrial	**17**	18	40	93	99
	234	197	193	242	289
Overseas					
Agriculture, forestry and fishing	**12**	12	12	13	14
Financial, investment and insurance	**4**	2	6	12	11
Real estate – construction	**11**	15	27	28	19
Manufacturing	**44**	32	43	55	45
Real estate – mortgage	**7**	13	18	15	7
Instalment loans to individuals and other personal lending (including credit cards)	**50**	48	84	71	38
Lease financing	**9**	5	3	2	3
Other commercial and industrial	**103**	96	208	210	109
	240	223	401	406	246
Total Specific Provision for Doubtful Debts	**474**	420	594	648	535

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	*1999*	*1998*	*1997*	*1996*	*1995*
Balance at beginning of year	**2,563**	1,365	1,312	1,086	1,302
Provisions at acquisition date of entities acquired	**–**	64	–	203	–
Less Write-offs:					
Australia					
Agriculture, forestry and fishing	**7**	9	15	10	8
Financial, investment and insurance	**5**	6	10	7	23
Real estate – construction	**8**	8	7	5	10
Manufacturing	**30**	19	9	32	22
Real estate – mortgage	**10**	11	8	4	3
Instalment loans to individuals and other personal lending (including credit cards)	**112**	97	78	59	44
Lease financing	**8**	7	6	3	2
Other commercial and industrial	**60**	60	50	74	53
	240	217	183	194	165
Overseas					
Agriculture, forestry and fishing	**8**	9	9	7	4
Financial, investment and insurance	**6**	16	1	3	2
Real estate – construction	**11**	18	8	21	31
Manufacturing	**44**	32	27	29	26
Real estate – mortgage	**7**	24	5	7	4
Instalment loans to individuals and other personal lending (including credit cards)	**200**	243	175	121	88
Lease financing	**6**	2	4	1	10
Other commercial and industrial	**105**	134	127	109	125
	387	478	356	298	290
Total write-offs	**627**	695	539	492	455
Plus Recoveries:					
Australia					
Agriculture, forestry and fishing	**3**	4	2	1	2
Financial, investment and insurance	**7**	2	7	17	10
Real estate – construction	**1**	1	1	1	1
Manufacturing	**3**	2	3	2	4
Real estate – mortgage	**1**	1	1	–	1
Instalment loans to individuals and other personal lending (including credit cards)	**33**	27	20	19	17
Lease financing	**1**	1	1	–	–
Other commercial and industrial	**14**	16	25	15	16
	63	54	60	55	51

For years ended September 30 Dollars in Millions	Consolidated 1999	1998	1997	1996	1995
Overseas					
Agriculture, forestry and fishing	**1**	1	3	1	1
Financial, investment and insurance	**5**	15	4	4	3
Real estate – construction	**1**	17	4	23	5
Manufacturing	**15**	15	22	10	9
Real estate – mortgage	**1**	1	1	2	–
Instalment loans to individuals and other personal lending (including credit cards)	**56**	40	38	32	24
Lease financing	**2**	–	2	1	1
Other commercial and industrial	**61**	95	57	87	37
	142	184	131	160	80
Total recoveries	**205**	238	191	215	131
Net write-offs	**(422)**	(457)	(348)	(277)	(324)
Charge to profit and loss	**540**	572	332	333	116
Restatement of general provision to reflect future income tax benefit	**–**	469	–	–	–
Abnormal charge upon adoption of statistically based provisioning	**–**	369	–	–	–
Foreign currency translation adjustments	**(152)**	181	69	(33)	(8)
Balance at end of year	**2,529**	2,563	1,365	1,312	1,086
Ratio of net write-offs during the year to average loans and advances outstanding during the year (Refer average balance sheet – Note 33)	**0.26%**	0.31%	0.28%	0.26%	0.37%
Ratio of balance at end of year to risk weighted assets	**1.28%**	1.28%	0.88%	0.98%	1.00%

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.

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997	1996	1995
Non-Accrual Loans[(1)(2)]					
Gross					
Australia	**644**	602	553	579	818
Overseas[(3)]	**926**	868	728	865	807
	1,570	1,470	1,281	1,444	1,625
Specific Provisions					
Australia	**226**	189	189	228	284
Overseas[(3)]	**231**	214	386	413	246
	457	403	575	641	530
Net					
Australia	**418**	413	364	351	534
Overseas[(3)]	**695**	654	342	452	561
	1,113	1,067	706	803	1,095
Restructured Loans					
Australia	**–**	–	–	57	241
Overseas	**3**	6	5	6	–
	3	6	5	63	241

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997	1996	1995
Assets Acquired through Security Enforcement					
Real Estate					
Australia	–	–	–	–	–
Overseas	8	5	6	6	–
	8	5	6	6	–
Other Assets					
Australia	–	–	–	–	–
Overseas	5	7	6	4	3
	5	7	6	4	3
Total Impaired Assets					
Gross					
Australia	644	602	553	636	1,059
Overseas[(3)]	942	886	745	881	810
	1,586	1,488	1,298	1,517	1,869
Specific Provisions					
Australia	226	189	189	228	284
Overseas[(3)]	231	214	386	413	246
	457	403	575	641	530
Net					
Australia	418	413	364	408	775
Overseas[(3)]	711	672	359	468	564
	1,129	1,085	723	876	1,339

(1) *Includes loans amounting to $124 million gross, $86 million net (1998: $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) where some concerns exist as to the ongoing ability of the borrowers to comply with existing loan terms, but on which no principal or interest payments are contractually past due.*

(2) *Includes off-balance sheet credit exposures amounting to $40 million gross, $24 million net (1998: $51 million gross, $33 million net, 1997: $43 million gross, $32 million net).*

(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 has been included in the general provision from September 30, 1998 onwards.*

Memorandum Disclosures:

	1999	1998	1997	1996	1995
Accruing loans past due 90 days or more with adequate security					
Australia	22	15	11	8	7
Overseas	74	91	92	91	96
	96	106	103	99	103
Accruing portfolio facilities past due 90 to 180 days					
Gross					
Australia	27	33	31	22	14
Overseas	29	68	76	36	7
	56	101	107	58	21
Specific Provisions					
Australia	9	7	6	4	4
Overseas	8	10	13	3	1
	17	17	19	7	5
Net					
Australia	18	26	25	18	10
Overseas	21	58	63	33	6
	39	84	88	51	16

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		*1999*			*1998*			*1997*	
Dollars in Millions	*Gross*	*Specific Provisions*	*Net*	*Gross*	*Specific Provisions*	*Net*	*Gross*	*Specific Provisions*	*Net*
Non-Accrual Loans with Provisions and									
No performance									
Australia	**355**	**213**	**142**	258	167	91	255	173	82
Overseas	**463**	**183**	**280**	379	163	216	389	331	58
	818	**396**	**422**	637	330	307	644	504	140
Partial performance									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**30**	**20**	**10**	8	2	6	32	6	26
	30	**20**	**10**	8	2	6	32	6	26
Full performance									
Australia	**77**	**13**	**64**	85	22	63	51	15	36
Overseas	**54**	**28**	**26**	107	49	58	129	50	79
	131	**41**	**90**	192	71	121	180	65	115
Non-Accrual Loans without Provisions and									
No performance									
Australia	**195**	**–**	**195**	248	–	248	241	–	241
Overseas	**325**	**–**	**325**	316	–	316	173	–	173
	520	**–**	**520**	564	–	564	414	–	414
Full performance									
Australia	**17**	**–**	**17**	11	–	11	6	–	6
Overseas	**54**	**–**	**54**	58	–	58	5	–	5
	71	**–**	**71**	69	–	69	11	–	11
Total	**1,570**	**457**	**1,113**	1,470	403	1,067	1,281	575	706

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 1999 had interest on such loans been included in income, amounted to $42 million (1998: $45 million, 1997: $44 million) for Australian loans and $59 million (1998: $68 million, 1997: $54 million) for overseas loans. Actual interest income received for the period ended September 30, 1999 subsequent to these balances becoming non-accrual or restructured was $13 million (1998: $8 million, 1997: $5 million) for Australian loans and $7 million (1998: $12 million, 1997: $10 million) for overseas loans.

Additional Information in respect of Impaired Assets

		Consolidated	
As at September 30 *Dollars in Millions*	***1999***	*1998*	*1997*
Fair Value of Security[(1)]			
Non-Accrual Loans			
Australia	**376**	382	336
Overseas	**566**	583	450
	942	965	786
Restructured Loans			
Australia	**–**	–	–
Overseas	**3**	6	5
	3	6	5
Loans newly classified into impaired asset categories during the period:			
Australia	**617**	826	508
Overseas	**646**	658	475
	1,263	1,484	983

(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 1999	 1998	 1997	The Company 1999	 1998	 1997

16 Mortgage servicing rights

Opening balance	**2,998**	–	–	–	–	–
Additions	**1,873**	4,002	–	–	–	–
Sale of servicing rights	–	(17)	–	–	–	–
Deferred hedge loss/(gain)	**1,376**	(664)	–	–	–	–
Amortisation	**(629)**	(323)	–	–	–	–
Foreign Currency Translation Adjustments	**(273)**	–	–	–	–	–
Total Mortgage Servicing Rights	**5,345**	2,998	–	–	–	–

Net deferred hedge losses of $758 million consists of prior period net deferred gains of $657 million, current period losses of $1,376 million and $39 million of amortisation recognised as a component of amortisation of mortgage servicing rights. In 1998, net deferred hedge gains of $657 million consisted 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	**2**	1
Due after 1 year through to 5 years	**60**	17
Due after 5 years	**5,283**	2,980
	5,345	2,998

17 Shares in entities and other securities

Carrying value

Shares in other entities (at cost)	**398**	326	286	**252**	239	227
Deduct: Provision for diminution in value	**(20)**	(18)	(9)	**(2)**	(2)	(2)
	378	308	277	**250**	237	225
Shares in controlled entities						
At cost	–	–	–	**5,059**	4,961	3,112
At Directors' valuation 1987	–	–	–	**185**	185	185
Deduct: Provision for diminution in value	–	–	–	**(31)**	–	–
	–	–	–	**5,213**	5,146	3,297
	378	308	277	**5,463**	5,383	3,522
Units in unlisted trust (at cost)	**690**	705	3	–	–	–
Total carrying value of Shares in Entities and Other Securities	**1,068**	1,013	280	**5,463**	5,383	3,522

Market value

Shares in other entities	**444**	406	297	**318**	333	253
Units in unlisted trust	**690**	705	3	–	–	–
Total market value of Shares in Entities and Other Securities	**1,134**	1,111	300	**318**	333	253

18 Regulatory deposits

Reserve Bank of Australia	**3**	953	838	**3**	953	838
Central Banks Overseas	**150**	202	178	**3**	8	9
Total Regulatory Deposits	**153**	1,155	1,016	**6**	961	847

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 1999	1998	1997	The Company 1999	1998	1997

19 Fixed assets

Land and buildings						
Freehold						
At cost (acquired subsequent to previous valuation date)	**31**	72	46	**–**	29	28
At Directors' valuation 1999	**833**	–	–	**57**	–	–
At Directors' valuation 1998	**–**	1,059	–	**–**	108	–
At Directors' valuation 1997	**–**	–	1,208	**–**	–	156
Leasehold						
At cost (acquired subsequent to previous valuation date)	**2**	4	3	**–**	–	–
At Directors' valuation 1999	**85**	–	–	**–**	–	–
At Directors' valuation 1998	**–**	101	–	**–**	–	–
At Directors' valuation 1997	**–**	–	77	**–**	–	–
Less: Accumulated depreciation and amortisation on buildings	**(8)**	(6)	(8)	**–**	(1)	(1)
	943	1,230	1,326	**57**	136	183
Leasehold improvements						
At cost	**568**	490	456	**431**	352	349
Less: Accumulated amortisation	**(255)**	(224)	(208)	**(193)**	(168)	(154)
	313	266	248	**238**	184	195
Furniture, fixtures and fittings and other equipment						
At cost	**700**	705	654	**122**	124	118
Under finance lease	**25**	21	13	**–**	–	–
Less: Accumulated depreciation and amortisation	**(394)**	(358)	(368)	**(79)**	(72)	(65)
	331	368	299	**43**	52	53
Data processing equipment and application software [1]						
At cost	**1,420**	1,296	1,197	**693**	570	499
Under finance lease	**16**	18	16	**6**	7	8
Less: Accumulated depreciation and amortisation	**(991)**	(959)	(857)	**(462)**	(405)	(365)
	445	355	356	**237**	172	142
Total Fixed Assets	**2,032**	2,219	2,229	**575**	544	573

[1] *The Consolidated Entity changed its accounting policy for software costs effective from October 1, 1998. Refer to Note 1 for a full description.*

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 1,160 branches and other outlets. Operations outside Australia are conducted through 1,179 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 1999	1998	1997	The Company 1999	1998	1997

20 Goodwill

At cost	**4,033**	4,017	2,863	**–**	–	–
Less: Accumulated amortisation	**(1,128)**	(922)	(741)	**–**	–	–
Total Goodwill	**2,905**	3,095	2,122	**–**	–	–

As at September 30 Dollars in Millions	Consolidated 1999	 1998	 1997	The Company 1999	 1998	 1997

21 Other assets

Development land acquired and held for resale:						
Cost of acquisition	**15**	13	5	**–**	–	–
Future income tax benefits	**1,137**	1,138	497	**669**	605	178
Accrued interest receivable	**1,440**	3,081	2,710	**758**	2,240	2,052
Prepayments	**235**	304	100	**146**	78	53
Receivables under contracts of sale	**10**	22	9	**–**	–	–
Fair value of trading derivative financial instruments	**6,393**	8,219	5,571	**5,881**	7,575	5,163
Receivables from liquidator [1]	**17**	17	30	**17**	17	30
Other assets [2]	**4,908**	8,547	2,695	**1,068**	3,173	713
Total Other Assets	**14,155**	21,341	11,617	**8,539**	13,688	8,189
Future income tax benefits comprise:						
Specific provision for doubtful debts	**89**	74	137	**88**	69	71
General provision for doubtful debts [3]	**666**	680	–	**374**	393	–
Other provisions	**172**	152	135	**107**	87	81
Tax losses	**7**	6	30	**2**	–	–
Other	**203**	226	195	**98**	56	26
Total Future Income Tax Benefits	**1,137**	1,138	497	**669**	605	178

(1) 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.

(2) Includes prepaid pension costs, securities sold but not yet settled and accrued fees receivable.

(3) Prior to 1998, the general provision for doubtful debts was not tax effected.

22 Due to other financial institutions

Australia						
Due to other banks	**941**	113	2,307	**941**	113	2,307
Due to non-bank financial institutions	**494**	1,106	1,223	**494**	1,106	1,223
	1,435	1,219	3,530	**1,435**	1,219	3,530
Overseas						
Due to other banks	**14,187**	14,670	8,464	**11,293**	9,805	6,950
Due to non-bank financial institutions	**581**	652	752	**576**	651	698
	14,768	15,322	9,216	**11,869**	10,456	7,648
Total Due to Other Financial Institutions	**16,203**	16,541	12,746	**13,304**	11,675	11,178

Amounts due to financial institutions are amounts payable through use of the payments system and are generally settled within 30 days.

Maturity Analysis of Due To Other Financial Institutions			
Overdraft	**233**	270	–
At Call	**7,548**	8,223	3,598
Due in less than 3 months	**6,624**	6,563	7,923
Due after 3 months through to 1 year	**1,445**	638	1,003
Due after 1 year through to 5 years	**353**	608	18
Due after 5 years	**–**	239	196
No Maturity Specified	**–**	–	8
	16,203	16,541	12,746

	Consolidated			The Company		
As at September 30	*1999*	*1998*	*1997*	*1999*	*1998*	*1997*
Dollars in Millions						

23 Deposits and other borrowings

Australia						
Deposits						
Deposits not bearing interest	**4,154**	3,935	2,335	**4,154**	3,935	2,335
On demand and short term deposits(1)	**33,712**	31,472	29,364	**33,712**	31,472	29,364
Certificates of deposit	**9,365**	6,080	3,954	**9,299**	6,020	3,899
Term deposits	**19,144**	18,511	17,050	**19,037**	18,404	16,946
Borrowings	**7,963**	9,052	3,823	**7,963**	9,047	3,823
Total Australia	**74,338**	69,050	56,526	**74,165**	68,878	56,367
Overseas						
Deposits						
Deposits not bearing interest	**8,547**	9,115	7,126	**133**	19	10
On demand and short term deposits(1)	**32,093**	35,645	26,726	**866**	1,031	579
Certificates of deposit	**11,604**	6,750	6,280	**7,268**	3,965	3,932
Term deposits	**28,001**	30,593	26,414	**11,488**	10,687	9,279
Borrowings	**7,885**	6,931	5,397	**208**	159	33
Total Overseas	**88,130**	89,034	71,943	**19,963**	15,861	13,833
Total Deposits and Other Borrowings	**162,468**	158,084	128,469	**94,128**	84,739	70,200

(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.

	Consolidated		
As at September 30	*1999*	*1998*	*1997*
Dollars in Millions			
Australia	**74,338**	69,050	56,526
Europe	**43,119**	44,835	34,054
New Zealand	**16,271**	14,894	14,949
United States	**21,562**	21,818	16,202
Asia	**7,178**	7,487	6,738
Total	**162,468**	158,084	128,469

Maturities of Deposits

The following tables show the maturity profile of the Consolidated Entity's certificates of deposit and time deposits:

	3 months or less	*Over 3 months through 6 months*	*Over 6 months through 12 months*	*Over 12 months*	*Total*
As at September 30, 1999					
Dollars in Millions					
Australia					
Certificates of deposit	4,268	2,476	1,581	1,040	9,365
Time deposits	12,744	4,050	1,314	1,036	19,144
Total	17,012	6,526	2,895	2,076	28,509
Overseas					
Certificates of deposit	5,599	3,522	2,214	269	11,604
Time deposits	19,916	3,196	2,207	2,682	28,001
Total	25,515	6,718	4,421	2,951	39,605
Total Certificates of Deposit and Time Deposits	42,527	13,244	7,316	5,027	68,114

As at September 30 *Dollars in Millions*	*Consolidated* *1999*	 *1998*	 *1997*
Maturity Analysis of Deposits and Other Borrowings			
At Call	**73,609**	74,374	56,744
Due in less than 3 months	**60,730**	58,878	47,025
Due after 3 months through to 1 year	**22,531**	14,333	18,283
Due after 1 year through to 5 years	**3,459**	9,168	2,908
Due after 5 years	**2,139**	819	902
No Maturity Specified	**–**	512	2,607
	162,468	158,084	128,469

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.

	1999	1998	1997
Balance at end of year:			
Commercial paper USA	**5,330**	4,313	4,826
Other secured borrowings	**–**	1,597	–
Weighted average interest rate at year end:			
Commercial paper USA	**4.8%**	4.6%	4.8%
Other secured borrowings	**–**	5.5%	–
Maximum amount outstanding at any month end during year:			
Commercial paper USA	**5,532**	6,374	4,826
Other secured borrowings	**–**	3,997	–
Average amount outstanding during year:			
Commercial paper USA	**4,893**	4,805	4,418
Other secured borrowings	**–**	2,548	–
Weighted average interest rate during year:			
Commercial paper USA	**6.0%**	5.6%	5.2%
Other secured borrowings	**–**	5.8%	–

Short term borrowings of the Consolidated Entity consist of commercial paper programs of National Australia Funding (Delaware) Inc. and HomeSide.

As at September 30 Dollars in Millions	Consolidated 1999	 1998	 1997	The Company 1999	 1998	 1997

24 Income tax liability

Australia						
Provision for income tax	**472**	320	405	**418**	261	313
Provision for deferred income tax	**432**	479	498	**426**	477	491
	904	799	903	**844**	738	804
Overseas						
Provision for income tax	**499**	627	586	**12**	18	2
Provision for deferred income tax	**576**	527	140	**–**	–	–
	1,075	1,154	726	**12**	18	2
Total Income Tax Liability	**1,979**	1,953	1,629	**856**	756	806
Provision for deferred income tax comprises:						
Lease finance	**196**	189	172	**141**	130	109
Leveraged leasing	**271**	284	315	**269**	282	310
Depreciation	**179**	165	57	**5**	3	2
Other	**362**	368	94	**11**	62	70
Total Provision for Deferred Income Tax	**1,008**	1,006	638	**426**	477	491

25 Provisions

Final dividend	**861**	767	692	**861**	767	692
Employee entitlements	**380**	321	325	**328**	271	260
Non-lending losses/contingencies	**104**	87	76	**60**	37	23
Restructuring costs (1)	**131**	252	18	**44**	68	–
Specific provision for off-balance sheet credit related commitments	**16**	18	11	**11**	12	10
Other provisions	**251**	235	170	**57**	27	4
Total Provisions	**1,743**	1,680	1,292	**1,361**	1,182	989

The provision for restructuring consists of:			
Redundancy and Outplacement	**48**	146	18
Occupancy	**74**	92	–
Other	**9**	14	–
Total	**131**	252	18

(1) *Refer to Notes 2 and 3 for further details regarding restructuring costs.*

As at September 30 Dollars in Millions		Consolidated 1999	1998	1997	The Company 1999	1998	1997

26 Bonds, notes and subordinated debt

Bonds, notes and subordinated debt consist of the following currencies and maturity dates:

1997	AUD 9.75% notes due 24/11/97	–	–	100	–	–	100
	CHF 50m Euro medium term notes due 13/11/97[1]	–	–	48	–	–	48
	HKD 160m Euro medium term notes due 10/11/97[1]	–	–	29	–	–	29
	JPY 3b Euro medium term notes due 19/12/97[1]	–	–	34	–	–	34
	JPY 3b Euro medium term notes due 30/12/97[1]	–	–	34	–	–	34
	USD 250m medium term notes due 3/10/97[2]	–	–	347	–	–	347
	USD 250m medium term notes due 10/10/97[2]	–	–	347	–	–	347
1998	AUD 10.5% notes due 23/2/98	–	–	200	–	–	200
	AUD 7.75% notes due 31/3/98	–	–	100	–	–	100
	AUD 8.25% notes due 10/8/98	–	–	100	–	–	100
	AUD 6.5% notes due 9/11/98	–	100	100	–	100	100
	CHF 100m Euro medium term notes due 23/2/98[1]	–	–	95	–	–	95
	GBP 150m variable rate notes due 10/9/98[3]	–	–	336	–	–	336
	HKD 116m Euro medium term notes due 20/3/98[1]	–	–	21	–	–	21
	JPY 1b Euro medium term notes due 26/2/98[1]	–	–	11	–	–	11
	JPY 2b Euro medium term notes due 5/3/98[1]	–	–	23	–	–	23
	JPY 10b Euro medium term notes due 23/10/98[1]	–	124	115	–	124	115
	JPY 5b Euro medium term notes due 13/11/98[1]	–	62	57	–	62	57
	JPY 3b 5.7% fixed rate debt due 29/12/98	–	37	34	–	37	34
	NZD 100m Euro medium term notes due 29/7/98[1]	–	–	89	–	–	89
	NZD 100m 8.75% notes due 4/9/98	–	–	89	–	–	89
	USD 100m medium term notes due 5/3/98[2]	–	–	139	–	–	139
	USD 150m floating rate subordinated debt due 30/3/98	–	–	208	–	–	208
	USD 300m 6.25% notes due 17/6/98	–	–	417	–	–	417
	USD 250m medium term notes due 5/10/98[2]	–	421	–	–	421	–
	USD 250m medium term notes due 13/10/98[2]	–	421	–	–	421	–
	USD 350m 9.7% subordinated notes due 15/10/98	–	590	486	–	590	486
	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[1]	–	843	695	–	843	695
1999	AUD 7.75% notes due 4/1/99	–	125	125	–	125	125
	AUD 6.25% notes due 29/3/99	–	250	250	–	250	250
	AUD 8.5% notes due 24/5/99	–	125	125	–	125	125
	AUD 8% notes due 22/6/99	–	75	75	–	75	75
	AUD 12% subordinated notes due 15/7/99	–	300	300	–	300	300
	AUD 8.5% notes due 20/8/99	–	100	100	–	100	100
	AUD 9.25% notes due 23/9/99	–	100	100	–	100	100
	AUD 9.5% notes due 26/10/99	100	100	100	100	100	100
	CHF 100m 3.25% notes due 19/4/99	–	122	95	–	122	95
	JPY 3.08b subordinated debt due 23/2/99[4]	–	38	35	–	38	35
	USD 250m 5.375% notes due 9/2/99	–	421	347	–	421	347
	USD 250m 6% notes due 26/3/99	–	421	347	–	421	347
	USD 50m Euro medium term notes due 13/8/99[1]	–	84	–	–	84	–
	USD 10m Euro medium term notes due 26/8/99[1]	–	17	–	–	17	–
	USD 10m Euro medium term notes due 16/9/99[1],[5]	–	17	14	–	17	14
2000	AUD 6.5% notes due 17/3/2000	150	150	150	150	150	150
	AUD 8.75% notes due 10/7/2000	175	175	175	175	175	175
	AUD 8.5% notes due 11/8/2000	100	100	100	100	100	100
	ÁUD 7.50% notes due 8/12/2000	150	150	150	150	150	150
	CHF 300m floating rate notes due 22/9/2000	305	365	–	305	365	–
	GBP 10m Euro medium term notes due 10/8/2000[1]	25	–	–	25	–	–
	GBP 30m Euro medium term notes due 30/11/2000[1]	76	–	–	76	–	–
	HKD 155m Euro medium term notes due 12/6/2000[1]	31	34	28	31	34	28
	HKD 189m Euro medium term notes due 20/7/2000[1]	37	–	–	37	–	–

As at September 30 Dollars in Millions		Consolidated 1999	1998	1997	The Company 1999	1998	1997
	HKD 170m Euro medium term notes due 21/8/2000[1]	34	–	–	34	–	–
	HKD 57m Euro medium term notes due 15/12/2000[1]	11	–	–	11	–	–
	JPY 6.5b Euro medium term notes due 3/7/2000[1]	94	81	74	94	81	74
	JPY 10b Euro medium term notes due 18/9/2000[1]	144	124	115	144	124	115
	NZD 100m Euro medium term notes due 21/1/2000[1]	79	84	–	79	84	–
	NZD 100m Euro medium term notes due 3/3/2000[1]	79	84	–	79	84	–
	NZD 100m Euro medium term notes due 15/6/2000[1]	79	84	–	79	84	–
	NZD 250m Euro medium term notes due 18/12/2000[1]	199	–	–	199	–	–
	USD 60m medium term notes due 20/3/2000[6]	92	101	–	–	–	–
	USD 250m medium term notes due 15/5/2000[6]	383	422	–	–	–	–
	USD 50m Euro medium term notes due 9/8/2000[1]	77	–	–	77	–	–
	USD 60m Euro medium term notes due 9/8/2000[1]	92	–	–	92	–	–
	USD350m Euro medium term notes due 27/11/2000[1]	536	–	–	536	–	–
2001	AUD 8% notes due 10/4/2001	200	200	200	200	200	200
	AUD 100m Euro medium term notes due 29/10/2001[1]	100	–	–	100	–	–
	AUD 7.5% notes due 26/11/2001	100	100	100	100	100	100
	EUR 200m floating rate notes due 19/3/2001	325	–	–	325	–	–
	ECU 400m floating rate notes due 18/6/2001[7]	651	792	–	651	792	–
	EUR 200m Euro medium term notes due 2/7/2001[1]	325	–	–	325	–	–
	EUR 200m Euro medium term notes due 14/8/2001[1]	325	–	–	325	–	–
	GBP 15m Euro medium term notes due 6/3/2001[1]	38	43	34	38	43	34
	GBP 57.792m variable rate notes due 20/6/2001	146	166	130	–	–	–
	HKD 200m Euro medium term notes due 25/8/2001[1]	39	–	–	39	–	–
	HKD 75m Euro medium term notes due 15/10/2001[1]	15	–	–	15	–	–
	JPY 5.5b Euro medium term notes due 30/7/2001[1]	79	–	–	79	–	–
	USD300m Euro medium term notes due 16/2/2001[1]	460	–	–	460	–	–
	USD 125m medium term notes due 24/4/2001[6]	192	211	–	–	–	–
	USD 15m medium term notes due 2/7/2001[6]	23	26	–	–	–	–
	USD 40m medium term notes due 2/7/2001[6]	61	68	–	–	–	–
	USD 45m medium term notes due 17/9/2001[6]	69	76	–	–	–	–
2002	AUD 7.25% notes due 5/2/2002	100	100	100	100	100	100
	AUD 200m Euro medium term notes due 8/2/2002[1]	200	–	–	200	–	–
	AUD 100m Euro medium term notes due 9/8/2002[1]	100	–	–	100	–	–
	AUD 100m Euro medium term notes due 31/12/2002[1]	100	100	–	100	100	–
	CHF 100m 2.75% notes due 12/6/2002	102	122	95	102	122	95
	HKD 150m Euro medium term notes due 18/3/2002[1]	30	–	–	30	–	–
	HKD 180m Euro medium term notes due 30/7/2002[1]	35	–	–	35	–	–
	HKD 300m Euro medium term notes due 11/8/2002[1]	59	–	–	59	–	–
	HKD 160m Euro medium term notes due 13/8/2002[1]	32	–	–	32	–	–
	HKD 160m Euro medium term notes due 10/9/2002[1]	32	–	–	32	–	–
	JPY 3b Euro medium term notes due 12/11/2002[1]	43	37	–	43	37	–
	LUF 2b 6.875% notes due 30/12/2002	81	98	76	81	98	76
	USD 500m Euro medium term notes due 12/2/2002[1]	766	–	–	766	–	–
	USD 300m Euro medium term notes due 18/6/2002[1]	460	–	–	460	–	–
	USD 200m medium term notes due 30/6/2002[6]	307	337	–	–	–	–
	USD 110.5m subordinated floating rate notes due 30/8/2002[8]	166	184	153	166	184	153
	USD 20m Euro medium term notes due 30/8/2002[1]	31	–	–	31	–	–
2003	GBP 50m Euro medium term notes due 10/12/2003[1]	126	–	–	126	–	–
	GBP 50m Euro medium term notes due 10/12/2003[1]	126	–	–	126	–	–
	HKD 116.25m Euro medium term notes due 2/9/2003[1]	23	25	21	23	25	21
	USD 225m medium term notes due 15/5/2003[6]	345	379	–	–	–	–
	USD 129.965m 11.25% senior secured second priority notes due 15/5/2003	225	257	–	–	–	–
2004	AUD 100m Euro medium term notes due 18/3/2004[1]	100	–	–	100	–	–
	AUD subordinated floating rate notes due 8/6/2004[9]	22	90	90	22	90	90
	AUD 200m Euro medium term notes due 23/7/2004[1]	200	200	200	200	200	200
	NZD 100m Euro medium term notes due 12/3/2004[1]	79	–	–	79	–	–
	NZD 100m Euro medium term notes due 10/9/2004[1]	79	–	–	79	–	–

As at September 30 Dollars in Millions		Consolidated 1999	1998	1997	The Company 1999	1998	1997
	NZD 100m Euro medium term notes due 29/12/2004[1]	79	–	–	79	–	–
	USD 200m medium term notes due 1/8/2004[6]	307	337	–	–	–	–
2005	AUD 100m Euro medium term notes due 9/2/2005[1]	100	100	–	100	100	–
2006	AUD subordinated floating rate notes due 8/6/2006[9]	68	–	–	68	–	–
	JPY 2b Euro medium term notes due 6/3/2006[1]	29	–	–	29	–	–
2007	AUD 6.25% subordinated notes due 25/11/2007	150	150	–	150	150	–
	AUD subordinated floating rate notes due 25/11/2007	250	250	–	250	250	–
	USD 30m subordinated Euro medium term notes due 20/11/2007[1]	46	51	–	46	51	–
	USD 400m medium term notes due 10/12/2007[10]	613	674	–	613	674	–
	USD 400m medium term notes due 10/12/2007[10]	613	674	–	613	674	–
2008	USD 200m subordinated Euro medium term notes due 23/1/2008[1]	306	337	–	306	337	–
	USD 150m subordinated Euro medium term notes due 15/9/2008[1]	230	253	–	230	253	–
2009	JPY 10b Euro medium term notes due 24/4/2009[1]	144	124	115	144	124	115
	USD 100m subordinated Euro medium term notes due 15/6/2009[1]	153	169	–	153	169	–
2012	JPY 1b Euro medium term notes due 25/6/2012[1]	15	12	11	15	12	11
	JPY 2b Euro medium term notes due 21/8/2012[1]	29	25	23	29	25	23
	USD 55.95m Euro medium term notes due 20/8/2012[1]	86	94	78	86	94	78
2027	AUD 7.50% subordinated notes due 15/12/2027	20	20	–	20	20	–
2028	AUD 7.50% subordinated notes due 15/6/2028	20	20	–	20	20	–
Total Bonds, Notes and Subordinated Debt		13,423	15,097	9,597	11,273	12,717	9,467
Add: Net premiums and deferred gains/(losses)		14	18	(28)	14	18	(28)
Net Bonds, Notes and Subordinated Debt		13,437	15,115	9,569	11,287	12,735	9,439

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) *Under the Euro Medium Term Note programme, notes may be issued up to an aggregate amount of US$7.5 billion for terms of 3 months or more. As at September 30, 1999 the Company had US$4.4 billion outstanding under the programme*

(2) *Under the Medium Term Deposit Note programme through New York branch, notes may be issued up to an aggregate amount of US$1 billion for terms of 9 months or more. As at September 30, 1999 the Company had no outstanding issues under the programme.*

(3) *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.*

(4) *Originally JPY10 billion, on July 22, 1996 JPY6.92 billion was bought back to leave JPY3.08 billion outstanding.*

(5) *The call option to redeem the US$10 million Euro Medium Term Notes due 16/9/2007 on the interest payment date 16/9/1999 was exercised. The Notes were redeemed in full.*

(6) *Under HomeSide Lending, Inc. Medium Term Note programme, notes may be issued up to an aggregate amount of US$1.5 billion for terms of 9 months or more. As at August 31, 1999, the programme limit has been increased from US$1.5 billion to US$2.568 billion. As at September 30, 1999, HomeSide Lending, Inc. had US$1.16 billion outstanding under the programme.*

(7) *These Notes have been automatically redenominated from ECU to EURO on a one-to-one basis.*

(8) *US$531,643.61 of the US$110,500,000 Subordinated Floating Rate Notes due 2002 were redeemed on August 26, 1991. A further US$901,157.71 were redeemed on February 26, 1998 and a further US$534,561.11 were redeemed on February 26, 1999.*

(9) *These extendible Notes were initially issued with a maturity of June 8, 2000. A$110 million were redeemed on June 10, 1997. As from June 8, 1999, A$22 million have a maturity of June 8, 2004 and the remaining A$68 million have a maturity of June 8, 2006.*

(10) *Under the Medium Term Deposit Note programme, notes may be issued up to an aggregate amount of US$3 billion for terms of 9 months or more. As at September 30, 1999 the Company had US$800 million outstanding under the programme.*

27 Other debt issues

	Consolidated 1999	1998	1997	The Company 1999	1998	1997
Perpetual Floating Rate Notes						
Issued by the Company	**383**	421	347	**383**	421	347
Exchangeable Capital Units						
Issued by National Australia Capital Securities (UK) Limited	**1,262**	1,262	1,262	**–**	–	–
Total Other Debt Issues	**1,645**	1,683	1,609	**383**	421	347

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 US dollar deposits in London.

The Notes are unsecured obligations of the Company subordinated in that:

(i) payments of principal and interest on the Notes will only be payable to the extent that, after such payment, the Company remains solvent;

(ii) the payment of interest will also be optional if a dividend has not been declared, paid or made in the preceding 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 Coupon holders. 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 1998 or April 1999.

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*	*1999*	*1998*	*1997*	*1999*	*1998*	*1997*

28 Other liabilities

	1999	1998	1997	1999	1998	1997
Accrued interest payable	**1,839**	3,621	3,302	**1,240**	2,791	2,628
Fair value of trading derivative financial instruments	**6,807**	8,228	6,395	**6,283**	7,501	6,000
Notes in circulation	**1,562**	1,775	1,314	–	–	–
Other liabilities	**5,027**	4,917	3,458	**1,336**	1,882	1,642
Total Other Liabilities	**15,235**	18,541	14,469	**8,859**	12,174	10,270

29 Finance lease commitments

	1999	1998	1997	1999	1998	1997
Data processing and other equipment						
Due within 1 year	**6**	9	7	**2**	3	4
Due within 1–2 years	**6**	6	6	–	–	3
Due within 2–5 years	**3**	12	8	–	–	1
Due after 5 years	**1**	2	2	–	–	–
Total commitments under finance leases	**16**	29	23	**2**	3	8
Deduct: Future finance charges (not provided for)	**(1)**	(3)	(2)	–	(3)	(2)
Finance Lease Liabilities (included under other liabilities)	**15**	26	21	**2**	–	6

30 Changes in shareholders' equity

Issued and Paid Up Capital (a)

Ordinary Share Capital

	1999	1998	1997	1999	1998	1997
Opening balance	**5,942**	1,413	1,477	**5,942**	1,413	1,477
Dividend reinvestment plan (b)	**383**	225	21	**382**	225	21
Bonus share plan (b)	–	2	4	–	2	4
Staff share scheme (b)	**6**	–	1	**5**	–	1
Executive option plan (b)	**132**	24	4	**133**	24	4
Staff share ownership plan (b)	**3**	1	–	**3**	1	–
Share purchase/top up plan (b)	**145**	35	3	**146**	35	3
Share buy-back (c)	–	(1)	(97)	–	(1)	(97)
Transfer from share premium reserve[1]	–	4,243	–	–	4,243	–
Closing balance (d)	**6,611**	5,942	1,413	**6,611**	5,942	1,413

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997	The Company 1999	1998	1997
Preference Share Capital						
Preference Shares Issued (b)	**730**	733	–	**730**	733	–
Closing balance (d)	**730**	733	–	**730**	733	–
National Income Securities						
National Income Securities Issued (b)	**1,945**	–	–	**1,945**	–	–
Closing balance (d)	**1,945**	–	–	**1,945**	–	–
Total closing balance (d)	**9,286**	6,675	1,413	**9,286**	6,675	1,413
General Reserve						
Opening balance	**142**	92	62	**5**	5	4
Transfer from retained profits	**56**	50	40	**2**	–	1
Transfer to retained profits	**(35)**	–	(10)	–	–	–
Closing balance	**163**	142	92	**7**	5	5
Asset Revaluation Reserve						
Opening balance	**3**	200	252	**165**	214	255
Revaluation of properties	**4**	19	22	–	5	(2)
Revaluation of certain properties to recoverable amounts	**(6)**	(32)	(14)	–	(9)	(8)
Transfer to retained profits	**(1)**	(184)	(56)	–	(45)	(31)
Other	–	–	(4)	–	–	–
Closing balance	–	3	200	**165**	165	214
Share Premium Reserve						
Opening balance	–	3,982	5,266	–	3,982	5,266
Premium on issue of shares	–	306	490	–	306	490
Bonus issue	–	(34)	(60)	–	(34)	(60)
Share buy-back (c)	–	(11)	(1,714)	–	(11)	(1,714)
Transfer to issued and paid up capital[1]	–	(4,243)	–	–	(4,243)	–
Closing balance	–	–	3,982	–	–	3,982
Foreign Currency Translation Reserve						
Opening balance	**1,637**	324	(159)	**36**	36	36
Currency translation adjustments	**(1,012)**	1,310	465	**(1)**	–	4
Transfer to retained profits	–	–	–	–	–	(4)
Transfer from retained profits	**14**	3	18	–	–	–
Closing balance	**639**	1,637	324	**35**	36	36
Total Reserves	**802**	1,782	4,598	**207**	206	4,237

Details of movements in retained profits are contained in the Statements of Profit and Loss on page 80.

[1] 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 absorbed its share premium account into its issued and paid up capital account.

Comprehensive Income

Effective from October 1, 1998, the Company has commenced reporting total comprehensive income in accordance with SFAS 130 'Reporting Comprehensive Income'. Comprehensive income is defined as the change in shareholders' equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes operating profit after income tax plus all other changes in shareholders' equity during a period except those resulting from investments by owners and distributions to owners.

	Consolidated 1999	1998	1997	The Company 1999	1998	1997
Operating Profit after income tax attributable to the members of the Company	**2,821**	2,014	2,223	**1,442**	1,001	1,285
Other Comprehensive Income						
Movement in:						
Asset Revaluation Reserve	**(3)**	(197)	(52)	**(6)**	(49)	(41)
Foreign Currency Translation Reserve	**(998)**	1,313	483	**(1)**	–	–
Total Other Comprehensive Income	**(1,001)**	1,116	431	**(7)**	(49)	(41)
Total Comprehensive Income	**1,820**	3,130	2,654	**1,435**	952	1,244

(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 1999		*September 1998*		*September 1997*	
	No. of Shares	*Issue Price*	*No. of Shares*	*Issue Price*	*No. of Shares*	*Issue Price*
Dividend Reinvestment Plan Issues	8,103,189	$23.90	8,688,383	$19.33	9,407,685	$19.26
	7,488,339	$25.20	10,147,467	$21.41	11,396,063	$14.52
Bonus Share Plan Issues	1,559,086	$23.90	1,748,744	$19.33	1,676,138	$19.26
	1,513,037	$25.20	1,700,020	$21.41	1,886,582	$14.52
National Australia Bank Staff Share Scheme Executive Staff Share Scheme Issues						
	20,590	$4.72	40,900	$4.72	58,940	$4.72
	26,615	$4.25	50,190	$4.25	68,760	$4.25
	34,150	$5.54	62,045	$5.54	98,630	$5.54
	54,305	$5.56	80,390	$5.56	130,160	$5.56
	68,102	$6.15	111,315	$6.15	158,484	$6.15
	86,238	$9.07	141,388	$9.07	191,751	$9.07
	96,588	$10.97	173,346	$10.97	242,947	$10.97
	97,855	$10.83	192,240	$10.83	257,542	$10.83
	78,048	$11.03	155,543	$11.03	190,916	$11.03
National Australia Executive Option Plan Issues						
	70,000	$11.76	176,500	$11.76	4,333,500	$11.76
	15,000	$16.62	200,000	$16.62		
	1,051,600	$10.55	8,809,400	$10.55		
	9,216,800	$12.16				
	500,000	$12.54				
	180,000	$11.52				
National Australia Bank Staff Share Allocation Plan Issues	2,400	$23.05	800	$20.71		
National Australia Bank Staff Share Ownership Plan Issues	128,715	$23.04	66,072	$20.70		
			4,113	$20.71		
Share Top Up Plan Issues			1,669,819	$19.33	1,969,342	$14.52
			1,568,501	$21.41	1,238,672	$19.26
Share Purchase Plan Issues	5,110,360	$23.90				
	929,100	$25.20				
Exchangeable Capital Units Converted Issues	326	$19.28				
Preference Share Issues	32,008,000	$20.92	32,008,000	$20.92		
	4,000,000	$20.23	4,000,000	$20.23		
National Income Securities Issues	20,000,000	$100.00				

	Consolidated			*The Company*		
As at September 30 *Dollars in Millions*	*1999*	*1998*	*1997*	*1999*	*1998*	*1997*
Equity Instruments Distributions						
Trust Units	**58**	7	–	–	–	–
National Income Securities	**16**	–	–	**16**	–	–
Total Distributions	**74**	7	–	**16**	–	–

Preference Shares

On September 30, 1998, the Company issued 32,008,000 fully paid Preference Shares at US $25 each 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 Consolidated Entity.

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.

National Income Securities

On June 29, 1999, the Company issued 20 million National Income Securities at AUD$100 each pursuant to a Prospectus dated May 10, 1999 and a Supplementary Prospectus dated May 19, 1999. National Income Securities are stapled securities, comprising one fully paid Note of AUD$100 issued by the Company through its New York branch and one unpaid Preference Share issued by the Company. The amount unpaid on a Preference Share will become due in certain limited circumstances (such as if an event of default occurs). If the amount unpaid on a Preference Share becomes due, the holder can, and must, transfer to the Company the Note stapled to that Preference Share. The transfer of the Note to the Company will fully satisfy the holder's obligation to pay up the amount on the Preference Share. The holder will then hold a fully paid Preference Share.

Holders of National Income Securities are entitled to non-cumulative distributions based on a rate equal to the 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears commencing August 15, 1999 (a minimum interest rate of at least 6% per annum is payable until May 15, 2000). Should the Preference Shares become fully paid, holders will receive, if declared, a dividend calculated at the same rate and payable on the same basis.

National Income Securities have no maturity date, are listed on the Australian Stock Exchange and on a winding up of the Company rank behind all deposit liabilities and creditors of the Company but ahead of ordinary shareholders for a return of capital.

With the prior consent of the Australian Prudential Regulation Authority, the Company may redeem each Note for AUD$100 (plus any accrued distributions) and buyback or cancel the Preference Share stapled to the Note for no consideration. This may take place at any time after the fifth anniversary of the issue date of the National Income Securities or earlier in certain limited circumstances.

Interest of 4% per annum was paid on application monies from the date following the receipt of applications until the National Income Securities were issued.

The current year distribution represents the amount declared and paid on 15 August, 1999. No further amounts have been declared since this date and the date of signing the financial report.

(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. There is currently no share buy-back being undertaken.

(d) Details of Closing Balance of Issued and Paid up Capital

		The Company	
For years ended September 30	*1999 Number*	*1998 Number*	*1997 Number*
Ordinary Shares Issued			
Fully paid ordinary shares	**1,484,079,935**	1,447,649,492	1,412,396,637
Partly paid ordinary shares to 25 cents	**2,215,257**	2,777,748	3,785,105
Total Number of Ordinary Shares Issued	**1,486,295,192**	1,450,427,240	1,416,181,742
Preference Shares Issued			
Fully paid preference shares	**36,008,000**	36,008,000	–
Total Number of Preference Shares Issued	**36,008,000**	36,008,000	–
National Income Securities Issued			
Fully paid National Income Securities	**20,000,000**	–	–
Total Number of National Income Securities Issued	**20,000,000**	–	–

For details of share options issued under the 'National Australia Executive Option Plan' refer to Note 32.

As at September 30 Dollars in Millions	Consolidated 1999	1998	1997	The Company 1999	1998	1997

31 Outside equity interests

Issued and paid up capital	**6**	–	–	**–**	–	–
Reserves	**–**	5	5	**–**	–	–
Retained profits	**(6)**	(2)	(3)	**–**	–	–
Total Outside Equity Interests	**–**	3	2	**–**	–	–

32 Employee share, bonus and option schemes

(a) National Australia Bank Staff Share Ownership Plan (Staff Share Ownership Plan)

The Staff Share Ownership Plan was approved by shareholders by special resolution in January 1997 and is shown in Table 1.

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 United Kingdom (UK) and Republic of Ireland (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.

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.

(b) National Australia Bank Staff Share Allocation Plan (Staff Share Allocation Plan)

The Staff Share Allocation Plan was approved by shareholders by special resolution in January 1997 and is shown in Table 1.

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, 1999 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 the 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.

(c) Employee Share Savings Plan - United Kingdom and Republic of Ireland (Employee Share Savings Plan)

The Employee Share Savings Plan was approved by shareholders in 1995. Shares acquired under the plan are shown in Table 1.

Full time and part time employees of controlled entities in the UK and 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 plan continues to operate with six-monthly savings periods beginning on February 1 and August 1 each year. The Board has established the savings limit for participating employees as one per cent of salary until otherwise determined.

(d) National Australia Executive Option Plan (Executive Option Plan)

The Executive Option Plan was approved by shareholders in 1994. Options issued under the plan 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.

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.

(e) National Australia Bank Executive Share Option Plan No. 2 (Executive Share Option Plan No. 2)

The Executive Share Option Plan No. 2 was approved by shareholders by special resolution in January 1997 and is 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, 1999 share options were issued to 531 executives (1998: 520) covering a total of 12,565,000 share options (1998: 10,976,000).

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 under the scheme to date, that they 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 and Executive 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.

Table 1

Current Employee Share Plans

	Number of Eligible Participants	*Average Price*	*Fully Paid Ordinary Shares*
Employee Share Savings Plan – United Kingdom and Republic of Ireland			
Savings Period			
Aug 1, 1996 – Jan 31, 1997	15,466	$15.91	212,028
Feb 1, 1997 – Jul 31, 1997	14,468	$19.01	188,562
Aug 1, 1997 – Jan 31, 1998	14,359	$19.21	188,512
Feb 1, 1998 – Jul 31, 1998	14,266	$19.45	209,992
Aug 1, 1998 – Jan 31, 1999	13,241	$27.27	158,880
Feb 1, 1999 – Jul 31, 1999	13,009	$22.57	185,108
Aug 1, 1999 – Jan 31, 2000 [1]	12,694		
Staff Share Allocation Plan			
1999	33,841	$23.05	762,325
1998	34,137	$20.71	784,375
Staff Share Ownership Plan[2]			
1999	33,841	$23.05	7,770,022
1998	34,137	$20.71	7,563,668

(1) *No shares have been acquired at September 30, 1999 but $1.2 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 $1.2 million (1998: $0.7 million) toward the acquisition of the shares.*

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 Sept 30, 1999*	*No. of Options Exercised During 1999*[1]	*No. of Options Held at Sept 30, 1998*	*No. of Options Exercised During 1998*[1]	*Fair Value of Options as at Grant Date*[2]
National Australia Executive Option Plan								
Jan 31, 1994	Jan 31, 1997 – Jan 31, 1999	Jan 31, 1999	$11.76	–	70,000	70,000	176,500	–
Feb 13, 1995	Feb 13, 1998 – Feb 13, 2000	Feb 13, 2000	$10.55	299,000	1,051,600	1,350,600	8,809,400	–
Jan 2, 1996	Jan 2, 1999 – Jan 2, 2001	Jan 2, 2001	$12.16	4,163,200	9,216,800	13,380,000	–	17,126,400
Jan 25, 1996	Jan 25, 1999 – Jan 25, 2001	Jan 25, 2001	$12.54	–	500,000	500,000	–	645,000
Jun 27, 1996	Jun 27, 1999 – Jun 27, 2001	Jun 27, 2001	$11.52	60,000	180,000	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	9,655,000	15,000	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	–	10,976,000	–	39,294,080
Mar 19, 1999	Mar19, 2002 – Mar 19, 2004	Mar 19, 2004	$28.23	12,415,000[3]	–	–	–	56,624,750
Aug 6, 1999	Aug 6, 2002 – Aug 6, 2004	Aug 6, 2004	$23.34	120,000	–	–	–	589,200

[1] Subsequent to balance date no options have been exercised.
[2] Comparative information for 1994 and 1995 option issues is not available.
[3] 30,000 options were cancelled during the year.

The market price of the Company's shares at September 30, 1999 was $22.43 (1998: $20.39; 1997: $21.22).

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 on March 19, 1999, were valued at $4.55 each, and those issued on August 6, 1999, were valued at $4.91 each (1998: $3.58 each, 1997: $1.51).

The fair value of options granted were estimated using a numerical extension of the Black-Scholes options pricing methodology adopting the following significant assumptions:

	1999	*1998*	*1997*
Risk free interest rate	**5.55%**	5.91%	6.01%
Life of options	**5 years**	5 Years	5 Years
Volatility of share price	**20.0%**	20.0%	16.0%
Dividend rate	**4.63%**	4.86%	5.65%

If the fair value basis of accounting had been applied to account for compensation costs as stipulated in SFAS 123, the following operating profit after income tax expense and earnings per share would have appeared:

	1999		*1998*		*1997*	
	As Reported	***Pro Forma***	*As Reported*	*Pro Forma*	*As Reported*	*Pro Forma*
Net profit after income tax expense	**2,821**	**2,710**	2,014	1,989	2,223	2,213
Basic earnings per share	**186.6**	**184.1**	140.0	138.3	151.6	151.0
Diluted earnings per share	**181.6**	**180.9**	137.9	136.3	148.7	148.0

Refer to (d) and (e) above for details of the Plans and the hurdles that must be achieved before the options can be exercised.

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 Consolidated Entity. 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 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	*1999*			*1998*			*1997*		
	Average Balance	*Interest*	*Average Rate*	*Average Balance*	*Interest*	*Average Rate*	*Average Balance*	*Interest*	*Average Rate*
	$M	*$M*	*%*	*$M*	*$M*	*%*	*$M*	*$M*	*%*
Interest earning assets									
Due from other financial institutions									
Australia	**1,063**	**42**	**4.0**	1,347	48	3.5	1,235	64	5.2
Overseas	**8,612**	**538**	**6.2**	10,273	595	5.8	9,550	511	5.4
Regulatory deposits									
Australia	**733**	**–**	**–**	904	1	0.1	782	7	0.9
Overseas	**114**	**2**	**1.8**	151	3	1.8	148	3	1.7
Marketable debt securities									
Australia	**9,848**	**456**	**4.6**	7,086	359	5.1	5,613	371	6.6
Overseas	**13,580**	**730**	**5.4**	13,122	934	7.1	9,777	637	6.5
Loans and advances									
Australia	**83,253**	**5,813**	**7.0**	76,213	5,794	7.6	65,772	5,956	9.1
Overseas	**79,563**	**6,286**	**7.9**	71,272	6,690	9.4	57,682	5,095	8.8
Other interest earning assets[1]	**5,286**	**1,199**	**N/A**	4,507	1,003	N/A	1,501	292	N/A
Total interest earning assets	**202,052**	**15,066**	**7.5**	184,875	15,427	8.3	152,060	12,936	8.5
Non-interest earning assets									
Acceptances									
Australia	**21,959**			20,898			18,292		
Overseas	**1,309**			1,245			969		
Fixed assets									
Australia	**756**			557			1,063		
Overseas	**1,310**			1,329			1,126		
Other assets									
Australia	**10,214**			13,267			9,871		
Overseas	**19,655**			17,313			10,253		
Total non-interest earning assets	**55,203**			54,609			41,574		
Provision for doubtful debts									
Australia	**(1,228)**			(668)			(598)		
Overseas	**(1,109)**			(883)			(730)		
Total assets	**254,918**			237,933			192,306		
Percentage of total average assets applicable to overseas operations	**50.0%**			49.6%			46.7%		

[1] Includes interest on derivatives and escrow deposits.

Average Liabilities and Interest Expenditure

Years ended September 30	*1999* Average Balance	Interest	Average Rate	*1998* Average Balance	Interest	Average Rate	*1997* Average Balance	Interest	Average Rate
	$M	*$M*	*%*	*$M*	*$M*	*%*	*$M*	*$M*	*%*
Interest bearing liabilities and loan capital									
Time deposits									
Australia	**34,119**	**1,713**	**5.0**	29,719	1,573	5.3	24,674	1,571	6.4
Overseas	**47,805**	**2,416**	**5.1**	40,393	2,888	7.1	33,524	2,204	6.6
Savings deposits									
Australia	**4,470**	**184**	**4.1**	4,534	189	4.2	4,723	219	4.6
Overseas	**17,386**	**614**	**3.5**	16,359	778	4.8	13,741	526	3.8
Other demand deposits									
Australia	**27,784**	**812**	**2.9**	26,046	812	3.1	22,066	848	3.8
Overseas	**10,676**	**282**	**2.6**	9,774	336	3.4	8,278	261	3.2
Government and Official Institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**744**	**38**	**5.1**	590	29	4.9	377	20	5.3
Due to other financial institutions									
Australia	**3,070**	**113**	**3.7**	3,047	110	3.6	3,800	181	4.8
Overseas	**14,913**	**819**	**5.5**	14,445	862	6.0	8,414	452	5.4
Short term borrowings									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**5,140**	**349**	**6.8**	7,294	328	4.5	4,177	231	5.5
Long term borrowings									
Australia	**10,013**	**567**	**5.7**	9,605	654	6.8	6,423	431	6.7
Overseas	**2,386**	**141**	**5.9**	3,459	191	5.5	1,927	99	5.2
Other interest bearing liabilities	**191**	**804**	**N/A**	175	671	N/A	134	459	N/A
Other debt issues									
Australia	**385**	**25**	**6.5**	382	28	7.2	326	20	6.1
Overseas	**1,565**	**123**	**7.9**	1,581	120	7.6	834	56	6.7
Total interest bearing liabilities	**180,647**	**9,000**	**5.0**	167,403	9,569	5.7	133,418	7,578	5.7
Non-interest bearing liabilities									
Deposits not bearing interest									
Australia	**4,061**			3,857			3,460		
Overseas	**7,701**			7,374			6,123		
Liability on acceptances									
Australia	**21,959**			20,898			18,292		
Overseas	**1,309**			1,245			969		
Other liabilities									
Australia	**10,532**			12,906			9,215		
Overseas	**11,562**			10,196			7,517		
Total non-interest bearing liabilities	**57,124**			56,476			45,576		
Shareholders' equity	**17,147**			14,054			13,312		
Total liabilities and shareholders' equity	**254,918**			237,933			192,306		
Percentage of total average liabilities applicable to overseas operations	**51.0%**			50.4%			48.1%		

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. 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

	0 to 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Not Bearing Interest*	*Total*	*Weighted Average Effective Interest Rate*
As at September 30, 1999 *Australian Dollars in Millions*							
Financial Assets							
Cash and short term liquid assets	4	–	–	–	642	646	2.2%
Due from other financial institutions	1,689	1	–	–	–	1,690	4.8%
Due from customers on acceptances	–	–	–	–	21,649	21,649	–
Trading securities	10,959	–	–	–	–	10,959	5.2%
Investment/AFS securities	89	298	25	10	215	637	5.6%
Loans and advances	57,091	10,708	15,828	464	1,952	86,043	7.2%
Mortgage loans held for sale	–	–	–	–	–	–	–
Mortgage servicing rights	–	–	–	–	–	–	–
Regulatory deposits	–	–	–	–	–	–	–
Other assets	46	–	–	–	9,697	9,743	–
Total assets	69,878	11,007	15,853	474	34,155	131,367	
Financial Liabilities							
Due to other financial institutions	3,751	35	–	–	–	3,786	2.6%
Liability on acceptances	–	–	–	–	21,648	21,648	–
Deposits and other borrowings	55,498	13,959	1,868	3,280	4,154	78,759	4.2%
Bonds, notes and subordinated debt	6,155	883	3,792	290	–	11,120	6.5%
Other debt issues	383	–	–	–	1,262	1,645	5.2%
Other liabilities	815	1	–	–	7,380	8,196	–
Shareholders' equity	–	–	–	–	7,694	7,694	–
Total liabilities and shareholders' equity	66,602	14,878	5,660	3,570	42,138	132,848	
On-balance sheet interest rate sensitivity	3,276	(3,871)	10,193	(3,096)	(7,983)	(1,481)	
Off-balance sheet interest rate sensitivity	2,644	(937)	(1,389)	(323)	–	(5)	
Total interest rate repricing gap	5,920	(4,808)	8,804	(3,419)	(7,983)	(1,486)	
Cumulative interest rate repricing gap	5,920	1,112	9,916	6,497	(1,486)		

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 tables provide details of the repricing dates of all interest earning assets and interest bearing liabilities of the Consolidated Entity. 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, 1999	*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	–	–	–	–	1,738	1,738	2.2%
Due from other financial institutions	2,018	161	–	–	44	2,223	4.4%
Due from customers on acceptances	646	284	94	13	–	1,037	–
Trading securities	31	76	–	–	–	107	6.6%
Investment/AFS securities	484	591	277	27	20	1,399	4.5%
Loans and advances	30,557	3,199	7,091	1,139	–	41,986	8.2%
Mortgage loans held for sale	–	–	–	–	–	–	–
Mortgage servicing rights	–	–	–	–	–	–	–
Regulatory deposits	72	–	–	–	39	111	1.8%
Other assets	1,334	–	–	–	1,928	3,262	–
Total assets	35,142	4,311	7,462	1,179	3,769	51,863	
Financial Liabilities							
Due to other financial institutions	2,034	1,088	–	–	48	3,170	4.5%
Liability on acceptances	347	66	94	13	518	1,038	–
Deposits and other borrowings	30,945	4,159	247	–	5,251	40,602	3.1%
Bonds, notes and subordinated debt	146	–	–	–	–	146	4.5%
Other debt issues	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	3,632	3,632	–
Shareholders' equity	8	–	–	–	3,155	3,163	–
Total liabilities and shareholders' equity	33,480	5,313	341	13	12,604	51,751	
On-balance sheet interest rate sensitivity	1,662	(1,002)	7,121	1,166	(8,835)	112	
Off-balance sheet interest rate sensitivity	2,314	(685)	(8,142)	5,845	(268)	(936)	
Total interest rate repricing gap	3,976	(1,687)	(1,021)	7,011	(9,103)	(824)	
Cumulative interest rate repricing gap	3,976	2,289	1,268	8,279	(824)		

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	25	555	484	39	16	1,119	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	2,822	120	198	–	2,058	5,198	–
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 tables provide details of the repricing dates of all interest earning assets and interest bearing liabilities of the Consolidated Entity. 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, 1999	*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	289	–	–	–	63	352	2.2%
Due from other financial institutions	690	–	–	–	–	690	3.0%
Due from customers on acceptances	–	–	–	–	–	–	–
Trading securities	1,087	–	–	–	–	1,087	4.8%
Investment/AFS securities	627	71	29	–	–	727	4.7%
Loans and advances	11,564	2,251	6,047	166	36	20,064	7.3%
Mortgage loans held for sale	–	–	–	–	–	–	–
Mortgage servicing rights	–	–	–	–	–	–	–
Regulatory deposits	–	–	–	–	–	–	–
Other assets	5	–	–	1	1,561	1,567	–
Total assets	14,262	2,322	6,076	167	1,660	24,487	
Financial Liabilities							
Due to other financial institutions	1,326	52	–	–	–	1,378	1.4%
Liability on acceptances	–	–	–	–	–	–	–
Deposits and other borrowings	13,086	2,639	223	9	690	16,647	3.9%
Bonds, notes and subordinated debt	–	–	–	–	–	–	–
Other debt issues	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	806	806	–
Shareholders' equity	–	–	–	–	1,080	1,080	–
Total liabilities and shareholders' equity	14,412	2,691	223	9	2,576	19,911	
On-balance sheet interest rate sensitivity	(150)	(369)	5,853	158	(916)	4,576	
Off-balance sheet interest rate sensitivity	3,930	41	(3,823)	(148)	–		
Total interest rate repricing gap	3,780	(328)	2,030	10	(916)	4,576	
Cumulative interest rate repricing gap	3,780	3,452	5,482	5,492	4,576		

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 tables provide details of the repricing dates of all interest earning assets and interest bearing liabilities of the Consolidated Entity. 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, 1999	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	238	–	–	–	675	913	4.1%
Due from other financial institutions	5,829	276	–	–	412	6,517	4.1%
Due from customers on acceptances	165	–	–	–	–	165	–
Trading securities	700	–	–	–	–	700	3.7%
Investment/AFS securities	3,734	2,109	1,048	696	–	7,587	5.4%
Loans and advances	9,703	2,265	3,398	2,161	–	17,527	7.2%
Mortgage loans held for sale	1,980	–	–	–	–	1,980	7.0%
Mortgage servicing rights	–	–	–	–	5,345	5,345	–
Regulatory deposits	5	–	–	–	37	42	0.5%
Other assets	1,800	–	–	1	3,787	5,588	–
Total assets	24,154	4,650	4,446	2,858	10,256	46,364	
Financial Liabilities							
Due to other financial institutions	6,724	1,068	77	–	–	7,869	5.3%
Liability on acceptances	165	–	–	–	–	165	–
Deposits and other borrowings	18,941	4,201	575	137	2,606	26,460	4.3%
Bonds, notes and subordinated debt	–	–	2,171	–	–	2,171	6.0%
Other debt issues	–	–	–	–	–	–	–
Other liabilities	4,135	–	1	–	2,187	6,323	–
Shareholders' equity	2,079	–	–	–	4,504	6,583	–
Total liabilities and shareholders' equity	32,044	5,269	2,824	137	9,297	49,571	
On-balance sheet interest rate sensitivity	(7,890)	(619)	1,622	2,721	959	(3,207)	
Off-balance sheet interest rate sensitivity	(998)	6	2,604	29	54,032	55,673	
Total interest rate repricing gap	(8,888)	(613)	4,226	2,750	54,991	52,466	
Cumulative interest rate repricing gap	(8,888)	(9,501)	(5,275)	(2,525)	52,466		

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 tables provide details of the repricing dates of all interest earning assets and interest bearing liabilities of the Consolidated Entity. To obtain an understanding of the effective interest earned/paid on each of the above lines refer to Note 33, 'Average Balance Sheet'.

35 Segment information

The following segment information is disclosed in accordance with Australian Accounting Standards Board AASB 1005 'Financial Reporting by Segments' and Statement of Financial Accounting Standards No 131 'Disclosures about Segments of an Enterprise and Related Information' (SFAS 131) effective from October 1, 1998. Under SFAS 131, an operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in assessing performance. The Consolidated Entity presented results are based on the operating segments as reviewed separately by the chief operating decision maker, the Chief Executive Officer, as well as other members of senior management. Each segment is organised based on similar products and services provided globally to customers or activities undertaken solely for the Consolidated Entity's own account, and managed by individuals who report directly to the Chief Executive Officer.

The Consolidated Entity's business is organised into five major operating segments: Business and Personal Financial Services, Products and Services, Global Wholesale Financial Services, HomeSide and Information Technology. Business and Personal Financial Services is the core of the Consolidated Entity's retail operations and is the primary interface with its customers. The Products and Services segment manages the development and maintenance of the Consolidated Entity's products and services as well as providing the support infrastructure to serve the Consolidated Entity's customer base. Global Wholesale Financial Services is responsible for the Consolidated Entity's major institutional relationships worldwide, incorporating all of the Consolidated Entity's capital markets, corporate finance, foreign exchange, money market, financial risk management and project and structured finance activities. HomeSide is the Consolidated Entity's international product specialist responsible for coordinating mortgage origination and servicing activities and the creation of mortgage backed securities sold in secondary markets. Information Technology is responsible for the technology infrastructure and systems to operate the business and keep customer data secure, and for developing technology solutions to meet the requirements of the business.

The accounting policies of the segments are, in all material respects, consistent with those described in Note 1 'Principal Accounting Policies'. Operating revenues and expenses directly associated with each operating segment are included in determining their operating result. Transactions between operating segments are based on agreed recharges between segments operating within the same country and arm's length terms between segments operating in different countries.

For the year ended September 30, 1999				*Consolidated*				
Dollars in Millions	*Business and Personal Financial Services*	*Products and Services*	*Global Wholesale Financial Services*	*HomeSide*	*Information Technology*	*All Other*[1]	*Intercompany Eliminations*	*Total*
Net interest income	4,791	430	379	103	(14)	377	–	6,066
Charge to provide for doubtful debts	476	89	(52)	12	–	15	–	540
Non interest income	2,262	934	658	568	1	140	–	4,563
Inter–segment revenue	227	670	5	–	558	106	(1,566)	–
Total operating income	6,804	1,945	1,094	659	545	608	(1,566)	10,089
Other operating expenses	2,524	1,544	300	410	605	565	–	5,948
Inter–segment expenses	1,042	335	136	4	–	49	(1,566)	–
Operating profit before tax and outside equity interests	3,238	66	658	245	(60)	(6)	–	4,141
Income tax expense	1,108	(2)	107	92	(23)	39	–	1,321
Operating profit after tax before outside equity interests	2,130	68	551	153	(37)	(45)	–	2,820
Outside equity interests	–	(1)	–	–	–	–	–	(1)
Operating profit after tax and outside equity interests	2,130	69	551	153	(37)	(45)	–	2,821
Total assets	141,492	11,046	86,380	10,631	302	4,230	–	254,081

(1) Consists of Non-Operating Units which comprise of corporate centre functions, goodwill amortisation and the Consolidated Entity's funding. These segments are not considered to be reportable operating segments under SFAS 131.

As it is impractical to provide prior year comparative information for the operating segments used by management during the current year, SFAS 131 requires that information for this year and previous years be provided using the basis of segmentation adopted in the previous period.

The tables below set out the segment information for the current year and the two previous years using the prior period basis of segmentation. There are no material inter-segment transactions.

For the year ended September 30, 1999		*Consolidated*		
Dollars in Millions	*Banking*	*Finance and Life Insurance*	*Merchant and Investment Banking*	*Total*
Net interest income	6,032	34	–	6,066
Charge to provide for doubtful debts	530	10	–	540
Non interest income	3,228	900	435	4,563
Total operating income	8,730	924	435	10,089
Other operating expenses	5,022	637	289	5,948
Operating profit before tax	3,708	287	146	4,141
Income tax expense	1,204	87	30	1,321
Operating profit after tax	2,504	200	116	2,820
Outside equity interests in operating profit after tax	(1)	–	–	(1)
Operating profit after tax attributable to members of the Company	2,505	200	116	2,821
Total assets	239,330	11,271	3,480	254,081

For the year ended September 30, 1998		*Consolidated*		
Dollars in Millions	*Banking*	*Finance and Life Insurance*	*Merchant and Investment Banking*	*Total*
Net interest income	5,855	3	–	5,858
Charge to provide for doubtful debts	554	18	–	572
Non interest income	3,221	577	155	3,953
Total operating income	8,522	562	155	9,239
Other operating expenses	5,026	402	88	5,516
Operating profit before tax	3,496	160	67	3,723
Income tax expense	1,141	48	22	1,211
Operating profit after tax before abnormal items	2,355	112	45	2,512
Abnormal items (net of tax)	(497)	–	–	(497)
Operating profit after tax	1,858	112	45	2,015
Outside equity interests in operating profit after tax	1	–	–	1
Operating profit after tax attributable to members of the Company	1,857	112	45	2,014
Total assets	237,802	10,786	3,126	251,714

For the year ended September 30, 1997		*Consolidated*		
Dollars in Millions	*Banking*	*Finance and Life Insurance*	*Merchant and Investment Banking*	*Total*
Net interest income	5,351	7	–	5,358
Charge to provide for doubtful debts	332	–	–	332
Non interest income	2,652	147	110	2,909
Total operating income	7,671	154	110	7,935
Other operating expenses	4,449	90	80	4,619
Operating profit before tax	3,222	64	30	3,316
Income tax expense	1,089	(4)	10	1,095
Operating profit after tax	2,133	68	20	2,221
Outside equity interests in operating profit after tax	(2)	–	–	(2)
Operating profit after tax attributable to members of the Company	2,135	68	20	2,223
Total assets	200,635	352	982	201,969

Geographical Segments

The Consolidated Entity has operations in Australia, its country of domicile, New Zealand, the United Kingdom, the United States, the Republic of Ireland and certain Asian countries.

The allocation of assets, income and profit is based on the geographical location in which transactions are booked. There are no material inter-segment transactions.

	Consolidated					
For years ended September 30 Dollars in Millions	*1999*	*%*	*1998*	*%*	*1997*	*%*
Assets						
Australia	**126,296**	**49.7**	124,106	49.3	107,573	53.3
United Kingdom	**54,689**	**21.5**	59,339	23.6	44,278	21.9
Republic of Ireland	**4,049**	**1.6**	4,649	1.8	2,995	1.5
United States	**32,768**	**12.9**	30,454	12.1	16,825	8.3
New Zealand	**24,195**	**9.5**	23,128	9.2	20,674	10.2
Asian countries	**12,084**	**4.8**	10,038	4.0	9,624	4.8
Total	**254,081**	**100.0**	251,714	100.0	201,969	100.0
Total operating revenue						
Australia	**9,243**	**47.1**	8,763	45.3	8,208	51.8
United Kingdom	**4,919**	**25.1**	5,121	26.4	3,660	23.1
Republic of Ireland	**286**	**1.4**	321	1.7	244	1.5
United States	**2,763**	**14.1**	2,176	11.2	1,214	7.7
New Zealand	**1,772**	**9.0**	2,157	11.1	2,003	12.6
Asian countries	**646**	**3.3**	842	4.3	516	3.3
Total	**19,629**	**100.0**	19,380	100.0	15,845	100.0
Operating profit after tax and outside equity interests						
Australia	**1,412**	**50.1**	1,063	52.8	1,329	59.8
United Kingdom	**721**	**25.6**	470	23.3	455	20.5
Republic of Ireland	**40**	**1.4**	7	0.4	33	1.5
United States	**376**	**13.3**	242	12.0	181	8.1
New Zealand	**240**	**8.5**	189	9.4	197	8.9
Asian countries	**32**	**1.1**	43	2.1	28	1.2
Total	**2,821**	**100.0**	2,014	100.0	2,223	100.0

36 Notes to the statements of cash flows

(i) Reconciliation of Operating Profit after Income Tax to Net Cash Provided by Operating Activities

	Consolidated			The Company		
For years ended September 30 Dollars in Millions	*1999*	*1998*	*1997*	*1999*	*1998*	*1997*
Operating profit after income tax	**2,821**	2,014	2,223	**1,435**	1,001	1,285
Adjustments to reconcile net profit to net cash provided/(used in) by operating activities:						
(Increase)/decrease in interest receivable	**1,410**	294	(436)	**1,482**	(118)	(324)
Increase/(decrease) in interest payable	**(1,562)**	40	412	**(1,551)**	163	308
Depreciation and amortisation	**282**	272	244	**110**	98	87
Provision for doubtful debts	**540**	572	332	**225**	294	131
Provision for adoption of a statistically based provisioning methodology	**–**	369	–	**–**	181	–
Provision for restructuring	**30**	380	30	**29**	167	17
Amortisation of goodwill	**206**	181	142	**–**	–	–
Increase/(decrease) in provision for income tax	**25**	(44)	27	**151**	(34)	(138)
Net increase/(decrease) in provision for deferred tax and future income tax benefit	**(64)**	(478)	(63)	**(115)**	(443)	(8)
Net (increase)/decrease in trading instruments	**(1,581)**	(1,442)	(1,527)	**(2,368)**	(1,210)	(1,434)
Net movement in mortgage loans held for sale	**1,177**	(1,672)	–	**–**	–	–
Other provisions and non-cash items	**258**	33	631	**152**	91	654
Total adjustments	**721**	(1,495)	(208)	**(1,885)**	(811)	(707)
Net cash provided by/(used in) operating activities	**3,542**	519	2,015	**(450)**	190	578

	Consolidated			The Company		
For years ended September 30 *Dollars in Millions*	*1999*	*1998*	*1997*	*1999*	*1998*	*1997*

(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:

	1999	1998	1997	1999	1998	1997
Cash	**927**	1,015	1,228	**311**	338	330
Other short term liquid assets[1]	**2,722**	3,137	3,226	**617**	1,181	1,066
Due from other financial institutions	**11,120**	9,303	10,360	**7,516**	5,465	7,770
Due to other financial institutions	**(16,203)**	(16,541)	(12,746)	**(13,304)**	(11,675)	(11,178)
Total	**(1,434)**	(3,086)	2,068	**(4,860)**	(4,691)	(2,012)

[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

	1999	1998	1997	1999	1998	1997
New Share Issues:						
Dividend reinvestment plan	**382**	385	347	**382**	385	347
Bonus share plan	**75**	70	59	**75**	70	59
Movement in assets under finance lease	**2**	10	10	**–**	(1)	(2)

These amounts are not reflected in the Statements of Cash Flows.

(iv) Financing Arrangements

Refer to Note 44.

(v) Acquisitions

There were no material acquisitions during 1999. The following acquisitions were made during the comparative financial years:

- On June 5, 1998, the Company acquired the mortgage servicing assets of Bank One Mortgage Corporation for cash consideration.
- On February 10, 1998, the Company acquired 100% of the share capital of HomeSide 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.

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:

	Consolidated		
For years ended September 30 *Dollars in Millions*	*1999*	*1998*	*1997*
Fair Value of Net Assets Acquired			
Cash and short term liquid assets	–	59	–
Due from other financial institutions	–	–	–
Trading securities	–	–	–
Investment securities	–	–	–
Loans and advances	–	–	–
Mortgage loans held for sale	–	1,801	–
Mortgage servicing rights	–	2,868	–
Available for sale securities	–	–	–
Fixed assets	–	44	–
Other assets	–	1,135	–
Deposits and other borrowings	–	(4,369)	–
Income tax liability	–	(206)	–
Provisions	–	(18)	–
Other liabilities	–	(295)	–
Total net assets acquired	–	1,019	–
Goodwill on acquisition	–	1,154	–
Total net assets acquired after goodwill	–	2,173	–
Cash Consideration Paid	–	2,173	–

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.

Entity Name	*Incorporated in*		*Nature of Business*
National Australia Bank Limited	Australia		Banking
Controlled Entities of National Australia Bank Limited			
National Equities Limited	Australia	a	Parent entity
National Americas Investment, Inc.	United States of America		Parent entity
HomeSide Investment, Inc.	United States of America		Parent entity
HomeSide International, Inc. (formerly HomeSide, Inc.)	United States of America		Parent entity
HomeSide Holdings, Inc.	United States of America		Investment company
HomeSide Lending, Inc.	United States of America		Mortgage lender and servicer
National Australia Financial Management Limited and its controlled entities	Australia		Life insurance and funds management
National Australia Group (NZ) Limited	New Zealand		Parent entity
Bank of New Zealand	New Zealand		Banking
BNZ Finance Limited	New Zealand		Registered bank
BNZ Investments Limited	New Zealand		Investment company
BNZ Property Investments Limited and its controlled entities	New Zealand		Property company
BNZ Life Insurance Limited	New Zealand		Life insurance
Other BNZ Investments Limited controlled entities	New Zealand		Property company, investment company
National Australia Group Europe Limited	England		Parent entity
Clydesdale Bank PLC (Group)	Scotland		Banking
Clydesdale Bank Equity Limited	Scotland		Venture/development
Clydesdale Bank Insurance Brokers Limited	Scotland		Insurance brokers and nominee entity
National Americas Holdings Limited	England		Parent entity
Michigan National Corporation	United States of America		Parent entity
Michigan National Bank and its controlled entities	United States of America		Banking
National Australia Life Company Limited	England		Life insurance
National Australia Group Europe Services Limited	Scotland		Computer services
National Australia Group Europe Investments Limited	Scotland		Investment company
National Irish Holdings Limited	England		Parent entity
National Irish Bank Limited and its controlled entities	Republic of Ireland		Banking
Northern Bank Limited	Northern Ireland		Banking
Northern Bank Financial Services Limited	Northern Ireland		Parent entity
Northern Bank Development Corporation Limited and its controlled entities	Northern Ireland		Merchant bank
Yorkshire Bank PLC	England		Banking
Yorkshire Bank Retail Services Limited and its controlled entity	England		Finance entity
Eden Vehicle Rentals Limited	England		Vehicle contract hire
Yorkshire Bank Home Loans Limited	England		Mortgage finance
National Australia Group Services Limited	Australia		Parent entity – finance provider
Custom Service Leasing Limited	Australia	a	Serviced lease finance
NBA Properties Limited and its controlled entities	Australia	a	Property owner
CSPL Securities Pty Limited	Australia		Finance provider
National Australia Merchant Bank (Singapore) Limited	Singapore		Merchant bank
National Australia Corporate Services Limited	Australia	a	Parent entity
Nautilus Insurance Pte Limited	Singapore		General insurer under restricted licence
National Markets Group Limited	Australia		Holding company
Australian Market Automated Quotation (Ausmaq) System Limited	Australia		Online client investment administration service
National Australia Finance (Asia) Limited	Hong Kong		Money lender
National Australia Trustees Limited and its controlled entity	Australia		Trustee entity

Beneficial interest in the shares of all entities listed above is 100%.

a) *These controlled entities and those listed hereunder have entered into a deed of cross guarantee (refer Note 38(c) for details) 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 reports.*

ARDB Limited
Australian Banks' Export Re-Finance Corporation Limited
C.B.C. Investments Limited
C.B.C. Investments Services Limited
Commercial Nominees Pty Limited
Groundsel Limited
National Nominees (London) Limited
National Australia Investment Brokers Limited
National Australia Leasing (Qld) Pty Limited
NBA Leasing Pty Limited
VPL Securities Pty Limited

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*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
Contingent Liabilities (a)								
Guarantees	**2,389**	1,952	**2,389**	1,952	**4,559**	3,024	**4,559**	3,024
Standby letters of credit	**3,337**	2,450	**3,337**	2,450	**2,381**	1,524	**2,381**	1,524
Bill endorsements	**–**	3	**–**	3	**–**	3	**–**	3
Documentary letters of credit	**409**	622	**56**	68	**377**	365	**105**	47
Performance related contingencies	**2,260**	2,489	**1,130**	1,244	**1,335**	1,360	**668**	680
Other	**230**	621	**230**	621	**136**	525	**136**	525
Total Contingent Liabilities	**8,625**	8,137	**7,142**	6,338	**8,788**	6,801	**7,849**	5,803

The Consolidated Entity has shared its exposure on letters of credit with other financial institutions to the extent of $13 million credit equivalent (1998: $14 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.

Credit Related Commitments (b)								
Outright forward purchases and forward deposits	**2,661**	7,044	**2,661**	7,044	**20**	–	**20**	–
Underwriting facilities	**202**	253	**101**	127	**202**	253	**101**	126
Other binding credit commitments	**63,572**	62,494	**13,932**	14,476	**42,971**	43,138	**10,744**	10,970
Total Credit Related Commitments	**66,435**	69,791	**16,694**	21,647	**43,193**	43,391	**10,865**	11,096

(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 pages 54 to 57).*

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 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.

The Company and Consolidated Entity are defendants from time to time in legal proceedings arising from the conduct of its business. One such case that has attracted some publicity recently is referred to below.

In September 1998, a Summons was filed in the Supreme Court of New South Wales by Idoport Pty Limited (Idoport) and Market Holdings Pty Limited (Market Holdings) against the Company and others.

Idoport and Market Holdings are seeking damages calculated in the range of US$271 million to more than US$21 billion.

The dispute centres around what rights Idoport and Market Holdings have arising out of the entry into a consulting agreement by the Company, Idoport and others, and involves the development of a controlled entity, Australian Market Automated Quotation (AUSMAQ) System Limited (AUSMAQ).

The damages claim is primarily based upon an allegation that the AUSMAQ business has not been operated as Idoport and Market Holdings claim it should have been. It is also based on an allegation that Idoport is entitled to a share of the profits of some projects run by entities in the Consolidated Entity separately from AUSMAQ.

The Company and the other defendants are strongly disputing the claim. The Company is in the process of preparing its extensive response to the claim.

The final action will be heard in May 2000. It is expected to last around six months.

The Company and Consolidated Entity do not consider that the outcome of any current proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. Where appropriate, provisions have been made.

(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 $3,547 million (1998: $4,313 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, 1999 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.
- 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 reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the Corporations 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 consolidated statements of profit and loss and balance sheets are presented for the Company and controlled entities, after eliminating all transactions between parties to the deed of cross guarantee, which are 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 years ended September 30 *Dollars in Millions*	*1999*	*1998*
Operating profit before tax	**2,860**	1,843
Income tax expense attributable to operating profit	**676**	526
Operating profit after income tax	**2,184**	1,317
Outside equity interests in operating profit after tax	**2**	2
Operating profit after income tax attributable to members of the Company	**2,186**	1,319
Retained profits at the beginning of the financial year	**4,384**	4,322
Dividend provisions not required	**85**	84
Aggregate of amounts transferred from reserves	**(12)**	155
Total available for appropriation	**6,643**	5,880
Dividends provided for or paid	**1,739**	1,495
Aggregate of amounts transferred to reserves	**2**	1
Retained profits at the end of the financial year	**4,902**	4,384

Balance Sheet for the Company and Controlled Entities which are a Party to the Deed

As at September 30 *Dollars in Millions*	*1999*	*1998*
Assets		
Cash and short term liquid assets	**941**	1,519
Due from other financial institutions	**7,517**	5,465
Due from customers on acceptances	**21,903**	21,371
Trading securities	**11,761**	9,393
Available for sale securities	**1,211**	749
Investment securities	**5,598**	6,838
Loans and advances	**91,438**	83,253
Shares in entities and other securities	**5,806**	5,770
Regulatory deposits	**6**	962
Fixed assets	**771**	775
Goodwill	**17**	15
Other assets	**30,906**	33,724
Total Assets	**177,875**	169,834
Liabilities		
Due to other financial institutions	**13,304**	11,675
Liability on acceptances	**21,903**	21,371
Deposits and other borrowings	**94,194**	84,800
Income tax liability	**948**	864
Provisions	**1,361**	1,182
Bonds, notes and subordinated debt	**11,287**	12,735
Other debt issues	**383**	421
Other liabilities	**20,037**	25,159
Total Liabilities	**163,417**	158,207
Net Assets	**14,458**	11,627
Shareholders' Equity		
Issued and paid up capital	**9,286**	6,675
Reserves	**270**	568
Retained profits	**4,902**	4,384
Total Shareholders' Equity	**14,458**	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 report 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, 1999 and September 30, 1998, 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	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
Foreign Exchange Rate Related Contracts						
Spot and forward contracts to purchase foreign exchange						
In a favourable position	**176**	1,146	**2,965**	5,484	**2,743**	5,572
In an unfavourable position	**(147)**	(129)	**(2,739)**	(5,307)	**(2,577)**	(4,957)
Cross currency swaps						
In a favourable position	**29**	37	**1,005**	40	**693**	37
In an unfavourable position	**(64)**	(12)	**(1,378)**	(105)	**(443)**	(93)
Futures	**–**	–	**–**	–	**–**	1
Options						
Purchased	**–**	–	**306**	357	**297**	304
Written	**–**	–	**(220)**	(226)	**(212)**	(217)
Total Foreign Exchange Rate Related Contracts	**(6)**	1,042	**(61)**	243	**501**	647
Interest Rate Related Contracts						
Forward rate agreements						
In a favourable position	**–**	2	**9**	29	**12**	16
In an unfavourable position	**–**	(6)	**(10)**	(24)	**(15)**	(19)
Swaps						
In a favourable position	**32**	423	**1,962**	2,201	**2,272**	1,598
In an unfavourable position	**(796)**	(513)	**(2,359)**	(2,450)	**(2,654)**	(1,960)
Futures	**3**	106	**4**	(36)	**4**	(19)
Options						
Purchased	**145**	133	**140**	103	**108**	51
Written	**–**	–	**(101)**	(68)	**(69)**	(40)
Total Interest Rate Related Contracts	**(616)**	145	**(355)**	(245)	**(342)**	(373)
Total	**(622)**	1,187	**(416)**	(2)	**159**	274

[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 loss at September 30, 1999 of $61 million (1998: gain of $243 million). Total net realised and unrealised gains and losses on foreign exchange rate related contracts during the year totalled $251 million (1998: $367 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, 1999 of $355 million (1998: loss of $245 million). Total net realised and unrealised gains and losses on both interest rate related contracts and physical securities, during the year totalled $206 million (1998: $7 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*	***1999***	*1998*	***1999***	*1998*	***1999***	*1998*
Values at risk at a 95% confidence level						
Foreign exchange risk	**3**	3	**2**	2	**5**	4
Interest rate risk	**6**	7	**4**	5	**10**	10

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 Rate Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 *Dollars in Millions*	***1999***	*1998*	***1999***	*1998*	***1999***	*1998*
Within 6 Months	**–**	–	**(1)**	1	**(1)**	1
6 Months – 1 Year	**–**	–	**1**	3	**1**	3
1 – 2 Years	**–**	–	**(5)**	–	**(5)**	–
2 – 5 Years	**–**	–	**(4)**	(11)	**(4)**	(11)
After 5 Years	**–**	–	**758**	663	**758**	663
Total	**–**	–	**749**	656	**749**	656

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. Prior year restated for comparative purposes.

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*	***1999***	*1998*	***1999***	*1998*	***1999***	*1998*
Within 6 Months	**–**	–	**1**	(1)	**1**	(1)
6 Months – 1 Year	**–**	–	**–**	(1)	**–**	(1)
1 – 2 Years	**–**	–	**–**	–	**–**	–
2 – 5 Years	**–**	–	**–**	–	**–**	–
After 5 Years	**–**	–	**–**	–	**–**	–
Total	**–**	–	**1**	(2)	**1**	(2)

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, 1999 and September 30, 1998. 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*	***1999***	*1998*	***1999***	*1998*	***1999***	*1998*	***1999***	*1998*
Foreign Exchange Rate Related Contracts								
Spot and forward contracts to purchase foreign exchange [1]								
Trading	**203,764**	209,856	**4,659**	7,121	**226**	177	**166**	615
Other than trading	**17,807**	25,495	**191**	1,241	**29**	1,017		
Total Foreign Exchange	**221,571**	235,351	**4,850**	8,362	**255**	1,194	**166**	615
Cross currency swaps [1]								
Trading	**33,256**	6,164	**2,277**	457	**(373)**	(65)	**250**	(56)
Other than trading	**4,982**	3,571	**–**	103	**(35)**	25		
Total Cross Currency Swaps	**38,238**	9,735	**2,277**	560	**(408)**	(40)	**250**	(56)
Total Futures Trading	**11**	216	**–**	–	**–**	–	**–**	1
Options								
Trading	**36,250**	13,740	**387**	393	**86**	131	**85**	87
Total Options	**36,250**	13,740	**387**	393	**86**	131	**85**	87
Total Foreign Exchange Rate Related Contracts	**296,070**	259,042	**7,514**	9,315	**(67)**	1,285	**501**	647

Consolidated	*Notional Principal*		*Credit Equivalent*		*Fair Value*		*Average Fair Value*[2]	
As at September 30 Dollars in Millions	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
Interest Rate Related Contracts								
Forward rate agreements								
Trading	**39,175**	33,241	**18**	32	**(1)**	5	**(3)**	(3)
Other than trading	**880**	2,604	**–**	5	**–**	(4)		
Total Forward Rate Agreements	**40,055**	35,845	**18**	37	**(1)**	1	**(3)**	(3)
Swaps								
Trading	**198,477**	156,481	**2,813**	3,206	**(397)**	(249)	**(382)**	(362)
Other than trading	**38,467**	22,244	**316**	309	**(764)**	(90)		
Total Swaps	**236,944**	178,725	**3,129**	3,515	**(1,161)**	(339)	**(382)**	(362)
Futures								
Trading	**122,955**	99,194	**–**	–	**4**	(36)	**4**	(19)
Other than trading	**14,357**	10,131	**–**	–	**3**	106		
Total Futures	**137,312**	109,325	**–**	–	**7**	70	**4**	(19)
Options								
Trading	**63,433**	68,493	**405**	121	**39**	35	**39**	11
Other than trading	**23,394**	16,718	**143**	10	**145**	133		
Total Options	**86,827**	85,211	**548**	131	**184**	168	**39**	11
Total Interest Rate Related Contracts	**501,138**	409,106	**3,695**	3,683	**(971)**	(100)	**(342)**	(373)
Other Index Related Contracts								
Swaps								
Other than trading	**–**	11	**–**	–	**–**	–		
Total Index Related Contracts	**–**	11	**–**	–	**–**	–		
Total	**797,208**	668,159	**11,209**	12,998	**(1,038)**	1,185	**159**	274

[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 57% (1998: 66%) of the exposure is confined to maturities of one year or less and 85% (1998: 89%) 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	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
Within 6 Months	**4,111**	5,237	**883**	297	**4,994**	5,534
6 Months – 1 Year	**1,120**	2,537	**228**	540	**1,348**	3,077
1 – 2 Years	**1,224**	626	**442**	522	**1,666**	1,148
2 – 5 Years	**527**	597	**971**	1,183	**1,498**	1,780
After 5 Years	**532**	318	**1,171**	1,141	**1,703**	1,459
Total	**7,514**	9,315	**3,695**	3,683	**11,209**	12,998

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 71% (1998: 67%) of credit exposure is to government authorities and banks. In excess of 94% (1998: 91%) 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, 1999					
Dollars in Millions					
Australia	332	2,466	691	1,149	4,638
Europe	–	2,529	13	82	2,624
New Zealand	9	163	17	232	421
United States of America	–	583	88	3	674
Asia	1	1,872	842	137	2,852
Total	342	7,613	1,651	1,603	11,209

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 45% (1998: 51%) 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).

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 was 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. Second, 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 pages 141 to 146.

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	*1999*		*1998*	
Dollars in Millions				
Financial Assets				
Liquid assets	**3,649**	**3,649**	4,152	4,152
Due from other financial institutions	**11,120**	**11,120**	9,303	9,303
Due from customers on acceptances	**22,851**	**22,851**	22,353	22,353
Debt securities	**23,203**	**23,224**	20,611	20,675
Loans and advances	**155,216**	**158,240**	150,789	153,166
Mortgage loans held for sale	**1,980**	**1,986**	3,473	4,996
Mortgage servicing rights	**5,345**	**5,416**	2,998	3,197
Regulatory deposits [3]	**153**	**153**	1,155	1,155
Lease finance [3]	**11,367**	**11,994**	10,050	10,041
Shares in entities and other securities	**1,068**	**1,134**	1,013	1,111
Total Financial Assets	**235,952**	**239,767**	225,897	230,149
Financial Liabilities				
Due to other financial institutions	**16,203**	**16,203**	16,541	16,541
Liability on acceptances	**22,851**	**22,851**	22,353	22,353
Deposits and other borrowings	**162,468**	**162,470**	158,084	159,589
Bonds, notes and subordinated debt	**13,437**	**13,295**	15,115	15,259
Other debt issues	**1,645**	**1,996**	1,683	2,173
Total Financial Liabilities	**216,604**	**216,815**	213,776	215,915

(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 assets 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, or lump sum benefit; 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 may allow for the 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 $130 million in respect of all superannuation funds for the year ended September 30, 1999 (1998: $66 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, 1999 exchange rates) were:

Name of Fund Dollars in Millions		*1999*				*1998*			
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**	**1,670**	**221**	**1,374**	1,449	1,559	110	1,208
Clydesdale Bank Pension Scheme[2]	June 30, 1999 Watson Wyatt Partners Consulting Actuaries	**1,533**	**1,626**	**93**	**1,381**	1,376	1,644	268	1,213
Northern Bank Pension Scheme[2]	June 30, 1999 Watson Wyatt Partners Consulting Actuaries	**977**	**1,256**	**279**	**921**	891	1,305	414	842
National Irish Bank Pension Scheme[2]	June 30, 1999 Watson Wyatt Partners Consulting Actuaries	**258**	**352**	**94**	**178**	244	368	124	171
National Australia Bank UK Retirement Benefits Plan[2][3]	June 30, 1999 Watson Wyatt Partners Consulting Actuaries	**136**	**140**	**4**	**108**	86	89	3	75
Yorkshire Bank Pension Scheme[2]	June 30, 1999 Watson Wyatt Partners Consulting Actuaries	**1,260**	**1,659**	**399**	**1,089**	1,121	1,678	557	954
Bank of New Zealand Officers Provident Association[4]	October 31, 1998 Watson Wyatt NZ Ltd Consulting Actuaries	**149**	**248**	**99**	**148**	168	272	104	166
NAB Group/USA Pension Plan[5]	January 1, 1999 William M Mercer Ltd Consulting Actuaries	**133**	**214**	**81**	**129**	189	212	23	147
Total Defined Benefit Funds		**5,895**	**7,165**	**1,270**	**5,328**	5,524	7,127	1,603	4,776

[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, 1999. A large portion of the surplus relates to the different valuation date of Accrued Benefits and Plan Assets and 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, 1999. Comparative amounts are as of the actuarial assessment date of June 30, 1998.*

[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 January 1, 1999.*

As at September 30 Dollars in Millions	Consolidated 1999	Consolidated 1998	The Company 1999	The Company 1998

42 Operating lease commitments

Estimated minimum lease commitments:				
Due within 1 year	**366**	284	**178**	179
Due within 1–2 years	**217**	226	**132**	131
Due within 2–3 years	**171**	188	**95**	109
Due within 3–4 years	**133**	153	**65**	82
Due within 4–5 years	**110**	120	**48**	54
Due after 5 years	**886**	1,154	**255**	203
Total Operating Lease Commitments[1][2][3]	**1,883**	2,125	**773**	758
Commitments by type:				
Commercial and residential buildings	**1,734**	2,052	**727**	710
Data processing and other equipment	**149**	73	**46**	48
	1,883	2,125	**773**	758
[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	**53**	81	**–**	–
Due within 1–2 years	**45**	75	**–**	–
Due within 2–3 years	**36**	66	**–**	–
Due within 3–4 years	**31**	60	**–**	–
Due within 4–5 years	**26**	54	**–**	–
Due after 5 years	**184**	847	**–**	–
Total Non-cancellable Operating Lease Commitments	**375**	1,183	**–**	–

[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	**33**	5	**27**	–
Data processing and other equipment				
Due within 1 year	**83**	17	**67**	–
Total Capital Expenditure Commitments	**116**	22	**94**	–

44 Financing arrangements

	Consolidated Amount Accessible	Amount Unused	Amount Accessible	Amount Unused
	September 1999		*September 1998*	
The Company and other controlled entities have access to the following financing arrangements:				
Standby lines of credit	**3,064**	**1,225**	2,528	2,528
	3,064	**1,225**	2,528	2,528

The standby line of credit facility available at September 30, 1999 is subject to an expiry date of October 16, 2001.

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.

Details of Directors who held office during the year are set out in the Directors' Report. Details of remuneration paid or payable to the Directors and Directors of related entities are set out in 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, 1999.

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	*1999*	*1998*	*1999*	*1998*
Balance outstanding at September 30	**45,708**	42,421	**429**	420
Loans made during the year				
– Normal terms and conditions	**4,710**	20,309	**14**	120
– Employee terms and conditions	**5,892**	4,336	**–**	–
Repayments received during the year				
– Normal terms and conditions	**4,947**	14,625	**5**	–
– Employee terms and conditions	**2,862**	5,489	**–**	–

	Consolidated			*Consolidated*			*Consolidated*	
	1999	*1998*		*1999*	*1998*		*1999*	*1998*
JO Anderson	2,4	1,2,4	M Gilligan	–	2,3,4	JB Meyer	2,3	2,3
MT Anderson	2,3,4	1,3,4	P Gilligan	3,4	1,3,4	B Meyler	2,4	–
EJ Antczak	1,4	–	LL Gladchun	1,2,4	–	RB Miller	1,2,3,4	1,2,4
DR Argus	1,3	–	PR Goldsbrough	2,4	2,4	TB Millett	2,3	–
J Badge	1,4	–	DA Grubb	2,3,4	1,2,3,4	J Mitchell	1,2,3,4	–
DA Baillie	1,2,4	1,2,4	AG Haintz	1,4	4	LE Moon	2,3	1,2,3
BA Baker	1,2,4	1,2,4	CK Hall	2,3	2,3	C Moore	2,4	4
I Ballard	2,4	2,3,4	P Halpin	2,3,4	2,3,4	MJ Moorhouse	2,4	2,4
D Barbour	1,2,4	–	HR Harris	1,2,4	–	D Motherwell	1,4	–
SD Barbour	2,3,4	1,2,3,4	AR Hart	1,2,4	1,2,4	AM Murphy	1,2,3	–
GLL Barnes	1,2,4	1,2,4	A Haslam	1,2,4	1,2,4	RJ Murphy	3,4	1,2,3,4
SE Bernard	1,4	–	DJ Heaney	4	1,2,4	FL Nelson	1,3	2,3
JK Berry	1,2,3,4	1,2,4	JJ Henson	1,2,3	1,2,4	WR Nixon	1,2,3,4	1,2,4
ND Birrell	4	1,4	DC Holden	4	1,2,4	GF Nolan	1,2,4	1,2,4
CJ Black	4	1,2,4	JC Hurst	1,2,4	2,4	S O'Connor	3	3
JF Blom	1,4	–	RJ Hutchinson	1,2,4	1,2,3,4	AJ O'Grady	1,2,4	1,2,4
R Blough	1,2,4	–	GA Hyde	1,2,4	1,2,4	P O'Sullivan Lacy	2,3,4	1,2,3,4
RC Bowden	1,2,3,4	2,4	RJ Jacobs	1,2,4	–	R Panizzi	1,2,4	–
RK Boyce	1,3	1,3	KLM James	2,4	–	GR Pellett	1,2,3,4	1,2,3,4
PP Boyle	2,3,4	2,3,4	PA Jeffries	2,3	1,2,3	WF Pickard	3	1,2,3
D Brainbridge	1,2,4	–	MF Johnstone	4	2,4	J Pickett	1,2,4	–
JF Brennan	–	2,4	DC Jones	1,4	1,4	MA Pinder	1,2,3,4	1,2,3,4
R Briers	1,4	1,2,4	LS Jones	1,2,3,4	1,2,3	RP Pinney	1,2,3,4	1,2,3,4
MM Brown	1,2,3,4	2,4	SD Jursek	1,2,4	–	RH Polkinghorne	3,4	1,2,3,4
RC Brown	1,2,3,4	1,2,4	DS Kelly	1,2,3,4	1,2,3	D Price	1,2,4	–
POA Byrne	1,2,3,4	2,3,4	M Kelly	1,2,4	–	RMC Prowse	1,2,4	1,2,4
WH Byrne	1,2,4	1,2,3	MA King	1,2,3,4	1,3	JE Queen	1,2,3,4	1,2,3,4
CR Campbell	2,4	2,4	V Koh Yoke Har	1,2,4	1,4	H Raby	1,2,4	–
G Campbell	1,2,3,4	–	GJ Kraehe	2,3	1,3	J Richards	1,2,4	–
WJE Canning	2,3,4	1,2,3,4	DM Krasnostein	1,3,4	1,2,3,4	CA Russell	4	2,4
JS Carton	1,2,3	2,3	PAK Laband	1,2,4	1,2,4	TC Rutland	1,2,4	1,2,4
BT Case	2,3	3	MT Laing	1,2,3,4	2,3,4	LR Ryan	1,2,4	2,4
AJ Casey	2,3,4	2,3,4	R Lakin	1,2,4	–	G Savage	1,2,3,4	2,3,4
MA Cassino	4	4	B Lavelle	1,2,4	–	RG Scholes-Robertson	1,2,3	1,2,3
FJ Cicutto	1,3	3	KJ Lawford	1,2,3	–	RR Schwarzlose	1,4	1,2,4
A Clarke	2,4	1,2,3,4	DIW Lawson	1,2,3,4	1,2,3,4	PJ Senior	–	2,4
G Comito	4	–	C Leggat	1,2,4	–	MR Shaw	2,3,4	1,2,3,4
R Cone	1,2,4	–	BR Lenz	1,2,3,4	1,2,4	MD Soden	1,2,4	2,4
KF Courtney	3	1,3	SP Littlebury	1,2,4	1,2,4	RJ Stapleton	1,2,3	–
DD Cowlishaw	1,2,3,4	1,2,3,4	EA Lomas	1,2,3	2,3	AA Stewart	2,4	1,2,4
SJ Cushing	–	2,3	NV Lucas	2,4	2,4	JD Storey	2,3	2,3
MS Darling	2,3	2,3	IG MacDonald	2,4	4	J Stroud	2,3	–
R Day	1,2,3,4	2,4	C Macek	1,2,4	1,2,4	F Sunderland	1,2,3	–
DG Devonport	3	1,3	D MacGregor	2,3	–	EJ Talbot	1,2,3,4	2,3
M Donohoe	1,2,3,4	–	KM Mach	2,4	–	SC Targett	3	–
WK Doonan	2,4	2,4	JT Macken	1,2,4	1,2,4	JD Taylor	1,2,3,4	1,4
AJ Douglas	4	4	RF Matrenza	4	2,4	TS Tennent	–	1,2,4
MC Dowland	2,4	1,2,4	CP Matten	1,2,3,4	–	KD Thawley	1,2,4	–
CW Duncan	2,3,4	2,3,4	IG Mattiske	1,3,4	1,4	PL Thodey	1,2,4	2,4
DE Ebert	1,2,3	2,3	D Maull	–	2,4	PJS Thomas	3	1,2,3,4
MM Elliott	2,3	1,2,3	J McDonald	2,3,4	2,3,4	AC Thomson	1,2,3	1,2,3
RR Erdos	1,2,4	–	DJ McGee	1,2,3,4	–	H Thomson	1,2,3,4	2,3,4
PG Flavel	2,3	1,3	P McGrath	1,4	4	RE Unger	–	2,4
J Foley	3,4	2,3,4	GD McKee	2,4	–	SA Van Andel	1,2,3	2,3
SE Forbes	3	1,3	TD McKee	1,2,4	2,4	K Van Solkema	1,3,4	–
HG Ford	2,3	1,2,3	B McKenzie	1,2,3,4	1,3,4	C Van Swearingen	2,4	–
NJ Frost	1,2,4	1,2,4	RA McKimm	2,3	1,2,3	JD Walmsley	2,3,4	2,3,4
IH Gill	2,4	2,4	RE McKinnon	1,2,4	1,2,4	P Weanie	2,3,4	2,3,4

	Consolidated 1999	Consolidated 1998		Consolidated 1999	Consolidated 1998		Consolidated 1999	Consolidated 1998
RC Webb	2,3	2,3	JA Williams	1,3	–	NL Youren	2,3	1,2,3
GJ Wheaton	2,3	2,3	KES Windeyer	1,2,3,4	–			
OA Wilhelm	1,2,4	2,4	S Wright	2,4	2,4			

(1) Loan made to this person during the year. Refer to page 151 for aggregate amounts.
(2) Repayment made by this person during the year. Refer to page 151 for aggregate amounts.
(3) Loan made in ordinary course of business on commercial terms and conditions. Refer to page 151 for aggregate amounts.
(4) Loan made on employee terms and conditions. Refer to page 151 for aggregate amounts.

Loans made by the Consolidated Entity in 1999 and 1998 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, share options and equity instruments

The aggregate number of shares, share options and equity instruments issued, disposed/exercised, or held, directly, indirectly or beneficially by Directors of the Company and by parties related to them during the year ended September 30, 1999 is set out below. The share and share option details represent issues under the Dividend Reinvestment Plan, Bonus Share Plan, UK Dividend Plan and, where applicable, Employee Share Scheme and Executive Option Plan. Equity instrument details represent issues under the National Income Securities:

	The Company					
	Issued		Disposed/Exercised		Held	
	1999	1998	1999	1998	1999	1998
Ordinary shares, fully paid	**128,568**	19,585	**105,000**	–	**142,913**	337,569
Share options over ordinary shares	**1,150,000**	500,000	**100,000**	100,000	**1,100,000**	2,300,000
Equity instruments	**2,070**	–	**–**	–	**2,070**	–

All these transactions were conducted on the same terms and conditions applicable to all ordinary shareholders, equity instrument holders or, where applicable, to all employees of the Company under 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. Mr M Gilligan and Mr P Gilligan, Directors of Eden Vehicle Rentals Ltd (EVR) until January 22, 1999, are also Directors of the County Garage Group of Companies (CG) who are motor vehicle traders. CG owned 25% of the issued capital of EVR until it was acquired by Yorkshire Bank PLC on January 22, 1999. During the period to January 22, 1999, CG entered into transactions with EVR involving the supply of new cars (total amount paid: $5,512,374) (1998: $21,329,200), disposal of used cars (total amount received $5,925,427, commission paid of $681,622) (1998: $22,049,750 and $1,982,923 respectively), rental of property (total amount paid $6,673) (1998: $26,827) and service and repair work (total amount paid : $230,178) (1998: $620,603). 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 nil (1998: $1,382,010). 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. Directors of Nautilus Insurance Pty Ltd (Nautilus), Mr RW Bovill, Mr BD Peele (resigned March 31, 1999) and Mr GM McGhie (appointed March 31, 1999), 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 $119,021 (1998: $119,776). All transactions with SMS were in the ordinary course of business and on normal terms and conditions.

4. A Director of Alice Corporation Pty Ltd (formerly Swychco Infrastructure Services Pty Ltd) (Alice), Mr I Shepherd is also a Director of The Partnership Group Pty Ltd. This company provides management services to Alice. During the year, the total amount paid for management services was $300,000 (1998: $300,000). All transactions with The Partnership Group Pty Ltd 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.

	Consolidated		*The Company*	
For years ended September 30	*1999*	*1998*	*1999*	*1998*
Dollars in Thousands				

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:

Salary package	**9,684**	7,695	**3,565**	2,929
Performance based bonuses [1]	**1,801**	1,990	**900**	1,000
Other benefits	**10,338**	3,509	**8,116**	747
Total Remuneration	**21,823**	13,194	**12,581**	4,676

[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)	*1999*	*1998*		*1999*	*1998*
40,001 – 50,000	–	1	180,001 – 190,000	1	1
50,001 – 60,000	1	–	220,001 – 230,000	–	*1
80,001 – 90,000	1	2	280,001 – 290,000	–	1
90,001 – 100,000	2	–	300,001 – 310,000	1	–
100,001 – 110,000	–	1	370,001 – 380,000	–	*1
110,001 – 120,000	1	–	540,001 – 550,000	*1	–
120,001 – 130,000	–	1	1,570,001 – 1,580,000	1	–
130,001 – 140,000	1	2	2,700,001 – 2,710,000	–	1
140,001 – 150,000	1	–	9,250,001 – 9,260,000	*1	–
170,001 – 180,000	–	1			
Total number of Directors				12	13

* *Includes retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

The following table shows details of the nature and amount of each major element of the emoluments of each Director of the Company for 1999:

	Salary Package [a]	Performance Based Bonuses [b]	Retirement Allowances [c]	Other Benefits [d]	Total Remuneration	Options Granted	Exercise Price [e]	Date First Exercisable
Executive Directors	$	$	$	$	$	Number	$	
DR Argus [f]	1,168,529	500,000	7,470,598	120,436	9,259,563	750,000	28.23	19 Mar–2002
FJ Cicutto	1,106,576	400,000	–	68,313	1,574,889	400,000	28.23	19 Mar–2002
Non Executive Directors								
DCK Allen	135,034	–	–	–	135,034	–	–	–
WF Blount [g]	51,350	–	–	–	51,350	–	–	–
CM Deeley	112,433	–	–	–	112,433	–	–	–
GJ Kraehe	86,533	–	–	–	86,533	–	–	–
BT Loton [h]	87,258	–	456,435	–	543,693	–	–	–
DK Macfarlane	182,000	–	–	–	182,000	–	–	–
TP Park	93,333	–	–	–	93,333	–	–	–
MR Rayner	300,100	–	–	–	300,100	–	–	–
ED Tweddell	92,933	–	–	–	92,933	–	–	–
CM Walter	149,033	–	–	–	149,033	–	–	–

[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 payments in respect of retirement (including long service leave).*
[d] *Reflects non salary package remuneration and includes company contributions to superannuation, benefits paid under the National Australia Bank Limited Staff Reward Scheme.*
[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] *Retired as a Director on May 31, 1999 and retired from the National on July 2, 1999.*
[g] *Appointed March 2, 1999.*
[h] *Retired May 17, 1999.*

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

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*	*1999*	*1998*	*1999*	*1998*
Salary package	**26,528**	23,287	**25,804**	21,964
Performance based bonuses [1]	**8,761**	7,666	**8,625**	7,218
Other benefits	**16,179**	10,552	**16,143**	10,486
Total Remuneration	**51,468**	41,505	**50,572**	39,668

[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*	
(Dollars)	*1999*	*1998*	*1999*	*1998*
110,001 – 120,000	1	2	1	2
120,001 – 130,000	2	1	2	1
150,001 – 160,000	1	2	1	2
160,001 – 170,000	–	*1	–	*1
170,001 – 180,000	–	2	–	2
190,001 – 200,000	–	2	–	2
200,001 – 210,000	3	1	3	–
210,001 – 220,000	1	2	1	2
220,001 – 230,000	2	2	2	2
230,001 – 240,000	4	1	4	1
240,001 – 250,000	–	1	–	1
250,001 – 260,000	3	*2	3	*2
260,001 – 270,000	–	*4	–	*3
270,001 – 280,000	2	1	2	1
280,001 – 290,000	2	2	2	1
290,001 – 300,000	1	1	1	1
300,001 – 310,000	1	*3	1	*3
310,001 – 320,000	4	*3	4	*3
320,001 – 330,000	3	1	2	1
330,001 – 340,000	–	2	–	1
340,001 – 350,000	2	1	2	1
350,001 – 360,000	2	1	2	1
360,001 – 370,000	2	2	2	2
370,001 – 380,000	2	2	2	2
380,001 – 390,000	3	2	3	2
390,001 – 400,000	2	–	2	–
400,001 – 410,000	1	–	1	–
410,001 – 420,000	1	–	1	–
420,001 – 430,000	1	1	1	1
430,001 – 440,000	1	–	1	–
440,001 – 450,000	2	1	2	1
450,001 – 460,000	1	*1	1	*1
460,001 – 470,000	1	1	1	1
470,001 – 480,000	–	1	–	1
480,001 – 490,000	1	1	1	1
500,001 – 510,000	1	1	1	1
510,001 – 520,000	–	*2	–	*2
520,001 – 530,000	1	1	1	1
550,001 – 560,000	2	–	2	–
560,001 – 570,000	1	–	–	–
570,001 – 580,000	–	2	–	2
600,001 – 610,000	–	*1	–	*1
620,001 – 630,000	1	–	1	–
680,001 – 690,000	1	–	1	–
700,001 – 710,000	–	*1	–	*1
710,001 – 720,000	1	–	1	–
720,001 – 730,000	–	1	–	1
740,001 – 750,000	–	2	–	1
780,001 – 790,000	–	*1	–	*1
810,001 – 820,000	1	–	1	–
830,001 – 840,000	–	*1	–	*1
840,001 – 850,000	1	–	1	–
850,001 – 860,000	–	1	–	1
860,001 – 870,000	1	–	1	–
890,001 – 900,000	1	–	1	–
930,001 – 940,000	–	*1	–	*1
1,000,001 – 1,010,000	–	1	–	1
1,010,001 – 1,020,000	*1	–	*1	–
1,020,001 – 1,030,000	–	1	–	1
1,150,001 – 1,160,000	–	1	–	1
1,200,001 – 1,210,000	*1	–	*1	–
1,210,001 – 1,220,000	1	–	1	–
1,230,001 – 1,240,000	1	–	1	–
1,510,001 – 1,520,000	–	*1	–	*1
1,570,001 – 1,580,000	1	–	1	–
1,650,001 – 1,660,000	–	*1	–	*1
1,700,001 – 1,710,000	–	*1	–	*1
1,810,001 – 1,820,000	–	*1	–	*1
1,950,001 – 1,960,000	1	–	1	–
2,000,001 – 2,010,000	*1	–	*1	–
2,060,001 – 2,070,000	1	–	1	–
2,130,001 – 2,140,000	–	1	–	1
2,250,001 – 2,260,000	–	*1	–	*1
2,350,001 – 2,360,000	1	–	1	–
2,700,001 – 2,710,000	–	1	–	1
3,180,001 – 3,190,000	1	–	1	–
9,250,001 – 9,260,000	*1	–	*1	–
Total number of Executives	75	75	73	70

** 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.

The remuneration bands are not consistent with the specific remuneration details set out below as the basis of calculation differs due to the differing requirements of the Corporations Law and Accounting Standards.

The following table shows the remuneration details for the top five executives (excluding Executive Directors) of the Company for 1999:

Name and Position [(a)]	*Salary Package* [(b)]	*Performance Based Bonuses* [(c)]	*Retirement/ Retention Allowances* [(d)]	*Other Benefits* [(e)]	*Total Remuneration*	*Options Granted*	*Exercise Price* [(f)]	*Date First Exercisable*
The Company	$	$	$	$	$	*Number*	$	
GLL Barnes *Executive General Manager Business and Personal Financial Services*	823,994	350,000	–	51,803	1,225,797	300,000	28.23	19–Mar–2002
RE Pinney *Executive General Manager Products and Services*	587,594	250,000	–	60,814	898,408	200,000	28.23	19–Mar–2002
RMC Prowse *Chief Financial Officer*	811,922	350,000	–	84,008	1,245,930	300,000	28.23	19–Mar–2002
EG Steel *Executive General Manager Group Human Resources*	601,324	230,000	889,151	289,169	2,009,644	200,000	28.23	19–Mar–2002
GJ Wheaton *Chief Executive Officer Australian Financial Services*	602,376	230,000	–	38,997	871,373	200,000	28.23	19–Mar–2002

The following table shows the remuneration details for the top five executives (excluding Executive Directors) of the Consolidated Entity for 1999:

Name and Position [(a)]	*Salary Package* [(b)]	*Performance Based Bonuses* [(c)]	*Retirement/ Retention Allowances* [(d)]	*Other Benefits* [(e)]	*Total Remuneration*	*Options Granted*	*Exercise Price* [(f)]	*Date First Exercisable*
Consolidated	$	$	$	$	$	*Number*	$	
DE Ebert *Chief Executive Michigan National Corporation*	1,019,236	624,634	–	40,568	1,684,438	100,000	28.23	19–Mar–2002
J Pickett *Chief Executive Officer HomeSide*	961,172	800,640	1,281,025	149,217	3,192,054	150,000	28.23	19–Mar–2002
RMC Prowse *Chief Financial Officer*	811,922	350,000	–	84,008	1,245,930	300,000	28.23	19–Mar–2002
MD Soden *Executive General Manager Global Wholesale Financial Services*	946,080	583,355	–	430,309	1,959,744	200,000	28.23	19–Mar–2002
EG Steel *Executive General Manager Group Human Resources*	601,324	230,000	889,151	289,169	2,009,644	200,000	28.23	19–Mar–2002

[(a)] *The top five executives of the Company and Consolidated Entity 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 payments in respect of termination, retirement (including long service leave) and retention payments.*

[(e)] *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.*

[(f)] *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.*

For years ended September 30 Dollars in Thousands	Consolidated 1999	 1998	 1997	The Company 1999	 1998	 1997

48 Remuneration of Auditors

Total amounts received or due and receivable						
for audit and review of the financial reports by:						
Auditors of the Company	**5,036**	4,985	4,712	**1,848**	1,790	2,003
Total amounts received or due and receivable						
for other services by:						
Auditors of the Company	**8,421**	4,073	4,905	**3,141**	2,145	2,450
Other auditors of entities in the Consolidated Entity	**–**	140	–	**–**	–	–
Total Remuneration of Auditors	**13,457**	9,198	9,617	**4,989**	3,935	4,453

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 to 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 financial report of the Consolidated Entity is 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.

	Consolidated		
For years ended September 30 *Dollars in Millions*	*1999*	*1998*	*1997*
Consolidated Statements of Profit and Loss			
Net profit before abnormal item reported using Australian GAAP	**2,821**	2,511	2,223
Abnormal item reported using Australian GAAP	**–**	(497)	–
Net profit reported using Australian GAAP	**2,821**	2,014	2,223
Tax effect of increase in general provision for doubtful debts (1)	**–**	–	32
Depreciation charged on the difference between revaluation amount and historical cost of buildings(2)	**2**	2	5
Difference in profit or loss on disposal of land and buildings revalued from historical cost (2)	**1**	93	56
Amortisation of goodwill – difference resulting from treatment of loan losses as a purchase adjustment (3)	**4**	4	4
Amortisation of goodwill (4)	**6**	5	5
Amortisation of core deposit intangible (4)	**(26)**	(26)	(23)
Amortisation of deferred tax liability associated with core deposit intangible (4)	**7**	7	6
Pension expense (5)	**29**	25	30
Recognition/amortisation of tax losses resulting from IRS Ruling (6)	**3**	3	(49)
Amortisation of profit on sale-leaseback over lease term (7)	**15**	(28)	–
Net income according to US GAAP (8)	**2,862**	2,099	2,289
Earnings per share (cents) according to US GAAP (9)			
Basic	**189.4**	145.9	156.2
Diluted	**184.3**	143.5	153.0
Comprehensive Income			
Net Income according to US GAAP	**2,862**	2,099	2,289
Other Comprehensive Income			
Movement in:			
Foreign Currency Translation Reserve	**(998)**	1,313	483
Available for sale securities	**1**	–	–
Total other comprehensive income	**(997)**	1,313	483
Total comprehensive income according to US GAAP	**1,865**	3,412	2,772
Shareholders' Equity(10)			
Shareholders' equity reported using Australian GAAP	**18,520**	15,761	12,579
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end (1)	**–**	–	246
Elimination of revaluation surplus of land and buildings (2)	**(93)**	(95)	(292)
Adjustment of provision for depreciation on buildings revalued (2)	**83**	81	79
Additional provisions relating to purchase adjustments, less amortisation (3)	**(31)**	(35)	(39)
Pension expense (5)	**(4)**	(33)	(58)
Provision for final cash dividend (11)	**861**	767	692
Unrealised profit on shares in entities and other securities (12)	**67**	96	20
Unrealised profit on available for sale debt securities (12)	**1**	–	–
Amortisation of goodwill, core deposit intangible and associated deferred tax liability (4)	**(52)**	(39)	(25)
Recognition of tax losses resulting from IRS Ruling (6)	**(43)**	(46)	(49)
Unamortised profit on sale-leaseback transactions (7)	**(83)**	(98)	–
Shareholders' equity according to US GAAP (8)	**19,226**	16,359	13,153

For years ended September 30 *Dollars in Millions*	*Consolidated* *1999*	*1998*	*1997*
Consolidated Balance Sheets			
Total assets reported using Australian GAAP	**254,081**	251,714	201,969
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end [1]	**–**	–	246
Revaluation surplus of land and buildings [2]	**(93)**	(95)	(292)
Adjustment of provision for depreciation on buildings revalued [2]	**83**	81	79
Additional provisions relating to purchase adjustments, less amortisation [3]	**(31)**	(35)	(39)
Pension fund adjustment	**(4)**	(33)	(58)
Unrealised profit on shares in entities and other securities [12]	**67**	96	20
Unrealised profit on available for sale debt securities [12]	**1**	–	–
Amortisation of goodwill, core deposit intangible and associated deferred tax liability [4]	**(52)**	(39)	(25)
Recognition of tax losses resulting from IRS Ruling [6]	**(43)**	(46)	(49)
Assets relating to life insurance statutory funds	**4,807**	5,128	3,892
Total assets according to US GAAP [13]	**258,816**	256,771	205,743

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, 1999, 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 report.

Following SEC regulations and guidelines, Michigan National Corporation (MNC) was required to separately identify and account for the intrinsic value of its retail deposit base on acquisition. The recognition of the intrinsic value of the retail deposit base, which arose from the premium paid to acquire MNC is considered to be a component of goodwill under Australian GAAP.

For US GAAP purposes, the intrinsic value of the retail deposit base is deemed to be a core deposit intangible which is amortised over a period of 10 years. Under Australian GAAP the total goodwill (which includes the core deposit intangible) is amortised over 20 years. In the calculation of the core deposit intangible under US GAAP, a deferred tax liability was created. This tax liability is amortised over a 10 year period. Under Australian GAAP the deferred tax liability is not recognised.

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 SFAS132 'Employers' Disclosures About Pensions and Other Post Retirement Benefits' have been included in this financial report in respect of the years ended September 30, 1999, 1998 and 1997. 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 'Pension and Other Post Retirement Benefit 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 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.

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.

Life Insurance Controlled Entities (13)

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. The gross assets of the funds, representing the liability to members of approximately the same amount, are $4,807 million at September 30, 1999 (1998: $5,128 million, 1997: $3,892 million). An adjustment to total assets has been made for this in relation to US GAAP.

Consolidated Balance Sheets (14)

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*	***1999***	*1998*	*1997*
Other Assets using Australian GAAP	**14,155**	21,341	11,617
Deferred tax asset on general provision for doubtful debts[1]	**–**	–	246
According to US GAAP	**14,155**	21,341	11,863
Assets relating to life insurance statutory funds using Australian GAAP	**–**	–	–
Assets relating to life insurance statutory funds[13]	**4,807**	5,128	3,892
According to US GAAP	**4,807**	5,128	3,892
Fixed Assets using Australian GAAP	**2,032**	2,219	2,229
Revaluation surplus of properties[2]	**(93)**	(95)	(292)
Provision for depreciation on buildings revalued[2]	**83**	81	79
According to US GAAP	**2,022**	2,205	2,016
Goodwill using Australian GAAP	**2,905**	3,095	2,122
Additional provisions relating to purchase adjustments, less amortisation[3]	**(31)**	(35)	(39)
Core deposit intangible recognised separately under US GAAP [4]	**(173)**	(173)	(173)
Amortisation of core deposit intangible and goodwill [4]	**(77)**	(57)	(36)
Future income tax benefit resulting from IRS Ruling [6]	**(43)**	(46)	(49)
According to US GAAP	**2,581**	2,784	1,825
Shares in entities and other securities using Australian GAAP	**1,068**	1,013	280
Unrealised profit/loss on shares in entities and other securities[12]	**67**	96	20
According to US GAAP	**1,135**	1,109	300
Available for sale debt securities using Australian GAAP	**1,399**	937	1,815
Unrealised profit on available for sale debt securities[12]	**1**	–	–
According to US GAAP	**1,400**	937	1,815
Income Tax Liability using Australian GAAP	**1,979**	1,953	1,629
Deferred tax liability associated with core deposit intangible [4]	**26**	19	12
According to US GAAP	**2,005**	1,972	1,641
Other Liabilities using Australian GAAP	**5,027**	4,917	3,458
Unamortised gain on sale-leaseback transactions [7]	**83**	98	–
According to US GAAP	**5,110**	5,015	3,458

Pension and Other Post-Retirement Benefit Plans

The Company and its controlled entities provide substantially all employees with pension benefits. Additionally, 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 least 55 years old and have at least 15 years of service.

Set out below are the disclosure requirements of SFAS 132 'Employers' Disclosures about Pensions and Other Post-retirement Benefits' for its significant pension plans.

	Pension Benefits			*Other Benefits*		
As at September 30 *Dollars in Millions*	***1999***	*1998*	*1997*	***1999***	*1998*	*1997*
Change in benefit obligation						
Benefit obligation at beginning of year	**3,456**	3,372	2,410	**38**	38	42
Service cost	**115**	117	89	**–**	–	–
Interest cost	**227**	256	206	**3**	3	3
Plan participants' contributions	**2**	4	3	**–**	–	–
Administrative Expenses	**(9)**	(9)	(8)	**–**	–	–
Amendments	**–**	–	–	**–**	–	(6)
Actuarial gain	**806**	393	71	**(3)**	3	(4)
Acquisition	**–**	–	–	**–**	–	–
Benefits paid	**(237)**	(188)	(108)	**(3)**	(3)	(2)
Benefit obligation at end of year	**4,360**	3,945	2,663	**35**	41	33
Change in plan assets						
Fair value of plan assets at beginning of year	**4,827**	4,826	3,362	**48**	54	45
Actual return on plan assets	**815**	864	538	**–**	–	–
Acquisition	**–**	–	–	**–**	–	–
Employer contribution	**56**	13	38	**2**	2	2
Administrative Expenses	**(9)**	(9)	(8)	**–**	–	–
Plan participants' contributions	**2**	4	3	**–**	–	–
Benefits paid	**(237)**	(188)	(108)	**(3)**	(3)	(2)
Fair value of plan assets at end of year	**5,454**	5,510	3,825	**47**	53	45
Funded Status	**1,095**	1,554	1,163	**35**	42	32
Unrecognised net actuarial loss	**(557)**	(1,063)	(810)	**7**	4	7
Unrecognised prior service cost	**76**	106	99	**5**	7	6
Income Taxes	**46**	52	72	**–**	–	–
Prepaid (accrued) benefit cost	**660**	649	524	**47**	53	45
Weighted-average assumptions						
Discount rate	5.5%	6.6%	7.5%	7.8%	7.0%	7.8%
Expected return on plan assets	7.4%	7.8%	8.6%			
Rate of compensation increase	3.7%	4.2%	4.6%	5.0%	5.0%	5.0%

	Pension Benefits		
As at September 30 *Dollars in Millions*	***1999***	*1998*	*1997*
Components of net periodic benefit cost			
Service cost	116	105	80
Interest cost	230	229	187
Expected return on plan assets	(359)	(356)	(285)
Amortisation of prior service cost	–	–	–
Amortisation of transition liability	19	19	15
Recognised net actuarial loss	(34)	(36)	(29)
Net periodic benefit cost	(28)	(39)	(32)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effect:

	1 Percentage Point Increase		*1 Percentage Point Decrease*	
As at September 30 *Dollars in Millions*	***1999***	*1998*	***1999***	*1998*
Effect on total of service and interest cost components	**66**	80	**44**	64
Effect on post-retirement benefit obligation	**1,788**	2,207	**2,005**	2,667

The assumed annual rate of increase in the per capita cost of covered benefits (ie health care cost trend) was 6.9% for September 30, 1999, 7.1% at September 30, 1998 and 7.3% at September 30, 1997. The 1999 rate was further assumed to decline linearly to 5.5% over 8 years.

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 $79 million in the year ended September 30, 1999 (1998: $52 million, 1997: $69 million).

50 Pro forma consolidation information

The following table presents pro forma financial data in respect of the acquisition of HomeSide. The pro forma effects on the Consolidated Entity's consolidated results assuming the acquisition of HomeSide 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
Basic 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	***1999***	*1998*
Trustee and funds management	**52,259**	44,254
Life insurance business	**4,807**	5,128

Directors' Declaration

The Directors of National Australia Bank Limited declare that:

1. (a) the financial statements and the notes thereto, as set out on pages 80 to 164, comply with accounting standards and the Corporations Law;
   (b) the financial statements and notes thereto give a true and fair view of the financial position as at September 30, 1999, and of the performance of the Company and the Consolidated Entity for the year ended September 30, 1999; and
   (c) in the opinion of the Directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
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 report for further details).

Dated at Melbourne this 4th day of November, 1999 and signed in accordance with a resolution of the Board of Directors.

MR Rayner

FJ Cicutto

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, 1999 consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes, and the directors' declaration set out on pages 80 to 165. 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 as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of National Australia Bank Limited is in accordance with:

(a) the Corporations Law, including:
  (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at September 30, 1999, 1998 and 1997, 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, 1999 and the determination of the consolidated financial position as of September 30, 1999, 1998 and 1997 to the extent summarised in Note 49 to the financial statements.

Signed at Melbourne this 4th day of November, 1999.

KPMG

KPMG
Chartered Accountants

NW Smart
Partner

CD Lewis
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*

Shareholder Information

Control of Registrant

The Company is not directly or indirectly controlled by another entity or any foreign government. As at October 22, 1999, there is no person(s) or Group known to the Company to be the owner of more than 15% 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)	378,834	0.03

[(1)] *Includes 153,881 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, 1999 were:

Position	*Name*	*Position Held Since*	*Directorship Held Since*
Chairman	Mark Richard Rayner	1997	1985
Vice-Chairman [(1)]	David Kennedy Macfarlane	1992	1985
Managing Director[(2)]	Francis John Cicutto	1999	1998
Other Directors	David Charles Keith Allen		1992
	William Franklin Blount [(3)]		1999
	Christopher Michael Deeley		1992
	Graham John Kraehe		1997
	Thomas Pearson Park		1996
	Edward Desmond Tweddell		1998
	Catherine Mary Walter		1995

Position	*Name*	*Position Held Since*	*Year Joined Group*
Executive General Managers	Glenn Lawrence Lord Barnes *(Executive General Manager, Business & Personal Financial Services)*	1998	1990
	Michael Brian Coomer *(Chief Information Officer)*	1996	1995
	Roland Frank Matrenza *(Executive General Manager, Group Strategic Development)*	1994	1967
	Peter Alexander McKinnon *(Executive General Manager, Group Human Resources)*	1999	1999
	Robert Bliss Miller *(Executive General Manager, Group Risk Management)*	1997	1960
	Ross Edward Pinney *(Executive General Manager, Products and Services)*	1998	1990
	Robert Malcolm Charles Prowse *(Chief Financial Officer)*	1998	1966
	Michael Donald Soden *(Executive General Manager, Global Wholesale Financial Services)*	1997	1997
Chief Executive Officers	Doug Ebert *(Chief Executive Officer, Michigan National Corporation)*	1995	1993
	Joe Keith Pickett *(Chief Executive Officer, HomeSide International, Inc.)*	1998	1998
	Grahame Peter Savage *(Managing Director, National Australia Group Europe)*	1998	1973
	Gordon John Wheaton *(Chief Executive Officer, Australian Financial Services)*	1998	1986
Group General Counsel	David Milton Krasnostein	1996	1996
Company Secretary	Garry Francis Nolan	1992	1970

[(1)] *Mr BT Loton, Vice Chairman, retired as a Director of the Company on May 17, 1999.*

[(2)] *Mr DR Argus retired as a Director of the Company on May 31, 1999. Mr FJ Cicutto was appointed as Managing Director and Chief Executive Officer of the Company on June 1, 1999.*

[(3)] *Mr WF Blount was appointed as a Director of the Company on March 2, 1999.*

[(4)] *The following changes took place during the 1998/99 financial year:*
– Mr GJ Wheaton was appointed Chief Executive Officer, Australian Financial Services in April 1999
– Mr EG Steel, Executive General Manager, Group Human Resources left the Group in September 1999.
– Mr PA McKinnon joined the Group as Executive General Manager, Group Human Resources in September 1999.

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 FJ Cicutto is the only Executive Director.

The aggregate remuneration paid by the Company and its subsidiaries during the year ended September 30, 1999 to all Directors and Executive Officers listed above as a group (24 persons in 1999 and 24 persons in 1998) was $18 million (1998: $18 million).

During the year ended September 30, 1999, Share Options were issued to 531 executives covering a total of 12,565,000 share options as per the Bank's Share Option register. A total of 2,870,000 options were issued to the 15 of the 25 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 London Stock Exchange Limited; the London Stock Exchange Automated Quotation System; the Stock Exchange, New Zealand; and the Tokyo Stock Exchange. American Depositary 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.

	1999		*1998*		*1997*		*1996*	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	**$28.85**	**$24.40**	$22.70	$18.93	$17.22	$14.37	$13.04	$11.40
June Quarter	**30.28**	**24.48**	23.40	20.55	19.05	15.20	12.10	10.98
September Quarter	**25.75**	**21.61**	23.50	19.95	22.85	18.60	13.30	11.17
December Quarter[1]	**23.85**	**22.23**	24.95	18.99	21.95	16.87	15.65	13.15

[1] *The 1999 December quarter represents the period from October 1 to October 22.*

On October 22, 1999 the closing price on the Australian Stock Exchange Limited was $22.41 per Ordinary Share, with 1,484,112,319 Ordinary Shares (excluding partly paid shares) outstanding and such shares were held by 284,518 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 22, 1999, 3,254,780 ADSs representing 16,273,900 Ordinary Shares, or approximately 1.1% of the Ordinary Shares outstanding on such date, were held by 200 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.

	1999		*1998*		*1997*		*1996*	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	**US$90.69**	**US$76.31**	US$73.88	US$65.38	US$66.13	US$56.13	US$49.25	US$44.75
June Quarter	**97.69**	**80.44**	76.38	61.25	72.75	60.05	48.25	43.25
September Quarter	**83.94**	**70.13**	73.25	59.06	81.25	68.25	53.00	44.25
December Quarter[1]	**77.19**	**72.50**	77.00	57.06	71.00	66.44	62.50	52.50

[1] *The 1999 December quarter represents the period from October 1 to October 22.*

On October 22, 1999 the closing price per ADS as reported on the NYSE composite tape was US$73.38.

National Income Securities (NIS)

The National Income Securities were listed for trading on the Australian Stock Exchange Limited, a self-regulatory organisation which governs the open market quotation, purchase and sale of the Equity Instruments in Australia. The Australian Stock Exchange Limited is the principal market for the Equity Instruments, and operates in the following cities in Australia: Melbourne, Sydney, Brisbane, Perth, Adelaide and Hobart.

	1999		*1998*		*1997*		*1996*	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
September Quarter	**$103.60**	**$100.45**	–	–	–	–	–	–
December Quarter[1]	**103.34**	**101.85**	–	–	–	–	–	–

[1] *The 1999 December quarter represents the period from October 1 to October 22.*

On October 22, 1999 the closing price on the Australian Stock Exchange Limited was $102.40 per National Income Security, with 20,000,000 National Income Securities outstanding and such Equity Instruments were held by 52,856 holders.

Preference Shares

On September 30, 1998 the Company issued 32,008,000 fully paid non-converting non-cumulative preference shares with a liquidation preference of US$12.50 per share (the 'Preference Shares') in connection with an issuance of Trust Units Exchangeable for Preferred Shares ('Trust Units') by NAB Exchangeable Preferred Trust (the 'Trust'). The underwriters with respect to the Trust Units subsequently exercised an option resulting in a further issuance of 4,000,000 Preference Shares. The Trust is a non diversified closed end management investment company registered under the US Investment Company Act of 1940.

Upon maturity of the Trust Units on December 31, 2007, investors will mandatorily exchange the Trust Units for the Preference Shares and thereupon the Preference Shares will carry an entitlement to non-cumulative dividends as an annual rate of 8% payable quarterly in arrears. The mandatory exchange of Trust Units for Preference Shares may occur earlier at the Company's option or in certain specified circumstances including default, breach of APRA capital adequacy limits and appointment of a liquidator.

The Preference Shares are represented by ADSs each representing two Preference Shares. The Preference Shares and the ADSs representing the Preference Shares have been approved for listing on the NYSE when exchanged for Trust Units. Currently there is no public market for listing on the NYSE when exchanged for Trust Units. Currently there is no public market for the Preference Shares or the ADSs representing the Preference Shares.

Exchange Controls and Other Limitations Affecting Security Holders

There are no limitations under the Company's Constitution restricting the rights of non-resident or foreign owners of ordinary shares to have an interest in or vote on their securities.

Mergers, acquisitions and divestment of Australian public companies listed on the 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, of 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 the 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 authorised insurance companies or an authorised insurance company's holding company. One of the Company's subsidiaries is an authorised 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. Under the Foreign Dividend Account system the unfranked portion of a dividend paid to non-residents of Australia may not be subject to Australian withholding tax if the unfranked amount is sourced from certain foreign income earned by the Australian company on which foreign tax has been paid. In accordance with the provisions of the Australian/United States double tax agreement, withholding tax on dividend income derived by a non-resident of Australia, who is a resident of the United States, is limited to 15% of the gross amount of the dividend.

Under the current Australian dividend imputation system, to the extent that dividends are paid out of income on which Australian income tax has been levied, such dividends are considered as ‘franked’ dividends to that same extent. Where an Australian resident shareholder 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. The Australian Government has announced a proposal to amend the law so that from July 1, 2000 excess imputation tax credits will be refundable to Australian resident shareholders who are individuals, superannuation funds and charities. 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. Under the Government’s proposal, non-resident shareholders will not be entitled to a refund of excess imputation tax credits.

The Company paid a fully franked interim dividend out of profits for the half year ended March 31, 1999 and has declared a partly franked final dividend payable out of profits for the year ended September 30, 1999. For non-resident shareholders of the Company, the unfranked portion of the dividend will be paid from the Company’s Foreign Dividend Account. Accordingly, the unfranked portion of the dividend will also not be subject to Australian withholding tax.

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 of the company. In such a case, capital gains tax would apply, but not otherwise.

Subject to proposed amendments to the law announced by the Australian Government (refer below), 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. Excess capital losses can be carried forward for offset against future capital gains.

The Australian Government has announced a proposal to amend the law so that 50% of any capital gains (without inflation indexation) on the disposal of assets acquired on or after October 1, 1999 and held for at least 12 months by individuals will be subject to Australian tax. For the disposal of assets acquired prior to October 1, 1999, individuals will be able to choose whether to be taxed on any capital gain (after allowing for indexation of the cost to September 30, 1999) or 50% of the actual capital gain (without indexation). The Government proposes to freeze indexation of the cost base of assets for capital gains tax purposes at September 30, 1999 for all taxpayers including non residents.

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. UK Advance Corporation Tax was abolished with effect from April 6, 1999. However, dividends from UK companies continue to carry a tax credit of 10% which can be utilised by certain shareholders.

The Company’s Australian resident corporate shareholders obtain no tax credits on a dividend paid by the United Kingdom controlled entity. Dividends received from the Company on Ordinary Shares which do not participate in the UKDP carry an Australian imputation 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 tax credit 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 tax credit. 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$0.6528=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, 1999.

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 Depositary Shares (ADSs) in the United States. Such fluctuations will also affect the US dollar conversion by the Depositary of cash dividends paid in Australian dollars on the Ordinary Shares represented by the ADSs (see 'American Depositary Shares' on page 168 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, 1999' on page 39.

Certain Definitions

The National Australia Bank's fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 1999 is referred to as 1999 and other fiscal years are referred to in a corresponding manner.

'Financial Report' means the National Australia Bank Consolidated Financial Reports for the years ended September 30, 1999, September 30, 1998 and September 30, 1997 included herein at pages 79 to 165.

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 22, 1999

	Number of Shares	*%*
Chase Manhattan Nominees Limited	168,051,854	11.3
National Nominees Limited	102,241,229	6.9
Westpac Custodian Nominees Limited	101,605,552	6.8
ANZ Nominees Limited	51,600,841	3.5
Perpetual Trustee Australia Group	47,887,301	3.2
BT Custodial Services Pty Limited	43,431,278	2.9
Citicorp Nominees Pty Limited	30,630,651	2.1
AMP Group	24,471,829	1.7
Permanent Trustee Group	23,844,472	1.6
Queensland Investment Corporation	23,583,037	1.6
Commonwealth Custodial Services Limited	23,079,069	1.6
National Australia Trustees Limited	14,646,847	1.0
MLC Limited	13,247,280	0.9
Mercantile Mutual Life Insurance Group	9,611,699	0.7
Perpetual Nominees Limited	9,265,220	0.6
HKBA Nominees Limited	7,948,646	0.5
NRMA Group	7,872,890	0.5
AMP Nominees Pty Limited	7,864,631	0.5
Australian Foundation Investment Company Limited	5,939,612	0.4
Invia Custodian Pty Limited	5,830,076	0.4
	722,654,014	48.7

The twenty largest shareholders held 722,654,014 shares which is equal to 48.7% of the total issued capital of 1,484,112,319 ordinary shares.

As at October 22, 1999 there was no person or corporation with a shareholding in excess of 15 per cent 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	172,337	60.6	71,138,811	4.8
1,001– 5,000	88,216	31.0	192,191,098	13.0
5,001– 10,000	14,082	4.9	98,223,316	6.6
10,001– 100,000	9,398	3.3	201,031,162	13.5
100,001 and over	485	0.2	921,527,932	62.1
	284,518	100.0	1,484,112,319	100.0
Less than marketable parcel	9,690	3.4		
Address of Holders				
Australia	264,356	92.9	1,460,453,008	98.4
United Kingdom	11,729	4.1	7,520,572	0.5
New Zealand	5,780	2.0	10,684,321	0.7
United States	399	0.2	441,359	0.1
Other Overseas	2,254	0.8	5,013,059	0.3
	284,518	100.0	1,484,112,319	100.0

Voting Rights

The Holding Company's Constitution provide in summary that every member (and person entitled under Article 6.1, 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 that specify different ways to vote on a resolution, the proxy must not vote in a show of hands.

National Income Security Holders as at October 22, 1999

	Number of Securities	*%*
Perpetual Trustee Australia Group	664,370	3.3
National Nominees Limited	644,326	3.2
Commonwealth Custodial Services Limited	521,465	2.6
BT Custodial Services Pty Limited	412,657	2.0
Citicorp Nominees Pty Limited	322,894	1.6
Australian Foundation Investment Company Limited	317,160	1.6
AMP Group	279,849	1.4
University of Melbourne	225,476	1.1
LFG Holdings Pty Limited	200,000	1.0
Tower Trust Limited	192,439	1.0
MLC Limited	191,000	1.0
National Mutual Group	160,000	0.8
Melbourne Square Pty Limited	150,000	0.7
Merrill Lynch (Australia) Nominees Pty Limited	141,390	0.7
Permanent Trustee Company Limited	116,831	0.6
Potter Warburg Nominees Pty Limited	110,777	0.6
Mirrabooka Investments Pty Limited	100,000	0.5
University of Western Australia	100,000	0.5
AMCIL Limited	98,000	0.5
National Mutual Funds Management	95,000	0.5
	5,043,634	25.2

The twenty largest National Income Security holders held 5,043,634 securities which is equal to 25.2% of the total issued securities of 20,000,000 of $100 each.

Distribution of Securities

	Number of Holders	*% of Holders*	*Number of Securities*	*% of Securities*
Range				
1 – 1,000	51,325	97.1	8,129,406	40.6
1,001 – 5,000	1,273	2.5	2,953,221	14.8
5,001 – 10,000	122	0.2	941,359	4.7
10,001 – 100,000	118	0.2	3,646,940	18.2
100,001 and over	18	*	4,329,074	21.7
	52,856	100.0	20,000,000	100.0
Less than marketable parcel	Nil	Nil		
Address of Holders				
Australia	52,806	99.9	19,961,361	99.8
United Kingdom	4	*	940	*
New Zealand	19	*	11,694	0.1
United States	5	*	8,610	*
Other Overseas	22	0.1	17,395	0.1
	52,856	100.0	20,000,000	100.0

* *due to the small numbers of these security holders the amounts round down to nil.*

Voting Rights

National Income Securities comprise a fully paid note and an unpaid Preference Share. The Company's constitution and the terms of issue of the Preference Shares provide, in summary, that holders of the Preference Shares will not be entitled to vote at a general meeting except they may:
– vote together with the holders of Ordinary Shares on certain limited resolutions: and
– vote as a class on any resolution to vary the rights attaching to the Preference Shares,

in which case the holders of the Preference Shares have the same rights as to voting in respect of each Preference Share as those conferred on the holders of Ordinary Shares in respect of each Ordinary Share and will have one vote per Preference Share.

National Australia Bank Limited

Mr MR Rayner, BSc (Hons), Chem Eng FTS, FAusIMM, FIEAust
Chairman

Mr FJ Cicutto, BCom, FAIBF, FCIBS
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
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Australia
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Melbourne Victoria 3001
Australia
Local call: 1300 367 647
Fax: (03) 8641 4927
Telephone (outside Australia):
+61 3 8641 4200
Fax (outside Australia):
+61 3 8641 4297

United Kingdom Branch Share Register

c/- Computershare Services Plc
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Bedminster Down
Bristol BS13 8AE
United Kingdom
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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
Telephone: (212) 815 5838
Fax: (212) 571 3050

Investor Relations

29th Floor, 500 Bourke Street
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Fax (outside Australia):
+61 3 8641 4937

Solicitors

Mallesons Stephen Jaques
525 Collins Street
Melbourne Victoria 3000
Australia

Auditors

KPMG
Chartered Accountants
161 Collins Street
Melbourne Victoria 3000
Australia

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

Official Quotation

National Australia Bank is quoted on the following exchanges:

The Australian Stock Exchange;
The London Stock Exchange;
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.

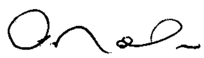
National Income Securities trade on the Australian Stock Exchange under the symbol 'NABHA'.

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 4, 1999

Principal Establishments

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Group Offices and Australian
Financial Services
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