National Australia Bank Limited

Full Year Results 2001

12 Months Ended 30 September 2001

National

TABLE OF CONTENTS

Group Corporate Affairs

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Media Release

Strong underlying performance impacted by HomeSide

FINANCIAL HIGHLIGHTS

- Solid growth in Group profit before significant items:
  - Accounting basis - up 19% to $4,019 million
  - Cash basis – up 13% to $3,640 million
  - Cash earnings per share - up 10% to 237 cents
- Strong performance in profit from on-going core operations before significant items:
  - Accounting basis - up 25% to $3,815 million
  - Cash basis – up 19% to $3,577 million
- Group net profit impacted by the sale of Michigan National and HomeSide writedowns:
  - Net profit down 36% to $2,083 million
  - Cash earnings per share - down 46% to 111 cents
  - Net profit on sale of Michigan National Corporation of $1,681 million
  - HomeSide US writedowns, as previously announced:
    - Impairment loss on mortgage servicing rights (after tax) $1,323 million
    - Change in basis of mortgage servicing rights valuation $1,436 million
    - Goodwill write-off $858 million
- Strong capital ratios - Total Capital 10.2% and Tier one 7.5%
- Final dividend up 4 cents to 68 cents per share, fully franked
- Full year dividend up 10% to 135 cents per share, fully franked

OPERATIONAL HIGHLIGHTS

- Banking and Other Financial Services
  - Solid performance from Retail Banking & Other Financial Services (all banking operations excluding Wholesale Financial Services)
    - Net profit up 14% to $2,454 million
    - Net interest income growth of 11% to $5,720 million
    - Other operating income up 7% to $3,250 million
    - Housing loans up 16% to $81.6 billion
  - Record profit from Wholesale Financial Services
    - Net profit up 15% to $685 million
    - Net interest income growth of 62% to $823 million
    - Other operating income up 21% to $959 million
- Wealth Management
  - Operating profit up 137% to $344 million before revaluations and outside equity interests
  - Sales growth of 27% over the prior year in Australia
  - Integration of MLC on track

- Net profit from Australian operations – up 29% to $2,287 million
- Offshore net profit from on-going core operations up 21%
  - Great Britain up 23% (16% in local currency terms)
  - Ireland up 14% (6% in local currency terms)
  - New Zealand up 13% (11% in local currency terms)
- Group net interest margin improved in the second half of the year from 2.66% at March to 2.76% in September 2001
- Asset quality remains satisfactory
  - Provisioning levels increased
    - Provisions $989 million for the full year, up from $588 million
    - Specific provision to gross impaired assets of 34% at September 2001, compared with 31% at March 2001
  - Non accrual loans down from March 2001:
    - Non-accrual loans to gross loans of 0.75% at September 2001 compared with 0.80% at March 2001 and 0.66% at September 2000
    - Net non accrual loans down 10% from March 2001 to $1.2 billion.

Managing Director and Chief Executive Officer of the National, Mr Frank Cicutto, said,

"Our Group result has been affected significantly by the sale of Michigan National and the writedown in value of HomeSide. However, before these significant items, the result represents a strong performance and demonstrates the underlying strength of the National.

"The outlook for the economic environment during the coming year is heavily influenced by the performance of the global economy, particularly the US. We expect conditions across all markets to be subdued during the first half of the financial year. Thereafter interest rate cuts and fiscal policy should help to stabilise global activity, with the main markets we operate in (Australia, New Zealand and the UK) doing better than most. However, if there is no recovery in the US by mid 2002, then conditions globally could deteriorate substantially.

"We have launched a new program, Positioning for Growth, across the Group to substantially and sustainably lift performance. The program will be a key priority for the foreseeable future. It will strengthen and invigorate the National through the simplification of its structure, systems and processes and the development of its talent base. It will also examine opportunities to maximise revenue, reduce cost structures and use resources more efficiently.

"I expect the current momentum in our core retail banking and wealth management businesses to continue and they should deliver more than 10% cash earnings growth in the year ahead. Taking a cautious view of the outlook, we expect 2001/2002 Group cash earnings growth per share of between 7% and 10%. This takes account of reduced earnings following the recapitalisation of HomeSide and the sale of Michigan National.

"To further our commitment to efficient on-going capital management, we have adopted a continuing policy to buy back shares equal to the shares issued under the Group's various share and option plans. All buy backs would be subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time. Past experience would indicate that we would buy back approximately 36 million shares during the course of the 2002 financial year. The buyback is an appropriate capital management strategy given the Group's sound capital position and strong internal capital generation.

"We continue to actively seek out growth opportunities both by acquisition and by investing in our core businesses.

"The UK continues to offer growth opportunities which we have been seeking to supplement by acquisition. The buyback doesn't change our ability to implement this strategy should suitable opportunities arise. However we will continue to be patient and disciplined in our approach."

8 November 2001

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See also attached **Notes to Editors** for
- HomeSide background information
- National's initiatives for Community and Other Stakeholders.

Notes to Editors **8 November 2001**

HomeSide

The National acquired HomeSide International Inc. on February 10, 1998 for US$1,227 million.

Business model

HomeSide is a mortgage service provider, servicing in excess of 2 million loans, in return for a fee. These fees represent a future source of income for HomeSide, the present value of which is calculated using valuation models and then booked as an asset on the balance sheet known as Mortgage Servicing Rights ('MSR'). This asset is amortised over its expected life.

Early repayment of loans will shorten the period over which HomeSide receives fees on the loans it services and may therefore impact the value of MSR. HomeSide hedges against this risk by utilising the correlation between changes in the mortgage interest rates and the likelihood that borrowers will repay their loans early. This correlation relies on behavioural reactions to financial circumstances and is therefore not perfect. Sophisticated methods are used to predict these behaviour changes. The recent historical low levels of mortgage rates in the US has increased the difficulty of predicting the likely rate of prepayment of mortgages.

Factors leading to impairment provisions

In the early part of 2001 a succession of cuts in official US interest rates and a rapid decline in mortgage rates which caused an increasing number of home-loan borrowers to refinance their mortgages, shrank the value of HomeSide's future income streams.

The rapidity of the decline in official rates led to uncertainty about the future direction of long term rates and this led to volatility in mortgage rates. HomeSide's hedging activities were not sufficiently effective in this environment and in July 2001 an impairment provision of US$450 million (A$568 million after tax) was required to bring the carrying value of MSR into line with the economic value calculated by HomeSide's internal models.

At that time a team of risk experts made recommendations regarding HomeSide's hedging structure and management, and Cohane Rafferty Securities were engaged to advise on strategic options for HomeSide, including valuing the business for sale.

In September, an incorrect interest rate assumption in the MSR valuation model was discovered, which had caused the model to understate HomeSide's sensitivity to interest rate movements, and overstate the value of its servicing rights, leaving the Group underhedged. The flaw in the model was rectified, however a further impairment provision was required totalling US$1.16 billion (A$2.191 billion) comprising:

- US$400 million resulting from the incorrect interest rate assumption
- US$760 million resulting from a change in the basis of valuing MSR to reflect the Board's decision to pursue a sale of HomeSide.

A decision was taken by the Board to pursue the sale of HomeSide and the goodwill associated with the investment amounting to US$590 million (A$858 million) was written off at this time.

Based on an assessment of the impairment loss arising from the incorrect rate assumption in the internal valuation model, US$389 million of the impairment loss was attributed to the half-year ended March 31, 2001 and the remainder has been attributed to the half year ended September 30, 2001.

Corrective actions

A number of corrective actions have since been taken to protect the Group's investment. A new executive management team has been appointed and expert support and resources have been enlisted. The business operations have stabilised and a recapitalisation has been completed. The restructured hedges have performed effectively against recent interest rate movements and no further provisions against the value of MSR was required during the 2001 financial year. However markets remain volatile and no absolute predictions can be made with respect to future prepayment levels and other factors impacting MSR valuations.

The Board has commissioned an independent review into the events at HomeSide led by Chairman Charles Allen. Edward Herlihy, a senior partner at New York law firm Wachtel, Lipton, Rozen and Katz will lead the review and will be assisted as required by a team of independent experts from the United States and Australia including Cohane Rafferty Securities LLC and Blackrock Financial Services. The outcome of the review is expected in December.

The sale process is proceeding.

Notes to Editors **8 November 2001**

The National – Part of Australia's Success

The National assists almost every Australian, providing employment, growth and services to the economy and wider community.

Assisting People

The National has a direct relationship with millions of Australians:

- More than - 3.5 million banking and 2.2 million wealth management customers in Australia.
- Employs over 23,000 Australians (Full Time Equivalent)
- Almost 295,000 ordinary Australian shareholders of whom over 92 per cent hold 5,000 shares or less
- Many Australians share in its success through their superannuation

Assisting the Economy

- One of Australia's largest export earners, generating about A$1.8 billion in offshore profits (before significant items) for the year ended 30 September 2001.
- One of Australia's largest taxpayers – paying approximately A$1.0 billion in income tax, fringe benefits tax, payroll tax and goods and services tax for the year ended 30 September 2001.

Affordability and Access

- The interest margin has dropped from more than 6% to around 2% since deregulation of the industry
- More than half of personal transaction accounts do not attract account service or transaction fees
- Following community consultation the National introduced a new National Concession Card Account in August 2001 for certain customers who hold a Pensioner Concession Card or Commonwealth Seniors Health Card. This allows $40 in certain transaction fees (which would ordinarily be payable) per month without charge and does not have a monthly account service fee
- Flexibility of doing business with the National through over the counter, Automatic Teller Machines (ATMs), telephone and the internet
- More than 1,000 outlets Australia-wide have recently been supplemented by the addition of 2,800 new points of access at Post Offices around the country
- The National has committed not to close branches where there is no substitute service available via Australia Post and will consult with local communities if branch closures are planned

Working with Communities

- The National's Community Consultation Forum chaired by the Reverend Tim Costello has been working with the National to identify and address key issues of concern to local communities, including affordability and accessibility – the National Concession Card Account was a direct result of this Forum.
- The National's CommunityLink program also supports a wide range of community projects, including sponsorship of the Australian Red Cross Blood Service and the Ovarian Cancer Research Foundation. CommunityLinked has channelled $10m into activities over 5 years, including almost $1.2 million in prize-money to volunteer organisations in the annual National CommunityLink Volunteer Awards.
- Two new accounts have been made available to Australia's 700,000 non-profit organisations, designed to assist community groups minimise their transaction costs.
- The National's Indigenous Employment policy, launched in October 2001, will improve employment and career opportunities for Indigenous Australians and is the most innovative of its kind in the industry.

Reputation

- Significant improvement in the National's reputation over the last year was recognised by the Good Reputation Index, an independent survey published last month. The National's reputation was ranked number 12 of 100 leading Australian businesses in terms of Management, Ethics and Governance, Social Impact, Environmental Performance, Employees, Market Position and Financial Performance.

RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2001

Financial Summary

REPORTING FORMAT

At the half year we indicated our intention to disclose separating the results for our Wholesale Financial Services business. To assist with the interpretation of the Group's results, earnings have been reported under the following structure:

On-Going Core Operations

- Banking and Other Financial Services comprises:
  - Retail Banking and Other Financial Services including Business and Personal Financial Services, Specialist and Emerging Businesses and National Shared Services.
  - Wholesale Financial Services
- Wealth Management; and
- Excess Capital.

Non-Core and Disposed Operations

- HomeSide US – reflecting the Board's decision to seek a buyer for this business. HomeSide Australia has been reclassified to Banking & Other Financial Services for 2000 and 2001;
- Michigan National – sold by the Group on 1 April 2001; and
- Other Non-Core Operations – incorporating writedowns of e-commerce investments and closure of the Vivid business in Great Britain in April 2001.

HomeSide Restatement

During September 2001, the Group determined that the carrying value of mortgage servicing rights (MSR) exceeded the fair value and the asset was therefore impaired. This impairment was the result of an incorrect interest rate assumption discovered in an internal model used to determine the fair value of HomeSide Lending, Inc.'s mortgage servicing rights. The impact of this writedown was $755 million (US$400 million).

Based on an assessment of this impairment loss, US$389 million ($734 million) has been attributed to the half year ended 31 March 2001 and the remainder has been attributed to the half year ended 30 September 2001.

The assessment determined that the fundamental error had no effect on prior year results with the impact largely arising in the first half of the year. The attribution of this error to the first half results is reflected in this profit announcement.

STATEMENT OF FINANCIAL PERFORMANCE

		Half Year to		Year to		Favourable/ (Unfavourable) Change	
			Restated [2]			Sep 01/	Sep 01/
		Sep 01	Mar 01	Sep 01	Sep 00	Mar 01	Sep 00
	Note	$m	$m	$m	$m	%	%
On-Going Core Operations							
Banking & Other Financial Services [1]							
Net interest income	2	3,435	3,102	6,537	5,664	11	15
Other operating income	6	2,125	2,029	4,154	3,729	5	11
Total Banking & Other Financial Services income		5,560	5,131	10,691	9,393	8	14
Other operating expenses	7	2,744	2,561	5,305	4,872	(7)	(9)
Underlying profit		2,816	2,570	5,386	4,521	10	19
Provision for doubtful debts	9	545	352	897	518	(55)	(73)
Banking & Other Financial Services profit before tax expense		**2,271**	**2,218**	**4,489**	**4,003**	**2**	**12**
Income tax expense	11	670	680	1,350	1,252	2	(8)
Net operating profit from Banking & Other Financial Services before significant items		**1,601**	**1,538**	**3,139**	**2,751**	**4**	**14**
Significant items - provision for restructure	7	-	-	-	96	-	large
Tax expense attributable to significant items	11	-	-	-	31	-	large
Net operating profit from Banking & Other Financial Services		**1,601**	**1,538**	**3,139**	**2,686**	**4**	**17**
Wealth Management							
Net premium income & other revenue	6	800	741	1,541	588	8	large
Investment revenue	6	(964)	79	(885)	1,070	large	large
Net decrease/(increase) in net policy liabilities	7	1,109	209	1,318	(652)	large	large
Claims, administration and other expenses	7	(956)	(884)	(1,840)	(738)	(8)	large
Operating profit before tax expense and revaluation profit		**(11)**	**145**	**134**	**268**	**large**	**(50)**
Income tax expense/(benefit) - operating profit	11	(180)	(30)	(210)	123	large	large
Operating profit after tax expense before revaluation profit		**169**	**175**	**344**	**145**	**(3)**	**large**
Revaluation profit	6	237	273	510	202	(13)	large
Income tax expense - revaluation profit	11	93	84	177	56	(11)	large
Revaluation profit after tax		**144**	**189**	**333**	**146**	**(24)**	**large**
Net operating profit from Wealth Management before significant items		**313**	**364**	**677**	**291**	**(14)**	**large**
Significant items - provision for integration	7	-	-	-	108	-	large
Tax expense attributable to significant items	11	-	-	-	37	-	large
Net operating profit from Wealth Management		**313**	**364**	**677**	**220**	(14)	**large**
Excess Capital							
Earnings on excess capital	2	118	25	143	156	large	(8)
Income tax expense	11	40	9	49	56	large	13
Net earnings on Excess Capital		**78**	**16**	**94**	**100**	**large**	**(6)**
Net profit from On-Going Core Operations before goodwill		**1,992**	**1,918**	**3,910**	**3,006**	**4**	**30**
Goodwill amortisation		47	48	95	95	2	-
Net profit from On-Going Core Operations		**1,945**	**1,870**	**3,815**	**2,911**	**4**	**31**

(1) Comparatives have been restated to reflect the current organisation structure, such that HomeSide Australia activities are now classified within Banking & Other Financial Services (Business & Personal Financial Services, National Shared Services and Other). Comparatives have also been restated to reflect only the Ongoing Core activities of Banking & Other Financial Services, with the writedown of e-commerce investments and the Vivid net operating loss reclassified as Non-Core activities.

(2) Comparatives have been restated in relation to a HomeSide writedown. Refer to note 8 for further information.

STATEMENT OF FINANCIAL PERFORMANCE (cont'd)

		Half Year to		Year to		Favourable/ (Unfavourable) Change	
			Restated [1]			Sep 01/	Sep 01/
		Sep 01	Mar 01	Sep 01	Sep 00	Mar 01	Sep 00
	Note	$m	$m	$m	$m	%	%
Non-Core and Disposed Operations							
HomeSide US							
HomeSide profit before tax expense		**151**	**102**	**253**	**203**	**48**	**25**
Income tax expense	**11**	37	37	74	62	-	(19)
Net operating profit from HomeSide before goodwill and significant items		**114**	**65**	**179**	**141**	**75**	**27**
Goodwill amortisation		22	26	48	54	15	11
Net operating profit from HomeSide before significant operating expenses		**92**	**39**	**131**	**87**	**large**	**51**
Significant operating expenses							
Impairment loss on mortgage servicing rights [1]	**7**	909	734	1,643	-	(24)	large
Tax benefit attributable to significant items	**11**	320	-	320	-	large	large
Net operating profit/(loss) from HomeSide		**(497)**	**(695)**	**(1,192)**	**87**	**29**	**large**
Significant non-operating expenses							
Change in assumptions	**7**	1,436	-	1,436	-	large	large
Write off of goodwill	**7**	858	-	858	-	large	large
Net profit/(loss) from HomeSide US		**(2,791)**	**(695)**	**(3,486)**	**87**	**large**	**large**
Michigan National Corporation							
Net operating profit from Michigan National	16	**-**	**132**	**132**	**243**	**large**	**(46)**
Disposal of Michigan National Corporation							
Proceeds on the sale of foreign operations	**6**	5,314	-	5,314	-	large	large
Cost of foreign operations sold	**7**	2,929	-	2,929	-	large	large
Profit on sale of Michigan National		2,385	-	2,385	-	large	large
Income tax expense	**11**	704	-	704	-	large	large
Net profit on sale of Michigan National		**1,681**	**-**	**1,681**	**-**	**large**	**large**
Other Non-Core Operations							
Writedown of e-commerce investments	**7**	(46)	-	(46)	-	large	large
Income tax benefit	**11**	7	-	7	-	large	large
Net writedown of e-commerce investments		(39)	-	(39)	-	large	large
Vivid operating loss		(3)	(18)	(21)	-	83	large
Income tax benefit	**11**	-	6	6	-	large	large
Vivid net operating loss		(3)	(12)	(15)	-	75	large
Net loss on Other Non-Core Operations		**(42)**	**(12)**	**(54)**	**-**	**large**	**large**
Net profit/(loss) from Non-Core and Disposed Operations		**(1,152)**	**(575)**	**(1,727)**	**330**	**large**	**large**
Net profit		**793**	**1,295**	**2,088**	**3,241**	**(39)**	**(36)**
Net profit attributable to outside equity interests		1	4	5	2	75	large
Net profit attributable to members of the Company		**792**	**1,291**	**2,083**	**3,239**	**(39)**	**(36)**
Distributions Trust Units & National Income Securities		101	112	213	198	10	(8)
Earnings attributable to ordinary shareholders		**691**	**1,179**	**1,870**	**3,041**	**(41)**	**(39)**

[1] Comparatives have been restated in relation to a HomeSide writedown. Refer to note 8 for further information.

CASH EARNINGS BEFORE SIGNIFICANT ITEMS RECONCILIATION

	Half Year to		Year to		Favourable/ (Unfavourable) Change
		Restated [1]			Sep 01/
	Sep 01	Mar 01	Sep 01	Sep 00	Sep 00
	$m	$m	$m	$m	%
Earnings attributable to ordinary shareholders	691	1,179	1,870	3,041	(39)
Add back:					
Non-Core significant operating expenses	589	734	1,323	-	large
Non-Core significant non-operating expenses	2,294	-	2,294	-	large
On-Going Core significant expenses	-	-	-	136	large
Goodwill amortisation [2]	69	98	167	197	(15)
Deduct:					
Non-Core net profit on sale of Michigan National	(1,681)	-	(1,681)	-	large
Revaluation profit after tax	(144)	(189)	(333)	(146)	large
Cash Earnings Before Significant Items	**1,818**	**1,822**	**3,640**	**3,228**	**13**

NET PROFIT BEFORE SIGNIFICANT ITEMS RECONCILIATION

	Half Year to		Year to		Favourable/ (Unfavourable) Change
		Restated [1]			Sep 01/
	Sep 01	Mar 01	Sep 01	Sep 00	Sep 00
	$m	$m	$m	$m	%
Net profit attributable to members of the Company	792	1,291	2,083	3,239	(36)
Add back:					
Non-Core significant operating expenses	589	734	1,323	-	large
Non-Core significant non-operating expenses	2,294	-	2,294	-	large
On-Going Core significant expenses	-	-	-	136	large
Deduct:					
Non-Core net profit on sale of Michigan National	(1,681)	-	(1,681)	-	large
Net Profit Before Significant Items	**1,994**	**2,025**	**4,019**	**3,375**	**19**

(1) Comparatives have been restated in relation to a HomeSide writedown. Refer to note 8 for further information.

(2) The goodwill amortisation charge for 30 September 2001 comprises $95 million in relation to On-Going Core Operations, $48 million in relation to HomeSide and $24 million in relation to Michgan National.

September 2001 half-year performance comments

Second half net profit before significant items performance adversely impacted by the following factors:

- $545 million of provisioning for doubtful debts in On-Going Core Operations, up $193 million (54.8%) on the first half year;
- $42 million provisions (net of tax) for writedowns of e-commerce investments;
- earnings on excess capital released from the sale of Michigan National in the second half year not fully compensating for the first half net operating profit of Michigan National; and
- Wealth Management revaluation profits after tax declining $45 million (23.8%) in the second half year due to weaknesses in equity markets.

Underlying second half performance excluding these factors up 12.9% on the first half.

STATEMENT OF FINANCIAL POSITION

	Note	As at Sep 01 $m	As at Restated[1] Mar 01 $m	As at Sep 00 $m	Movement from Sep 01/ Sep 00 %
Assets					
Cash assets		7,993	6,319	6,868	16
Due from other financial institutions		16,472	23,000	12,780	29
Due from customers on acceptances		19,353	23,285	22,945	(16)
Trading securities		19,713	19,368	15,112	30
Available for sale securities		6,665	8,044	3,047	large
Investment securities		10,697	18,347	7,452	44
Investments relating to life insurance business		31,381	31,828	31,103	1
Loans and advances		207,797	212,619	195,492	6
Mortgage loans held for sale		3,688	3,275	2,656	39
Mortgage servicing rights		5,445	8,249	8,226	(34)
Shares in entities and other securities		1,412	1,455	1,376	3
Regulatory deposits		98	210	135	(27)
Property, plant and equipment		2,831	2,732	2,437	16
Income tax assets		1,296	1,377	1,207	7
Goodwill		876	2,518	2,617	(67)
Other assets		39,003	40,886	30,224	29
Total Assets		374,720	403,512	343,677	9
Liabilities					
Due to other financial institutions		42,873	58,292	29,685	44
Liability on acceptances		19,353	23,285	22,945	(16)
Life insurance policy liabilities		30,257	30,282	29,879	1
Deposits and other borrowings		190,965	202,966	185,097	3
Income tax liabilities		2,575	2,676	2,920	(12)
Provisions		2,440	2,188	2,154	13
Bonds, notes and subordinated debt		24,984	23,264	21,051	19
Other debt issues		1,985	1,986	1,907	4
Other liabilities		35,731	35,488	26,632	34
Net Assets		23,557	23,085	21,407	10
Equity					
Contributed equity		10,725	10,248	9,855	9
Reserves		2,427	3,078	2,006	21
Retained profits		10,337	9,705	9,500	9
Total parent entity interest		23,489	23,031	21,361	10
Outside equity interests in controlled entities		68	54	46	48
Total Equity	**13**	23,557	23,085	21,407	10

(1) Comparatives have been restated in relation to a HomeSide US writedown. Refer to note 8 for further information.

KEY PERFORMANCE MEASURES

	Half Year to		Year to	
		Restated [1]		
	Sep 01	Mar 01	Sep 01	Sep 00
Group				
Shareholder Measures				
EVA before significant items ($ million) [2]	670	761	1,431	1,379
EVA ($ million) [2]	368	761	1,129	1,379
Cash earnings before significant items per ordinary share [4]	117.7c	119.4c	236.6c	214.8c
Cash earnings after significant items per ordinary share [4]	39.9c	71.3c	110.7c	205.7c
Earnings before significant items per ordinary share [3]	122.6c	125.4c	247.4c	211.3c
Earnings after significant items per ordinary share [3]	44.8c	77.3c	121.5c	202.3c
Average ordinary shares (million)	1,544	1,526	1,539	1,503
Return on equity before significant items [5]	17.8%	19.0%	18.4%	18.1%
Return on equity after significant items [5]	6.5%	11.7%	9.0%	17.3%
Return on assets before significant items [5]	1.06%	1.08%	1.07%	1.11%
Net Interest Income				
Net interest spread	2.41%	2.28%	2.34%	2.39%
Net interest margin	2.76%	2.66%	2.71%	2.88%
Banking & Other Financial Services				
Net Interest Income				
Net interest spread	2.36%	2.13%	2.26%	2.26%
Net interest margin	2.65%	2.62%	2.64%	2.76%
Efficiency Measures (excluding goodwill)				
Cost/income ratio	49.4%	49.9%	49.6%	51.9%
Costs to average assets [5]	1.8%	1.8%	1.8%	2.0%
Profit per FTE ($'000) [5]	84	82	83	71
Wealth Management				
Sales ($ billion)	8.6	7.0	15.6	4.4
Growth in funds under management and administration [6]	(0.5%)	8.5%	8.0%	large

	As at		
		Restated [1]	
	Sep 01	Mar 01	Sep 00
Group			
Capital			
Tier 1 ratio	7.47%	6.33%	6.64%
Tier 2 ratio	3.94%	3.82%	4.00%
Deductions	(1.25%)	(1.18%)	(1.36%)
Total capital ratio	10.16%	8.97%	9.28%
Common equity to tangible assets	5.19%	4.47%	4.48%
Assets			
Gross loans and acceptances ($ billion) [6]	232	223	207
Assets under custody and administration ($ billion)	345	325	285
Funds under management and administration ($ billion) [6]	64	64	59
Average US Mortgage Servicing Portfolio (US$ billion)	187	189	165
Asset Quality			
Gross non-accrual loans to gross loans and acceptances	0.75%	0.80%	0.66%
Net impaired assets to total equity	5.1%	5.8%	4.9%
Specific provision to gross impaired assets	33.7%	30.6%	31.7%
Total coverage ratio	160.5%	153.9%	182.8%

(1) Comparatives have been restated in relation to a HomeSide writedown. Refer to note 8 for further information.

(2) Economic Value Added (EVA) measures profitability in excess of the Group's cost of capital. EVA is a registered trademark of Stern Stewart & Co.

(3) Based on earnings attributable to ordinary shareholders.

(4) Calculations are based on cash earnings attributable to ordinary shareholders, which excludes revaluation profits and goodwill amortisation.

(5) Prepared on an annualised basis.

(6) Excludes amounts relating to Michigan National which was sold on 1 April 2001. Comparative information has been restated.

RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2001

Management Discussion and Analysis

OVERVIEW

The Group result for the year was impacted by two significant events:

- net profit of $1,681 million from the sale of the Michigan National subsidiary on 1 April 2001
- writedowns of mortgage servicing rights and goodwill, totalling $3,617 million, in HomeSide US

Excluding these significant items, the National produced a strong underlying result with net profit before significant items increasing 19.1% to $4,019 million. However Group net profit after significant items was $2,083 million, compared to $3,239 million in the previous year.

Cash earnings per share before significant items increased 21.8 cents to 236.6 cents. Cash earnings per share after significant items decreased 95.0 cents to 110.7 cents.

Dividends increased 9.8% to 135 cents per share, fully franked, compared with 123 cents a share last year.

Strong performance by core lines of business

- Banking and Other Financial Services

The 14.1% improvement in Banking and Other Financial Services includes:

	$m	% Increase on Sep 2000
Retail Banking and Other Financial Services	$2,454	13.9%
Wholesale Financial Services	$685	14.9%
	$3,139	14.1%

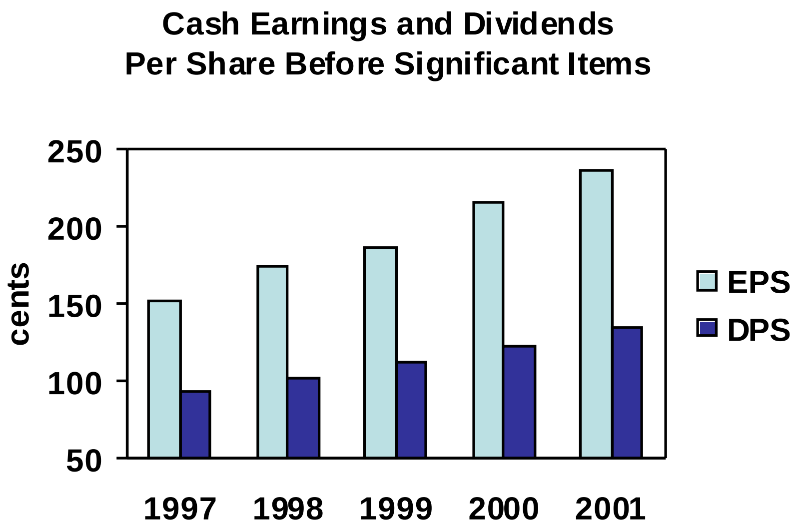
The result demonstrates the underlying strength of the National's core businesses.

- Retail Banking & Other Financial Services (business, personal and specialist businesses together with shared services)
  - Net profit before significant items up 13.9 % to $2,454 million
  - Net interest income growth of 10.9% to $5,720 million
  - Net interest margin in the second half up 3 basis points to 3.43%
  - Other operating income up 6.9% to $3,250 million
  - Housing loans up 15.9% to $81.6 billion
  - Asset quality remained satisfactory with non accrual loans to gross loans and advances 0.80% at 30 September 2001 compared with 0.82% at 30 September 2000.
- Wholesale Financial Services produced a record profit before significant items of $685 million, up 14.9%
  - Net interest income growth of 62.3% to $823 million
  - Other operating income up 20.6% to $959 million
  - Gross loans and acceptances 23.7% to $44.3 billion
  - Asset quality was impacted by a small number of corporate loans, however in aggregate remained satisfactory with non accrual loans to gross loans and advances 0.57% at 30 September 2001 compared with 0.59% at 30 March 2001.

- Wealth Management
  - Wealth Management increased its contribution up 137% to $344 million (before revaluations and outside equity interests) following the successful integration of MLC.
- Net profit from Australian operations increased 28.5% to $2,287 million
- Offshore earnings from on-going core operations increased 21.0% to $1,528 million, or 12.0% excluding the impact of the weaker Australian dollar.

Continuing the strong track record

Over the last 5 years, Group cash earnings per share before significant items increased at the compound growth rate of 9.0%, and dividends increased at the compound annual growth rate of 9.2%



Active portfolio management

The National continued to actively manage its portfolio of businesses as part of an ongoing drive to sharpen operating focus and pursue sustainable organic growth across its businesses.

The MLC acquisition has now been successfully integrated and is starting to deliver tangible benefits.

The Group's wealth management capabilities were further strengthened through the acquisition of Deutsche Financial Planning and Portfolio Management businesses and John A Nolan & Associates.

The Group also successfully disposed of Michigan National and County Investment Management and announced that it would seek a buyer for the HomeSide US business.

Positioning for Growth

The National is committed to continuing performance improvement in spite of internal challenges and deteriorating external conditions.

A new program, Positioning for Growth, has been launched across the Group to substantially and sustainably lift performance and to revitalise the organisation.

The organisation will be streamlined and invigorated through the simplification of our structure, systems and processes and the strengthening of our talent base.

The Program will focus on maximising revenue, reducing cost structures and using capital more efficiently.

It will be the key priority for the Group for the foreseeable future.

An initial three-month review of operations is currently being undertaken to identify the opportunities for growth and performance improvement. Implementation of Program initiatives will begin immediately and be implemented over the next two years.

Working with stakeholders

The National has put considerable emphasis this year on working more effectively with all of its stakeholders.

The long-term success of the Group will be dependent upon the National offering a balanced response to stakeholder needs and concerns. We will maintain this focus as part of Positioning for Growth.

Greater investment has been made in building and fostering relationships with the broader communities to which all of our stakeholders belong.

For example, in Australia, the National worked with its Community Consultation Forum to better understand and respond to the banking needs of low income and disadvantaged Australians. This work resulted in the development and introduction of the National Concession Card Account.

In other parts of our operations, such as Northern Ireland, the community benefits from volunteer programs leveraging the financial skills of our managers and staff.

Internally, we continue to work to better understand the needs and concerns of our staff across the Group.

Areas of focus this year have been to improve the diversity of the organisation, as well as the National's image and reputation, nominated by staff as key issues.

Outlook

The terrorist attacks on the United States and the reaction of the free world has introduced an element of uncertainty into the outlook for global growth. The aftermath of the attacks on the United States will delay recovery, but the prompt action of the Federal Reserve Board and the fiscal stimulus of tax cuts and the recovery package should see a resumption of growth in the United States in the second quarter of calendar year 2002.

However the National's core franchises remain robust and well placed to weather continuing economic instability.

Goals for growth

The National is committed to maximising returns to shareholders.

Our goals for growth continue to be to provide 10% compound growth in cash earnings per share and 5% compound growth in EVA over the next three years.

During 2001, both ratios were impacted by the HomeSide writedowns which were partly offset by the net profit on sale of Michigan National. Cash earnings per share decreased 46.2% to 110.7 cents and EVA decreased 18.1% to $1,129 million.

However, before these significant items, cash earnings per share increased 10.1% to 236.6 cents and EVA increased 4% to $1,431 million.

The current uncertainty in the global economy, particularly in the US, makes predictions of 2001/02 performance difficult.

However, the Group expects the current momentum in its core retail banking and wealth management businesses to continue and they should deliver more than 10% cash earnings growth over the coming year.

Taking a cautious view of the outlook, the Group expects 2001/2002 Group cash earnings growth per share of between 7% and 10%. This takes account of reduced earnings following the recapitalisation of HomeSide and the sale of Michigan National.

PROFITABILITY

The following analysis explains the principal drivers of the Group's performance – refer to page 65, the detailed financial information section, for further information.

Net Interest Margin

The success of our Wholesale business and the acquisition of MLC contributed to a decline in margin in the first half. However the second half saw a recovery in margin of 10 basis points (on an annualised basis).

On a year on year basis, Group net interest margin declined 17 basis points to 2.71%. While margins within the key business units remained relatively stable, the Group margin was impacted by the change in business mix, the sale of Michigan National and the wholesale market funding of asset growth.

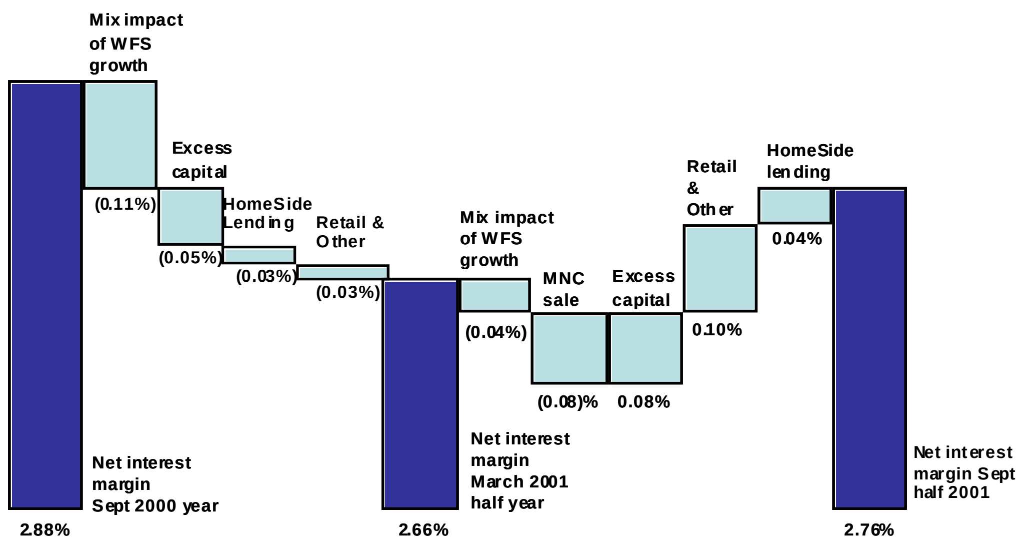
Margins by line of business	Half Year to			Year to		
	Sep 01 %	Mar 01 %	Change %	Sep 01 %	Sep 00 %	Change %
Group Margin	**2.76**	**2.66**	**0.10**	**2.71**	**2.88**	**(0.17)**
Retail Banking & Other Financial Services	3.43	3.40	0.03	3.42	3.64	(0.22)
- Business & Personal Financial Services	3.61	3.72	(0.11)	3.67	3.78	(0.11)
- Specialist & Emerging Businesses	5.80	5.31	0.49	5.57	5.28	0.29
Wholesale Financial Services	0.71	0.64	0.07	0.67	0.64	0.03

The following table shows the year on year change in the composition of average interest earning assets. Business & Personal Financial Services as a proportion of the average interest earnings assets reduced by 4.2% over the year while Wholesale Financial Services increased by 4.7%. The impact of the sale of Michigan National reduced the Business & Personal Services proportion by approximately 1%.

Interest earning assets by line of business	Year to		Year to	
	Sep 01 $bn	Sep 01 %	Sep 00 $bn	Sep 00 %
Business & Personal Financial Services	149	58.0	137	62.2
Wholesale Financial Services	90	35.0	67	30.3
Other	18	7.0	17	7.5
Group interest earning assets	**257**	**100.0**	**221**	**100.0**

Key drivers of the reduction in the movement in Group net interest margin during the year are highlighted in the chart below.

Net Interest Margin: Drivers



The margin in the second half of the financial year increased by 10 basis points to 2.76%, driven by the following factors:

- Growth in Wholesale Financial Services continued in the second half of the year having an unfavourable 4 basis point mix impact on the Group margin.
- Sale of Michigan National contributed to a decline in Group margin of approximately 8 basis points.
- Excess Capital earnings was favourably impacted by the receipt of the proceeds of the Michigan National sale, partly offset by the HomeSide US writedowns in July and September 2001. The overall impact on the Group margin was an increase of 8 basis points in the second half.
- Retail Banking and Other Financial Services had a favourable impact on the Group margin of 10 basis points in the second half. This was largely driven by lower funding costs within balance sheet management units and strong margin management. This was partly offset by reduced deposit margins in the lower interest rate environment which impacted interest margins in Business and Personal Financial Services.
- The HomeSide US margin was favourably impacted by lower funding costs driven by falling interest rates in the US.

The margin in the half year to March 2001 decreased to 2.66% from 2.88% for the year to September 2000. This reduction was primarily driven by the following factors:

- Strong growth in Wholesale Financial Services had an 11 basis point unfavourable impact on the Group margin. The average margin for Wholesale Financial Services is lower than the Group margin since its exposures are predominantly to investment grade equivalent customers.
- The level of excess capital in the Group decreased following the acquisition of the MLC Group on 30 June 2000. The earnings on excess capital fell as a result, with redeployment giving rise to a substantial increase in Wealth Management income.
- HomeSide US net interest income was impacted by increased borrowings to fund growth in the mortgage servicing asset.

Trend by Geography

Group Margin

Basis Points	Half Year to Mar 00 %	Half Year to Sep 00 %	Half Year to Mar 01 %	Half Year to Sep 01 %	Movement Sep 01/ Mar 01 %
Group (including Excess Capital)					
Net Interest Spread	2.40	2.39	2.28	2.41	0.13
Net Interest Margin	2.93	2.84	2.66	2.76	0.10
Australia (including Excess Capital)					
Net Interest Spread	2.29	2.43	2.35	2.77	0.42
Net Interest Margin	3.02	2.91	2.82	3.00	0.18
Great Britain					
Net Interest Spread	2.94	2.67	2.48	2.40	-0.08
Net Interest Margin	3.19	3.20	2.88	2.98	0.10
New Zealand					
Net Interest Spread	1.58	2.02	1.94	1.92	-0.03
Net Interest Margin	1.99	2.34	2.17	2.22	0.05
Ireland					
Net Interest Spread	2.88	2.56	2.44	2.75	0.31
Net Interest Margin	3.67	3.52	3.47	3.63	0.16

Group net interest margin and spread improved in the second half of the year. Lower interest rate driven funding costs globally resulted in increased interest rate spreads in the second half of the year, partly offset by lower deposit margins in retail units, mainly within Australia and Europe.

The Australian net interest margin and interest rate spread in the second half improved significantly driven by falling interest rates, and higher Excess Capital from the receipt of the sale proceeds from Michigan National.

The Great Britain year on year net interest margin has been impacted by strong growth in Wholesale Financial Services assets in London combined with a fall in housing loan margins. This was partly offset by lower interest rate driven funding costs, which increased spreads and margins in the second half of the year. Interest rate spreads have been impacted by increased funding for the growth of the Wholesale Financial Services portfolio.

New Zealand margins have improved in the second half of the year due to lower interest rate driven funding costs and favourable swap hedge positions. The interest rate spread is slightly lower due to growth in non interest income generating Wholesale Financial Services products.

Margin and spread in Ireland have also improved in the second half of the year due to lower interest rate driven funding costs.

Net Interest Income

Banking and Other Financial Services' net interest income was up 15.4% to $6,537 million.

Group net interest income for the year increased by 9.2% to $6,960 million. Excluding Michigan National, net interest income was up 15.3% on last year, driven by volume growth in Business & Personal Financial Services, favourable balance sheet positioning in Wholesale Financial Services and lower funding costs within Group balance sheet management units.

Strong growth in interest income was partly offset by an increase in the proportion of wholesale borrowing to fund asset growth as well as one additional day's interest in the prior year.

Volume growth occurred across all key lending product lines including home loans, business customer instalment loans and credit cards.

Group net interest income for the second half grew to $3,554 million which represented 15.3% growth after adjusting for the sale of Michigan National. This was primarily due to lower funding costs in Wholesale Financial Services and Group balance sheet management units, driven by lower interest rates and higher levels of excess capital following the Michigan National sale.

Other Operating Income

Banking & Other Financial Services

Other operating income increased by 11.4% to $4,154 million, with a 20.6% increase in contribution from Wholesale Financial Services being the principal driver.

Retail Banking and Other Financial Services' other operating income increased by 6.9% (4.1% in local currency terms) to $3,250 million.

- Business & Personal Financial Services achieved a 4.4% increase in other operating income. Total fees and commissions rose $111 million or 5.4% owing to higher volumes of commitment fees in Australia, Great Britain and Ireland and higher bill fees in Australia.
- Specialist & Emerging Businesses reported a 4.1% decline in other operating income mainly because of the loss of a major customer in Australia which reduced fees within the Payments business. This was offset by a strong performance in Securities Services which achieved a 32.1% increase in other operating income.

Wholesale Financial Services other operating income grew 20.6% (16.2% in local currency terms) to $959 million. Innovative risk management advice and execution across the areas of foreign exchange, interest rates and commodities drove a 30% increase in other operating income in the Markets division. Sustained volatility in foreign exchange and interest rate markets during the year resulted in strong sales of risk management products, particularly to business clients in Australia, New Zealand, Great Britain and Ireland as well as solid risk management income.

The Project and Structured business performed strongly, producing an increase in other operating income of 7% on the prior year.

Wealth Management

Wealth Management reports its results in accordance with Australian Accounting Standards1038 and therefore included both income and expense items attributable to policyholders in its Statement of Financial Performance.

Operating profit from Wealth Management was $344 million representing a substantial increase on the contribution of $145 million last year. (An increase of 13.5% on a pro forma basis – see page 40).

Sales increased 22% which gave rise to a 23% increase in operating margin. This growth was mitigated by a fall of $59 million after tax in contribution from investment earnings.

Profits arising from revaluations on subsidiaries of life insurance entities valued in the mark to market environment increased by $308 million to $510 million (before tax). Refer page 40 for further details.

HomeSide US

Net mortgage origination revenue grew by $231 million primarily due to a 96% increase in core production volume to US$20.8 billion. The increased production volume resulted from the high level of refinancing activity in the United States due to the significant decline in mortgage rates.

During the year net servicing revenue reduced $61 million or 11.4%. Higher prepayment activity led to an 80.9% increase in the amortisation of mortgage servicing rights which largely offset the 39.8% increase in mortgage servicing fees. The servicing portfolio increased 8.1% to US$187.4 billion for the year ended 30 September, 2001.

Operating Expenses

Banking & Other Financial Services

Within Banking and Other Financial Services expenses increased 8.9% (5.5% in local currency terms) to $5,305 million. However, over the same period the cost to income ratio improved from 51.9% to 49.6%.

Retail Banking & Other Financial Services operating expenses increased 5.7% (2.9% in local currency terms) to $4,723 million. This constrained cost growth was reflected in a reduction to the cost income ratio from 54.5% to 52.7%.

- Within B&PFS operating expenses increased 8.0% to $3,679 (4.7% in local currency terms). This reflects wage increases, a refined cost allocation methodology and other specific initiatives. These initiatives included some outsourcing of non accrual loan management in Australia, the delivery of the Siebel customer relationship management platform in Australia and the opening of a second call centre in Europe.
- Within Specialist & Emerging Businesses operating expense increased 2.7% to $944 million.
- National Shared Services operating expenses were up 1.0% on the previous year. Using constant exchange rates costs reduced slightly. This outcome reflects a commitment to improved productivity and enhanced delivery of services.

Wholesale Financial Services growth in costs of 27.8% (20.8% in local currency) was largely due to an increase in operating expenses due to expansion of the business with product capability further enhanced through growth in structured risk management solutions, commodities hedging, loan syndication and securitisation capability. The key driver of the increase was personnel expenses. Occupancy and equipment expenses increased following the relocation to new premises in London to support the continued growth in this region.

Homeside US

Operating expenses increased by 50.6% (29.4% in local currency terms) to $479 million driven by increased production volumes, growth in the servicing portfolio and increased refinancing activity resulting from the reduction in US interest rates.

Other Non-Core Operations

Writedown of e-commerce investments

Consistent with the Group's prudent valuation policy, the carrying value of e-business ventures was reviewed and write offs provided for investments including Mondex and Peakhour. The pre-tax profit impact of these write offs was $46 million.

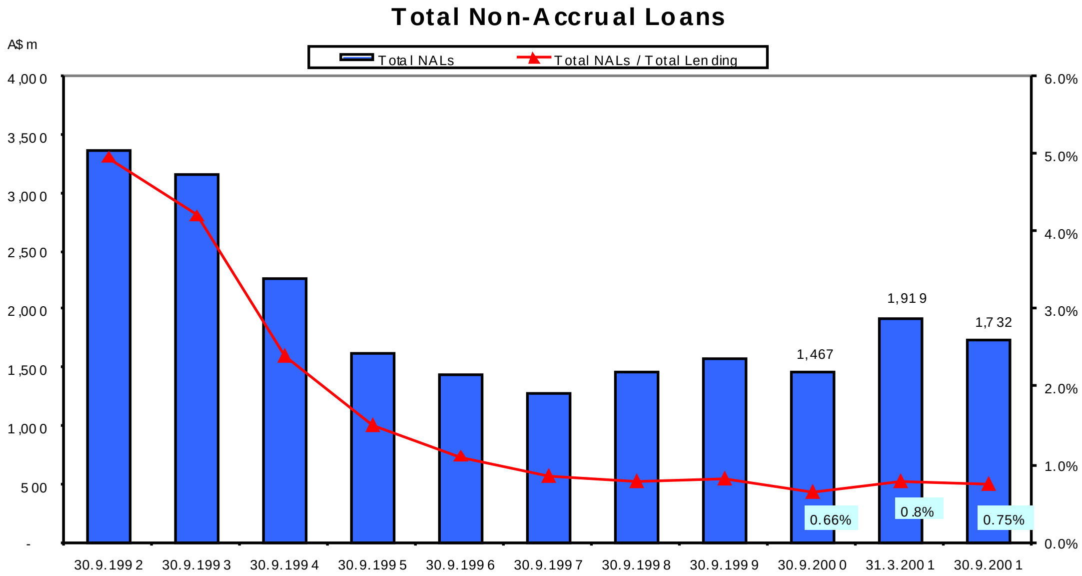
Asset Quality

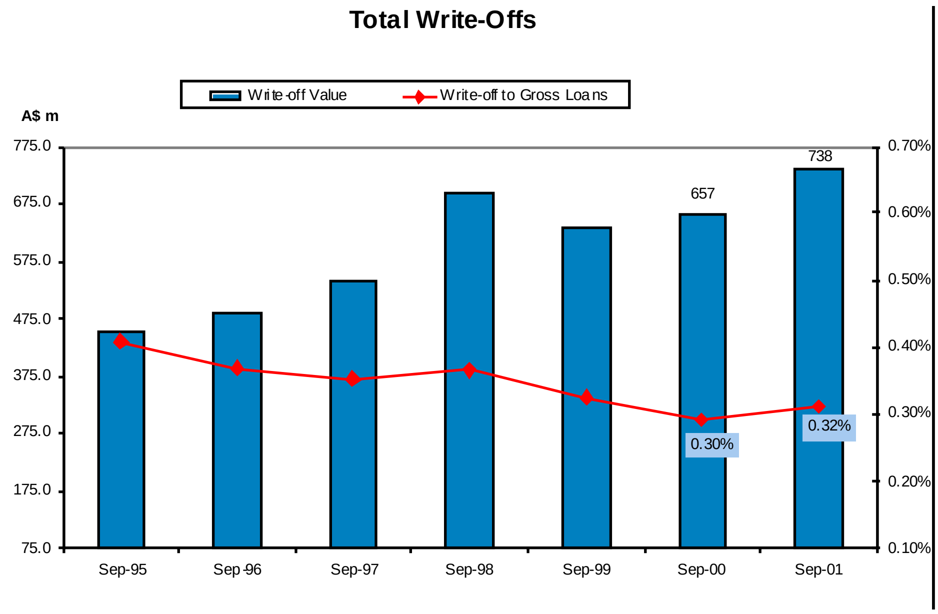
Non-Accrual Loans

The deterioration in the level of non-accrual loans in the first half, which was categorised by small number of large loans becoming non-accrual, has been reversed.

Gross non-accrual loans reduced to $1,732 million from $1,919 million as at March 2001, however increased to $1,732 million from $1,467 million at September 2000. Foreign exchange movements accounted for $104 million increase in the balance over the period. The proportion of gross non-accrual loans to gross loans and acceptances increased to 0.75% from 0.66% at September 2000. The second half of the year Write-offs as a percentage of gross loans and acceptances also increased marginally from 0.30% to 0.32%.

Current levels of these ratios are within the norms of the last 5 years.

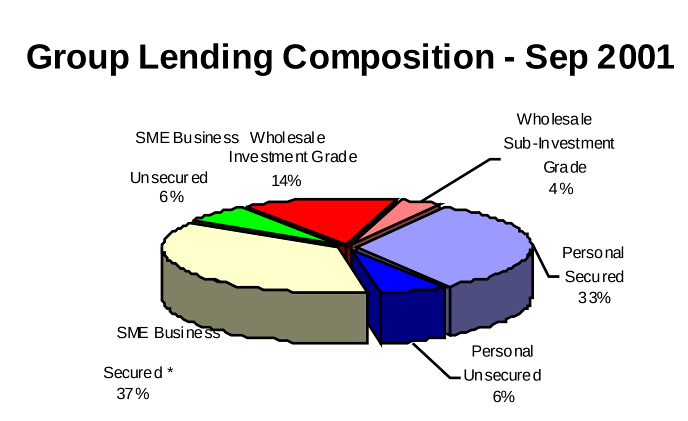




Net non accrual loans are $1,212 million, down $60 million since 31 March 2001, excluding Michigan National. Net non accrual loans improved to 5.1% of shareholders equity at 30 September 2001, compared to 5.8% at March 2001.

Composition of the Group's Lending

The Group maintained a strong focus on asset quality in a difficult credit environment, with an emphasis on improved selection of customers by risk and security. Approximately 84% of our loan book is either secured or investment grade.



* fully and partly secured, refer below

Line of business breakdown [(1)]

	As at		
	Sep 01 %	Mar 01 %	Sep 00 %
Gross non-accrual loans to gross loans and acceptances			
Business & Personal Financial Services	0.83	0.88	0.84
Wholesale Financial Services	0.57	0.59	0.22
Specialist & Emerging Businesses	0.33	0.34	0.56

(1) Comparative numbers include Michigan National.

Within Business Financial & Personal Services (B&PFS) asset quality improved slightly, with gross non-accrual loans as a proportion of gross loans and acceptances decreasing from 0.84% at September 2000 to 0.83% at September 2001. B&PFS through its business units, Business Financial Services and Personal Financial Services (PFS) provides both business and personal lending.

The Group's **commercial lending**, comprising small and medium business customers (BFS) and corporate and institutional customers (WFS), represents approximately 61% of the total gross loans and acceptances at September 2001. Although the quality of the commercial lending portfolio has deteriorated slightly over the period, in line with economic conditions, the overall quality remains satisfactory, with a significant concentration of small and medium business lending being secured (86%, including 64% fully secured), and the corporate and institutional portfolio bring predominantly investment grade or equivalent.

Gross non-accrual loans as a proportion of gross loans and acceptances for WFS has increased from 0.22% at September 2000 to 0.57% at September 2001, and the charge to provide for doubtful debts has also increased significantly from $17 million in the prior year to $216 million, reflecting the impact of a small number of large corporate exposures, predominantly in Australia.

The Group's **personal lending** comprises the Personal unit of B&PFS, and the Cards & Payments unit of Specialist & Emerging Businesses (SEB). Personal lending represents 39% of total gross loans and acceptances at September 2001, of which 84% is secured. The remaining unsecured 16% is mostly comprised of cards and personal loans. These products are managed on a portfolio basis through the use of automated application and behavioural scoring techniques that allows the Group to set appropriate risk and reward parameters.

During the period, the charge to the provision for doubtful debts for SEB was impacted by a large provision as a result of the National being the merchant transaction acquirer for Ansett. In addition, the charge was impacted by increased provisioning covering credit cards and personal loans in Australia and Great Britain. Provisions in relation to PFS lending also increased as a result of a higher statistical provisioning charge.

Provision Charge for Doubtful Debts By Line of Business

	As at Sep 01 $m	As at Sep 00 $m
Personal unit of B&PFS	246	187
Small and Medium Business (BFS)	235	239
Specialist and Emerging Business	240	99
Wholesale Financial Services	216	17
Other (including HomeSide and Michigan National)	52	46
Total charge to provide for doubtful debts	**989**	**588**

Asset Quality by Region

	As at Sep 01 $m	As at Mar 01 $m	As at Sep 00 $m	As at Mar 00 $m
Gross non-accrual loans				
Australia	959	957	568	669
Great Britain	508	531	509	558
Ireland	184	157	135	88
New Zealand	43	62	66	87
United States (excluding Michigan National)	31	46	53	48
Asia	7	4	5	60
Total gross non-accrual loans ex MNC	1,732	1,757	1,336	1,510
Michigan National	-	162	130	96
Total gross non-accrual loans	1,732	1,919	1,467	1,606
90 days past due				
Australia	48	41	39	45
Great Britain	36	36	40	46
Ireland	15	23	14	10
New Zealand	3	4	8	10
Total 90 days past due ex MNC	102	104	101	112
Michigan National	-	6	5	8
Total 90 days past due	102	110	106	120
Gross non-accrual loans /Gross loans and acceptances				
Australia	0.76%	0.77%	0.48%	0.59%
Great Britain	0.85%	1.02%	1.04%	1.33%
Ireland	1.42%	1.27%	1.21%	0.86%
New Zealand	0.18%	0.27%	0.32%	0.40%
United States (excluding Michigan National)	0.67%	0.72%	1.37%	1.89%
Asia	0.14%	0.09%	0.13%	1.80%
Total gross non-accrual loans / Gross loans and acceptances (excluding Michigan National)	0.75%	0.79%	0.65%	0.78%
Michigan National	-	0.92%	0.82%	0.70%
Total gross non-accrual loans / Gross loans and acceptances	0.75%	0.80%	0.66%	0.77%

Coverage

The recognition of loans as non-accrual and associated provisioning continues to be treated conservatively. The Group's specific provision coverage ratio has increased from 31.7% to 33.7% over the year to September 2001. Total coverage ratio of gross impaired assets is 160.5%. Management is satisfied that the current level of provision is adequate for known problem loans and trends.

Outlook - an on-going focus on asset quality

An immediate asset quality review was initiated following the terrorist attacks on September 11. The review did not indicate any immediate asset quality issues and the Group implemented a number of precautionary measures including limit re-assessment and heightened monitoring.

A broader secondary review focused in particular on implications on the entire WFS portfolio and factors to enable the identification of asset quality weakness both by sector and by individual.

The Group continues to refine its customer rating system, using increasingly objective credit scoring tools and further developing predictive tools at every stage of the credit cycle. Some of the specific actions being undertaken to ensure asset quality is maintained include:

- An ongoing systematic review of the loan portfolio at both the transaction and portfolio levels that includes industry risk analysis
- Focusing on early indicators and identification of problem loans using behavioural tools
- Closely matching lending growth strategy with asset quality objectives through aligning strategic planning, risk based pricing and the measurement and allocation of credit risk capital to businesses as part of the Group's EVA initiative.

The Group expects the pressure on asset quality to continue in the year to September 2002 and will continue to be pro-active in maintaining asset quality standards.

SIGNIFICANT ITEMS

HomeSide US

During the period two separate writedowns were made to the Group's HomeSide investment.

In July 2001, following unprecedented volatility and turbulence in the US mortgage servicing market, an impairment provision of US$450 million (A$568 million after tax) was required to bring the carrying value of Mortgage Servicing Rights (MSR), into line with the economic value calculated by HomeSide's internal valuation models.

In September 2001, an incorrect interest rate assumption in the MSR valuation model was discovered and has subsequently been rectified. This error caused the balance sheet value of MSR to be overstated. At this time the Board of the National decided to pursue a sale of HomeSide. A further impairment provision was made totalling US$1.16 billion (A$2.191 billion) comprising:

- US$400 million resulting from the incorrect interest rate assumption
- US$760 million resulting from a change in the basis of valuing MSR to reflect the Board's decision to pursue a sale of HomeSide.

Furthermore goodwill associated with the investment amounting to US$590 million (A$858 million) was written off at this time.

HomeSide's internal valuation models were re-run at each quarterly balance date correcting only for the input error. In this way the impact of the input error can properly be attributed between accounting periods.

Based on this analysis, US$389 million ($734 million) of the loss was attributed to the half-year ended March 31, 2001 and the remainder has been attributed to the half year ended September 30, 2001.

A number of corrective actions have since been taken to protect the Group's investment. A new executive management team has been appointed and expert support and resources have been enlisted. The business operations have stabilised and a recapitalisation has been completed. The restructured hedges have performed effectively against recent interest rate movements and no further provision against the value of MSR was required during the 2001 financial year. However markets remain volatile and no absolute predictions can be made with respect to future prepayment levels and other factors impacting MSR valuations.

An independent Board-led committee has begun a thorough review and will report on its findings towards the end of 2001.

The sale process is proceeding. This may or may not lead to acceptable offers being made for the company.

Michigan National Corporation

The Group sold Michigan National Corporation (Michigan National), on 1 April 2001 for US$2,750 million and recorded a net profit on sale of US$823 million ($1,681 million).

The sale removed $17,265 million of loans and acceptances, $23,806 million of total assets, $23,260 million of risk weighted assets and $17,215 million in deposits and other borrowings from the Group balance sheet.

ECONOMIC VALUE ADDED

Economic Value Added (EVA) measures profit after taking into account the cost of capital invested to generate that profit, and aligns management's performance with shareholder expectations. EVA is considered to be a more balanced way to measure financial performance than traditional methods such as return on investment because it takes into account the risks inherent in any investment. Managers operating under EVA are motivated to produce sustainable earnings.

Large, exceptional profits and charges, such as the gain on the Michigan National sale and the HomeSide US mortgage servicing rights provision and goodwill write-off, are attributed to EVA over the longer term, to reflect the long term nature of the performance measurement.

The National is implementing EVA-based remuneration for its senior management.

The Group's EVA result for the current year is $1,129 million, a reduction of 18% on last year. Excluding significant items, EVA was $1,431 million, compared to $1,379 million in the prior year.

The positive impact of EVA is already evident in the increased focus on appropriate returns for risk throughout the Group.

CAPITAL STRENGTH

Capital Position

The Group's capital position strengthened during the year. Tier 1 capital represents 7.47% of risk weighted assets (6.43% excluding hybrid equity) and total capital represents 10.16% of risk weighted assets, an improvement on the total capital ratio of 9.28% at September 2000. The Group's ratio of adjusted common equity to tangible assets was 5.19%.

Earnings on Excess Capital

The Group's net interest income (NII) and relevant margins are impacted by any excess capital held in the banking operations above the level required to efficiently and prudently run those operations. Variations in capital ratios (and therefore gearing levels) of a bank over time will lead to increases or decreases in NII and net interest margins. Separating out the earnings on excess capital from the overall operating results of the banking operations removes the distortion caused by varying capital/gearing ratios and enables the stakeholders to more clearly understand the underlying performance of those operations.

The National uses a range of capital ratios to assess its capitalisation against market, regulatory and ratings agency expectations. When estimating excess capital, benchmarks are chosen having regard to the ratios of Australian and international peers and the National's own risk profile, asset base and capital structure. All excess capital is assumed to reside within the Banking & Other Financial Services business because specific capitalisation levels are established and maintained for HomeSide and Wealth Management.

Earnings on excess capital is calculated by applying the average three-year bank bill swap rate to the estimated excess. For balance sheet management purposes, the banking operations use a three-year benchmark for the investment term of capital. Holdings of excess capital reduce the amount of debt, which must be held by the banking operations to fund asset growth. Any reduction in excess capital would therefore need to be replaced with debt of the same term in order to maintain the interest rate risk profile of the banking operations. Accordingly, it is assumed that the return earned on excess capital is equal to the cost of raising three-year debt, which decreased from 6.7% in the year to September 2000 to 5.7% in the year to September 2001.

The Group's results for the current year include earnings on excess capital before tax of $143 million compared with $156 million for the year to 30 September 2000. The receipt of proceeds from the disposal of Michigan National on 1 April 2001 increased earnings on excess capital by $60 million in the second half of the year, while the HomeSide US write-downs in July and September 2001 reduced the full year result by $9 million.

RESULTS BY LINE OF BUSINESS

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%	excluding fx impact %
<u>On-Going Core Operations</u>						
Banking & Other Financial Services						
Business & Personal Financial Services [(1)]	1,102	1,128	2,230	2,054	8.6	6.0
Specialist & Emerging Businesses	132	134	266	309	(13.9)	(16.7)
National Shared Services [(1)]	(40)	(30)	(70)	(153)	54.2	52.7
Other Lines of Business [(2)]	69	(41)	28	(55)	large	large
Retail Banking and Other Financial Services	1,263	1,191	2,454	2,155	13.9	9.9
Wholesale Financial Services	338	347	685	596	14.9	10.2
Banking & Other Financial Services						
before significant items [(1)]	**1,601**	**1,538**	**3,139**	**2,751**	**14.1**	**9.5**
significant items, after tax	**-**	**-**	**-**	**(65)**	**large**	**large**
Wealth Management [(3)]						
before significant items	**313**	**364**	**677**	**291**	**large**	**large**
significant items, after tax	**-**	**-**	**-**	**(71)**	**large**	**large**
Earnings on Excess Capital [(4)]	**78**	**16**	**94**	**100**	**(6.0)**	**(6.0)**
Net profit before goodwill from On-Going Core Operations	**1,992**	**1,918**	**3,910**	**3,006**	**30.1**	**25.8**
<u>Non-Core & Disposed Operations</u>						
HomeSide						
before significant items	**114**	**65**	**179**	**141**	**27.0**	**5.8**
significant operating items, after tax	**(589)**	**(734)**	**(1,323)**	**-**	**large**	**large**
significant non-operating items	**(2,294)**	**-**	**(2,294)**	**-**	**large**	**large**
Michigan National	**-**	**156**	**156**	**291**	**(46.4)**	**(53.7)**
Disposal of Michigan National [(5)]						
Net profit on sale	1,681	-	1,681	-	large	large
Other Non Core Operations	(42)	(12)	(54)	-	large	large
Net profit/(loss) before goodwill from Non-Core and Disposed Operations	**(1,130)**	**(525)**	**(1,655)**	**432**	**large**	**large**
Net profit before goodwill	**862**	**1,393**	**2,255**	**3,438**	**(34.4)**	**(26.9)**
Goodwill amortisation	69	98	167	197	(15.2)	(15.2)
Net profit attributable to outside equity interests	1	4	5	2	large	large
Net profit attributable to members of the Company	**792**	**1,291**	**2,083**	**3,239**	**(35.7)**	**(27.7)**

(1) Comparatives have been restated to reflect the current organisation structure, such that HomeSide Australia activities are now classified within Banking & Other Financial Services (Business & Personal Financial Services, National Shared Services and Other). Comparatives have also been restated to reflect only the Ongoing core operations of Banking & Other Financial Services, with the writedown of e-commerce investments and the Vivid net operating loss reclassified as non-core activities.

(2) 'Other' includes Corporate Centre, Balance Sheet Management units and Legal Entity. The movement in Other is driven by higher levels of net interest income resulting from lower interest rate driven funding costs. Favourable profitability to Balance Sheet Management units has accelerated in the second half as longer term borrowings are rolled over at lower rates.

(3) MLC was acquired on 30 June 2000.

(4) The earnings rate on excess capital for the half years to September 2001 and March 2001 were 5.55% and 5.73% respectively, and for the years to September 2001 and September 2000 were 5.68% and 6.74% respectively.

(5) On 1 April 2001 the Group sold Michigan National Corporation in the United States to ABN Amro. Proceeds from the sale of US$2.75 billion (A$5,314 million) gave rise to a profit on sale after all disposal costs, including taxation, of A$1,681 million, and including realisation of foreign exchange movements, a total profit of A$2,799 million.

RETAIL BANKING & OTHER FINANCIAL SERVICES

Principal Activities

Financial information has been presented on the basis of aggregating Business & Personal Financial Services, Specialist & Emerging Businesses, National Shared Services and Other lines of business. ie. excluding Wholesale Financial Services from Banking and Other Financial Services.

Financial Performance

Statement of Financial Performance

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%	excluding fx impact %
Net interest income	2,981	2,739	5,720	5,156	10.9	7.3
Other operating income	1,684	1,566	3,250	3,040	6.9	4.1
Total operating income	**4,665**	**4,305**	**8,970**	**8,196**	**9.4**	**6.2**
Other operating expenses	2,435	2,288	4,723	4,470	(5.7)	(2.9)
Underlying profit	**2,230**	**2,017**	**4,247**	**3,726**	**14.0**	**9.8**
Provision for doubtful debts	419	268	687	502	(36.9)	(31.8)
Profit before tax	**1,811**	**1,749**	**3,560**	**3,224**	**10.4**	**6.5**
Income tax expense	548	558	1,106	1,069	(3.5)	(0.8)
Net profit before significant items	**1,263**	**1,191**	**2,454**	**2,155**	**13.9**	**9.1**
Significant items – provision for restructure costs, after tax	-	-	-	56	large	large
Net profit	**1,263**	**1,191**	**2,454**	**2,099**	**16.9**	**11.8**

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	3.43%	3.40%	3.42%	3.64%
Other operating income / total income	36.1%	36.4%	36.2%	37.1%
Cost income ratio	52.2%	53.1%	52.7%	54.5%
Profit / per average FTE ($'000)	70	66	68	59

	As at		As at	
	Sep 01	Mar 01	Sep 01	Sep 00
Gross non-accrual loans and gross loans acceptances	0.80%	0.85%	0.80%	0.82%
Number of FTEs	36,286	35,881	36,286	36,397

BUSINESS & PERSONAL FINANCIAL SERVICES

Principal Activities

Business & Personal Financial Services (B&PFS) is the retailing arm of the Group. The division develops long term relationships through the provision of a range of financial products and services that are tailored to the needs of its business and personal customers across four regions: Australia, Great Britain, New Zealand and Ireland.

Financial Performance

Statement of Financial Performance (1)

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Adjusted Sep 00(2) $m	%	excluding fx impact %
Net interest income	2,638	2,538	5,176	4,683	10.5	7.6
Other operating income	1,190	1,135	2,325	2,228	4.4	1.3
Total operating income	**3,828**	**3,673**	**7,501**	**6,911**	**8.5**	**5.6**
Other operating expenses	1,891	1,788	3,679	3,408	(8.0)	(4.7)
Underlying profit	**1,937**	**1,885**	**3,822**	**3,503**	**9.1**	**6.4**
Provision for doubtful debts	289	192	481	443	(8.6)	(4.7)
Profit before tax	**1,648**	**1,693**	**3,341**	**3,060**	**9.2**	**6.7**
Income tax expense	546	565	1,111	1,046	(6.2)	(3.8)
Net profit before significant items	**1,102**	**1,128**	**2,230**	**2,014**	**10.7**	**8.1**
Significant items – provision for restructure costs, after tax	-	-	-	58	large	large
Net profit	**1,102**	**1,128**	**2,230**	**1,956**	**14.0**	**11.3**

(1) Comparatives have been restated to reflect the current organisation structure, such that HomeSide Australia activities are now classified within Banking & Other Financial Services (Business & Personal Financial Services, National Shared Services and Other).

(2) September 2000 numbers have been adjusted for $60 million creditor insurance activities ($40 million net of income tax) in Great Britain that were transferred to Wealth Management during the period.

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	3.61%	3.72%	3.67%	3.78%
Other operating income / total income	31.1%	30.9%	31.1%	32.2%
Cost income ratio	49.4%	48.7%	49.0%	49.3%
Profit / per average FTE ($'000)	88	91	90	82

	As at		As at	
	Sep 01	Mar 01	Sep 01	Sep 00
Gross non-accrual loans and gross loans acceptances	0.83%	0.88%	0.83%	0.84%
Number of FTEs	24,990	24,596	24,990	25,046

Solid profit result in challenging conditions

The B&PFS result was underpinned by strong housing growth, particularly in Australia and New Zealand.

- Net profit before significant items was up 10.7% to $2,230 million.
- Total income increased 8.5% to $7,501 million while net interest income rose 10.5% on the back of strong mortgage lending in the second half.
- Net interest margins declined by 11bps to 3.67%, largely owing to the unfavourable product mix impact in Great Britain and Ireland.
- Other operating income increased by 4.4% (1.3% in local currency terms) after adjusting for the creditor insurance activities of Great Britain that were transferred to Wealth Management during the period. Before cost recharges, other operating income grew by 8.8% (5.7% in local currency terms) driven by increased fee income resulting from higher sales volumes of wealth management and home lending products and new revenue sharing arrangements with Cards. Other fee income increased moderately mainly due to increased customer migration to lower fee electronic channels.
- Other operating expenses increased 4.7% in local currency terms. This was due mainly to wage increases, a refined cost allocation methodology and other initiatives including additional resources applied to non accrual loan management in Australia, substantial investment in the delivery of the Siebel customer relationship management platform in Australia and the second call centre in Europe.
- Asset quality management remained a key priority during the year. The Group's two pronged strategy of aggressively tackling existing problem loans while adopting a prudent approach to future lending saw the proportion of gross non-accrual loans to gross loans and acceptances contained at 0.83%, marginally down from 0.84% at September 2000. The charge for bad and doubtful debts increased by 4.7% in local currency terms to $481 million.

Sustained home lending performance

Market share has increased in all regions.

- Housing loan outstandings increased 14.3% to $81 billion during the year.
- In Australia the National grew its share of home loans from 16.8% in August 2000 to 17.8% in August 2001 and currently has a 15.8% share of retail deposits, up almost 1% in the second half year.
- A number of initiatives contributed to the strong overall result including tactical marketing campaigns, international product transfers and a renewed focus on the introducer and broker channels within Australia. Monthly average drawdowns from mortgage brokers and introducer channels in Australia increased 75% from $72 million per month in 1999/2000 to $126 million per month in 2000/2001.
- In Great Britain the Group continued to increase its market share in a challenging environment due in part to the successful transfer of the Rapid Repay and Flexiplus mortgage products from New Zealand and Australia respectively. These products now represent 40% of all mortgages sold through Yorkshire Bank. A number of sales and marketing campaigns, such as "Spring Home Loan" in Great Britain and "4.99% Doorbuster" in Australia, successfully drove customer activity during key periods throughout the year. Clydesdale and Yorkshire Banks achieved an 8.5% increase in their share of the mortgage market in Scotland, and the midlands and north of England.
- BNZ share remained steady at approximately 15% of the mortgage market.
- National Irish Bank maintained its 2% market share and Northern grew its markets share from 7% to 8% of the mortgage market in their respective natural marketing areas.

Continued innovation through new business product offerings

Business banking performed well.

- The Group's business customer franchises were strengthened in all regions through innovative product and service offerings. In Australia a key priority was to leverage MLC's superior superannuation capabilities into B&PFS' large customer base. The 'Tailored Business Loan', a package of treasury risk management tools and debt sold through the Group's Risk Management Specialists, proved successful in all regions.

- As part of the drive to increase customer choice and improve service, the Group introduced the 'National Wheat Advance' loan, effectively bringing competition into the monopolistic Australian wheat industry and reducing industry costs by $18 million. Agri-business specialists across the Group continued to offer specialist advice to the rural sector, driving increases in market share. The Group is the largest agri-business banker in Australia, New Zealand and Northern Ireland, and has a significant share of the market in Scotland.

Continuing expansion of distribution network to increase customer choice

The Group's channel management strategy is aimed at offering customers a wider range of services and an enhanced experience. It involves providing customers with a hierarchy of contact points ranging from branches and other 'bricks and mortar' facilities, to automatic teller machines and telephone and internet banking.

- The Australian Bank distribution network underwent a significant transformation during the year in order to meet rapidly changing customer preferences for accessing financial services.
- The program entailed 92 branch closures, 29 business banking centre closures and 34 relocations/ reconfigurations.
- To date $30 million has been charged against the $84 million restructuring provision established during 2000. This includes $8 million in personnel costs relating to savings of 136 Head Office and support roles. The charges against the provision are consistent with expectations. Utilisation of the surplus lease space provision will accelerate as network transformation progresses and thereafter will be utilised in line with the lease expiry profile of the outlets. Productivity improvements and revenue enhancements are in line with expectations and the majority of the restructuring costs will be recovered by the end of 2003.
- The network reconfiguration was supported by the Australia Post network initiative launched in March, which offers transactional banking to personal customers in 2,800 post offices nationwide. This agreement has given the Group substantial new coverage and is generating more than 130,000 transactions per month. In the second half the Group piloted 62 Australia Post locations for business customers' transactions.
- A new HTML browser based internet banking service is scheduled to be launched in Australia and Great Britain in the December 2001 quarter. This will replace the existing Java-based service and improve accessibility for customers logging on from behind corporate firewalls and using non-Windows operating systems.
- The Group has established a second Great Britain telephone contact centre in Kilmarnock, Scotland. The centre is now fully operational, and will progressively handle calls from all of the Group's customers throughout Great Britain and Ireland.
- 254 automatic teller machines (ATM) and 14 automatic deposits machines were added to the Australian ATM network during the year and a number of alliances with retailers were forged, which will provide an expanding source of fee income. The functionality of the network continued to improve with the machines in Ireland now connected to LINK (an ATM sharing scheme) in the United Kingdom and the piloting of machines with personalisation features in New Zealand.
- The Group continued to undertake migration initiatives in all regions to educate and encourage customers to use non-branch channels such as contact centres and the internet for transactions. The total of branch transactions in Australia fell by 17% during the year. Over the counter transactions now represent 8% of total transactions. Over 10% of customers in Australia and New Zealand are now registered internet banking users and 16% of total Australian transactions are now conducted on-line, exceeding the level of over the counter transactions. The number of branch transactions is progressively reducing in Great Britain and Ireland as alternative channels in these regions are expanded.

Customer Relationship Management providing significant competitive advantage

Over the past decade, the National has developed Customer Relationship Management (CRM) strategies, consistently refining its view of relationship management and adopting processes and technologies to identify and address customer needs.

- To this capability, the National is adding Siebel CRM, a market-leading technology to enhance customer management and support revenue growth, customer retention and marketing activities. During the second half, deployment of the Siebel CRM platform commenced and was successfully deployed to more than 1,500 bankers in Australia. The rollout will extend to more than 9,000 bankers during 2002.

- The rollout is being supported by Project Foundation, a program to network all National locations and upgrade the Group's desktop technology. The Program has taken 12 months to complete in Australia with a cash investment of $40 million, and involved 1,200 Telstra staff in one of the largest infrastructure projects Telstra has undertaken. Along with Siebel CRM, the program supports the deployment of other browser- based tools including a corporate intranet and a straight-through consumer loan processing application.
- "National Leads", the predictive sales leads generation tool used in Australia, is being rolled out in other regions. It has also been expanded within Australia to provide some products and services from our MLC business, and to make offers directly to customers through e-mail and National Internet sites. Since its launch, attrition rates for customers contacted through National Leads system are about half those of non-contacted customers. In the last financial year, more than $10 billion worth of drawdowns have been generated from 60 National Leads marketing programs.

Leveraging wealth management expertise to provide integrated financial solutions

Providing wealth management solutions to customers continues to be a key focus.

- During the year, the National's financial planning capability in Australia was expanded to include specialists working with the Group's business customers, and a new adviser channel (Personal Client Services) focussed on the retail segment using a specialist call centre and National Leads. This is a direct replication of a successful model operating within MLC prior to the acquisition.
- With Personal Client Services Advisers, the National has over 350 planners servicing its customer base. Each financial planner on the National platform generates on average between $8 million and $12 million of sales of National wealth management products and an additional $3 million of sales of banking products. Additional revenues arise from sales of non-National products.
- The MLC acquisition has enhanced the product range, servicing resources and technical skills available to these financial planners, particularly within Australia where the integration is complete and is delivering productivity improvements.
- In Great Britain and Ireland, the personal financial services segments were restructured in preparation for the impending launch of the MLC-based wealth management offering.
- A number of equity-based income bond issues were sold to the Group's personal customers in Great Britain, Ireland and New Zealand. This instrument, providing exposure to high growth equity markets with a limited downside risk, has proved very successful in each of these regions and will be trialled in Australia.

SPECIALIST & EMERGING BUSINESSES

Specialist & Emerging Businesses (SEB) comprises five specialist product units:

- **Securities Services** – holds and safeguards the assets of large pension and superannuation funds and fund managers. It provides settlement functions, back office processing and performance monitoring of investments, and has more than $345 billion of assets under custody and administration.
- **Cards & Payments** – manages the Group's credit card business with over 4 million credit cards on issue. It is responsible for the processing and completion of electronic payment transactions and the development of electronic payment processes and systems.
- **International Trade & Business Finance** – provides services to customers on the sale, processing and finance of import/export transactions and settlement of trade debts through the Group's subsidiary banks and network of correspondent banking partners in more than 170 countries. Business Finance is primarily an invoice discounting business.
- **Asset Finance & Fleet Management** – the Group's product specialist in plant, equipment and motor vehicle leasing and Custom Fleet, the fleet management business.
- **National Australia Investment Capital Limited** – the Group's Australian venture capital arm.

Financial Performance

Statement of Financial Performance	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%	excluding fx impact %
Net interest income	371	312	683	551	24.0	19.6
Other operating income	462	436	898	936	(4.1)	(5.7)
Total operating income	**833**	**748**	**1,581**	**1,487**	**6.3**	**3.7**
Other operating expenses	470	474	944	919	(2.7)	(0.5)
Underlying profit	**363**	**274**	**637**	**568**	**12.1**	**8.8**
Provision for doubtful debts	168	72	240	99	large	(135.9)
Profit before tax	**195**	**202**	**397**	**469**	**(15.4)**	**(17.9)**
Income tax expense	63	68	131	160	18.1	20.4
Net profit	**132**	**134**	**266**	**309**	**(13.9)**	**(16.7)**

Net Profit by Business Unit	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%	Excluding fx impact %
Cards & Payments	81	93	174	226	(23.0)	(22.1)
Securities Services	24	27	51	42	21.4	21.4
Leasing & Asset Finance	24	11	35	41	(14.6)	(16.6)
International Trade & Business Finance	5	6	11	4	large	large
Other	(2)	(3)	(5)	(4)	(25.0)	-
Net profit	**132**	**134**	**266**	**309**	**(13.9)**	**(16.7)**

Securities Services

Securities Services had a successful year with solid performances by all core businesses. Continued growth in new business gave rise to a 21.4% increase in net profit to $51 million. At 30 September 2001 Securities Services had assets under custody and administration of $345 billion, an increase of 21.0% from September 2000.

Securities Services grew its share of the domestic master custody market to 36% and captured 40% of the core custody market. In Great Britain it has a sizeable share of the custody/trustee market.

Its capabilities in Great Britain were enhanced by the launch of custody and related value-added services which will position the business to participate successfully in the growing Great Britain and Ireland pensions market.

Effective from October 2001, Securities Services reporting lines will change from Specialist & Emerging Businesses to Wholesale Financial Services. This realignment will assist the National to provide a wider coordinated range of financial solutions for financial and other institutions where appropriate, whilst ensuring that Securities Services continues to maintain the independence and integrity of its client relationships.

Cards & Payments

During the year Cards & Payments were brought under a single management structure. The Payments business was impacted by the loss of a major customer in Australia and a large merchant card provision for Ansett in the second half. The combined unit produced a net profit of $174 million, down 23.0% on the prior year.

The Cards business performed strongly during the second half of the year with profit increasing 16.9% on the first half. Card outstandings grew 20.7% over the year. Profit growth has been impacted by the costs associated with providing loyalty programs and higher charges to provide for doubtful debts. The provision charge has increased as a result of volume growth and a more conservative provisioning policy.

A number of recent initiatives are beginning to improve the profitability of this unit including:

- The implementation of one global Cards operating platform was completed in August. This has enabled Cards to converge major processes and places it in an ideal position to take advantage of new product and customer value propositions;
- Re-pricing of segments of Card's portfolio in Great Britain and Ireland through the adoption of risk based pricing principles.
- The commissioning of new real time fraud prevention software in Payments.

Asset Finance & Fleet Management

The Asset Finance & Fleet Management businesses contributed net profit of $35 million, down 14.6%, mainly due to a $20 million write back in the maintenance provision in the September 2000 year following a change in accounting treatment. Excluding this write back, profit increased 25% from the prior year.

Core operations performed solidly including;

- Asset Finance total income up 10% reflecting strong sales performance and increased market share in Australia and Great Britain;
- Fleet Management Australian new sales increased 20% on the prior year; and
- Fleet Management completed its global system platform with Europe in May 2001.

International Trade & Business Finance

International Trade & Business Finance contributed net profit of $11 million up 192%.

During the second half International Trade & Business Finance increased its net profit contribution to $5 million, $4 million up on the previous corresponding period. International Trade achieved productivity gains through the automation and streamlining of processes which led to a reduction in costs and the enhancement of service standards. The business continues to focus on the electronic processing evolution in global trade.

In Australia, Business Finance grew strongly, securing 50% of the market as demand for this service continued to grow. In Great Britain and Ireland the business has also focused on streamlining process and is shifting attention to invoice discounting in line with market trends. Business Finance increased revenue by 17% to $25 million over the prior year.

NATIONAL SHARED SERVICES

Principal Activities

National Shared Services (NSS) provides a number of operational services to the rest of the Group:

- **Corporate Real Estate (CRE) –** provides strategic advice and management services to Group-occupied real estate, including the negotiation of leases, advice on new locations, design of outlets and management of fit-out projects.
- **Information Technology (NSITE)** - supplies IT services (systems and infrastructure) sourced either internally or externally. It also provides leadership and advice to help customers identify and develop technology-based growth opportunities.
- **Transaction & Business Services (T&BS)** – provides core transaction processing services and general services such as logistics and supply.
- **Lending Services** – provides centralised production of loan and security documents and loan servicing for personal and business lending.

Other services provided include **Human Resources Shared Services**, **Finance Shared Services**, **Collections** and **Strategic Sourcing**.

NSS is not a generator of revenue, its income being costs recharged to the other Group businesses, and therefore its major focus is on cost effectiveness as a driver of its contribution to Group performance.

Financial Performance

Statement of Financial Performance [(1)]

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Total operating income	**765**	**729**	**1,494**	**1,337**	**11.7**
Personnel expenses	247	235	482	526	8.4
Occupancy expenses	234	241	475	438	(8.4)
Other operating expenses	343	302	645	622	(3.7)
Total operating expenses	**824**	**778**	**1,602**	**1,586**	**(1.0)**
Underlying profit/(loss)	**(59)**	**(49)**	**(108)**	**(249)**	**56.6**
Provision for doubtful debts [(2)]	-	(1)	(1)	(21)	(95.2)
Profit/(loss) before tax	**(59)**	**(48)**	**(107)**	**(228)**	**53.1**
Income tax expense/(benefit)	(19)	(18)	(37)	(75)	(50.7)
Net profit/(loss)	**(40)**	**(30)**	**(70)**	**(153)**	**54.2**
Total Operating Expenses Analysed					
Corporate Real Estate	253	262	515	491	(4.9)
Information Technology	298	253	551	536	(2.8)
Transaction & Business Services	141	157	298	293	(1.7)
Lending Services	80	73	153	140	(9.2)
Other	52	33	85	126	32.5
Total Operating Expenses	**824**	**778**	**1,602**	**1,586**	**(1.0)**

(1) Comparatives have been restated to reflect the current organisation structure, such that HomeSide Australia activities are now classified within Banking & Other Financial Services (Business & Personal Financial Services, National Shared Services and Other).

(2) September 2000 figure relates to recovery of a prior year property investment write off.

NSS total operating expenses were up $16 million, or 1.0%, on the previous year. Using a stable exchange rate direct costs reduced.

Tight control over personnel costs

Personnel costs and occupancy are the major drivers of costs in NSS. Personnel expenses decreased by 8.4% year on year despite increasing wage rates. An increase in project activity coupled with wage increases resulted in rising personnel costs in the second half.

The number of full time equivalent employees in the business reduced significantly, largely through natural attrition and redeployment in the back-office transaction processing area. This trend is forecast to continue. FTE numbers were 6,881 as at 30 September 2001, down from 7,063 at September 2000.

Corporate Real Estate providing efficiencies

Occupancy expenses grew by $37 million partly reflecting the impact of the ongoing sale and leaseback program, which resulted in increased rental expense across all regions. Occupancy expense was also impacted by increases in rental rates and the introduction of GST in Australia.

The Group continued to focus on more efficient utilisation of its property assets. Over the full year, total space was reduced by 76,000 square metres (excluding the impact of the sale of Michigan National), with vacant space decreasing by 45%, reducing the ratio of square metres per full time equivalent employee to 27.45m^2 from 30.33m^2.

Information Technology infrastructure supports initiatives

NSITE has led the transformation of the Group's technology platform and the rollout of the Internet Protocol network across all branches and service centres in Australia, Great Britain and Ireland. This program will be completed in the first half of the next financial year.

Australian desktop services will be outsourced to Telstra subsidiary Advantra. Under a three-year agreement the Group will leverage the newly outsourced capability to progressively upgrade the Group's fleet of PCs and take advantage of the upgraded functionality of the Customer Relationship Management software.

Development of the Group's corporate intranet is underway and has been rolled out across select business units in Australia. The next phase will facilitate a web-enabled workbench with access to bank software applications and will bring a range of productivity benefits.

Implementation of an internet payment gateway (NSIPS - National Secure Internet Payment Service) was launched successfully in Australia. NSIPS enables online authorisation of credit and debit card transactions over the internet without disclosing card details to the retailer.

Transaction and Business Services generating efficiency

T&BS continued to focus on refining processes to drive cost reductions and customer service improvements, reducing the required work effort by more than 100 full time employees.

The 1.7% increase in operating expenses was driven by higher volumes and the transfer to it of responsibility for losses associated with cheque fraud. During the first half T&BS implemented software highlighting potentially fraudulent transactions, allowing T&BS to improve the focus of its fraud prevention activities. Early indications are that the technology is successfully detecting fraud earlier enabling the Group to respond effectively.

Lending Services

During the first half Lending Services increased its service offering to include the management and processing of small business lending. Cost increases within Lending Services are attributable to strong growth in production volumes within HomeSide Australia.

During the second half of the year, the production and servicing functions of HomeSide Australia were integrated into Lending Services. This integration has allowed NSS to identify a number of synergistic efficiency opportunities that it will pursue over the coming year.

WHOLESALE FINANCIAL SERVICES

Principal Activities

Wholesale Financial Services (WFS) is responsible for the Group's 1,500 major corporate and institutional relationships worldwide. WFS operates across four continents and 21 financial centres with a presence in each of the principal markets outside Australia.

Financial Performance

Statement of Financial Performance

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%	excluding fx impact %
Net interest income	460	363	823	507	62.3	53.8
Other operating income	469	490	959	795	20.6	16.2
Total operating income	**929**	**853**	**1,782**	**1,302**	**36.9**	**30.9**
Other operating expenses	331	304	635	497	(27.8)	(20.8)
Underlying profit	**598**	**549**	**1,147**	**805**	**42.5**	**36.9**
Provision for doubtful debts	133	83	216	17	large	large
Profit before tax	**465**	**466**	**931**	**788**	**18.1**	**13.4**
Income tax expense	127	119	246	192	(28.1)	(23.6)
Net profit before significant items	**338**	**347**	**685**	**596**	**14.9**	**10.2**
Significant items – provision for restructure costs, after tax	-	-	-	9	large	large
Net profit	**338**	**347**	**685**	**587**	**16.7**	**11.9**

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	0.71%	0.64%	0.67%	0.64%
Profit per average FTE ($'000) (1)	392	417	404	359
Total income to average risk weighted assets (1)	2.6%	2.6%	2.6%	2.3%
Cost income ratio	35.6%	35.6%	35.6%	38.2%
Gross loans and advances (ave) ($billion)	45.6	42.2	44.3	35.8
Total risk weighted assets (ave) ($billion)	70.8	65.1	68.2	55.4

	As at		As at	
	Sep 01	Mar 01	Sep 01	Sep 00
Gross non-accrual loans to gross loans and advances	0.57%	0.59%	0.57%	0.22%
Number of FTEs (2)	1,747	1,678	1,747	1,679

(1) Prepared on an annualised basis.

(2) September 2000 comparatives have been restated to reflect the transfer of Asia Support Services from Other to Wholesale Financial Services on 1 October 2001.

Profit up 15% to $685 million

WFS produced a record profit of $685 million for the year, a 14.9% increase on the prior year net profit before significant items.

Volatility in global interest rates, particularly during the first half, drove strong growth in net interest income from funding and liquidity management activities. Continuing reductions in US interest rates impacted positively on trading income in the US, Europe and Australia. Net interest income increased by $316 million to $823 million, with strong performances in the Markets Division and Corporate Finance businesses, up 73% and 25% respectively on the prior year.

Average gross loans and advances for the year increased 24% to $44.3 billion, primarily as a result of the business' commitment to build solid client relationships. Asset growth has been undertaken with a continued focus on returns on capital invested in the business including assessment of the risk-adjusted return on capital (RAROC) and EVA growth. During the year WFS arranged and underwrote finance for a number of clients including:

- Mandated as one of the joint lead banks underwriting a US$3.4 billion facility to assist with the merger of Brambles Industries Limited and GKN plc.
- Joint arranger for a US$2.5 billion syndicated credit facility for BHP Billiton. This was the first major financing for the merged BHP Billiton group.
- Lead arranger for an A$2.1 billion syndicated facility for TXU Australia. The purpose of this facility was to enable TXU Australia to refinance its existing bank debt. WFS provided a range of products and services to this client group including interest rate risk management services, capital markets products and services, transactional banking services and syndication services.
- Established the Quay 62 securitisation vehicle for AMP's property trust funding needs. National was the arranger, lead manager liquidity provider and working capital facility provider for the first transaction from this vehicle.

Continuing innovation in risk management advice and execution

Other operating income increased $164 million to $959 million.

Other operating income in the Markets Division increased 32%. The Division continued to focus on providing clients with innovative risk management advice and execution in foreign exchange, interest rates and commodities. Sustained volatility in foreign exchange and interest rate markets during the year resulted in strong sales of risk management products, especially to business markets clients in Australia, New Zealand, Great Britain and Ireland, as well as solid risk management income. A renewed focus on the short term liquidity, fixed interest and foreign exchange requirements of institutional clients also drove growth in this area. Other operating income declined slightly in the second half of the year, with increased sales of foreign exchange and interest rate risk management products to clients, offset by a reduction in risk management income.

Project and Structured Finance's other operating income increased 10%.

Market leadership in capital market financing

The business retained its leading position in capital market financing and was ranked lead arranger in the Australian domestic corporate bond market with over $2.8 billion of new issues originated this year.

During the year, WFS acted as the sole lead manager for a A$650m 10-year kangaroo bond issue for Scottish Power UK plc. This was the first corporate kangaroo bond issued in Australia and the largest credit wrapped issue for the year.

Helping Australian wheat growers make more of their harvest, WFS contributed to the National Wheat Advance Product in conjunction with B&PFS' Agribusiness division. This product allows Australian wheat growers a limited-recourse advance on deliveries of eligible grades of wheat into the Australian Wheat Board National Pool, under the quarterly pool payment option.

Provisions up following strong portfolio growth and conservative assessment of economy

The charge to provide for doubtful debts increased significantly. Statistical provisioning increased consistent with growth in the loan portfolio and following a conservative assessment of current economic conditions in the major markets in which WFS operates. Gross non-accrual loans increased as a result of the deteriorating economic environment, particularly in Australia.

The quality of the WFS loan portfolio has deteriorated slightly since March 2001 in line with economic conditions, reflecting the impact of a small number of large corporate exposures, predominantly in Australia. However it remains high, with approximately 85% of credit exposures equivalent to investment grade or above. WFS' total doubtful debt provisions represent approximately 190% of gross non-accrual loans.

New structure driving client focus

During the period, WFS implemented a relationship-based organisational model, building on the business' existing product expertise. The benefits of this approach include:

- Integrated distribution of traded and non-traded products to chosen client segments
- Closer alignment of client needs with skills of relationship management team
- Continued focus on returns on capital invested in the business including assessment of the risk-adjusted return on capital (RAROC) and EVA growth.

A number of key appointments have been made to support the new structure. The business is focused on delivering total solutions to clients by effectively combining knowledge of the client and industry sector with the depth of product expertise. Product capability was further enhanced through growth in structured risk management solutions, commodities hedging, loan syndication and securitisation capability.

Costs up in line with growth in business; cost to income ratio down

The continued growth in the business resulted in higher operating expenses. The growth in personnel costs, which represent approximately 60% of WFS total operating expenses, reflects the growth in staffing. Occupancy and equipment expenses increased following the relocation to new premises in London to support the continued growth in this region. However, the division's cost to income ratio improved to 35.6% from 38.2%, with the increase in staffing driving strong income growth.

Focus over the next 12 months on leveraging and building business

Key areas of focus over the next twelve months include:

- Leveraging existing investments in order to develop the skills and capabilities required to increase client penetration.
- Continuing to focus on asset quality and returns on capital invested in the business as the economic environment becomes more challenging and default rates deteriorate.
- Selectively building product and relationship management capability, focusing on global relationship management opportunities.
- Continuing to explore opportunities to further enhance the efficiency of the business platform and the distribution of products and services to customers.

WEALTH MANAGEMENT

Principal Activities

Wealth Management (WM) operates a diverse portfolio of financial services businesses. It provides financial planning, insurance, superannuation and investment solutions to both retail and corporate customers and portfolio implementation systems and infrastructure services to financial advisers. The businesses operate across four regions of Australia, Great Britain, Ireland, New Zealand and Asia. WM's primary areas of focus during the year were the integration of the National's Australian WM businesses, the expansion and development of its distribution capability and the leveraging of WM's capabilities across its international businesses, which are at different stages of financial services evolution.

Financial Performance

Statement of Financial Performance [1]

	Half Year to		Year to		Favourable / (Unfavourable) Change on
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Proforma Sep 00 [2] $m	Sep 00 %
Net premium income and other revenue	800	741	1,541	1,378	11.8
Investment revenue	(964)	79	(885)	3,724	large
Net decrease /(increase) in net policy liabilities	1,109	209	1,318	(2,862)	large
Claims, administration and other expenses	(956)	(884)	(1,840)	(1,667)	(10.4)
Operating profit/(loss) before income tax and revaluation profit	**(11)**	**145**	**134**	**573**	**(76.6)**
Income tax (expense)/benefit	180	30	210	(270)	large
Operating profit after income tax and before revaluation profit	**169**	**175**	**344**	**303**	**13.5**
Revaluation profit	237	273	510	182	large
Income tax expense	(93)	(84)	(177)	(50)	large
Revaluation profit after tax	**144**	**189**	**333**	**132**	**large**
Net profit before significant items	**313**	**364**	**677**	**435**	**55.6**
Significant items – provision for integration after tax	-	-	-	(71)	large
Net profit	**313**	**364**	**677**	**364**	**86.0**
Outside equity interests in operating profit after tax	(1)	(4)	(5)	(7)	28.6
Net profit after outside equity interests	**312**	**360**	**672**	**357**	**88.2**

Sources of Operating Profit

	Half Year to		Year to		Favourable / (Unfavourable) Change on
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Proforma Sep 00 [2] $m	Sep 00 %
Life company – planned profit margins	121	119	240	220	9.1
Life company – experience profit/(loss)	3	4	7	(17)	large
New business losses	(1)	-	(1)	(3)	66.7
Operating margins	**123**	**123**	**246**	**200**	**23.0**
Operating profits from shareholders' funds and other businesses	48	35	83	27	large
Investment earnings on shareholders' retained profit and capital	(3)	13	10	69	(85.5)
Significant items – provision for integration after tax	-	-	-	(71)	large
Revaluation profit after tax	144	189	333	132	large
Net profit after outside equity interests	**312**	**360**	**672**	**357**	**88.2**

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Proforma Sep 00 (2)
Sales ($ billion)	8.6	7.0	15.6	12.8
	As at		**As at**	
	Sep 01	**Mar 01**	**Sep 01**	**Sep 00**
Funds under Management and Administration ($bn) (3)	63.8	64.1	63.8	59.1
Market Share Ranking – Retail Funds Mgt (4)	2	2	2	2
Market Share - Net Retail Inflows Year (4)	2	2	2	2
Market Share Ranking – Retail Risk Insurance (5)	3	3	3	3
New Retail Risk Annual Premiums (5)	2	2	2	3
Number of Financial Advisers (6)	3,745	3,348	3,745	3,236
- Bank Channels	773	693	773	641
- Aligned Dealerships	2,972	2,655	2,972	2,595
Number of FTEs	4,229	4,077	4,229	3,850

(1) The statement of financial performance above has been prepared based on disclosure requirements under Accounting Standard AASB 1038: Life Insurance Business. As a result revenue and expense items include both policyholder and shareholder components.

(2) Proforma results (unaudited) represent the combined results of the National's funds management and life insurance businesses, the general insurance business of the Group's banks in Great Britain and Ireland and the MLC Group. The proforma result for 30 September 2000 reflects the MLC Group full year result to 30 June 2000. The three month results for the MLC Group reflected in the National's September 2000 results have been excluded to ensure consistent durations in accounting periods. The MLC Group results are in line with the former balance dates of the MLC Group prior to acquisition by the National.

(3) Funds under Management and Administration for September 2000, have been restated to reflect the exclusion of Funds Under Management of $2.4bn relating to the discontinued business of Michigan National.

(4) Source: ASSIRT Market Share Reports as at June 2001 and December 2000.

(5) Source: Rice Kachor Research Reports, retail risk insurance includes term, trauma and disability insurance at December 2000 and September 2000.

(6) Wealth Management sources significant business from Independent Financial Advisers (IFAs). Wealth Management currently has active relationships with over 1,200 IFAs.

The WM business produced an excellent result for the MLC Group's first full year of contribution, achieving profit (after outside equity interests) of $672 million. Of this, $339 million was generated through operations and $333 million from revaluation profits, driven largely through the strong performance of WM's Australian businesses.

Financial highlights supporting the strong operating profit result include:

- Retail Investments, Corporate and Insurance achieved significant Australian new business sales growth over the prior year (21%, 73% and 32% respectively), supported by increased distribution capability.
- Rapid growth in the Australian Insurance business combined with favourable claims experience. 36% of the full year results was contributed by the Australian Insurance business.
- Funds Under Management and Administration growth of 8% over the prior year, (excluding the impact of Michigan National of $2.4 billion). This includes the impact of a $2 billion investment loss for the full year, including the impact of the US events in September 2001.
- Investment returns on shareholders' invested assets contributed $10 million after tax. An efficient capital and reserving structure combined with the use of both subordinated debt financing and reinsurance arrangements reducing reserve requirements, and minimised the earnings impact from the decline in global investment markets on shareholders assets. Comparatively the September 2000 proforma result reflects the 30 June 2000 position of the MLC Group at a time when investment market performance was strong.
- Strategic investment of over $190 million during the year. Investments include the development of an innovative investment service offering in Great Britain and Ireland, the expansion of distribution capacity through the acquisition of Deutsche Bank's Australian financial planning and portfolio management businesses and increased specialist asset consultant capabilities through the acquisition of John A Nolan & Associates.
- Disciplined expense management combined with tactical expense reductions resulted in significant reinvestment of operational expenditure in growth initiatives. This included the development of the MLC MasterKey Business Super product offering designed to capture a greater share of the growing corporate superannuation market, and the development of the MLC Implemented Consulting offering, providing an asset consulting and implementation service to large corporate superannuation funds.

- WM's international operations contributed 14% of the full year result. Across all international regions, uncertain economic conditions, volatile investment markets, subdued investor sentiment and sales pressures impacted these businesses. In Great Britain and Ireland the first half result included approximately $11 million in respect to the receipt of profit commission on Creditors Insurance business relating to the prior year. Additionally, the second half result included the impact of $4m after tax of operational expenditure associated with the development of the new investment service offering in Great Britain and Ireland.
- Emergence of $61 million of pre-tax annualised integration synergy benefits, $9 million ahead of the first year forecast.
- Alignment to Group accounting policies positively influenced the full year operating result by $37 million after tax in the MLC Group's first full year of contribution to the Australian Wealth Management result.

Revaluation profits contributed significantly to the full year result and are discussed at length later within this section.

Good progress has been made towards WM's key strategic objectives

WM's businesses experienced significant growth during a year of unprecedented levels of change driven largely by a demanding program of strategic development and business activity. Considerable progress has been made towards WM's key strategic objectives. The highlights are outlined below:

WM's accelerated integration program is on track to deliver anticipated benefits

The integration of the MLC Group with National's Wealth Management businesses was accelerated and is scheduled for completion in December 2001, with many major projects already completed. The focus of integration was on the consolidation of the Australian Wealth Management businesses. Major achievements to date include:

- The consolidation of WM's services and offerings, which include the MLC MasterKey, FlexiPlan and MLC's Life Insurance offerings and National's General Insurance offerings in the retail segments and MLC's Corporate Solutions for the business and corporate segments.
- Relaunch and re-positioning of the MLC brand for WM's Insurance and Investment solutions, including linkage with the National Group.
- The successful introduction of WM's portfolio implementation systems and servicing capabilities to the National's financial planning channels which service the banking customer base. These channels are now supported by common systems and services (investment portfolio systems of MLC MasterKey and FlexiPlan, MLC's insurance services, coupled with financial planning support services and infrastructure through ThreeSixty), facilitating the delivery of quality advice based financial planning services to customers.
- Introduction of an Enterprise Agreement covering all WM employees aligning the organisational culture with underlying reward and recognition programs.
- Restructuring of the business to deliver organisational efficiencies has been completed.
- Further progress was made in aligning to MLC's strategic positioning of a Manager of Manager's investment approach through the restructuring of National Asset Management during 2001 and the successful divestment of County Investment Management in January 2001.

Integration benefits are beginning to flow through with annualised pre-tax synergies of $61 million realised at the year-end, $9 million ahead of the first year forecast. Synergies realised during the year were generated primarily from expenditure reduction initiatives including organisational restructure and scale efficiencies, with anticipated revenue synergies and additional expense synergies to emerge in future years.

Pre-tax annualised synergy benefits of $61 million for the current year reflects the profit impact from the expenditure reduction and other integration related initiatives had they been in place for the full year. Integration initiatives completed during the year emerged throughout the period, with only a partial impact on the current year's result, these initiatives contributed $21 million in post tax integration benefits to the full year result.

The integration program remains on track to deliver $140 million in annualised pre-tax synergy benefits by 30 September 2003. The costs of integrating the WM operations are estimated to be $108 million, this amount was fully provided for in the prior year results, and at 30 September 2000 the balance of the integration provision stood at $77 million. This provision refers to integration related expenditure to be incurred during 2001 to 2002. During the current year $53 million of costs were charged against this provision.

Growth in WM's Australian distribution and advice capability has contributed to significant sales growth

WM's Australian businesses achieved significant sales growth over the prior year. This growth demonstrates the strength of WM's multi channel distribution approach across the retail and corporate segments.

Retail

In the retail segment, with over 1,600 aligned and salaried financial advisers across eight dealerships, WM's comprehensive and diversified distribution and advice capabilities are market leading and were further enhanced through the following activities:

- Deutsche Banks' Australian financial planning and portfolio management businesses were acquired during April 2001. The Deutsche financial planning business has been integrated successfully with the Godfrey Pembroke financial planning operations, which now has over 180 advisers servicing premium, high net worth customers. The portfolio management business is in the process of being integrated with MLC MasterKey.
- National Personal Client Services distribution channel was launched during April 2001 as part of leveraging new capabilities brought to the National via the MLC acquisition. Over 100 financial advisers have now been recruited, trained and deployed, focused on servicing the National's Australian retail bank customer base.
- WM's "Adviser Campus" was established in July this year to recruit and train financial advisers for WM's growing adviser base. Its objective is to provide a competitive advantage in attracting and retaining high quality financial advisers by offering innovative services to both dealerships and advisers within the group.
- Over 260 additional advisers were successfully acquired and recruited into WM's Australian dealerships, reflecting WM's attractiveness to advisers seeking career development, flexibility in business structure, and access to business systems focused on business efficiency.

WM continued to enhance the range of services provided to both clients and financial advisers throughout the period as evidenced by:

- MLC MasterKey was relaunched during July 2001 to the Australian retail market through the MLC MasterKey Horizon Series. The aim of the relaunch was to further enhance MLC MasterKey's position as the premier portfolio implementation system, which enables advisers to offer their clients, a standardised, fully implemented, fully maintained portfolio solution through investment across a range of comprehensive risk/return profiles. MLC MasterKey Horizon Series is built on MLC's proven multi-manager investment process, giving investors' broad diversification across all asset classes and a comprehensive and complementary range of investment management styles.
- WM's Australian Insurance offerings through the MLC Personal Protection Portfolio received Personal Investor Magazine's 2001 Gold and Silver awards for its competitiveness, high quality features and consistency of pricing. WM's disciplined underwriting and claims management processes have contributed to the quality, competitiveness and profitability of the insurance business.

The impact of these activities strengthened WM's Australian market share positions. Highlights include:

- WM captured over 24% of the retail funds management market's quarterly net funds flow and 17% of annual net fund flows to June 2001, and holds a current assets under management market share of 14.5%. (Source: latest ASSIRT Market Share Report June 2001).
- WM's Discretionary Master Trust offerings (FlexiPlan and National All in One) captured 19% of the market's annual net funds flows to June 2001, relative to an assets under administration market share of 12.5% (Source: latest ASSIRT Market Share Report June 2001).
- Retail life insurance captured a 13.9% market share of annual sales to December 2000 relative to a 12.7% market share of in-force premiums. (Source: latest Rice Kachor Research December 2000).
- Group life insurance captured a 15.1% market share of annual sales to December 2000 relative to a 9.8% market share of in-force premiums. (Source: latest Rice Kachor Research December 2000).

In each of the above categories, WM is experiencing stronger growth than its incumbent market share position – an encouraging indicator of the strength of WM's Australian Retail businesses.

Corporate

The re-positioning of WM's Corporate Solutions business to a comprehensive advice and implementation service provider continues and was enhanced by the following activities throughout the period:

- In November 2000, WM acquired leading corporate advice provider and asset management consultant John A. Nolan and Associates.

- Launch of MLC Implemented Consulting Services, enabling corporate clients to outsource the selection, implementation and ongoing monitoring of a comprehensive range of investment management styles across all asset classes for their superannuation funds.
- Launch of MLC MasterKey Business Super, an innovative corporate superannuation solution for small to medium size enterprises. MLC MasterKey Business Super is the first in the market to provide a fully integrated solution that meets a comprehensive range of needs through one consolidated portfolio implementation.
- The above initiatives combine with WM's existing Corporate advice and service businesses of AdvantEdge (a workplace distribution business offering an employee care suite of services) and Plum (a corporate superannuation joint venture with Vanguard) further enhancing WM's capability to provide a complete advice and service solution to Corporate clients.

Sales growth of 73% over the prior year was achieved through these combined businesses.

Leveraging WM's capabilities to build the international businesses

Performance of WM's Great Britain, Ireland, Hong Kong, and New Zealand businesses was affected by uncertain economic conditions, volatile investment markets, subdued investor sentiment and lower sales. Each of these businesses and the markets they operate in are at different stages of financial services evolution. Strategies to enhance the performance of these businesses include the development of distribution capabilities, the introduction of competitive offerings and the leveraging of capabilities from the more developed businesses within Australia.

Great Britain and Ireland

In Great Britain and Ireland, an innovative investment service offering is on track for launch in November 2001 and has been operating under the program development name of Endeavour. This represents the first major international initiative that leverages capabilities brought to the National via the acquisition of the MLC Group. The initiative includes:

- The creation of an investment portfolio implementation system based on the successful multi-manager investment approach pioneered in Australia by MLC over 15 years ago. The offering is based on the Australian MLC MasterKey solution.
- Re-engineering of the financial planning capability currently in place within the National's existing banking franchises. This leverages experience, financial planning systems and transformation capability from Australia.
- Launch of the MLC brand in Great Britain and Ireland.
- Re-engineering and business transformation of the existing WM operations in Great Britain and Ireland including enhancing the processes and infrastructure of the investments, insurance and financial planning businesses.

The National Group has a substantial presence in Great Britain and Ireland through its ownership of regional banks, Clydesdale and Yorkshire Banks, and Northern and National Irish Banks. The investment service will initially target premium and business bank customers. Significant attention has been given to the advice proposition underpinning the investment service to enhance the customer relationship and experience, particularly the relationship between the adviser and customer. Combined with the Manager of Managers investment approach, and the National's existing bank customer base, it will provide a source of competitive differentiation to support the growth of a quality, sustainable business.

Asia

MLC Hong Kong's business is 58.65% owned by MLC through a joint venture arrangement, major partners include the Cheung Kong Group and CIBC Asia Limited. During the year, growth initiatives continued to evolve and included:

- The appointment of a Principal Investment Adviser as part of a strategic move to a Manager of Managers investment approach.
- The closure of non-profitable business lines.
- The development of a new salaried distribution channel based upon MLC's Private Client Services dealership operating in the Australian market.
- The ongoing development and recruitment of its adviser force; and
- The launch of a new investment linked offering to capture a share of Hong Kong's fastest market growth segment.

In Thailand through Advance MLC, (a joint venture with the Soon Hua Seng group), the business is successfully implementing an innovative distribution model to build a full-time professional distribution force of salaried advisers, rather than the part-time agency forces which dominate the market. The model again leverages MLC's Australian Private Client Services dealership expertise. With over 300 advisers, Advance MLC is well positioned for future growth.

In Indonesia, despite a challenging economic and social environment, the PT MLC Life Indonesia business owned 80% by MLC, achieved significant growth with an increase in sales of 40% over the prior year. This result was achieved with a restructured distribution model and refreshed product lines.

New Zealand

In New Zealand, WM operates in the life, general insurance and investment management markets, under the brand of BNZ. Increasing the penetration of the broader BNZ customer base combined with leveraging the existing Australian MLC capabilities have been key focus areas within this region.

Valuation and revaluation profit

WM recorded a revaluation profit of $510 million before tax ($333 million after tax) for the year to September 2001. Revaluation profits reflect the movement in the excess of net market value over the net assets of subsidiaries owned by National Australia Financial Management Limited (NAFM), adjusted for capital. Values shown are Directors' valuations based on Discounted Cash Flow (DCF) valuations determined by Tillinghast – Towers Perrin.

NAFM Subsidiaries Market Value Summary	Net Assets (1)	Value of Inforce Business	Embedded Value	Value of Future New Business	Value of Future Synergy Benefits	**Market Value**
Market Value at 30 September 2000 (2)	**785**	**1,773**	**2,558**	**1,499**	**1,306**	**5,363**
Operating profits after tax of Life Company Subsidiaries (3)	215	-	215	-	-	215
Net capital transfers (4)	(97)	-	(97)	-	-	(97)
Increase/(decrease) in shareholders net assets	**118**	**-**	**118**	**-**	**-**	**118**
Revaluation profit components before tax:						
Roll forward of DCF (5)	-	66	66	181	143	390
Assumption & experience changes and movements between components	-	(53)	(53)	81	-	28
Value of imputation credits	-	(58)	(58)	-	-	(58)
Transfers of business	-	130	130	20	-	150
Recognition of expected synergies	-	140	140	842	(982)	-
Revaluation profit before tax (6)	**-**	**225**	**225**	**1,124**	**(839)**	**510**
Excess of net acquisitions (7)	(193)	140	(53)	53	-	-
Market Value at 30 September 2001	**710**	**2,138**	**2,848**	**2,676**	**467**	**5,991**

Revaluation profits exclude any movement in the value of NAFM, or the WM international business in Great Britain, Ireland and New Zealand. NAFM being the parent life entity is not permitted to report a revaluation uplift in respect to its own business, the international businesses in Great Britain, Ireland and New Zealand are not currently held as subsidiaries of NAFM and are held outside of the mark to market environment.

Entities held within the mark to market environment include WM operations in both Australia and Asia. Distribution of value by both region and entity type is summarised below:

NAFM Subsidiaries Market Value Summary	Net Assets (1)	Value of Inforce Business	Embedded Value	Value of Future New Business(8)	Value of Future Synergy Benefits	**Market Value**
Market Value Summary by Region						
Australia	588	2,013	2,601	2,504	467	5,572
Asia	122	125	247	172	-	419
Market Value at 30 September 2001	**710**	**2,138**	**2,848**	**2,676**	**467**	**5,991**
Market Value Summary by Entity Type						
Life Companies	434	1,667	2,101	2,232	406	4,739
Funds Management/Administration	169	496	665	444	61	1,170
Other Entities	107	(25)	82	-	-	82
Market Value at 30 September 2001	**710**	**2,138**	**2,848**	**2,676**	**467**	**5,991**

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

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

(3) Operating profit after income tax before revaluations shown in this table, excludes operating profits of entities outside the market value accounting environment; i.e the operating profits after tax from NAFM's own business, and other WM entities not owned by NAFM.

(4) Net capital transfers represent movement in value that do not impact on the revaluation and operating profit, such as the payment of dividends, capital injections, and the acquisition/divestment of subsidiaries.

(5) The roll forward represents the growth over the period at the valuation discount rate over and above that represented by operating profit.

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

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

(8) For some smaller entities the projection of future new business and inforce business is combined for the purposes of valuation. For these entities the value of future new business is reflected in the embedded value.

The valuation of businesses held within the mark to market environment increased by $628 million from 30 September 2000. This increase in value comprised $118 million from growth in shareholders' net assets and $510 million ($333 million after tax) from other components over and above the increase in net assets which are reported as revaluation profits.

The components that contributed to the reported revaluation profits comprised:

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

Assumptions applied in determination of market value

Assumptions applied in the determination of market values for WM businesses held within the mark to market environment are summarised as follows:

Assumptions applied in determination of Market Value at 30 September 2001	**New Business Multiplier (1)**	**Risk Discount Rate (2)**	**Franking Credit Assumption(3)**
Australian Life Insurance Companies	8.8 – 10.5	11.0%	70.0%
Other Australian Companies (4)	10.0	12.25%	70.0%
Asia			
Hong Kong	9.4		-
- US$ business		12.5%	
- HK$ business		12.5%	
Indonesia	7.5		-
- US$ business		11.5%	
- Rupiah business		20.5%	

Assumptions applied in determination of Market Value at 30 September 2000	**New Business Multiplier (1)**	**Risk Discount Rate (2)**	**Franking Credit Assumption(3)**
Australian Life Insurance Companies	8.8 – 10.0	12.0%	70.0%
Other Australian Companies (4)	9.5	13.0%	70.0%
Asia			
Hong Kong	9.4		-
- US$ business		13.0%	
- HK$ business		14.0%	
Indonesia	7.4		-
- US$ business		11.5%	
- Rupiah business		20.5%	

(1) New business multipliers represent the multiple of value arising from 2000 & 2001 new business experience respectively that equates to the value of future new business. It reflects the risk discount rate, anticipated new business growth and expected industry growth rates thereafter, together with an allowance for the expected pressure to reduce profit margins in the future. The change in the multipliers for the Australian companies over the year also reflects the impact of the transfer of a component of the inclusion of realised synergies.

(2) Risk discount rates are gross of tax and have been derived using the Capital Asset Pricing Model.

(3) The valuations of Australian entities comprise the present value of estimated future distributable profits after corporate tax, together with the present value of 70% of the attaching imputation credits. The valuations of international entities comprise the present values of estimated future distributable profits after corporate tax.

(4) Other Australian companies comprise, National Corporate Investment Services Limited, MLC Investments Limited and National Australia Fund Management Limited.

RESULTS BY REGION

Contribution by Region and Major Entities [1]

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%	excluding fx impact %
<u>**On-Going Core Operations**</u>						
Australia – before significant items	**1,157**	**1,130**	**2,287**	**1,780**	**28.5**	**28.5**
Banking & Other Financial Services [2]	779	774	1,553	1,399	11.0	11.0
Wealth Management [3]	284	347	631	277	large	large
Earnings on Excess Capital	78	16	94	100	(6.0)	(6.0)
Australia - significant items, after tax	**-**	**-**	**-**	**(132)**	**large**	**large**
Great Britain	**403**	**373**	**776**	**629**	**23.4**	**16.3**
Clydesdale and Yorkshire Banks [4]	426	403	829	707	17.3	5.4
Ireland	**94**	**106**	**200**	**175**	**14.3**	**6.3**
Northern and National Irish Banks	95	105	200	174	14.9	7.5
New Zealand	**146**	**136**	**282**	**250**	**12.8**	**10.8**
Bank of New Zealand	176	172	348	311	11.9	13.4
United States	**96**	**94**	**190**	**160**	**18.8**	**2.4**
NAB New York	82	83	165	141	17.0	1.2
Asia [3]	**49**	**31**	**80**	**49**	**63.3**	**11.5**
Net profit after goodwill from On-Going Core Operations	**1,945**	**1,870**	**3,815**	**2,911**	**31.1**	**27.1**
<u>**Non-Core & Disposed Operations**</u>						
HomeSide						
HomeSide - before significant items	92	39	131	87	50.6.	18.4
<u>Significant operating items</u>						
Impairment loss on mortgage servicing rights (net)	(589)	(734)	(1,323)	-	large	large
<u>Significant non-operating items</u>						
Change in assumptions	(1,436)	-	(1,436)	-	large	large
Write off of goodwill	(858)	-	(858)	-	large	large
Net profit/(loss) from HomeSide	**(2,791)**	**(695)**	**(3,486)**	**87**	**large**	**large**
Michigan National	-	132	132	243	(45.7)	(53.7)
Net profit on sale of Michigan National	1,681	-	1,681	-	large	large
Other Non-Core Operations	(42)	(12)	(54)	-	large	large
Net profit from Non-Core and Disposed Operations	**(1,152)**	**(575)**	**(1,727)**	**330**	**large**	**large**
Net profit	**793**	**1,295**	**2,088**	**3,241**	**(35.6)**	**(27.6)**
Net profit attributable to outside equity interests	1	4	5	2	large	large
Net profit attributable to members of the Company	**792**	**1,291**	**2,083**	**3,239**	**(35.7)**	**(27.7)**

(1) The regional, HomeSide US and Michigan National results include a charge for goodwill and the major entity results are before goodwill charges.

(2) Comparatives have been restated to reflect the current organisation structure, such that HomeSide Australia activities are now classified within Banking & Other Financial Services (Business & Personal Financial Services, National Shared Services and Other). Comparatives have also been restated to reflect only the ongoing core activities of Banking & Other Financial Services, with the writedown of e-commerce investments and the Vivid net operating loss reclassified as non-core activities.

(3) The Wealth Management Asia operations, previously reported as part of Wealth Management Australia, are now incorporated within the Asia results. Comparatives for the half year to March 2001 have been restated.

(4) Excluding the results of Vivid and the storecard operations of Yorkshire Bank Retail Services, which have been discontinued.

AUSTRALIA

The Australian businesses produced a result for the year exceeding $2 billion for the first time, up 28.5% on the prior year. This was due to a solid performance from Banking & Other Financial Services and an excellent result from Wealth Management, which includes MLC. The expansion of domestic Wealth Management operations boosted the Australian contribution to Group profit from ongoing core operations to 60.0%.

Banking & Other Financial Services

Banking & Other Financial Services comprises Business & Personal Financial Services, Wholesale Financial Services, Specialist & Emerging Businesses, National Shared Services and other lines of business. This represents all activities excluding Wealth Management.

Statement of Financial Performance [(1)]

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Net interest income	1,687	1,556	3,243	2,958	9.6
Other operating income	1,216	1,150	2,366	2,078	13.9
Total operating income	**2,903**	**2,706**	**5,609**	**5,036**	**11.4**
Other operating expenses	1,444	1,373	2,817	2,626	(7.3)
Underlying profit	**1,459**	**1,333**	**2,792**	**2,410**	**15.9**
Provision for doubtful debts	302	174	476	207	large
Profit before tax	**1,157**	**1,159**	**2,316**	**2,203**	**5.1**
Income tax expense	378	385	763	804	5.1
Net profit before significant items	**779**	**774**	**1,553**	**1,399**	**11.0**
Significant items - provision for restructure costs, after tax	-	-	-	58	large
Net profit before goodwill	**779**	**774**	**1,553**	**1,341**	**15.8**

(1) Comparatives have been restated to reflect the current organisation structure, such that HomeSide Australia activities are now classified within Australia Banking & Other Financial Services (Business & Personal Financial Services, National Shared Services and Other).

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	2.66%	2.66%	2.66%	2.74%
Other operating income to total income	41.9%	42.5%	42.2%	41.3%
Cost income ratio	49.7%	50.7%	50.2%	52.1%

	As at		As at	
	Sep 01	Mar 01	Sep 01	Sep 00
Gross non-accrual loans to gross loans and acceptances	0.76%	0.77%	0.76%	0.48%

Underlying profit has increased 15.9% or $382 million during the year to 30 September 2001 to $2,792 million, and in the second half increased 9.5% to $1,459 million.

Net interest income increased 9.6% to $3,243 million, despite a decline in net interest margin over the same period. The increase in net interest income was driven by strong funded-lending growth of 13%. Housing loans performed particularly well, increasing 13.3% to $51.5 billion as the National grew its market share from 16.8% at August 2000 to 17.8% at August 2001. Instalment and term lending increased 16.4% as fixed rate lending proved popular in the low interest rate environment.

The net interest margin was flat in the second half. Year on year it reduced by 8 basis points to 2.66%. This was driven by a shift in product mix to lower margin products in a competitive environment, as well as an increased proportion of wholesale borrowing costs to fund volume growth.

Other operating income increased 13.9% to $2,366 million, due to:

- sustained volatility in foreign exchange and debt markets during the year which resulted in strong product sales and favourable risk management income in Wholesale Financial Services; and
- higher lending and account fee income in Business & Personal Financial Services, and higher transaction and foreign exchange commission income in Securities Services.

Personnel expenses rose due to salary increases which occurred in the second half of the year. FTE's in Australia of 23,264 at 30 September 2001were 297 lower than September 2000. Communication costs rose as a result of customer transition to non-branch channels with transactions through the branch network now representing only 8% of total transactions processed. Loyalty program expenditure in the Cards & Payments business increased due to increased sales volumes, higher customer program redemption rates and the GST. Information technology costs also increased owing to higher software amortisation charges.

The charge for the provision for doubtful debts increased to $476 million. The charge was impacted by large provisions for a small number of corporate accounts, including Ansett. The National, as merchant transaction acquirer, has previously announced that it will provide for the recovery of funds for services not delivered to customers. The remaining increase in the charge reflects the increased statistical provisioning as a result of volume growth and the impact on credit quality of the prevailing macro-economic conditions.

Within Australia Banking and Other Financial Services has been split to provide results for Retail Banking and Other Financial Services and Wholesale Financial Services.

Retail Banking and Other Financial Services

Statement of Financial Performance [(1)]

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Net interest income	1,491	1,389	2,880	2,693	6.9
Other operating income	968	919	1,887	1,707	10.5
Total operating income	**2,459**	**2,308**	**4,767**	**4,400**	**8.3**
Other operating expenses	1,321	1,263	2,584	2,454	(5.3)
Underlying profit	**1,138**	**1,045**	**2,183**	**1,946**	**12.2**
Provision for doubtful debts	212	115	327	214	52.8
Profit before tax	**926**	**930**	**1,856**	**1,732**	**7.2**
Income tax expense	302	310	612	644	5.0
Net profit before significant items	**624**	**620**	**1,244**	**1,088**	**14.3**
Significant items - provision for restructure costs, after tax	-	-	-	56	large
Net profit before goodwill	**624**	**620**	**1,244**	**1,032**	**20.5**

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	3.10%	3.06%	3.08%	3.25%
Other operating income to total income	39.4%	39.8%	39.6%	38.8%
Cost income ratio	53.7%	54.7%	54.2%	55.8%

Wholesale Financial Services Australia

Statement of Financial Performance

	Half Year to		Year to		Favourable / (Unfavourable) Change on
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	Sep 00 %
Net interest income	196	167	363	265	37.0
Other operating income	273	259	532	429	24.0
Total operating income	**469**	**426**	**895**	**694**	**29.0**
Other operating expenses	148	138	286	230	(24.3)
Underlying profit	**321**	**288**	**609**	**464**	**31.3**
Provision for doubtful debts	90	59	149	(7)	large
Profit before tax	**231**	**229**	**460**	**471**	**(2.3)**
Income tax expense	76	75	151	160	5.6
Net profit before goodwill	**155**	**154**	**309**	**311**	**(0.6)**

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	1.25%	1.23%	1.24%	1.04%
Other operating income to total income	58.2%	60.8%	59.4%	61.8%
Cost income ratio	31.6%	32.4%	32.0%	33.1%

Wealth Management - Australia

Wealth Management's Australian operations are conducted primarily through the MLC Group and National Australia Financial Management Limited (NAFM).

Statement of Financial Performance [(1)]

	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Net premium income and other revenue	569	464	1,033	519	99.0
Investment revenue	(926)	113	(813)	1,070	large
Net (increase)/decrease in net policy liabilities	1,069	191	1,260	(652)	large
Claims, administration and other expenses	(756)	(675)	(1,431)	(688)	large
Operating profit before income tax and revaluation profit	**(44)**	**93**	**49**	**249**	**(80.3)**
Income tax (expense)/benefit	189	47	236	(124)	large
Operating profit after income tax and before revaluation profit	**145**	**140**	**285**	**125**	**large**
Revaluation profit	227	299	526	208	large
Income tax expense	(88)	(92)	(180)	(56)	large
Revaluation profit after tax	**139**	**207**	**346**	**152**	**large**
Net profit before significant items	**284**	**347**	**631**	**277**	**large**
Significant items – provision for integration, after tax	-	-	-	(71)	large
Net profit before goodwill	**284**	**347**	**631**	**206**	**large**

(1) The Wealth Management Asia operations, previously reported as part of Wealth Management Australia, are now incorporated within the Asia results. Comparatives for the half year to March 2001 have been restated. Comparatives for the year to September 2000 have not been restated.

The Australian Wealth Management operations contributed $631 million for the full year. This comprised $285 million from operating profits and $346 million from revaluation profits generated on NAFM subsidiaries. The September 2000 comparative result includes only a three month contribution in respect of the MLC Group, being MLC's contribution since acquisition on 30 June 2000 to balance date on 30 September 2000.

Financial highlights supporting the strong Australian WM contribution include:

- Sales growth of 27% over the prior year, generated in the Retail Investments, Corporate and Insurance segments.
- Rapid growth in Australian Insurance business with 32% sales growth combined with favourable claims experience.
- Investment returns on shareholders' invested assets contributed $15 million after tax to the full year result.
- Emergence of pre-tax annualised integration synergy benefits of $61 million from the integration of the MLC Group with the National's WM business. This contributed $21 million in post tax integration benefits to the full year result.
- Strategic investment in Australian businesses during the year include the expansion of distribution capacity through the acquisition of Deutsche Bank's financial planning and portfolio management businesses and increased specialist asset consultant capabilities through the acquisition of John A. Nolan & Associates.
- Disciplined expense management combined with tactical expense reductions resulted in significant reinvestment of operational expenditure into the Australian business. This funded growth initiatives including the development of the MasterKey Business Super product offering designed to capture a greater share of the growing corporate superannuation market.
- Alignment to Group accounting policies positively influenced the full year result by $37 million after tax in the MLC Group's first full year of contribution to the WM result.

Refer to the Wealth Management Line of Business commentary on page 40 for further detailed analysis of the Wealth Management results, which are currently, largely Australian based.

GREAT BRITAIN

The 23.4% profit improvement in Great Britain to $776 million (including goodwill) reflects a strong performance in local currency terms (up 16.3% on the prior year), assisted by the impact of currency movements. Wholesale operations outside those included in the Clydesdale and Yorkshire Banks increased by 29.7% to GBP 23 million. Clydesdale and Yorkshire Banks profit increased 5.4% in local currency terms.

Great Britain

The results for total Great Britain are presented below, which includes the following entities Clydesdale Bank, Yorkshire Bank, National Australia Life and the European holding company including the Wholesale operations based in London.

Statement of Financial Performance [(1)]

Australian Dollars	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Net interest income	1,020	876	1,896	1,534	23.6
Other operating income	557	573	1,130	1,101	2.6
Total operating income	**1,577**	**1,449**	**3,026**	**2,635**	**14.8**
Other operating expenses	726	686	1,412	1,363	(3.6)
Underlying profit	**851**	**763**	**1,614**	**1,272**	**26.9**
Provision for doubtful debts	211	154	365	265	(37.7)
Profit before tax	**640**	**609**	**1,249**	**1,007**	**24.0**
Income tax expense	206	205	411	316	(30.1)
Net profit before goodwill	**434**	**404**	**838**	**691**	**21.3**

Statement of Financial Performance

Pounds Sterling	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 £m	Mar 01 £m	Sep 01 £m	Sep 00 £m	%
Net interest income	367	321	687	599	14.8
Other operating income	200	210	410	430	(4.7)
Total operating income	**567**	**531**	**1,097**	**1,029**	**6.6**
Other operating expenses	261	251	512	532	3.8
Underlying profit	**306**	**279**	**585**	**497**	**17.8**
Provision for doubtful debts	76	56	132	103	(28.5)
Profit before tax	**230**	**223**	**453**	**394**	**14.9**
Income tax expense	74	75	149	123	(21.2)
Net profit before goodwill	**156**	**148**	**304**	**271**	**12.2**

(1) The results incorporate the Wealth Management entities in Great Britain. Other operating income and expenses are impacted by disclosures requirements for AASB1038.

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	2.98%	2.88%	2.93%	3.19%
Other operating income to total income	35.3%	39.5%	37.3%	41.8%
Cost income ratio	46.0%	47.3%	46.7%	51.7%

Clydesdale and Yorkshire Banks [1]

Statement of Financial Performance

Australian Dollars	Half Year to Sep 01 $m	Half Year to Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m	Favourable / (Unfavourable) Change on Sep 00 %
Net interest income	935	858	1,793	1,525	17.6
Other operating income	496	472	968	876	10.5
Total operating income	**1,431**	**1,330**	**2,761**	**2,401**	**15.0**
Other operating expenses	620	599	1,219	1,127	(8.2)
Underlying profit	**811**	**731**	**1,542**	**1,274**	**21.0**
Provision for doubtful debts	195	142	337	255	(32.2)
Profit before tax	**616**	**589**	**1,205**	**1,019**	**18.3**
Income tax expense	190	186	376	312	(20.5)
Net profit before goodwill	**426**	**403**	**829**	**707**	**17.3**

Statement of Financial Performance

Pounds Sterling	Half Year to Sep 01 £m	Half Year to Mar 01 £m	Year to Sep 01 £m	Year to Sep 00 £m	Favourable / (Unfavourable) Change on Sep 00 %
Net interest income	336	314	650	595	9.2
Other operating income	178	173	351	341	2.9
Total operating income	**514**	**487**	**1,001**	**936**	**6.9**
Other operating expenses	231	224	455	440	(3.4)
Underlying profit	**283**	**263**	**546**	**496**	**10.1**
Provision for doubtful debts	70	52	122	99	(23.2)
Profit before tax	**213**	**211**	**424**	**397**	**6.8**
Income tax expense	67	66	133	121	(9.9)
Net profit before goodwill	**146**	**145**	**291**	**276**	**5.4**

(1) Excluding results of Vivid and the storecard operations of Yorkshire Bank Retail Services, which have been discontinued.

Key Performance Measures

	Half Year to Sep 01	Half Year to Mar 01	Year to Sep 01	Year to Sep 00
Net interest margin	4.20%	4.25%	4.22%	4.31%
Other operating income to total income	34.6%	35.5%	35.1%	36.4%
Cost income ratio	44.9%	46.0%	45.5%	47.0%

	As at Sep 01	As at Mar 01	As at Sep 01	As at Sep 00
Gross non-accrual loans to gross loans and acceptances	1.13%	1.28%	1.13%	1.37%

Clydesdale and Yorkshire Banks produced a solid result for the year in the face of increased competition due to industry consolidation.

In underlying profit terms, the profit increased by 21.0%, up 10.1% in local currency terms.

Net interest income increased by 17.6% (9.2% increase in local currency) driven by strong growth in core lending and retail deposits. A $6.1 billion increase in core lending related primarily to variable rate mortgages, lease finance and fixed and variable rate term lending on the back of the successful Tailored Business Loan product. Retail deposit growth of $3.7 billion or 16.1% was achieved largely through on-demand deposits.

Margins declined by 9 basis points to 4.22% owing to a strategy of changing the business mix, partly through the success of the Tailored Business Loan product and partly in building a quality mortgage lending portfolio, and from competitive margin pressure in the marketplace.

Other operating income grew by 10.5% (2.9% in local currency terms) primarily due to increased creditor insurance income and strong sales of interest rate risk management products. Account fees declined as customers altered their transactional behaviour primarily in the first half, which was partly addressed through fee repricing initiatives in the second half.

Other operating expenses increased by $92 million or 8.2% (3.4% in local currency terms). Personnel costs rose as a result of merit increases in the trading banks but this was partly offset by a reduction in the number of full time equivalent employees. Tight cost controls resulted in a decline in the cost to income ratio from 47.0% to 45.5%.

The charge for the provision for doubtful debts increased 23.2% in local currency largely due to the adoption of prudent provisioning in view of the changing economic climate.

Net profit increased 17.3% to $829 million, up 5.4% in local currency terms.

IRELAND

The administration areas of Northern Bank and National Irish Bank were rationalised and combined during the year, enabling more resource and attention to be directed towards National Irish Bank to take advantage of the buoyant economic conditions in the Republic of Ireland.

The changeover to the Euro currency in January 2002 in the Republic of Ireland has significant implications for National Irish Bank. This involved major systems and logistical changes and the business is well prepared for the changeover.

Northern and National Irish Banks

Statement of Financial Performance

Australian Dollars	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Net interest income	263	248	511	458	11.6
Other operating income	129	122	251	225	11.6
Total operating income	**392**	**370**	**762**	**683**	**11.6**
Other operating expenses	248	210	458	401	(14.2)
Underlying profit	**144**	**160**	**304**	**282**	**7.8**
Provision for doubtful debts	8	8	16	27	40.7
Profit before tax	**136**	**152**	**288**	**255**	**12.9**
Income tax expense	41	47	88	81	(8.6)
Net profit before goodwill	**95**	**105**	**200**	**174**	**14.9**

Statement of Financial Performance

Pounds Sterling	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 £m	Mar 01 £m	Sep 01 £m	Sep 00 £m	%
Net interest income	94	91	185	180	2.8
Other operating income	47	44	91	87	4.6
Total operating income	**141**	**135**	**276**	**267**	**3.4**
Other operating expenses	89	77	166	158	(5.1)
Underlying profit	**52**	**58**	**110**	**109**	**0.9**
Provision for doubtful debts	3	3	6	10	40.0
Profit before tax	**49**	**55**	**104**	**99**	**5.1**
Income tax expense	15	17	32	32	-
Net profit before goodwill	**34**	**38**	**72**	**67**	**7.5**

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	3.63%	3.54%	3.59%	3.67%
Other operating income to total income	33.3%	32.6%	33.0%	32.6%
Cost income ratio	63.1%	57.0%	60.1%	59.2%

	As at		As at	
	Sep 01	Mar 01	Sep 01	Sep 00
Gross non-accrual loans to gross loans and acceptances	1.41%	1.27%	1.41%	1.21%

The National's two Irish banks achieved an increase in post tax profits of $26 million, an increase of 14.9% on the prior year (7.5% in local currency terms).

Net interest income increased by GBP5 million or 2.8% as a result of growth in business lending and mortgages particularly in the Republic of Ireland. Net interest margin improved 9 basis points in the second half, but was insufficient to offset the full year reduction.

Other operating income increased by 4.6% in local currency terms on the back of the launch of the Tailored Business Loan product, enhanced fee collection rates and tracker bond commission.

In National Irish Bank there were a number of one off expenses in both 2001 and 2000

- in the second half of 2001, expenses included a net charge of GBP11million in respect of settlement of customer claims pertaining to the sale of certain offshore insurance products, investigation expenses and restructuring costs.
- in the second half of 2000, expenses included GBP5million in respect of settlement of Deposit Interest Retention Tax and investigation costs.

After adjusting for these expenses, other operating expenses were in line with the previous year, reflecting a strong cost focus.

Although the charge for the provision for doubtful debts for the period decreased by GBP4 million, the underlying charge was steady as the previous year's charge included a substantial provision relating to one customer.

NEW ZEALAND

New Zealand contributed net profit of $282 million for 2001 year, compared to $250 million in the previous year, an increase of 12.8%. Bank of New Zealand, the National's main operating entity in New Zealand increased its profits 13.4% in local currency terms to NZ$441 million.

Bank of New Zealand

Statement of Financial Performance

Australian Dollars	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Net interest income	315	288	603	509	18.5
Other operating income	198	198	396	395	0.3
Total operating income	**513**	**486**	**999**	**904**	**10.5**
Other operating expenses	270	242	512	493	(3.9)
Underlying profit	**243**	**244**	**487**	**411**	**18.5**
Provision for doubtful debts	4	6	10	11	9.1
Profit before tax	**239**	**238**	**477**	**400**	**19.3**
Income tax expense	60	60	120	81	(48.1)
Net profit before goodwill	**179**	**178**	**357**	**319**	**11.9**

The above table reflect the legal entity results of Bank of New Zealand. The table below shows the after tax contributions of the major geographic units.

New Zealand operations	176	172	348	311	11.9
Asian operations	3	6	9	8	12.5
Total Bank of New Zealand	179	178	357	319	11.9

Statement of Financial Performance

New Zealand Dollars	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 NZ$m	Mar 01 NZ$m	Sep 01 NZ$m	Sep 00 NZ$m	%
Net interest income	388	364	752	644	16.8
Other operating income	244	250	494	499	(1.0)
Total operating income	**632**	**614**	**1,246**	**1,143**	**9.0**
Other operating expenses	337	309	646	637	(1.4)
Underlying profit	**295**	**305**	**600**	**506**	**18.6**
Provision for doubtful debts	4	8	12	14	14.3
Profit before tax	**291**	**297**	**588**	**492**	**19.5**
Income tax expense	72	75	147	103	(42.7)
Net profit before goodwill	**219**	**222**	**441**	**389**	**13.4**

Key Performance Measures

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
Net interest margin	2.22%	2.17%	2.20%	2.16%
Other operating income to total income	38.6%	40.7%	39.6%	43.7%
Cost income ratio	53.3%	50.3%	51.8%	55.7%

	As at		As at	
	Sep 01	Mar 01	Sep 01	Sep 00
Gross non-accrual loans to gross loans and acceptances	0.18%	0.27%	0.18%	0.32%

Highlights

Bank of New Zealand's (BNZ) domestic operations contributed net profit of $357 million, an increase of 11.9% from the prior year, or 13.4% in local currency terms.

Net interest income grew strongly, up 18.5% to $603 million. This growth was attributable to growth in core lending and deposit volumes. Net interest margins increased to 2.20%.

Other operating income increased marginally, up 0.3% to $396 million primarily due to the impact on fee income of customer migration to lower cost channels. This was partly offset by growth in treasury income for Wholesale Financial Services, as well as increased banking fee income resulting from higher lending volumes.

While other operating expenses increased 3.9% (1.4% in local currency terms) to $512 million, the cost to income ratio in local currency terms improved from 55.7% to 51.8% reflecting improved efficiencies and the refinement of key processe s.

The charge for the provision for doubtful debts declined 9.1% to $10 million. The provision decrease reflects the current status of the New Zealand cycle.

UNITED STATES

The United States (excluding Michigan National) contributed net profit before significant items of $190 million compared to $160 million for the previous year, an increase of 18.8%. The principal operating entity is the New York operation.

NAB New York

Statement of Financial Performance

Australian Dollars	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	%
Net interest income	126	109	235	157	49.7
Other operating income	40	38	78	50	56.0
Total operating income	**166**	**147**	**313**	**207**	**51.2**
Other operating expenses	46	42	88	62	(41.9)
Underlying profit	**120**	**105**	**225**	**145**	**55.2**
Provision for doubtful debts	20	11	31	-	large
Profit before tax	**100**	**94**	**194**	**145**	**33.8**
Income tax expense	18	11	29	4	large
Net profit before goodwill	**82**	**83**	**165**	**141**	**17.0**

Statement of Financial Performance

United States Dollars	Half Year to		Year to		Favourable / (Unfavourable) Change on Sep 00
	Sep 01 US$m	Mar 01 US$m	Sep 01 US$m	Sep 00 US$m	%
Net interest income	65	58	123	96	28.1
Other operating income	21	20	41	31	32.3
Total operating income	**86**	**78**	**164**	**127**	**29.1**
Other operating expenses	24	22	46	38	(21.1)
Underlying profit	**62**	**56**	**118**	**89**	**32.6**
Provision for doubtful debts	10	6	16	-	large
Profit before tax	**52**	**50**	**102**	**89**	**14.6**
Income tax expense	9	6	15	3	large
Net profit before goodwill	**43**	**44**	**87**	**86**	**1.2**

The Group's New York operations reported an increase in net profit of 1.2% to US$87 million driven by income growth offset by increased provision for doubtful debts and unfavourable tax provision adjustments.

Net interest income increased by 28.1% to US$123 million with continuing reductions in US interest rates resulting in strong growth in income from funding and liquidity management activities. This was offset by higher interest expense in relation to the National Income Securities issue, due to the weak Australian dollar.

Other operating income increased by 32.3% to US$41 million driven by sales of risk management products, as well as solid risk management income.

Continued strong income growth resulted in an increase in operating costs, which grew by 21.1% in local currency terms to US$46 million. These costs were largely variable by nature. The charge to provide for doubtful debts increased by US$16 million.

ASIA

The Asian operations consist primarily of Wholesale Financial Services, in addition to Wealth Management and Nautilus Insurance. The total contribution from Asia for the year was $80 million before outside equity interests, an increase of 63.3% or 40.0% in local currency (US dollar) terms.

Statement of Financial Performance [(1)]

Australian Dollars	Half Year to		Year to		Favourable / (Unfavourable)
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	Change on Sep 00 %
Reconciliation by Line of Business					
Wholesale Financial Services	30	38	68	27	large
Wealth Management [(1)]	9	(11)	(2)	-	large
Other	10	4	14	22	(36.4)
Net profit before goodwill and outside equity interests	**49**	**31**	**80**	**49**	**63.3**

(1) The Wealth Management Asia operations, previously reported as part of Wealth Management Australia, are now incorporated within the Asia results. Comparatives for the half year to March 2001 have been restated

The growth in profit was largely driven by Wholesale Financial Services, up 151.9% to $68 million. The results for the prior year included one off restructuring costs of $4 million after tax resulting from the regional strategic review. Excluding the impact of these costs, profit increased by 119.3%, driven by:

- volatility in interest rates resulted in strong growth in net interest income, primarily from funding and liquidity management activities;
- lower expenses; and
- reduced charge for the provision for doubtful debts.

Wealth Management's Asian operations contributed a $2 million loss to the result (before outside equity interests). This comprised $11 million profit from operations and a $13 million revaluation reduction of the Wealth Management's Asian businesses.

Nautilus Insurance, a captive insurance operation, contributed $6 million to the Asia result compared with $10 million last year.

NON-CORE OPERATIONS

HomeSide International Inc

Statement of Financial Performance

Australian Dollars	Half Year to Sep 01 $m	Half Year to Restated[1] Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m	Favourable / (Unfavourable) Change on Sep 00 %
Mortgage servicing fees	872	805	1,677	1,200	39.8
Amortisation of mortgage servicing rights	712	491	1,203	665	(80.9)
Net servicing revenue	**160**	**314**	**474**	**535**	**(11.4)**
Net interest income	(6)	(71)	(77)	(77)	-
Net mortgage origination revenue	240	96	336	105	large
Other income	46	15	61	13	large
Total operating income	**441**	**354**	**794**	**576**	**37.8**
Other operating expenses	261	218	479	318	(50.6)
Underlying profit	**179**	**136**	**315**	**258**	**22.1**
Provision for doubtful debts	28	34	62	55	(12.7)
Profit before tax	**151**	**102**	**253**	**203**	**24.6**
Income tax expense	37	37	74	62	(19.4)
Net operating profit before significant items	**114**	**65**	**179**	**141**	**27.0**
Goodwill amortisation	22	26	48	54	11.1
Net operating profit after goodwill amortisation and before significant items	**92**	**39**	**131**	**87**	**50.6**
Significant operating expense – impairment loss on mortgage servicing	909	734	1,643	-	large
Income tax expense on impairment loss	320	-	320	-	large
Net operating profit	**(497)**	**(695)**	**(1,192)**	**87**	large
Significant non-operating expenses					
Change in assumptions	1,436	-	1,436	-	large
Write off of goodwill	858	-	858	-	large
Net profit	**(2,791)**	**(695)**	**(3,486)**	**87**	**large**

(1) Comparatives have been restated in relation to a HomeSide writedown. Refer note 8 for further information.

Statement of Financial Performance [(1)]

United States Dollars

	Half Year to Sep 01 US$m	Half Year to Restated[(1)] Mar 01 US$m	Year to Sep 01 US$m	Year to Sep 00 US$m	Favourable / (Unfavourable) Change on Sep 00 %
Mortgage servicing fees	448	428	876	732	19.7
Amortisation of mortgage servicing rights	368	261	629	406	(54.9)
Net servicing revenue	**80**	**167**	**247**	**326**	**(24.2)**
Net interest income	(2)	(38)	(40)	(47)	14.9
Net mortgage origination revenue	124	51	175	64	large
Other income	24	8	32	8	large
Total operating income	**226**	**188**	**414**	**351**	**17.9**
Other operating expenses	135	116	251	194	(29.4)
Underlying profit	**91**	**72**	**163**	**157**	**3.8**
Provision for doubtful debts	14	18	32	33	3.0
Profit before tax	**77**	**54**	**131**	**124**	**5.6**
Income tax expense	20	20	40	38	(5.3)
Net operating profit before significant items	**57**	**34**	**91**	**86**	**5.8**
Goodwill amortisation	15	18	33	37	10.8
Net operating profit after goodwill amortisation and before significant items	**42**	**16**	**58**	**49**	**18.4**
Significant operating expense – impairment loss on mortgage servicing	461	389	850	-	large
Income tax expense on impairment loss	166		166		large
Net operating profit	**(253)**	**(373)**	**(626)**	**49**	**large**
Significant non-operating expenses					
Change in assumptions	760	-	760	-	large
Write off of goodwill	590	-	590	-	large
Net profit	**(1,603)**	**(373)**	**(1,976)**	**49**	**large**

(1) Comprise the US operations of HomeSide only.

(2) Comparatives have been restated in relation to a HomeSide writedown. Refer note 8 for further information.

The HomeSide US business recorded a net operating loss after significant items of $3,486 million compared to a net profit of $87 million in the prior year.

The second half results were impacted by unprecedented uncertainty and turbulence in the US mortgage servicing market and the discovery of an incorrect interest rate assumption embedded in the mortgage servicing rights valuation model which was subsequently corrected. These factors resulted in a $1.3 billion after tax operating impairment loss on mortgage servicing rights and a $2.3 billion non operating charge comprising a $1.4 billion provision for changes in valuation assumptions to reduce the carrying value of the mortgage servicing rights to an estimated market sale value and $858 million for write off of goodwill.

HomeSide's net operating profit before significant items and goodwill increased 27.0% (5.8% in local currency terms) to $179 million. Operating profit performed strongly in the second half with operating profits 75.4% ahead of the March half.

Net mortgage origination revenue was up 220% (173% in local currency terms) over the prior year primarily due to a 96.2% increase in core production volume to US$20.8 billion.

Net servicing revenue for the year decreased by 11.4% (24.2% in local currency terms) with an increase in mortgage servicing fees more than offset by higher amortization of mortgage servicing rights. Mortgage servicing fees increased as the servicing portfolio grew by 8.1% to US$187.4 billion. However the decline in mortgage rates resulted in higher prepayment activity which drove an 80.9% increase in amortization charges for mortgage servicing rights.

Other operating expenses rose by 50.6% (29.4% in local currency terms) primarily driven by increased production volumes, growth in the servicing portfolio and increased refinancing activity following the decline in US interest rates. Higher volumes resulted in a 12.7% (3.0% in local currency terms) increase in the charge for the provision for doubtful debts.

RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2001

Detailed Financial Information

1. FINANCIAL OVERVIEW

	Total		On-Going Core Operations		Non-Core and Disposed Operations	
	Year to Sep 01 $m	Change from Sep 00 %	Year to Sep 01 $m	Change from Sep 00 %	Year to Sep 01 $m	Change from Sep 00 %
Net interest income	6,960	9	6,676	15	284	(49)
Other income						
Operating	5,756	(9)	4,712	(12)	1,044	9
Revaluation	510	large	510	large	-	-
Significant non-operating [1]	5,314	large	-	-	5,314	large
Total income	**18,540**	**44**	**11,898**	**5**	**6,642**	**338**
Expenses						
Operating	6,539	7	5,725	8	814	(1)
Significant operating [2]	1,643	large	-	-	1,643	large
Goodwill	167	15	95	0	72	29
Significant non-operating [3]	5,223	large	-	-	5,223	large
Total expenses	**13,572**	**(83)**	**5,820**	**(11)**	**7,752**	**(757)**
Profit before provision for doubtful debts	**4,968**	**9**	**6,078**	**25**	**(1,110)**	**281**
Provision for doubtful debts	989	(68)	897	-	92	(31)
Profit before income tax expense	**3,979**	**(18)**	**5,181**	**20**	**(1,202)**	**(321)**
Income tax expense						
Operating	1,330	19	1,189	17	141	34
Revaluation	177	-	177	-	-	-
Significant operating [2]	(320)	-	-	-	(320)	-
Significant non-operating [1][3]	704	-	-	-	704	-
Total income tax expense	**1,891**	**(16)**	**1,366**	**4**	**525**	**(146)**
Net profit	**2,088**	**(36)**	**3,815**	**31**	**(1,727)**	**(623)**
Net profit attributable to outside equity interests	5	-	5	-	-	-
Net profit attributable to members of the Company	**2,083**	**(36)**	**3,810**	**31**	**(1,727)**	**(623)**
Distributions	213	(8)	213	(8)	-	-
Earnings attributable to ordinary shareholders	**1,870**	**(39)**	**3,597**	**33**	**(1,727)**	**(623)**

Earnings per share	121.5c	(40)
Earnings before significant items per ordinary shares	247.4c	17
Cash earnings before significant items per ordinary shares	236.6c	10
Return on equity before significant items	18.4%	3 bp

[1] Proceeds on sale of Michigan National Corporation.

[2] Provision for impairment loss on mortgage servicing rights

[3] Change in assumptions and write off of goodwill in relation to HomeSide Lending Inc and cost of MNC.

2. NET INTEREST INCOME

	Half Year to		Year to		Change from
	Sep 01	Mar 01	Sep 01	Sep 00	Sep 00
	$m	$m	$m	$m	%
On-Going Core Operations					
Interest income					
Loans to customers	7,105	7,287	14,392	12,621	14
Other interest	1,954	2,187	4,141	3,148	32
Total Interest Income	9,059	9,474	18,533	15,769	18
Interest expense					
Deposits and other borrowings	4,074	4,513	8,587	7,471	(15)
Other	1,429	1,841	3,270	2,486	(32)
Total Interest Expense	5,503	6,354	11,857	9,957	(19)
Total On-Going Core Operations	**3,556**	**3,120**	**6,676**	**5,812**	**15**
Non-Core and Disposed Operations					
HomeSide US					
Total Interest Income	304	273	577	451	28
Total Interest Expense	310	344	654	528	(24)
Net Interest Income from HomeSide US	(6)	(71)	(77)	(77)	-
Michigan National					
Total Interest Income	-	798	798	1,297	(39)
Total Interest Expense	-	448	448	661	32
Net Interest Income from Michigan National	-	350	350	636	(45)
Other Non-Core Operations					
Vivid	4	7	11	-	large
Total Non-Core and Disposed Operations	**(2)**	**286**	**284**	**559**	**(49)**
Net Interest Income	**3,554**	**3,406**	**6,960**	**6,371**	**9**

Reconciliation to Statement of Financial Performance

	Half Year to Sep 01 $m	Half Year to Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m	Change from Sep 00 %
On-Going Core Operations					
Banking & Other Financial Services					
Net interest income	3,435	3,102	6,537	5,664	15
Wealth Management					
Net interest income (1)	3	(7)	(4)	(8)	large
Excess Capital					
Earnings on excess capital	118	25	143	156	(8)
Non-Core and Disposed Operations					
HomeSide US					
Net interest income	(6)	(71)	(77)	(77)	-
Michigan National					
Net interest income	-	350	350	636	(45)
Other Non-Core Operations					
Net interest income	4	7	11	-	large
Net Interest Income	**3,554**	**3,406**	**6,960**	**6,371**	**9**

(1) Included in Net premium income and other revenue in the Statement of Financial Performance

3. NET INTEREST MARGINS AND SPREADS

	Half Year to		Year to	
	Sep 01	Mar 01	Sep 01	Sep 00
	%	%	%	%
Australia [1]				
Australia Interest Spread	2.77	2.35	2.56	2.34
Australia Interest Margin [2]	3.00	2.82	2.91	2.96
Australia Interest Margin (excluding earnings on excess capital) [2]	2.81	2.77	2.79	2.81
Great Britain [1]				
Great Britain Interest Spread	2.40	2.48	2.45	2.81
Great Britain Interest Margin [2]	2.98	2.88	2.93	3.19
Other International [1]				
Other International Interest Spread	1.58	1.86	1.72	2.01
Other International Interest Margin [2]	1.80	2.09	1.96	2.39
Group				
Group Interest Spread	**2.41**	**2.28**	**2.34**	**2.39**
Group Interest Margin [2]	**2.76**	**2.66**	**2.71**	**2.88**
Group Interest Margin (excluding earnings on excess capital) [2]	**2.67**	**2.64**	**2.66**	**2.81**

[1] Australia, Great Britain and Other International include intragroup cross border loans/borrowings and associated interest.

[2] Interest margin is net interest income as a percentage of average interest earning assets

4. AVERAGE BALANCE SHEET & RELATED INTEREST

The following tables set forth the major categories of interest earning assets and interest bearing liabilities, together with their respective interest rates earned or paid by the Group. Averages are predominantly daily averages. Interest income figures include interest income on non-accruing loans to the extent cash payments have been received. Amounts classified as Other International represent interest earning assets or interest bearing liabilities of the controlled entities and overseas branches excluding Great Britain, HomeSide US and Michigan.

Average Assets and Interest Income

	Year ended Sep 01			Year ended Sep 00		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Interest earning assets						
Due from other financial institutions						
Australia	1,980	110	5.56	1,490	79	5.30
Great Britain	3,879	194	5.00	2,537	192	7.57
Other International	9,453	491	5.19	7,282	420	5.77
Regulatory deposits						
Great Britain	40	-	-	34	-	-
Other International	91	3	3.30	75	2	2.67
Marketable debt securities						
Australia	11,813	624	5.28	12,182	638	5.24
Great Britain	9,410	534	5.67	4,858	254	5.23
Michigan	1,813	126	6.95	2,611	175	6.70
Other International	10,838	576	5.31	6,635	398	6.00
Loans and advances (1)						
Australia	101,941	7,525	7.38	91,120	6,797	7.46
Great Britain	49,216	3,792	7.70	39,033	3,163	8.10
HomeSide US	25	190	760.00	21	130	619.05
Michigan	8,120	668	8.23	13,713	1,103	8.04
Other International	41,959	3,084	7.35	35,276	2,661	7.54
Other interest earning assets (2)						
Australia	13	1,570	n/a	14	1,123	n/a
Great Britain	22	-	n/a	-	-	n/a
HomeSide US	2,990	387	n/a	2,239	321	n/a
Michigan	34	4	n/a	163	20	n/a
Other International	2,966	41	n/a	1,704	41	n/a
Intragroup loans (3)						
Great Britain	1,765	105	5.95	1,220	104	8.52
Other International	8,483	350	4.13	3,179	169	5.32
Average interest earning assets and interest income incl intragroup loans by:						
Australia	115,747	9,829	8.49	104,806	8,637	8.24
Great Britain	64,332	4,625	7.19	47,682	3,713	7.79
HomeSide US	3,015	577	19.14	2,260	451	19.96
Michigan	9,967	798	8.01	16,487	1,298	7.87
Other International	73,790	4,545	6.16	54,151	3,691	6.82
Total average interest earning assets and interest income incl intragroup loans	**266,851**	**20,374**	**7.63**	**225,386**	**17,790**	**7.89**

Average Assets and Interest Income

	Year ended Sep 01			Year ended Sep 00		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Intragroup loans eliminations	(10,248)	(455)	4.44	(4,399)	(273)	6.21
Total average interest earning assets by:						
Australia	115,747	9,829	8.49	104,806	8,637	8.24
Great Britain	62,567	4,520	7.22	46,462	3,609	7.77
HomeSide US	3,015	577	19.14	2,260	451	19.96
Michigan	9,967	798	8.01	16,487	1,298	7.87
Other International	65,307	4,195	6.42	50,972	3,522	6.91
Total average interest earning assets	**256,603**	**19,919**	**7.76**	**220,987**	**17,517**	**7.93**
Non-interest earning assets						
Investments relating to life insurance business (4)						
Australia	30,642			7,329		
Great Britain	572			609		
Other International	19			18		
Acceptances						
Australia	22,405			22,349		
Great Britain	406			632		
Other International	598			533		
Fixed assets						
Australia	1,173			845		
Great Britain	560			562		
HomeSide US	92			99		
Michigan	98			165		
Other International	416			385		
Other assets						
Australia	19,422			15,811		
Great Britain	5,230			3,691		
HomeSide US	11,206			8,421		
Michigan	1,050			1,894		
Other International	7,111			3,527		
Total average non-interest earning assets by:						
Australia	73,642			46,334		
Great Britain	6,768			5,494		
HomeSide US	11,298			8,520		
Michigan	1,148			2,059		
Other International	8,144			4,463		
Total average non-interest earning assets	**101,000**			**66,870**		
Provision for doubtful debts						
Australia	(1,348)			(1,246)		
Great Britain	(703)			(609)		
HomeSide US	(32)			(57)		
Michigan	(165)			(291)		
Other International	(367)			(347)		
Total average assets by:						
Australia	188,041			149,894		
Great Britain	68,632			51,347		
HomeSide US	14,281			10,723		
Michigan	10,950			18,255		
Other International	73,084			55,088		
Total average assets	**354,988**			**285,307**		
Percentage of total average assets applicable to international operations	**47.0%**			**47.5%**		

Average Liabilities and Interest Expense

	Year ended Sep 01			Year ended Sep 00		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Interest bearing liabilities						
Time deposits						
Australia	33,709	1,856	5.51	33,321	1,761	5.28
Great Britain	25,837	1,437	5.56	19,776	1,139	5.76
Michigan	2,907	191	6.57	4,711	284	6.03
Other International	29,106	1,434	4.93	21,469	1,131	5.27
Savings deposits						
Australia	5,584	290	5.19	5,919	300	5.07
Great Britain	9,445	339	3.59	8,785	353	4.02
Michigan	2,622	120	4.58	4,508	183	4.06
Other International	5,350	183	3.42	4,593	159	3.46
Other demand deposits						
Australia	30,796	1,050	3.41	27,703	839	3.03
Great Britain	10,732	307	2.86	8,323	233	2.80
Michigan	456	7	1.54	824	11	1.33
Other International	4,508	145	3.22	3,948	157	3.98
Government and Official Institutions						
Australia	750	36	4.80	788	37	4.70
Michigan	407	25	6.14	821	47	5.72
Other International	1,767	93	5.26	725	43	5.93
Due to other financial institutions						
Australia	4,178	203	4.86	3,350	170	5.07
Great Britain	9,168	499	5.44	5,693	305	5.36
Michigan	1,263	79	6.25	1,581	95	6.01
Other International	23,207	1,126	4.85	14,757	852	5.77
Short-term borrowings						
HomeSide US	3,084	280	9.08	2,595	218	8.40
Other International	4,300	243	5.65	4,559	282	6.19
Long-term borrowings						
Australia	18,515	1,158	6.25	13,404	844	6.30
Great Britain	1,357	6	0.44	148	31	20.95
HomeSide	3,789	211	5.57	2,284	146	6.39
Michigan	57	4	7.02	28	-	-
Other International	209	30	14.35	195	32	16.41
Other interest bearing liabilities[(4)]						
Australia	4,358	1,365	n/a	4,460	1,271	n/a
Great Britain	10	-	n/a	8	-	n/a
Michigan	52	22	n/a	140	26	n/a
Other International	(353)	28	n/a	3	31	n/a
Loan Capital						
Australia	673	42	6.24	456	36	7.89
Great Britain	1,220	150	12.30	1,283	130	10.13
Intragroup loans						
Australia	10,248	455	4.44	4,399	273	6.21
Average interest bearing liabilities and interest expense incl intragroup loans by:						
Australia	108,811	6,455	5.93	93,800	5,531	5.90
Great Britain	57,769	2,738	4.74	44,016	2,191	4.98
HomeSide US	6,873	491	7.14	4,879	364	7.46
Michigan	7,764	448	5.77	12,613	646	5.12
Other International	68,094	3,282	4.82	50,249	2,687	5.35
Total average interest bearing liabilities and interest expense incl intragroup loans	**249,311**	**13,414**	**5.38**	**205,557**	**11,419**	**5.56**

Average Liabilities and Interest Expense

	Year ended Sep 01			Year ended Sep 00		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Intragroup loans eliminations	(10,248)	(455)	4.44	(4,399)	(273)	6.21
Total average interest bearing liabilities and interest expense by:						
Australia	98,563	6,000	6.09	89,401	5,258	5.88
Great Britain	57,769	2,738	4.74	44,016	2,191	4.98
HomeSide US	6,873	491	7.14	4,879	364	7.46
Michigan	7,764	448	5.77	12,613	646	5.12
Other International	68,094	3,282	4.82	50,249	2,687	5.35
Total average interest bearing liabilities and interest expense	**239,063**	**12,959**	**5.42**	**201,158**	**11,146**	**5.54**
Non-interest bearing liabilities						
Deposits not bearing interest						
Australia	4,287			4,264		
Great Britain	3,161			2,755		
Michigan	1,422			2,576		
Other International	3,577			2,826		
Liability on acceptances						
Australia	22,405			22,349		
Great Britain	406			632		
Michigan	1			1		
Other International	597			532		
Life insurance policy liabilities (4)						
Australia	29,550			11,413		
Great Britain	509			544		
Other International	5			7		
Other liabilities						
Australia	15,097			8,267		
Great Britain	5,378			2,546		
HomeSide US	1,947			1,292		
Michigan	193			320		
Other International	3,963			3,564		
Total average non-interest bearing liabilities by:						
Australia	71,339			46,293		
Great Britain	9,454			6,477		
HomeSide US	1,947			1,292		
Michigan	1,616			2,897		
Other International	8,142			6,929		
Total average non-interest bearing liabilities	**92,498**			**63,888**		

Equity

	Year ended Sep 01			Year ended Sep 00		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Equity						
Contributed equity	7,624			7,057		
Preference share capital	730			730		
National income securities	1,945			1,945		
Reserves	2,210			1,079		
Retained profits	10,851			9,439		
Outside equity interests in controlled entities	67			11		
Equity	**23,427**			**20,261**		
Total liabilities and equity	**354,988**			**285,307**		
Percentage of total average liabilities applicable to international operations	**48.8%**			**48.8%**		

(1) Includes non-accrual loans.

(2) Includes interest on derivatives and escrow deposits.

(3) The calculations for Australia, Great Britain, Michigan, HomeSide US and Other International include intragroup cross border loans/ borrowings and associated interest.

(4) The assets and liabilities held in the statutory funds are subject to restrictions of the Life Insurance Act 1995.
The assets and liabilities of MLC have been included since the date of acquisition on June 30, 2000.

5. LOAN VOLUMES

	As at			Movement from	
	Sep 01 $m	Mar 01 $m	Sep 00 $m	Sep 00 %	Sep 00 excluding fx impact %
Gross Loans & Advances By Region					
On-Going Core Operations					
Australia	106,789	102,021	97,264	10	10
Great Britain	59,352	51,863	47,994	24	12
Ireland	12,902	12,234	10,993	17	5
New Zealand	24,011	23,214	20,617	17	6
United States	4,618	6,359	3,868	19	8
Asia	4,735	4,066	3,352	41	33
Total On-Going Core Operations	**212,407**	**199,757**	**184,088**	**15**	**10**
Non-Core and Disposed Operations					
United States					
HomeSide US	27	28	29	(7)	(15)
Michigan National	-	17,676	15,879	large	large
Total Non-Core and Disposed Operations	**27**	**17,704**	**15,908**	**large**	**large**
Total Gross Loans and Advances	**212,434**	**217,461**	**199,996**	**6**	**1**
Securitised Loans	**1,440**	**1,770**	**-**	**large**	**large**

Gross Loans & Advances By Product

	Sep 01 $m	Mar 01 $m	Sep 00 $m	Sep 00 %	Sep 00 excluding fx impact %
On-Going Core Operations					
Housing	81,612	75,304	70,415	16	12
Term Lending	77,776	67,902	61,002	28	19
Overdrafts	20,124	19,615	17,882	13	5
Leasing	15,776	15,388	14,283	11	5
Credit cards	6,118	5,756	5,281	16	11
Other	11,001	15,792	15,225	(28)	(29)
Total On-Going Core Operations	**212,407**	**199,757**	**184,088**	**15**	**10**
Non-Core and Disposed Operations					
HomeSide US	27	28	29	large	(15)
Michigan National	-	17,676	15,879	large	large
Total Non-Core and Disposed Operations	**27**	**17,704**	**15,908**	**large**	**large**
Total Gross Loans and Advances	**212,434**	**217,461**	**199,996**	**6**	**1**
Securitised Loans	**1,440**	**1,770**	**-**	**large**	**large**

Gross Loans & Advances By Product & Region	Australia $m	Great Britain $m	Ireland $m	New Zealand $m	United States $m	Asia $m	Total $m
	As at Sep 01						
Housing	55,629	12,569	4,341	8,396	28	676	81,639
Term Lending	30,373	24,213	5,639	9,847	4,355	3,349	77,776
Overdrafts	5,417	11,596	2,182	929	-	-	20,124
Leasing	7,073	8,180	467	3	-	53	15,776
Credit cards	3,207	1,844	273	794	-	-	6,118
Other	5,090	950	-	4,042	262	657	11,001
Total Gross Loans and Advances	**106,789**	**59,352**	**12,902**	**24,011**	**4,645**	**4,735**	**212,434**

Excluding Foreign Exchange	Australia %	Great Britain %	Ireland %	New Zealand %	United States %	Asia %	Total %
	Movement from Sep 00						
Gross Loans and Advances	9.8	11.8	5.0	5.9	8.4	33.3	9.9
Including:							
Housing	14.2	8.9	9.9	9.1	(10.4)	(16.1)	12.2
Term Lending	13.3	36.8	4.7	5.4	15.9	55.2	19.4
Overdrafts	(13.1)	12.2	(5.1)	(30.5)	-	-	4.9
Leasing	5.3	7.1	6.5	3.2	-	(10.0)	4.7
Credit cards	8.6	12.0	14.7	15.1	-	-	10.7

6. OTHER OPERATING INCOME

	Half Year to		Year to		Favourable/ (Unfavourable) Change from	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m	Sep 00 %	Sep 00 excluding fx impact %
<u>**On-Going Core Operations**</u>						
Banking & Other Financial Services						
Loan fees from banking	678	644	1,322	1,225	8	6
Money transfer fees	498	464	962	913	5	2
Fees and comissions - banking	468	436	904	848	7	3
Treasury related income	314	401	715	463	54	50
Other banking income	167	84	251	280	(10)	(16)
Total Banking & Other Financial Services	**2,125**	**2,029**	**4,154**	**3,729**	**11**	**8**
Wealth Management						
Net premium income and other revenue[1]	797	748	1,545	596	large	large
Investment revenue	(964)	79	(885)	1,070	large	large
Revaluation profit	237	273	510	202	large	large
Total Wealth Management	**70**	**1,100**	**1,170**	**1,868**	**(37)**	**(38)**
Total On-Going Core Operations	**2,195**	**3,129**	**5,324**	**5,597**	**(5)**	**(7)**
<u>**Non-Core and Disposed Operations**</u>						
HomeSide US						
Net mortgage origination revenue	240	96	336	105	large	large
Net mortgage servicing fees	160	314	474	535	(11)	(24)
Other HomeSide revenue	46	15	61	13	large	large
Total HomeSide US	**446**	**425**	**871**	**653**	**33**	**14**
Michigan National						
Fees and commissions - banking	-	156	156	272	(43)	(50)
Treasury related income	-	6	6	5	20	1
Other banking income	-	9	9	29	(69)	(83)
Total Michigan National	**-**	**171**	**171**	**306**	**(44)**	**(52)**
Disposal of Michigan National						
Proceeds from the sale of foreign operations	5,314	-	5,314	-	large	large
Other Non-Core Operations						
Vivid other operating income	1	1	2	-	large	large
Total Non-Core and Disposed Operations	**5,761**	**597**	**6,358**	**959**	**large**	**large**
Group Eliminations [2]	(79)	(23)	(102)	(33)	large	large
Total Other Operating Income	**7,877**	**3,703**	**11,580**	**6,523**	**78**	**73**

(1) Excludes 'Net Interest Income' portion included in the Statement of Financial Performance

(2) This is the first time the 'Group eliminations' line has been separately disclosed as this amount was previously eliminated within Banking & Other Financial Services. Comparative information has been restated to reflect the new methodology.

7. OPERATING EXPENSES

Reconciliation to Statement of Financial Performance	Half Year to Sep 01 $m	Half Year to Restated (3) Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m	Favourable/ (Unfavourable) Change from Sep 00 %	Favourable/ (Unfavourable) Change from Sep 00 excluding fx impact %
On-Going Core Operations						
Banking & Other Financial Services						
Other operating expenses						
Personnel expenses	1,463	1,413	2,876	2,763	(4)	(2)
Occupancy expenses	234	256	490	445	(10)	(7)
Communication, postage and stationery	210	197	407	368	(11)	(8)
General expenses	837	695	1,532	1,296	(18)	(11)
Total other operating expenses	2,744	2,561	5,305	4,872	(9)	(5)
Significant operating expenses	-	-	-	96	large	large
Total Banking & Other Financial Services	**2,744**	**2,561**	**5,305**	**4,968**	**(7)**	**(3)**
Wealth Management						
Net increase/(decrease) in net policy liabilities	(1,109)	(209)	(1,318)	652	large	large
Claims, administration and other expenses	956	884	1,840	738	large	large
Total other operating expenses	(153)	675	522	1,390	62	63
Significant operating expenses	-	-	-	108	large	large
Total Wealth Management	**(153)**	**675**	**522**	**1,498**	**65**	**66**
Total On-Going Core Operations	**2,591**	**3,236**	**5,827**	**6,466**	**10**	**12**
Non-Core and Disposed Operations						
HomeSide US (1) (3)	3,464	952	4,416	318	large	large
Michigan National	-	271	271	485	44	53
Disposal of Michigan National						
Cost of foreign operations sold	2,929	-	2,929	-	large	large
Other Non-Core Operations						
Writedown of e-commerce investments	46	-	46	-	large	large
Vivid operating expenses	3	15	18	-	large	large
Total Non-Core and Disposed Operations	**6,442**	**1,238**	**7,680**	**803**	**large**	**large**
Group Eliminations (2)	(79)	(23)	(102)	(33)	large	large
Total Expenses Excluding Goodwill	**8,954**	**4,451**	**13,405**	**7,236**	**(85)**	**(74)**
Amortisation of goodwill	69	98	167	197	15	15
Total Expenses Including Goodwill	**9,023**	**4,549**	**13,572**	**7,433**	**(83)**	**(71)**

(1) Includes HomeSide significant items before tax of $3,937 million.

(2) This is the first time the 'Group eliminations' line has been separately disclosed as this amount was previously eliminated within Banking & Other Financial Services. Comparative information has been restated to reflect the new methodology.

(3) Comparatives have been restated. Refer to note 8 for further information.

Group reconciliation by total expense category	Half Year to Sep 01 $m	Half Year to Restated (1) Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m	Favourable/ (Unfavourable) Change from Sep 00 %	Favourable/ (Unfavourable) Change from Sep 00 excluding fx impact %
Personnel Expenses						
Salaries and related on costs	1,642	1,666	3,308	3,003	(10)	(6)
Other	250	201	451	398	(13)	(8)
Total Personnel Expenses	**1,892**	**1,867**	**3,759**	**3,401**	**(11)**	**(6)**
Occupancy Expenses						
Rental on operating leases	148	129	277	234	(18)	(15)
Depreciation and amortisation	43	40	83	77	(8)	(4)
Other	110	118	228	201	(13)	(8)
Total Occupancy Expenses	**301**	**287**	**588**	**512**	**(15)**	**(10)**
General Expenses						
Claims	408	282	690	248	large	large
Net increase/(decrease) in net policy liabilities	(1,109)	(209)	(1,318)	652	large	large
Advertising and marketing	109	92	201	178	(13)	(11)
Charge to provide for non lending losses	18	51	69	35	97	large
Communications, postage and stationery	254	257	511	459	(11)	(6)
Depreciation and amortisation	155	144	299	254	(18)	(12)
Fees and commissions (2)	258	264	522	141	large	large
Other expenses (2)	536	682	1,218	1,152	(6)	(5)
Total General Expenses	**629**	**1,563**	**2,192**	**3,119**	**30**	**33**
Total Operating Expenses excluding significant items	**2,822**	**3,717**	**6,539**	**7,032**	**7**	**10**
Significant operating expenses						
Provision for restructure	-	-	-	96	large	large
Provision for integration	-	-	-	108	large	large
Impairment loss on mortgage servicing rights	909	734	1,643	-	large	large
Total Operating Expenses	**3,731**	**4,451**	**8,182**	**7,236**	**(13)**	**(7)**
Significant non-operating expenses						
Change in assumptions	1,436	-	1,436	-	large	large
Write off of goodwill	858	-	858	-	large	large
Cost of foreign operations sold	2,929	-	2,929	-	large	large
Total operating expenses excluding goodwill	**8,954**	**4,451**	**13,405**	**7,236**	**(85)**	**(74)**
Amortisation of Goodwill	69	98	167	197	15	15
Total Operating Expenses including Goodwill	**9,023**	**4,549**	**13,572**	**7,433**	**(83)**	**(71)**

(1) Comparatives have been restated. Refer to note 8 for further information.

(2) March 2001 comparatives have been restated to reflect the reclassification of fees and commissions relating to Wealth Management non life subsidiaries from other to fees and commissions.

Full Time Equivalent Employees

	As at Sep 01	Mar 01	Sep 00	Change from Sep 00 %
By Region				
On-Going Core Operations				
Australia [1]	23,264	23,065	23,561	(1)
Great Britain	10,953	10,712	10,767	2
Ireland	2,600	2,560	2,615	(1)
New Zealand	4,545	4,505	4,532	-
United States	143	139	141	1
Asia [1]	757	642	224	large
Total On-Going Core Operations	**42,262**	**41,623**	**41,840**	**1**
Non-Core and Disposed Operations				
United States				
HomeSide US	2,721	2,580	2,306	18
Michigan National	-	3,251	3,271	large
Total Non-Core and Disposed Operations	**2,721**	**5,831**	**5,577**	**(51)**
Total Full Time Equivalent Employees	**44,983**	**47,454**	**47,417**	**(5)**
By Line of Business				
On-Going Core Operations				
Business & Personal Financial Services [2]	24,990	24,596	25,046	-
Wealth Management	4,229	4,077	3,850	10
Wholesale Financial Services	1,747	1,678	1,679	4
Specialist & Emerging Businesses	3,102	3,018	2,874	8
National Shared Services [2]	6,881	6,937	7,063	(3)
Other [2][3][4]	1,313	1,317	1,328	(1)
Total On-Going Core Operations	**42,262**	**41,623**	**41,840**	**1**
Non-Core and Disposed Operations				
HomeSide	2,721	2,580	2,306	18
Michigan National	-	3,251	3,271	large
Total Non-Core and Disposed Operations	**2,721**	**5,831**	**5,577**	**(51)**
Total Full Time Equivalent Employees	**44,983**	**47,454**	**47,417**	**(5)**
Average Half Year Full Time Equivalent Employees	**45,287**	**47,247**	**46,054**	**(2)**

(1) The Wealth Management Asia operations, incorporating full-time equivalent employees, previously reported as part of Wealth Management Australia, are now incorporated within the Asia results. Comparatives for the half year to March 2001 have been restated

(2) Comparatives have been restated to reflect the current organisation structure, such that HomeSide Australia activities are now classified within Banking & Other Financial Services (Business & Personal Financial Services, National Shared Services and Other).

(3) Comparatives at September 2000 have been restated to reflect the transfer of Asia Support Services from Other to Wholesale Financial Services, effective 1 October 2000.

(4) Includes Corporate Centre functions.

In comparison to September 2000, FTE's on payroll have increased in core ongoing operations by 1% to 42,262 as at September 2001.

FTEs have increased in Wealth Management by 379 over the year. This included 157 FTEs transferred from Business & Personal Financial Services as part of the transfer of the general insurance operations in Great Britain to Wealth Management. In addition, 107 financial advisers were recruited into the National Personal Client Services distribution channel.

Specialist & Emerging Businesses has included increases of 228 FTE's largely due to strong client growth within Securities Services and in order to support the integration of new global Cards processing systems.

Growth in Wholesale Financial Services has seen the addition of 68 new revenue generating FTEs.

Efficiency gains and outsourcing within National Shared Services, primarily transaction services and information technology, has resulted in the reduction of 182 FTEs.

Restructure & Integration Provision

	Raised Sep 00 $m	Utilised Sep 00 $m	As at Sep 00 $m	Utilised 2000/01 $m	As at Sep 01 $m
Business & Personal Financial Services	84	-	84	30	54
Wholesale Financial Services	12	5	7	2	5
Wealth Management	108	31	77	53	24
Total Restructure and Integration Provision	204	36	168	85	83

8. HOMESIDE INTERNATIONAL INC - RESTATEMENT

During September 2001, the Group determined that the carrying value of mortgage servicing rights (MSR) exceeded the fair value and the asset was therefore impaired. This impairment was the result of an incorrect interest rate assumption discovered in an internal model used to determine the fair value of HomeSide Lending, Inc.'s mortgage servicing rights. The impact of the writedown was $755 million (US$400 million).

Based on an assessment of this impairment loss, US$389 million ($734 million) has been attributed to the half year ended 31 March 2001 and the remainder has been attributed to the half year ended 30 September 2001.

The assessment determined that the fundamental error had no effect on prior year results with the impact largely arising in the first half of the year. The attribution of this error to the first half results is reflected in this profit announcement.

No adjustment to the result for the half year ended 31 March 2001 has been made for the other HomeSide US significant expenses.

The US$450m reduction to the carrying value of MSR announced by the National on 5 July 2001 did not represent a fundamental error in previously released financial results. The write-down reflected the result of accounting for hedging positions that deteriorated in direct response to economic conditions in the US during the current financial year.

The US$760m write-down to MSR and the $590m write off of goodwill announced by the National on 3 September 2001 were not fundamental errors. The former was recognised in order to reflect the mortgage servicing rights asset at its estimated market sale value. The latter was recognised on the same basis and reflected that the recoverable value of goodwill associated with HomeSide was estimated as $nil. The decision to reflect these assets at estimated market sale value was made during the current financial year.

9. DOUBTFUL DEBTS

Total Charge for Doubtful Debts by Region

	Half Year to		Year to		Change from
	Sep 01	Mar 01	Sep 01	Sep 00	Sep 00
	$m	$m	$m	$m	%
On-Going Core Operations					
Australia	299	174	473	207	large
Great Britain	211	154	365	264	(38)
Ireland	8	7	15	27	44
New Zealand	4	6	10	11	9
United States	20	11	31	-	large
Asia	3	-	3	9	(67)
Total On-Going Core Operations	**545**	**352**	**897**	**518**	**73**
Non-Core and Disposed Operations					
Great Britain					
Vivid	5	11	16	-	large
United States					
HomeSide US	28	34	62	55	(13)
Michigan National	-	14	14	15	7
Total Non-Core and Disposed Operations	33	59	92	70	(31)
Total Charge for Provision for Doubtful Debts	**578**	**411**	**989**	**588**	**(68)**

Reconciliation to Statement of Financial Performance					
On-Going Core Operations					
Banking & Other Financial Services					
Provision for doubtful debts	545	352	897	518	(73)
Non-Core and Disposed Operations					
HomeSide US					
Provision for doubtful debts	28	34	62	55	(13)
Michigan National					
Provision for doubtful debts	-	14	14	15	7
Other Non-Core Operations					
Vivid provision for doubtful debts	5	11	16	-	large
Total Charge for Provision for Doubtful Debts	**578**	**411**	**989**	**588**	**(68)**

Movement in Provision for Doubtful Debts

	Year to Sep 01			Year to Sep 00		
	Specific $m	General $m	Total $m	Specific $m	General $m	Total $m
Opening balance						
Core Operations	433	1,881	2,314	469	1,698	2,167
Homeside	-	31	31	-	53	53
MNC	38	326	364	5	304	309
Group opening balance	471	2,238	2,709	474	2,055	2,529
Movements relating to Core Operations						
Transfer to/from specific/general provision	708	(708)	-	376	(376)	-
Bad debts recovered	151	-	151	192	-	192
Bad debts written off	(738)	-	(738)	(606)	-	(606)
Charge to profit and loss	-	913	913	-	518	518
Foreign currency translation and consolidation adjustments	32	94	126	2	41	43
Movements relating to Non-Core and Disposed Operations						
HomeSide US						
Charge to profit and loss	-	62	62	-	55	55
Provision no longer required	-	(72)	(72)	-	(95)	(95)
Foreign currency translation and consolidation adjustments	-	6	6	-	18	18
Michigan National						
Transfer to/from specific/general provision	40	(40)	-	47	(47)	-
Bad debts recovered	-	-	-	32	-	32
Bad debts written off	-	-	-	(51)	-	(51)
Charge to profit and loss	-	14	14	-	15	15
Sale of Michigan National	(58)	(336)	(394)	-	-	-
Foreign currency translation and consolidation adjustments	(20)	36	16	5	54	59
Closing balance						
Core Operations	586	2,180	2,766	433	1,881	2,314
HomeSide US	-	27	27	-	31	31
Michigan National	-	-	-	38	326	364
Total Provision for Doubtful Debts	**586**	**2,207**	**2,793**	**471**	**2,238**	**2,709**

10. ASSET QUALITY

Total Impaired Assets

	As at Sep 01		As at Mar 01		As at Sep 00	
	Gross $m	Net $m	Gross $m	Net $m	Gross $m	Net $m
On-Going Core Operations						
Australia	963	638	961	695	573	377
Great Britain	510	360	533	394	511	378
Ireland	185	149	158	115	135	98
New Zealand	42	33	61	46	66	54
United States	23	18	34	20	45	22
Asia	6	3	4	2	5	2
Total On-Going Core Operations	**1,729**	**1,201**	**1,751**	**1,272**	**1,335**	**931**
Non-Core and Disposed Operations						
United States						
HomeSide US	11	11	12	12	9	9
Michigan National	-	-	172	114	140	102
Total Non-Core and Disposed Operations	11	11	184	126	149	111
Total Impaired Assets	**1,740**	**1,212**	**1,935**	**1,398**	**1,484**	**1,042**

Summary of Impaired Assets

	As at			Movement from	
	Sep 01 $m	Mar 01 $m	Sep 00 $m	Mar 01 %	Sep 00 %
Non accrual loans	1,732	1,919	1,467	(10)	18
Restructured loans	4	4	4	-	-
Assets acquired through security enforcement	4	12	13	(67)	(69)
Gross impaired assets	**1,740**	**1,935**	**1,484**	**(10)**	**17**
Less: Specific Provisions - non accrual loans	(528)	(537)	(442)	(2)	20
Net Impaired Assets	**1,212**	**1,398**	**1,042**	**(13)**	**16**

These amounts are not classified as impaired assets and therefore not included in the summary above.

Memorandum Disclosure

	As at			Change from	
	Sep 01	Mar 01	Sep 00	Mar 01	Sep 00
	$m	$m	$m	%	%
Accruing loans past due 90 days or more with adequate security (net)	102	110	107	(7)	(5)
Accruing portfolio facilities past due 90 to 180 days (net)	60	16	30	large	large

Group Provisioning Coverage Ratios

	As at		
	Sep 01	Mar 01	Sep 00
	%	%	%
Net impaired assets to total equity	5.1%	5.8%	4.9%
Net impaired assets to total equity plus general provision	4.7%	5.5%	4.4%
Specific provision to gross impaired assets	33.7%	30.6%	31.7%
Total coverage ratio	160.5%	153.9%	182.8%
General provision to risk weighted assets	0.86%	0.82%	0.94%

Group Provisioning Coverage Ratios (excluding Michigan National)

	As at		
	Sep 01	Mar 01	Sep 00
	%	%	%
Net impaired assets to total equity	5.1%	5.6%	4.4%
Net impaired assets to total equity plus general provision	4.7%	5.1%	4.0%
Specific provision to gross impaired assets	33.7%	30.3%	32.2%
Total coverage ratio	160.5%	146.6%	174.6%
General provision to risk weighted assets	0.86%	0.82%	0.88%

11. INCOME TAX RECONCILIATION

Banking & Other Financial Services	Half Year to		Year to	
	Sep 01 $m	Mar 01 $m	Sep 01 $m	Sep 00 $m
Operating profit before income tax				
Australia	1,150	1,166	2,316	2,203
Overseas	1,126	1,052	2,178	1,800
Prima face income tax at 34% (2000: 36%)	774	754	1,528	1,439
Add/(deduct) tax effect of permanent differences:				
Non-allowable depreciation on buildings	1	4	5	9
Rebate of tax on dividends, interest etc	(23)	(8)	(31)	(77)
Foreign tax rate differences	(124)	(30)	(154)	(103)
Amortisation of goodwill	-	-	-	-
Future income tax benefits no longer required	(1)	(4)	(5)	10
Restatement of tax timing differences due to changes in the Australian company income tax rate	(1)	20	19	48
Over provision in prior year	(1)	(13)	(14)	(20)
Other	45	(43)	2	(54)
Total income tax expense	**670**	**680**	**1,350**	**1,252**
Effective tax rate	**29.4%**	**30.7%**	**30.0%**	**31.3%**

Wealth Management	Half Year to Sep 01 $m	Half Year to Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m
Operating profit before income tax				
Australia	201	374	575	455
Overseas	25	44	69	15
Operating profit before tax attributable to the statutory funds of the life insurance business	(1)	62	61	222
Total operating profit excluding that attributable to the statutory funds of the life insurance business before income tax	**227**	**356**	**583**	**248**
Prima face income tax at 34% (2000: 36%)	77	121	198	90
Add/(deduct) tax effect of permanent differences:				
Foreign tax rate differences	2	(4)	(2)	-
Amortisation of goodwill	3	-	3	-
Restatement of tax timing differences due to changes in the Australian company income tax rate	(18)	(9)	(27)	(5)
Under provision in prior year	(3)	2	(1)	-
Other	12	(4)	8	(14)
Total income tax expense on operating profit excluding that attributable to the statutory funds of the life insurance busines	**73**	**106**	**179**	**71**
Income tax attributable to the statutory funds of the life insurance business	(160)	(52)	(212)	108
Total income tax expense/(benefit)	**(87)**	**54**	**(33)**	**179**
Effective tax rate	**(38.4%)**	**12.9%**	**(5.1%)**	**38.1%**

HomeSide US	Half Year to Sep 01 $m	Half Year to Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m
Operating profit before income tax				
Overseas	151	102	253	203
Prima facie income tax at 34% (2000: 36%)	52	34	86	73
Add/(deduct) tax effect of permanent differences:				
Rebate of tax on dividends, interest etc	-	-	-	-
Impact of lower effective tax rate on HomeSide US's deferred tax liabilities	-	-	-	(11)
Amortisation of goodwill	16	-	16	-
Foreign tax rate differences	(28)	8	(20)	-
Other	(3)	(5)	(8)	-
Total income tax expense	**37**	**37**	**74**	**62**
Effective tax rate	**24.5%**	**36.3%**	**29.3%**	**30.5%**

Reconciliation to Statement of Financial Performance	Half Year to Sep 01 $m	Half Year to Mar 01 $m	Year to Sep 01 $m	Year to Sep 00 $m
On-Going Core Operations				
Banking & Other Financial Services				
Income tax expense	670	680	1,350	1,252
Income tax benefit - significant items	-	-	-	(31)
Wealth Management				
Income tax expense/(benefit) - operating profit	(180)	(30)	(210)	123
Income tax expense - revaluation profit	93	84	177	56
Income tax benefit - significant items	-	-	-	(37)
Excess Capital				
Income tax expense	40	9	49	56
Non-Core and Disposed Operations				
HomeSide US				
Income tax expense	37	37	74	62
Income tax benefit - significant items	(320)	-	(320)	-
Michigan National				
Income tax expense	-	80	80	151
Disposal of Michigan National				
Income tax expense	704	-	704	-
Other Non-Core Operations				
Income tax benefit - writedown of e-commerce investments	(7)	-	(7)	-
Income tax benefit - Vivid	-	(6)	(6)	-
Total Income Tax Expense	**1,037**	**854**	**1,891**	**1,632**

12. EXCHANGE RATES

Exchange rates

	Statement of Financial Performance				Statement of Financial Position		
	Average Half Year to		Average Year to		Spot as at		
	Sep 01	Mar 01	Sep 01	Sep 00	Sep 01	Mar 01	Sep 00
Great British Pounds	0.3591	0.3662	0.3626	0.3902	0.3354	0.3434	0.3710
Irish Pounds	0.4583	0.4680	0.4631	0.4970	0.4247	0.4381	0.4856
United States Dollars	0.5132	0.5323	0.5227	0.6102	0.4928	0.4897	0.5427
New Zealand Dollars	1.2312	1.2636	1.2474	1.2648	1.2135	1.2129	1.3351

Impact on Statement of Financial Performance of Exchange Rate Movements since September 2000 on the September 2001 Result Favourable/(Unfavourable)

	Great Britain $m	Ireland $m	New Zealand $m	United States $m	Asia $m	Total $m
Net interest income	135	36	8	33	13	225
Other operating income	80	18	5	12	6	121
Other operating expenses	(101)	(32)	(7)	(13)	(9)	(162)
Doubtful debts charge	(27)	(1)	-	(4)	-	(32)
Income tax expense	(28)	(6)	(1)	1	(1)	(35)
Net operating profit from On-Going Core Operations	59	15	5	29	9	117

Impact on Statement of Financial Position of Exchange Rate Movements since September 2000 on the September 2001 Result

	Great Britain $m	Ireland $m	New Zealand $m	United States $m	Asia $m	Total $m
Total Assets	6,877	1,778	2,667	1,445	906	13,673
Gross Loans and Advances	5,091	1,299	2,065	392	200	9,047
Including:						
Housing	1,107	416	701	-	74	2,298
Term Lending	1,695	581	850	345	156	3,627
Overdrafts	1,109	371	297	1	-	1,778
Leasing	733	44	-	-	5	782
Credit cards	158	25	63	-	-	246
Deposits and other borrowings	(4,365)	(1,214)	(1,453)	(1,203)	(1,042)	(9,277)

13. CAPITAL ADEQUACY

Regulatory Capital Position

Under Australian Prudential Regulation Authority (APRA) guidelines, the calculation of regulatory capital is based on cost accounting methods. The introduction of AASB1038: Life Insurance Accounting, which requires the adoption of mark to market principles, results in a divergence between capital for regulatory purposes and that evident from the National's statement of financial position as disclosed under Australian Accounting requirements. A reconciliation of capital under the different bases is provided.

Under the regulations adopted by APRA, life insurance and funds management businesses are de-consolidated for the purposes of calculating capital adequacy. The portion of the investment relating to intangible assets (the difference between the purchase price and the embedded value at the date of acquistion) is deducted from Tier 1 and the balance from total capital. The component of embedded value at the date of acquisition represented by inforce business is also deducted from total capital .

	As at		
		Restated [4]	
Reconciliation to Shareholders Funds	**Sep 01**	**Mar 01**	**Sep 00**
Tier 1 Capital	**$m**	**$m**	**$m**
Total Shareholders Equity and outside equity interest	23,557	23,085	21,407
Add: Estimated reinvestment under dividend reinvestment plan	365	354	283
Less: Goodwill	(876)	(2,518)	(2,617)
Intangible assets - Wealth Management	(2,448)	(2,332)	(2,290)
Fair value adjustment on mortgage servicing rights (10% MSR)	(507)	(787)	(804)
Asset revaluation reserve	(16)	(16)	(14)
Other	(845)	(527)	(134)
Tier 1 Capital	**19,230**	**17,259**	**15,831**
Tier 2 Capital			
Asset revaluation reserve	16	16	14
General provision for doubtful debts	1,538	1,681	1,562
Perpetual floating rate notes	507	511	461
Dated subordinated debts	6,815	6,899	6,277
Exchangeable capital units	1,262	1,262	1,262
Notional revaluation of investment securities to market	11	35	(28)
Tier 2 Capital	**10,149**	**10,404**	**9,548**
Regulatory Capital Ratios			
Tier 1 Capital	19,230	17,259	15,831
Tier 2 Capital	10,149	10,404	9,548
Deductions	(3,225)	(3,227)	(3,234)
Total Regulatory Capital	**26,154**	**24,436**	**22,145**
Risk Weighted Assets - Credit Risk [1]	254,039	270,501	236,820
Risk Weighted Assets - Market Risk [2]	3,474	2,005	1,769
Total Risk Weighted Assets [3]	**257,513**	**272,506**	**238,589**
Risk Adjusted Capital Ratios			
Tier 1	7.47%	6.33%	6.64%
Tier 2	3.94%	3.82%	4.00%
Deductions	(1.25%)	(1.18%)	(1.36%)
Total Capital	**10.16%**	**8.97%**	**9.28%**

(1) Risk Weighted Assets compiled for credit risk purposes as outlined in the APRA Prudential Statement C1 (PS C1).

(2) Risk Weighted Assets compiled for market risk purposes as outlined in the APRA APS 113 - "Capital Adequacy: Market Risk".

(3) Included in the Total Risk Weighted Assets for March 2001, Michigan National Corporation reported an amount of $23,260 million.

(4) Comparatives have been restated. Refer to note 8 for further information.

14. RISK MANAGEMENT

Values at Risk for Physical and Derivative Positions

	Average Value Year to		Minimum Value Year to		Maximum Value Year to	
	Sep 01 $m	Sep 00 $m	Sep 01 $m	Sep 00 $m	Sep 01 $m	Sep 00 $m
Values at risk at 95% confidence level						
Foreign exchange risk	6	10	1	3	15	20
Interest rate risk	9	10	6	6	14	17
Volatility risk	2	1	1	-	3	3
Total	**12**	**15**	**8**	**8**	**22**	**24**

The Value at Risk (VaR) numbers are being sourced from the regulator approved internal model.

VaR is measured individually according to interest rate risk, foreign exchange risk and volatility risk. The individual risk categories do not sum to the total risk number due to portfolio effect. Risk limits are applied in these categories separately, and against the total risk postion.

15. FINANCIAL INFORMATION FOR US INVESTORS

Generally accepted accounting principles applicable in the United States (US GAAP) differ in some respects from those applying in Australia (Australian GAAP). Figures adjusted to a US GAAP basis are set out below.

Consolidated Statement of Financial Performance

	Year to Sep 01		Year to Sep 00	
	A$m	US$m [(1)]	A$m	US$m [(1)]
Net profit reported using Australian GAAP	2,083	1,024	3,239	1,753
Life insurance accounting adjustments:				
Movement in excess of net market value over net assets of life insurance controlled entities	(551)	(271)	(202)	(109)
Amortisation of goodwill	(161)	(79)	(43)	(23)
Difference in revenue recognition and change in life insurance policy liabilities	(48)	(23)	(109)	(59)
Difference in investments relating to life insurance business asset values	(28)	(14)	2	1
Unrealised profits on available for sale securities	29	14	(40)	(22)
Shadow life insurance policy liabilities adjustment	6	3	22	11
Movement in deferred acquisition costs asset	112	55	57	31
Amortisation of present value of future profits (PVFP) asset	(56)	(27)	(19)	(10)
Movement in and elimination of the deferred tax liabilities	161	79	90	49
Elimination of foreign currency translation losses/(profits) on controlled entities	(18)	(9)	(9)	(5)
Movement in market value of subordinated debt	8	4	14	8
Difference in minority interest share of profit	32	16	(1)	(1)
Other adjustments:				
Depreciation charged on difference between revaluation amount and historical cost of buildings	2	-	2	1
Difference in profit/(loss) on sale of land and buildings revalued from historical cost	6	3	15	8
Amortisation of goodwill arising from loan loss purchase adjustment	4	2	4	2
Amortisation of goodwill	3	1	4	2
Amortisation of core deposit intangible	(16)	(8)	(21)	(11)
Amortisation of deferred tax liability associated with core deposit intangible	4	2	5	3
Pension expense	44	22	35	19
Recognition and amortisation of tax losses resulting from IRS ruling	2	1	3	2
Adjustment of profit of sale-leaseback transactions	(10)	(5)	(12)	(6)
Amortisation of profit on sale-leaseback transactions over lease term	12	6	15	8
Employee share compensation	(26)	(13)	-	-
Difference in lease revenue recognition	(89)	(44)	-	-
Transitional adjustment on adoption of SFAS 133	(232)	(114)	-	-
Movement in fair value of derivative instruments	586	288	-	-
Difference in profit on sale of foreign controlled entity	7	3	-	-
Net income according to US GAAP	**1,866**	**916**	**3,051**	**1,652**
Earnings per share according to US GAAP (cents)				
Basic	107.5	52.8	189.8	102.8
Diluted	108.9	53.5	183.9	99.6

Comprehensive Income Under US GAAP	Year to Sep 01 A$m	Year to Sep 01 US$m (1)	Year to Sep 00 A$m	Year to Sep 00 US$m (1)
Net income according to US GAAP	**1,866**	**916**	**3,051**	**1,652**
Other comprehensive income				
Foreign Currency Translation Reserve	192	94	931	504
Asset Revaluation Reserve	2	1	14	8
Available for sale securities	(29)	(14)	41	22
Shadow policy liabilities adjustment	(6)	(3)	(22)	(12)
Revaluation surplus	18	9	9	5
Transitional adjustment on adoption of SFAS 133	(17)	(8)	-	-
Movement in fair value of derivative instruments	(18)	(9)	-	-
Total other comprehensive income	142	70	973	528
Total comprehensive income according to US GAAP	**2,008**	**984**	**4,024**	**2,180**

Equity

	As at Sep 01		As at Sep 00	
	A$m	US$m [1]	A$m	US$m [1]
Issued and paid-up capital				
Contributed equity reported using Australian GAAP	10,725	5,271	9,855	5,336
Employee share compensation	26	13	-	-
Issued and paid-up capital according to US GAAP	10,751	5,284	9,855	5,336
Reserves				
Reserves reported using Australian GAAP	2,427	1,193	2,006	1,086
Foreign Currency Translation Reserve	(1,762)	(866)	(1,570)	(850)
Asset Revaluation Reserve	(16)	(8)	(14)	(8)
Reserves according to US GAAP	649	319	422	228
Retained profits				
Retained profits less ouside equity interest reported using Australian GAAP	10,337	5,081	9,500	5,144
Life insurance accounting adjustments				
Movement in excess of net market value over net assets of life insurance controlled entities	(5,281)	(2,596)	(4,582)	(2,481)
Recognition and amortisation of goodwill	3,101	1,524	3,146	1,704
Difference in revenue recognition and change in life insurance policy liabilities	(1,007)	(495)	(893)	(484)
Difference in investments relating to life insurance business asset values	20	10	48	26
Unrealised profits on available for sale securities	(12)	(6)	(41)	(22)
Shadow life insurance policy liability adjustment	28	14	22	12
Movement in revaluation surplus	(39)	(19)	(9)	(5)
Movement in deferred acquisition cost assets	275	135	163	88
Recognition and amortisation of PVFP assets	1,746	858	1,795	972
Movement in and elimination of deferred tax liabilities	230	113	69	37
Movement in market value of subordinated debt	22	11	14	8
Recalculation of minority interest	(78)	(38)	(109)	(59)
Reclassify foreign currency translation of subdebt to Accumulated OCI	(12)	(6)	-	-
Other adjustments				
Elimination of revaluation surplus of land and buildings	(109)	(54)	(107)	(58)
Adjustment of provision for depreciation on buildings revalued	87	43	85	46
Additional provisions relating to purchase adjustments, less amortisation	(23)	(11)	(27)	(15)
Pension expense	75	37	31	17
Provision for final cash dividend	1,054	518	976	529
Unrealised profit on shares in entities and other securities	239	117	49	27
Amortisation of goodwill, core deposit intangible and associated deferred tax liability	-	-	(64)	(35)
Recognition of tax losses resulting from IRS ruling	-	-	(40)	(22)
Unamortised profit on sale-leaseback transactions	(72)	(35)	(80)	(43)
Employee share compensation	(26)	(13)	-	-
Difference in lease revenue recognition	(89)	(44)	-	-
Transitional adjustment on adoption of SFAS 133	(232)	(114)	-	-
Movements in fair value of derivative instruments	586	288	-	-
Retained profits according to US GAAP	10,820	5,318	9,946	5,386
Outside equity interest				
Outside equity interest reported using Austalian GAAP	68	33	46	25
Reclassification of minority interest	(68)	(33)	(46)	(25)
Outside equity interest according to US GAAP	-	-	-	-

Equity (Continued)

	As at Sep 01		As at Sep 00	
	A$m	US$m (1)	A$m	US$m (1)
Accumulated other comprehensive income				
Accumulated other comprehensive income reported using Australian GAAP				
Balance brought forward under US GAAP	1,613	794	640	347
Movement in Foreign Currency Translation Reserve	192	93	931	504
Movement in Asset Revaluation Reserve	2	1	14	8
Unrealised profit on available for sale debt securities	(29)	(14)	41	22
Shadow life insurance policy liability adjustment	(6)	(3)	(22)	(12)
Movement in revaluation surplus	30	15	9	5
Transitional adjustment on adoption of SFAS 133	(17)	(8)	-	-
Movement in fair value of derivative instruments	(18)	(9)	-	-
Accumulated other comprehensive income according to US GAAP	1,767	869	1,613	874
Total equity according to US GAAP	**23,987**	**11,790**	**21,836**	**11,824**

Consolidated Statement of Financial Position

	As at Sep 01		As at Sep 00	
	A$m	US$m (1)	A$m	US$m (1)
Assets				
Total assets reported using Australian GAAP	374,720	184,175	343,677	186,101
Life insurance accounting adjustments				
Elimination of excess of interest of net market values over net assets of life insurance controlled entities	(5,281)	(2,595)	(4,582)	(2,481)
Recognition and accumulated amortisation of goodwill	3,101	1,524	3,146	1,704
Difference in investment asset values in life insurance entities	20	10	48	26
Restatement of deferred acquitision costs	275	135	163	88
Recognition and accumlated amortisation of PVFP asset	1,746	858	1,795	972
Other adjustments				
Revaluation surplus of land and buildings	(109)	(54)	(107)	(58)
Adjustment of provision for depreciation on buildings revalued	87	43	85	46
Additional provisions relating to purchase adjustments less amortisation	(23)	(11)	(27)	(15)
Pension fund adjustment	75	37	31	17
Unrealised profit on shares in entities and other securities	239	117	49	27
Unrealised profit on available for sale securities	1	0	1	1
Amortisation of goodwill, core deposits intangible and associated provision for doubtful debts	-	-	(94)	(51)
Recognition of tax losses resulting from IRS ruling	-	-	(40)	(22)
Reclassification of deferred acquisition costs	-	-	82	44
Difference in lease revenue recognition	(101)	(50)	-	-
Fair value adjustments to derivative instruments	2,417	1,188	-	-
Total assets according to US GAAP	377,167	185,377	344,227	186,399
Liabilities				
Total liabilities reported using Australian GAAP	351,163	172,597	322,270	174,509
Difference in life insurance policy liabilities	1,007	495	893	484
Reclassification of deferred acquisition costs	-	-	82	44
Elimination of present value discount on deferred tax liabilities	(230)	(113)	(69)	(37)
Subordinated debt revaluation from market value to cost	(10)	(5)	(14)	(8)
Increase in and reclassification of minority interests	143	70	155	84
Deferred tax liability associated with core deposit intangible	-	-	(30)	(16)
Unamortised profit on sale-leaseback transactions	72	35	80	43
Elimination of dividend provided for but not formally declared prior to balance date	(1,054)	(518)	(976)	(528)
Deferred tax liability associated with difference in lease revenue recognition	(12)	(6)	-	-
Fair value adjustments to derivative instruments	1,964	965	-	-
Deferred tax liability associated with movement in fair value of derivatives	137	67	-	-
Total liabilities reported according to US GAAP	353,180	173,587	322,391	174,575
Net assets according to US GAAP	**23,987**	**11,790**	**21,836**	**11,824**

(1) Translated from Australian dollars at the rate of US$0.4915 equals A$1.00 (Sept 2000: US$0.5415 equals A$1.00), the "Noon Buying Rate" per the Federal Reserve Bank of New York on 30 September 2001.

16. MICHIGAN NATIONAL CORPORATION

Statement of Financial Performance
Australian Dollars

	Half Year to		Year to		Favourable/ (Unfavourable) Change from
	Sep 01	Mar 01	Sep 01	Sep 00	Sep 00
	$m	$m	$m	$m	%
Net interest income	-	350	350	636	(45)
Other operating income	-	171	171	306	(44)
Total operating income	**-**	**521**	**521**	**942**	**(45)**
Other operating expenses	-	271	271	485	44
Underlying profit	**-**	**250**	**250**	**457**	**(45)**
Provision for doubtful debts	-	14	14	15	(7)
Profit before income tax	**-**	**236**	**236**	**442**	**(47)**
Income tax expense	-	80	80	151	47
Net profit before goodwill	**-**	**156**	**156**	**291**	**(46)**
Goodwill amortisation	-	24	24	48	(50)
Net profit	**-**	**132**	**132**	**243**	**(46)**

Statement of Financial Performance
United States Dollars

	Half Year to		Year to		Favourable/ (Unfavourable) Change from
	Sep 01	Mar 01	Sep 01	Sep 00	Sep 00
	$m	$m	$m	$m	%
Net interest income	-	186	186	389	(52)
Other operating income	-	91	91	186	(51)
Total operating income	**-**	**277**	**277**	**575**	**(52)**
Other operating expenses	-	144	144	298	52
Underlying profit	**-**	**133**	**133**	**277**	**(52)**
Provision for doubtful debts	-	8	8	9	(11)
Profit before income tax	**-**	**125**	**125**	**268**	**(53)**
Income tax expense	-	43	43	91	53
Net profit before goodwill	**-**	**82**	**82**	**177**	**(54)**

ALBHABETICAL INDEX

National Australia Bank Limited ABN 12 004 044 937
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