Seeking a balance

National

2001 Annual Review

"A hallmark of any great organisation is its ability to listen to employees, customers, shareholders and the wider community and know how to respond. A balance must be struck that is consistent with our purpose as an organisation. Seeking that balance is the challenge we have set for the National."

– Frank Cicutto

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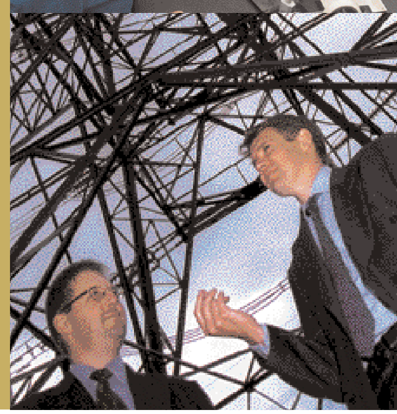


National Australia Bank Limited
ABN 12 004 044 937

To obtain a free copy of the annual financial report 2001 telephone locally within Australia 1300 367 647 or outside Australia +61 3 8641 4200. If you prefer you can access both documents on the National's website **http://www.national.com.au** *(see the shareholder section).*

Nothing in this annual review is, or should be taken, as an invitation or application or offer to subscribe for, or to buy, securities in the National Australia Bank Group.

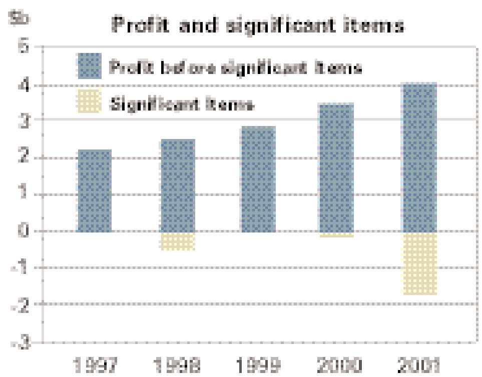
All figures in this document are in Australian dollars unless otherwise stated.

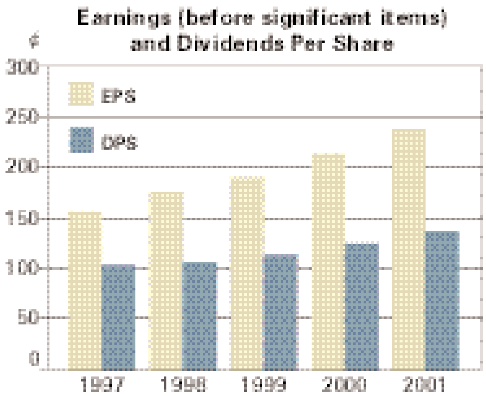
Year at a glance

Solid underlying profitability impacted by HomeSide

- Group net profit before significant items increased 19.1% to $4.0 billion, driven by strong growth in core banking operations, up 17%, and in Wealth Management, now contributing 16.8% of profit before significant items.

- Group net profit after significant items decreased 35.7% to $2.1 billion. The key significant items were:
  - A net profit of $1.7 billion from the sale of Michigan National Corporation.
  - A charge of $3.6 billion relating to the write-downs in HomeSide of mortgage servicing rights and goodwill.





- Cash earnings per share before significant items increased 10.1% to 236.6 cents. Cash earnings per share after significant items decreased 46.2% to 110.7 cents.

- Excluding significant items, return on equity increased from 18.1% to 18.4%. Return on equity after significant items decreased from 17.3% to 9.0%.

Dividends

Dividends are 135 cents per share, fully franked, compared with 123 cents per share last year.

Capital strength

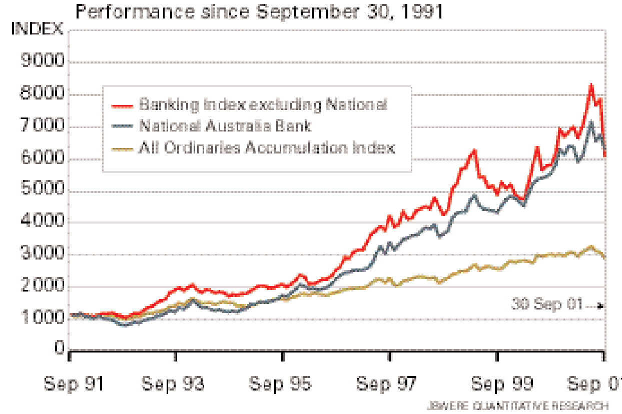
The total capital position, which measures the regulatory capital reserves compared with risk weighted assets is 10.2%. Even after recording the significant write-downs in relation to HomeSide, this measure of the strength of the

National's capital base is well above the minimum regulatory and rating agency requirements.

Maximising shareholder value

- Total returns to National shareholders – the National's share price improvement plus dividends reinvested – have been an average of 19.7% a year over the past 10 years.
- For example, $1000 invested in the National 10 years ago would now be worth more than $6057.

The National's 10 year returns
Performance since September 30, 1991



Goals for growth

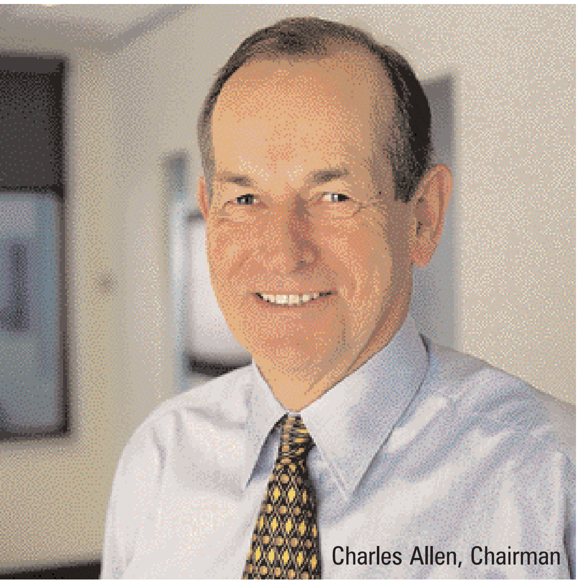
The National is committed to maximising returns to shareholders.

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

During 2001, both ratios were impacted by the HomeSide write-downs which were partly offset by the net profit on sale of Michigan National Corporation. 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.

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



Charles Allen, Chairman

Change in a tough year

At the National, we are changing the way we do business and the way we work with all the groups whose support is vital to our success.

This has been a tough year for the National.

Our difficulties at HomeSide in the United States have obscured the strong underlying performance of our core banking and wealth management businesses.

We are sorry that the substantial write-down of the value of our HomeSide business was necessary. HomeSide remains a sound and viable business. The Board has commissioned an independent external review into the causes of these problems and to recommend what needs to be done to ensure that they cannot arise again.

Like people and organisations around the world, we are still coming to terms with the human and economic consequences of the September 11 terrorist attacks in the United States. We are conscious of the fact that we have many shareholders, customers and staff based in the United States who have been directly or indirectly touched by the tragedy.

These tough and turbulent times make it imperative that we continue to accelerate the process of renewal already started at the National.

We have begun a comprehensive review of our business operations designed to position us as a growth business in the future. This review, "Positioning for Growth", will be a key priority for the foreseeable future. It will simplify the way our business works and remove the barriers to a creative and innovative team environment.

For our 316,000 ordinary shareholders and the many millions more who hold their interest in the National through investment institutions around the world, we are pleased to be able to increase the dividend. Our focus will remain on building substantial and sustainable shareholder value.

Our traditional strengths in retail banking, coupled with our new capability in wealth management, allow us to provide an expanded range of tailored financial solutions to our customers. Positioning for Growth will assist in bringing us even closer to our customers.

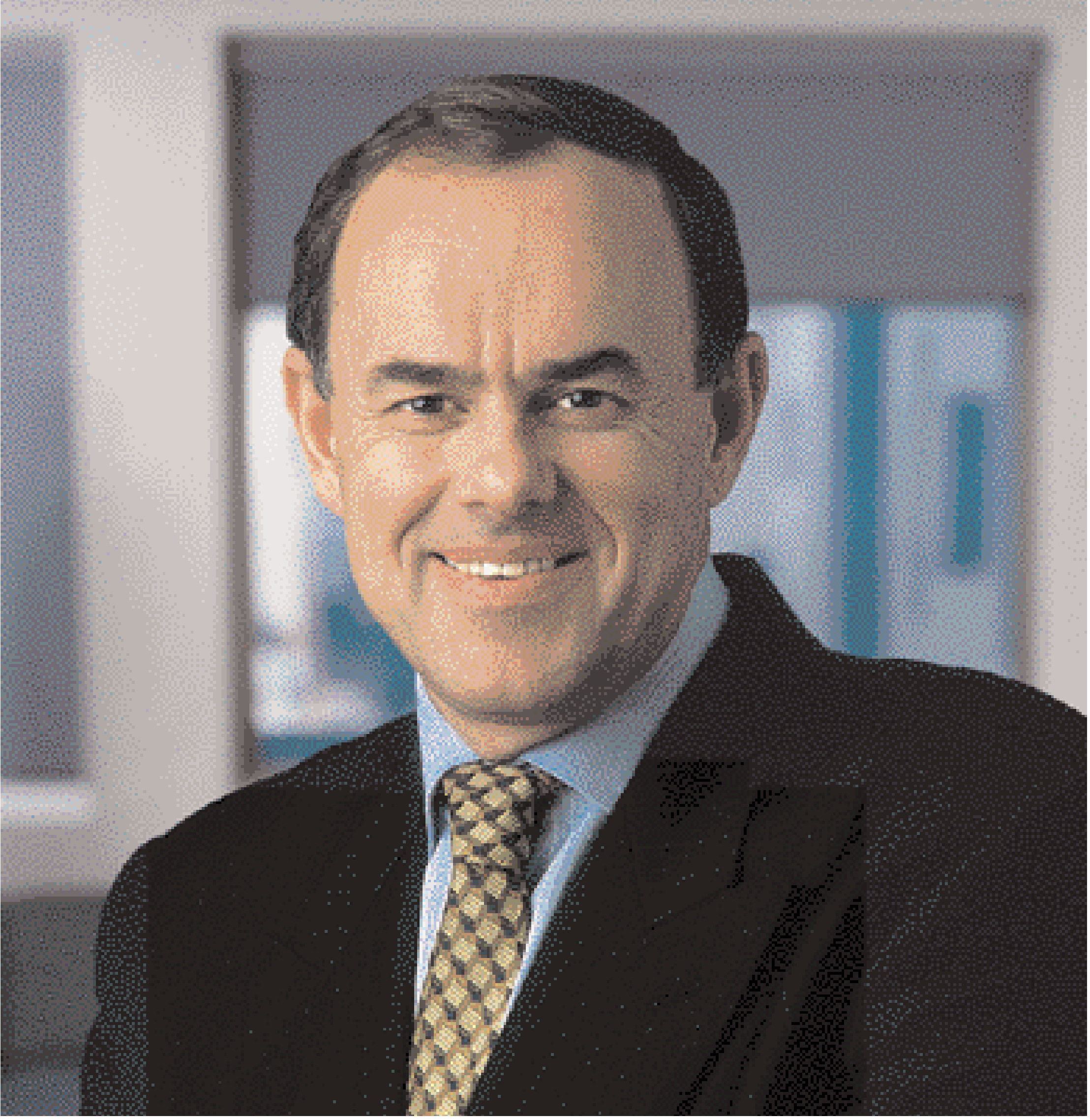
Staff around the world participated in focus groups throughout the year. They gave us their views on how we could understand and meet the needs of our customers better and how we could make the National a better place to work. Positioning for Growth will build the talent base and diversity of our management.

We have also taken steps in the past year to listen to and address community concerns. The National is now working with communities across all its centres of operation. The Board was privileged to see first hand the work that staff of Northern Bank are doing to improve numeracy skills in disadvantaged communities in Northern Ireland.

We have made some progress in working more effectively with our stakeholders but we still have a long way to go. We are determined that, as part of Positioning for Growth, we will continue to balance the needs of our stakeholders and improve our reputation in the communities we serve.

Just as management and staff are embracing change, members of the Board are also reflecting on how we can improve our contribution to the future of the National. We acted to incorporate greater diversity of experience and capabilities with the recent appointments of Brian Clark and Peter Duncan to the Board.

I would like to thank my fellow directors for the work they have contributed over the past year, and pay particular tribute to the contribution of my predecessor, Mark Rayner, who stepped down during the year.



Frank Cicutto,
Managing Director and
Chief Executive Officer

Success and failure

The past year yielded mixed results and the year ahead holds many challenges. We have embarked on a far-reaching review to secure our continued growth.

This has been a most difficult year for the National, with the many successes in our operations overwhelmed by the write-downs of our HomeSide assets. The write-downs, amounting to $3.6 billion, have affected both our profitability and our strategic options.

To express our disappointment is to understate our response. After the first write-down in July, we sent a senior team in to review the operation, and this uncovered an error in an interest rate assumption in an internal model used to determine the fair value of HomeSide's mortgage servicing rights. Once the error was found, the Board took the decision to write the business down to its market value, rather than as a continuing part of our operation.

Since then, we have focused upon stabilising HomeSide, ensuring that it is operationally sound and commencing the process of selling it.

The problems we experienced at HomeSide in the latter part of the year have been compounded by the deterioration of the world economy. The past nine years have been relatively benign for business, with a record period of uninterrupted growth in most of our major markets. It may be that international economic conditions do not resume the same growth trajectory that they have followed for most of the past decade.

The heart of our ability to deliver a holistic approach to people's financial needs is the way we manage customer relationships.

We have therefore decided to embark upon the most comprehensive review of our operations that we have ever conducted. Called "Positioning for Growth", it will appraise each of our operating businesses to ensure that they draw upon our core strengths and contribute to shareholder value.

It will also consider whether we have the organisational structure to enable our businesses to work together, extracting the benefits of shared resources and capabilities.

The review is likely to yield cost savings, and may result in the divestment of some business assets. However, its major objective is to ensure that the National remains a growth business into the future. Initial recommendations will be made within three months and substantial bottom-line benefits are expected during the next three years.

The key markets to which the National Group is exposed have continued to show some growth this year although the credit cycle has begun to deteriorate in each.

It is prudent to anticipate that Australia, Great Britain, Ireland and New Zealand are all likely to face a more unsettled outlook in the year ahead, particularly in the wake of the international tension following the atrocities in the United States in September.

The core strengths

The National has core strengths in banking and wealth management. These contributed to growth in our underlying profitability this year. Mortgage lending, which is the cornerstone of our relationship with retail customers, grew strongly in all our markets.

The addition of MLC more than doubled the contribution of Wealth Management to the Group. Wealth Management recorded a profit of $677 million for the year.

Our Wholesale Financial Services division performed well. It increased its profit by 14.9% and introduced new products and capabilities in each of our regions.

The National's core capability is the management of customer relationships for financial services. The National serves 8.2 million retail banking and 2.8 million wealth management customers in our markets of Australia, Great Britain, Ireland, New Zealand and Asia. We also serve small and medium businesses, and wholesale customers.

The strength of our customer base is a sound platform for growth in our Wealth Management business. With the integration of MLC, we have a unique capability in wealth management focused at the distribution, rather than the manufacture of wealth management products.

We are introducing our approach to wealth management to Great Britain and Ireland where we believe that it has considerable potential. Master trusts are at an early stage of development in Europe but have proven extremely popular in markets where they have taken root.

The heart of our ability to deliver a holistic approach to people's financial needs is the way we manage customer relationships. We are proud of our Customer Relationship Management system, which is the product of 15 years of development and refinement. It is a highly focused system that is designed to provide staff with the most complete understanding of customer needs. It makes possible the promise by the National and all its retail brands, to deliver tailored financial solutions.

We were acknowledged recently as having the best customer relationship management strategy by the Institute of Financial Services in the United Kingdom, winning this award against many international competitors.

Wholesale Financial Services has also justified its place at the centre of our strategy of accelerating growth in selected businesses. It has won significant international mandates and also contributes to the strength in funding and balance sheet management for the National Group.

Although we have wound back our strategy of seeking growth investments in the information technology industry, we continue to invest in our infrastructure to improve our efficiency and effectiveness. For example, we are linking all our branches in Australia to a broadband network to enable the shift of our systems to the more flexible internet protocol.

Adjusting the portfolio

We apply portfolio management techniques to ensure that our portfolio of businesses is suited to the overall direction of the National Group and offers sound financial prospects. We also appraise new opportunities that may enhance the value of our business.

Over the past year, we sold Michigan National Corporation and the funds management business County Investment Management. We received excellent prices for both assets. In the case of Michigan National, we made a profit of $1.7 billion. The decision to sell this asset was based on the view that further growth would require significant capital investment to build scale in the consolidating United States regional banking market.

We have also strengthened our distribution network for wealth management products in Australia with the purchase of John A. Nolan & Associates and the funds management and financial planning businesses of Deutsche Bank Financial Planning.

We have signalled to the market that if the opportunity arose, we would consider the acquisition of a complementary business in Great Britain, where we see scope for our approach to financial services. However, the roll-out of our financial services strategy in Great Britain is in no way conditional upon such a move. Our Clydesdale,Yorkshire and two Irish banks have the ability to deliver strong organic growth to the Group for the foreseeable future.

Strengthening our culture

We have taken a number of strategic initiatives over the past year to reinvigorate our culture, recognising that our success ultimately depends upon the ideas, energy and commitment that our staff bring to their relationships with customers and with each other.

We are seeking to create a working environment where staff are confident that their talents will be recognised, and with well signposted paths along which their careers may develop. We want to develop a culture in which diversity is embraced.

Our continued roll-out of the use of Economic Value Added (EVA) is reinforcing our focus on balancing risk and reward. It is driving a performance-based culture through an executive incentive plan that is aligned to sustainable growth in economic value, and therefore shareholder value. In addition, the all-employee share plan has been shifted to a performance-based plan where rewards are linked to EVA.

We recognise that the National's prosperity is intimately linked with that of all the stakeholder groups with whom we engage. During the year, we have made some important commitments to strengthen our relationships with the communities within which we operate.

In Australia, the Community Consultation Forum focused upon the needs of disadvantaged members of the community. One outcome from this work was the launch of the Basic Banking Account that provides fee-free banking for lower income customers.

We also committed that we will not close branches in rural towns where there is no substitute service available through our relationship with Australia Post.

We will continue working with the Community Consultation Forum in the year ahead. ■

We recognise that the National's prosperity is intimately linked with that of all the stakeholder groups with whom we engage.

Richard McKinnon,
Chief Financial Officer

Strength in adversity

The National's core operations in retail banking, wholesale financial services and wealth management performed strongly during the year and are well positioned for 2001/02 despite the uncertain economic environment created by the terrorist attacks in September.

The National delivered a solid bottom line result in 2001, which was impacted by significant expenses relating to HomeSide International Inc.

The prompt action taken to provision for HomeSide demonstrated the determination of management and the Board to take the most appropriate steps to address concerns about this business. The National remains strongly capitalised and focused on the successful growth of our core businesses.

Solid underlying earnings and dividends

The National Group's net profit before significant items increased 19.1% to $4019 million, driven by growth in Retail Banking and Other Financial Services up 13.9%, Wholesale Financial Services up 14.9%, and in Wealth Management, which more than doubled its contribution with the full-year benefit of MLC and now provides 16.8% of the Group's net profit before significant items.

Group net profit after significant items decreased 35.7% to $2083 million. The key significant items were:

- A net profit after tax of $1681 million from the sale of Michigan National Corporation
- A charge of $3617 million after tax, which was made up of:
  - $1323 million impairment provisions for the mortgage servicing rights arising from an incorrect interest rate assumption in the mortgage servicing rights valuation model and ineffective hedging;
  - $1436 million resulting from the write-down required to reflect the carrying value of the mortgage servicing rights asset at its estimated market sale value; and
  - $858 million due to the write-off of the goodwill relating to our purchase of HomeSide International Inc.

Cash earnings per share before significant items increased 10.1% to 236.6 cents. Cash earnings per share after significant items decreased 46.2% to 110.7 cents.

Return on equity before significant items, increased from 18.1% to 18.4%. Return on equity after significant items decreased from 17.3% to 9.0%.

Dividends are 135 cents per share, fully franked, compared with 123 cents per share last year.

Strength of core operations

The National's unique combination of business and geographic diversity is delivering profits and providing growth opportunities.

Wealth Management increased its contribution to Group profit by 133% to $677 million and Wholesale Financial Services increased its contribution 14.9% to $685 million, before significant items.

Business and Personal Financial Services increased its contribution by 8.6% to $2230 million before significant items, due to the solid contributions from all regional franchises.

Specialist and Emerging Businesses made a smaller contribution than the previous year, mainly because of exposure to Ansett merchant transactions.

Security Services and Cards continued to demonstrate good growth.

Offshore earnings before significant items contributed 43% of Group net profit and represented export income for Australia of $1732 million.

The Australian operations increased profit before significant items by 28.5%, driven by the greater contribution from Wealth Management and housing loan growth, but partly offset by higher bad and doubtful debts expense due to the softening in economic conditions and a small number of major corporate accounts becoming non-accrual.

A 23.4% profit improvement in Great Britain to $776 million reflects a strong performance in local currency terms (up 16.3% on the prior year), assisted by the impact of the weaker Australian dollar. Wholesale Financial Services operations outside those included in the Clydesdale and Yorkshire Banks increased profit by 29.7% to GBP23 million. Clydesdale and Yorkshire Banks' profit increased 5.4% in local currency terms.

Ireland's result increased by 14.3% despite the impact of a GBP11 million provision for settlement of customer claims relating to the sale of certain offshore insurance products. The growth in net interest income and other operating income was achieved with strict cost containment.

New Zealand profit increased by 12.8%, assisted by the continuing success of the GlobalPlus home loan products.

Growth in assets

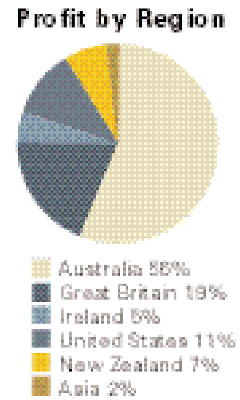
Loans and acceptances, a measure of all loans to customers, increased 11.9% (after adjusting for the sale of Michigan National Corporation) to $231,787 million, driven primarily by growth in housing loans in Australia, up 14.2%, Great Britain up 8.9%, Ireland up 9.9%, and New Zealand up 9.1%.

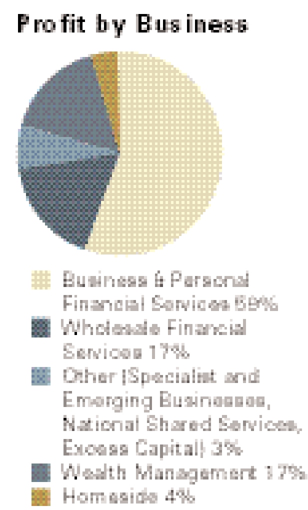
Funds under management (adjusted for the sale of Michigan National Corporation) increased by 8.0% to $63,837 million, reflecting the strong growth of the Wealth Management division. Assets under custody increased by 21.0% to $344,690 million.

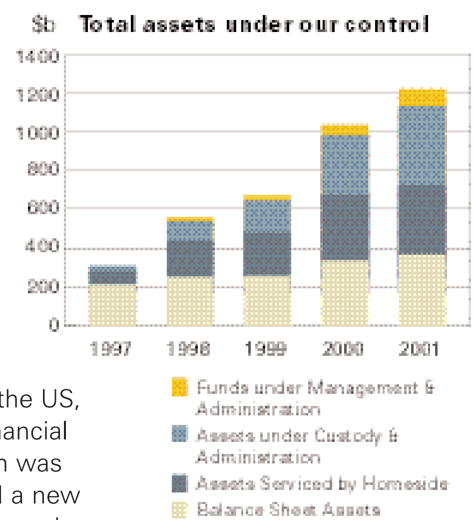
Capital strength

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 is 5.19%.

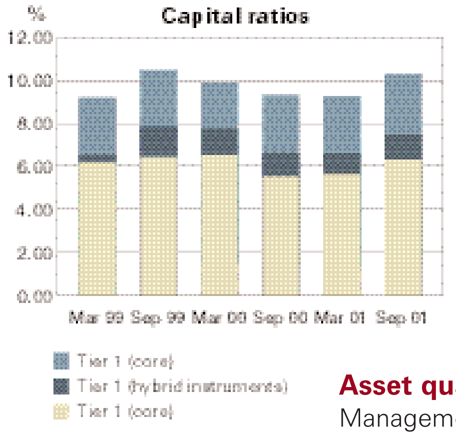
The National undertook a number of capital management initiatives during the year, such as the development of a fully operational mortgage securitisation capability. In January 2001, the National concluded its first mortgage-backed security issue, with an offering of over US$1 billion in the US, Europe and Asia. Wholesale Financial Services co-led the issue, which was oversubscribed and established a new benchmark for Australian mortgaged-backed issuers in terms of both pricing and distribution spread.

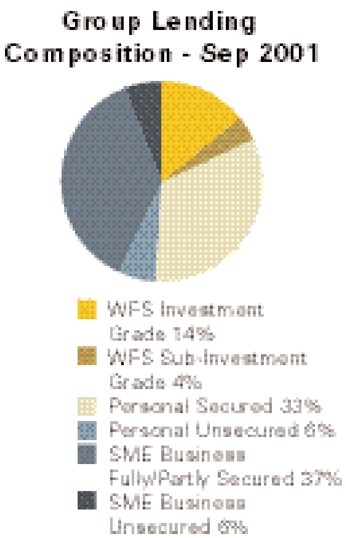






To further our commitment to efficient capital management, the National has adopted a continuing policy to buy back shares equal to the shares issued under the Group's various share and option plans. All buy-backs would be subject to appropriate pricing parameters and will be conducted in a way that is consistent with our strategic objectives. Past experience would indicate that the National would buy back approximately 36 million shares during the course of the 2002 financial year.





Asset quality

Management of asset quality combines the principles of risk management with the objective of increasing shareholder value.

Action has been taken to review and strengthen credit policy systems and processes, in particular by aligning lending growth strategy with the major drivers of asset quality and EVA principles.

A strong focus was maintained on asset quality in a difficult credit environment, with an emphasis on improved selection of customers by risk and security.

The proportion of gross non-accrual loans to gross loans and acceptances increased from 0.66% to 0.75% due to a small number of major corporate accounts becoming non-accrual. Write-offs as a percentage of gross loans and acceptances also increased marginally from 0.30% to 0.32%.

Credit Ratings

	Short term	Long term
Standard & Poor's	A-1+	AA
Fitch	F1+	AA
Moody's Investor Services	P-1	Aa3

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

The National expects the pressure on asset quality to continue in the year to September 2002 and will continue to be proactive in maintaining asset quality standards.

Active portfolio management

The National continued to actively manage its portfolio of businesses during the year, as part of the ongoing drive to sharpen operating focus and realise maximum value from the businesses.

Following the acquisition of MLC, the Group completed sales of Michigan National Corporation and County Investment Management, and acquired John A. Nolan & Associates and the financial planning and funds management business of Deutsche Bank Financial Planning. A process has been commenced for the sale of HomeSide International Inc.

The National reviewed the value of its e-business initiatives and, in line with a prudent approach to valuation, wrote off $39 million in relation to these businesses.

Strong cash flows and liquidity

The Group's liquidity position is managed prudently through a combination of positive cash flow management, the maintenance of portfolios of high quality liquid assets and diversification of the wholesale funding base. Throughout the year, the net cash used in investing activities totalled $29,076 million, of which $19,109 million was used for growth in loans and advances. The cash used for investing activities was primarily funded by an increase in deposits and other borrowings through the Group's banking entities ($11,793 million) and new issues of bonds and notes ($6986 million).

Outlook

The year concluded with considerable uncertainty in the international economic environment although the principal markets to which the National is exposed continue to display growth.

The National's financial position and operations are sound and provide a solid basis for managing slower economic growth in the year ahead. ■

We’re building a great team

The National can only be truly customer driven when it liberates the spirit, creativity and talent of its people.

We believe that transforming the working culture of the National will be the most important contributor to profit growth over the next 10 years.

Renewing our culture means keeping the best of our past while embracing change – mixing new-found openness, innovation, diversity and flexibility with our traditional confidence and reliability.

This is a particular responsibility of the Group Executive Forum - comprising Executive General Managers (EGM) and Regional Chief Executive Officers - which is seeking to model the characteristics of a high performing team and, at the same time, create an environment that will engage staff, develop and unlock their potential, and ensure exciting career paths are in place to challenge and reward them.

Over the past year, the Group Executive Forum has met quarterly to focus on leadership development, both as individuals and as a collective. This work has found particular expression in the National Leadership Standard, which seeks to articulate the expectations of National leaders clearly.

crystallised into a presentation made to a strategy review forum held in April this year, involving senior executives. The views from staff provided valuable new perspectives on the issues from the front-line.

This review and renewal process will continue.

A culture that embraces and promotes diversity will produce an organisation that is more creative, empathetic and responsive to changes in the environment of our business.

Research conducted among more than 30,000 of our staff over the past year established the factors that contribute most to their satisfaction at work.
They are:

- pay and benefits,
- corporate image and reputation,
- corporate direction, values and place in the community,
- communication and engagement by leaders at all levels,
- perceived internal and external equity of employee rewards and the relationship with performance, and
- a culture in which people feel free to speak up.

We are working to improve each of the factors nominated, with some evidence that our perception in the community is improving.

As well as listening to staff to learn more about what makes them tick in the workplace, we are also tapping in to their understanding of our customers more effectively.

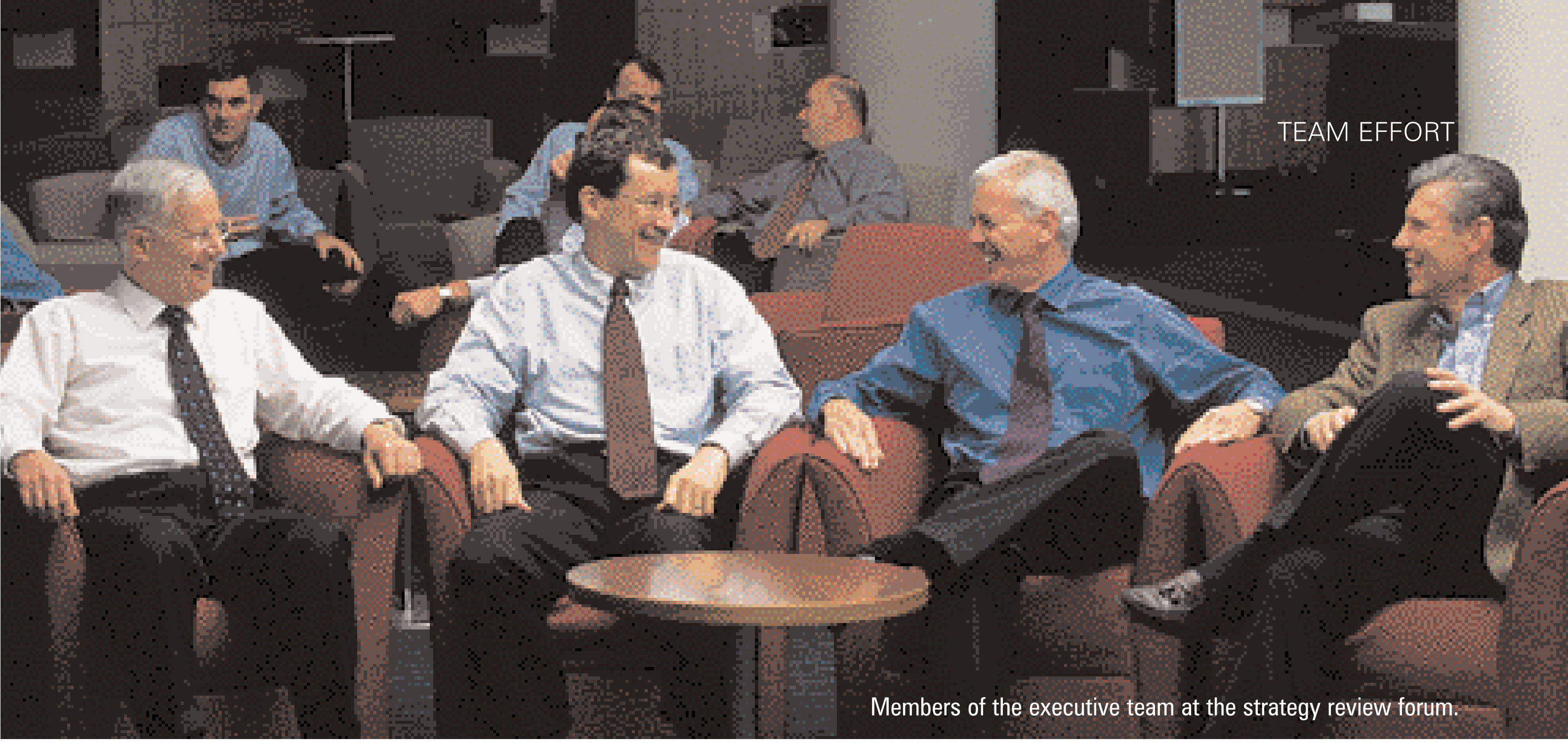
Staff from across our organisation have this year participated in a process of refreshing the National's vision, values and direction. Their thinking was

Encouraging diversity

Innovation comes from tackling problems from a fresh perspective. Bringing together people from different cultures, and of different ages, experience and gender produces a more innovative culture. The National has insufficient diversity, particularly at senior management levels, and is making it a priority to change this. A culture that embraces and promotes diversity will produce an organisation that is more creative, empathetic and responsive to changes in the environment of our business.

A Diversity Guiding Coalition, chaired by the Chief Executive Officer, Frank Cicutto, and involving a cross-section of staff from all areas of our business, is developing strategies for a number of initiatives, such as mentoring programmes to foster greater diversity in employee groups across the National Group.

The Coalition will monitor and report on the National's achievement of diversity along a range of demographic variables. We have also initiated programmes to support employment opportunities for disabled and indigenous people.



Members of the executive team at the strategy review forum.

Managing our talent

It is one thing to say people are your most valuable asset, and another to manage them as if they are. The National's Talent Review is designed to improve our understanding of the skills and capabilities within our ranks and our ability to foster development.

The Talent Review started with the executive team, including the Executive General Managers and the Regional Chief Executive Officers, in early 2000 and has since encompassed the most senior 1650 managers in the National.

Aimed at identifying performance and potential, the Talent Review includes a "360-degree" assessment, which gives people feedback from their peers, superiors and subordinates on their performance and areas for development.

Talent Review is one of the processes used to determine remuneration and reward for individual and team performance.

Recognising that leadership is fundamental to the National's future, we are focusing on leadership development at all levels. Tools and programmes are being developed to assist, including our "leader as coach" programme, mentoring programmes, online performance management, online learning, and career navigation.

The National continues to recognise and work with unions as representative organisations for many of our staff. During the year, successful pay negotiations were concluded with the IBOA and Unifi in Europe and Finsec in New Zealand. Discussions with the FSU in Australia are continuing. ■

The National's executive team

Frank Cicutto
CEO and Managing Director

Glenn Barnes
EGM, eTransformation (retiring)

Stuart Grimshaw
CEO, Great Britain

Christopher Lewis
EGM, Global Risk Management

Ian MacDonald
Acting EGM, Business and Personal Services

Peter McKinnon
EGM, People and Culture

Richard McKinnon
Chief Financial Officer

Ross Pinney
EGM, Specialist and Emerging Businesses and Acting EGM, National Shared Services

Mike Pratt
CEO, Australia Financial Services

Don Price
CEO, Ireland

Bob Prowse
EGM, Office of the CEO

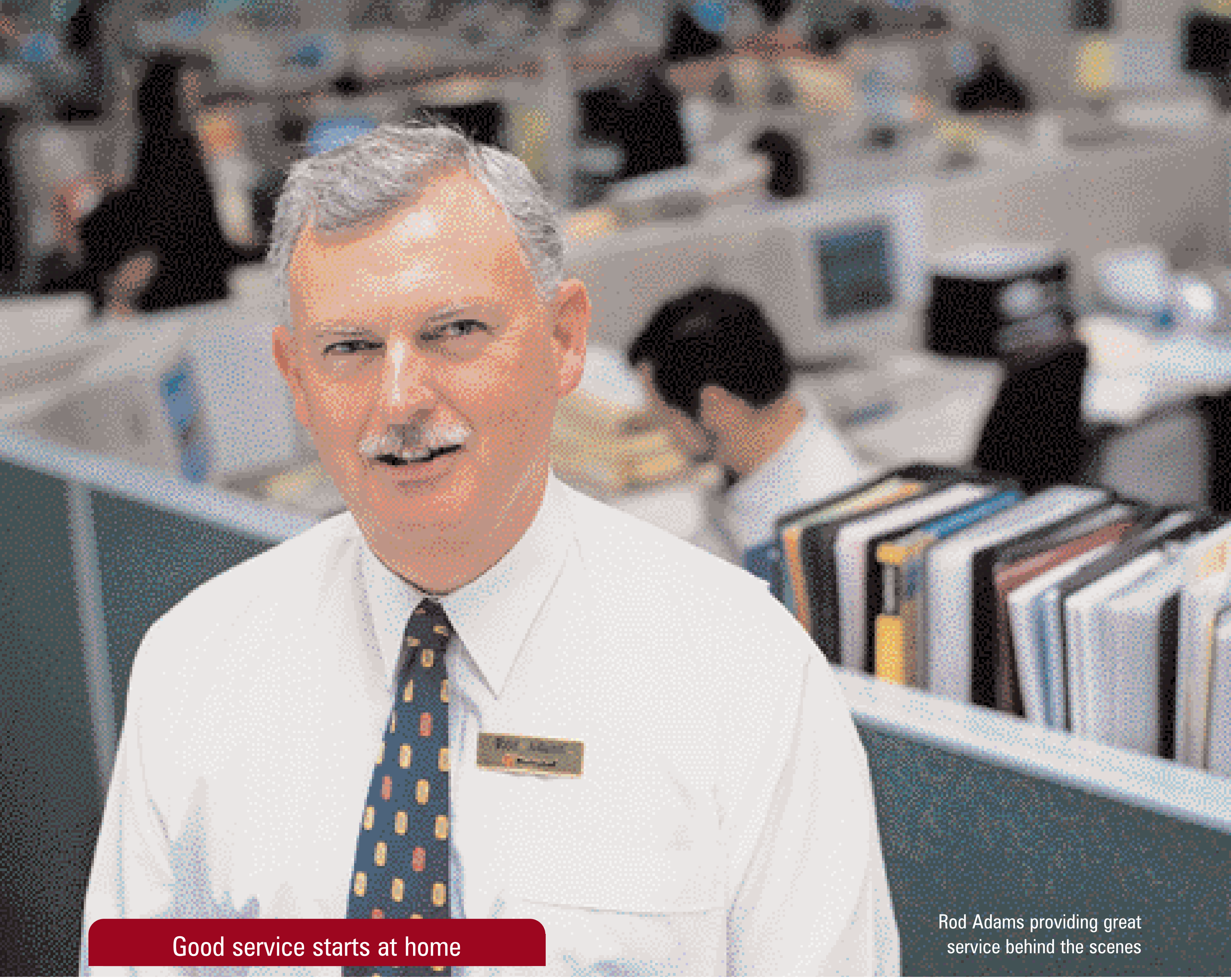
Peter Scott
EGM, Wealth Management

Steve Targett
EGM, Wholesale Financial Services

Peter Thodey
Managing Director, BNZ

Joe Whiteside
Chairman and CEO, HomeSide Lending Inc

The Talent Review is designed to improve our understanding of the skills and capabilities within our ranks and our ability to foster development.



Rod Adams providing great service behind the scenes

Good service starts at home

Providing the very best service to our customers means we first need to be able to provide excellent service to the colleagues who rely on us.

National Shared Services recently launched an Internal Service Monitor to raise the level of service within the organisation. It provides business units with a consistent method for measuring the quality of service they provide, enabling them to achieve goals for service timeliness, knowledge, attitude and the overall satisfaction they provide to their internal customers.

The Monitor asks the internal customers of each business unit to rate its performance. Consistently achieving top scores for internal customer service is Lending Services Queensland, which has as its internal customers bankers from both Personal Financial Services and Business Financial Services.

Headed by Rod Adams, Lending Services Queensland is responsible for the processing, approval, settlement and drawing down of loans. As Rod says: "If there's a glitch or a hold-up with our internal customers, there's a significant and immediate effect on the end customer."

Rod attributes the success of Lending Services Queensland to a programme the division started two years ago. The Breakthrough Service Performance programme trained staff to look at values such as having a positive attitude, being proactive, consistent, accurate, responsive and timely, showing care and courtesy, taking ownership of their work and honing their teamwork and communication skills.

Given that the division regularly scores top marks from its internal customers, the programme has clearly had a real impact on staff. "Breakthrough Service has given our people a greater understanding of what drives really great customer service," Rod says. "People are more conscious of looking at the broader service requirements even if it is not their direct responsibility. We are a 'team of teams' and any breakdown, anywhere has the potential to impact on the end customer.

"Talking to our stakeholders is also important. We develop new policies, processes and procedures in conjunction with our stakeholders, not in isolation. We don't design something that's just good for us, it also has to be good for our internal customers. What's good for Lending Services is good for the bankers and most important, it's going to improve the customer experience.

"I feel very strongly that people drive service and service equals sales. If we provide really excellent service, you have happy staff in here, you have happy customers and you have more business."

Belonging to the community

As a large corporation, the National has responsibilities beyond managing money

Our capacity to increase our profits over the long term depends, in part, on our ability to conduct our business responsibly and to make a positive contribution to the community.

The National strives to balance its responsibilities to all stakeholders and, this year, we have worked hard within our communities to better address their banking and other needs. At the same time, we are encouraging our staff to be active in their local communities and to look for ways the National can help.

The National aims to work with communities to solve problems in an active way, beyond simply managing money. We believe that as a large corporation we have obligations to the society in which we operate. These must be balanced with the need to provide profit to our shareholders.

We have not always managed our broad corporate obligations successfully. We see a need to identify and better balance our responsibilities across all stakeholder groups in the future. If we strike conflict among these groups we will be open and transparent in how we manage this conflict. At all times, our focus will be on responsibly managing a growing and profitable business.

In our view, our capacity to increase our profits over the long term depends, in part, on our ability to conduct our business responsibly and to make a positive contribution to the community.

Our staff have told us that they care deeply about the National's reputation and

Frank Cicutto, Mike Pratt and Rev. Tim Costello.

Stronger communities provide better business environments contributing to longer-term growth and profitability.

our values. We need a satisfied and motivated workforce to grow our profits. Our customers have told us that they want us to provide quality service that meets their needs. Other stakeholders have echoed these views. We are listening to and learning from all our stakeholders.

In Australia, one of our proudest achievements this year was borne out of our concerted effort to listen to our community stakeholders. The Community Consultation Forum, originally established in 1999, under the chairmanship of the Reverend Tim Costello, gained momentum this year. The Forum conducted a major research project on the banking needs of low income and otherwise vulnerable people, which identified the problems confronting the most disadvantaged groups. More than 200 service provider groups and advocates for these people across four Australian states told us what they wanted from a bank.

As a result of the research, in August 2001, we launched the National Concession Card Account offering fee-free banking to National customers who are pension, health-care or seniors' health card holders.

The Concession Card Account provides a very direct and practical response to the concerns of low-income customers. It also enabled us to work with our community stakeholders, to learn from each other and to develop responsible business practices.

The Forum also reinforced that building trust among all our stakeholders will take time and that talk must be backed up with action.

The National has an ongoing commitment to work with the Forum to address other high-priority concerns of people on low incomes. The Forum will focus on practical issues concerning financial products and services and, where appropriate, we will seek industry and government responses to concerns raised.

Our concern for the community extends beyond its need for financial services. We know that stronger communities provide better business environments contributing to longer-term growth and profitability. Strong communities provide stable and skilled employees and prosperous customers.

Across the globe, our staff are involved in supporting local volunteer and not-for-profit groups.

At the Bank of New Zealand, for example, a Staff Community Involvement Programme has been introduced to provide a formal structure for employees to work with the bank's community partners.

Staff from Northern Bank helping with children with their numeracy

Building numeracy

Staff volunteers from Northern Bank are helping primary school children with their maths.

In Northern Ireland, the Northern Bank's Time to Count programme is the first step in a scheme to support numeracy skills and financial literacy.

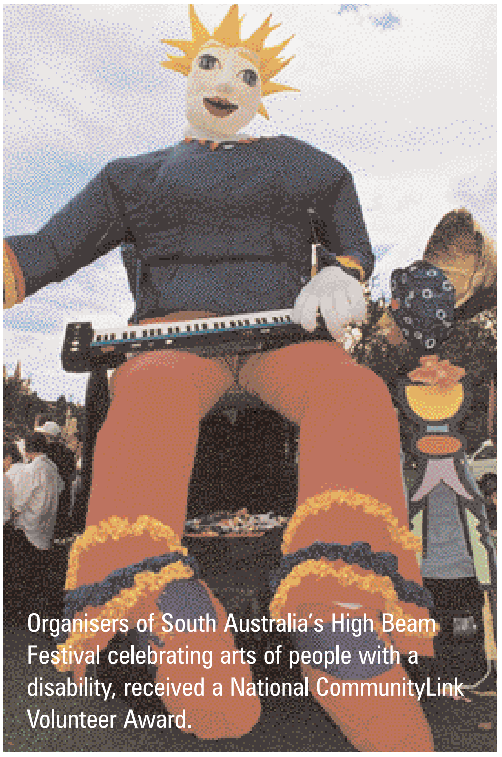
Northern Bank saw opportunities to help develop numeracy skills in primary schools and for staff to become involved by sharing core skills with the community.

Through the Time to Count programme, volunteers like Johnny Jordan, a customer service adviser working in Northern Bank's Cregagh Road branch, are paired with a child or small group of children for an hour each week to help with fun maths activities. The programme is mainly targeted at eight- and nine-year-olds who lack confidence and self-esteem.

Staff have found the programme immensely satisfying and their exposure to urban deprivation has also made them more socially aware. Johnny says, "We are enjoying the challenge of developing new skills as well as building on skills we possibly didn't realise we had. Even in this short period of time, it has been really rewarding to watch the children develop."

Vonnie Hunter, the principal of Belfast's Star of the Sea Primary School, says the volunteers provide excellent role models from the world of work. "The projects help to develop self-belief, confidence and social skills," she says. "In the future, we hope this will have an impact on the expectations the pupils have of themselves and their future employment prospects."

Staff involved in the Time to Count programme commit themselves to being involved for at least one academic year, but are encouraged to participate for three years to provide continuity of support. The programme has been a great success, winning the Belfast Telegraph 2001 Business Award for Outstanding Community Involvement, whilst still in its pilot phase.



Organisers of South Australia's High Beam Festival celebrating arts of people with a disability, received a National CommunityLink Volunteer Award.

We go beyond simply providing money for these groups, providing other forms of support - such as staff using their skills and expertise to help community organisations achieve their objectives and serve their own clients.

Initially, this programme has focused on two partners: Heart Children NZ Inc, which provides support for children born with heart conditions and for their families; and the Kiwi Recovery Programme, which is helping to rebuild the population of this unique and endangered bird.

A review of our community activities by our Clydesdale Bank and Yorkshire Bank operations was recently completed with a number of new sponsorship programmes being considered. A long-standing programme is Clydesdale Bank's Matched Payroll Giving Scheme, in which the Bank matches, pound for pound, staff donations to a national charity.

In Australia, the National encourages staff to become involved in their communities - for example, by supporting our CommunityLink programme partners. Some of the groups we work with include the Australian Red Cross Blood Service, the Australian Conservation Foundation, and Lions Australia – community service and volunteer-based organisations meeting the needs of a broad cross-section of the Australian community.

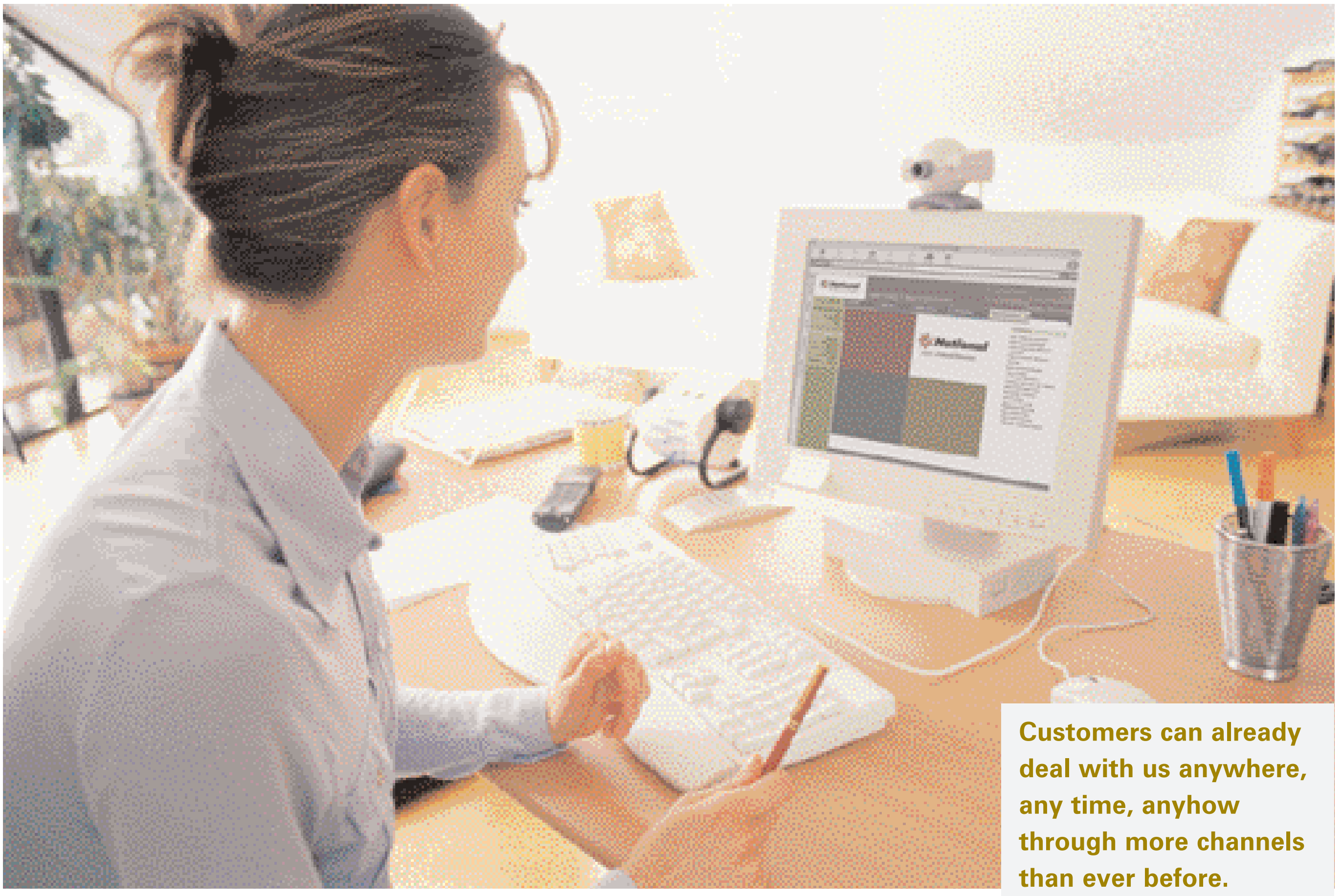
We go beyond simply providing money for these groups, providing other forms of support – such as staff using their skills and expertise to help community organisations achieve their objectives and serve their own clients.

We are also serious about our environmental responsibilities and have been a member of the Federal Government's Greenhouse Challenge since 1997. The National maintains its emission levels within its commitment of the original agreement.

Emissions have been reduced through the introduction of energy-efficient lighting and the efficient control of air-conditioning in our properties. The National continues its extensive paper recycling programme to limit the extent of paper sent to landfill.

For a decade, we have been assessing environmental risks in relation to all lending to environmentally sensitive industries, facilities and developments. For example, under our comprehensive risk management regime, the National has provided finance to developments and industrial operations involving the remediation of contaminated land. We have also been able to lend to a number of renewable energy projects by developing appropriate commercial arrangements.

By encouraging customers to follow reliable environmental advice, the National believes that the value and profitability of our customers' businesses will increase.



Customers can already deal with us anywhere, any time, anyhow through more channels than ever before.

Power to the customer

People's financial needs are as varied as life itself. Responsiveness and flexibility are the keys to providing financial services that customers want.

Many organisations want to dictate how they will interact with their customers. At the National, we have moved away from that thinking and are working towards a model where customers interact with us in the way they choose.

Customers can already deal with us anywhere, any time, anyhow through more channels than ever before, including branch networks, ATMs and EFTPOS, over the internet, by telephone to our call centres, with our relationship managers and now, in Australia, through 2800 Australia Post outlets around the country.

As well as increased access, we provide customers with a choice of outlets. Our financial services centres and suites have relationship managers and financial advisers working side by side to develop stronger relationships and a more comprehensive understanding of our customers' needs.

Technology has expanded the means by which customers deal with us, but it can also easily alienate them. Some customers regret the passing of an era when a bank manager knew who they were, about their work, their family details and their standing in a community.

Colleen Brooke, who works with David Langley, does the banking at the Woodend Post Office.

For people who need people

An alliance with Australia Post greatly increases the number of banking outlets for National customers in Australia.

Our customers today have more ways to access banking services than ever before, but we recognise that many still want to deal with someone face to face.

The National has joined forces with Australia Post to provide personal banking services at all giroPost outlets around the country. Customers are now able to withdraw, deposit and enquire about their account balances at these giroPost branches. This partnership with Australia Post has effectively increased the number of our banking outlets from approximately 1000 to 3800.

We began negotiating with Australia Post in 1999 and formed a project team in January 2000. To ensure customers received the same standard of service at a giroPost as they would at our branches, we worked closely with Australia Post to significantly upgrade computer platforms to allow the systems at both organisations to communicate quickly and efficiently.

Work on integrating the systems began in March 2000 and was completed in October that year. By April 2001, all giroPost branches were handling personal banking services and meeting our performance targets. We have now introduced giroPost banking for business customers and by September 2001 had 62 outlets participating in an extended pilot programme.

The post office in the small Victorian country town of Woodend was one of the National's first pilot sites for personal and business banking. Post Master Terry Bowles comments:

"Like all things in the country, it will take time for people to change the way they do things, but people will get used to it and I'm confident this will have a real and positive impact on the community."

David Langley, principal of a local accountancy firm, says the National's giroPost service has already made a positive difference to his business. "We used to bank every second day because the nearest branch was 19 kilometres away," he says. "It used to take 45 minutes of a staff member's time to do the banking, whereas now we can bank every day, it takes five minutes of staff time and we can do the banking at the same time we do our mail. It's proved to be a significant cost saving for us."

The National's Customer Relationship Management system, developed over the past 15 years, has enabled us to combine customer knowledge with new, more convenient ways to do business. The system makes it easier for customers to do business with us because whenever and however they contact the National, staff have a knowledge of the customer's existing relationship with the Group.

The National has implemented safeguards to ensure that individuals have a right of access to their personal information and the ability to correct any errors. We have established a privacy complaints system to manage issues associated with customer information.

Understanding individual needs

The National has become synonymous with the concept of tailored financial solutions. We tailor the skills of our employees, our range of products, customer access and our outlets to the broad customer groups, according to their financial needs and the character of the relationship they wish to have with their financial service provider.

Some customers know exactly what they want and need us to find the best deal. Others know roughly what they want but need advice. Then we have customers who neither have the time nor the desire, and want us to handle all their financial concerns. By tailoring our service, we are responding to the way customers choose to interact with us.

At the National, we are continuing to develop our suite of products and services to improve our responsiveness to individual needs. For example, the Choice package for higher income customers was enhanced during the year to incorporate greater wealth management opportunities. A similar package was launched successfully three years ago in Great Britain and was launched this year in New Zealand.

A new product called *wave* was launched in New Zealand. It is designed for younger people whom we believe may wish to develop deeper relationships with Bank of New Zealand in the future. As well as a range of Bank of New Zealand products, it includes additional third-party benefits, such as mobile phone, Air New Zealand Koru Club and computer and internet offers.

The National in Australia ran a successful programme for new customers with an advertising campaign based upon the potential for low entry home loan rates. A version of this campaign has been run in Great Britain.

The National has become synonymous with the concept of tailored financial solutions. We tailor the skills of our employees, our range of products, customer access and our outlets to the broad customer group.

Growth markets

The development of the National's product and service range, with the incorporation of wealth management services, will provide growth from our existing base of customers and by attracting new customers. The region we cover in the north of England, Scotland, Northern Ireland and the Irish Republic has a larger population than Australia.

In Great Britain, we now have more than 100 premium bankers, double the number of two years ago. In a market where banks and financial advisers have rarely shared customers, the financial planning services offered to our premium customers set us apart. We will continue to expand on this with the introduction of our approach to wealth management.

In Great Britain, we have also entered into agreements with major corporations, including Microsoft, and British Telecom, to provide onsite financial services to more than 10,000 employees, many of whom are private and premium clients. ■

Choice for the home buyer

The home is the largest single investment and the longest contractual commitment that most people make in their lives. The National's home loan philosophy is to provide customers with choice and control.

The home loan business is becoming more competitive in all markets with new suppliers and easier access through channels such as telephone banking, mobile bankers and the internet.

The National's growth in the Australian home mortgage market has been significantly faster than the overall market. Our mortgage business in Great Britain has also proved robust, with Yorkshire Bank achieving growth several times that of the market overall.

We have reiterated tailoring as a central message in our mortgage operations across the National Group. In Australia, our emphasis on having a relationship banker for every customer with a National-branded home loan has been an important point of differentiation. The strength of the relationship banking has also helped build our home loan business for the higher income customers in Australia and Great Britain.

Research conducted among Australian borrowers during the year demonstrates that the National's home loan offering is bringing customers tangible benefits. The ability to tailor the term of the loan to an individual's financial needs has resulted in National customers having an average initial loan term of 19.2 years compared with the standard 25 year repayment period.

The National's strength with higher income customers means that our average home loan in Australia is 12.6% larger than other banks.

In Australia, the National's home equity loans through the FlexiPlus Mortgage and the Investment home loans provide competitive strength.

About 60% of our home lending in Australia is through the Choice package for higher income customers. The Choice package was enhanced during the year to incorporate online and telephone share trading, and funds management, together with fixed and variable rate margin lending.

The international scope of the National's business is bringing benefit to customers in each market. The FlexiPlus Mortgage, which has been a very successful flexible credit line in Australia, has been adopted in Great Britain and New Zealand, while New Zealand's Rapid Repay product, has been adapted to provide an amortising line of credit in Australia and Great Britain.

The position of our operations in Great Britain and Ireland in regional centres and small communities has contributed to the development of strong relationships between customers and staff. Yorkshire Bank was recently voted by the consumer magazine "Which" as having the best service ethic in the home loans business.

The home loan business is becoming more competitive in all markets with new suppliers and easier access through channels such as telephone banking, mobile bankers and the internet.

Mortgage brokers are increasingly important. In Australia, they account for more than 20% of all mortgages, and the National's Australian mortgage origination business, under the brand name of HomeSide Australia, has been able to more than double its growth in each of the past two years. During the year, HomeSide's Australian origination operation was integrated with the National's mortgage business.

Recent research highlighted the high quality service that the HomeSide Australia mortgage origination business provided, with the service provided to mortgage brokers ranked first, and HomeSide's products and technology ranked in the top two. ■

Launching private banking at Microsoft, Christopher Ward (Ward Consultancy), Stephen Harvey (Microsoft), Stuart Grimshaw and Paul Fegan, (Clydesdale and Yorkshire Banks).

Private banking in the workplace

Focusing on their financial affairs is not the best use of time for employees at Microsoft's Reading campus in England. Clydesdale Bank has a solution.

This year, Clydesdale Bank entered into a pioneering scheme with Microsoft, the leading software developer, to provide in-house private financial services for employees at Microsoft's British headquarters in Reading. The service builds on Clydesdale Bank's association with Ward Consultancy, who are Microsoft's independent financial and tax advisers.

Raymond Sykes, the Senior Private Financial Services Manager based at Microsoft, leads managers John White and Heather Cordier in providing this service, and the team has already had considerable success in acquiring new customers during its first year based at Microsoft.

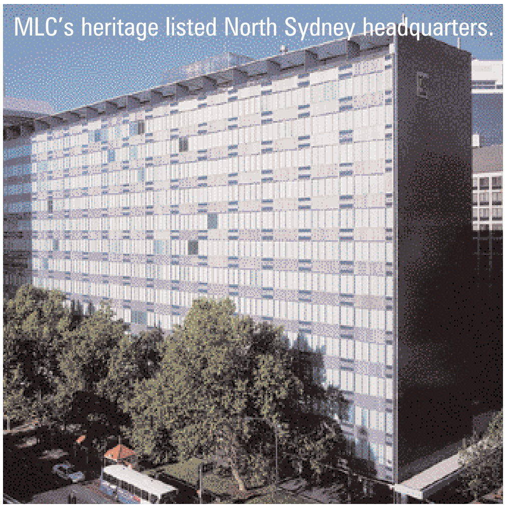
Raymond says, "This unique initiative provides Microsoft employees a considerable level of convenience in managing their affairs.

"Having a dedicated team of relationship managers working at Microsoft's headquarters ensures the company's employees and their families have access to advice on the full range of bank services to help them manage their personal finances."

Microsoft's Director of People and Profit, Stephen Harvey, says his company's vision is to create an environment where great people can do their best work.

"Microsoft people are at their best when they are focused on doing what they do best and on the whole that's not dealing with their own financial affairs in a timely and efficient manner. Having in-house private bankers who understand Microsoft people and how and when they are rewarded makes a huge difference," says Stephen.

As one of the first customers to sign up, Stephen Harvey says the service has "seriously changed my life. I have never been so well organised, supported or felt so in control of my financials. Handing over my own finances and having the experts sort me out has saved me hundreds of pounds a month in unnecessary interest."



Creating wealth

Wealth management is increasingly important as consumers shift their savings into products such as managed funds and superannuation.

The National took a major strategic step forward in June last year when it acquired the Australian-based financial services group, MLC. The National has been able to enhance its Wealth Management division by integrating it with MLC, a business differentiated by its "manager of managers" investment approach and its multi-channel distribution and advice capabilities.

The Wealth Management division operates a diverse portfolio of financial services businesses, providing insurance, superannuation and investment solutions

The Wealth Management division of the National now operates a diverse portfolio of financial services businesses, providing insurance, superannuation and investment solutions to both retail and corporate customers and financial planning and portfolio implementation systems and services to advisers.

The businesses operate across four regions: Australia, Great Britain and Ireland, Asia and New Zealand. The primary focus during the year has included the integration of the National's Australian Wealth Management businesses, the expansion and development of its distribution capability and the leveraging of Wealth Management's capabilities across its international businesses, which are at different stages in the financial services evolution.

The integration of the National's Australian wealth management businesses is nearing completion following the decision to accelerate the programme's delivery. This process is due to be completed in December 2001, more than a year ahead of schedule. This has included the restructuring of National Asset Management in 2001 and the successful divestment of County Investment Management in December 2000.

Wealth Management's "manager of managers" approach gives investors access to a combination of specialists in each asset class globally, providing diversity across and within asset classes and across complementary investment styles. It is this diversification strategy that attracts customers who wish to grow their investments, specifically in volatile investment conditions.

Growth through distribution and choice

Wealth Management's Australian business has achieved significant sales growth with a 27% increase over the prior year. This has been driven largely through the breadth and depth of Wealth Management's multi-channel distribution approach, integration activities as well as the continued trend towards the use of advice by investors and financial planning and portfolio implementation platforms/systems by advisers. With more than 1600 aligned and salaried financial advisers across eight dealerships, Wealth Management has one of the most comprehensive and diversified distribution and advice capabilities in the country.

Deutsche Bank's Australian financial planning and funds management businesses were acquired in April 2001 and have been integrated successfully with the Godfrey Pembroke dealership, which now includes more than 180 advisers focused on servicing premium, high net worth customers.

The National Personal Client Services distribution channel was also launched in April 2001. With more than 100 financial advisers now recruited and trained, the business is focusing on servicing the National's Australian retail bank customer base.

The acquisition of the leading asset management consultant John A. Nolan & Associates in November 2000 brought considerable depth to our corporate market offering. Additional corporate repositioning activities included the launch of MLC Implemented Consulting Services in November 2000, to enable corporate clients to outsource the management of their superannuation funds.

More than 260 additional advisers were successfully recruited into Wealth Management's Australian dealership groups. This growth in numbers reflects the attractiveness of Wealth Management to advisers seeking career development, and the access to the business systems and processes they need to provide quality financial advice.

Wealth Management's Adviser Campus, established in July this year, has undertaken the challenge to recruit and train our growing adviser force. Its objective is to provide a competitive advantage in attracting and retaining high quality advisers by offering innovative services through dealerships to advisers within the National.

Delivering systematic solutions

Wealth Management's primary Australian platform, MLC MasterKey, was rebuilt and relaunched in July 2001 through the MLC MasterKey Horizon Series. The aim of the relaunch was to position MLC MasterKey as a portfolio outsourcing system, which enables advisers to offer their clients a standardised, fully implemented and maintained portfolio solution through one investment across a range of comprehensive risk/return profiles. MLC MasterKey Horizon Series is built on MLC's proven "manager of managers" investment system.

Wealth Management's ability to compete in the growing corporate superannuation market was further strengthened during the year following the launch of MLC MasterKey Business Super, tailored to provide market leading superannuation and master trust solutions for small and medium 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 platform.

Building international business

In Great Britain and Ireland, Wealth Management is launching an innovative investment service, which represents the first major international initiative that deploys the Australian capabilities in distribution, advice and product platforms/systems and the "manager of managers" investment approach pioneered in Australia.

The approach is focused on consistency of service and the provision of quality advice based on servicing customers' needs. Combined with the "manager of managers" investment approach, and the National's existing bank customer base, we believe the customer relationship and advice proposition will provide a source of competitive differentiation to support the growth of a quality, sustainable business in international markets.

In Asia, Advance MLC (a joint venture with the Soon Hua Seng group from Thailand), is successfully implementing an innovative distribution model. It focuses on building a full-time professional distribution force of salaried advisers, rather than the typical part-time agency forces that dominate the Thai market. The model makes use of our private client services dealership expertise. With more than 300 advisers, Advance MLC is well positioned for future growth. ■

Wealth Management's "manager of managers" approach gives investors access to a combination of specialists in each asset class globally.

Meeting business needs

Business requirements of financial services can be complex and demand an intimate understanding of an industry.

The National's relationship banking model approach was a key factor in our growth over the past year. This allows National business bankers to develop an understanding of their customers' business, in all phases of the economic cycle, and to offer appropriate solutions to their needs. The relationship manager draws on the expertise of National specialists in a range of areas such as treasury, payments, leasing and superannuation to provide business customers with a fully-integrated financial service.

Our strategic intent is to transform the National from a business financial services provider to one that actively offers solutions that add value, and shows its customers how to make best use of contemporary financial services. This is how our relationship bankers can create the most value for our customers and give them compelling reasons to bank with the National.

The National's approach to relationship banking helps it to understand its customers' business, in all phases of the economic cycle, and offer appropriate solutions.

Customer research and feedback tells us there is still a huge opportunity for the first bank that genuinely meets customer needs and expectations, not merely betters the performance of its competitors.

Several initiatives have already been introduced in Australia as part of our customer focus, including:

- the introduction of online business lending for amounts up to $100,000 for customers who prefer this channel;
- an "electronic business needs record" to ensure rigorous assessment and follow-up of all financial service needs of small to medium businesses;
- re-engineering of key processes to give bankers more time in contact with customers and less time on back-office tasks; and
- the provision for business customers of automated buying and selling of goods and services via the internet, thereby saving time and money (eProcurement).

In the background to these changes is a fundamental move towards industry specialisation in our customer service network. This has led to the formation of major client service groups for larger customers, staffed by experienced bankers with specialist industry knowledge of the client portfolio.

We have also established a new Package Business division for small businesses with relatively straightforward financial needs, which enables the delivery of efficient service at low cost. The National is the largest lender to small and medium businesses in Australia and has introduced a number of initiatives for them this year, including the National Business Booster package, which incorporates a low-interest loan and other financial benefits.

Attention to discrete customer segments is also working well in our overseas operations. The major growth area for our Irish operations is the Custom – or big

Tammy McLean and Julie Marshall, directors of photo agency, 2C Management, do their business banking with the National, as do Michael Terrett and Sven Graham, directors of the commercial and industrial building company, Greater Constructions.

business – segment, where the demand for skilled relationship management is intensifying. In New Zealand, the integration of wealth management into Business Financial Services, as well as the co-location of Custom and Personal Financial Services provides opportunities for high-worth individuals.

Access to service

The variety of service delivery methods, including telephone, internet and other electronic channels, is becoming more important in meeting a range of customer preferences. These can empower the customer in ways not easily replicated in a physical branch.

The recent launch of the Business Scenario Tester (BST) on the National's website is a good example. BST is a self-service tool that enables the user to test the impact of decisions on their cash flow and other key financial indicators. Customers can use BST to create valuable business planning information and improve the way they work with their accountant, financial adviser and banker. The National is the only major bank to provide a business planning tool of this quality free of charge, demonstrating our commitment to creating value and offering choice to our customers.

Although our business customers can use a range of channels to access our services, we have more opportunities for them to have personal contact with bankers through our network of business banking centres. In Australia, there are 99 business centres and 68 business suites. Great Britain has 94 business centres, Ireland 32 and New Zealand 19.

Expertise in agribusiness

The National is among the top five agribusiness financial service providers worldwide. It is a market leader in Australia and Northern Ireland and in the top three in New Zealand and Scotland. The secret of our success is the model we developed in 1997, which called for the establishment of dedicated agribusiness divisions.

Bank of New Zealand's dedicated agribusiness division has operated since October 1998. We established the agribusiness divisions in Australia, Great Britain and Ireland two years later. BNZ's agribusiness operations have been extremely successful, particularly in their internationally award-winning direct marketing campaigns.

In Australia, almost one in three farmers does business with the National.

Farmer Robin Fisher and his son rebuilding their business, with support from National's Sandy Cunningham (centre).

Dealing with disaster

Clydesdale Bank responded with constructive solutions when crisis struck many of its farming clients in northern England.

The worst outbreak of foot and mouth disease in 30 years swept through Great Britain and Ireland in early 2001. The fight to control the epidemic led to millions of head of livestock being destroyed, devastating farming communities.

Sandy Cunningham, an Agribusiness Banking Manager based in the Clydesdale Bank's business banking centre in Carlisle in north-west England, says that dealing with affected farmers was like dealing with the bereaved. The Fisher family, one of Sandy's best customers, was one of the first reported cases in England and the first in Cumbria.

Before the foot and mouth outbreak, the Fishers ran a profitable dairying and sheep trading concern and were planning to buy one of the farms on which they were tenants. Their circumstances were changed overnight. Although they were compensated for the 335 dairy cows, 5400 sheep and 218 beef cattle they lost to foot and mouth, the Fishers could not immediately replace stock because the area was still regarded as affected. With no farm income to speak of, the Fishers were given work by the agricultural authorities to help clean up other infected farms.

Sandy's first call to the Fishers was simply one of reassurance. "I made it clear that I wasn't getting in touch with them out of any concern from the bank's point of view, but to tell them we were here, that they should take time to get themselves sorted and when they needed us we'd help them with whatever they wanted us to do," he says.

"When the Fishers received their compensation, we advised them to repay their borrowing to rid themselves of debt and interest, then invest the surplus in business term deposits for 30 days. That basically gave them time to decide what they wanted to do longer term. In that time we organised a meeting with a financial planning consultant to deal with their longer-term interests and to discuss investment alternatives that would give them higher yields and returns."

Robin Fisher is succinct in his praise of Sandy: "It's been a very difficult time for us and the service we've had from Sandy and the Bank has just been first class. With what we've been through, the last thing we needed would have been problems with the Bank, but Sandy couldn't have done any better."

We are committed to the agribusiness division's long-term future, which was highlighted by our recruitment this year of 32 young people with farming backgrounds and agricultural qualifications. We believe that as farmers demand more sophisticated financial solutions, they will want to deal with well-qualified, professional staff who know and understand the land.

An example of the segment's growing sophistication is the success of the National's Wheat Advance product, which combines a seasonal advance, secured against expected future payments, with a wheat put option. Other commodity risk management products are being developed in Australia and being considered for our international operations.

The outbreak of foot and mouth disease in Great Britain and Ireland tested the skills of our agribusiness staff, and they passed with flying colours. Our staff have received accolades for the service they provided to customers affected by the outbreak.

Managing credit quality

Business conditions became increasingly difficult in all of our markets as the year progressed. Credit quality continues to be a prime focus. Business Financial Services introduced a new credit scoring system, developed in conjunction with Moody's Investors Service. The appointment of high-level credit managers in the field, to shorten response times on lending decisions and give bankers more control over customer relationships, also helped to assist in the early detection of customers experiencing difficulties. ■

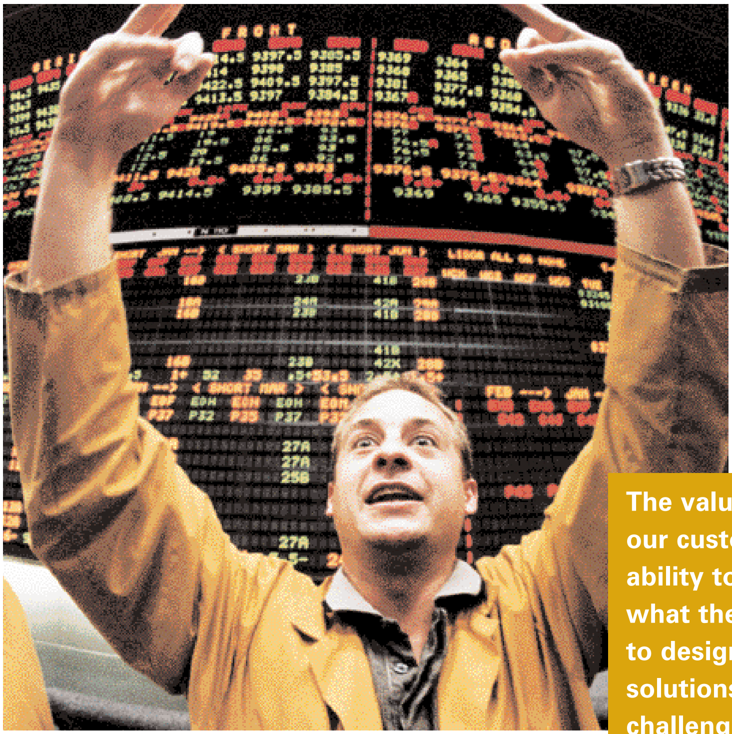
Structured for knowledge

Customers of Wholesale Financial Services demand, and receive, more than just the best products and services.

Relationship building is more than just an ethos at the National. It is part of the organisational DNA - the integral building blocks - of our business.

Our Wholesale Financial Services (WFS) division has restructured its operations over the past year to improve our ability to provide customers with service that responds to their needs.

In these intensely competitive times, WFS understands that customers need more than just new and clever products. No matter how ground-breaking they are, products can all too quickly be copied by competitors. The value we give to our customers is our ability to listen to what they want and to design specific solutions for the unique challenges they face. To be a solutions provider, rather than simply a product pusher, requires in-depth and close-up knowledge based on long-term relationships.



The value we give to our customers is our ability to listen to what they want and to design specific solutions for the unique challenges they face.

Focused expertise

During the year, we reorganised our customer-facing activities into groups that reflect industry specialisation in the areas of:

- financial institutions,
- industrials,
- property and construction,
- consumer goods and services,
- technology, media and telecommunications, and
- energy and utilities.

These industry-based client groups are supported by our Corporate Finance unit, which develops, manufactures and provides on-going credit support for all non-traded products, and by our Markets unit, which provides risk management advice, expertise and execution, both for clients and the National Group.

WFS has posted a net profit after tax of $685 million, 14.9% above the previous year. Our core business has grown in absolute terms, as reflected by an increase of 26.7% in Markets income and a 44.9% rise in Corporate Finance income.

Flexible thinking

Meeting the financial needs of our major corporate and institutional clients is our primary focus, but we can also make the

Adrian Coats from ScottishPower and David Rawson from WFS outside the Longannet Power Station in Kincardine-on-Forth.

Responding with innovation

A close understanding of ScottishPower's needs helped the National to develop a novel approach to its funding.

In the world's largest corporate bond markets, sheer size is no guarantee of success. A commitment to innovation and a deep understanding of client needs are also vital.

When ScottishPower sought to refinance its borrowings, the National's wholesale team suggested a radical solution for a corporation based in the northern hemisphere: broaden your investor base by raising funds in the much more cost-competitive Australian capital market.

ScottishPower did its own research, agreed with the National's recommendations and awarded it the $650 million mandate, much to the disappointment of some of the world's leading financial institutions. This Australian dollar floating-rate note issue was a landmark deal, being the first time an international corporation had used this type of instrument to raise funds in the Australian market.

So how did the National secure the mandate? The National's commanding position within Australia and its significant presence in Great Britain and Ireland was certainly influential. However, Adrian Coats, ScottishPower's Group Treasurer, says the clincher was the National's responsiveness to the company's unique needs and its ability to come up with an innovative solution.

"The National was awarded the mandate in recognition of its originality in proposing the transaction and its demonstrable distribution capability," Adrian says. "This was in the context of an excellent overall relationship between the National and ScottishPower, including substantial balance sheet support of the ScottishPower Group by the bank.

"From my perspective, one of the main benefits of utilising a global team was that the very significant time difference did not create any problems. It was only in the final stages of the transaction that ScottishPower staff were needed to be available at unsocial hours. This, of course, was only possible because the National team in both locations were very flexible about their working hours. ScottishPower is delighted with the end result."

This deal not only put the Australian capital market on the radar screens of international corporates wanting to raise cost-competitive funds and diversify their investor base, but also firmly placed the National at the top of the domestic corporate bonds league table. The potential for doing similar deals not only for companies from Great Britain and Ireland, but also from Continental Europe, is promising.

most of our wholesale expertise to design products and services for the National's smaller business clients.

In Great Britain and Ireland, for example, WFS has given our retail franchises a competitive edge by creating products for their business, personal and financial services divisions. We offer small and medium-size business customers in those markets specifically designed financial products that our competitors would normally only offer to their top corporate clients.

An example is the range of lending products called Tailored Business Loans, which give customers additional flexibility to structure their lending and choose their payment options, thus helping them manage risk better. This innovation reflects the National's efforts to transfer its proven practices – in product, staff training and service provision – wherever opportunities arise. Tailored Business Loans have enjoyed rapid growth in the markets of Great Britain and Ireland.

Building capabilities

Over the past 12 months, we have expanded our product offerings in capital markets, project and structured finance, money markets, currency options and institutional distribution for foreign exchange.

In the United States, we expanded our capability by establishing an origination team to distribute debt securities to local and offshore investors. This capability is a key component in our shareholder value focus as it allows us to use our balance sheet and capital more effectively.

Infrastructure investments also proved a highlight of our Asian operations. The landmark bond issue for ETSA Utilities completed last year was the springboard for another deal involving our relationship clients Hong Kong Electric Holdings and Cheung Kong Infrastructure Holdings (CKI). In April, we jointly lead arranged a $405 million five-year syndicated loan for CKI to refinance its equity investment in Powercor Australia, then took the lead role in the $550 million domestic bond issue for Powercor.

After a reorganisation in which we closed our offices in Taiwan and India, our Asian operation is now better positioned to take advantage of opportunities in this market.

We have expanded our product offerings in capital markets, project and structured finance, money markets, currency options and institutional distribution for foreign exchange.

This year, we were rated second in the Hong Kong bond market against a field of significantly larger domestic and international players, while in Korea, one of our team members, Jeong-Wook Jin, was voted the best corporate foreign exchange dealer in the Korean market.

Success underwritten by technology

WFS has been at the forefront of leveraging electronic delivery solutions. In 1998, we introduced Australia's first online foreign exchange dealing system, which we are now upgrading to an internet-based platform. We are extending this system to include fixed interest securities, and implementing an online money market platform.

Efficiencies in our operations are critical to maintaining a competitive cost base. It is for this reason that we are moving our technology and processing operations into two "service delivery hubs", one in Melbourne, servicing the Asia-Pacific region, the other in London, servicing our European and United States operations. The hubs will replace the regional processing centres, which were inefficient and expensive to run. ■

The power of the brands

Each of the National's brands has a strong following in its home marketplace.

In increasingly competitive markets, these brands must be strongly differentiated from those of competitors. The National aims to achieve this through its approach to customer relationships, which are built on understanding customers' needs, delivering solutions tailored to meet those needs, and helping customers achieve their life goals.

The National's regional brands are National and MLC in Australia, Bank of New Zealand in New Zealand; Clydesdale Bank and Yorkshire Bank in Great Britain; and Northern Bank and National Irish Bank in Ireland. Further supporting the power of these brands is the rollout of our approach to wealth management across Great Britain and Ireland.

In increasingly competitive markets, our brands must be strongly differentiated from those of competitors.

Australia

The National's "Tailored Financial Services" positioning has contributed to growth in both home lending and the offer of wealth management and other personal financial services, particularly to high net worth customers.

The Wealth Management business, branded under MLC, has improved the National's ability to offer a complete range of financial solutions to customers. The MLC's master trust related products have enjoyed strong growth in an extremely competitive market.

Great Britain

The two strong brands in Great Britain have great potential in this very important market. Between them, Clydesdale Bank and Yorkshire Bank have more than 3.1 million personal customers.

This year, for the first time, they have reported in a consolidated format. Common management control and operating processes are progressively being adopted, ensuring maximum synergies are achieved.

The two banks have enormous scope for organic growth. In just two catchment areas - Manchester and Birmingham - there are more than 12 million people, more than half the population of Australia, providing substantial opportunities for development of market penetration.

Yorkshire Bank has a very strong retail focus and has been so successful in attracting new customers that its mortgage book is growing at a multiple of the market average.

On the business banking front, Great Britain has been able to import a suite of Tailored Business Loans from Australia, and this has allowed small and medium-size businesses to borrow against cash flow for smaller amounts than are offered by its competitors.

Ireland

The major focus in Ireland over the past 12 months has been on three key issues: compliance, customer service and community involvement. The Irish banks are committed to establishing themselves as good corporate citizens, and to ensuring customers have the best possible service.

A customer service improvement programme has been put in place, listening to customers' needs and responding accordingly.

The two Irish banks have found a ready market for the National's premium and retail banking, tailored business loans and several risk management products.

Consolidating Northern Bank and National Irish Bank has transformed the Irish

operations, with greater synergies, including the reduction in office space required and the use of shared services.

National Irish Bank is on target to meet the challenges of the change in currency with the introduction of the Euro on January 1, 2002.

New Zealand

Bank of New Zealand (BNZ) enjoyed growth across all its market segments, including housing, agribusiness and business banking. Its home loan focus has been matched with a strong advertising campaign and the continuing success of the bank's innovative GlobalPlus home loan product.

The bank has again invested in, and is very focused on, meeting the needs of its staff, customers, shareholders and the community. In the past year, the bank has led the way in the New Zealand market with the upgrade of its ATM network.

Its new "smart ATMs" will let customers pay their rates, order movie tickets and use personal programming for regular requests. BNZ has extended its ATM network during the year, and is also undertaking a refurbishment programme that will upgrade substantial parts of its branch network.

On the business front, key areas for growth in New Zealand are integrated financial solutions and wealth management.

Leveraging off its technological capabilities, BNZ Wholesale has also been first to market with "Trans-Tasman Banking", a service enabling businesses with operations in New Zealand and Australia to be able to use a single electronic banking system to pay their respective Australian creditors and staff while monitoring and managing accounts on both sides of the Tasman. ■

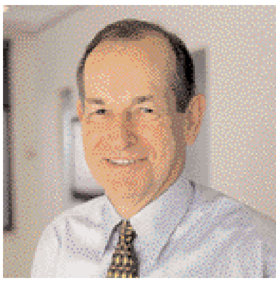
The National's regional brands are National and MLC in Australia; Clydesdale Bank and Yorkshire Bank in Great Britain; National Irish Bank and Northern Bank in Ireland, and Bank of New Zealand in New Zealand.

The Board's priorities

The Board reviewed the strategic direction of the National and the changing business environment in each of the key geographic regions in which the Group operates. This activity culminated in the very successful sale of Michigan National Corporation and a detailed analysis of growth options in Great Britain.

The Board oversaw the successful integration of MLC into the National Group. For the first time, a Board meeting was held in Great Britain where a significant part of the Group's assets are located, including Clydesdale Bank and Yorkshire Bank, Northern Bank and National Irish Bank and the National's significant London operations. This provided the Board with valuable insights into the market conditions, business environment and opportunities in that important region for the National. The Board closely monitored asset quality during the year, particularly the credit risks associated with a deteriorating world economy and events such as the outbreak of foot and mouth disease in Great Britain and Ireland.

The events at HomeSide in the United States were very disappointing for the Board. The Board considered that the most appropriate course of action was to immediately inform the market and to write directly to every shareholder. The Board also implemented a detailed Board Review. This review includes independent expert advice and reports directly to a Board Committee.



MR CHARLES ALLEN

Appointed Chairman this year, Mr Allen has been a Director since 1992. He was Chief Executive of Woodside Petroleum for 14 years, where he led the establishment of the North-West Shelf Gas Project.

"That is experience which gives me a deep interest in management and management systems and the way they interact with the world around them. I have a great respect for the discipline which organisations like our bank bring to their work.

"The objective of the Board and management going forward will be to broaden the focus of the organisation to have greater regard for the wider community in which we operate, whilst continuing the bank's strong financial focus.

"The reality within which the National operates will always yield surprises. A contribution which Directors can make is to draw from their experience to think laterally, to make the organisation more aware of its surroundings and ensure that it does not become too comfortable about its place in the world."

MR FRANK CICUTTO

Mr Cicutto was appointed Managing Director and Chief Executive Officer in June 1999 and has been an Executive Director since 1998. His 33 year career in banking and finance has included experience managing our international operations in Great Britain and the United States. He was responsible for credit management during the last credit crisis in the early 1990s.

Mr Cicutto says, "The Board must balance its responsibilities for governance, ensuring that the disciplines of good banking are maintained, and that the Group is structured for growth."

DR BRIAN CLARK

Dr Clark was appointed a Director in October 2001. He is also Chief Executive of Vodafone Pacific and a member of Vodafone Group plc Executive Committee.

"Banking and telecommunications companies share common traits, with both having millions of customers and operating in highly competitive environments. Such organisations need to be flexible and responsive to customers while managing the complexity related to large scale systems and processes. This is important given the way communication technology is changing how customers communicate, access information and transact."

Dr Clark brings invaluable global experience, especially in consumer service organisations, having played a role in Vodafone Group's international growth to become the largest mobile telecommunications company in the world.

MR PETER DUNCAN

Mr Duncan was appointed a Director in November 2001 following a highly successful career with the Royal Dutch/Shell Group of companies in senior finance, marketing and general management positions.

"The greatest challenge for the National, as for Shell, is remaining close to the community and the customer, while gaining the benefits of size, technology and international reach," he says.

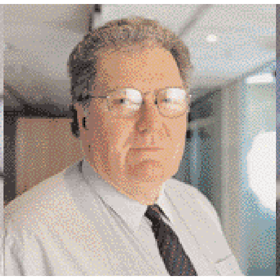
"We must respond to the expectations of our stakeholders both in our behaviour and with innovative products and approaches to distribution. We must show a more human face."

MR GRAHAM KRAEHE

Mr Kraehe has been a Director since 1997. He has been a Chief Executive of highly successful corporations with strong international operations, Southcorp, and Pacific BBA (now Pacifica).

Mr Kraehe believes it is important that Directors and senior management have personal contact with international markets, and says the Board's visit to the British and Irish operations this year was valuable.

"I am also a strong proponent for communicating the Group's contribution to its various stakeholders," he says. "We need to present a clear image of the National as financially successful and making a significant contribution to the communities within which we operate."



DR KENNETH MOSS

Dr Moss has been a Director since 2000. Both through his experience as Chief Executive of Howard Smith and through his directorship of companies, he brings to the Board a broad industry knowledge.

"Having worked at senior levels across a range of industries, including retailing, wholesale, distribution, building materials, the waterfront and coal mining, I have a good sense of what happens in the real economy."

Dr Moss believes it is important for Directors to have a thorough understanding of the world within which the bank works and the constraints it imposes upon what is possible as well as the opportunities it presents.

MR GEOFF TOMLINSON

Mr Tomlinson has been a Director since 2000 and he is chairman of MLC. His expertise in the financial services industry includes his previous leadership of National Mutual Holdings (NMH), which is now known as AXA Asia Pacific. During his term as CEO of NMH, it went through the demutualisation process and listed on the Australian Stock Exchange.

"MLC was a marvellous investment," he says. "The challenge for us is to access the synergies between wealth management and banking. Although that rolls off the tongue easily enough, making it work in practice requires a lot of detailed thought into bringing the two cultures together."

Mr Tomlinson brings broad international experience in the financial services industry, having previously sat on AXA's global strategy committee and was heavily involved in National Mutual's Asian development in the 1990s.

DR EDWARD TWEDDELL

Dr Tweddell was appointed a Director in 1998. He was Chief Executive of the pharmaceutical company Faulding from 1993 until this year, and has worked in the international pharmaceutical industry in Africa, North America, the Middle East and Asia.

"Running businesses in diverse cultures and building businesses in different countries fits in with the broad international mandate of the National."

Dr Tweddell says that although issues such as managing diversity are not seen as front-line strategic issues, they are important to an international business.

MRS CATHERINE WALTER

Mrs Walter has been a Director since 1995. She brings 20 years of experience as a lawyer specialising in financial services and is also a Director of the Australian Stock Exchange and Queensland Investment Corporation. Her experience on boards and as Managing Partner of a professional services firm gives her insights into the changing nature of financial services enterprises.

"Governance expectations are changing. Governance involves not just meeting regulatory requirements. Public companies to prosper over the longer term must look to the interests of an increasing range of stakeholders: customers, employees, shareholders, their communities and governments," she says.

"The National's move from a traditionally hierarchical culture to a more collaborative, meritocratic one means individual needs of different stakeholders will be heard throughout the organisation."

MARK RAYNER

Mr Rayner was appointed an independent non-executive Director in 1985 and elected chairman in 1997. He resigned from the Board in September 2001.

Concise Financial Report 2001

The financial statements and specific disclosures included in this report have been derived from the annual financial report 2001. The concise financial report cannot be expected to provide as full an understanding of the financial position, and financing and investing activities of the entity as the annual financial report 2001.

A copy of the annual financial report 2001 is available on request without charge at any time from Shareholder Services and is also available from the website (www.national.com.au).

Report of the directors

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

Directors

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

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

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

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

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

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

Mr Frank J Cicutto
BCom, FAIBF, FCIBS

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

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

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

Dr J Brian Clark
DSc

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

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

Other directorships
Vodafone Pacific Limited and associated group entities.

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

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

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

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

Mr Graham J Kraehe
BEc

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

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

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

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

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

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

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

Mr Geoffrey A Tomlinson
BEc

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review of operations
A review of the operations of the Group during the year, and the results of those operations are contained in the financial review on pages 2 and 3 of this annual financial review.

Group results

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

Dividends

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

Dividends paid since the end of the previous financial year:

- The final dividend for the year ended September 30, 2000 of 64 cents per ordinary share, fully franked, paid on December 13, 2000. The payment amount was $976 million.
- The interim dividend for the year ended September 30, 2001 of 67 cents per ordinary share, fully franked, paid on July 4, 2001. The payment amount was $1,026 million.

Information on the dividends paid and declared to date is contained in note 5 in this annual review.

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

Significant changes in the state of affairs

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

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

  The portion of the business sold contributed $132 million to the Group's 2001 result.
- In July 2001 the directors determined that the carrying value of the mortgage servicing rights asset held by HomeSide Lending, Inc., a controlled entity of the Company, exceeded the fair value. An impairment loss of $888 million ($568 million after tax) was recognised to reflect the asset at its fair value. The impairment was the result of hedging positions which were adversely impacted by extreme volatility in the United States interest rate markets.

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

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

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

While the above matters are considered to be significant changes, review of matters affecting the Group's state of affairs are also contained in the financial review on pages 2 and 3 of this annual review.

Events after end of financial year

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

Group's sound capital position and strong internal capital generation. On November 8, 2001, the Company announced to the Australian Stock Exchange Limited its intention to undertake an on-market buy-back of its ordinary shares.

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

Future developments

Details of the likely major developments in the operations of the Group in future years and the expected results of those operations are referred to in the overview on page 9 of the annual financial report 2001.

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

Environmental regulation

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

Rounding of amounts

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

Remuneration policy and relationship to company performance

Board members

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

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

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

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

- **Less than 15 years:**

  One-third of the average yearly emoluments paid by the Company to the director:

  (a) during the last three years of service; or

  (b) when the period of such service is less than three years, during that period

  for each completed year of service and proportionately for part of a year, as a non-executive director of the Company.

- **15 years or more:**

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

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

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

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

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

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

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

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

Senior executives

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

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

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

Senior executive remuneration is made up of three components:

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

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

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

- **Long-term incentive**

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

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

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

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

Senior executive emoluments (current employees)

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

Senior executive emoluments (ceased employees)

Name and position[1]	Salary package[2] $	Performance based remuneration[3] $	Retention allowances $	Other benefits[4] $	Total remuneration $	Options Granted[5] (No.)	Exercise price[6] $	Date first exercisable
Douglas E Ebert Former Chief Executive Officer Michigan National Corporation	660,053	2,004,477	18,812,244[8]	23,817	21,500,591	-		
Joe K Pickett Former Chief Executive Officer HomeSide	715,376	4,537,621[7]	468,867[10]	106,474	5,828,338	-		
Hugh Harris Former Chief Executive Officer HomeSide	973,646	4,537,621[7]	-	89,056	5,600,323	150,000	27.85	23/03/04
Michael D Soden Former Executive General Manager Business & Personal Financial Services	1,026,876	800,000	35,591[11]	65,892	1,928,359	300,000	27.85	23/3/04

(1) The top five executives of the company and group are those executives responsible for the strategic direction and management of major business units for a significant period during the year.
(2) Reflects the total remuneration package consisting of both basic salary and packaged benefits.
(3) Reflects performance-based remuneration in respect of performance for the year to September 30, 2000.
(4) Reflects non-salary package remuneration and includes company contributions to superannuation, benefits received under the Group's employee share schemes and expatriate benefits.
(5) No options have been granted since year-end.
(6) Refer to note 39 in the financial report for details of the valuation of options granted and an explanation of the performance hurdles that must be achieved before the options can be exercised.
(7) Joe K Pickett and Hugh Harris includes Long Term Incentive Plan payments of US$1,918,889 each, for the three year performance period April 1, 1998 to March 31, 2001. This arrangement was established in 1998 as part of their employment contracts. Performance targets were achieved for years 1998/1999 and 1999/2000, but not 2000/2001.
(8) Douglas E Ebert's allowance includes an annuity payment triggered by the termination of his employment on the sale of Michigan National Corporation. The pension arrangement was established in 1995 as part of his employment contract. The payment of US$5,251,898 was grossed up for tax purposes and resulted in a payment of US$9,545,434.
(9) These options lapse 30 days after the termination of employment.
(10) Termination payment to Joe K Pickett of US$250,000.
(11) Michael D Soden payment of $35,591 is in lieu of untaken annual leave.

Share options

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

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

(1) Share options lapse 30 days after the termination of employment.
(2) Fair value is based on a numerical pricing method. Refer to note 39 in the annual financial report for further information.
(3) Share options expire on the last day of their exercise period.

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

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

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

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

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

Directors' meetings

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

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

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

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

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

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

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

Directors interests

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

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

(1) Includes staff share scheme issues.
(2) Includes shares acquired under non-executive directors share plan.
(3) Includes shares acquired as a result of the exercise of options.
(4) Dr J Brian Clark became a director on October 15, 2001.
(5) Mr Peter JB Duncan became a director on November 2, 2001.

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

Signed in accordance with a resolution of the directors.

D Charles K Allen
Chairman

Frank J Cicutto
Managing Director

November 8, 2001

Corporate governance statement

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

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

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

Responsibilities and functions of the Board

The most significant responsibilities of the Board are:

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

Composition of the Board

The Board of directors of the Company comprises one executive director and eight independent non-executive directors. The Chairman is a non-executive director and the Managing Director is the executive director. The qualifications, experience and expertise of the directors are set out on page 37-39 of this annual review.

Appointment of Board members

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

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

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

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

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

Board appraisal

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

Remuneration of directors

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

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

Independence of Board members

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

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

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

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

Board meetings

The frequency of Board meetings and directors’ attendance at those meetings is set out on page 46 of the report of the directors. Directors are expected to adequately prepare for meetings and attend and participate at Board meetings. Some on-site inspections are conducted which directors are also expected to attend. Directors are assisted in gaining an understanding and knowledge of the Group through the provision of technical reading material, tutorials and workshops. The amount of work undertaken is considerable. The time requirement varies depending on the number of Board Committee meetings and subsidiary company board meetings a director attends.

Access to independent professional advice

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

Restrictions on share dealings by directors

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

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

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

Shareholding requirements

Directors are required to hold at least 2000 shares in the Company. Directors receive at least 10 per cent and up to 40 per cent of their remuneration in the form of shares in the Company through the newly introduced non-executive Directors share arrangement under the National Australia Bank Staff Share Ownership Plan which was approved by shareholders at the Company's last annual general meeting. The executive director receives share options and, as a staff member, also receives shares in the Company. *Details of all holdings by directors in the Company are set out in the report of the directors.*

Confidential information

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

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

Board Committees

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

Board and Committee agendas

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

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

Audit Committee

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

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

Mrs Catherine M Walter (Chairman);

Mr Peter JB Duncan;

Mr Graham J Kraehe; and

Dr Kenneth J Moss.

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

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

The responsibilities of the Audit Committee are to:

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

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

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

Compensation and Nomination Committee

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

Dr Edward D Tweddell (Chairman);

Dr Kenneth J Moss; and

Mr D Charles K Allen.

The responsibilities of the Compensation and Nomination Committee are to:

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

Appointment of senior executives and review of performance

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

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

The remuneration policy for senior executives is set out in the report of the directors on page 42 and 43 of this annual financial report .

Communication with shareholders

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

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

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

Information is communicated to shareholders through:

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

Risk management

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

More comprehensive details on risk management appear on pages 41 to 45 of the annual financial report 2001.

Ethical standards

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

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

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

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

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

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

Selected financial data

For years ended September 30	Group 2001[1] $m	2000[2] $m	1999 $m	1998[3] $m	1997 $m
Statement of financial performance					
Net interest income	**6,960**	6,371	6,066	5,858	5,358
Other banking and financial services income	**4,809**	4,124	4,027	3,630	2,909
Mortgage servicing and origination revenue	**810**	640	536	323	-
Life insurance income	**137**	1,557	-	-	-
Movement in excess of net market value over net assets of life insurance controlled entities	**510**	202	-	-	-
Total operating revenue	**13,226**	12,894	10,629	9,811	8,267
Operating expenses					
Operating expenses	**6,539**	7,032	5,701	5,320	4,477
Amortisation of goodwill	**167**	197	206	181	142
Significant operating expenses	**1,643**	204	-	749	-
Total operating expenses	**8,349**	7,433	5,907	6,250	4,619
Charge to provide for doubtful debts	**989**	588	581	587	332
Operating profit before income tax expense	**3,888**	4,873	4,141	2,974	3,316
Significant non-operating items					
Proceeds from the sale of foreign operation	**5,314**	-	-	-	-
Cost of foreign operation sold	**(2,929)**	-	-	-	-
Charge to provide for mortgage servicing rights valuation adjustment	**(1,436)**	-	-	-	-
Impairment loss on goodwill	**(858)**	-	-	-	-
Significant non-operating items before income tax expense	**91**	-	-	-	-
Profit from ordinary activities before income tax expense	**3,979**	4,873	4,141	2,974	3,316
Income tax expense relating to ordinary activities	**1,891**	1,632	1,321	959	1,095
Net profit	**2,088**	3,241	2,820	2,015	2,221
Net profit/(loss) attributable to outside equity interest	**5**	2	(1)	1	(2)
Net profit attributable to members of the Company	**2,083**	3,239	2,821	2,014	2,223
Reconciliation of net profit before significant items					
Net profit attributable to members of the Company	**2,083**	3,239	2,821	2,014	2,223
Add: Significant operating expenses before income tax expense	**1,643**	204	-	749	-
Income tax expense relating to significant non-operating items	**704**	-	-	-	-
Deduct: Significant non-operating items before income tax expense	**(91)**	-	-	-	-
Income tax benefit relating to significant operating expenses	**(320)**	(68)	-	(252)	-
Net profit before significant items	**4,019**	3,375	2,821	2,511	2,223

(1) Includes amounts relating to Michigan National Corporation to March 31, 2001. The Group sold this entity on April 1, 2001.
(2) Includes the amount relating to MLC from July 1, 2000. The Group acquired this entity on June 30, 2000.
(3) Includes the amount relating to HomeSide International, Inc. from February 10, 1998, the date on which the Group acquired this entity.

As at September 30	**2001[(1)]**	2000[(2)]	1999	1998[(3)]	1997
	$m	$m	$m	$m	$m
Summary of statement of financial position					
Investments relating to life insurance business	**31,381**	31,103	-	-	-
Loans and advances (after provisions for doubtful debts)	**207,797**	195,492	165,620	160,001	131,036
Total assets	**374,720**	343,677	254,081	251,714	201,969
Total risk-weighted assets	**257,513**	238,589	197,096	199,476	154,309
Life insurance policy liabilities	**30,257**	29,879	-	-	-
Deposits and other borrowings	**190,965**	185,097	162,468	158,084	128,469
Perpetual floating rate notes	**507**	461	383	421	347
Exchangeable capital units[(4)]	**1,262**	1,262	1,262	1,262	1,262
Bonds, notes and subordinated debt	**24,984**	21,051	13,437	15,115	9,569
Net assets	**23,557**	21,407	18,520	15,764	12,581
Ordinary shares	**8,050**	7,180	6,611	5,942	1,413
Equity instruments[(5)]	**2,675**	2,675	2,675	733	-
Contributed equity	**10,725**	9,855	9,286	6,675	1,413
Equity[(6)]	**23,489**	21,361	18,520	15,761	12,579
Shareholder information					
Dividends paid/payable	**2,080**	1,858	1,655	1,467	1,367
Earnings per share (before significant items) ($)[(7)]					
Basic	**2.47**	2.11	1.87	1.75	1.52
Diluted	**2.40**	2.04	1.82	1.71	1.49
Earnings per share ($)[(7)]					
Basic	**1.22**	2.02	1.87	1.40	1.52
Diluted	**1.22**	1.96	1.82	1.38	1.49
Cash earnings per share (before significant items) ($)[(8)]					
Basic	**2.37**	2.15	2.01	1.87	1.61
Diluted	**2.29**	2.07	1.95	1.83	1.58
Cash earnings per share ($)[(8)]					
Basic	**1.11**	2.06	2.01	1.53	1.61
Diluted	**1.12**	1.99	1.95	1.48	1.58
Dividends per share ($)[(9)]	**1.35**	1.23	1.12	1.02	0.94

For years ended September 30	**2001[1]**	2000[2]	Group 1999	1998[3]	1997
	%	%	%	%	%
Selected financial ratios					
Net profit before significant items as a percentage of:					
Average total assets (excluding statutory funds)	**1.3**	1.2	1.1	1.1	1.2
Average ordinary equity	**18.4**	18.1	17.3	17.8	16.7
Year-end total assets (excluding statutory funds)	**1.2**	1.1	1.1	1.0	1.1
Year-end ordinary equity	**18.2**	17.0	17.3	16.7	17.7
Net profit as a percentage of:					
Average total assets (excluding statutory funds)	**0.7**	1.2	1.1	0.8	1.2
Average ordinary equity	**9.0**	17.3	17.3	14.3	16.7
Cash return on average tangible equity before significant items[10]	**18.2**	19.4	21.1	22.9	21.2
Dividend payout ratio[9]	**111.2**	61.1	60.2	73.1	61.5
Average net interest margin	**2.71**	2.88	3.00	3.17	3.53
Other information (numbers)					
Total Group staff					
Full-time and part-time	**49,710**	51,879	51,566	50,973	52,226
Full-time equivalent	**44,983**	47,417	45,676	46,300	46,422

(1) Includes amounts relating to Michigan National Corporation to March 31, 2001. The Group sold this entity on April 1, 2001.
(2) Includes amount relating to MLC from July 1, 2000. The Group acquired this entity on June 30, 2000.
(3) Includes amount relating to HomeSide International, Inc. from February 10, 1998, the date on which the Group acquired this entity.
(4) The exchangeable capital units of US$1 billion are recorded in this annual financial report at the historical rate of US$0.7922 = A$1.00.
(5) Equity instruments incorporate preference shares and National Income Securities.
(6) Excludes outside equity interests.
(7) Refer to notes 8 and 58 in the annual financial report 2001 for explanation of earnings per share.
(8) Cash earnings are based on earnings attributable to ordinary shareholders excluding movement in excess of net market value over net assets of the life insurance controlled entities and goodwill amortisation. Comparatives for 2000 have been restated to exclude the movement in excess of net market value over net assets of life insurance controlled entities.
(9) Dividend amounts are for the year for which they are declared.
(10) Based on cash earnings as a percentage of average equity excluding the average unamortised balance of goodwill. Comparatives for 2000 have been restated.

Statement of financial performance

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

Statement of financial position

As at September 30	Group 2001 $m	2000 $m
Assets		
Cash assets	**7,993**	6,868
Due from other financial institutions	**16,472**	12,780
Due from customers on acceptances	**19,353**	22,945
Trading securities	**19,713**	15,112
Available for sale securities	**6,665**	3,047
Investment securities	**10,697**	7,452
Investments relating to life insurance business	**31,381**	31,103
Loans and advances	**207,797**	195,492
Mortgage loans held for sale	**3,688**	2,656
Mortgage servicing rights	**5,445**	8,226
Shares in entities and other securities	**1,412**	1,376
Regulatory deposits	**98**	135
Property, plant and equipment	**2,831**	2,437
Income tax assets	**1,296**	1,207
Goodwill	**876**	2,617
Other assets	**39,003**	30,224
Total assets	**374,720**	343,677
Liabilities		
Due to other financial institutions	**42,873**	29,685
Liability on acceptances	**19,353**	22,945
Deposits and other borrowings	**190,965**	185,097
Life insurance policy liabilities	**30,257**	29,879
Income tax liabilities	**2,575**	2,920
Provisions	**2,440**	2,154
Bonds, notes and subordinated debt	**24,984**	21,051
Other debt issues	**1,985**	1,907
Other liabilities	**35,731**	26,632
Total liabilities	**351,163**	322,270
Net assets	**23,557**	21,407
Equity		
Contributed equity	**10,725**	9,855
Reserves	**2,427**	2,006
Retained profits	**10,337**	9,500
Total parent entity interest	**23,489**	21,361
Outside equity interest	**68**	46
Total equity	**23,557**	21,407

Statement of cash flows

For the year ended September 30	Group 2001 $m	2000 $m	1999 $m
Cash flows from operating activities			
Interest received	**20,373**	17,471	16,470
Interest paid	**(13,020)**	(10,978)	(10,562)
Dividends received	**44**	38	42
Fees and other income received	**5,248**	4,776	4,479
Life insurance			
Premiums received	**7,157**	576	-
Investment and other revenue received	**1,985**	1,041	-
Policy payments	**(4,784)**	(215)	-
Fees and commissions paid	**(288)**	(111)	-
Personnel expenses paid	**(3,634)**	(3,343)	(3,192)
Occupancy expenses paid	**(504)**	(435)	(425)
General expenses paid	**(2,392)**	(2,569)	(1,630)
Income tax paid	**(2,245)**	(1,431)	(1,236)
Goods and services tax paid	**(102)**	-	-
Net increase in trading securities	**(4,400)**	(2,268)	(1,581)
Net decrease/(increase) in mortgage loans held for sale	**(763)**	(274)	1,177
Net cash provided by operating activities	**2,675**	2,278	3,542
Cash flows from investing activities			
Movement in investment securities			
Purchases	**(37,041)**	(172,874)	(13,883)
Proceeds on maturity	**30,828**	175,661	12,552
Movement in available for sale securities			
Purchases	**(18,803)**	(11,540)	(2,624)
Proceeds from sale	**26**	5	5
Proceeds on maturity	**15,247**	9,037	2,117
Net increase in investments relating to life insurance business	**(2,236)**	(3,287)	-
Net increase in loans and advances	**(19,109)**	(24,081)	(15,085)
Net increase in shares in entities and other securities	**(36)**	(308)	(55)
Payments for mortgage servicing rights	**(2,700)**	(1,272)	(1,873)
Payments for acquisition of controlled entities	**(131)**	(4,660)	(8)
Proceeds from sale of controlled entities	**5,415**	-	-
Payments for property, plant and equipment	**(982)**	(725)	(429)
Net proceeds from sale of property, plant and equipment	**132**	143	169
Net decrease in regulatory deposits	**23**	36	978
Net decrease/(increase) in other assets	**291**	(287)	2,304
Net cash used in investing activities	**(29,076)**	(34,152)	(15,832)

For the year ended September 30	Group 2001 $m	2000 $m	1999 $m
Cash flows from financing activities			
Net increase in deposits and other borrowings	**11,793**	16,802	12,414
Net proceeds from bonds, notes and subordinated debt	**6,986**	8,747	5,183
Repayment of bonds, notes and subordinated debt	**(4,537)**	(2,309)	(6,142)
Payments from provisions	**(221)**	(189)	(172)
Net proceeds from the issue of ordinary shares	**261**	194	277
Net proceeds from the issue of National Income Securities	**-**	-	1,945
Dividends paid	**(1,494)**	(1,490)	(1,110)
Net increase in other liabilities	**4,426**	1,501	1,198
Net cash provided by financing activities	**17,214**	23,256	13,593
Net increase/(decrease) in cash and cash equivalents	**(9,187)**	(8,618)	1,303
Cash and cash equivalents at beginning of year	**(10,037)**	(1,434)	(3,086)
Effects of exchange rate changes on balance of cash held in foreign currencies	**(1,015)**	15	349
Cash and cash equivalents of controlled entities sold	**1,831**	-	-
Cash and cash equivalents at end of year	**(18,408)**	(10,037)	(1,434)

1 Principal accounting policies

This concise financial report has been prepared in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports". The information contained within this concise financial report has been derived from the annual financial report 2001 of the Company and the Group. The annual financial report 2001 is prepared in accordance with the requirements of the Banking Act 1959, the Corporations Act 2001, Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of an entity as the annual financial report 2001. Accordingly, this concise financial report should be read in conjunction with the annual financial report 2001.

A full description of the accounting policies adopted is contained in the annual financial report 2001. There have been no changes in accounting policy from those policies applied at September 30, 2000 except as noted below.

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

All amounts are expressed in Australian dollars unless otherwise stated.

Changes in accounting policy

Revaluation of non-current assets

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

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

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

Reclassification of financial information

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

Adoption of these standards has resulted in the following:

- the reconciliation of the opening retained profits to closing retained profits has been transferred from the face of the statement of financial performance to note 36 in the annual financial report 2001;
- expense items previously disclosed as abnormal have been reclassified and are now disclosed as individually significant operating expenses in note 4. These items have been disclosed as a single line item on the face of the statement of financial performance; and
- income tax assets have been removed from the previous classification within other assets and are now disclosed as a separate line item on the face of the statement of financial position.

2 Supplementary statement of financial position

Given the significant restrictions imposed by life insurance legislation, regulations and the regulators thereunder, the directors consider it essential that users of this financial report are able to easily separate the assets and liabilities of the statutory funds from the assets and liabilities of the shareholders' fund and other Group operating businesses. However, current Australian accounting requirements do not allow for these assets and liabilities to be separated and disclosed separately on the statement of financial position. In addition, the requirements also prohibit any adjustment to comparative balances or the inclusion of an adjusted comparative column, which if allowed would facilitate comparability between periods.

To ensure that the assets of the statutory funds are identifiable and comparable between years, a supplementary statement of financial position for the Group has been included for each year below, as at September 30.

	2001			2000		
	Group operating businesses $m	**Statutory funds $m**	**Total $m**	Group operating businesses $m	Statutory funds $m	Total $m
Assets						
Cash assets	**6,957**	**1,036**	**7,993**	5,844	1,024	6,868
Due from other financial institutions	**16,472**	**-**	**16,472**	12,780	-	12,780
Due from customers on acceptances	**19,353**	**-**	**19,353**	22,945	-	22,945
Trading securities	**19,713**	**-**	**19,713**	15,112	-	15,112
Available for sale securities	**6,665**	**-**	**6,665**	3,047	-	3,047
Investment securities	**10,697**	**-**	**10,697**	7,452	-	7,452
Investments relating to life insurance business(1)	**590**	**30,791**	**31,381**	287	30,816	31,103
Loans and advances	**207,797**	**-**	**207,797**	195,492	-	195,492
Mortgage loans held for sale	**3,688**	**-**	**3,688**	2,656	-	2,656
Mortgage servicing rights	**5,445**	**-**	**5,445**	8,226	-	8,226
Shares in entities and other securities	**1,412**	**-**	**1,412**	1,376	-	1,376
Regulatory deposits	**98**	**-**	**98**	135	-	135
Property, plant and equipment	**2,831**	**-**	**2,831**	2,437	-	2,437
Income tax assets	**1,296**	**-**	**1,296**	1,199	8	1,207
Goodwill	**876**	**-**	**876**	2,617	-	2,617
Other assets	**37,669**	**1,334**	**39,003**	29,743	481	30,224
Total assets	**341,559**	**33,161**	**374,720**	311,348	32,329	343,677
Liabilities						
Due to other financial institutions	**42,873**	**-**	**42,873**	29,685	-	29,685
Liability on acceptances	**19,353**	**-**	**19,353**	22,945	-	22,945
Deposits and other borrowings	**190,965**	**-**	**190,965**	185,097	-	185,097
Life insurance policy liabilities(1)	**-**	**30,257**	**30,257**	163	29,716	29,879
Income tax liabilities	**2,470**	**105**	**2,575**	2,847	73	2,920
Provisions	**2,440**	**-**	**2,440**	2,154	-	2,154
Bonds, notes and subordinated debt	**24,984**	**-**	**24,984**	21,051	-	21,051
Other debt issues	**1,893**	**92**	**1,985**	1,829	78	1,907
Other liabilities	**33,850**	**1,881**	**35,731**	24,797	1,835	26,632
Total liabilities	**318,828**	**32,335**	**351,163**	290,568	31,702	322,270
Net assets	**22,731**	**826**	**23,557**	20,780	627	21,407
Equity						
Contributed equity	**10,538**	**187**	**10,725**	9,750	105	9,855
Reserves	**2,427**	**-**	**2,427**	2,006	-	2,006
Retained profits	**9,698**	**639**	**10,337**	8,978	522	9,500
Total parent entity interest	**22,663**	**826**	**23,489**	20,734	627	21,361
Outside equity interest	**68**	**-**	**68**	46	-	46
Total equity	**22,731**	**826**	**23,557**	20,780	627	21,407

(1) Included within Group operating businesses are assets and liabilities that relate to foreign domiciled life insurance entities held by the Group's life insurance business shareholders' funds. These non-Australian life insurers do not have statutory funds concepts.

3 Segment information

The following segment information is disclosed in accordance with Australian Accounting Standard AASB 1005 “Financial Reporting by Segments” (AASB 1005) and US accounting standard, Statement of Financial Accounting Standards No. 131 “Disclosures about Segments of an Enterprise and Related Information” (SFAS 131). Under AASB 1005 and SFAS 131, an operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in assessing performance. The Group results are based on the operating segments as reviewed separately by the chief operating decision maker, the Managing Director and Chief Executive Officer, as well as other members of senior management. Each segment is organised based on similar products and services provided globally to customers or activities undertaken solely for the Group’s own account, and managed by individuals who report directly to the Managing Director and Chief Executive Officer.

The Group’s business is organised into six major operating segments: Business and Personal Financial Services, Wealth Management, Wholesale Financial Services, Specialist and Emerging Businesses, HomeSide, and National Shared Services. Business and Personal Financial Services is the retailing arm of the Group and provides a full range of financial services to customers across all regions and segments. Wealth Management specialises in providing integrated insurance, superannuation and investment solutions to customers. Its operations includes funds management, funds administration, investment management, retail insurance, business support services to financial advisers and financial advice services. Wholesale Financial Services is responsible for the Group's relationships with large corporations, institutions, supranationals and government bodies worldwide. It comprises two divisions, Global Markets and Global Corporate Finance, six global industry groups and a global services unit. Specialist and Emerging Businesses consists of five specialist units, being Cards and Payments, Asset Finance and Fleet Management, Securities Services, International Trade and Business Finance, and National Australia Investment Capital Limited. HomeSide is the Group's United States product specialist responsible for co-ordinating mortgage origination and servicing activities and the creation of mortgage backed securities sold in secondary markets. National Shared Services combines operational services, Finance Shared Services, Human Resources Shared Services, Information Technology and Corporate Real Estate to form a true shared services organisation with improved productivity and lower costs. The Corporate Centre function which focuses on strategic and policy direction for the Group and incorporates Risk Management, People and Culture, Finance and Planning, Corporate Strategy and the Office of the CEO, is included in ‘Other.’

The accounting policies of the segments are, in all material respects, consistent with those described in note 1. Operating revenues and expenses directly associated with each operating segment are included in determining their operating result. Transactions between operating segments are based on agreed recharges between segments operating within the same country and arm's length between segments operating in difficult countries.

Comparatives for the current basis of segmentation are disclosed for the year ended September 30, 2000, only. It is impracticable to provide comparative segment information for the year ended September 30, 1999 on this basis and, as such, information has been disclosed for the operating segments as defined in that year.

Year ended September 30, 2001[1]	Business and Personal Financial Services $m	Wealth Management[2] $m	Wholesale Financial Services $m	Specialist and Emerging Businesses $m	Homeside $m	National Shares Services $m	Other[3] $m	Inter-company eliminations $m	Total Group $m
External operating revenue	7,930	1,171	1,769	1,499	794	(99)	162	-	13,226
Inter-segment revenue	91	-	13	97	-	1,672	320	(2,193)	-
Total operating revenue	8,021	1,171	1,782	1,596	794	1,573	482	(2,193)	13,226
Net profit attributable to members of the Company	2,396	673	685	250	(3,438)	(71)	1,588	-	2,083
Total assets[4]	169,124	38,831	154,113	13,536	12,576	2,812	50,265	(66,537)	374,720

Year ended September 30, 2000[5]	Business and Personal Financial Services $m	Wealth Management[2] $m	Wholesale Financial Services $m	Specialist and Emerging Businesses $m	Homeside $m	National Shares Services $m	Other[3] $m	Inter-company eliminations $m	Total Group $m
External operating revenue	7,675	1,859	1,293	1,325	576	(68)	234	-	12,894
Inter-segment revenue	175	-	8	205	-	1,540	160	(2,088)	-
Total operating revenue	7,850	1,859	1,301	1,530	576	1,472	394	(2,088)	12,894
Net profit attributable to members of the Company	2,273	218	586	314	141	(164)	(129)	-	3,239
Total assets[4] [6]	175,959	33,488	107,402	12,369	13,151	2,717	(1,409)	-	343,677

Year ended September 30, 1999[5]	Business and Personal Financial Services $m	Products and Services $m	Wholesale Financial Services $m	Homeside $m	Information Technology $m	Other[3] $m	Inter-company eliminations $m	Total Group $m
External operating revenue	7,053	1,364	1,037	671	(13)	517	-	10,629
Inter-segment revenue	227	670	5	-	558	106	(1,566)	-
Total operating revenue	7,280	2,034	1,042	671	545	623	(1,566)	10,629
Net profit attributable to members of the Company	2,130	69	551	153	(37)	(45)	-	2,821
Total assets[6]	141,492	11,046	86,380	10,631	302	4,230	-	254,081

(1) Includes the results of Michigan National Corporation and its controlled entities up to the date of its sale, on April 1, 2001. The net profit of Michigan National Corporation and its controlled entities to this date of $132 million was comprised of net profit from Business and Personal Financial Services of $166 million and Other of ($34) million.

(2) Refer to note 57 of the annual financial report 2001 for life insurance disclosures relating to policyholder and shareholder revenues, expenses, assets and liabilities.

(3) Consists of the corporate centre function, goodwill amortisation and the Group's funding. These segments are not considered to be reportable operating segments under SFAS 131. It also includes the sale of Michigan National Corporation and its controlled entities.

(4) Includes statutory funds' assets of $33,161 million as at September 30, 2001 (2000: $32,329 million).

(5) Includes the results of Michigan National Corporation and its controlled entities for the full financial year. The net profit of Michigan National Corporation and its controlled entities for 2000 of $243 million was comprised of net profit from Business and Personal Financial Services of $277 million and Other of ($34) million. The net profit of Michigan National Corporation and its controlled entities for 1999 of $205 million was comprised of net profit from Business and Personal Financial Services of $233 million and Other of ($28) million.

(6) In 2000 and 1999 intercompany assets were allocated across lines of business.

Geographical segments

The Group has operations in Australia (its country of domicile) Great Britain, Ireland, the United States, New Zealand and Asia. The allocation of assets, revenue and profit is based on the geographical location in which transactions are booked. There are no material transactions between geographical segments.

				Group		
	2001	**2001**	2000	2000	1999	1999
	$m	**%**	$m	%	$m	%
Total assets[1]						
Australia	**205,364**	**54.8**	185,748	54.1	126,296	49.7
Great Britain	**78,134**	**20.9**	60,115	17.5	45,523	17.9
Ireland	**17,150**	**4.6**	15,033	4.4	13,215	5.2
United States[2]	**30,022**	**8.0**	44,799	13.0	32,768	12.9
New Zealand	**30,051**	**8.0**	25,465	7.4	24,195	9.5
Asia	**13,999**	**3.7**	12,517	3.6	12,084	4.8
Total assets	**374,720**	**100.0**	343,677	100.0	254,081	100.0
Total operating revenue						
Australia	**12,867**	**49.1**	12,385	51.5	9,225	47.0
Great Britain	**5,649**	**21.6**	4,712	19.6	4,154	21.2
Ireland	**1,180**	**4.5**	1,055	4.4	1,051	5.4
United States[3]	**3,193**	**12.2**	3,192	13.3	2,770	14.1
New Zealand	**2,332**	**8.9**	2,126	8.8	1,772	9.0
Asia	**964**	**3.7**	570	2.4	657	3.3
Total operating revenue	**26,185**	**100.0**	24,040	100.0	19,629	100.0
Net profit attributable to members of the Company						
Australia	**3,929**	**188.7**	1,646	50.8	1,394	49.4
Great Britain	**761**	**36.5**	629	19.5	557	19.8
Ireland	**200**	**9.6**	175	5.4	204	7.2
United States[3]	**(3,164)**	**(151.9)**	490	15.1	383	13.6
New Zealand	**282**	**13.5**	250	7.7	240	8.5
Asia	**75**	**3.6**	49	1.5	43	1.5
Net profit attributable to members of the Company	**2,083**	**100.0**	3,239	100.0	2,821	100.0

(1) Includes statutory funds' assets of $33,161 million at September 30, 2001 (2000: $32,329 million).

(2) 2000 and 1999 comparatives include the total assets of Michigan National Corporation and its controlled entities, which were sold during 2001. Refer to note 5(a)(ii) of the annual financial report 2001 details of Michigan National Corporation and its controlled entities' total assets during these years.

(3) Includes the results of Michigan National Corporation and its controlled entities up to the date of their sale on April 1, 2001, and for the full 2000 and 1999 years. Refer to note 5(a)(ii) of the annual financial report 2001 for details of Michigan National Corporation and its controlled entities' operating income and net profit contribution for these periods.

4 Significant operating expenses

	Group 2001 $m	2000 $m	1999 $m
Impairment loss on mortgage servicing rights	**1,643**	-	-
Restructuring costs			
Personnel	**-**	23	-
Occupancy	**-**	38	-
Write-down of property, plant and equipment	**-**	29	-
General	**-**	6	-
Business integration costs	**-**	108	-
Total significant operating expenses	**1,643**	204	-

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

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

5 Dividends and distributions

Dividends paid or provided for			
67c interim cash dividend paid (2000: 59c, 1999: 54c)[(1)]	**1,026**	882	794
68c final cash dividend provided for (2000: 64c, 1999: 58c)[(2)]	**1,054**	976	861
Total dividends paid or provided for	**2,080**	1,858	1,655

(1) The interim dividend was fully franked at a rate of 30% (2000:34%; 1999:36%).
(2) The final dividend will be fully franked at a rate of 30% (2000:34%; 1999: 79% franked at a rate of 36%).

Distributions on other equity instruments			
Trust units exchangeable for preference shares	**71**	61	58
National Income Securities	**142**	137	16
Total distributions on other equity instruments	**213**	198	74

6 Asset quality and provisioning for doubtful debts

Total Impaired Assets			
Gross			
Australia	**963**	572	644
Overseas	**777**	912	942
	1,740	1,484	1,586
Specific Provisions			
Australia	**325**	196	226
Overseas	**203**	246	231
	528	442	457
Net			
Australia	**638**	376	418
Overseas	**574**	666	711
	1,212	1,042	1,129

7 Legal proceedings

The Company does not consider that the outcome of any proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. Where appropriate, provisions have been made.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities in the Group. The aggregate of potential liability in respect thereof cannot be accurately assessed.

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business. One such case that has attracted recent publicity is referred to below.

In September 1998, a summons was filed in the Supreme Court of New South Wales by Idoport Pty Limited (Idoport) and Market Holdings Pty Limited (in liquidation) (Market Holdings) against the Company and others.

Market Holdings was placed into voluntary liquidation in September 2000.

Market Holdings' claim was dismissed on October 17, 2001.

Idoport's claim is in the range of US$8.3 billion to US$29.3 billion.

The dispute centres around what rights Idoport has arising out of the entry into a consulting agreement by the Company, Idoport and others, and involves the development of a subsidiary, Australian Market Automated Quotation (AUSMAQ) Systems Limited (AUSMAQ).

The damages claim is primarily based upon an allegation that the AUSMAQ business has not been operated and developed as Idoport claims it should have been. It is also based on an allegation that Idoport is entitled to a share of the profits of some offerings provided by entities in the Group separately from AUSMAQ.

The Group is strongly disputing the claim and has prepared an extensive response to the claim.

A Cross Claim has been filed by the Company and another against a number of parties, including Idoport, Market Holdings and Mr John Malcolm Maconochie, for in excess of $31 million. A defence to that cross claim has been filed. Idoport has a second cross claim against the Company and others. A defence to the second cross claim has also been filed. The second cross claim is also strongly disputed.

The hearing of the actions commenced on July 24, 2000.

In September 2000, Idoport filed a new claim in the Supreme Court of New South Wales against the Company, MLC Limited (MLC), National OnLine Trading Limited (National OnLine Trading) and others. That claim includes an allegation that Idoport is entitled to a share of the profits of some other offerings provided by entities in the Group, including MLC and National OnLine Trading. The damages claim has not been quantified. The Group is also strongly disputing the new claim.

All of the claims referred to above will be heard together. The hearing is expected to continue for in excess of 18 months.

Directors’ declaration

The directors of National Australia Bank Limited declare that in their opinion, the accompanying concise financial report of the Group, comprising National Australia Bank Limited and its controlled entities for the year ended September 30, 2001 set out on pages 8 to 10 and pages 57 to 67:

a) has been derived from or is consistent with the full financial report for the financial year; and
b) complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

Dated at Melbourne this 8th day of November, 2001 and signed in accordance with a resolution of the Board of directors.

D Charles K Allen

Chairman

Frank J Cicutto

Managing Director

Independent Audit Report on Concise Financial Report

to the members of National Australia Bank Limited

Scope

We have audited the concise financial report of National Australia Bank Limited and its controlled entities for the financial year ended September 30, 2001 consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 7, and the accompanying discussion and analysis on the statement of financial performance, statement of financial position and statement of cash flows on pages 8 to 10 and 57 to 68, in order to express an opinion on it to the members of the Company. The Company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of National Australia Bank Limited and its controlled entities for the year ended September 30, 2001. Our audit report on the full financial report was signed on November 8, 2001, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the Concise Financial Report was consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion the concise financial report of National Australia Bank Limited and its controlled entities for the year ended September 30, 2001 complies with AASB 1039 "Concise Financial Reports".

KPMG

KPMG

Peter Matthey

PJ Matthey
Partner

November 8, 2001

Shareholder information

Ten largest registered shareholders of the Company as at October 12, 2001

	Number of shares	%
Chase Manhattan Nominees Limited	193,656,688	12.5
National Nominees Limited	151,886,737	9.8
Westpac Custodian Nominees Limited	123,810,495	8.0
Citicorp Nominees Pty Limited	33,468,264	2.1
Perpetual Trustee Australia Group	30,086,583	1.9
AMP Group	28,814,422	1.9
ANZ Nominees Limited	25,112,074	1.6
Queensland Investment Corporation	23,196,090	1.5
Commonwealth Custodial Services Limited	22,584,956	1.5
MLC Limited	18,495,722	1.2
	651,112,031	42.0%

Ten largest registered National Income Security (NIS) holders as at October 12, 2001

	Number of securities	%
Commonwealth Custodial Services Limited	771,145	3.9
Perpetual Trustee Australia Group	645,785	3.2
Citicorp Nominees Pty Limited	575,208	2.9
Australian Foundation Investment Company Limited	506,160	2.5
National Nominees Limited	314,403	1.6
Westpac Group	311,887	1.6
AMP Group	264,537	1.3
University Of Melbourne	235,090	1.2
Chase Manhattan Nominees Ltd	234,992	1.1
Folio Nominees Pty Ltd	230,294	1.1
	4,089,501	20.4%

As an alternative to cash dividends, shareholders may participate in one or more of the following dividend alternatives. Full details of these alternatives may be obtained by contacting the Company's Shareholder Services. Shares offered under both the Dividend Reinvestment and Bonus Share plans are free of brokerage charges and stamp duty.

Dividend reinvestment plan

Shareholders may use their cash dividends to buy additional shares which are issued under this plan. Under current Australian tax law, the amount of the cash dividends used to buy the Australian shares is treated as a dividend for the purposes of Australian income tax or withholding tax and carry imputation credits to the extent to which the cash dividends are franked.

Bonus share plan

Enables shareholders to receive bonus shares in lieu of cash dividends. Shares issued pursuant to this plan are not normally treated as dividends for the purposes of Australian income tax or dividend withholding tax. Consequently, these bonus shares do not carry imputation credits.

UK dividend plan

Allows dividends to be received from a United Kingdom subsidiary and paid in Pounds Sterling rather than in Australian Dollars. Participation in the Dividend Reinvestment Plan is also possible.

New Zealand currency payments

Allows dividends to be directly deposited into a shareholder's New Zealand bank account in New Zealand Dollars.

Share purchase plan

An offer open to registered holders of fully paid ordinary shares at the relevant record date of the dividend, to subscribe for additional shares. Offers will be made under the SPP twice a year and the maximum amount which any shareholder may subscribe for is A$3,000 in any consecutive twelve month period.

Annual financial report 2001

This annual review is a concise report. To obtain a free copy of the Group's full annual financial report 2001 please contact shareholder services on 1300 367 647 (Australia only). A copy of the annual financial report 2001 is filed on Form 20-F with the United States Securities and Exchange Commission. A copy of the full annual financial report 2001 is also available on our website.

National Australia Bank Limited

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

Managing Director and Chief Executive Officer
Mr Frank J Cicutto
BCom, FAIBF, FCIBS

Company Secretary
Mr Garry F Nolan
MBus, FAICD, FCIS, FAIBF, ASIA, CFTP

Registered office
24th Floor, 500 Bourke Street
Melbourne Victoria 3000
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Shareholders' centre internet service

The Group's website at www.national.com.au has a dedicated separate section where shareholders can gain access to a wide range of secure information, including copies of recent announcements, annual financial reports and useful forms, including change of address forms, from Shareholder Services.

Email: Shareholders_Centre@national.com.au

Shareholders' centre information line

There is a convenient 24 hours a day, 7 days a week automated service (Australia Only). To obtain the current balance of your ordinary shareholding and relevant dividend payment details:

Telephone: +61 3 9415 8256

Contact details

These services are fully secure to protect your interests. In all communications with Shareholder Services, please ensure you quote your security reference number (SRN), or in case of broker sponsored shareholders, your holder identification number (HIN).

Auditors

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Solicitors

Mallesons Stephen Jaques
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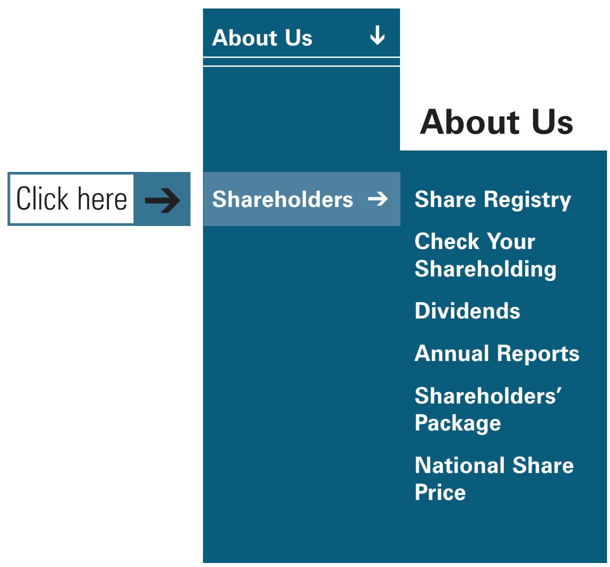

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"These tough and turbulent times make it imperative that we continue and accelerate the process of renewal already started at the National."

– Charles Allen