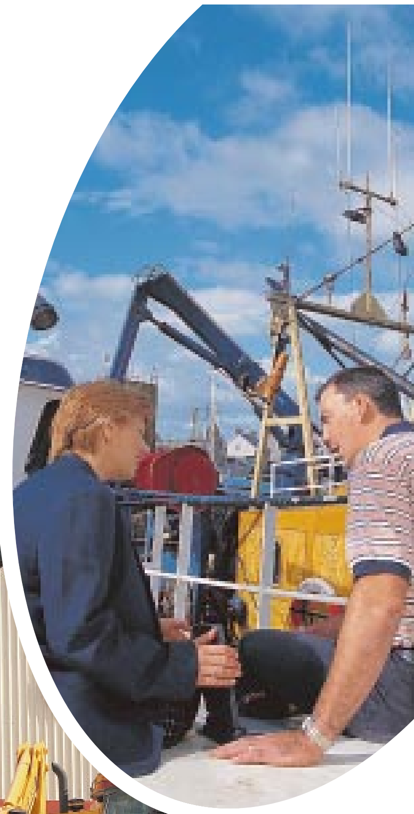


1997 Annual Report

National
Australia Bank

National Australia Bank Limited ACN004044937

Our Vision

To be the world's leading financial services company.

Our Mission

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

Our Values

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

The National today

From humble beginnings in Melbourne, Australia, in 1858, the National has grown to be the largest financial institution in Australia and a company of world standing.

The Group's approach to building shareholder wealth has been based on a dual strategy of controlled organic growth combined with regular value-adding acquisitions. This approach has created a strong core franchise and a significant diversification of its earnings base through the acquisition of full service retail banks in selected markets.

The National is now an international financial services company with the aim of providing a comprehensive and integrated range of financial services to its customers, enabling the Group to further diversify its non-interest income streams.

Today, the National has an asset base of $202 billion and around 9 million customers.

Financial calendar

- Financial year ends on September 30 annually.
- Full year results announced November 6, 1997.
- Shares to be quoted ex-dividend on the Australian Stock Exchange on November 20, 1997.
- Record date (books closing date) for final dividend is November 28, 1997 for shareholders on the Australian register.
- Final dividend payable on December 17, 1997 (49c per share).
- First quarter results for the 1997/98 financial year currently scheduled to be announced on January 22, 1998.
- First half results for the 1997/98 financial year currently scheduled to be announced on May 7, 1998.
- Shares currently scheduled to be quoted ex-dividend on the Australian Stock Exchange on June 25, 1998.
- Record date (books closing date) for interim dividend currently scheduled to be July 3, 1998 for shareholders on the Australian register.
- Interim dividend for the 1997/98 financial year currently scheduled to be payable on July 22, 1998.
- Third quarter results for the 1997/98 financial year currently scheduled to be announced on July 23, 1998.
- Full year results for the 1997/98 financial year currently scheduled to be announced on November 5, 1998.
- Final dividend for the 1997/98 financial year currently scheduled to be payable December, 1998.

Dates may be subject to change.

Annual General Meeting

The Annual General Meeting of the members of National Australia Bank Limited will be held at 10.00am (Melbourne time) on Thursday December 18, 1997 in the John Batman Theatre, Level 3, Melbourne Convention and Exhibition Centre, corner Spencer and Flinders Streets, Melbourne, Victoria, Australia.

Shareholder gatherings

Gatherings of members of National Australia Bank Limited will be held at 9.45am (Sydney time) on Thursday December 18, 1997 in the Grand Ballroom at The Wentworth A Rydges Hotel, 61–101 Philip Street, Sydney; and at 8.45am (Brisbane time) on Thursday December 18, 1997 in the Grand Ballroom at the Brisbane Hilton, 190 Elizabeth Street, Brisbane.

These gatherings are not formal meetings of shareholders and therefore no votes can be taken on the business before the Annual General Meeting at these venues.

Group credit ratings

The Group is rated by a number of rating agencies. At the date of this Annual Report, the following ratings were applicable to the Group.

	Short term	Long term
Standard & Poors	A1+	AA
IBCA	A1+	AA
Moody's Investor Services	P-1	Aa3
Bankwatch	TBW-1	AA

Contents

Group Financial Highlights	2
Board of Directors	3
Summary of Key Business Units	4
Year in Review	6
Australia	12
Europe	18
New Zealand	26
United States	28
Asia	30
Global Wholesale Financial Services	31
Group Structure	32
Financial Information and Analysis	33
Description of Business	34
Financial Review	38
Corporate Governance	65
Report of the Directors	69
Financial Statements	73
Notes to and Forming Part of the Financial Statements	78
Statement by the Directors	148
Auditors' Report	148
Form 20-F Cross Reference Index	149
Shareholder Information	150
Principal Establishments	157

Registered office

24th Floor, 500 Bourke Street,
Melbourne Victoria 3000
Australia

Postal address

GPO Box 2333V
Melbourne Vic 3001

Telephone: (03) 9641 4200
Freecall: 1800 033 408
Fax: (03) 9641 4927
Telephone (from outside Australia):
+61 3 9641 4200

Information about the
National Australia Bank Group
is also available on the Internet at
http://www.national.com.au/

All figures in this report are in Australian dollars except when otherwise indicated.

Group Financial Highlights

Profit

Group operating profit increased by 5.8% to $2,223 million – the fifth consecutive year of record earnings.

Underlying profit (earnings before tax and charges to provide for doubtful debts) rose 7.5% to $3,648 million.

Basic earnings per share increased from 144.8 cents to 151.6 cents, reflecting the Group's share buy-back program and the rise in profitability.

Return on shareholders' funds (year end balance) rose from 16.8% to 17.7%.

Profit by region

Net operating profit for Australian operations decreased by 8.2% to $1,329 million, reflecting the competitive nature of the Australian market.

European operations lifted net operating profit by 43.1% to $488 million, or by 34.5% in local currency terms.

New Zealand operations net operating profit rose 22.4% to $197 million, or by 5% in local currency terms.

United States operations achieved an increase in net operating profit of 38.2% to $181 million.

The Group's Asian operations contributed a net operating profit of $28 million, up 33.3%.

Dividend

Directors increased the annual dividend from 87 cents to 94 cents per share. Dividends continue to be fully franked.

Income

Group net interest income rose 4.0% to $5,259 million.

Non-interest income recorded a solid increase of 14.1% to $3,334 million, as the Group continued to increase the proportion and contribution of non-interest income.

Expenses

Non-interest expenses rose by 7.8% to $4,945 million. Non-interest expenses as a proportion of income (cost-to-income ratio) rose marginally from 55.8% to 55.9%.

Assets

Assets increased by 16.3% to $202 billion as a result of growth in lending volumes, principally in the areas of housing loans, lease finance and credit cards.

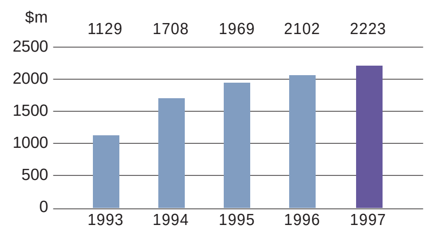
Capital resources

Average shareholders' equity grew by 11.5% to $13.7 billion. Capital risk asset ratio remained solid at 8.6%.

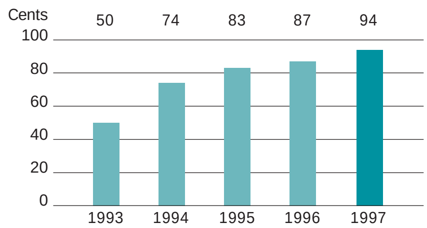
Credit quality

Credit quality continued to improve, with gross impaired assets declining from $1,517 million to $1,298 million. Non-accrual loans (net of specific provisions) decreased by 12.1% to $706 million.

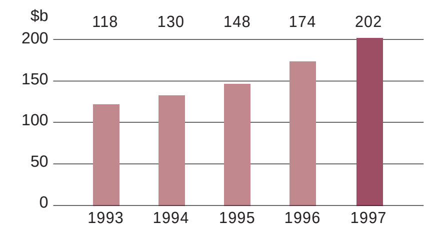
Group Operating Profit



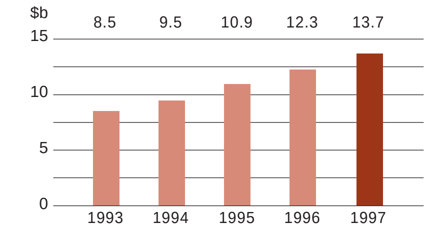
Dividend



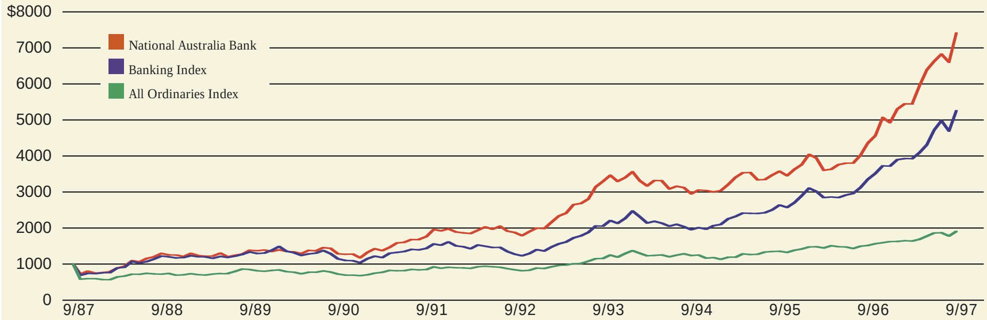
Total Assets



Average Shareholders' Equity

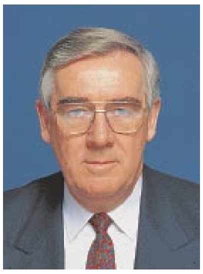


Wealth Index



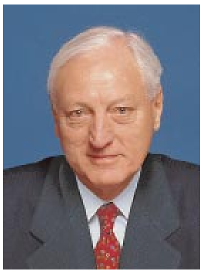
Creating wealth for shareholders is a primary objective of the Group. The graph shows how an investment of $1,000 in National Australia Bank shares in 1987 has increased in value to more than $7,000, assuming reinvestment of all dividends. Cumulative returns from National shares have exceeded returns from an equivalent investment in the banking sector generally, and the Australian share market.

Board of Directors

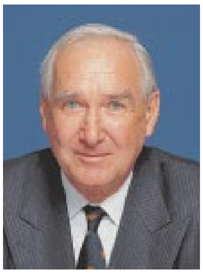


MR Rayner
(Chairman)

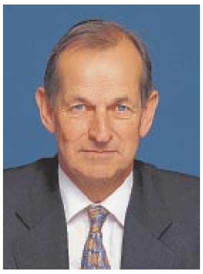
DR Argus
(Managing Director and Chief Executive Officer)



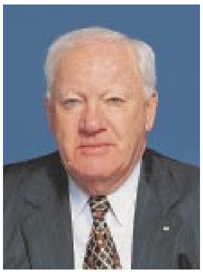
BT Loton
(Vice-Chairman)



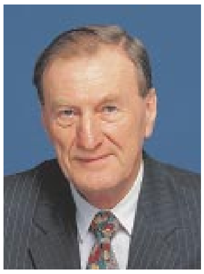
DK Macfarlane
(Vice-Chairman)



DCK Allen



PJW Cottrell



CM Deeley

GJ Kraehe

TP Park

CM Walter

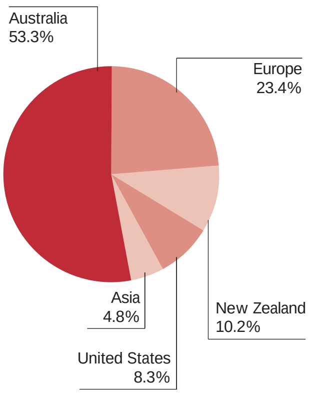
Sir Bruce Watson

Summary of Key Business Units

National Australia Bank Group is a geographically diverse banking and financial services group. It provides a comprehensive range of services in its core markets of Australia, New Zealand, the United Kingdom, Ireland, the United States and Asia.

As at September 30, 1997 46.7% of the Group's assets were located outside of Australia.

Geographic distribution of assets, September 1997



Note:

The regional operating profits disclosed on page 2 include the results of the key business units summarised on page 5. The regional profits disclosed on page 2 include goodwill amortisation and also smaller operating and regional funding companies. The profits of the key business units disclosed on page 5 are before amortisation of goodwill.

Australian Financial Services

- Largest financial institution in Australia with assets of $107.3 billion
- Provides an integrated range of financial services to personal, business, rural and wholesale markets throughout Australia
- Head office located in Melbourne

Bank of New Zealand

- Second largest financial institution in New Zealand, with assets of $21.0 billion
- Provides an integrated range of financial services to personal, business, rural and wholesale markets throughout New Zealand
- Head office located in Wellington

Michigan National Corporation

- The principal business, Michigan National Bank, is the fifth largest bank in Michigan, with assets of $13.0 billion
- Strong in its preferred commercial, small business and consumer segments in central and southern Michigan
- Head office located in Farmington Hills

Clydesdale Bank

- Third largest retail bank in Scotland with assets of $16.1 billion
- Substantial base in business and consumer lending; increasing share of the corporate market
- Located throughout Scotland with some penetration of England
- Head office located in Glasgow

Yorkshire Bank

- Heartland is northern England and the Midlands; active in most of England and Wales
- Assets of $11.3 billion
- Renowned for strength in consumer markets and has a growing reputation in business markets
- Head office located in Leeds

Northern Bank

- Largest bank in Northern Ireland, with assets of $7.7 billion
- Offers an integrated range of services to personal, business and rural customers
- Head office located in Belfast

National Irish Bank

- Fourth largest retail bank in the Republic of Ireland, with assets of $2.9 billion
- Offers an integrated range of services to personal, business and rural customers
- Head office located in Dublin

National Australia Bank Asia

- Seven branches and four representative offices in key Asian financial centres
- Offshore banking units in both Taiwan and Labuan, Malaysia; also holds a Bangkok International Banking Facility licence

1997 Results	Outlook
• Net operating profit down from the previous year at $1,186 million • Reductions in margins led to a decrease in net interest income; non-interest income increased significantly • Continued strong growth in business and housing markets	• Moderate economic growth expected to be slightly below 3.0% in 1997/98 • Some pressure for a rise in interest rates expected later in 1998 • Highly competitive marketplace expected to make growth more difficult
• Net operating profit up 6.5% to $297 million • In local currency terms, net operating profit up 5.0% to NZ$335 million • Remarkable growth in housing lending • Strong gains in life insurance, unit trusts and superannuation	• Activity in New Zealand is expected to pick up, although growth is expected to remain moderate at around 2.75% • Further falls in short term interest rates appear likely • Well positioned to take advantage of firmer consumer confidence expected to build from the first half of 1998
• Net operating profit up 40.5% to $222 million • In local currency terms, net operating profit up 40.5% to US$170 million • New product initiatives to strengthen position in preferred markets • Costs reduced	• Economic growth is expected to average around 2.5% in the US • Michigan's unemployment level is below the US rate and personal income growth is outpacing the national average • Foundations set for higher growth in small business and consumer markets
• Net operating profit up 30.2% to $211 million • In local currency terms, net operating profit up 22.6% to £99 million • Result underpinned by tight cost control and increased fee-based income • This helped reduce cost-to-income ratio from 57.7% to 53.8%	• Economic growth in the UK is expected to moderate to around 2.5% • Benefit expected from development of its corporate and business banking connections • Enhanced range of products expected to consolidate position in consumer market
• Net operating profit up 42.8% to $227 million • In local currency terms, net operating profit up 30.4% to £103 million • Net interest margin was sustained at around 6.2% despite intense competition • Improved asset quality	• Economic growth in the UK is expected to moderate to around 2.5% • Implementation of a change program reviewing service structures and distribution channels expected to drive performance • Benefit expected from economy of scale measures introduced across European operations
• Net operating profit up 22.7% to $119 million • In local currency terms, net operating profit up 15.4% to £56 million • Higher lending volumes in personal and business markets • Operating costs reduced	• Economic growth in the UK is expected to moderate to around 2.5% • Continued pressure on lending margins caused by intense competition • This is expected to be offset by ongoing cost management and economies of scale introduced across European operations
• Net operating profit up 22.2% to $33 million • In local currency terms, net operating profit up 21.4% to £17 million • Strong lending growth and growth in non-interest income across the Bank • Improved asset quality • Continuing growth in the Irish economy contributed to the result	• Economic growth should remain the fastest in the European Union at around 6.0% • Greater emphasis on segmenting markets and enhancements to service delivery is expected to enable National Irish to take advantage of the high economic growth
• Net operating profit for total Asian operations up 33.3% to $28 million • Result underpinned by wholesale banking activities • Successful launch into consumer market generated broader benefits • Supported substantial investment and trade flows between Asia and other	• The emergence of financial instability in Asia is expected to weigh on growth, especially in South East Asia • Economic impact likely to last for a number of years; reduced effects expected in North Asia

Year in Review

by the Chairman and the Managing Director

We are very pleased to report on another year of record earnings and continued growth for the National Australia Bank Group.

Group net operating profit rose 5.8% to $2,223 million in the year to September 30, 1997. This represented five successive years of record profits. Given the extraordinary level of competition in all markets and the transition underway in the world's banking and financial services sector, this was a significant achievement.

Our underlying profit increased by 7.5% to $3,648 million. The National believes this performance measure – earnings before tax and charges for doubtful debts – is the true indicator of the quality of a bank's results.

We continue to make solid progress in redressing the imbalance between interest and non-interest income. The increase in non-interest income was 14.1% to $3,334 million, while net interest income rose 4.0% to $5,259 million.

The strength of our profit performance has led to a rise in basic earnings per share from 144.8 cents to 151.6 cents and has enabled a further increase in total dividend from 87 cents to 94 cents a share.

Broad operating environment

The Group's results need to be seen in the context of the fundamental changes occurring in banking and financial services sectors throughout the world.

These changes have been instigated by broad trends such as globalisation, technology, deregulation and more recently, low inflation.

The fundamental challenge for the Group during the past year – and one that will continue for the foreseeable future – has been to effectively manage the necessary transition from the traditional to the future banking and financial services organisation model.

It is encouraging that the Group's strategies and related operations have demonstrated the resilience and flexibility required to commence this transition without any significant loss of earnings momentum. This augurs well for the future.

A number of authoritative international surveys have confirmed the Group's world ranking within the banking and financial services sector. The most recent *Fortune Magazine* review, for example, had the National Australia Bank Group ranked third in the world for profit as a percentage of revenue; ninth in terms of size of profit; and close to the top 50 banking and financial services groups in the world in terms of the size of its revenue base.

International trends

The most pervasive influence on the world banking and financial services sector is the continued globalisation of its key business segments. This is being accelerated by technology advances and progressive deregulation of the sector by governments and other authorities.

The Group has been consistent in its view that globalisation will lead to the gradual erosion of national geographic boundaries in trade, capital and technology flows, government economic policies and corporate growth strategies.

We have also foreshadowed a similar erosion in product and service boundaries and, therefore, in the ability of any company to dominate its sector or chosen markets.

The past year has seen a variety of regional, national and corporate responses.

The various economic dimensions of globalisation are leading governments to

regional groupings such as the European Union and APEC and to a renewed interest in trade agreements such as GATT and NAFTA.

This coincides with the growing realisation that international capital flows are moving beyond the control of individual nations.

Governments are needing to address the realities of constant pressure on their currencies, their levels of industry protection, and labour costs in increasingly commoditised manufacturing and services sectors.

The currency and financial sector management problems experienced by a number of Asian nations during the past year are symptomatic of the complex issues that are before all nations and their corporate sectors.

In the banking and financial services sector the trends have included a growing number of conglomerates and less distinction between banks and other financial services providers.

In Europe, the United States and parts of Asia, there has been increased merger activity as banks and other financial institutions have sought the benefits of economies of scale, a broad customer and product base, and the ability to considerably enhance manufacturing, marketing and distribution skills.

As a consequence, there has been an increase in the number of financial services organisations which have the ability to market global brands and at the same time meet the more specific demands of customers in national or regional markets.

There has also been an acceleration in enhancements to traditional product and service variety and distribution methods.

These industry changes have been proceeding against a background of low inflation in the world's developed economies.

This has further served to intensify competition and the emphasis placed on the generation of non-interest income.

It also heightens the need for highly effective capital management and cost containment.

Australian Financial Industry Inquiry

The response of the Australian Government to the recommendations of the Financial System Inquiry it initiated in 1996 was both welcome and reflective of global industry trends.

The Group has long been a proponent of reform of the Australian financial system.

We argued at the outset of the Inquiry that it was important to set in motion now the policy initiatives required to satisfy financial system needs for the next decade and beyond.

The National's recommendations included relaxation of the prohibition on major bank mergers in Australia and permission for institutions other than banks to have access to the payments system. We also made recommendations on new holding company structures, prudential regulation and improvements to consumer disclosure.

We were pleased that the majority of the changes put forward by the Inquiry and subsequently by the Government were consistent with our own views on deregulation.

The one disappointment was the Government's failure to address the current policy vacuum in regard to industry mergers.

It is difficult to understand how the Government can continue to justify an anomalous policy that encourages foreign takeovers, yet prohibits mergers between Australian banks.

This is particularly the case when there is clear evidence of very high levels of competition in all segments of the Australian banking and financial services market, both from the banks and the numerous non-bank participants which have emerged in recent years.

Looking ahead, our Group will continue to press for prompt introduction of the fundamental reforms of the Australian financial system already agreed by the Government, and for those we believe are still outstanding.

Gaining value from current strategy

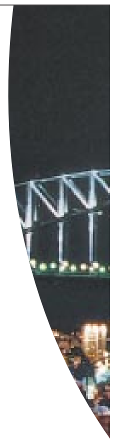
In a period of major change and intense competition in all our markets, the Group's strategy has, of necessity, been highly flexible and responsive in its implementation.

While Australia still accounts for the majority of our business, overseas activities have grown to now account for 46.7% of the Group's assets.

The Group has for some time held to a core strategy of achieving growth organically and through well considered acquisitions. During the past year we have laid the foundation for a new phase in this strategy.

We have sought to consolidate the benefits derived from the acquisitions of recent years in the areas of scale, knowledge transfer and marketing expertise.

Opportunities to reduce duplication of resources, facilities and effort in key areas such as information technology and



services support for the Group's various marketing initiatives have been actively pursued.

In Europe, for example, a core processing centre designed to service the needs of all of the Group's banks in the region has been established.

Another successful aspect of the Group's strategy has been its ability to utilise the 'tailoring' concept developed in Australia in a variety of international markets. This enables recognition of local customer preferences while, at the same time, gaining the benefits of core products and common infrastructure.

During the year, Tailored Home Loans were introduced to Asia and, through Michigan National Corporation, to the United States.

The success of the launch in the United States was particularly pleasing given that it is one of the most competitive home mortgage markets in the world.

Equally, the Hong Kong launch confirmed the extraordinary potential of the Asian market for selected retail products.

The Group's strategy recognises the need to continually search for improved distribution methods in response to customer demand and the ongoing drive for improved cost efficiency.

Examples of the Group's market leadership in this regard during the past year included the introduction of Bank of New Zealand's Direct Banking service.

A first for New Zealand, Direct Banking customers can access a broad range of bank services via telephone, facsimile or mail.

In Australia the launch of National Online for business customers was another example of a significant enhancement to existing electronic banking services. It enables customers to conduct a broad range of financial activities such as account reporting, payroll processing and supplier payments on-line from their offices.

Investment by Michigan National Bank in the Integrion Financial Network, a joint venture with a number of major North American banks and IBM, will provide the Group with secure on-line banking and bill payment capabilities for personal and small business customers across the United States by early 1998.

In Europe, the Group introduced a 24-hour telephone service facility that utilises the latest interactive voice response technology. Based in Glasgow, this facility services the needs of the Group's four retail banks in the region.

In addition, the Group took steps to remain at the forefront of smartcard technology, via its joint venture investments in Mondex in Australasia, the United States, Ireland and Vietnam. A Mondex pilot program is scheduled in Australia in early 1998.

While competition in all areas of the banking and financial services sector continues to intensify, the Group believes there is nonetheless considerable potential to gain additional business from existing customers and to attract new business through the integration of services.

The Australian operations have been restructured as part of an ongoing program to build a fully integrated financial services organisation. This included a major review of the way in which the Bank segments its various markets in Australia.

The program has achieved early success in a very difficult operating environment and is now being introduced in the Group's other markets.

Setting a new direction

While there is no doubt the Group's recent success has stemmed from the disciplined implementation of its strategy, it is equally important for it to be progressive in its thinking and operations.

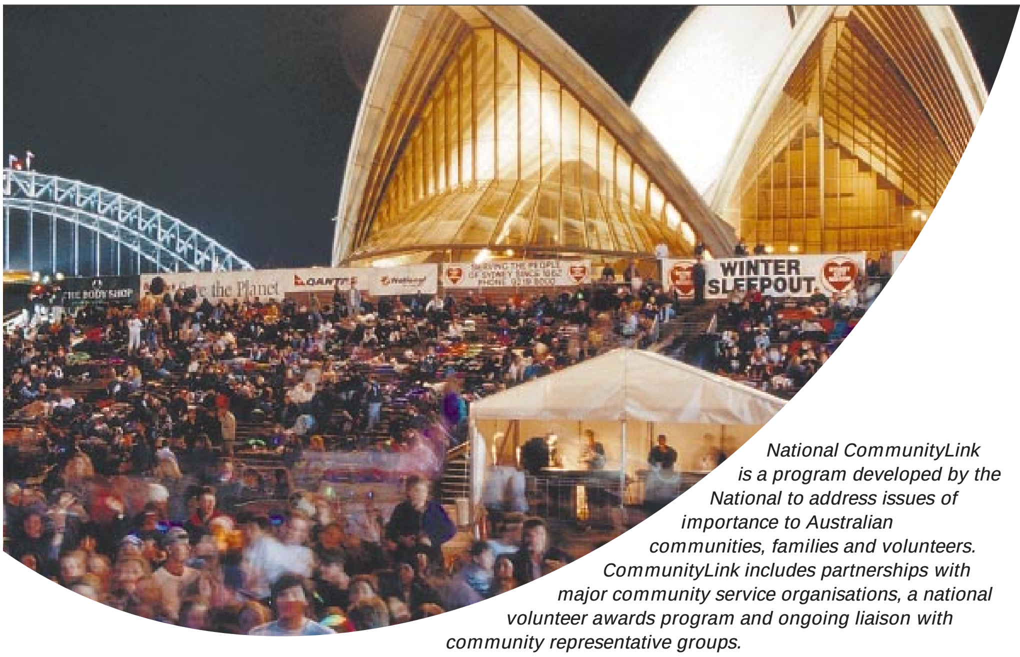
During the past year the Group has reviewed its vision, mission and strategy framework to ensure these continue to set the appropriate direction for the organisation in what is a period of extraordinary change.

In striving to achieve its vision to be the world's leading financial services company, the Group has adopted a new business model which provides the framework for integrated retailing operations.

In keeping with the globalised nature of today's banking and financial services business, the new Group model

Human Resources (full-time equivalents)

	As at September 30, 1997	As at September 30, 1996	Change %
Australia	22,323	22,622	(1.3)
Europe	14,926	15,078	(1.0)
New Zealand	5,124	5,534	(7.4)
United States	3,775	3,717	1.6
Asia	244	227	7.5
Total	46,392	47,178	(1.7)



National CommunityLink is a program developed by the National to address issues of importance to Australian communities, families and volunteers. CommunityLink includes partnerships with major community service organisations, a national volunteer awards program and ongoing liaison with community representative groups.

In 1997, the National sponsored the City Missions' Winter Sleepout, an Australia-wide fundraising event to raise awareness of youth homelessness.

establishes each of the Group's regional banks as integrated retailers. They will be supported by a streamlined corporate centre based in Melbourne and a network of shared services functions, such as information technology. Product specialist units will develop and market products on a world-wide basis. These global products will include cards and payments, mortgages, and asset management services.

The prospects for this new model are exciting and the Group believes it represents an important evolution in its overall strategy.

People

The Group continued to focus on the development of its people as a key to meeting its objectives.

Presentations explaining the revised vision, mission and strategy framework were made throughout the network. An innovative graphic format was utilised to maximise the understanding of the roles staff at all levels have in the achievement of Group objectives.

The Group continued its leadership development program for our high potential leaders. The program, which incorporates sessions on ethical and socially responsible business practice, involves real organisational projects and provides experience in how to clear hurdles such as working across time zones, cultural differences and complex agendas.

This year a new feedback performance improvement model, which seeks input from self, manager, peers and direct reports, was successfully introduced to the Group's top 1,200 managers. The model is designed to assess leadership behaviours and provide a basis for self-improvement. It is intended this model be cascaded to all levels of management over the next two to three years.

The Group has launched a team-based leadership model to encourage ownership, involvement and creative contribution from all staff. This model will be supported by changes to the Group's human resource management systems which are currently under development.

Capital management

The effective management of the Group's capital is an important contributor to the overall returns received by shareholders. At the highest level, the broad spread of the Group's assets brings a degree of risk diversification and a reduction in earnings volatility that would not be available if our operations were confined to Australia.

This has assisted the Group to provide consistently high returns with lower overall risk.

We also continued to proactively manage the deployment of capital throughout the Group in order to ensure all capital generated optimal value for shareholders.

In March the Group successfully conducted a global offering of 40 million Exchangeable Capital Units ('ExCaps') raising US$1.0 billion. The offer was primarily designed to lower the Group's overall cost of capital, improve the flexibility of our existing capital base and to broaden the Group's investor base. We continue to review developments in the global capital markets in order to provide the Group the opportunity to optimise the efficiency of its capital base.

The Group also began an on-market share buy-back program on April 8, 1997. This concluded on October 7, 1997. During the program the National bought back and cancelled 98,146,432 ordinary shares. The average price paid for all shares was $18.58, with the highest price $22.42 and the lowest $15.60. The buy-back contributed positively to basic earnings per share growth.

Preparing for 2000

There has been considerable publicity about the need for organisations to address potential information technology and associated business issues which arise with the transition to the year 2000.

The issues primarily relate to the conventional use by computers of the last two numbers of a year to denote that year, rather than using the full four digits.

The Group has established a comprehensive Year 2000 program which aims to ensure that the transition through to the year 2000 has minimum impact on its operations. The Group's objective is to continue to function effectively and meet all regulatory requirements through the year 2000.

Retirement of Mr Bill Irvine

During the year Mr Bill Irvine retired as Chairman and a Director of the Company.

The Board wishes to record its appreciation of the service that Mr Irvine has rendered to our Group.

Mr Irvine's background was as a solicitor and he was a partner in the firm Hedderwick Fookes & Alston prior to his appointment as a Director of the Company in 1979.

Mr Irvine was elected Chairman of the Company in 1992. He was also Chairman of National Australia Group (UK) Limited and National Australia Financial Management Limited, and a Director of Bank of New Zealand.

In the formal announcement of Mr Irvine's retirement, Vice-Chairmen Messrs Brian Loton and David Macfarlane paid tribute to the guidance and sound judgement he had provided to the Group Board and management over a period of 18 years.

In that time, the National's Group assets rose from $7 billion to $200 billion.

'Mr Irvine played an active role in the development of the National from an important Australian company to a significant international entity through his role on the Boards of the European and New Zealand companies,' Mr Macfarlane said.

'In addition he has carefully guided the composition of the Board to its current position where it reflects extensive business experience in Australia, and in all of the major regions in which the National operates, including Asia, Europe, New Zealand and the United States of America'.

Mr Irvine brought a wealth of experience and insight to the Board having, at various times, also served with distinction on the boards of a number of other Australian companies.

All at the National thank Mr Irvine for his valuable guidance and wish him a long, happy and healthy retirement.

Board appointment and retirement

The Board was pleased to announce the appointment of Mr Graham Kraehe as a Director on August 28, 1997.

Mr Kraehe, 55, has been Managing Director and Chief Executive Officer of Southcorp Holdings Limited since 1994.

Mr Kraehe graduated from the University of Adelaide in 1962 with an Economics degree. He began his career in the automotive industry and then managed companies in the wine export and automotive components industries. In 1985 he joined Repco as Director and was appointed Managing Director of Pacific BBA Limited in 1989.

Announcing the appointment, then Chairman, Mr Irvine, noted Mr Kraehe's extensive business experience in Australia, in the developing markets of Asia and in the United States of America.

It is with deep regret that we note the death during the year of former Director, Mr Andrew Turnbull.

A Director of the company since 1992, Mr Turnbull retired from the Board during the year.

On behalf of all at the National, the Board expresses its sincere condolences to Mr Turnbull's family.

Distribution Network as at September 30, 1997

	Australia	BNZ	Clydesdale	Michigan	National Irish	Northern	Yorkshire
Branches*	981	213	293	190	65	103	268
Business Centres**	219	7	38	0	5	4	35
EFTPOS Terminals	57,215	12,032	3,460	16,332	325	1,200	1,600
ATMs	1,042	227	350	287	38	175	392
Outlets closed	61	32	17	13	0	4	5
Outlets established	10	1	4	2	1	1	1

*Including: Customer Service Centres, Agencies and Premium Banking Suites
**Including: Business Banking Centres and stand-alone Business Banking Suites

The year ahead

A background of moderate growth and relatively low inflation is expected to characterise most of the Group's operating environment during the next year.

In Australia, both the household and business sectors are expected to experience a moderate acceleration in activity, benefiting from the easing of monetary policy over the past year. Nevertheless, drought in parts of eastern Australia, the subdued outlook for commodity prices and weaker Asian growth are expected to keep Australian growth at, or slightly below, 3% in 1997/98, compared with 2.5% in 1996/97. In response to some emerging inflationary pressures, and a deterioration in the current account, official cash rates are expected to be moderately higher by the latter part of 1998.

Although confidence has improved in recent months, business conditions remain subdued in New Zealand. The export and import competing sectors are benefiting from the depreciation of the New Zealand dollar, but economic growth is still only expected to reach 1.5% in 1997. Increased government spending, lower taxes, weaker currency and lower interest rates are expected to combine to result in stronger growth of approximately 2.75% in 1998.

Michigan and more generally the US economy are expected to continue to operate at high levels of activity in 1998. With continued moderate growth and an already tight labour market, price pressures are expected to eventually emerge and a small rise in interest rates is anticipated during the next year.

Reflecting the recent tightening of monetary policy and the relative strength of Sterling, UK growth is expected to moderate to around 2.5%, following a quite strong performance during the past year. Although slower growth, at around 6.0% per annum, is also forecast for Ireland, the pace of expansion should remain the fastest in the European Union.

While the emergence of financial instability in some parts of Asia will impact Asian growth during the next year or so, longer term prospects for the region remain strong.

Following the end of the financial year, the Group announced two acquisitions which it expects will contribute significant benefits for shareholders.

On October 1 the investment management company County NatWest Australia Investment Management Limited (to be known as County Investment Management Limited) was acquired. This is a significant step by the Group in building a new force in Australian and international funds management, and is part of the overall strategic thrust to build non-interest income.

On October 27, the Group announced it had entered into a definitive agreement to purchase HomeSide, Inc., one of the leading United States residential mortgage loan producers and servicers. The Group's acquisition of HomeSide is expected to be completed in early 1998. HomeSide's expertise and large United States business combined with the National's international network will position us as one of the world's leading mortgage groups.

MR Rayner
Chairman

DR Argus
Managing Director and
Chief Executive Officer

Australia

The National's Maria Perri with Tailored Home Loan customers Sam and Maria Grace Pupillo and their two children.

Case Corporation's Ian Fisher, the National's Michael Baird, Case Corporation's Alan Day and the National's Mal Harvey.

Operating conditions in Australia continued to be difficult. Patchy economic growth and increased competition placed pressure on margins from our Australian operations.

The Australian Group (including Australian Financial Services and all other operating units in Australia) returned a net operating profit of $1,329 million for the year ended September 30, 1997. Underlying profit for the Australian Group was down slightly, falling by 3.0% to $2,161 million.

Both higher lending and deposit volumes were enjoyed by the National during the year, while maintaining a tight control over credit quality. These volumes resulted in significant increases in market share.

Following an increased focus on the retail deposit market, deposits grew by 13.8% over the year to September 30. This resulted in the National achieving the strongest growth in market share when compared with our major competitors in the banking sector. Of the total growth in deposits for the year to August 31, 1997 the National captured approximately 22.3%.

In the lending market, the National's growth again exceeded that of the banking system for both housing and non-housing for the year to August 31. In owner-occupied housing, the National's share of the growth was 22.8% which boosted our market share to 17.6%. In other lending, the National captured 26.9% of the total banking system growth and increased its market share to 21.8%.

Competition and uneven economic growth during the period led to lower margins with interest rates falling to their lowest level in more than two decades. Net interest income fell by 2.6% to $2,522 million. The decrease in margins was substantially offset by higher lending volumes (up 14.2% to $74.3 billion) and stronger earnings in fee income.

Early in 1997 the Australian Bank reorganised, moving from a geographical based structure to a market segment based structure to fully integrate financial services with the National's traditional products. This forms part of our strategy to grow fee income from both traditional 'bank' and financial services income streams.

This reorganisation led to the creation of a new internal business structure known as Australian Financial Services which has nine business units based along customer segment/service lines.

The success of this new structure was reflected particularly by the performance of the 'non-bank' businesses (including National Financial Management, National Asset Management, National Australia Trustees and National Custodian Services).

As a result of efforts to diversify the National's income base, non-interest income grew significantly by 10.0% to $1,752 million in 1996/97 and now represents 41.0% of total income (38.1% for 1995/96).

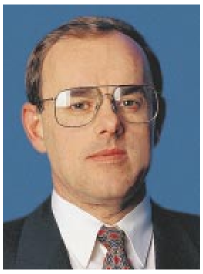
The charge to provide for bad and doubtful debts was down by 29.2% to $131 million. The National has drawn on the internal and external resources necessary to maintain the quality of its lending portfolio. To this end, gross impaired assets as a proportion of all loans decreased from 1.0% to 0.8%.

In other developments during the year, the National engaged in enterprise bargaining with the Finance Sector Union and finalised an Agreement with no disruption to business or customers. The Agreement allows a total salary increase of 12.8% over three and a half years, equivalent to 3.75% per annum.

Australian Bank Financial Highlights*	*1997 $*	*Change %*
Operating Profit (before goodwill)	1,143m	(10.8)
Underlying Profit	1,868m	(5.3)
Net Lending Assets and Acceptances	87.4b	15.2
Risk Weighted Assets	85.6b	12.2
Net Non-Accrual Loans	364m	8.3
Key Ratios	***1997 %***	***1996 %***
Cost/Income Ratio	55.9	52.3
Return on Average Assets	1.3	1.4
Net Non-Accrual Loans/ Risk Weighted Assets	0.4	0.4

*Includes the Australian Trading Bank, the Australian Property Companies, Custom Service Leasing Limited, National Australia Trustees Limited and National Custodian Services.

Australian Financial Services, referred to on page 4, includes the above plus National Australia Financial Management Limited and National Australia Asset Management Limited.



Mr F J Cicutto
Chief General Manager
Australian Financial Services

Australia

It also provides total staffing flexibility, including the removal of restrictions on the ability to employ part-time and temporary staff.

Also during the year National Vision, an inhouse television service to improve staff communication, was launched. To accommodate National Vision, a television studio was built in the Melbourne head office and broadcasts of news and other reports are provided to staff twice a week. The service was also adapted for video conferencing with customers during the year with special broadcasts delivered for premium and business customers.

Premium customers attending the video conference at Rockhampton.

Paul Laband, Stewart Macdonald and John Spence of the National on the National Vision set with host Beverley O'Connor during a live video conference with premium customers Australia-wide.

Personal Financial Services

Personal Financial Services was formed to meet the needs of our consumer customers and includes the Premium and Retail divisions as well as National Financial Management and National Australia Trustees.

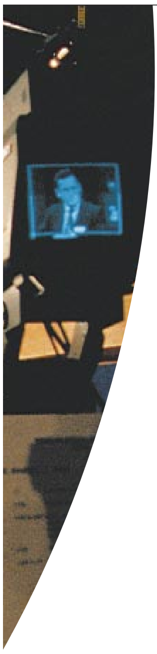
A key sales and service initiative for Personal Financial Services was the adoption of a proactive approach to identifying and meeting customers' financial needs and goals by providing an integrated range of financial services.

Integral to this initiative were new strategic alliances formed during the year with two leading insurers, HIH Winterthur and The Hospitals Contribution Fund of Australia, enabling the National to successfully launch home and contents insurance (National Home Insurance) in August and announce the release of a direct health insurance product (National Private Health Insurance) for late 1997.

Further, the National responded to the changing needs of the retirement savings market with a heightened focus on superannuation, launching National All in One Super in May and a Retirement Savings Account (RSA) in July.

As well, products and services designed for our Premium customers and shareholders enjoyed significant success. Sales of the National's Choice packages approached $10 billion in the year ended September 30, reflecting an increase in relationships forged with professional member associations and strong support for co-branded banking packages. The launch of the National's Shareholder's Package attracted $100 million and was supported by 8,000 shareholders.

Another major strategy of the National in 1997 was to encourage customers to utilise more cost-effective and convenient bank services available via National FlexiDirect, a new facility providing transactional banking predominantly through ATMs, EFTPOS and FlexiPhone (telephone banking). At the same time, a new fee structure was announced for personal deposit accounts designed



to better align fees with the cost of providing these services.

Other highlights for Personal Financial Services in 1996/97 included:

- a 21.7% increase in total home loan outstandings to $33 billion
- assisting more than 50,000 Australian families to own their homes
- achieving a 17.6% share of the owner-occupied housing market as at August 1997
- 240,000 new accounts opened by National Personal Bankers around Australia
- approximately 800,000 customers subscribe to National FlexiPhone
- $2.3 billion in sales generated by National Financial Planners within Premium Financial Services
- strong sales growth continued in protection insurance products.

National Australia Trustees

National Australia Trustees achieved an 87% gain in net operating profit to more than $5 million.

The result benefited from a strong performance by the Common Fund A1 which consistently ranked in the top quartile for investment performance during the year.

Deposits in this fund rose 67% to $995 million. Assets under trusteeship and management at National Australia Trustees as at September 30 were $18.5 billion.

National Financial Management

National Financial Management enjoyed great success in the year ended September 30, 1997 returning a net operating profit of $43 million which represented an impressive 72% increase on the previous 12 months.

Major contributors to this result were sales of protection insurance, retirement income and superannuation products predominantly by the National's Financial Planners. Premium income from protection insurance products increased by 40% while sales of the Flexible Income Plan product more than trebled to total $152 million for the year. This was mainly achieved as a result of successfully integrating and delivering financial services through the Bank's network of Personal Bankers, Business Bankers and Financial Planners.

Retail funds inflow for National Financial Management continued to grow strongly. As at September 30, 1997 total retail funds under management were $4.4 billion.

National Asset Management

Strong investment performance and sales were enjoyed by National Asset Management for the year ended September 30, 1997.

Wholesale funds under management increased by $500 million to $1.5 billion as at September 30, 1997 marking a 50% increase on the previous year. Total funds under management (that is, wholesale and retail) totalled $5.9 billion as at September 30, 1997.

Throughout the period, the balanced, domestic, international and fixed interest funds continued to produce solid performances.

The Federal Government's recent decision to mandate member choice in superannuation funds is a significant development for fund managers. The National is now developing a range of investment products to meet the needs of this market.

Business Financial Services

National Australia Bank once again asserted itself as Australia's leading business bank for small and medium business markets in the year to September 30, 1997.

Currently the National holds a banking relationship with more than 32% of all small businesses in Australia and 37% of medium sized businesses.

A range of initiatives and product developments during the year helped the National achieve business credit growth of more than 9%, outperforming system growth of 7%.

The year saw the continued expansion and upgrading of the National's 219 Business Banking Centres. Some 66 Business Banking Centres were established in rural and provincial areas as part of our strategy to grow our share of quality business.

New products launched included National Online, an electronic banking facility, and National Business Mortgage, an innovative flexible lending facility designed to help businesses improve their cash flow.

On other fronts, growth was particularly strong in business investment loans (9.7% higher), leasing receivables (up 25.0%), and bill acceptances (15.0% higher). Invoice discounting increased by 70.0%. Fixed rate loans also performed strongly.

Consistent with the National's drive to become an integrated financial services provider, an initiative was undertaken to improve the access Business Bankers have to specialists in areas such as leasing, international finance, superannuation, income protection and debtor finance in order to fully respond to the needs of our business customers.

This impacted positively on our international trade commitments during the period, which increased by 18%, and our leasing receivables which, despite a soft equipment investment market, rose to more than $5 billion.

In the rural market, climate conditions more favourable for cropping combined with the National's marketing initiatives to provide an improved result. In the 12 months ended September 30, 1997 our rural lending and deposits grew strongly.

Farmer's Choice was developed to provide primary producers with a long-term lending facility that met their unique funding requirements.

Agribusiness is expected to become a major business segment as a result of deregulation of the Australian wool and wheat markets and free trade agreements with the Pacific Rim. To prepare for this, in April the National established an agribusiness development unit and has strengthened its rural finance teams.

A further development during the year was the integration of Bank of New Zealand Australia (BNZA). BNZA is now a semi-autonomous division of National Australia Bank and its customers can now conduct their banking via National branches. BNZA will continue to operate as a niche player in the Australian market, providing consumer mortgages for third party distribution and cash flow lending to mid-size businesses.

Payment services

The National is a leader in the area of payment services. For example, it is currently the largest acquirer of EFTPOS transactions in Australia and processes more than 28% of all transactions.

The National also processed more than 260 million cheques on behalf of customers during the year and is continuing to invest in technology to reduce the length of the cheque clearance cycle.

In 1996/97, the National broke new ground in launching a series of innovative payment systems which promise substantial fee income streams for the Australian business in the future.

In 'consumer to business' payments systems, we introduced National Rent Card to facilitate payments by tenants and National Pay By Phone, a telephone-based remote payment collection service for businesses.

The National also participated in a major stored value card pilot program conducted on the Gold Coast and joined a consortium to launch BPAY, a central switch service for customer bill payments.

In 'business to business' applications, National Purchasing System, a card-based payments solution launched in 1996, has been well received, particularly by universities and government-owned corporations. National Purchasing System provides a paperless, efficient system for businesses to manage small value expenditures.

Distribution

National Australia Bank Group is at the forefront of developing more convenient, remote mechanisms for transactional banking and accessing financial services. Today, 75% of transactions are conducted via ATMs, FlexiPhone and EFTPOS.

The trend away from branch banking led to a reduction in the number of National outlets during the year to 1,200. This, however, has been more than offset by the growth in the number of ATMs now totalling 1,042, along with more widespread availability of EFTPOS and higher usage of telephone banking.

In 1997, the National commenced trialling National Interactive, or multimedia terminals, operated by touch screens and providing information and video link-ups. The terminals have been placed in seven outlets in Melbourne allowing customers to access product information, demonstrate different lending scenarios, open new accounts and interface with 'live' bankers in our telephone centre.

Demand for telephone banking increased rapidly during the period with subscribers to National FlexiPhone now totalling about 800,000. The automated service provides account balance information, fund transfer and bill payment facilities.

Significant enhancements have been made to the National's Internet site (at www.national.com.au) in response to the growth in the number of customers accessing the Internet. As well as providing information on products and services, media releases and quarterly financial results, the Internet site will be developed to provide customers with on-line access to their accounts in 1998.

At the same time, refinements to our branch network continued along with efforts to centralise processing.
This approach underlies the National's strategy to strengthen customer service, improve productivity and reduce service delivery costs.

During the year, outlets were aligned with the National's new market segment structure in metropolitan areas and work is underway to implement the same structure for our rural and provincial branches in 1998.

National Australia Investment Capital

In line with the Group's strategy of providing integrated financial services, National Australia Investment Capital Ltd (NAICL) was established in 1996.

Through NAICL, the National is able to provide the equity capital necessary to finance high growth businesses, complementing our position as a major provider of debt finance to small to medium-sized enterprises.

Since its establishment last year, NAICL has committed $28 million in minority equity positions in a range of Australian businesses and industry sectors.

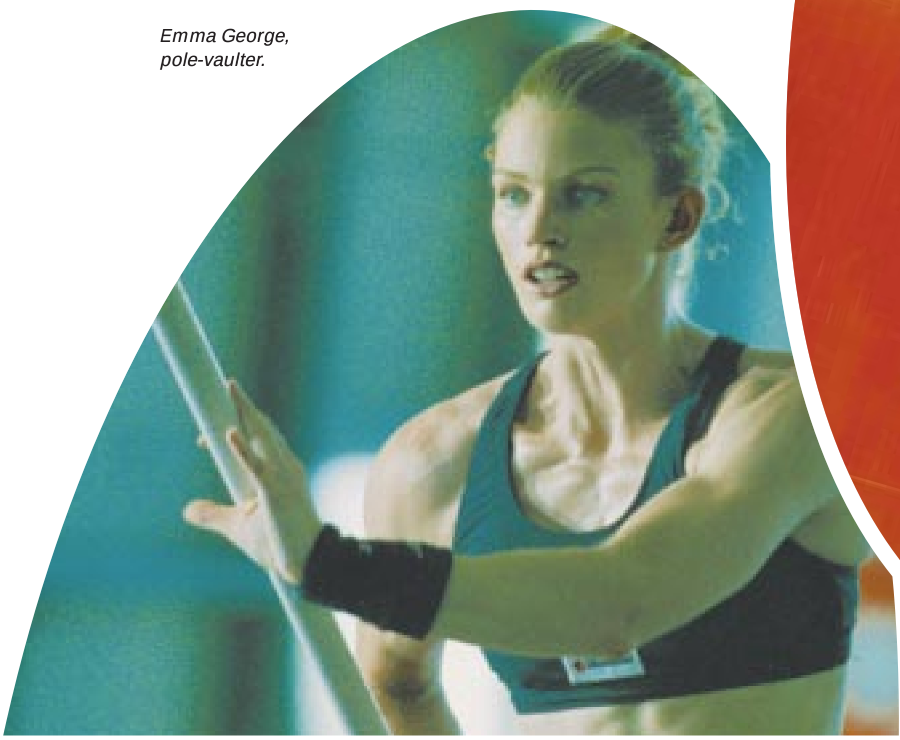
Team National

In December 1996, National Australia Bank launched a major sponsorship program in which 12 of Australia's leading sportsmen and women formed Team National.

The athletes, including Daniel Kowalski, Andrew Gaze, Emma George and Emma Carney, have been involved in successfully marketing the Bank's products and services in Australia. Team National athletes have also been utilised in customer, employee and general community relations activities.

The Team National program has been very successful to date and is a constant reminder to staff and customers to 'Never lose sight of the bigger picture'.

Emma George, pole-vaulter.



Andrew Gaze, basketballer.

Europe

Northern Bank personal banker, Barbara Wallace, with fisherman Robert Donnan.

Our European business produced another strong contribution to the Group's bottom line.

European operations comprise four regional banks in the United Kingdom and Ireland, a life insurance company, a wholesale financial services business, and a service company providing technology support to the regional banks and the life company. The four banks – Clydesdale Bank based in Scotland, Yorkshire Bank in northern England, Northern Bank in Northern Ireland, and National Irish Bank in the Republic of Ireland – are the mainstay of our European business.

Operations were helped by stronger economic growth in the United Kingdom in 1997, while the Irish economy also remained strong. However the competitive landscape continued to be transformed as building societies turned themselves into banks, major retailers extended their financial services activities, insurance companies pushed into banking, and other new entrants sought to position themselves in an already crowded financial services industry. Interest margins fell in response to these competitive pressures.

In responding to these challenges the Group has refocused its operations by consolidating a number of support functions into 'centres of excellence' across the region. These functions include

Mr GLL Barnes
Chief General Manager
and Managing Director
National Australia
Group Europe

technology, human resources, marketing, credit assessment and collections and recoveries. This process will be continued and will include other functions in 1997/98.

These initiatives, together with significant income growth (particularly in business markets), contributed to the 43.1% increase to $488 million in European operating profit. In local currency terms profit increased by 34.5%. A fall from 59.0% to 57.4% in our cost-to-income ratio reflected the benefits of our approach. All four banks improved their results compared with the previous year.

Improved asset quality, particularly in Yorkshire Bank (which recorded a significantly higher bad and doubtful debts charge in 1996) also contributed to the result. Gross impaired assets fell by 10.3% to $478 million, with the specific charge for bad and doubtful debts down by $42 million.

Drawing on the improved skills and capabilities put in place in the previous year, Wholesale Financial Services delivered increased income and profit. These activities are now being integrated into Global Wholesale Financial Services. We expect further growth as a result of this move.

National Australia Life made good progress and moved into profit. This business only became operational in 1996.

Although there has been a necessary emphasis on cost reduction, this has often been accompanied by improvements to our products, service delivery and distribution.

A new telephone banking service for all four banks using the latest interactive voice response technology is an example of this process.

Of necessity we devoted considerable resources preparing for Year 2000, and for European Economic and Monetary Union, phase one of which is scheduled to commence in 1999.

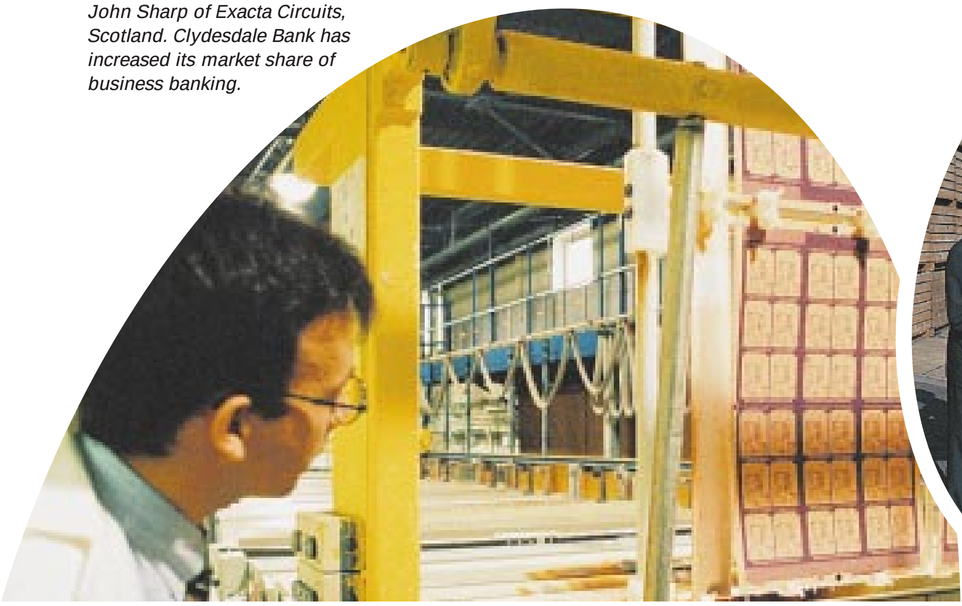
The latter event will affect operations significantly, even if the United Kingdom is not a member at the start of the process. Both these mandatory projects will absorb significant expenditure in 1998.

Our European leadership team was further strengthened by a series of senior appointments across a number of key functions. We continued to invest in our people through comprehensive training, with a special emphasis on leadership and change management. Staff communication was also improved.

The outlook for 1998 remains positive. We see opportunities to develop income streams by further segmenting our customer base, and by achieving more focused sales and service delivery. As we move towards greater commonality of processing and support functions, further efficiency gains are anticipated.

Tim Blake of Northern Bank with Brian Hazley of snack food producer, Tayto.

John Sharp of Exacta Circuits, Scotland. Clydesdale Bank has increased its market share of business banking.



Clydesdale Bank

In Scotland as elsewhere in the United Kingdom, economic activity was driven by strong consumer spending, which was in part fuelled by large payouts to customers of building societies which were in the process of converting to banks. In these conditions Clydesdale Bank enjoyed a very good year, lifting net operating profit by 30.2%, or 22.6% in local currency terms.

Tight cost control and increased fee-based income underpinned the result. These factors helped reduce Clydesdale's cost-to-income ratio from 57.7% to 53.8%. Net interest income increased 7.6%, reflecting higher personal and business lending together with improved deposit volumes.

During the year Clydesdale made considerable headway in developing its corporate and business banking connections.

Lending to leading financial institutions in Scotland increased, demonstrating the corporate sector's high regard for the Bank. According to a survey of the top 500 companies by Scotland's leading business magazine, Clydesdale has increased its market share at the expense of the two larger Scottish banks.

We boosted business lending by launching a variable repayment business loan. By year end this product had met its targets twice over. The opening of a new business banking centre in Newcastle heralded further growth in England.

In London we moved into new offices. This move was part of an exercise to reposition Clydesdale in the London market, where we now concentrate on the corporate and business sectors, and on high net worth individuals.

Competition in personal markets reached new heights. In mid-year Clydesdale launched a redesigned personal product range offering greater choice, and new personal savings accounts with market-leading rates. The branch network underwent major improvement aimed at streamlining internal processes, enhancing branch appearance, and strengthening the Clydesdale brand. These changes were supported by the Bank's largest outdoor advertising campaign.

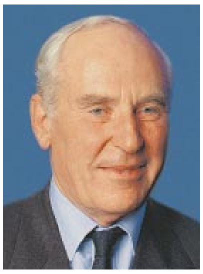
In Edinburgh we moved our offices into Clydesdale Bank Plaza, a new office development in the heart of the city's new commercial district. The opening of this office raised Clydesdale's profile in a key financial centre.

Steve Black of Drambuie with Martin Prentice from Clydesdale Bank.

Clydesdale Bank's redesigned personal product range brochures.

Clydesdale Bank Financial Highlights	*1997 A$*	*Change %*
Operating Profit (before goodwill)	211m	30.2
Underlying Profit	362m	21.9
Net Lending Assets and Acceptances	13.8b	19.4
Risk Weighted Assets	13.0b	22.6
Net Non-Accrual Loans	154m	(11.0)
Key Ratios	*1997 %*	*1996 %*
Cost/Income Ratio	53.8	57.7
Return on Average Assets	1.3	1.1
Net Non-Accrual Loans/ Risk Weighted Assets	1.2	1.6

Clydesdale Bank



The Lord Nickson
Chairman

Mr FA Goodwin
Chief Executive

Northern Bank

Growth in the Northern Ireland economy lagged behind other regions of the United Kingdom during 1997. However Northern Bank managed to increase its operating profit for the year by 22.7%, or 15.4% in local currency terms.

The result reflected a 29.6% increase in net loans and acceptances with housing loans up 25.7%. Northern continued to cover its lending with retail funding.

Cost-to-income ratio, before restructuring costs, improved from 54.8% to 51.9%, the result of strong internal cost management together with efficiency benefits obtained from sharing various functions with other members of the Group in Europe. Centralisation and re-engineering of back-office functions through our two branch service centres produced a 22% productivity gain in just over 12 months.

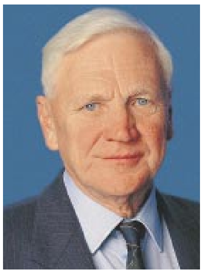
The personal banking sales force successfully met a range of customer needs with appropriate saving and protection products from National Australia Life, with sales for the year up 235%. Northern's insurance broking business also enjoyed a solid year, with total income up 22%.

NORTHERN BANK

Northern Bank Financial Highlights	*1997 A$*	*Change %*
Operating Profit (before goodwill)	119m	22.7
Underlying Profit	182m	13.4
Net Lending Assets and Acceptances	5.1b	29.6
Risk Weighted Assets	5.3b	29.3
Net Non-Accrual Loans	23m	(17.9)

Key Ratios	*1997 %*	*1996 %*
Cost/Income Ratio	51.9	54.8
Return on Average Assets	1.7	1.5
Net Non-Accrual Loans/ Risk Weighted Assets	0.4	0.7

Northern's Richard McCrea with County Antrim farmer, Kevin Macauley.



Sir Desmond Lorimer
Chairman

Mr GP Savage
Chief Executive
Northern Bank and National Irish Bank

Europe

These gains helped offset the pressure on lending margins caused by intense and growing competition in the Northern Ireland marketplace. Plans are well established to further strengthen Northern's position within the province through sharper sales effectiveness, a stronger brand identity and enhanced product attributes in both personal and business markets. The impact of this will be to further differentiate Northern from its competitors.

During the year a new telephone banking service was launched, 20 new automatic tellers were installed, 22 branches were refurbished, and a new business banking centre was opened. We started structured monthly sales training for key sellers in branches, supported by a fully automated weekly sales tracking system. We also continued developing our Offshore Banking Facility, introducing new offshore mortgage products and working with other Group members to stimulate demand for these products and services.

In March Mr Grahame Savage was appointed Chief Executive to succeed Mr John Wright.

Business banking customer, Neil Partridge of Ainscough Crane Hire in Leyland, England with Yorkshire Bank's Tony Platts.

Yorkshire Bank's latest outlet at the new White Rose shopping development in Leeds.

Yorkshire Bank

Yorkshire Bank enjoyed improved results in its latest year, with operating profit increasing by 42.8% compared with the previous period, or by 30.4% in local currency.

The result was helped by a 6.7% increase in net interest income while other operating income was up 31.9%. The latter increase resulted from strong gains in retail deposits and personal lending, and from personal loan insurance income. A $40 million reduction to $118 million in the total charge for bad and doubtful debts also contributed to the overall result.

Over the year Yorkshire contributed 46% of National Australia Life's new premium income.

We continued to invest in upgrading the Bank's business banking capabilities. During the year we added debtor finance and treasury operations to our business portfolio. Asset finance posted 40% growth. Our Manchester business banking centre, launched last year in an area where we have been traditionally under represented, saw a 150% increase in business lending.

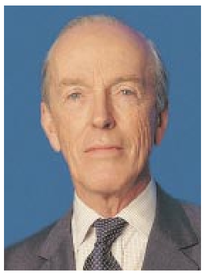
Yorkshire's cost-to-income ratio rose from 53.3% to 54.6%. During the year the accounting treatment of our contract

Youngsters from Enfield Primary School, New Waltham, jumping for joy after receiving a conservation award for their wildlife garden from Amanda Carter of Yorkshire Bank.

YorkshireBank

Yorkshire Bank Financial Highlights	*1997 A$*	*Change %*
Operating Profit (before goodwill)	227m	42.8
Underlying Profit	456m	15.7
Net Lending Assets and Acceptances	9.4b	16.8
Risk Weighted Assets	9.8b	21.0
Net Non-Accrual Loans	104m	(19.4)

Key Ratios	*1997 %*	*1996 %*
Cost/Income Ratio	54.6	53.3
Return on Average Assets	2.1	1.7
Net Non-Accrual Loans/ Risk Weighted Assets	1.1	1.6



Lord Clitheroe
Chairman

Mr DT Gallagher
Chief Executive

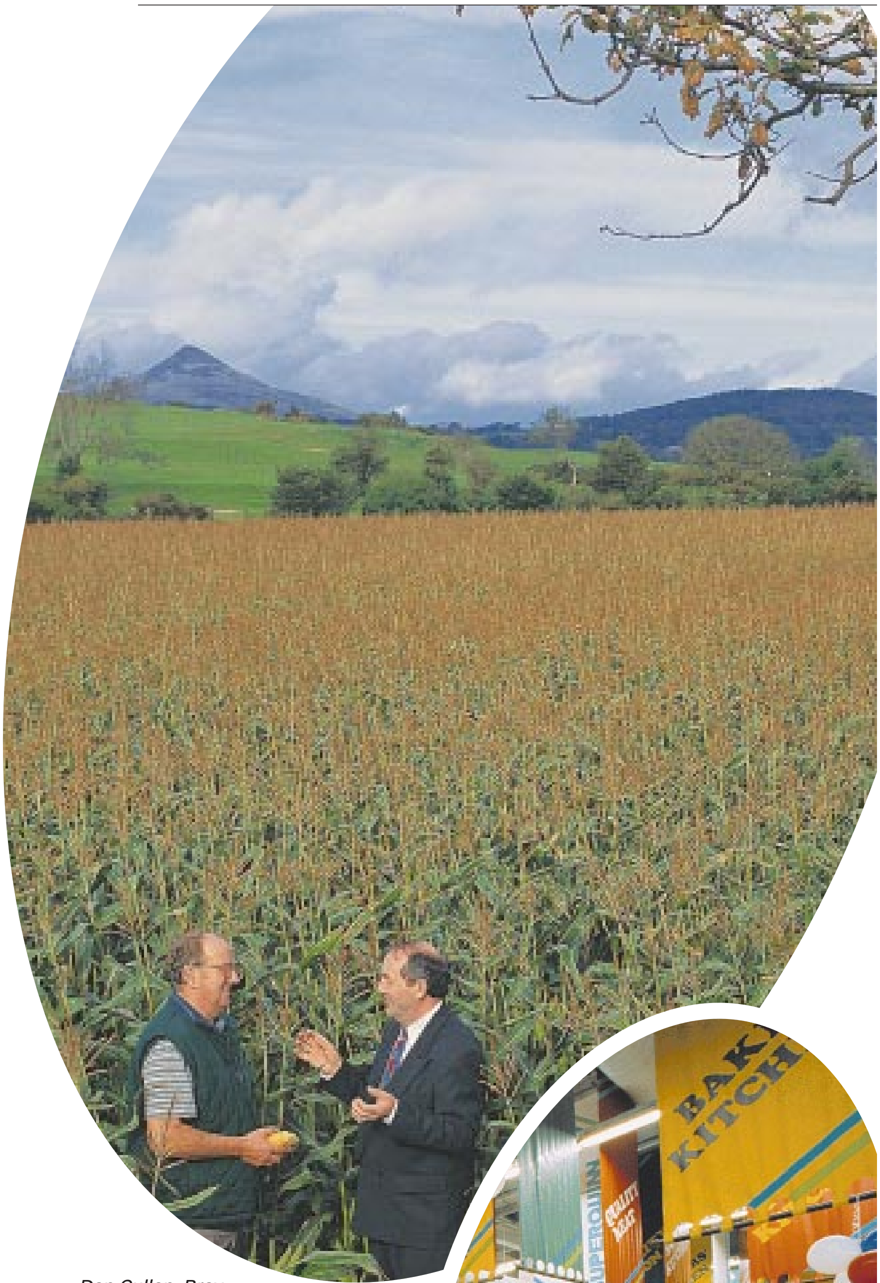
hire subsidiary, Eden Vehicle Rentals, was brought into line with Group policy. Had it not been for this accounting change the cost-to-income ratio would have improved to 51.8%.

Net interest margin was sustained at around 6.2% despite intense competition. On the costs side, a review of Head Office functions was completed during the year, releasing over 350 positions, which allowed some redeployment to our network. This significantly improved the ratio of customer-facing to non-customer-facing staff, which is one of our key objectives.

Looking ahead, we expect to derive considerable benefit from a major change project, the Retail Design Program.

The project seeks to build on our existing strengths in the marketplace to develop additional revenue growth by better matching skills and service levels with changing customer needs. It is also helping us drive down costs. As part of the process, we are reconfiguring our traditional branches, opening new retail units in large shopping centres, and merging or closing up to 20 existing branches. Related developments in self-service technology include the development of remote automatic teller machine sites, improved ATM coverage at existing high-usage branches, and the introduction of telephone banking. We expect to complete the Retail Design Program during 1998.

Yorkshire Bank's efforts to promote equal opportunity within our own workplaces were recognised during the year when we received a major national award from the 'Opportunity 2000' organisation. The award reflected our commitment to equal opportunity, particularly our *Dismantling the Glass Ceiling* initiative.



Dan Cullen, Bray, County Wicklow, dairy, tillage and beef farmer with George Smyth of National Irish Bank.

Supermarket chain Superquinn, a National Irish Bank business customer.

National Irish Bank

Further strong lending growth helped National Irish Bank to lift operating profit by 22.2% in the latest year, or by 21.4% in local currency terms. Continuing growth in the Irish economy contributed to the result.

Profitability was supported by a 4.1% increase in net interest income, an 18.9% increase in other income, and a reduction in bad and doubtful debts provisioning. The growth in other income was pleasing with all divisions showing an improvement over the previous year. As a consequence, the ratio of other income to total income moved from 27.6% to 30.3% in the latest year.

Non-interest expenses increased 8.2% on the previous year, reflecting continuing investment in distribution, and higher personnel costs resulting from agreed pay increases.

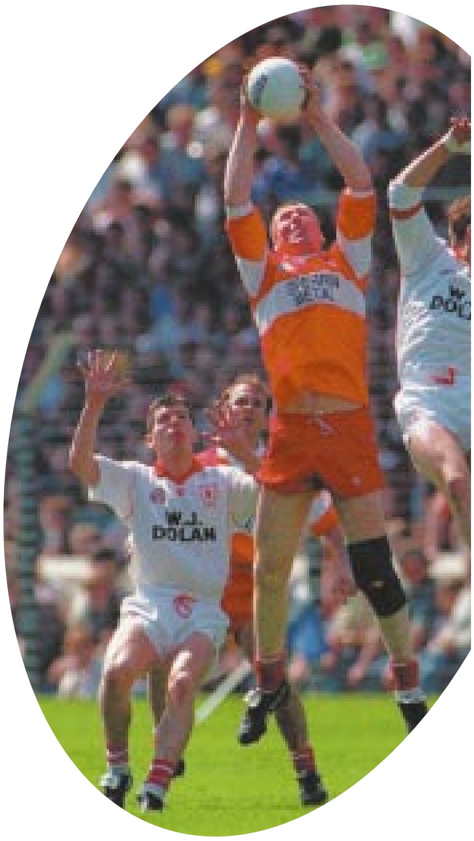
During the year we opened a business banking centre in Galway, bringing to five the number of dedicated business banking centres operated by National Irish. This strategy contributed to a 16% rise in business lending.

Personal markets remained very competitive throughout the year, with particularly intense competition in the mortgage sector. In the face of this competition we still managed to increase total personal lending by 15%. The year also saw the introduction of the Bank's first mobile personal bankers.

National Irish Bank participated in the European launch of the Group's telephone banking service. This is a key development in our distribution strategy. Although we have a relatively small network of branches and ATMs, now anyone from anywhere in the Republic can conduct their banking business with us via telephone. During the year National Irish Bank and Ulster Bank announced a joint venture to introduce the Mondex card in Ireland. Our investment in this reloadable smartcard is supported by the Group, which is itself a 5% stakeholder in Mondex International.

Mr Grahame Savage was appointed Chief Executive of National Irish Bank during the year.

We plan to further expand our ATM network this year, and to open new business outlets. These moves will be supported by an increased number of mobile personal bankers. We will also offer customers a full leasing service, which will be based on a common European platform. Further ahead, the Republic of Ireland is expected to join the European Economic and Monetary Union in January 1999. This event poses a formidable challenge for all Irish banks, but should also bring exciting opportunities, of which National Irish is determined to take advantage.



National Irish Bank has sponsored the Gaelic Athletic Association Personality of the Month Award since 1991. It is presented to the player of the month for All Ireland Championship matches in football or hurling.

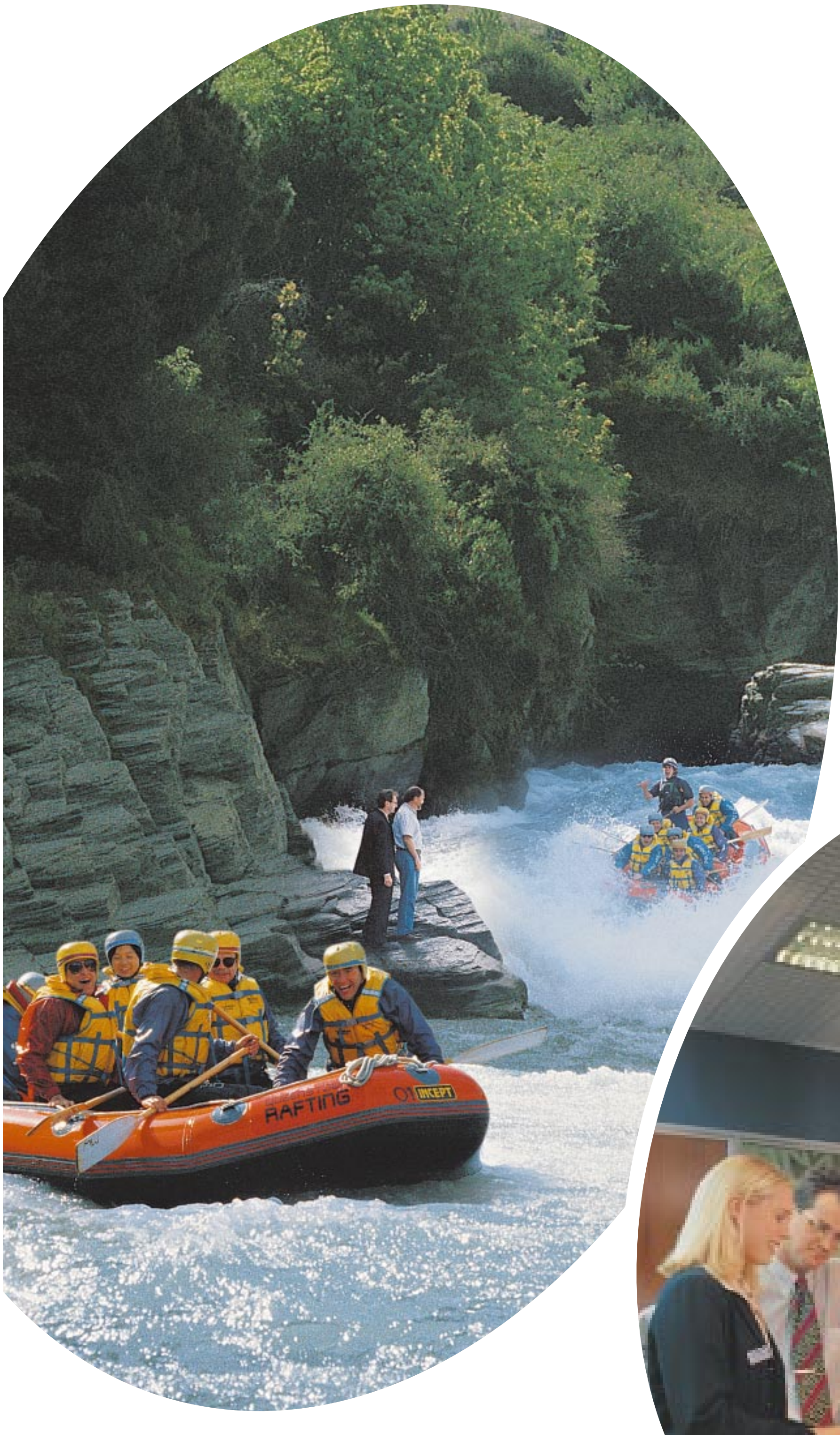
National Irish Bank

National Irish Bank Financial Highlights	*1997 A$*	*Change %*
Operating Profit (before goodwill)	33m	22.2
Underlying Profit	53m	8.2
Net Lending Assets and Acceptances	2.1b	14.9
Risk Weighted Assets	2.0b	11.1
Net Non-Accrual Loans	25m	(16.7)
Key Ratios	*1997 %*	*1996 %*
Cost/Income Ratio	61.2	63.4
Return on Average Assets	1.2	1.1
Net Non-Accrual Loans/ Risk Weighted Assets	1.3	1.7

Mr A J Spain
Chairman

Mr P Halpin
Chief Operating Officer

New Zealand



Despite a weakening economy, Bank of New Zealand achieved further profit growth in 1996/97. Remarkable growth in housing lending, and strong gains in life insurance, unit trust and superannuation sales were features of the result.

Operating profit increased by 6.5% for the year, or by 5.0% (NZ$16 million) in local currency terms.

Perhaps the highlight of the year was an historic NZ$1 billion net increase in housing lending by Bank of New Zealand. A new sales and service structure and new sales and service training program contributed to this result.

Bank of New Zealand's Mike Scullion and Vance Boyd of Queenstown Rafting.

A Bank of New Zealand customer service representative helps a customer at a service podium in the new North Shore banking Centre.

The 'Shaping Our Future' network restructure emphasised both sales and customer service. Separate sales managers and customer service managers now lead their respective teams in branches. Additional mobile bankers were also introduced into personal, rural and business sectors. A sales and service training program devised by Cohen Brown Management Group is providing a more systematic and creative approach to sales and service throughout the organisation. This program has already proven successful elsewhere in the Group.

Initiatives taken during the year included the opening of a Direct Banking service. Customers can access almost all banking services via telephone, fax or mail. A combined personal loan, hire purchase, cash and credit card called Activator was added to Bank of New Zealand's card line-up. To maximise its appeal, Activator carries an interest rate approximately 7% below standard credit card rates. We also launched our own Internet site, introduced a new on-line payments service for business customers, and pushed ahead towards a New Zealand release of Mondex in 1998.

Internally, the launch of Salesforce Software, a new customer-facing computer system, armed our personal bankers with Microsoft-based software, tools for producing professional-looking documents, faster laser printers, on-screen prompts for interviewing customers, email facilities, and 'prospecting' tools. Salesforce Software began rolling out to mobile support bases, larger outlets and key business sites in April.

The Bank's Financial Services Group had another successful year with the flow of funds into unit trusts, life insurance and superannuation products increasing by 121%, 48% and 8% respectively over the period. In April we launched the Bank's first 'passively managed fund', the BNZ New Zealand Equity Index Trust. A major medical insurance product, called Premier Health Care, was added to our product range in July.

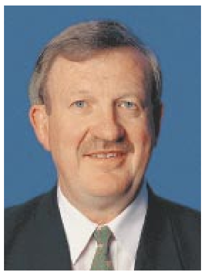
Efforts to improve the quality of our work were recognised when our Central Zone Operations Team received an award from the New Zealand Organisation of Quality. The award was given for the best quality improvement team project submitted by any organisation in New Zealand.

Bank of New Zealand has been involved with the Kiwi Recovery Programme since 1991. The programme is vital to the protection of the endangered New Zealand national bird. Bank of New Zealand also provides substantial support for projects addressing health (especially children's health), heritage, sport, education and community support.

Bank of New Zealand Financial Highlights	*1997 A$*	*Change %*
Operating Profit (before goodwill)	297m	6.5
Underlying Profit	394m	15.5
Net Lending Assets and Acceptances	17.4b	6.4
Risk Weighted Assets	15.4b	5.5
Net Non-Accrual Loans	90m	0.1

Key Ratios	*1997 %*	*1996 %*
Cost/Income Ratio	56.5	58.0
Return on Average Assets	1.3	1.4
Net Non-Accrual Loans/ Risk Weighted Assets	0.6	0.6

Mr T K McDonald
Chairman



Mr G J Wheaton
Managing Director

United States

Michigan National Tailored Home Loan customers Gerald and Judith Campbell, with their children.

Michigan National staff participate in the American Heart Association's Heartwalk to raise funds for the fight against heart disease and stroke.

In the United States, the Group operates through Michigan National Corporation, the holding company for Michigan National Bank, and through a branch in New York.

Over the past year the US market has been characterised by rapid consolidation between banks, strong competition from low-cost, alternative suppliers and increasing demand for non-traditional financial services products.

Michigan National

Michigan National Corporation

Michigan National Corporation reported a 40.5% increase in net operating profit for the latest year, which also translated to a 40.5% increase in local currency terms. The comparison is with an 11-month period in 1995/96 following our Group's acquisition of Michigan National in November 1995.

This performance was underpinned by favourable economic conditions in the State of Michigan with unemployment below the national rate and above-average personal income growth.

Following a detailed review of the financial services market in Michigan, the Bank has begun to reposition itself in its preferred small business, commercial and consumer segments of the market, undertaking a number of product releases and strategic initiatives.

In May 1997, Michigan National's consumer market product range was enhanced through the successful local launch of the Group's Tailored Home Loan. The RatePLUS Savings product was upgraded to guarantee money market returns to savers. Two cash management products – Cash Flow Optimizer and OptionONE for Windows – helped consolidate our position in business markets.

Michigan National is involved in a project designed to deliver efficient and secure on-line banking and bill payment capabilities for personal and small business customers through its membership of the Integrion Network, a joint venture between a number of major North American banks and IBM.

Strong sales campaigns supporting new products and a continuing focus on improving sales and leadership practices resulted in lending assets growth of 11.7%. A performance management framework was introduced linking individual and team performance to overall business goals.

A new system to improve the measurement of product and business unit profitability is being developed and will be extended to embrace channel and customer profitability. The system will assist resource allocation, product development and pricing decisions. Parts of the system will be used as a standard by other entities within the Group, exemplifying the opportunity for the transfer of technology and expertise between members of the Group.

Michigan National sought and achieved productivity gains through process re-engineering. Initiatives include the introduction of a cash monitoring system to reduce the amount of cash circulating through the Bank, the automation of credit processes for commercial and small business lending, increased capacity at our telephone banking centre, an analysis of the profitability and productivity of our financial centre network, with 12 centres to be closed as a consequence.

Boatmen's Relocation Management of St Louis, Missouri was acquired in July. When combined with Michigan National's existing subsidiary, Executive Relocation Corporation, the acquisition makes the merged entity the fourth largest relocation company in the United States.

Going forward, product, distribution and infrastructure initiatives will continue to improve Michigan National's competitive position in its chosen market segments.

Michigan National Corporation

Financial Highlights	*1997 A$*	*Change %*
Operating Profit (before goodwill)	222m	40.5
Underlying Profit	303m	17.9
Net Lending Assets and Acceptances	9.7b	20.8
Risk Weighted Assets	12.4b	25.2

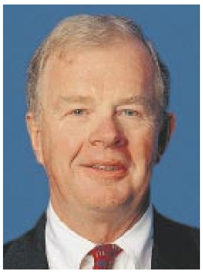
Key Ratios	*1997 %*	*1996 %*
Cost/Income Ratio	55.7	56.3
Return on Average Assets	1.9	1.3

New York Branch

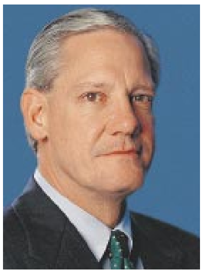
As part of Global Wholesale Financial Services, New York branch is our US$ centre of excellence for the manufacture and supply of all US$-denominated financial instruments for the Group's global customer base. New York also provides extensive US$ funding for the Group's own needs.

New York's range of treasury products was expanded during the year and significant growth was achieved in both income and assets from corporate finance activities. Linkages between the New York wholesale operation and Michigan National Bank were also strengthened, providing mutual benefits in efficiency.

Mr R M C Prowse
Group General Manager
USA and Asia



Mr J A Williams
Chairman
Michigan National Corporation



Mr DE Ebert
Chief Executive Officer
Michigan National Corporation

Cash Flow Optimizer customer, Alan Harvith of Birchcrest Marketing, with T Christopher Crossen of Michigan National.

Asia

Mitsui's Takashi Fukuya and National Australia Bank Asia's Takashi Ouchi, outside the Mitsui headquarters in Tokyo. The Group's wholesale banking operation serves a growing corporate market in Asia.

National Australia Bank Asia continued to build its branch network and capabilities.

Despite the emergence of less favourable conditions in some countries towards the end of the year, revenue was up 37.2% on the previous period and operating profit up 33.3%.

A highlight of the year was the establishment of offshore banking units in both Taiwan and Labuan, Malaysia, while in Thailand we obtained a Bangkok International Banking Facility licence. New senior appointments in risk management, the branches and wholesale banking have enhanced skills and capabilities.

Asia expanded further into the consumer banking arena during the year by introducing the National's Tailored Home Loan product into Hong Kong. This launch proved very successful. The awareness of the National Australia Bank Asia name resulting from the launch generated spin-off benefits for other lines of business in Hong Kong. Based on this experience, it is intended to selectively extend consumer banking capabilities into new markets and products.

The Group's wholesale banking business in Asia focuses on serving a growing corporate, institutional and government customer base through treasury operations, corporate banking and capital markets activities.

Corporate banking and finance produced improved income and asset growth. This result reflected increased marketing activity, and the ability to offer tailored solutions drawing on the Group's global strength. Asia's marketing program identified business opportunities to support investment and trade flows between Asia and other Group markets. As a result, substantial investments by Asian customers in Australia, Michigan and Scotland were funded.

Treasury centres in Hong Kong, Singapore and Tokyo performed strongly, providing a strong Asian currency and risk product skills base for the Group. Capital markets capabilities in the region were augmented, particularly for investors and issuers in Singapore and Tokyo.

This investment in capabilities and established experience in Asian markets positions the Group to respond to changes in economic circumstances and continuing business opportunities in the region.

Mr M J Liley
General Manager
Asia

Asia Financial Highlights	*1997 A$*	*Change %*
Operating Profit	28m	33.3
Underlying Profit	36m	63.6
Net Lending Assets and Acceptances	2.2b	61.6
Risk Weighted Assets	4.3b	59.3
Net Non-Accrual Loans	4m	(60.0)

Key Ratios	*1997 %*	*1996 %*
Cost/Income Ratio	72.6	81.0
Net Non-Accrual Loans/ Risk Weighted Assets	0.1	0.4

National
Australia Bank Asia

Eric and Cheryl Wong with the new Tailored Home Loan computer simulation in Hong Kong.

Global Wholesale Financial Services

In keeping with its strategy to build a global servicing and product marketing capacity, during the year the Group brought together its wholesale financial services operations to form a new organisation, Global Wholesale Financial Services.

Global Wholesale Financial Services consolidates, into a single strategic business unit, the Group's five regions and 21 financial centres, while incorporating the global management of capital markets, corporate banking, foreign exchange, money markets, risk management, and project and structured finance. This aligns the Group's wholesale activities to world's best practice and reinforces our global presence.

Global Wholesale Financial Services is responsible for the Group's Corporate, Institutional and Markets (Capital Markets and Treasury) operations globally and employs 1,725 of the Group's staff. The results of these activities are included under respective regional business units.

Global Wholesale Financial Services was established over the past 12 months with the objective of providing world-class capabilities to its clients. The strategy provides a more integrated approach to technology and risk management, as well as the seamless delivery of the Group's wholesale products and relationship management capabilities around the world.

Officially launched as an independent reporting entity on October 1, 1997, Global Wholesale Financial Services is the first business unit within the Group to have a truly global mandate. The organisational structure consists of regional operational heads interacting with global product heads to form a management matrix recognising the need for both regional expertise and product specialisation. There is a regional head in each of Asia, Australia, Europe, New Zealand and the United States. Global product heads are located in London, New York, Sydney and Melbourne.

Globalisation has also enabled the implementation of 'centres of excellence', essential in achieving the speed to market and global efficiencies demanded in a marketplace characterised by price sensitivity, innovation and product development, technological change and the ever-broadening geographical requirements of our wholesale customer base.

A number of major milestones were achieved leading up to the launch of Global Wholesale Financial Services. These included the deployment of global relationships teams to support clients whose needs span a number of regions as well as the development of the Customer Contact Management System, enabling the global coordination of customer relationships.

Prospects for growth in 1997/98 are positive but challenging. Global Wholesale Financial Services will focus on enhancing the return on equity and improving efficiencies while simultaneously improving our product delivery platform to the benefit of our customers.

Mr M D Soden
Group General Manager
Global Wholesale Financial Services.

New York dealing room.

Group Structure

Board of Directors

Mr MR Rayner — Chairman
Mr BT Loton — Vice-Chairman
Mr DK Macfarlane — Vice-Chairman
Mr DR Argus — Managing Director

Mr DCK Allen
Mr PJW Cottrell
Dr CM Deeley
Mr GJ Kraehe
Mr TP Park
Mrs CM Walter
Sir Bruce Watson

Managing Director and Chief Executive Officer
DR Argus

Group General Manager
Affiliate Companies
GLL Barnes

National Financial Management
National Asset Management
County Investment Management
National Custodian Services
National Australia Trustees
Nautilus Insurance
AUSMAQ
SWYCHCO Infrastructure Services

Chief Financial Officer
BS McComish

Group Analysis and Reporting
Group Accounting Policy
Group Financial Reporting
Group Cost Management
Group Capital Management and Taxation
Group Management Information

Group General Manager
Group Strategic Development
RF Matrenza

Economics
Group Corporate Relations
Corporate Strategy
Project Management
Group Business Excellence
Investments and Advisory

Group General Manager
Human Resources
EG Steel

Remuneration and Benefits
Organisation and Succession Planning
Executive Development
Executive Offices Operations
Performance Management

Group General Manager
Business Services
DT Gallagher

Asia Pacific Cards
Electronic Payments
Global Payments
International Trade and Finance

Group General Manager
Information Technology
MB Coomer

Group Technology
National Services (Asia/Pacific)
National Services (Europe)
Global Wholesale Technology Services

Group General Manager
Group Risk Management
RB Miller

Group Credit Bureau
Group Insurance and Operational Risk
Group Audit
Independent Risk Oversight and Prudential Control
Group Legal

Group General Manager
Customer Services (Asia/Pacific)
RI Fyfe

Telephone and Electronic Banking
Channel Strategy and Development Operations
Business Solutions Group

Chief General Manager
Australian Financial Services
FJ Cicutto

Managing Director
Bank of New Zealand
GJ Wheaton

Group General Manager
USA and Asia
RMC Prowse

Michigan National Corporation
Americas
Asia

Managing Director
Europe
RE Pinney

National Australia Group Europe
Yorkshire Bank
Clydesdale Bank
Northern Bank
National Irish Bank
National Australia Life

Group General Manager
Global Wholesale Financial Services
MD Soden

Corporate Banking
Project and Structure Finance
Capital Markets
Treasury

Financial Information and Analysis

For the Year Ended September 30, 1997

Table of Contents

Page

Description of Business . . . 34
Financial Review
- Overview . . . 38
- Selected Financial Data for Five Years Ended September 30, 1997 . . . 39
- Net Interest Income . . . 41
- Bad and Doubtful Debts . . . 44
- Other Operating Income . . . 45
- Other Operating Expenses . . . 46
- Operating Profit After Income Tax . . . 48
- Operating Profit by Segments . . . 49
- Assets and Shareholders' Equity . . . 51
- Return on Average Shareholders' Equity . . . 52
- Dividends and Earnings Per Share . . . 52
- Liquidity and Capital Resources . . . 52
- Changes in Financial Condition . . . 53
- Capital Adequacy . . . 53
- Gross Loans and Advances . . . 56
- Impaired Assets, Provisions and Allowance for Loan Losses . . . 56
- Deposits and Other Borrowings . . . 59
- Risk Elements . . . 60
- Human Resources . . . 61
- Risk Management . . . 61
- Year 2000 . . . 63
- Accounting Developments . . . 64

Corporate Governance . . . 65
Report of the Directors . . . 69
Financial Statements . . . 73
- Statements of Profit and Loss . . . 74
- Balance Sheets . . . 75
- Statements of Cash Flows . . . 76
- Notes to and Forming Part of the Financial Statements
  - Principal Accounting Policies . . . 78
  - Profit and Loss Notes . . . 82
  - Asset Notes . . . 85
  - Liability Notes . . . 103
  - Capital Notes . . . 109
  - Other Notes . . . 116

Statement by the Directors . . . 148
Auditors' Report . . . 148
Form 20-F Cross Reference Index . . . 149
Shareholder Information . . . 150

Description of Business

Introduction

National Australia Bank Limited (the Group) ranks among the world's 40 largest banks in terms of shareholders' equity. At September 30, 1997 the Group had total assets of $202.0 billion.

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

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

At September 30, 1997 53.3% of the Group's total assets were domiciled in Australia. The balance was located in Europe (23.4%), New Zealand (10.2%), United States (8.3%) and Asia (4.8%).

At September 30, 1997 the Group had 52,226 full-time and part-time employees worldwide (equivalent to 46,392 full-time positions).

Regulation of the Banking System

Supervision and regulation of the Australian banking system is the responsibility of the Reserve Bank of Australia (the Reserve Bank) as empowered by the Banking Act 1959 (the Banking Act). Amendments to the Banking Act, which became effective in December 1989, give formal recognition to the Reserve Bank's responsibilities for the prudential supervision of banks.

The Reserve Bank discharges its responsibilities by requesting regular information from, and setting prudential controls for institutions subject to the Banking Act. The information reported to the Reserve Bank forms the basis of supervisory assessment of banks. These reports are supplemented by meetings between senior executives of the Reserve Bank and the banks it regulates. Close attention is paid to capital adequacy, liquidity, sustainability of earnings, loan loss experience, concentration of risks, the maturity structure of assets and liabilities, potential exposures through equity association and international banking operations.

The Reserve Bank has the power to appoint any person (for example, an auditor) to investigate and report on prudential matters relating to a bank. This power provides a statutory fallback to the existing cooperative arrangements between the Reserve Bank and banks under which the latter's external auditors review and report on certain prudential aspects of their operations. This review involves providing the Reserve Bank with additional assurance that prudential standards agreed with banks are being observed, that statutory data provided to the Reserve Bank is reliable, and that statutory and other banking requirements are being met.

Effective September 30, 1996 the Chief Executive Officer of the Group is required to make an annual declaration to the Reserve Bank that the Group's management systems limiting risks to prudent levels are operating effectively.

The Reserve Bank has the authority, with the approval of the Treasurer of the Commonwealth of Australia, to fix interest rates paid or charged by banks and institutions undertaking banking operations. This authority is currently not being exercised and Australian banks are free to determine their own rates based on market conditions. However, at the direction of the Federal Government, housing loans under A$100,000 entered into prior to April 1986 are still subject to an interest rate ceiling of 13.5%; although actual rates are currently below this ceiling level.

There are no formal prohibitions on the diversification by banks through equity involvements or investments in subsidiaries. Currently, the controls recommended and supervised by the Reserve Bank are of a consensual nature. However, without the consent of the Treasurer of the Commonwealth of Australia, no bank may enter into any agreement or arrangement for the sale or disposal of its Australian banking business.

Prudential requirements currently applying to Australian banks include the following:

- The Reserve Bank's risk-based capital adequacy guidelines which are generally consistent with the approach agreed upon by the Basle Committee on Banking Supervision. Reflecting this, from January 1, 1998, 'Market Risk' (the risk of losses as a result of movements in interest rates, exchange rates, equity prices or commodity prices) will be factored into capital adequacy calculations. Refer to Capital Adequacy on page 53 for the current measurement detail.
- The Prime Assets Ratio (PAR) arrangements, in which banks are required to hold a proportion of their domestic assets in specified, high quality liquefiable assets, (eg. cash, balances with the Reserve Bank, Commonwealth Government securities, and other Australian dollar securities issued by the central borrowing authorities of State and Territory Governments). The minimum PAR ratio was reduced in June 1997 from 6% to 3% of total liabilities (other than shareholders' equity) invested in Australian dollar assets within Australia. At September 30, 1997 the Group's PAR ratio was 6.2%.
- Banks are required to lodge in a special Non-Callable Deposit (NCD) account with the Reserve Bank an amount equivalent to 1.0% of total liabilities (other than shareholders' equity) funding Australian dollar assets in Australia. The interest rate paid on NCD accounts is set at a rate equal to the average yield at tender in the previous month on 13-week Treasury Notes less 500 basis points or zero % if the reference rate falls below 5%.

The Reserve Bank also maintains an active interest in overseeing the operations of the Group, including its offshore branches and subsidiaries.

The Commonwealth of Australia's Financial System Inquiry, the Wallis Inquiry, presented its report and recommendations in March 1997. In response, the Commonwealth Treasurer announced on September 2, 1997 the Government's proposals for the reform of regulatory arrangements including a new organisational framework for the regulation of the financial system. The latter will be based on three agencies, viz:

- the Reserve Bank of Australia will be strengthened and its role focussed on the objective of monetary policy, overall financial system stability and regulation of the payments system. Reflecting this, a new Payments System Board is to be established within the Reserve Bank for greater oversight of the payments system;
- an Australian Prudential Regulation Authority (APRA) will be established to prudentially supervise deposit taking institutions (including banks), life and general insurance companies and superannuation funds; and

- an Australian Corporations and Financial Services Commission (ACFSC) will be established to cover market integrity, disclosure and other consumer protection issues.

The foreshadowed framework will involve the transfer to the Commonwealth of regulatory responsibilities for financial entities presently regulated by the States and Territories. If this transfer is agreed it is aimed to have the new framework fully in place by July 1, 1999.

The other reforms announced were a variety of measures aimed to improve efficiency and contestability in financial markets and the payments system. It was also announced that a foreign takeover of, or merger with, one of the major trading banks will be permitted subject to appropriate regulatory and statutory approvals. Mergers and takeovers between banks and other financial institutions will also be permitted, however any mergers or takeovers between the four major Australian banks would not be permitted.

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

In the United Kingdom, Ireland and the United States, the local regulatory frameworks are broadly similar to that in force in Australia. Each of the banking regulatory authorities in these countries has introduced risk based capital guidelines in accordance with the convergence framework developed by the Bank for International Settlements. Additionally, the regulators monitor the adequacy of liquidity and portfolio concentrations, including lending to individuals, economic or business sector exposures and cross border risk.

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

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

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

Australian Operations

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

Mutual societies are also a major force in the financial system, which have recently begun to demutualise and have widened their range of products and services from insurance, investments and superannuation to compete in the banking industry's traditional markets.

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

In recent years the Group's performance in Australia has seen it emerge as Australia's largest bank in terms of assets. At August, 1997 it held 18.3% of all commercial banking assets in Australia, according to the *Reserve Bank of Australia Bulletin*.

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

It provides service through 1,200 outlets with a staff of 25,197 (or 22,323 full-time equivalent positions). The National is actively reducing the number of traditional outlets as part of a steady shift in transactional activity from branches to alternative distribution channels. Customer demand for these alternatives has led to growth in the number of Automatic Teller Machines (ATMs) and terminals providing electronic funds transfer at point of sale (EFTPOS). The supply of information and services over the telephone has also grown dramatically in the past three years.

The National has a large retail customer base, with around 3 million customers.

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

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

Competition between banks and non-banks is strong, particularly in the housing finance market with a number of product specialists entering the market and competing on price. There has been a trend towards cost identification in product pricing and a reduction in the cross subsidisation of services.

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

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

The sale and distribution of financial services has been progressively integrated with the National's distribution network. This process was further accelerated in 1996 with the introduction of a new organisational structure that fully integrated the management of banking and financial services.

A key feature of the restructure was the organisation of management on the basis of customer segments, rather than the geographic location of business activity.

As part of this change, NFM has become a supporting business unit with a specialised focus on the manufacture and service of financial products. It functions alongside National Australia Asset Management Limited (NAAM), which is a wholly owned funds management subsidiary. At September 30, 1997 NAAM's funds under management totalled $5.9 billion.

On October 1, 1997, the National announced its acquisition of the investment management company County NatWest Australia Investment Management Limited (CIM). CIM has $9.2 billion of funds under management as at October 1, 1997. The investment activities of NAAM and CIM will remain largely unchanged and operate independently.

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

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

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

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

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

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

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

Merchant and investment banking is provided as an integrated part of the National's wholesale banking service.

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

European Operations

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

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

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

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

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

Clydesdale Bank is the third largest bank in Scotland in terms of assets, with total assets of $16.1 billion at September 30, 1997. It has 332 outlets and 5,106 staff (or 4,684 full-time equivalent positions).

Yorkshire Bank operates through 304 outlets in the north of England and the Midlands with a staff of 7,115 (or 6,139 full-time equivalent positions). At September 30, 1997 it had total assets of $11.3 billion.

Northern Bank is the largest bank in Northern Ireland, in terms of assets, with total assets of $7.7 billion at September 30, 1997. It has 107 outlets throughout the Province and a staff of 2,543 (or 2,299 full-time equivalent positions).

National Irish Bank has 65 outlets in the Republic of Ireland, a staff of 854 (or 824 full-time equivalent positions) and assets of $2.9 billion at September 30, 1997.

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

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

New Zealand Operations

Bank of New Zealand (BNZ) was acquired by the Group in 1992. It is the second largest financial institution in New Zealand in terms of assets, with a staff of 6,038 (or 5,124 full-time equivalent positions) at September 30, 1997 and 220 outlets on the North and South Islands.

BNZ offers a full range of financial services to personal, business and corporate customers. BNZ's total assets were $21.0 billion at September 30, 1997.

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

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

United States Operations

The Group increased its presence in the United States following the acquisition in November, 1995 of Michigan National Corporation (MNC). MNC's principal subsidiary is Michigan National Bank (MNB), which is ranked as the fifth largest bank in Michigan and 58th largest in the US in terms of total assets. At September 30, 1997 MNB had total assets of $13.0 billion and 3,975 employees (or 3,639 full-time equivalent positions).

It operates through 190 financial service centres (including 21 supermarket financial services centres) and 300 Automatic Teller Machines (ATMs) across the State. MNB also provides a telephone banking service that enables customers to open accounts, apply for loans and conduct transactions over the phone.

Commercial business represents approximately 70% of MNB's loan portfolio, with the balance in consumer business. MNB has targeted growth in banking and financial services in the small business and consumer markets. This is expected to be achieved by combining the MNB's local market knowledge and the Group's resources in technology, marketing and employee development.

The Group also maintains a branch in New York which supports Group customers doing business in the US and markets its services to US companies with operations in Australia, New Zealand and the United Kingdom and Ireland. A New York treasury unit raises United States dollar funding for the Group and serves the global treasury needs of the Group's customers.

On October 27, the Group announced it had entered into a definitive agreement to purchase HomeSide, Inc., one of the leading United States residential mortgage loan producers and servicers. The Group's acquisition of HomeSide is expected to be completed in early 1998.

Asian Operations

From its regional headquarters in Hong Kong, National Australia Bank Asia operates 7 branches and 4 representative offices in Asia's major business capitals. More than 270 staff are employed in the Group's Asian business activities.

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

The Group has commenced providing a limited range of personal financial services through the provision of mortgages.

Financial Review

Overview

The Financial Review on pages 38 to 65 is prepared in accordance with Generally Accepted Accounting Principles applicable in Australia ('Australian GAAP').

For years ended September 30				*Consolidated*		
Dollars in Millions unless otherwise stated	*1997 AUD*	*1997 (1) USD*	*1996 AUD*	*1995 AUD*	*1994 AUD*	*1993 AUD*
Summary of Consolidated Statements of Income						
Australian GAAP						
Interest income	**12,837**	**9,307**	12,017	10,169	7,913	8,395
Interest expense	**7,578**	**5,494**	6,958	5,646	3,716	4,292
Net interest income	**5,259**	**3,813**	5,059	4,523	4,197	4,103
Charge to provide for doubtful debts	**332**	**241**	333	116	179	604
Net interest income after provision for doubtful debts	**4,927**	**3,572**	4,726	4,407	4,018	3,499
Other operating income	**3,334**	**2,417**	2,923	2,447	2,358	2,051
Other operating expenses	**4,945**	**3,585**	4,587	4,008	3,757	3,659
Operating profit before abnormal item	**3,316**	**2,404**	3,062	2,846	2,619	1,891
Abnormal gain	**–**	**–**	–	33	50	59
Operating profit	**3,316**	**2,404**	3,062	2,879	2,669	1,950
Income tax expense attributable to operating profit	**1,095**	**794**	959	906	953	811
Operating profit after income tax	**2,221**	**1,610**	2,103	1,973	1,716	1,139
Outside equity interests in operating profit (loss) after tax	**(2)**	**(1)**	1	4	8	10
Operating profit after income tax attributable to members of the Company	**2,223**	**1,611**	2,102	1,969	1,708	1,129

(1) Translated at the Noon Buying Rate on September 30, 1997 of US$0.7250 = A$1.00. See 'Selected Financial Data for five years ended September 30, 1997 – Exchange Rates' on Page 40.

- Net interest income in 1997 increased by 4.0% to $5,259 million after increases of 11.9% and 7.8% in 1996 and 1995 respectively.
- Charge to provide for doubtful debts remained steady at $332 million compared to the charge in 1996 of $333 million which had increased by $217 million from 1995.
- Other operating income in 1997 increased by 14.1% to $3,334 million after increases of 19.3% and 3.8% in 1996 and 1995 respectively.
- Other operating expenses in 1997 increased by 7.8% to $4,945 million after increases of 14.4% and 6.7% in 1996 and 1995 respectively.
- Operating profit before income tax increased by 8.3% to $3,316 million in 1997 after increasing by 6.4% to $3,062 million in 1996 and 7.9% to $2,879 million in 1995.
- Operating profit after income tax increased by 5.6% to $2,221 million in 1997 after increasing 6.6% to $2,103 million in 1996 from $1,973 million in 1995.
- Total provisions for doubtful debts increased 4.0% in 1997 to $1,365 million from $1,312 million in 1996 and $1,086 million in 1995. Gross non-accrual loans of $1,281 million in 1997 decreased by 11.3% from $1,444 million in 1996.
- The Group's Tier 1 capital ratios as at September 30, 1997, 1996 and 1995 were 6.8%, 7.6% and 9.2% respectively. The total risk weighted capital ratios at September 30, 1997, 1996 and 1995 were 8.7%, 9.3% and 11.6% respectively.

In Australia, both the household and business sectors are expected to experience a moderate acceleration in activity, benefiting from the easing of monetary policy over the past year. Nevertheless, drought in parts of eastern Australia, the subdued outlook for commodity prices and weaker Asian growth will act to mitigate Australian growth. Accordingly, GDP growth is forecast to be around 3.0% in 1997/98, compared with 2.5% in 1996/97. In response to some emerging inflationary pressures, official cash rates are likely to be moderately higher by the latter part of 1998.

Reflecting the recent tightening of monetary policy and the relative strength of Sterling, UK growth is expected to moderate to around 2.5%, following a quite strong performance during the past year. Although slower growth at around 6.0% per annum is forecast for Ireland, the pace of expansion should remain the fastest in the European Union. Irish interest rates are expected to gradually converge toward German levels as the commencement of European Monetary Union nears.

Although confidence has improved in recent months, business conditions remain subdued in New Zealand. The export, and import, competing sectors are benefiting from the depreciation of the New Zealand Dollar, but economic growth is still only expected to reach 1.5% this year. Increased Government spending, lower taxes, weaker currency and lower interest rates should combine to result in stronger growth (approximately 2.75%) next year.

Michigan and, more generally, the US economy are expected to continue to operate at high levels of activity in 1998. With continued moderate growth and an already tight labour market, price pressures are expected to eventually emerge and a small rise in interest rates is anticipated during the next year. The Michigan economy is performing particularly strongly, with unemployment at its lowest since the 1960s and broad-based strength in the State's economy.

While the emergence of some financial instability in some parts of Asia will negatively impact Asian growth during the next year or so, medium term prospects for the region remain strong.

Selected Financial Data for Five Years Ended September 30, 1997

The Economic Entity's financial statements are prepared in accordance with accounting principles generally accepted in Australia, which differ in certain material respects from accounting principles generally accepted in the United States (see Note 48 to the Financial Statements 'Reconciliation with US GAAP'). The information hereunder has been derived from the audited Financial Statements of the Economic Entity or where certain items are not shown in those consolidated Financial Statements, have been prepared for the purpose of this Annual Report and should be read in conjunction with and qualified in its entirety by reference to the Financial Statements and Notes included elsewhere in this report. For details of credit quality data refer to pages 94 to 99. Comparative amounts have been reclassified to accord with changes in presentation made in 1997, except where otherwise stated.

			Consolidated			
For years ended September 30	*1997[1]*	*1997[1]*	*1996[2]*	*1995*	*1994*	*1993[3]*
Dollars in Millions unless otherwise stated	*AUD*	*USD*	*AUD*	*AUD*	*AUD*	*AUD*
Share Information						
Dividends paid/payable[4][5]	**1,367**	**991**	1,276	1,173	1,003	652
Earnings per share (after abnormal item) ($)[6]						
– basic	**1.52**	**1.10**	1.45	1.41	1.27	0.87
– fully diluted	**1.50**	**1.09**	1.45	1.41	1.27	0.87
Dividends per share ($)[4][5]	**0.94**	**0.68**	0.87	0.83	0.74	0.50
Dividends per ADS ($)[4][5]	**4.70**	**3.41**	4.35	4.15	3.70	2.50
Dividends per ADS (US$)[4][5][7]	**N/A**	**N/A**	3.40	3.02	2.70	1.70
Dividend cover (times)	**1.63**	**1.18**	1.65	1.68	1.70	1.73
Net tangible asset backing per ordinary share ($)[8][9]	**7.40**	**5.37**	6.97	7.00	6.12	5.51
Share prices for the year						
– High[10]	**22.85**	**16.57**	13.30	12.54	13.06	12.10
– Low[10]	**13.15**	**9.53**	10.98	10.16	9.97	6.72
– End ($)	**21.22**	**15.38**	13.30	11.70	10.32	12.08
Adjusted to Accord with US GAAP						
Net income	**2,289**	**1,660**	2,147	2,013	1,807	1,089
Earnings per share[6] (primary and fully diluted)	**1.52**	**1.10**	1.45	1.42	1.34	0.84
Earnings per ADS[6] (primary and fully diluted)	**7.60**	**5.51**	7.25	7.10	6.70	4.20
Summary of Consolidated Balance Sheets						
Australian GAAP						
Loans and advances (after provision for doubtful debts)	**130,218**	**94,408**	111,311	91,538	79,168	73,405
Total assets	**201,969**	**146,428**	173,710	148,123	130,436	117,980
Risk weighted assets	**154,309**	**111,874**	133,313	108,985	96,115	91,572
Deposits and other borrowings	**128,469**	**93,140**	109,158	88,529	79,451	75,873
Perpetual floating rate notes	**347**	**252**	424	459	480	561
Exchangeable capital units	**1,262**	**1,000**	–	–	–	–
Bonds, notes and subordinated debt	**9,569**	**6,938**	6,958	4,067	3,980	3,476
Paid-up capital	**1,413**	**1,024**	1,477	1,429	1,369	1,315
Shareholders' equity[9]	**12,579**	**9,120**	12,519	11,381	9,852	8,816
Book value per share	**8.90**	**6.45**	8.48	7.96	7.20	6.70
Book value per ADS	**44.50**	**32.26**	42.40	39.80	36.00	33.50
Adjusted to Accord with US GAAP						
Shareholders' equity[9]	**13,153**	**9,536**	13,011	11,761	10,119	8,849
Total assets	**201,909**	**146,384**	173,640	147,989	130,273	117,700

	Consolidated				
For years ended September 30	*1997* %	*1996* %	*1995* %	*1994* %	*1993* %
Selected Financial Ratios					
Australian GAAP					
Net income (after abnormal item) as a percentage of:					
Average total assets	**1.2**	1.3	1.4	1.4	1.0
Average shareholders' equity	**16.2**	17.1	18.1	18.1	13.2
Year end total assets	**1.1**	1.2	1.3	1.3	1.0
Year end shareholders' equity	**17.7**	16.8	17.3	17.3	12.8
Dividends as a percentage of net income[(4)(5)]	**61.5**	60.7	59.6	58.7	57.7
Average shareholders' equity as a percentage of average total assets	**7.1**	7.5	8.0	7.8	7.5
Capital: risk asset ratios[(11)]					
– Tier 1	**6.8**	7.6	9.2	8.5	7.8
– Tier 2	**2.2**	1.9	2.6	3.2	3.7
– deductions	**(0.3)**	(0.2)	(0.2)	(0.2)	(0.3)
– total	**8.7**	9.3	11.6	11.5	11.2
Net average interest margin	**3.5**	3.9	4.2	4.4	4.4
Adjusted to Accord with US GAAP					
Net income as a percentage of period end:					
Total assets	**1.1**	1.2	1.4	1.4	0.9
Shareholders' equity	**17.4**	16.5	17.1	17.9	12.3
Dividends as percentage of net income[(4)(5)]	**59.7**	59.4	58.3	55.5	59.8
Shareholders' equity as percentage of total assets	**6.5**	7.5	7.9	7.8	7.5
Exchange Rates (Average and Closing)					
Average					
– British pound	**0.4714**	0.5000	0.4672	0.4705	0.4528
– Irish punts	**0.4934**	0.4846	0.4622	0.4824	0.4461
– United States dollar	**0.7695**	0.7710	0.7424	0.7108	0.6841
– New Zealand dollar	**1.1240**	1.1426	1.1439	1.2292	1.2794
– Singapore dollar	**1.1052**	1.0880	1.0604	1.1037	1.1079
Closing					
– British pound	**0.4467**	0.5082	0.4773	0.4687	0.4286
– Irish punts	**0.4940**	0.4959	0.4683	0.4723	0.4467
– United States dollar	**0.7197**	0.7935	0.7550	0.7400	0.6470
– New Zealand dollar	**1.1272**	1.1341	1.1491	1.2276	1.1764
– Singapore dollar	**1.1043**	1.1172	1.0725	1.0989	1.0261

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

	1998[(12)]	*1997*	*1996*	*1995*	*1994*	*1993*
(US$ per A$1.00)						
High	**0.7386**	**0.8180**	0.8017	0.7778	0.7467	0.7224
Low	**0.6910**	**0.7455**	0.7350	0.7100	0.6450	0.6450
Average[(13)]	**0.7197**	**0.7639**	0.7591	0.7394	0.7099	0.6908
September 30		**0.7250**	0.7912	0.7555	0.7400	0.6450

On October 31, 1997 the Noon Buying Rate was US$0.7030 per A$1.00.

	1997	*1996*	*1995*	*1994*	*1993*
Other Information (Numbers)					
Economic Entity Branches and business outlets	**2,241**	2,513	2,356	2,373	2,613
Economic Entity Staff					
– full time and part time[(14)]	**52,226**	52,912	52,567	49,163	47,964
– full time equivalent[(15)]	**46,392**	47,178	45,585	43,871	43,542

Notes:

[(1)] Translated at the Noon Buying Rate on September 30, 1997 of US$0.7250 = A$1.00.

[(2)] Includes the amounts relating to MNC from November 2, 1995, the date on which the Economic Entity acquired this bank.

[(3)] Includes the amounts relating to BNZ from November 9, 1992, the date on which the Economic Entity acquired this bank.

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

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

[(6)] See Note 48 of the Financial Statements, 'Reconciliation with US GAAP' for explanation of earnings per share.

[(7)] Dividend amounts are translated into US dollars per ADS (representing five ordinary shares) at the exchange rate on each of the respective payment dates for interim and final dividends. The 1997 final ordinary dividend of A$0.49 per share is not payable until December 17, 1997. Accordingly, the total US dollar dividend per ADS cannot be determined until that date.

[(8)] After deducting goodwill.

[(9)] Excludes outside equity interests.

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

[(11)] Based on Tier 1 and Tier 2 capital, as defined by Reserve Bank of Australia, related to risk weighted assets. See 'Capital Adequacy' on pages 53 to 55. Also see 'Regulation of the Banking System' on page 34.

[(12)] Through to October 31, 1997.

[(13)] The daily average of the Noon Buying Rates.

[(14)] Full time and part time staff excludes unpaid absences (eg maternity leave). Full time equivalent includes part time staff (pro rated).

[(15)] Full time equivalent includes part time staff (pro rated).

Net Interest Income

1997	*$5,259 million*
1996	*$5,059 million*
1995	*$4,523 million*

The principal source of income for the Group is net interest income which is the difference between interest income and interest expense. Net interest income is derived from diverse business activities, including extending credit to customers, accepting deposits from customers, regulatory deposits, amounts due to and from other financial institutions and managing the Group's other interest-sensitive assets and liabilities, especially investment, available for sale and trading securities. Net interest income in 1997 increased by 4.0% to $5,259 million after increases of 11.9% to $5,059 million in 1996 and 7.8% to $4,523 million in 1995.

Interest income increased by 6.8% to $12,837 million in 1997 after increasing by 18.2% to $12,017 million in 1996 and by 28.5% to $10,169 million in 1995. This was primarily due to increases in lending volumes across the Group. Interest expense increased by 8.9% to $7,578 million in 1997 after increasing by 23.2% to $6,958 million in 1996, and by 51.9% to $5,646 million in 1995.

Average interest earning assets increased by 16.3% to $151.8 billion from $130.5 billion in 1996, an increase of 21.5% from $107.4 billion in 1995.

The interest margin (net interest income as a percentage of average interest earning assets), which includes the impact of non-accrual loans on net interest income, was 3.5% in 1997 compared with 3.9% in 1996 and 4.2% in 1995. The interest spread (the difference between the average interest rate earned and the average interest rate paid) decreased to 2.8% from 3.2% in 1996 and 3.3% in 1995.

Volume and Rate Analysis

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

For years ended September 30	***1997 over 1996***			*1996 over 1995*			*1995 over 1994*		
	Increase/(decrease) due to change in			*Increase/(decrease) due to change in*			*Increase/(decrease) due to change in*		
Dollars in Millions	***Average Balance***	***Average Rate***	***Total***	*Average Balance*	*Average Rate*	*Total*	*Average Balance*	*Average Rate*	*Total*
Interest earning assets									
Due from other financial institutions									
Australia	**(7)**	**(31)**	**(38)**	8	(3)	5	20	35	55
Overseas	**64**	**(2)**	**62**	18	(24)	(6)	45	94	139
Regulatory deposits									
Australia	**1**	**(11)**	**(10)**	4	(25)	(21)	4	8	12
Overseas	**1**	**–**	**1**	–	(1)	(1)	(1)	–	(1)
Investment/available for sale/ trading and other securities									
Australia	**11**	**(53)**	**(42)**	37	(4)	33	34	96	130
Overseas	**135**	**(51)**	**84**	169	(41)	128	(90)	107	17
Loans and advances									
Australia	**940**	**(883)**	**57**	793	(2)	791	568	521	1,089
Overseas	**747**	**(221)**	**526**	1,075	(163)	912	454	372	826
Other interest earning assets	**2**	**178**	**180**	27	(20)	7	20	(27)	(7)
Change in interest income	**1,894**	**(1,074)**	**820**	2,131	(283)	1,848	1,054	1,206	2,260
Interest bearing liabilities									
Time deposits									
Australia	**185**	**(268)**	**(83)**	318	(8)	310	228	411	639
Overseas	**532**	**(19)**	**513**	599	(69)	530	247	210	457
Savings deposits									
Australia	**(2)**	**(29)**	**(31)**	(35)	25	(10)	(41)	89	48
Overseas	**30**	**(43)**	**(13)**	50	(59)	(9)	10	98	108
Other demand deposits									
Australia	**244**	**(59)**	**185**	170	39	209	56	190	246
Overseas	**31**	**(57)**	**(26)**	55	(26)	29	4	79	83
Government and official institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**6**	**–**	**6**	4	1	5	2	2	4
Due to other financial institutions									
Australia	**(28)**	**(34)**	**(62)**	63	(36)	27	27	84	111
Overseas	**(4)**	**(40)**	**(44)**	30	(15)	15	59	108	167
Short-term borrowings									
Australia	**–**	**–**	**–**	–	–	–	(3)	(3)	(6)
Overseas	**11**	**(6)**	**5**	104	(11)	93	(29)	50	21
Long-term borrowings									
Australia	**158**	**(7)**	**151**	113	(23)	90	19	37	56
Overseas	**(18)**	**(2)**	**(20)**	20	5	25	(9)	11	2
Other interest bearing liabilities	**(51)**	**38**	**(13)**	(27)	28	1	(9)	(1)	(10)
Other debt issues									
Australia	**–**	**–**	**–**	–	(1)	(1)	(1)	8	7
Overseas	**45**	**7**	**52**	(1)	(1)	(2)	(1)	(2)	(3)
Change in interest expense	**1,139**	**(519)**	**620**	1,463	(151)	1,312	559	1,371	1,930
Change in net interest income	**755**	**(555)**	**200**	668	(132)	536	495	(165)	330

For years ended September 30	***1997***	*1996*	*1995*
Dollars in millions, except percentages			
Interest Margins and Spreads			
Australia			
Net interest income	**2,783**	2,799	2,609
Average interest earning assets	**73,794**	63,564	55,104
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**3.0**	3.5	3.6
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[(1)] %	**2.9**	3.4	3.5
Benefit of net free liabilities, provisions, and equity %	**0.8**	1.0	1.2
Interest margin[(2)] %	**3.7**	4.4	4.7
Overseas			
Net interest income	**2,476**	2,260	1,914
Average interest earning assets	**78,026**	66,946	52,270
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.8**	3.0	3.3
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[(1)] %	**2.7**	2.9	3.2
Benefit of net free liabilities, provisions, and equity %	**0.5**	0.5	0.5
Interest margin[(2)] %	**3.2**	3.4	3.7
Group			
Net interest income	**5,259**	5,059	4,523
Average interest earning assets	**151,820**	130,510	107,374
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**2.9**	3.3	3.4
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[(1)] %	**2.8**	3.2	3.3
Benefit of net free liabilities, provisions, and equity %	**0.7**	0.7	0.9
Interest margin[(2)] %	**3.5**	3.9	4.2

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

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

The interest rate on Australian interest earning assets decreased to 8.8 % from 10.0% in 1996 which was steady from 1995 while the interest rate on interest bearing liabilities also decreased to 5.9% from 6.5% in 1996 which was steady from 1995. Interest income in Australia increased 2.3% while interest expense increased 4.5% in 1997. The interest margins in Australia remained tight, particularly in the highly competitive housing lending market, and with the lower interest rate environment of 1997. Strong competition from both traditional and non-traditional competitors is expected to continue in the foreseeable future.

The interest rate on overseas interest earning assets decreased to 8.1% in 1997 from 8.5% in 1996 which was a decrease from 8.9% in 1995 while the interest rate on interest bearing liabilities decreased to 5.4% in 1997 from 5.6% in 1996 which was a decrease from 5.7% in 1995. Overseas interest income increased 11.9% while interest expense increased 13.5 % in 1997. The overseas interest margins continued to tighten due to increased competition from banks, building societies and non-financial institutions.

During the twelve months to September 1997, net interest income increased $200 million or by 4.0% to $ 5,259 million. Australian net interest income decreased marginally to $2,783 million, while overseas net interest income increased 9.6% to $2,476 million. Average interest earning assets increased 16.3 % to $151.8 billion during the year. Australian interest earning assets grew by 16.1% to $73.8 billion, while overseas grew by 16.6 % to $78.0 billion due to increased lending and business activity generally.

Bad and Doubtful Debts

1997	*$332 million*
1996	*$333 million*
1995	*$116 million*

The total charge for bad and doubtful debts (specific and general) remained steady compared to the previous year at $332 million compared to $333 million in 1996. The charge remained constant reflecting the level of recoveries achieved together with close attention to asset management. The increased charge in 1996 reflected softening conditions in the Group's major markets.

The charge for the Australian Group's specific provision decreased to $94 million from $135 million in 1996 ($32 million in 1995), reflecting higher recoveries during the year together with close attention to asset management.

The specific provision charge in Europe was $164 million, a decrease of 20.4% over the charge of $206 million in 1996 which was 77.6% higher than the charge of $116 million in 1995. Decreases in the specific provision charge were recorded by Yorkshire Bank (down $40 million to $115 million), Northern Bank (down $6 million to $3 million) and National Irish Bank (down $4 million to zero). Clydesdale Bank's specific provision charge increased by $6 million to $46 million. The reduced charge in Yorkshire reflects the success of Yorkshire's asset quality initiatives.

The New Zealand Group continued to record write backs of doubtful debts with net specific provision write backs of $20 million in 1997 compared to $77 million in 1996 and $97 million in 1995. The United States Group recorded a specific charge of $15 million in 1997 compared to a charge of $3 million in 1996. MNC's specific provision charge increased to $27 million from $22 million in 1996 reflecting loan growth and lower level of defaulted loan recoveries compared to the prior year. The 1996 figure for the United States Group also reflects a large recovery in New York branch.

Charge to Provide for Doubtful Debts

For years ended September 30	***1997*** ***$M***	*1996* *$M*	*1995* *$M*	*1997/1996* *%*
Specific provision				
Australian Group	**94**	135	32	(30.4)
Europe Group:				
Clydesdale Bank	**46**	40	30	15.0
Northern Bank	**3**	9	9	66.7
National Irish Bank	**–**	4	3	large
Yorkshire Bank	**115**	155	72	(25.8)
Other	**–**	(2)	2	large
Total Europe Group	**164**	206	116	(20.4)
New Zealand Group	**(20)**	(77)	(97)	(74.0)
United States Group	**15**	3	(3)	large
Asia Group	**(1)**	(4)	5	(75.0)
General provision	**80**	70	63	14.3
Total	**332**	333	116	(0.3)

Net write offs (advances written off less recoveries) in 1997 were $348 million compared with $277 million in 1996 and $324 million in 1995. As a percentage of risk weighted assets, net write offs were 0.2% in 1997, 0.2% in 1996 and 0.3% in 1995.

Percentage of Risk Weighted Assets

For years ended September 30	***1997*** **%**	*1996* %	*1995* %
Australian Group(1)			
Charge	**0.11**	0.18	0.05
Net write offs	**0.15**	0.16	0.20
Europe Group(1)			
Charge	**0.48**	0.74	0.44
Net write offs	**0.51**	0.57	0.70
New Zealand Group(1)			
Charge	**(0.13)**	(0.57)	(0.79)
Net write offs	**0.08**	0.14	0.30
United States Group(1)			
Charge	**0.09**	0.02	(0.19)
Net write offs	**0.24**	(0.18)	0.23
Group			
Charge	**0.16**	0.20	0.05
Net write offs	**0.23**	0.21	0.30

(1) *Ratio calculated as a percentage of Risk Weighted Assets of Australian Group, Europe Group, New Zealand Group and United States Group, as appropriate.*

The Group maintains a conservative and prudent approach to actual and potential loan losses. The overall provision for doubtful debts (see Notes 1 and 14 to the Financial Statements) is augmented as necessary by a charge against profit having regard to both specific and general factors. An explanation of the Group's lending and risk analysis policies is provided within the Risk Management section on page 61.

Other Operating Income

1997	*$3,334 million*
1996	*$2,923 million*
1995	*$2,447 million*

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

Other operating income increased by $411 million or 14.1% in 1997 after an increase of 19.5% in 1996. This was due to an increase of $74 million in money transfer fees, $55 million in loan fees from banking, $123 million in fees and commissions, $63 million in trading income and $158 million in other income offset by a reduction in foreign exchange income of $62 million.

Money Transfer Fees

1997	*$842 million*
1996	*$768 million*
1995	*$648 million*

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

Money transfer fees in 1997 increased by $74 million or 9.6% after increasing 18.5% in 1996. The increase in 1997 is primarily due to changes in fee and account structures.

Loan Fees from Banking

1997	*$794 million*
1996	*$739 million*
1995	*$719 million*

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

Loan fees from banking in 1997 increased by $55 million or 7.4% after increasing 2.8% in 1996. The increase in 1997 reflects increased lending volumes during the year.

Fees and Commissions

1997	*$696 million*
1996	*$573 million*
1995	*$467 million*

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

Fees and commissions income increased by $123 million or 21.5% in 1997 after increasing 22.7% in 1996. The increase in 1997 is primarily due to increases in credit card income and increased usage of electronic channels.

Foreign Exchange Income

1997	*$11 million*
1996	*$73 million*
1995	*$64 million*

Foreign exchange income includes all realised and unrealised profits and losses resulting directly from movements in exchange rates. Translation of foreign currency denominated monetary assets and liabilities, apart from those profits and losses resulting from trading activities, are included.

Foreign exchange income decreased by $62 million or 84.9% in 1997 after increasing by 14.1% in 1996.

Trading Income

1997	*$285 million*
1996	*$222 million*
1995	*$163 million*

Trading income includes all realised and unrealised profits and losses resulting directly from foreign exchange trading activities, trading securities and interest rate related derivative trading activities. Trading income increased by $63 million or 28.4% in 1997 after increasing by 36.2% in 1996.

Other Income

1997	*$706 million*
1996	*$548 million*
1995	*$386 million*

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

Other income increased by $158 million or 28.8% after increasing by 41.2% in 1996. The increase for 1997 is primarily due to increased dividend income from strategic and preference share investments, leasing income and life and fund products.

Other Operating Expenses (Excluding Goodwill Amortisation)

1997	*$4,803 million*
1996	*$4,450 million*
1995	*$3,916 million*

In 1997 other operating expenses, incorporating personnel, occupancy and other general expenses (but excluding goodwill amortisation) increased $353 million or 7.9% over 1996. This compares with an increase of 13.6% in 1996. The movement in expenses was principally the result of:

– personnel costs increasing $162 million or 6.6% in 1997 after increasing 14.8% in 1996.

– occupancy costs increasing $22 million or 5.3% in 1997 after increasing 2.0% in 1996.

– general expenses (excluding goodwill amortisation) increasing $169 million or 10.6% in 1997 after increasing 15.3% in 1996.

The increase in personnel costs in 1997 is due primarily to increases in salaries, together with higher training and contractor costs. The increase in occupancy costs in 1997 is primarily due to the impact of higher rental on operating leases due to an additional charge for surplus lease space. Increased expenditure on branch refurbishment and rate increases also adversely impacted occupancy costs. The increase in general expenses in 1997 is due primarily to increases in fees and commissions, communication expenses and expenditure on computer equipment and software resulting from higher levels of business activity.

The Group's cost to income ratio was 55.9% in 1997 compared to 55.8% in 1996. Excluding restructuring costs, the ratio was 55.5% in 1997 and 55.1% in 1996. Cost to income ratio details (including restructuring costs) for the key business units are provided in the table below.

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

For years ended September 30	*1997*	*1996*	*1995*	*1994*	*1993*
Dollars in Millions, except percentages					
Australian Bank:					
Other operating expenses[(1)]	**2,397**	2,205	2,073	1,918	1,727
Operating income[(2)]	**4,257**	4,170	3,961	3,647	3,428
%	**56.3**	52.9	52.3	52.6	50.4
Clydesdale Bank:					
Other operating expenses[(1)]	**422**	405	438	426	436
Operating income[(2)]	**784**	702	717	707	718
%	**53.8**	57.7	61.2	60.3	60.7
Northern Bank:					
Other operating expenses[(1)]	**210**	188	213	190	264
Operating income[(2)]	**392**	348	345	324	325
%	**53.6**	54.3	61.9	58.5	81.3
National Irish Bank:					
Other operating expenses[(1)]	**92**	85	86	81	82
Operating income[(2)]	**145**	134	131	120	126
%	**63.3**	63.4	65.7	66.9	65.0
Yorkshire Bank:					
Other operating expenses[(1)]	**549**	474	487	422	404
Operating income[(2)]	**1,005**	868	860	802	845
%	**54.6**	54.6	54.6	52.6	47.8
Bank of New Zealand:					
Other operating expenses[(1)]	**515**	525	509	456	441
Operating income[(2)]	**909**	866	816	685	533
%	**56.6**	60.7	62.7	66.5	82.8
Michigan National Corporation:					
Other operating expenses[(1)]	**379**	332	–	–	–
Operating income[(2)]	**682**	589	–	–	–
%	**55.7**	56.3	–	–	–
Group:					
Other operating expenses[(1)]	**4,803**	4,450	3,916	3,665	3,570
Operating income[(2)]	**8,593**	7,979	6,970	6,555	6,154
%	**55.9**	55.8	56.2	55.9	58.0

[(1)] *Including Restructuring Costs and Before Charge to Provide for Doubtful Debts and Goodwill Amortisation*
[(2)] *Represents Net Interest Income plus Other Operating Income*

Operating Profit After Income Tax

Profitability

Operating Profit after income tax increased by 5.8% to $2,223 million in 1997 from $2,102 million in 1996. This compares with a 6.8% increase in 1996.

This increase in earnings after tax primarily reflected:

– a $200 million or 4.0% increase in net interest income in 1997 after a $536 million or 11.9% increase in 1996;
– a $411 million or 14.1% increase in other operating income in 1997 after a $476 million or 19.3% increase in 1996;
– The Group's other operating expenses rose by 7.9% or $353 million after a $534 million increase in 1996 (before goodwill amortisation).

Despite an increase in expenditure associated with technology improvements and the introduction of new products, the Group's cost to income ratio only increased marginally to 55.9% in 1997 compared with 55.8% in 1996.

For years ended September 30	***1997 $M***	*1996 $M*	*1995 $M*	*1994 $M*	*1993 $M*	*Average Compound Growth %*
Operating profit (after tax and outside equity interest)	**2,223**	2,102	1,969	1,708	1,129	18.5
Income tax expense	**1,095**	959	906	953	811	7.8
Operating profit (before tax)	**3,318**	3,061	2,875	2,661	1,940	14.4

Adjusted to Accord with US GAAP

Prepared in accordance with US GAAP, consolidated net income for the year to September 30, 1997 was $2,289 million compared to $2,147 million in 1996 and $2,013 million in 1995. There were no individually material adjustments between US GAAP net income and Australian GAAP net profit for the years ended September 30, 1997, 1996 and 1995. See Note 48 to the Financial Statements for a detailed reconciliation of Australian GAAP net profit to US GAAP net income.

Underlying Profit

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

For years ended September 30	***1997***	*1996*	*1995*	*1994*	*1993*
Dollars in Millions					
Operating profit before tax, doubtful debt expense and goodwill amortisation	**3,790**	3,532	3,054	2,890	2,584
Goodwill amortisation	**(142)**	(137)	(92)	(92)	(89)
Underlying profit	**3,648**	3,395	2,962	2,798	2,495
Deduct:					
Charge to provide for doubtful debts	**(332)**	(333)	(116)	(179)	(604)
Income tax expense	**(1,095)**	(959)	(906)	(953)	(811)
Operating profit before abnormal item	**2,221**	2,103	1,940	1,666	1,080
Add/(Deduct) abnormal item	**–**	–	33	50	59
Operating profit after income tax before outside equity interest (per Statements of Profit and Loss)	**2,221**	2,103	1,973	1,716	1,139

Operating Profit By Segments

During 1997 improved results were achieved in all of the Group's major business units with the exception of the Australian Bank. The increased diversification of income streams outside of Australia was a direct outcome of strategic initiatives undertaken during the past decade to broaden the Group's retail and business banking base.

Contributions to Consolidated Operating Profit by Major Business Areas:

For years ended September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1994*	*1993*
Australian Group:					
Australian Bank[(a)]	**1,139**	1,282	1,284	1,026	765
NFM	**43**	25	18	28	18
BNZ Australia	**20**	35	22	60	(45)
Other[(b)]	**127**	106	72	92	7
Abnormal Item (Nil Tax)	**–**	–	33	50	59
Total Australian Group	**1,329**	1,448	1,429	1,256	804
Europe Group:					
Clydesdale Bank	**211**	162	164	156	130
Northern Bank	**119**	97	80	87	31
Yorkshire Bank	**227**	159	190	195	190
National Irish Bank	**33**	27	25	12	21
National Australia Life	**5**	(9)	(35)	–	–
Other[(c)]	**(45)**	(33)	(4)	(24)	(66)
Less Goodwill Amortisation	**(62)**	(62)	(62)	(62)	(62)
Total Europe Group	**488**	341	358	364	244
New Zealand Group:					
Bank of New Zealand	**277**	241	238	137	123
NAG (NZ)	**(49)**	(49)	(47)	(60)	13
Less Goodwill Amortisation	**(31)**	(31)	(30)	(30)	(27)
Total New Zealand Group	**197**	161	161	47	109
United States Group:					
Michigan National Corporation	**222**	158	–	–	–
Other[(d)]	**8**	17	3	14	(27)
Less Goodwill Amortisation	**(49)**	(44)	–	–	–
Total United States Group	**181**	131	3	14	(27)
Asia:					
Asian Branches	**14**	10	5	6	(2)
Other[(e)]	**14**	11	13	21	1
Total Asia Group	**28**	21	18	27	(1)
Operating Profit after Tax and Outside Equity Interests	**2,223**	2,102	1,969	1,708	1,129

(a) Australian Bank includes the Australian Trading Bank, the Australian Property Companies,Custom Service Leasing Limited and National Australia Trustees Limited.
(b) Australian other includes ARDB Limited and National Equities Limited.
(c) Europe other includes National Australia Group (UK) Limited, London Branch, NAB Investments Limited and NAB Finance (Ireland) Limited.
(d) US other includes New York Branch and National Australia Funding (Delaware) Inc.
(e) Asia other includes Nautilus Insurance Pte Limited and BNZ Singapore.

Australian Group

Australian Bank

The Australian Bank profit decreased 11.2% to $1,139 million from $1,282 million in 1996 and $1,284 million in 1995. The Australian Bank includes the Australian Trading Bank, the Australian Property Companies, Custom Service Leasing Limited, Custodian Services and National Australia Trustees Limited. The reduction of the Australian Bank profit in 1997 reflects the challenging business environment.

Specifically, the key factors contributing to this result were:

– net interest income decreased by $69 million or 2.7% to $2,521million with continued growth in lending volumes offset by margin declines due to intense competition on lending rates, notably in housing and business lending, and changing product mix. The major volume gains were in the areas of fixed rate business products, leasing and housing lending;

– other operating income increased by $153 million or 9.7% to $1,736 million. Money transfer fees grew through increased transaction levels, focus on fee collection processes and repricing. Trading income was up significantly as a result of the positioning to take advantage of the falling interest rate environment experienced during the year. Fee and commission income increases reflected the higher credit card volumes and usage. Structured finance fees also increased through successful positioning of products;

– other operating expenses increased by $192 million or 8.7% to $2,397 million. Higher personnel costs resulted from salary increases flowing from enterprise bargaining. General expenses growth resulted from increased depreciation for data processing equipment together with depreciation and costs associated with the branch revitalisation program. Higher credit card and EFTPOS interchange activity reflecting greater use of electronic channels led to an increase in fees and commissions payable. Communication costs related to telephone banking also increased through greater use of the telephone banking channel;

– charge for doubtful debts reduced significantly by $54 million or 29.2% to $131 million reflecting higher recoveries during the year together with close attention to asset management.

National Australia Financial Management

National Australia Financial Management (NFM), the Group's superannuation and financial services arm, contributed a profit of $43 million for 1997, compared to $25 million in 1996 and $18 million in 1995. NFM's performance improved strongly over the previous corresponding period with the increased profit contribution driven by higher sales of protection and retirement income products through the bank distribution network combined with prudent expense management. Included in the results of NFM is National Australia Asset Management (NAAM), a full service fund manager managing NFM's retail products portfolio, a portfolio of wholesale assets and funds for institutional clients. Wholesale and retail funds under management continued their steady growth pattern increasing by 18%.

Europe Group

The Europe Group profit contribution (before goodwill amortisation of $62 million) increased by 36.5% to $550 million from $403 million in 1996 ($420 million in 1995).

Clydesdale Bank's profit increased by 30.2% to $211 million in 1997 from $162 million in 1996 ($164 million in 1995). Northern Bank's profit increased by 22.7% to $119 million from $97 million in 1996 ($80 million in 1995). Yorkshire Bank's profit increased by 42.8% to $227 million from $159 million in 1996 ($190 million in 1995). National Irish Bank's profit increased by 22.2% to $33 million from $27 million in 1996 ($25 million in 1995). National Australia Life contributed a profit of $5 million in 1997 compared to a loss of $9 million in 1996 and a loss of $35 million when it was established in 1995.

Major factors contributing to the Europe result were:

– increase in net interest income of $118 million or 9.0% to $1,426 million reflecting increased lending volumes, particularly in housing loans with strong growth contributed by each of the Europe Banks. The impact of volume growth was partially offset by tightening margins;

– other operating income increased by $186 million or 25.0% to $928 million predominantly due to higher loan and money transfer fees arising through the growth in lending;

– specific charge for doubtful debts decreased by $42 million or 20.4% to $164 million. For full discussion of this point, refer to the Bad and Doubtful Debts section on Page 44.

New Zealand Group

The New Zealand Group contributed a profit after tax of $228 million (before goodwill amortisation of $31 million) compared to $192 million in 1996, an increase of 18.8%.

BNZ (including its offshore operations) contributed a profit of $297 million in 1997 compared to $279 million in 1996, an increase of 6.5%. The key factors contributing to this result were:

– net interest income increased by $28 million or 4.7% to $624 million reflecting BNZ's increased lending, particularly in housing lending in New Zealand which increased strongly over the previous corresponding period. The income benefit of this growth was impacted by reduced margins resulting from increasing competitive pressure;

– other operating income increased by $15 million or 5.6% to $285 million principally through increased activity based money transfer fees as a result of revisions to the structure of demand deposit accounts. Offsetting this rise in other operating income, front end lending fees were reduced in response to the competitive personal lending market in New Zealand;

– net doubtful debt charge writeback fell by 82.9% or $58 million to $12 million in 1997;

– other operating expenses decreased by $10 million or 1.9% to $515 million. Operating expenses for 1997 include a writeback of non-lending loss provision in relation to the settlement of a long standing legal action. The reduction of branches has led to the migration of customers to direct banking channels, increasing communication and data processing costs.

United States Group

The United States Group contributed a profit after tax of $230 million (before goodwill amortisation of $49 million) compared to $175 million in 1996, an increase of 31.4%. MNC contributed a profit of $222 million in 1997 compared to $158 million in 1996, an increase of 40.5%. MNC's result for September 1996 only includes 11 months from acquisition date. Adjusted to 12 months on a pro-rata basis, MNC's profit contribution in September 1997 increased by approximately 29% over the previous corresponding period.

The key factors contributing to this result were:

– other operating income increased by $40 million or 21.5% to $226 million with higher fee and commission income on the back of increased lending volumes. In July 1997, Boatmens Relocation Management was acquired. This acquisition together with existing operations increased servicing income from executive relocation functions. The sale of equity investments also contributed to the rise in other operating income;

– income tax expense decreased by $35 million or 43.2% to $46 million due to a one off adjustment in respect to tax losses with a wholly owned thrift. The thrift was merged with Michigan National Bank (MNB) and following a ruling from the Internal Revenue Service, these tax losses can now be accessed by MNB.

Asia Group

The Asia Group contributed a profit after tax of $28 million compared to $21 million in 1996, an increase of 33.3%. The increased profit reflected an increased contribution from treasury and corporate banking activities in the Asian branches together with increased profit contributions from Nautilus Insurance and BNZ's Asian operations. Included in the 1997 profit was a large recovery recorded by National Australia Merchant Bank (Singapore).

Assets and Shareholders' Equity

Year end assets increased to $202.0 billion after an increase to $173.7 billion at September 30, 1996 from $148.1 billion in 1995. Of the $28.3 billion increase in 1997, $18.9 billion was attributable to growth in lending of which $9.8 billion related to real estate lending and $4.8 billion to other commercial and industrial lending. Over the same period shareholders' equity in the Group remained steady at $12.6 billion in 1997 compared to $12.5 billion in 1996 and $11.4 billion in 1995.

In 1997, the marginal increase in shareholder's equity was attributable mainly to an increase of $1.0 billion in retained profits offset by a reduction in the share premium reserve and issued and paid up capital resulting from the Bank's share buy-back program (for further discussion on this point refer to 'Liquidity and Capital Resources' on page 52).

In Australia during 1997, assets grew by $13.6 billion to $107.6 billion with net loans and acceptances increasing by 13.6% to $87.6 billion. The major contributor to this increase was housing loans which grew by 21.7% to $33.4 billion. There was also growth in assets in Europe of 18.9% to $47.3 billion in 1997 largely due to growth in lending assets, particularly in Clydesdale Bank and Yorkshire Bank which both experienced strong increases in housing loans. In New Zealand, assets grew 9.2% to $20.7 billion in 1997 due largely to increases in housing loans. In the United States, total assets increased by 16.6% to $16.8 billion in 1997 largely due to growth in other term lending.

Assets and Shareholders' Equity Adjusted to Accord with US GAAP

Year end assets under US GAAP increased to $201.9 billion in 1997 after an increase to $173.6 billion at September 30, 1996 from $148.0 billion in 1995. The increase in assets in 1997 of $28.3 billion is mainly attributable to the factors outlined above under 'Assets and Shareholders' Equity'. In 1997, shareholders' equity under US GAAP increased marginally to $13.2 billion from $13.0 billion in 1996 and $11.8 billion in 1995. (See Note 48 for a detailed reconciliation of total assets and shareholders' equity according to US GAAP).

Return on Average Shareholders' Equity

Profitability, as measured by return (before abnormal item) on average shareholders' equity after goodwill, decreased to 16.2% in 1997 from 17.0% in 1996 and 17.8% in 1995. In 1997, the return decreased primarily as a result of the increase in average shareholders' equity through profit growth. In 1996 and 1995, profit (before abnormal item) also grew by 6.8% and 16.8% respectively.

For years ended September 30 *Dollars in Millions, except percentages*	*1997*	*1996*	*1995*	*1994*	*1993*
Weighted average shareholders' equity	**13,743**	12,326	10,905	9,454	8,538
Return (before abnormal item) on average equity %	**16.2**	17.0	17.8	17.5	12.5

Dividends and Earnings per Share

Basic earnings per share (after goodwill) in 1997 were 151.6 cents (144.8 cents in 1996 restated for the bonus element of the shares issued at a discount during the 1997 fiscal year).

The increase in basic earnings per share (before abnormal item) from 1995 of 138.7 cents to 144.8 cents in 1996 and 151.6 cents in 1997 reflects improved profitability in 1996 and 1997 and the benefits of the share buy-back program, part of the Group's active capital management policy.

For years ended September 30 *Cents*	***1997***	*1996*	*1995*	*1994*	*1993*
EPS – Basic (before abnormal item)	**151.6**	144.8	138.7	123.5	82.6
– Fully Diluted (before abnormal item)	**150.3**	144.5	138.2	123.5	82.6
Dividend	**94.0**	87.0	83.0	74.0	50.0

Interim dividends of 45, 43 and 40 Australian cents per Ordinary Share were paid during the years ended September 30, 1997, 1996 and 1995, respectively. The final dividend of 49 Australian cents (1996: 44 cents, 1995: 43 cents) declared from the 1997 profit is payable on December 17, 1997.

In 1988, the Company introduced the Bonus Share Plan (BSP) enabling shareholders (principally those who do not benefit from dividend imputation) to elect to take all or part of their dividend in the form of unfranked bonus Ordinary Shares issued from the share premium account. With effect from the 1990 final dividend these Ordinary Shares were issued at a discount of 7.5% to market value. Furthermore, the Dividend Reinvestment Plan (DRP) was amended in 1988 to permit reinvestment of cash dividends in new Ordinary Shares issued at a discount of 7.5% to market value. In 1989, the dividend scheme was further amended to permit shareholders to receive dividends paid out of the profits of a United Kingdom subsidiary. The discount rate was reduced from 7.5% to 2.5% on September 30, 1994 and applied from the 1994 final dividend. The discount rate was removed on May 16, 1996.

Liquidity and Capital Resources

As at September 30	***1997***	*1996*	*1995*
Dollars in Millions			
Shareholders' equity	**12,579**	12,519	11,381
Outside equity interest	**2**	–	38
Perpetual floating rate notes	**347**	424	459
Exchangeable capital units	**1,262**	–	–
Total	**14,190**	12,943	11,878

As indicated in the above table, the Group has significantly increased its capital position over the past three years. The increase in shareholders' equity has resulted mainly from improved profitability and a higher share premium reserve resulting from the reinvestment of dividends under the Group's Dividend Reinvestment Plan ('DRP'). During the three years ended September 30, 1997, 1996 and 1995, 20.8 million, 36.2 million and 46.3 million Ordinary Shares, respectively, were issued under the DRP to shareholders at varying prices. This increase in shareholders' equity has been offset by the impact of the Bank's share buy-back under which 97,612,111 shares were purchased during the 1997 financial year.

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

On March 19, 1997, a controlled entity received funds following the issue of 40 million Exchangeable Capital Units at US$25 each with a cumulative return of 7⅞% per annum. Under the terms of the Exchangeable Capital Units, the Company has the option to require the exchange of all (but not part) of the Exchangeable Capital Units at any time for 7⅞% Convertible Non-Cumulative Preference Shares. Holders of the Exchangeable Capital Units or the Convertible Non-Cumulative Preference Shares, have the option at any time to exchange their holdings for ordinary shares of the Company initially at the rate of 1.6365 ordinary shares per Exchangeable Capital Unit or Convertible Non-Cumulative Preference Share, subject to anti-dilution provisions.

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

Changes in Financial Condition

For years ended September 30	***1997***	*1996*	*1995*	*1994*	*1993*
Average balances (Dollars in Billions)					
Total assets	**193**	168	139	122	113
Total liabilities	**179**	155	128	112	105

Average total assets in 1997 increased by 14.9% to $193 billion from $168 billion in 1996 and $139 billion in 1995. Year end total assets increased 16.3% from 1996. See 'Assets and Shareholders' Equity' on page 51 for an explanation of major movements in 1997. A discussion of changes in significant assets and liabilities follows.

Capital Adequacy

As of September 30, 1997 the Group's total risk weighted capital was 8.7%, consisting of Tier 1 capital of 6.8% and Tier 2 capital of 2.2% and deductions of 0.3%.

Capital Adequacy Ratios

As at September 30	*1997* *%*	*1996* *%*	*1995* *%*
Tier 1	**6.8**	7.6	9.2
Tier 2	**2.2**	1.9	2.6
Deductions	**(0.3)**	(0.2)	(0.2)
Total	**8.7**	9.3	11.6

The Tier 1 capital ratio fell to 6.8% from 7.6% reflecting the impact of the capital buy-back program. The buy-back commenced on April 8, 1997 and concluded on October 7, 1997, with 98,146,432 ordinary shares bought back and cancelled (97,612,111 shares were purchased during the 1997 financial year).

Tier 2 capital rose to 2.2% up from 1.9% as at September 1996. The rise in Tier 2 capital reflects the issue of 40 million Exchangeable Capital Units completed on March 19, 1997. This issue raised US$1.0 billion for general funding.

The principal objective of the Reserve Bank of Australia's capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a bank's balance sheet, in particular 'credit risk'. The risk-based capital adequacy framework is consistent with the international standards of The Basle Committee on Banking Regulations and Supervisory Practices. The framework has three basic aspects – the capital base elements, the required capitalisation level and the risk weighting regime.

The capital base for regulatory purposes is comprised of two elements; namely Tier 1 and Tier 2 capital, after making certain deductions. Tier 1 capital includes paid-up ordinary capital, paid-up non-cumulative irredeemable preference shares, retained earnings, reserves (other than asset revaluation reserves) less goodwill and other intangible assets. Additionally where future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital. This was not the case as at September 30, 1997 and as such no adjustment was required.

Tier 2 capital includes asset revaluation reserves, general provision for doubtful debts, hybrid debt/equity instruments and subordinated term debt with an original maturity of at least seven years.

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

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

In order to determine the capital adequacy ratio, all assets are weighted in order to provide a broad indication of relative credit risk. There are five risk weightings (0%, 10%, 20%, 50%, 100%) and the assets to which those weightings apply are described more fully below. (See 'Risk-Adjusted Assets and Off-Balance Sheet Exposures'.) Off-balance sheet transactions are converted to balance sheet equivalents, using a credit conversion factor, before being allocated a risk category.

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

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

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

Regulatory Capital

As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*
Tier 1			
Issued and partly paid capital	**1,413**	1,477	1,429
Reserves	**4,598**	5,421	6,327
Retained profits	**6,568**	5,530	3,556
Minority interests	**2**	–	38
Estimated reinvestment under dividend reinvestment plan[1]	**208**	194	310
Less:			
Asset revaluation reserve	**(200)**	(252)	(288)
Goodwill	**(2,122)**	(2,218)	(1,385)
Other	**(3)**	(3)	(4)
Total Tier 1 capital	**10,464**	10,149	9,983
Tier 2			
Asset revaluation reserve	**200**	252	288
General provisions for doubtful debts	**771**	664	551
Perpetual floating rate notes	**347**	315	331
Dated subordinated debts	**777**	1,342	1,762
Exchangeable capital units	**1,262**	–	–
Notional revaluation of investment securities to market	**38**	17	15
Total Tier 2 capital	**3,395**	2,590	2,947
Total Tier 1 and 2 capital	**13,859**	12,739	12,930
Less Deductions:			
Eliminations of net assets in life insurance and trustee controlled entities[2]	**(179)**	(129)	(124)
Holdings of other financial institutions' capital instruments	**(206)**	(127)	(91)
Total regulatory capital	**13,474**	12,483	12,715

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

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

Risk-Adjusted Assets and Off-Balance Sheet Exposures

As at September 30	Balance 1997 $M	Balance 1996 $M	Balance 1995 $M	Risk Weights %	Risk Adjusted Balance[1] 1997 $M	Risk Adjusted Balance[1] 1996 $M	Risk Adjusted Balance[1] 1995 $M
Assets							
Cash claims on RBA and short-term claims on Australian Commonwealth Government[2]	**7,944**	6,055	7,007	0	**–**	–	–
Longer term claims on Australian Commonwealth Government, claims on State governments, OECD governments and Central Banks other than RBA	**9,081**	7,732	6,357	10	**908**	773	636
Claims on OECD banks and local governments	**22,564**	20,604	16,064	20	**4,513**	4,121	3,213
Housing loans[3]	**44,263**	37,655	35,749	50	**22,132**	18,827	17,875
All other assets	**110,055**	96,029	77,213	100	**110,055**	96,029	77,213
Total assets[4]	**193,907**	168,075	142,390		**137,608**	119,750	98,937

As at September 30	Contract or Notional Amount 1997 $M	Credit Equivalent Amount 1997 $M	Risk Weights %	Risk Adjusted Balance[1] 1997 $M	Risk Adjusted Balance[1] 1996 $M	Risk Adjusted Balance[1] 1995 $M
Off-Balance Sheet Exposures						
Financial guarantees, standby letters of credit and other letters of credit	**6,598**	**5,674**	0–100	**5,395**	4,803	4,092
Performance related guarantees, warranties and indemnities	**1,660**	**830**	0–100	**709**	719	621
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**55,205**	**10,445**	0–100	**8,168**	6,496	3,964
Foreign exchange, interest rate and other market related transactions	**582,174**	**9,046**	0– 50	**2,429**	1,545	1,371
Total off-balance sheet exposures	**645,637**	**25,995**		**16,701**	13,563	10,048
Total risk-adjusted assets				**137,608**	119,750	98,937
Total risk-adjusted assets and off-balance sheet exposures				**154,309**	133,313	108,985

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

[2] Short-term claims on the Australian Commonwealth Government are those with a residual term to maturity of less than 12 months; longer term claims are those with residual term to maturity greater than 12 months.

[3] The Reserve Bank announced on August 17, 1994 that housing loans approved after September 5, 1994 having a loan to market valuation ratio in excess of 80% must be risk weighted at 100%. These loans are reported under 'All Other Assets'.

[4] Total assets differ from the Consolidated balance sheet due to the adoption of the Reserve Bank's classification of certain items for capital adequacy purposes, particularly goodwill and general provision for doubtful debts. In addition, gross unrealised gains on trading derivative financial instruments have been excluded as they have been incorporated into the calculation of the credit equivalent amount of off-balance sheet exposures.

Gross Loans and Advances

Average Balances

1997	*Australia*	*$66 billion*
	Overseas	*$58 billion*
1996	*Australia*	*$56 billion*
	Overseas	*$49 billion*
1995	*Australia*	*$48 billion*
	Overseas	*$38 billion*

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries served. The loan portfolio continues to consist of short term outstandings with 34.5% of loans at September 30, 1997 maturing within one year and 22.9% maturing between 1 year to 5 years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after 5 years. The average balance of loans in 1997 was 63.9% of average total assets. This compares with 62.7% in 1996.

Average Australian loans and advances accounted for 53.2% of the total in 1997, 53.1% in 1996 and 56.0% in 1995.

Average net loans and advances were $123.2 billion in 1997 an increase of 17.2% over the 1996 balance of $105.1 billion, which followed an increase of 22.2% over the 1995 balance of $86.0 billion. The increase for 1997 was principally due to growth in business and housing loans. Low inflation and falling interest rates assisted the growth in volumes.

Year End Loans by Industry

In Australia, there was strong asset growth experienced mainly in the areas of housing, business investment loans, leasing, overdrafts and credit cards. Net lending assets (including acceptances) increased 13.6% to $87.6 billion in 1997 with residential mortgage loans increasing by $7.5 billion or 30.6% and lease financing increasing by $806 million or 18.2% over 1996.

	Australian Group		*Europe Group*		*New Zealand Group*		*United States Group*	
As at September 30, 1997	*$M*	*%*	*$M*	*%*	*$M*	*%*	*$M*	*%*
Government and public authorities	828	1.2	433	1.4	40	0.2	56	0.5
Agriculture, forestry and fishing	4,615	6.5	1,718	5.3	2,065	11.8	92	0.8
Financial, investment and insurance	4,902	7.0	847	2.7	1,527	8.7	144	1.3
Real estate construction	1,268	1.8	814	2.5	163	1.0	158	1.5
Real estate mortgage	31,931	45.5	8,418	26.3	6,623	37.9	459	4.2
Manufacturing	2,749	3.9	1,967	6.2	1,472	8.4	1,247	11.4
Instalment loans to individuals	7,224	10.3	5,485	17.2	1,469	8.4	2,238	20.5
Lease financing	5,226	7.4	2,747	8.6	6	–	125	1.1
Other commercial and industrial	11,512	16.4	9,530	29.8	4,127	23.6	6,412	58.7
Total	70,255	100.0	31,959	100.0	17,492	100.0	10,931	100.0
Less: Unearned income	(813)		(417)		–		(13)	
Provision for doubtful debts	(615)		(343)		(97)		(269)	
Net loans and advances	68,827		31,199		17,395		10,649	

The Europe Group's net loans and advances increased by 22.4% to $31.2 billion in 1997 with gross real estate mortgages increasing by 20.6% in 1997. Increases in corporate and business lending also contributed to the Europe Group's growth.

The New Zealand Group's net loans and advances grew by 7.8% to $17.4 billion in 1997. One of the major areas of growth was real estate related lending (gross) which increased by $447 million to $6.6 billion in 1997.

The United States Group continued to perform strongly, particularly in the business markets, with net loans and advances increasing by 21.8% to $10.6 billion in 1997 compared to $8.7 billion in 1996.

Impaired Assets, Provisions and Allowance for Loan Losses

Non-Accrual Loans

Total non-accrual loans less specific provisions for credit losses at September 30, 1997 were $706 million, a decrease of 12.1% from the 1996 balance of $803 million. At September 1995, non-accrual loans less specific provisions for credit losses were $1,095 million. As a ratio to year end risk weighted assets, net non-accrual loans represented 0.5%, a decrease from 0.6% at 1996. In 1995, the ratio of net non-accrual loans to year end risk weighted assets was 1.0%.

Gross non-accrual loans in 1997 were $1,281 million, a $163 million or 11.3% decrease from the 1996 balance of $1,444 million. In 1995, gross non-accrual loans amounted to $1,625 million.

The Australian Group component of gross non-accrual loans in 1997 amounted to $553 million (representing a $2 million or 0.4% decrease from the 1996 balance). In Europe, gross non-accrual loans were $474 million in 1997 (representing a $56 million or 10.6% decrease from the 1996 balance). In New Zealand, gross non-accrual loans were $110 million in 1997 (representing a $34 million or 23.6% decrease from the

1996 balance). In the United States, gross non-accrual loans were $125 million in 1997 (representing a $68 million or 35.2% decrease from the 1996 balance). The decline in impaired assets in all business areas is associated with a slowdown in the rate of growth of non-accrual loans, further write offs and asset sales and a conscious effort to resolve impaired assets.

	September 30, 1997			September 30, 1996		
Dollars in Millions	*Gross*	*Specific[1] Provisions*	*Net*	*Gross*	*Specific[1] Provisions*	*Net*
Australian Group	**553**	**189**	**364**	555	219	336
Europe Group	**474**	**164**	**310**	530	162	368
New Zealand Group	**110**	**20**	**90**	144	55	89
United States Group	**125**	**187**	**(62)**	193	193	–
Other	**19**	**15**	**4**	22	12	10
Total	**1,281**	**575**	**706**	1,444	641	803
Percentage of risk weighted assets	**0.8**	**0.4**	**0.5**	1.1	0.5	0.6

	1997	*1996*
Net non-accrual loans	**706**	803
Shareholders' equity	**12,581**	12,519
%	**5.6**	6.4

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

Doubtful Debts Closing Balance by Geographic Group

As at September30 Dollars in Millions	*1997*	*1996*	*1995*	*1994*	*1993*
Australian Group					
General	**422**	378	325	283	242
Specific[1]	**193**	218	178	272	330
Total	**615**	596	503	555	572
Europe Group					
General	**169**	134	125	115	127
Specific[1]	**174**	162	126	192	462
Total	**343**	296	251	307	589
New Zealand Group					
General	**76**	73	65	55	55
Specific[1]	**21**	55	150	252	482
Total	**97**	128	215	307	537
United States Group[2]					
General	**89**	74	26	26	30
Specific[1]	**180**	175	11	25	32
Total	**269**	249	37	51	62
Other					
General	**15**	5	10	10	10
Specific[1]	**15**	12	15	12	13
Total	**30**	17	25	22	23
Group					
General	**771**	664	551	489	464
Specific[1]	**583**	622	480	753	1,319
Total	**1,354**	1,286	1,031	1,242	1,783
% of Risk Weighted Assets	**0.9**	1.0	0.9	1.3	1.9

[1] *Excludes specific provisions for impaired off-balance sheet credit exposures.*

[2] *MNC adopts a provisioning methodology under which a portion of its specific provision is determined against segments of its loan portfolio based on historical loan loss experience and current trends evident in those segments of its loan portfolio. As at September 30, 1997, this portion of MNC's specific provision amounted to $168 million. This amount is included in the specific provision quoted in the above table.*

Total allowance for loan losses, excluding off-balance sheet credit exposures, held at September 30, 1997 were $1,354 million or 0.9% of risk weighted assets. This compares with $1,286 million or 1.0% of risk weighted assets in 1996 and $1,031 million or 0.9% of risk weighted assets in 1995. Of the total at September 30, 1997, general provisions represented $771 million or 0.5% of risk weighted assets.

Credit Quality Data

In 1994, the Group amended its asset quality disclosure classifications to conform with the new Reserve Bank of Australia asset quality disclosure guidelines. Comparatives for September 30, 1993 were amended accordingly.

For further information on Asset Quality Disclosures, see Note 15 of the Financial Statements 'Asset Quality Disclosures' on page 97.

For years ended September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1994*	*1993*
Provision for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**583**	622	480	753	1,319
General	**771**	664	551	489	464
Gross non-accrual and restructured loans	**1,286**	1,507	1,866	2,487	4,062
Charge to the profit and loss account	**332**	333	116	179	604
Ratios[(1)]					
Provision for doubtful debts at end of year as a percentage of end of year loans (before provisions)					
Specific	**0.44**	0.55	0.51	0.93	1.73
General	**0.58**	0.58	0.58	0.61	0.63
	1.02	1.13	1.09	1.54	2.36
Provision for doubtful debts at end of year as a percentage of end of year loans and acceptances (before provisions)					
Specific	**0.38**	0.47	0.43	0.77	1.51
General	**0.51**	0.51	0.49	0.50	0.53
	0.89	0.98	0.92	1.27	2.04
Provision for doubtful debts at end of year as a percentage of risk weighted assets					
Specific	**0.38**	0.47	0.44	0.78	1.43
General	**0.50**	0.50	0.51	0.51	0.50
	0.88	0.97	0.95	1.29	1.93
Non-accrual and restructured loans as a percentage of end of year loans (before provisions)	**0.97**	1.32	1.97	3.12	5.50
Charge to profit and loss as a percentage of:					
Year end loans	**0.25**	0.29	0.12	0.22	0.82
Year end loans and acceptances	**0.22**	0.25	0.10	0.19	0.69
Average loans	**0.27**	0.32	0.13	0.24	0.86
Risk weighted assets	**0.22**	0.25	0.11	0.18	0.65

(1) Ratios exclude specific provisions for off-balance sheet credit exposures.

Provisioning Coverage Ratio

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

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

This approach is designed to ensure that the Group has sufficiently covered the fall in security values through a combination of provisions and write offs. It is considered a more prudent approach in addressing the immediate loss of security value than maintaining high levels of provisions. The level of effective coverage for loan losses, reflecting the Group's policy, can be determined by notionally adding back write offs taken during the course of the year, to both the gross receivables and specific provision balances.

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

For years ended September 30	*1997*	*1996*	*1995*
	%	*%*	*%*
Actual coverage	**45.8**	42.7	28.6
Effective coverage	**61.7**	56.7	42.6

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

The increase in both the actual and effective coverage rates reflects a more conservative level of provisioning resulting from recognition of the slowing of economic activity in some of the Group's major markets.

In addition to the specific provision, the Group maintains a general provision to provide cover for bad debts which are inherent in lending but which are not yet identified. It has not been Group practice to transfer value directly from the general provision to the specific provision to cover lending losses. It should be noted the Group's general provision is maintained as a 'buffer' against the possibility of a significant capital depletion arising from a major impairment to loan asset values. Specific provisions are always raised through the profit and loss account for known problem loans.

It is Group policy to determine the level of the general provision having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk factors. It is also determined without having regard to the tax deductibility of the provision.

The general provision (which is non tax effected) provides further coverage against these loans of 42.0% at September 30, 1997, bringing total effective coverage to 103.7%.

Deposits and Other Borrowings

Total deposits and other borrowings (net of set-offs) increased to $128.5 billion at September 30, 1997 or by 17.7% compared to $109.2 billion or a 23.3% increase in 1996 and $88.5 billion in 1995. Deposits not bearing interest at September 30, 1997 represent 7.4% of total deposits compared to 7.7% in 1996.

In Australia, deposits increased by $6,972 million or 14.1%. In Europe, deposits increased by $5,877 million or 20.9% (excluding the impact of UK/Irish exchange rate movements, deposits increased by $2,035 million). In New Zealand deposits increased by $1,701 million or 12.8 % (excluding the impact of exchange rate movements, deposits increased by $1,610 million) and in the United States deposits grew by $2,359 million (excluding the impact of exchange rate movements, deposits increased by $852 million).

	Australian Group		*Europe Group*		*New Zealand Group*		*United States Group*	
As at September 30, 1997	*$M*	*%*	*$M*	*%*	*$M*	*%*	*$M*	*%*
Not bearing interest (net)	2,335	4.1	4,308	12.6	823	5.5	1,991	12.3
Demand and short-term deposits	28,483	50.4	18,584	54.6	3,372	22.6	4,292	26.5
Certificates of deposit	3,954	7.0	4,010	11.8	2,242	15.0	28	0.2
Term deposits	17,050	30.2	7,151	21.0	8,410	56.2	4,596	28.3
Other debt obligations	4,704	8.3	–	–	102	0.7	5,295	32.7
Total deposits	56,526	100.0	34,053	100.0	14,949	100.0	16,202	100.0

Risk Elements

Interest Rates

	1997 %	1996 %	1995 %
NAB Base Lending Rate (published average)	**9.9**	11.1	10.7
NAB Benchmark Lending Rate (published average)	**9.4**	10.7	10.4
NAB Housing Loan Rate (regulated)	**13.5**	13.5	13.5
NAB Housing Rate (deregulated)	**7.8**	10.3	10.3
US Prime Rate	**8.5**	8.3	8.8

Cross-Border Outstandings by Industry Category

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

	Government $M	*Banks and other financial institutions $M*	*Other commercial and industrial $M*	*Total $M*	*% of Group assets %*	*Commitments including irrevocable letters of credit $M*
As at September 30, 1997						
United Kingdom	–	**957**	**212**	**1,169**	**0.6**	**950**
Japan	–	**3,048**	**44**	**3,092**	**1.5**	**278**
New Zealand	–	**2,094**	**11**	**2,105**	**1.0**	**136**
United States	–	**1,290**	**310**	**1,600**	**0.8**	**1,694**
As at September 30, 1996						
United Kingdom	–	112	49	161	0.1	1,681
Japan	–	3,024	114	3,138	1.8	1,265
New Zealand	90	1,567	7	1,664	1.0	81
United States	–	738	39	777	0.4	1,490
As at September 30, 1995						
United Kingdom	–	107	3	110	0.1	563
Japan	–	4,081	29	4,110	2.8	934
New Zealand	116	1,012	5	1,133	0.8	56
United States	–	181	23	204	0.1	854

Highly Leveraged Finance Transactions ('HLTs')

The Group's outstandings to HLTs as defined by the criteria issued by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System in the United States at September 30, 1997 which includes traditional Leveraged Buy-Out business, totalled $547 million (1996: $449 million) or 0.3% (1996: 0.3%) of total Group assets. Increased exposure to HLTs has occurred mainly in Clydesdale Bank and MNC. The transactions are relatively small and risk is well spread across various industries.

The geographic spread of the portfolio as at September 30 is approximately:	*1997* %	*1996* %	*1995* %
Australia	**–**	7	30
New Zealand	**11**	15	3
United States	**34**	29	2
Europe	**55**	49	65
	100	100	100

The HLT portfolio consists of 87 (1996: 73) transactions diversified over broad industry groups. Generally these transactions are subject to relatively prompt reduction in outstandings from a combination of asset sales and/or cash flow.

Human Resources

The table below summarises the Group's staffing position.

	1997	*1996*	*1995*	*1994*	*1993*
Number of employees – full-time and part-time[(1)]	**52,226**	52,912	52,567	49,163	47,964
Number of employees – full-time equivalents[(2)(3)]	**46,392**	47,178	45,585	43,871	43,542
Operating profit after tax per full-time employee	**47,918**	44,885[(4)]	43,194	38,932	26,285[(5)]

[(1)] Full-time and part-time staff excludes unpaid absences (eg maternity leave).

[(2)] The calculation of full-time equivalents changed in 1994 to align with the underlying cost base (primarily through the inclusion of service staff). Comparative figures for 1993 have been restated.

[(3)] Full-time equivalents include part-time staff (pro rated).

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

[(5)] Calculation has been adjusted to include Bank of New Zealand's full-time equivalent staff at September 30, 1993 in proportion to the 325 day period during which they contributed to the profit of the Group.

The Group's full-time equivalent employee numbers decreased by 786 or 1.7% from 1996 to 1997. This compares with a 3.5% increase from 1995 to 1996 (excluding the impact of the acquisition of MNC from the 1996 figures results in an underlying decrease from 1995 of 3.5%). The decrease in Australia of 299 people or 1.3% reflected the current focus on cost management and was largely achieved through natural attrition. The decrease in the Europe Group of 152 people or 1.0% and the decrease in the New Zealand Group of 410 people or 7.4% is also the result of cost management and of various strategic initiatives currently underway. US Group full time equivalent staff numbers increased by 58 or 1.6% primarily reflecting the acquisition of Boatmens Relocation Management.

Approximately 57% of the employees of the Australian Financial Services (which is the largest employer within the Group) are members of the Finance Sector Union of Australia (FSU). On September 30, 1997, agreement was reached with the FSU for an Enterprise Agreement which will operate until November 2000. The agreement provides for salary increases totalling 12.8% for the period from July 1997 until November 2000. Other initiatives within the agreement include the lifting of all restrictions on the employment of part time and temporary staff, the introduction of site/work group flexibility agreements and union commitment to workplace restructuring. This agreement, which continues the positive relationship between the FSU and the National, means that the organisation can look forward to industrial stability during a period of substantial change.

Risk Management

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

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

Overview and monitoring of this process throughout the Group is undertaken by Group Risk Management. Group Risk Management comprises Group Credit Bureau, Group Audit, Group Insurance and Operational Risk, Country Risk, Group Independent Risk Oversight of Treasury and Capital Markets Risk Management, Group Credit Policy and Systems and Prudential Control functions. Group Risk Management's role is to constantly monitor and systematically assess the Group's risk profile in existing and future business operations, and to assist business units in the design and implementation of appropriate risk management policies and strategies. Group Risk Management also promotes Group awareness of the need to manage risk and the achievement of a balance between risk minimisation and reward for risks accepted.

Annually, Group Risk Management prepares and submits to the Principal Board 'The Group Risk Profile'. This document profiles the major recognised balance sheet, off balance sheet strategy/performance and operational risks together with procedures for their day to day management, control and responsibility.

A Group Risk Policy Committee, comprising senior management, is the principal risk policy decision making body within the Group. A Risk Policy Committee also exists in each regional member bank except for the Europe Banks where a centralised risk management structure is in operation. These Risk Policy Committees operate under delegated approval authorities aligned to a 'Risk Management Template'.

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

Refer to Note 38, 'Derivative Financial Instruments' on page 126 for a profile of the Group's derivatives risk exposures and further information on risk management.

Market Risk

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

Member banks of the Group have Earnings at Risk limits approved by the Principal Board to cover both structural balance sheet exposure and transactional exposure. Consolidated reporting of balance sheet exposure is provided to the Group Asset/Liability Committee.

Overview of the Group's global structural balance sheet risk is managed against approved policies by Group Balance Sheet Management and reported on a regular basis to the Group Asset/Liability Management Committee. Overview of transactional risk is provided through regular reporting to Group Wholesale Financial Services and the Group Asset/Liability Management Committee. Global Wholesale Financial Services market risk management has been strengthened with the establishment of a middle office in each region. This ensures separation of the day to day market risk control and compliance from front office treasury functions and enhances the skills and disciplines dedicated to the market risk management function. In addition, the Group Independent Risk Oversight Unit is directing the development of a global market risk measurement system in Australia for monitoring market risk exposure using systems parallel to dealing systems. Group Independent Risk Oversight works closely with the risk control and compliance units within Global Wholesale Financial Services to provide a global market risk control framework.

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

Reporting of foreign exchange risk and exposures are regularly provided to local regulators, eg. in Australia to the Reserve Bank of Australia.

Operational Risk

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

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

Asset and Liability Management

The Group Asset and Liability Committee (ALCO), under delegated Board authority, sets policies in relation to the management of Structural Balance Sheet exposures. These exposures include Structural Interest Rate Risk, Group Structural Foreign Exchange Risk and Liquidity Risk.

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

Structural Interest Rate Risk

In carrying out its business activities, each bank in the Group strives to meet customer demands for banking products of various structures and maturities. Structural interest rate risk is the risk to earnings and capital that arises from mismatches in the repricing dates, cash flows and other characteristics of these banking products and related balance sheet items.

In managing structural interest rate risk, Group ALCO's primary objective is to limit the extent to which net interest income is detrimentally exposed to movements in interest rates over time. Group ALCO sets policies and limits, which are approved by the Principal Board, within which each member regional bank manages structural interest rate risk.

All structural positions, along with current management strategies, are reported to Group ALCO on a regular basis and to the Group's Board of Directors on a periodic basis.

Group Structural Foreign Exchange Risk

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

Reported earnings and shareholders' funds are subject to movement in exchange rates as a result of the need to translate earnings and net assets of the foreign operations into the Group's Australian dollar consolidated accounts. This susceptibility of reported earnings and capital to movements in exchange rates is sometimes referred to as an accounting or translation exposure which, in the absence of any long term realignment in exchange rates, has no impact on real shareholder wealth.

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

GSFX exposures are managed in accordance with policies approved by the Group's Board of Directors. Such management is based on economic considerations and not on the possible impact which short term currency fluctuations may have on reported earnings and shareholders' funds. GSFX exposures, and any offsetting hedge positions, are reported to Group ALCO on a regular basis.

Liquidity Risk

Liquidity risk arises from the mismatch in the cash flows emanating from on-balance sheet assets and liabilities, plus the settlement characteristic of off-balance sheet activities.

Policies established by Group ALCO clearly commit all members of the Group to ensuring that all obligations are met in a timely and cost efficient manner. Operational responsibility for the implementation of these policies rests with each regional treasury who report monthly to Regional ALCO.

Liquidity standards are set by Group ALCO to ensure that suitable liquefiable assets in addition to any regulatory requirements for any member bank are held at all times. The size of the surplus portfolio holdings is determined by the Regional ALCO in consultation with Group Wholesale Financial Services with due consideration given to prevailing market conditions.

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

Credit Risk

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

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

Lending authority is delegated by the Principal Board in various layers through the Group, including Group Credit Bureau, European Credit Bureau for Europe member banks, other regional member bank Credit Bureaus, and down to appropriate levels of line management.

Separate Credit Control Committees operate in Europe, BNZ and Michigan National with lending authorities delegated by the Principal Board and overview responsibilities above those of the respective Credit Bureau up to the levels exercised by Group Credit Bureau. Member Bank Board Lending Committees are required to note the respective Bank's larger lending approvals. Fundamental to the Group's lending culture and philosophy, is a system of overview of lending approvals by the next level of authority.

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

Throughout the Group various structures and alliances exist for the assessment and management of commercial property exposures. The arrangements provide for specialist advice to lending personnel, both in the review and management of existing exposures, and as part of the assessment process in respect of new property related lending proposals.

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

International lending requires not only commercial credit analysis of the borrower and of the type normally associated with domestic lending, but also an assessment of country risk. Country risk arises from economic, financial, political or social factors within a country which may affect a borrower's ability to repay loans made by the Group. The Company has an established process for measuring country risk which is used in setting and monitoring its cross-border exposures. Each country is graded from AAA (least risky) to D (most risky). Grading depends upon the analysis of various economic indicators and the assessment of social and political factors. On the basis of the country credit grading, together with the relative size of the country, the Group sets prudential cross-border limits for each country. For each country, separate prudential limits are established for debt with maturity of 12 months or less and debt with a maturity in excess of 12 months. The Group's Board of Directors approves those individual country limits.

Group Credit Bureau monitors exposure through a Global Limits Control System.

Year 2000

The Group has established a comprehensive Year 2000 program which aims to ensure that the transition through to the year 2000 has minimum impact on the Group. The Group's objective is to continue to function effectively and meet all regulatory requirements through the year 2000.

Over the next 18 months, the Group expects to incur expenditure of approximately $230 million to address the Year 2000 and European Monetary Union (EMU) compliance issues.

Accounting Developments

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

Depreciation of Non-Current Assets

In August 1997, the Australian Accounting Research Foundation (AARF) reissued AASB1021 'Depreciation of Non-Current Assets' requiring that where a non-current asset is revalued, a new estimate of residual value must be made at revaluation date. However, where a non-current asset is not revalued and the residual value is likely to be significant, the residual must be valued at acquisition date and not subsequently increased for changes in prices. When depreciation rates or depreciation methods are adjusted, the effect should be recognised in the period of the change if it affects that period only, or in the period of the change and future periods if it affects both. Depreciation previously recognised cannot be adjusted. The Standard will apply to the Group's accounts for the year ending September 30, 1998 and will not have a significant impact.

Financial Reporting of Life Insurance Business

In July 1996, the AARF in conjunction with the New Zealand Financial Reporting Standards Board issued exposure draft ED73 'Financial Reporting of Life Insurance Business', for comment. ED73 proposes specific measurement, presentation and disclosure requirements for the financial reporting of life insurance business, and requires parent entities of life insurance companies to consolidate both policyholder and shareholder interests on a line by line basis. Currently, only shareholder interests are included in the parent entity's consolidated result. The standard arising from ED73 is likely to apply to the Group's accounts for the year ending September 30, 1998 and is not expected to have a significant impact.

Borrowing Costs

In March 1997, the AARF issued exposure draft ED75 'Borrowing Costs', for comment. ED75 proposes that borrowing costs, including interest, be capitalised where they are related to the acquisition, construction or production of a qualifying asset; that is, an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs not capitalised are to be recognised as expenses in the periods in which they arise. The standard arising from ED75 is likely to apply to the Group's accounts for the year ending September 30, 1998 and is not expected to have a significant impact.

Statement of Cash Flows

In March 1997, the AARF issued exposure draft ED77 'Statement of Cash Flows', for comment. ED77 proposes to amend the definition of Operating Activities in AASB1026 'Statement of Cash Flows' to include all activities that are neither investing or financing. A highly liquid investment, which is readily convertible to cash subject to insignificant risk of changes in value and with a short period to maturity, is to be treated as a cash equivalent. Cash flows from items that have a quick turnover and have a short maturity and where the amounts are large can be presented on a net basis. Cash held that is not available for use should be disclosed. The amended standard arising from ED77 is likely to apply to the Group's accounts for the year ending September 30, 1998 and is not expected to have a significant impact.

Joint Ventures

In June 1997, the AARF issued exposure draft ED79 'Joint Ventures', for comment. ED79 proposes to amend AASB1006 'Accounting for Interests in Joint Ventures'. ED79 prescribes the accounting treatment of a venturer's interests in a joint venture and the disclosures to be made about those interests, requiring that a venturer's interests in joint venture operations be recognised in the venturer's own financial report.
A venturer who has an investment that is classified as an associate or as a partnership must comply with AASB1016 'Accounting for Investments in Associates'. The amended standard arising from ED79 is likely to apply to the Group's accounts for the year ending September 30, 1998 and is not expected to have a significant impact.

Revenue

In June 1997, the AARF issued exposure draft ED81 'Revenue', for comment. ED81 prescribes the accounting treatment of revenue arising from various types of transactions and events, and the disclosures to be made. ED81 applies to revenue arising from sale of goods, rendering of services, rents, interest, royalties and dividends, sale/contribution of assets and extinguishment of debt and must be measured at the fair value of the consideration or contribution received/receivable. The standard arising from ED81 is likely to apply to the Group's accounts for the year ending September 30, 1999 and is not expected to have a significant impact.

Leases

In July 1997, the AARF issued exposure draft ED82 'Leases', for comment. ED82 proposes to amend AASB 1008 'Accounting for Leases' to harmonise with the proposed revisions to International Accounting Standard (IAS) 17 'Accounting for Leases'. ED82 proposes that leveraged leases be accounted for as finance leases thereby removing the exemption provided in the past, with any differences resulting from the initial application adjusted against retained earnings. The Group currently adopts the accounting treatment prescribed by ED18 'Accounting for Leveraged Leases by Lessors' that requires income to be recognised on an after tax basis. This treatment is not permitted under ED82. The amended standard arising from ED82 is likely to apply to the Group's accounts for the year ending September 30, 1999 and is not expected to have a significant impact.

Earnings Per Share

In February 1997, the Financial Accounting Standards Board (FASB) of the United States of America, issued SFAS128 'Earnings per Share'. SFAS128 prescribes that basic and diluted EPS must be presented on the face of profit and loss accounts irrespective of materiality. A reconciliation of the numerators and denominators of the computations of the two items must also be disclosed. The Standard will apply to the Group's accounts for the year ending September 30, 1998 and is not expected to have a significant impact.

Reporting Comprehensive Income

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

Disclosures about Segments of an Enterprise and Related Information

In June 1997, the FASB issued SFAS131 'Disclosures about Segments of an Enterprise and Related Information'. SFAS131 amends the existing US accounting standards on segment reporting, requiring entities to disclose segment data based on the way management makes decisions about allocating resources to segments and measuring performance. Entities should provide disclosures about products, services, countries in which material assets are held, revenues and major customers. The Standard will apply to the Group's accounts for the year ending September 30, 1999 and is not expected to have a significant impact.

Accounting for Derivative and Similar Financial Instruments and for Hedging Activities

In June 1996, the FASB issued exposure draft ED162-B 'Accounting for Derivative and Similar Financial Instruments and for Hedging Activities', for comment. ED162-B proposes all derivatives be recognised as assets/liabilities in the balance sheet at fair value. A derivative may be specifically designated as a hedge of a recognised asset, liability or a firm commitment; cash flows of a forecasted transaction; or net investment in foreign operations. The accounting for the change in fair value of a derivative depends upon its intended use. The standard arising from ED162-B is likely to apply to the Group's accounts for the year ending September 30, 1999 and is expected to have a significant impact.

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

In December 1996, the American Institute of Certified Public Accountants issued proposed Statement of Position (SOP) 'Accounting for Costs of Computer Software Developed or Obtained for Internal Use'. The SOP requires entities to capitalise and amortise (as opposed to expense as incurred) costs related to developing or acquiring computer software for internal use. The effect of the SOP would be significant, as the current Group Accounting Policy requires software costs to be expensed as incurred. The SOP is likely to apply to the Group's accounts for the year ending September 30, 1998.

Harmonisation and Adoption of International Accounting Standards

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

Corporate Governance

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

Responsibilities and Functions of the Board

The Board of Directors is responsible for the Corporate Governance of National Australia Bank Limited and its controlled entities (the Company and the Economic Entity). The functions of the Board include:

- setting the strategic direction and policy framework;
- confirming financial objectives;
- establishing and monitoring the achievement of targets;
- appointing and evaluating the performance of the Chief Executive Officer;
- ensuring that management performs its role in compliance with all relevant statutory and regulatory obligations and ethical standards;
- considering and approving major policy issues; and
- reporting to shareholders.

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

Composition of the Board

At present, the composition of the Board of Directors of the Company is one executive director and ten independent non-executive directors including the Chairman. The Report of the Directors on pages 69 to 72 of this Annual Report contains details in respect of individual directors.

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

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

In accordance with the Articles of Association at least one third of the directors retire from office at the annual general meeting each year. Such retiring directors may be eligible for re-election. When a vacancy exists, the full Board identifies candidates with the appropriate expertise and experience, and appoints the most suitable candidate who must stand for election at the next annual general meeting.

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

Directors' Arrangements with the Company

The Articles of Association provide that a director may enter into an arrangement with the Company or with any controlled entity. Directors or their firms may act in a professional capacity for the Company or controlled entities, other than to act as an Auditor of the Company. These arrangements are subject to the restrictions of the Corporations Law. Banking services provided must be conducted 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 44 to the financial statements.

When a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board Meeting whilst such matter is being considered. Accordingly, the director takes no part in discussions nor exercises any influence over other members of the Board.

Board and Committee Agendas

Board and Committee agendas are structured throughout the year in order to give the Board a detailed overview of the performance and significant issues confronting each business unit and Head Office Division, and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

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

Independent Professional Advice

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

Sale/Purchase of Securities by Directors

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

Directors may only trade in the Company's securities and/or options over such securities, during each of the four weeks following quarterly, half yearly and annual profit announcements or the date of issue of a prospectus. Directors should discuss their intention to trade in the Company's securities and/or options over such securities with the Chairman of the Company prior to trading.

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

Confidential Information

National Australia Bank Limited through its lending operations possesses confidential information in respect of a number of organisations and, quite apart from its legal obligations, the Company has systems and processes to ensure that this information is not released to its related entities such as the funds management and development capital business units in order to exploit that information for the benefit of the Company.

Internal control systems are monitored and employee integrity within the organisation is fostered to ensure that confidential customer information is not used for individual personal gain nor for the gain of any entity within the Group.

Remuneration of Directors

Non-executive directors are remunerated for their services from the maximum aggregate amount approved by shareholders for that purpose. The amount paid may vary from director to director depending upon their level of responsibilities on the Company's board, board committees and the boards of controlled entities. When setting fees and other emoluments for non-executive directors, the board seeks independent advice applying Australian and international benchmarks.

The Company also pays the premium in relation to directors and officers liability insurance and pays a retirement allowance to directors in accordance with a formula approved by shareholders.

Remuneration of directors and the formula for calculation of retirement allowances is set out in Note 45 to the financial statements.

Remuneration and Succession Planning for Executives

The full Board reviews the succession planning for executive management and sets the remuneration packages applicable to the Managing Director and Chief Executive Officer and senior executives, including share option schemes (subject to shareholder approval in relation to the Managing Director and Chief Executive Officer), incentive performance packages, superannuation benefits, fringe benefit policies and professional indemnity and liability insurance policies. The Board obtains independent professional advice on the appropriateness of remuneration packages.

Remuneration of executives is set out in Note 46 to the financial statements.

Communicating with Shareholders

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

- the annual report (unless a shareholder has requested not to receive the documents);
- disclosures to the Stock Exchanges in Australia, London, Luxembourg, New York, New Zealand and Tokyo, the Australian Securities Commission and US Securities and Exchange Commission;
- notices and explanatory memoranda of Annual General Meetings; and
- the *National Shareholders' Bulletin*, a publication introduced in 1997.

Audit Committee

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

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

Mr DK Macfarlane (Chairman)
Mr DCK Allen
Mr CM Deeley
Mr MR Rayner
Mrs CM Walter

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

The responsibilities of the Audit Committee include:

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

• reviewing internal controls and recommending enhancements;

• reviewing Economic Entity accounting policies and practices; and

• reviewing the consolidated financial statements.

The Audit Committee meets with the external auditors during the year to review the adequacy of existing external audit arrangements, with particular emphasis on the scope and quality of the audit. The Committee then reports to the Board on the external auditors' continuance and achievement of their terms of engagement.

Risk Management

The Board is committed to the identification and quantification of risk throughout the Company's business units and controlled entities. Directors receive regular reports from the Group Risk Management division on areas where significant business risk or exposure concentrations may exist, and on the management of these risks.

More comprehensive details on risk management appear on pages 61 to 63 of this Annual Report.

Ethical Standards

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

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

• Personal conduct;

• Honesty;

• Relations with customers;

• Prevention of fraud;

• Financial advice to customers;

• Conflict of interest; and

• Disclosure.

In addition, the directors of the Company have regard to and place importance in the Code of Conduct issued by the Australian Institute of Company Directors.

Report of the Directors

The Directors of National Australia Bank Limited (hereinafter referred to as 'the Company') present their report together with the financial statements of the Company and of the Economic Entity, being the Company and its controlled entities, for the year ended September 30, 1997 and the auditors' report thereon.

Directors

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

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

MR Rayner BSc (Hons) Chem Eng FTS FAusIMM FIE Aust FAICD
(Chairman and Independent Non-Executive Director) Age 59

35 years' experience with Comalco Limited including 20 years as a Director until June 1997 and 11 years as Chief Executive. He was also Deputy Chairman of Comalco Limited and Group Executive and a Director of CRA Limited. A Director of the Company since 1985 and elected Chairman in September 1997. A Director of Bank of New Zealand. A member of the Company's Principal Board Audit Committee. He is also Chairman of Pasminco Limited and Mayne Nickless Limited and a Director of Boral Limited.

DK Macfarlane
(Vice Chairman and Independent Non-Executive Director) Age 67

33 years' experience with James Hardie Industries Limited, 12 years as Managing Director until 1990. A Director of the Company since 1985 and Vice Chairman since 1992. Chairman of the Company's Principal Board Audit Committee since 1992. Chairman of National Australia Asset Management Limited. He is also Chairman of Spicers Papers Limited and DEM Limited and a Director of Schroder Australia Holdings Limited, Pasminco Limited and Australian Foundation Investment Co Limited.

BT Loton AC BMetE FAusIMM FAICD
(Vice Chairman and Independent Non-Executive Director) Age 68

43 years' experience with The Broken Hill Proprietary Company Limited, 9 years as Managing Director and 5 years as Chairman until May 1997. A Director of the Company since 1988 and Vice Chairman since 1992. He is also Chairman of Atlas Copco Australia Pty Limited and a Director of Amcor Limited and Australian Foundation Investment Co Limited.

DR Argus FAIBF, FCPA, FAICD
(Managing Director and Chief Executive Officer) Age 59

42 years' experience in banking. A Director of the Company since 1989 and Managing Director and Chief Executive Officer since 1990. Chairman of National Australia Group Europe Limited and a Director of Clydesdale Bank PLC, National Irish Bank Limited, Northern Bank Limited, Yorkshire Bank PLC, Michigan National Corporation, National Australia Financial Management Limited, National Australia Asset Management Limited and Bank of New Zealand. He is also a Director of The Broken Hill Proprietary Company Limited.

DCK Allen AO MA MSC DIC FAICD
(Independent Non-Executive Director) Age 61

21 years' experience with Shell International. Appointed Executive Director of Woodside Petroleum Limited in 1980 and Managing Director from 1982 to 1996. A Director of the Company since 1992. Chairman of National Australia Investment Capital Limited and a member of the Company's Principal Board Audit Committee. He is also Chairman of Commonwealth Scientific and Industrial Research Organisation (CSIRO) and a Director of Amcor Limited and The Australian Gas Light Company.

PJW Cottrell AO OBE ME (Syd) DGS (B'ham)
(Independent Non-Executive Director) Age 69

37 years' experience with Email Limited, 18 years as Managing Director until 1992 and 4 years as Chairman. A Director of the Company since 1985. He is also Chairman of Boral Limited, DJL Limited, Residual Assco Group Limited, Adsteam Marine Limited and Tooth & Co Limited.

CM Deeley MA DPhil (Oxon)
(Independent Non-Executive Director) Age 67

27 years' experience with ICI Australia Limited, 5 years as Managing Director and Chief Executive until 1992. A Director of the Company since 1992 and a member of the Company's Principal Board Audit Committee. He is also Chairman of North Limited and a Director of Air Liquide Australia Limited.

GJ Kraehe BEc
(Independent Non-Executive Director) Age 55

32 years' experience in the wine, automotive and diversified manufacturing industries before being appointed Managing Director and Chief Executive Officer of Southcorp Holdings Limited in 1994. A Director of the Company since August 1997.

TP Park BSc MBA
(Independent Non-Executive Director) Age 50

22 years' experience in the food industry, 10 years as Managing Director of Kraft Foods Limited and current Area Director – Australia and New Zealand. A Director of the Company since 1996.

CM Walter LLB (Hons) LLM MBA FAICD
(Independent Non-Executive Director) Age 45

20 years' experience as a solicitor, 8 years as a partner in the firm Clayton Utz, including a period as Managing Partner, until 1994. A Director of the Company since 1995 and a member of the Company's Principal Board Audit Committee. She is also a Director of the Australian Stock Exchange Limited, Mercury Asset Management Limited and Melbourne Business School Limited.

Sir Bruce Watson BE(Elec) B Com FAICD
(Independent Non-Executive Director) Age 69

36 years' experience with MIM Holdings Limited; 15 years as a Director, 9 years as Chief Executive Officer and 8 years as Chairman. Re-appointed Director of the Company in 1992. He is also a Director of Boral Limited.

Directors' Benefits

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company, its controlled entities or a related body corporate with a Director or with a firm of which a Director is a member, or with an entity in which the Director has a substantial interest, other than:

a. a benefit included in the aggregate amount of remuneration received, or due and receivable by Directors shown in the consolidated financial statements;
b. the provision of banking and financial services that are available to Directors, or corporations with which they are related, under the same terms and conditions that apply to the public;
c. normal benefits as a full-time employee of the Company or of a related corporation; or
d. as outlined later in this report under the headings of Indemnification and Insurance.

Directors related party disclosures are set out in Note 44 to the financial statements.

Indemnification

Since the end of the previous financial year, the Company has not indemnified, or made a relevant agreement for indemnifying, against a liability any present or former officer or auditor of the Company or any of its related bodies corporate as contemplated by subsections 309A(1) and (2) of the Corporations Law.

Insurance

During the financial year, the Company paid a premium under a contract insuring each of certain Group Officers of the Company and its controlled entities (within the meaning of Australian Securities Commission Class Order 94/1701) against liability incurred in that capacity. Those Group Officers consist of the Directors of the Company named earlier in this Report, the Company Secretary Mr G F Nolan and other officers of the Company, including certain Excluded Officers within the meaning of that Class Order whose functions include the management of banking operations, financial management, strategic development, risk management and human resources management of the Company and its related bodies corporate.

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

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

Rounding of Amounts

Pursuant to Class Order 97/1005 made by the Australian Securities Commission on July 9, 1997 in accordance with Section 313 of the Corporations Law, the Company has rounded off amounts in this Report and the accompanying financial statements to the nearest million dollars.

Dividends

The Final Dividend in respect of the previous financial year ended September 30, 1996, declared and paid by the Company on January 22, 1997 was $650 million being a dividend of 44 cents per share fully franked to 36%.

This sum of $650 million comprises a cash payment of $458 million, an amount of $164 million that was reinvested by participants in the Dividend Reinvestment Plan ('DRP'), $27 million that was paid in lieu of dividends to participants in the Bonus Share Plan ('BSP') and an amount of $1 million being the entitlement of participants under the UK Dividend Reinvestment Plan.

The Interim Dividend for 1997 of 45 cents per share fully franked to 36% paid on July 22, 1997 amounted to $650 million. This sum comprises a cash payment of $437 million, an amount of $180 million that was reinvested by participants in the DRP, $32 million that was paid in lieu of dividends to participants in the BSP and an amount of $1 million being the entitlement of participants under the UK Dividend Plan.

The Final Dividend payable on December 17, 1997 totalling $692 million will be 49 cents per share fully franked to 36%.

Review of Operations

A review of the operations of the Economic Entity during the financial year, and the results of those operations are contained in the Chairman's and Managing Director's Review on pages 6 to 11 of the Annual Report.

Board Changes

Since the previous Annual Report, Mr WRM Irvine and Mr A Turnbull retired as Directors of the Company. Mr Irvine retired on September 12, 1997 and was a Director of the Company since 1979 and Chairman since 1992. Mr Turnbull retired on April 24, 1997 and was a Director of the Company since 1992 and had been a member of the Principal Board Audit Committee.

Mr GJ Kraehe was appointed as a Director of the Company on August 28, 1997.

The Board has recorded its thanks to Mr Irvine and to Mr Turnbull for their contributions as Directors of the Company.

Mr Turnbull passed away on May 12, 1997 and the Board expresses its sincere condolences to Mr Turnbull's family.

State of Affairs

On March 19, 1997, a controlled entity received funds following the issue of 40 million Exchangeable Capital Units at US$25 each with a cumulative return of 7⅞% per annum. Under the terms of the Exchangeable Capital Units, National Australia Bank Limited has the option to require the exchange of all, but not part, of the Exchangeable Capital Units at any time for 7⅞% Convertible Non-Cumulative Preference Shares. Holders of the Exchangeable Capital Units or the Convertible Non-Cumulative Preference Shares, have the option at any time to exchange their holdings for ordinary shares of National Australia Bank Limited initially at the rate of 1.6365 ordinary shares per Exchangeable Capital Unit or Convertible Non-Cumulative Preference Share, subject to anti-dilution provisions.

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

On March 24, 1997, the Company lodged notices with the Australian Securities Commission and Australian Stock Exchange advising of its intention to implement an on-market buy-back and cancellation of 89,251,987 ordinary shares. The buy-back commenced on April 8, 1997. On July 21 and September 11, 1997, the Company lodged additional notices with the Australian Stock Exchange advising of its intention to increase the number of ordinary shares to be bought back by 11,083,823 and 1,238,672 respectively, bringing the total number of ordinary shares permitted to be bought back to 101,574,482. The buy-back concluded on October 7, 1997 with 98,146,432 ordinary shares bought back and cancelled at an average price of $18.58. The highest price paid was $22.42 and the lowest price paid was $15.60. The Company has deferred a decision to buy back the remaining 3,428,050 shares.

No other significant change in the state of affairs of the Economic Entity occurred during the financial year.

Events after End of Financial Year

On October 27, 1997, the Company announced that it has entered into a definitive agreement to purchase HomeSide Inc. HomeSide Inc. is a leading United States residential mortgage loan producer and servicer with approximately US$97 billion of loans in its servicing portfolio. The acquisition is subject to regulatory approvals and approval by HomeSide's stockholders at a special stockholders' meeting. Stockholders will be paid US$27.825 for each HomeSide share, with the consideration amounting to US$1,231 million. The proposed acquisition is expected to be completed in early 1998.

No other 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 Economic Entity, the results of those operations, or the state of affairs of the Economic Entity in subsequent financial years.

Future Developments

Disclosure of information relating to likely developments in the operations of the Economic Entity and the expected results of those operations in subsequent financial years which will not, in the opinion of the Directors, be prejudicial to the interests of the Economic Entity are contained in the Chairman's and Managing Director's Review on pages 6 to 11 of the Annual Report.

Principal Activities

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

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

Economic Entity Results

The operating profit after tax of the Economic Entity for the year ended September 30, 1997 attributable to the Members of the Company was $2,223 million, an increase of $121 million (5.8%) on the previous year's results.

Options

Disclosure of information relating to the issue and exercise of options are shown in Note 31 to the financial statements.

The names of the Executives who currently hold options are entered in the Register of Options kept by the Company pursuant to Section 216C of the Corporations Law. The Register may be inspected free of charge. Pursuant to Australian Securities Commission Class Order 97/1011 dated July 9, 1997, the Directors have taken advantage of relief available from the requirement to disclose the names of persons, not being Directors, to whom options are issued, and the number of options issued to each person. For details of the options granted to a Director of the Company, please refer to Directors' Interests later in this Report.

Directors' Meetings

The number of Directors' meetings held (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

Directors	*Directors' Meetings of the Company*		*Audit Committee Meetings of the Company*		*Directors' Meetings of Controlled Entities*		*Additional Meetings*[1]
	No. of Meetings attended	*No. of Meetings held*[2]	*No. of Meetings attended*	*No. of Meetings held*[2]	*No. of Meetings attended*	*No. of Meetings held*[2]	*No. of Meetings attended*
WRM Irvine [3]	14	14	–	–	23	23	37
MR Rayner	15	15	5	5	12	12	15
DK Macfarlane	14	15	5	5	15	15	5
BT Loton	14	15	–	–	9	9	9
DR Argus	15	15	–	–	31	36	20
DCK Allen	15	15	5	5	18	18	6
PJW Cottrell	13	15	–	–	8	9	4
CM Deeley	13	15	1	1	8	9	10
DAT Dickins [4]	1	1	–	–	1	1	1
GJ Kraehe[5]	1	1	–	–	–	–	–
TP Park	13	15	–	–	8	9	4
A Turnbull [6]	5	9	2	3	3	5	2
CM Walter	14	15	1	1	8	9	12
Sir Bruce Watson	14	15	–	–	8	9	6

[1] Reflects the number of additional formal meetings attended during the year by each Director, including committee meetings (other than the Audit Committee) where any two Directors are required to form a quorum.

[2] Reflects the number of meetings held during the time the Director held office during the year. Where the Company 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 Company during the year.

[3] Mr Irvine retired as a Director of the Company on September 12, 1997.

[4] Mr Dickins retired as a Director of the Company on October 31, 1996.

[5] Mr Kraehe was appointed as a Director of the Company on August 28, 1997.

[6] Mr Turnbull retired as a Director of the Company on April 24, 1997.

Directors' Interests

The table below shows the interests of each Director in the share capital of the Company as at November 12, 1997:

	Ordinary Shares of $1 each		*Options over Ordinary Shares*
	Held Beneficially	*Held Non-Beneficially*	*Held Beneficially*
MR Rayner	18,850		
DK Macfarlane	9,200		
BT Loton	159,837	7,200	
DR Argus	49,187*		1,200,000
DCK Allen	10,857		
PJW Cottrell	13,300		
CM Deeley	24,250		
GJ Kraehe	5,600		
TP Park	2,000		
CM Walter	10,500		
Sir Bruce Watson	47,750		

** includes Staff Share Scheme Issues*

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

Dated at Melbourne, Australia this 12th day of November, 1997 and signed in accordance with a resolution of the Directors.

MR Rayner

DR Argus

Table of Contents

Page

Statements of Profit and Loss 74
Balance Sheets 75
Statements of Cash Flows 76
Notes to and Forming Part of the Financial Statements
1. Principal accounting policies 78

Profit and Loss Notes
2. Operating profit before income tax expense 82
3. Abnormal gain 83
4. Income tax expense 84
5. Dividends 84
6. Earnings per share 85

Asset Notes
7. Cash and short-term liquid assets 85
8. Due from other financial institutions 85
9. Due from customers on acceptances 86
10. Trading securities 86
11. Available for sale securities 87
12. Investment securities 89
13. Loans and advances 91
14. Provisions for doubtful debts 94
15. Asset quality disclosures 97
16. Shares in entities and other securities 100
17. Regulatory deposits 100
18. Fixed assets 101
19. Goodwill 102
20. Other assets 102

Liability Notes
21. Due to other financial institutions 103
22. Deposits and other borrowings 103
23. Income tax liability 105
24. Provisions 106
25. Bonds, notes and subordinated debt 106
26. Other debt issues 108
27. Other liabilities 108
28. Finance lease commitments 109

Capital Notes
29. Changes in Shareholders' Equity 109
30. Outside equity interests 111
31. Employee share, bonus and option schemes 111

Page

Other Notes
32. Average balance sheets and related interest 116
33. Interest rate risk 118
34. Financial reporting by segments 119
35. Notes to the Statements of Cash Flows 120
36. Particulars in relation to controlled entities 122
37. Contingent liabilities and credit commitments 125
38. Derivative financial instruments 126
39. Fair value of financial instruments 133
40. Superannuation commitments 135
41. Operating lease commitments 136
42. Capital expenditure commitments 136
43. Financing arrangements 136
44. Related party disclosures 137
45. Remuneration of Directors 140
46. Remuneration of Executives 141
47. Remuneration of Auditors 142
48. Reconciliation with US GAAP 142
49. Pro-forma consolidated information 147
50. Fiduciary activities 147
51. Events subsequent to balance date 147
Statement by the Directors 148
Auditors' Report to the members of National Australia Bank Limited 148
Form 20-F Cross Reference Index 149
Shareholder Information 150

Statements of Profit and Loss

For years ended September 30 Dollars in Millions	Note	Consolidated 1997	Consolidated 1996	Consolidated 1995	The Company 1997	The Company 1996	The Company 1995
Interest income	2	**12,837**	12,017	10,169	**8,021**	7,407	6,388
Interest expense	2	**7,578**	6,958	5,646	**5,429**	4,777	3,837
Net interest income		**5,259**	5,059	4,523	**2,592**	2,630	2,551
Charge to provide for doubtful debts	2,14	**332**	333	116	**131**	169	80
Net interest income after provision for doubtful debts		**4,927**	4,726	4,407	**2,461**	2,461	2,471
Other operating income	2	**3,334**	2,923	2,447	**1,798**	1,641	1,308
Total operating income		**8,261**	7,649	6,854	**4,259**	4,102	3,779
Other operating expenses	2	**4,945**	4,587	4,008	**2,419**	2,270	2,018
Operating profit before abnormal item		**3,316**	3,062	2,846	**1,840**	1,832	1,761
Abnormal gain (nil tax applicable)	3	**–**	–	33	**–**	–	33
Operating profit		**3,316**	3,062	2,879	**1,840**	1,832	1,794
Income tax expense attributable to operating profit	4	**1,095**	959	906	**555**	455	492
Operating profit after income tax		**2,221**	2,103	1,973	**1,285**	1,377	1,302
Outside equity interests in operating profit after income tax		**(2)**	1	4	**–**	–	–
Operating profit after income tax attributable to members of the Company		**2,223**	2,102	1,969	**1,285**	1,377	1,302
Retained profits at the beginning of the financial year		**5,621**	3,625	2,870	**3,117**	1,972	1,759
Dividend provisions not required	5	**83**	55	67	**102**	74	84
Aggregate of amounts transferred from reserves	29	**66**	1,162	17	**35**	971	–
Total available for appropriation		**7,993**	6,944	4,923	**4,539**	4,394	3,145
Dividends provided for or paid	5	**1,367**	1,276	1,173	**1,367**	1,276	1,173
Aggregate of amounts transferred to reserves	29	**58**	47	125	**1**	1	–
Retained profits at the end of the financial year		**6,568**	5,621	3,625	**3,171**	3,117	1,972
Earnings per ordinary share (cents)	6						
– Basic		**151.6**	144.8	141.0			
– Diluted		**150.3**	144.5	140.6			
Dividends per ordinary share (cents)	5						
– Interim		**45**	43	40			
– Final		**49**	44	43			

The Statements of Profit and Loss are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 78 to 147.

Balance Sheets

As at September 30 *Dollars in Millions*	*Note*	*Consolidated* 1997	1996	1995	*The Company* 1997	1996	1995
Assets							
Cash and short-term liquid assets	7	**5,029**	4,871	4,711	**1,971**	1,536	664
Due from other financial institutions	8	**10,360**	9,675	9,868	**7,770**	6,370	6,619
Due from customers on acceptances	9	**19,605**	17,283	16,657	**18,888**	16,382	15,659
Trading securities	10	**9,987**	8,406	7,910	**8,182**	6,748	6,276
Available for sale securities	11	**1,815**	364	333	**1,642**	–	–
Investment securities	12	**7,448**	6,574	4,634	**5,082**	2,990	3,051
Loans and advances	13	**130,218**	111,311	91,538	**71,242**	61,127	53,079
Due from controlled entities		**–**	–	–	**14,920**	13,941	11,097
Shares in entities and other securities	16	**280**	175	167	**3,522**	3,201	3,194
Regulatory deposits	17	**1,016**	905	769	**847**	736	653
Fixed assets	18	**3,276**	2,991	2,772	**573**	606	597
Goodwill	19	**2,122**	2,218	1,385	**–**	–	–
Other assets	20	**10,813**	8,937	7,379	**8,189**	6,442	5,503
Total Assets		**201,969**	173,710	148,123	**142,828**	120,079	106,392
Liabilities							
Due to other financial institutions	21	**12,746**	12,795	14,626	**11,178**	11,234	11,937
Liability on acceptances	9	**19,605**	17,283	16,657	**18,888**	16,382	15,659
Deposits and other borrowings	22	**128,469**	109,158	88,529	**70,200**	57,529	50,497
Income tax liability	23	**1,629**	1,638	1,880	**806**	956	1,220
Provisions	24	**1,292**	1,324	1,197	**989**	944	952
Due to controlled entities		**–**	–	–	**11,890**	7,665	6,056
Bonds, notes and subordinated debt	25	**9,569**	6,958	4,067	**9,439**	6,844	3,946
Other debt issues	26	**1,609**	424	459	**347**	315	331
Other liabilities	27, 28	**14,469**	11,611	9,289	**10,270**	8,055	6,307
Total Liabilities		**189,388**	161,191	136,704	**134,007**	109,924	96,905
Net Assets		**12,581**	12,519	11,419	**8,821**	10,155	9,487
Shareholders' Equity							
Issued and paid-up capital	29	**1,413**	1,477	1,429	**1,413**	1,477	1,429
Reserves	29	**4,598**	5,421	6,327	**4,237**	5,561	6,086
Retained profits		**6,568**	5,621	3,625	**3,171**	3,117	1,972
Shareholders' equity attributable to members of the Company		**12,579**	12,519	11,381	**8,821**	10,155	9,487
Outside equity interests in controlled entities	30	**2**	–	38	**–**	–	–
Total Shareholders' Equity		**12,581**	12,519	11,419	**8,821**	10,155	9,487

Contingent liabilities and commitments are excluded from this balance sheet and are listed in Notes 37, 38 and 40 to 43 inclusive.

The Balance Sheets are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 78 to 147.

Statements of Cash Flows

For years ended September 30 Dollars in Millions	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995
Cash inflows (outflows) from operating activities:						
Interest received	**12,417**	11,325	10,061	**7,697**	6,416	6,383
Dividends received	**47**	33	12	**259**	248	83
Fees and other income received	**3,806**	3,076	2,257	**2,161**	1,647	1,205
Interest paid	**(7,166)**	(6,315)	(5,100)	**(5,121)**	(3,683)	(3,465)
Personnel costs paid	**(2,528)**	(2,351)	(1,902)	**(1,352)**	(1,159)	(991)
Occupancy costs paid	**(362)**	(332)	(317)	**(239)**	(182)	(155)
General expenses paid	**(1,344)**	(1,211)	(1,131)	**(692)**	(684)	(658)
Income taxes paid	**(1,153)**	(1,153)	(867)	**(701)**	(711)	(490)
Net movement in trading instruments	**(1,527)**	(491)	(1,517)	**(1,434)**	(465)	(1,294)
Net cash provided by operating activities	**2,190**	2,581	1,496	**578**	1,427	618
Cash inflows (outflows) from investing activities:						
Investment securities:						
Purchases	**(8,954)**	(8,166)	(8,564)	**(8,056)**	(1,840)	(2,986)
Proceeds on maturity	**8,825**	7,870	8,127	**5,964**	1,901	2,398
Available for sale securities:						
Purchases	**(2,020)**	(2,648)	(1,515)	**(2,017)**	(1,299)	(1,369)
Proceeds on sale	**56**	578	689	**–**	208	531
Proceeds on maturity	**549**	1,821	1,074	**375**	1,091	995
Net movement in shares in entities and other securities	**(96)**	(8)	(77)	**(311)**	(8)	(281)
Acquisition of controlled entity	**(47)**	(2,089)	–	**–**	–	–
Acquisition of minority interest in controlled entity	**–**	(68)	–	**–**	–	–
Net movement in loans and advances:						
Represented by banking activities	**(14,199)**	(13,852)	(12,923)	**(10,054)**	(8,505)	(6,478)
Represented by non-banking activities:						
Granting of new loans and advances	**(1,601)**	(1,196)	(307)	**–**	–	–
Repayments	**1,357**	807	44	**–**	–	–
Lodgement of regulatory deposits	**(91)**	(93)	(73)	**(111)**	(83)	(67)
Net amounts due to (from) controlled entities	**–**	–	–	**3,246**	(1,235)	(1,728)
Expenditure on fixed assets	**(1,027)**	(877)	(305)	**(104)**	(119)	(120)
Proceeds from sale of fixed assets	**441**	356	36	**53**	12	8
Net movement in other assets	**713**	(508)	(1,618)	**303**	(453)	(1,207)
Net cash used in investing activities	**(16,094)**	(18,073)	(15,412)	**(10,712)**	(10,330)	(10,304)

For years ended September 30 Dollars in Millions	*Consolidated* 1997	1996	1995	*The Company* 1997	1996	1995
Cash inflows (outflows) from financing activities:						
Net movement in bank deposits	**13,900**	11,164	9,411	**12,671**	7,032	6,370
Movement in other deposits and borrowings represented by non-banking activities:						
Proceeds from new deposits and borrowings	**109**	2,138	377	**–**	–	–
Repayments	**(261)**	–	–	**–**	–	–
New share issues:						
Capital	**10**	4	7	**10**	4	7
Premium on shares issued	**108**	40	57	**108**	40	57
Buyback of shares:						
Capital	**(98)**	–	–	**(98)**	–	–
Premium on shares purchased	**(1,714)**	–	–	**(1,714)**	–	–
Redemption of perpetual floating rate notes	**(85)**	–	–	**–**	–	–
Proceeds from exchangeable capital units	**1,262**	–	–	**–**	–	–
Bonds, notes and subordinated debt:						
Proceeds from issuance of long term debt	**4,646**	3,906	750	**4,646**	3,906	723
Repayments	**(2,247)**	(903)	(634)	**(2,247)**	(903)	(634)
Net increase in other liabilities	**(378)**	1,461	2,035	**(461)**	894	1,432
Payments from provisions	**(205)**	(318)	(249)	**(46)**	(171)	(137)
Dividends paid	**(895)**	(760)	(535)	**(877)**	(740)	(521)
Movement in outside equity interests	**–**	–	4	**–**	–	–
Net cash provided by financing activities	**14,152**	16,732	11,223	**11,992**	10,062	7,297
Net inflow (outflow) in cash and cash equivalents	**248**	1,240	(2,693)	**1,858**	1,159	(2,389)
Cash and cash equivalents at beginning of period	**1,751**	(47)	2,644	**(3,328)**	(4,654)	(2,265)
Effects of exchange rate changes on balance of cash held in foreign currencies	**644**	(196)	2	**33**	167	–
Cash and cash equivalents acquired	**–**	754	–	**–**	–	–
Cash and cash equivalents at end of period[1]	**2,643**	1,751	(47)	**(1,437)**	(3,328)	(4,654)

Details of Reconciliation of Operating Profit and Extraordinary Items After Income Tax to Net Cash Provided by Operating Activities, Reconciliation of Cash, Controlled Entities Acquired and Disposed, and Non Cash Financing and Investment Facilities are provided in Note 35. Details of Financing Arrangements are provided in Note 43.

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

The Statements of Cash Flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 78 to 147.

1 Principal Accounting Policies

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

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

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

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

Historical Cost

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

Currency of Presentation

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

Rounding of Amounts

In accordance with Australian Securities Commission Class Order 97/1005 dated July 9, 1997, all amounts have been rounded to the nearest million dollars except where indicated.

Principles of Consolidation

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

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

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

Associates are entities over which the Company exerts significant influence but does not exercise control. Associates are accounted for utilising the cost method with only dividends received or receivable recognised in profit and loss. Equity accounting for associates is not adopted, as its impact on the Economic Entity financial statements would not be material.

Foreign Currency Translation

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

Differences arising on the translation of financial statements of the Economic Entity's overseas operations which are considered to be economically self-sustaining are included in the Foreign Currency Translation Reserve, net of any related hedges, on a pre-tax basis. Differences arising on the translation of financial statements of all other overseas controlled entities and overseas branches are recognised immediately in the profit and loss account.

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

Derivative Financial Instruments Held or Issued for Trading Purposes

Trading derivatives include swaps, futures, forward, option and other contingent or exchange traded contracts in the interest rate and foreign exchange markets. Trading derivatives are valued at fair value and the resultant gains and losses are recognised immediately in Other Operating Income. Unrealised gains and losses are reported on a gross basis as Other Assets or Other Liabilities, as appropriate.

The fair value of a derivative financial instrument represents the present value of future expected cash flows arising from that instrument.

Derivative Financial Instruments Held or Issued for Purposes other than Trading

The principal objective of using derivative financial instruments for purposes other than trading is to maximise the level of net interest income, while maintaining acceptable levels of interest rate and liquidity risk, and to facilitate the funding needs of the Economic Entity. To achieve this objective, a combination of derivatives including swaps, futures, forward, option and other contingent or exchange traded contracts in the interest rate and foreign exchange markets may be used.

Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. Hedging derivatives are accounted for in a manner consistent with the accounting treatment of the hedged items.

The net income or expense on derivatives used to manage interest rate exposures are recorded in Net Interest Income on an accruals basis. If a derivative that is used to manage an interest rate exposure is terminated early, any resulting gain or loss is deferred within Other Assets or Other Liabilities and amortised to Net Interest Income over the remaining period originally covered by the terminated contract.

If the underlying interest rate exposure position ceases to exist, any deferred gain or loss is recognised immediately in Other Operating Income.

Gains or losses on derivatives used to hedge exposures arising from anticipated future transactions, are deferred within Other Assets or Other Liabilities until such time as the accounting impact of the anticipated transaction is recognised in the financial statements. Such gains or losses only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is recognised immediately in Other Operating Income.

Interest receivables and payables for interest rate swaps with the same counterparty are reported on a net basis as Other Assets or Other Liabilities where a legal right of set-off exists.

Margin deposits for exchange traded derivatives are reported as Other Assets.

Trading Securities

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

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

Trading securities are recorded on a trade date basis.

Available for Sale Securities

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

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

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

Investment Securities

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

Investment securities are recorded on a trade date basis.

Repurchase and Reverse Repurchase Agreements

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

Acceptances

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

Leasing

(i) Finance Leases

Finance leases, in which the Economic Entity is the lessor, are included in Loans and Other Receivables and are accounted for using the finance method, whereby income determined on an actuarial basis is taken to account over the term of the lease in proportion to the outstanding investment balance. Where the Economic Entity is a lessee, leased assets are capitalised and the corresponding liability is recognised in Other Liabilities.

(ii) Operating Leases

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

(iii) Leveraged Leases

Investments in leveraged leases are recorded at an amount equal to the equity participation and are net of long-term debt for which there is no recourse to the lessor in the event of default by the lessee. Income is taken to account on an actuarial basis over the term of each lease. Where a change occurs in estimated lease cash flows during the term of a lease, total lease profit is recalculated and reallocated over the entire lease term. Net of tax income has been grossed up at current rates to reflect the appropriate pre-tax equivalent amount.

Unearned Income

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

Bad and Doubtful Debts

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

In addition, a general provision is maintained for bad debts which are inherent in the loan portfolio but have not been specifically identified and provided for. The level of the general provision is determined having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk factors and without regard to its tax deductibility.

The amount necessary to bring the provisions to their assessed levels, after net write offs and recoveries, is charged to the profit and loss account.

All loans are subject to continuous management surveillance.

Asset Quality

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

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

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

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

Income Recognition on Non-Accrual Loans

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

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

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

Shares in Entities

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

Fixed Assets

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

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

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

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

If the carrying amount of a fixed asset exceeds its recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value unless otherwise stated.

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

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

Goodwill

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

Life Insurance Business

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

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

Policyholders' interest in the statutory funds, as disclosed in Note 50, are not included in the consolidated accounts as the Economic Entity does not have direct or indirect control of such funds as defined by AASB 1024 'Consolidated Accounts'.

Trustee and Funds Management Activities

The consolidated accounts include the shareholders' interest in trustee companies, which act as the trustee and/or manager of a number of investments and trusts. These funds and trusts, as disclosed in Note 50, are not included in the consolidated accounts as the Economic Entity does not have direct or indirect control of the funds and trusts as defined by AASB 1024 'Consolidated Accounts'. The Trustees hold a right of indemnity against the assets of the applicable funds or trusts for liabilities incurred in their capacity as trustees. As these assets are sufficient to cover the liabilities, the liabilities are not included in the consolidated accounts.

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

Recognition of Loan Related Fees and Costs

Loan origination fees, if material, are recognised in income over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised in income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period. Loan related administration and service fees are recognised in income over the period of service. Credit card fees are recognised in income over the card usage period.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

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

Superannuation

The expense represents the Economic Entity's contributions to various superannuation plans. The contributions are determined on an actuarial basis. The assets and liabilities of the plans are not consolidated as the Economic Entity has no control over them.

Employee Entitlements

Employee entitlements to long service leave are accrued using an actuarial calculation based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases. This method does not differ significantly from calculating the amount using present value techniques.

The provision for annual leave is accrued based on an employee's total remuneration package.

Income Tax

The Economic Entity adopts tax-effect accounting using the liability method.

The tax-effect of timing differences, which occur where items are claimed for income tax purposes in a period different from when they are recognised in the accounts, is included in the provision for deferred income tax or future income tax benefits, as applicable, at current taxation rates.

The future income tax benefit relating to timing differences, and any future income tax benefit relating to tax losses are not carried forward as an asset unless the benefits are virtually certain of being realised.

The general provision for doubtful debts is raised to recognise bad debts inherent in the loan portfolio, but which have not been specifically identified. Accordingly, the Economic Entity has determined that the timing of the provision's eventual utilisation cannot be predicted. Thus, future income tax benefits associated with the general provision are not recognised. Capital gains tax, if applicable, is provided for in determining period income tax expense when an asset is sold.

Comparative Amounts

Comparative amounts have been reclassified to accord with changes in presentation made in 1997, except where otherwise stated.

Definitions

'The Company' is National Australia Bank Limited. 'Prescribed Corporations' under Section 409 of the Corporations Law are National Australia Bank Limited and National Australia Financial Management Limited.

Amounts booked in branches and controlled entities outside Australia are classified as 'overseas'.

For years ended September 30 Dollars in Millions	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995

Operating profit is determined after including:

2 Operating profit before income tax expense

Income

Interest Income						
Other financial institutions	**607**	583	588	**416**	377	373
Marketable debt securities	**1,008**	966	805	**678**	609	506
Loans to customers	**10,981**	10,398	8,687	**5,960**	5,881	5,093
Controlled entities	**–**	–	–	**731**	509	360
Other interest (incl. regulatory deposits, interest on swaps etc.)	**241**	70	89	**236**	31	56
Total Interest Income	**12,837**	12,017	10,169	**8,021**	7,407	6,388
Other Operating Income						
Dividends received from:						
Controlled entities	**–**	–	–	**229**	218	75
Other entities	**57**	33	12	**40**	30	8
Profit on sale of fixed assets	**30**	13	11	**6**	2	6
Loan fees from banking	**794**	739	719	**633**	585	580
Money transfer fees	**842**	768	648	**264**	244	224
Trading income:[1]						
Foreign exchange derivatives	**150**	146	128	**75**	80	83
Trading securities	**233**	100	139	**228**	97	137
Interest rate derivatives	**(98)**	(24)	(104)	**(93)**	(6)	(99)
Net profit (loss) on available for sale securities	**–**	(1)	3	**–**	–	2
Foreign exchange income	**11**	73	64	**–**	50	40
Fees and commissions	**696**	573	467	**302**	252	211
Other income	**619**	503	360	**114**	89	41
Total Other Operating Income	**3,334**	2,923	2,447	**1,798**	1,641	1,308

Expenses

Interest Expense						
Other financial institutions	**633**	739	697	**537**	634	582
Deposits and other borrowings	**6,100**	5,563	4,496	**3,866**	3,454	2,773
Controlled entities	**–**	–	–	**476**	243	165
Bonds, notes and subordinated debt	**769**	632	426	**530**	426	296
Other debt issues	**76**	24	27	**20**	20	21
Total Interest Expense	**7,578**	6,958	5,646	**5,429**	4,777	3,837
Charge to Provide for Doubtful Debts – Note 14						
Specific	**252**	263	53	**85**	114	37
General	**80**	70	63	**46**	55	43
Total Charge to Provide for Doubtful Debts	**332**	333	116	**131**	169	80

[1] Under Australian Accounting Standard AASB1032, 'Specific Disclosures by Financial Institutions', separate disclosure of trading income arising from foreign exchange trading, securities trading and interest rate derivatives trading is required. The Bank manages its trading positions utilising a variety of instruments. Therefore, fluctuations between the disclosed components may occur.

For years ended September 30 Dollars in Millions	Consolidated 1997	Consolidated 1996	Consolidated 1995	The Company 1997	The Company 1996	The Company 1995
Other Operating Expenses						
Personnel						
Salaries	**1,893**	1,755	1,569	**973**	898	845
Related personnel costs:						
Superannuation	**104**	123	60	**71**	90	31
Payroll tax	**119**	107	101	**72**	60	68
Fringe benefits tax	**55**	47	53	**50**	40	46
Charge to provide for:						
Annual leave	**8**	4	7	**7**	3	6
Long service leave and retiring allowances	**16**	6	12	**14**	4	10
Performance based compensation	**94**	69	57	**55**	36	31
Restructuring costs	**30**	57	20	**17**	24	–
Depreciation of motor vehicles provided to employees	**4**	4	4	**–**	–	–
Other	**277**	266	241	**109**	109	108
Total Personnel Costs	**2,600**	2,438	2,124	**1,368**	1,264	1,145
Occupancy Costs						
Depreciation of buildings and amortisation of leaseholds	**78**	87	61	**40**	52	30
Rental on operating leases	**177**	154	174	**165**	175	171
Other	**185**	177	175	**74**	77	86
Total Occupancy Costs	**440**	418	410	**279**	304	287
General						
Depreciation and amortisation of furniture, fixtures, fitting and equipment	**337**	266	236	**47**	39	35
Loss on sale of fixed assets	**7**	6	3	**1**	1	1
Rental on operating leases	**7**	5	8	**–**	–	6
Charge to provide for:						
Non-lending losses/contingencies	**7**	21	14	**15**	8	(2)
Diminution in value of shares in entities	**1**	8	–	**–**	4	–
Fees and commissions	**225**	181	155	**152**	122	108
Communications, postage and stationery	**315**	287	255	**149**	136	125
Computer equipment and software	**237**	212	199	**140**	137	118
Other expenses	**627**	608	512	**268**	255	195
Total General Expenses	**1,763**	1,594	1,382	**772**	702	586
Amortisation of Goodwill						
United Kingdom and Irish Banks	**62**	62	62	**–**	–	–
Bank of New Zealand	**31**	31	30	**–**	–	–
Michigan National Corporation	**49**	44	–	**–**	–	–
Total Amortisation of Goodwill	**142**	137	92	**–**	–	–
Total Other Operating Expenses	**4,945**	4,587	4,008	**2,419**	2,270	2,018

3 Abnormal gain

Adjustment to market value and profit on sale of shares and options held in the Australia and New Zealand Banking Group Limited (nil tax applicable)	–	–	33	–	–	33

For years ended September 30 Dollars in Millions	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995

4 Income tax expense

Reconciliation of income tax expense shown in the statement of profit and loss, with prima facie tax payable on the pre-tax accounting profit:						
Operating Profit before income tax						
Australia	**2,026**	2,045	1,995	**1,822**	1,810	1,789
Overseas	**1,290**	1,017	884	**18**	22	5
Total Operating Profit before income tax	**3,316**	3,062	2,879	**1,840**	1,832	1,794
Prima facie income tax at 36% (1995: 33%)	**1,194**	1,102	950	**662**	660	592
Add (or deduct) tax effect of permanent differences:						
Non-allowable depreciation on buildings	**7**	10	13	**1**	1	1
Charge to fund general provision for doubtful debts	**27**	25	21	**18**	19	14
Investment allowance	**–**	(8)	(8)	**–**	–	–
Rebate of tax on dividends, interest etc.	**(40)**	(14)	(5)	**(103)**	(90)	(29)
Foreign tax rate differences	**(41)**	(37)	1	**2**	(1)	1
Amortisation of goodwill	**51**	49	30	**–**	–	–
Future income tax benefits no longer recognised	–	(8)	1	**–**	(3)	(6)
Restatement of tax timing differences due to change in Australian company income tax rate	**–**	–	2	**–**	–	(4)
Over provision in prior years	**(21)**	(124)	(70)	**(22)**	(120)	(61)
Recognition of tax losses resulting from IRS ruling[(1)]	**(49)**	–	–	**–**	–	–
Other	**(33)**	(36)	(29)	**(3)**	(11)	(16)
Income tax expense shown in the Statements of Profit and Loss	**1,095**	959	906	**555**	455	492

[(1)] In September 1997, Michigan National Corporation merged its wholly owned thrift, Independence One Banking Organization of California (IOBOC), with the Michigan National Bank (MNB). IOBOC contained tax losses that had not previously been brought to account due to doubts surrounding their realisability. Following a private ruling handed down by the U.S. Internal Revenue Service (IRS), these losses can now be accessed by MNB. Under Abstract 9 issued by the Urgent Issues Group (Accounting for Acquisitions - Recognition of Acquired Tax Losses), these losses have been recognised in the Group's Profit and Loss Statement and represent a permanent tax difference.

5 Dividends

Dividends provided for or paid (fully franked)						
45c Interim cash provided (1996: 43c, 1995: 40c)	**675**	626	559	**675**	626	559
49c Final cash payable (1996: 44c, 1995: 43c)	**692**	650	614	**692**	650	614
Total Dividends Provided for or Paid	**1,367**	1,276	1,173	**1,367**	1,276	1,173
Dividend provisions not required						
Bonus share issues	**60**	57	69	**60**	57	69
Dividends paid under U.K. Dividend Plan	**(19)**	(19)	(17)	**–**	–	–
Dividend over provided	**42**	17	15	**42**	17	15
Total Dividend Provisions not required	**83**	55	67	**102**	74	84

Dividend Imputation

The franking credits available to the Economic Entity at September 30, 1997 after allowing for tax payable in respect of the current year's profits and the payment of the final dividend total an estimated $512 million (1996: $488 million). These franking credits are Class 'C' credits, (converted from Class 'B' credits) representing tax paid at the 36% corporate tax rate.

In determining the dividends to be paid, the Economic Entity pursues a balance between achieving an increase in shareholder wealth through the payment of dividends, and retaining sufficient earnings to augment its capital resources to allow for growth in its business base, taking into account prudential and liquidity requirements.

There are presently no restrictions on the payment of dividends from controlled entities to the Company and no restrictions on payment of dividends by the Company other than:

– the Share Premium Reserve is not available for distribution other than in the form of bonus issues (stock dividends), and

– reductions of Shareholders' Equity through payment of cash dividends is monitored by management having regard to the regulatory requirements to maintain a specified capital adequacy ratio.

6 Earnings per share

	Consolidated 1997	1996	1995
Basic earnings per share – after abnormal item (cents)	**151.6**	144.8	141.0
Diluted earnings per share – after abnormal item (cents)	**150.3**	144.5	140.6
Weighted average number of ordinary shares used in the calculation of basic earnings per share (000's)	**1,465,771**	1,451,744	1,396,240
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (000's)	**1,504,418**	1,456,024	1,401,793

There has been no:

(a) conversion to, calls of, or subscriptions for ordinary shares, or

(b) issues of potential ordinary shares since September 30, 1997 and before the completion of these accounts.

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

7 Cash and short-term liquid assets

As at September 30 *Dollars in Millions*	*Consolidated* 1997	1996	1995	*The Company* 1997	1996	1995
Coins, notes and cash at bank	**1,228**	1,724	1,594	**330**	871	250
Money at short call	**2,435**	1,096	1,721	**1,620**	27	452
Other (including bills receivable and remittances in transit)	**1,366**	2,051	1,396	**21**	638	(38)
Total Cash and Short-Term Liquid Assets	**5,029**	4,871	4,711	**1,971**	1,536	664

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

8 Due from other financial institutions

	1997	1996	1995	1997	1996	1995
Australia						
Due from other banks	**989**	752	2,668	**936**	168	2,320
Due from non-bank financial institutions	**133**	119	456	**133**	119	456
	1,122	871	3,124	**1,069**	287	2,776
Overseas						
Due from other banks	**9,122**	8,597	6,654	**6,616**	6,047	3,818
Due from non-bank financial institutions	**116**	207	90	**85**	36	25
	9,238	8,804	6,744	**6,701**	6,083	3,843
Total Due From Other Financial Institutions	**10,360**	9,675	9,868	**7,770**	6,370	6,619

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

Maturity Analysis of Due From Other Financial Institutions at September 30, 1997[1]

Overdraft	**381**
At Call	**1,625**
Due in less than 3 months	**6,780**
Due after 3 months through to 1 year	**1,308**
Due after 1 year through to 5 years	**206**
Due after 5 years	**51**
No Maturity Specified	**9**
	10,360

[1]Comparatives prior to 1997 are not available.

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

9 Due from customers on acceptances

	Consolidated 1997	1996	1995	The Company 1997	1996	1995
Australia						
Government and public authorities	**23**	113	139	**23**	113	139
Agriculture, forestry and fishing	**1,162**	874	1,013	**1,162**	862	995
Financial, investment and insurance	**4,313**	3,230	3,032	**4,313**	3,209	3,014
Real estate – construction	**700**	601	563	**700**	592	563
Manufacturing	**3,473**	3,207	3,193	**3,473**	3,168	3,134
Instalment loans to individuals and other personal lending (including credit cards)	**455**	562	1,008	**455**	548	994
Other commercial and industrial	**8,679**	7,771	6,863	**8,679**	7,684	6,780
	18,805	16,358	15,811	**18,805**	16,176	15,619
Overseas						
Agriculture, forestry and fishing	**–**	1	1	–	–	–
Financial, investment and insurance	**618**	739	634	**42**	178	11
Real estate – construction	**1**	16	21	**–**	–	–
Manufacturing	**78**	98	133	**10**	6	5
Lease financing	**2**	1	–	**2**	1	–
Other commercial and industrial	**101**	70	57	**29**	21	24
	800	925	846	**83**	206	40
Total Due from Customers on Acceptances	**19,605**	17,283	16,657	**18,888**	16,382	15,659

Maturity Analysis of Due From Customers on Acceptances at September 30, 1997[1]

	1997
Due in less than 3 months	**14,123**
Due after 3 months through to 1 year	**5,482**
	19,605

[1]Comparatives prior to 1997 are not available.

10 Trading securities

	Consolidated 1997	1996	1995	The Company 1997	1996	1995
Australian government treasury notes	**2,064**	2,951	3,958	**2,064**	2,926	3,958
Australian government bonds and securities	**3,607**	1,096	607	**3,607**	1,096	607
Securities of Australian local and semi-government authorities	**388**	317	409	**388**	317	409
Securities of or guaranteed by UK/Irish governments	**71**	30	–	**71**	30	–
Securities of or guaranteed by New Zealand government	**922**	769	810	**–**	–	–
US Treasury and Other US government agencies	**7**	–	–	**7**	–	–
US and Political Sub-divisions	**20**	3	–	**–**	–	–
Private corporations – Eurobonds	**9**	–	–	**9**	–	–
Private corporations/Other financial institutions' CDs/bills	**737**	509	515	**–**	–	–
Other securities	**2,162**	2,731	1,611	**2,036**	2,379	1,302
Total Trading Securities at Market Value	**9,987**	8,406	7,910	**8,182**	6,748	6,276

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

11 Available for sale securities

Carrying Value

Securities of Australian local and semi-government authorities	**–**	2	4	**–**	–	–
Securities of or guaranteed by UK/Irish governments	**48**	102	150	**–**	–	–
Securities of or guaranteed by New Zealand government	**5**	8	8	**–**	–	–
Private corporations/Other financial institutions' CDs/bills	**1,598**	105	113	**1,598**	–	–
Other securities	**164**	147	58	**44**	–	–
Total Available for Sale Securities	**1,815**	364	333	**1,642**	–	–

Market Value

Securities of Australian local and semi-government authorities	**–**	2	4	**–**	–	–
Securities of or guaranteed by UK/Irish governments	**48**	102	151	**–**	–	–
Securities of or guaranteed by New Zealand government	**5**	8	8	**–**	–	–
Private corporations/Other financial institutions' CDs/bills	**1,598**	105	113	**1,598**	–	–
Other securities	**164**	148	58	**44**	–	–
Total Available for Sale Securities at Market Value	**1,815**	365	334	**1,642**	–	–

The following table reconciles gross unrealised gains and losses of the Economic Entity's holdings of available for sale securities at September 30, 1997.

Dollars in Millions	*Amortised cost*	*Gross Unrealised Losses*	*Gross Unrealised Gains*	*Market Value*
Securities of or guaranteed by UK/Irish governments	48	–	–	48
Securities of or guaranteed by New Zealand government	5	–	–	5
Private corporations/Other financial institutions' CDs/bills	1,598	–	–	1,598
Other	164	–	–	164
Total	1,815	–	–	1,815

Maturities of Available for Sale Securities

The following tables analyse the maturities of the Economic Entity's holdings of available for sale securities at September 30, 1997.

	Maturing 1 Year or less		Maturing 1 year through 5 years		Maturing 5 years through 10 years		Maturing after 10 years	
Dollars in Millions	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
Securities of or guaranteed by UK/Irish governments	45	6.8%	3	7.4%	–	–	–	–
Securities of or guaranteed by New Zealand government	1	6.6%	2	7.9%	1	6.0%	1	4.4%
Private corporations/Other financial institutions' CDs/bills	1,598	5.9%	–	–	–	–	–	–
Other	126	5.2%	28	6.0%	10	6.6%	–	–
Total	1,770		33		11		1	
Maturities at market value	1,770		33		11		1	

Proceeds from maturities of available for sale securities during 1997 were $549 million (1996: $1,821 million, 1995: $1,074 million).

Proceeds from sales of available for sale securities during 1997 were $56 million (1996: $578 million, 1995: $689 million). Gross gains of nil (1996: $1 million, 1995: $1 million) and gross losses of nil (1996: $2 million and 1995: nil) were realised on sales.

Maturity Analysis of Available for Sale Securities at September 30, 1997[1]

At Call	**112**
Due in less than 3 months	**1,563**
Due after 3 months through to 1 year	**95**
Due after 1 year through to 5 years	**33**
Due after 5 years	**12**
	1,815

[1]Comparatives prior to 1997 are not available.

As at September 30 Dollars in Millions	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995

12 Investment securities

Carrying Value

Australian government treasury notes	**–**	–	329	**–**	–	329
Australian government bonds and securities	**23**	23	43	**23**	23	43
Securities of Australian local and semi-government authorities	**192**	336	246	**192**	336	246
Securities of or guaranteed by UK/Irish governments	**649**	632	440	**–**	–	–
Securities of or guaranteed by New Zealand government	**–**	139	262	**–**	135	243
US Treasury and other US government agencies	**1,375**	1,608	92	**200**	120	92
US and Political Sub-divisions	**23**	28	–	**–**	–	–
Private corporations – Eurobonds	**50**	101	89	**50**	101	89
Private corporations/Other financial institutions' CDs/bills	**3,180**	3,110	2,256	**3,180**	1,839	1,283
Other securities	**1,956**	597	877	**1,437**	436	726
Total Investment Securities	**7,448**	6,574	4,634	**5,082**	2,990	3,051

Market Value

Australian government treasury notes	**–**	–	329	**–**	–	329
Australian government bonds and securities	**26**	26	46	**26**	26	46
Securities of Australian local and semi-government authorities	**218**	360	273	**218**	360	273
Securities of or guaranteed by UK/Irish governments	**656**	638	443	**–**	–	–
Securities of or guaranteed by New Zealand government	**–**	139	262	**–**	135	243
US Treasury and other US government agencies	**1,383**	1,611	92	**200**	120	92
US and Political Sub-divisions	**23**	28	–	**–**	–	–
Private corporations – Eurobonds	**50**	101	89	**50**	101	89
Private corporations/Other financial institutions' CDs/bills	**3,183**	3,112	2,260	**3,183**	1,836	1,283
Other securities	**1,997**	601	877	**1,476**	443	727
Total Investment Securities at Market Value	**7,536**	6,616	4,671	**5,153**	3,021	3,082

The following table reconciles gross unrealised gains and losses of the Economic Entity's holdings of investment securities at September 30, 1997.

Dollars in Millions	*Amortised Cost*	*Gross Unrealised Gains*	*Gross Unrealised Losses*	*Market Value*
Australian government bonds and securities	23	3	–	26
Securities of Australian local and semi-government authorities	192	26	–	218
Securities of or guaranteed by UK/Irish governments	649	7	–	656
Securities of or guaranteed by New Zealand government	–	–	–	–
US Treasury and other US government agencies	1,375	8	–	1,383
US and Political Sub-divisions	23	–	–	23
Private corporations – Eurobonds	50	–	–	50
Private corporations/Other financial institutions' CDs/bills	3,180	14	11	3,183
Other securities	1,956	43	2	1,997
Total	7,448	101	13	7,536

Maturities of Investment Securities

The following tables analyse the maturities of the Economic Entity's holdings of investment securities at September 30, 1997.

	Maturing 1 Year or less		*Maturing 1 year through 5 years*		*Maturing 5 years through 10 years*		*Maturing after 10 years*	
Dollars in Millions	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
Australian government bonds	–	–	23	12.5%	–	–	–	–
Securities of Australian local and semi-government authorities	–	–	167	13.6%	25	7.5%	–	–
Securities of or guaranteed by UK/Irish governments	253	6.2%	374	6.3%	22	6.5%	–	–
US Treasury and other US government agencies and entities	716	5.6%	146	6.3%	300	6.9%	213	6.3%
US and Political Sub-divisions	6	7.3%	8	4.9%	6	6.9%	3	8.1%
Private corporations-Eurobonds	14	5.4%	36	4.1%	–	–	–	–
Private corporations/Other financial institutions' CDs/bills	2,030	6.5%	1,150	7.2%	–	–	–	–
Other securities	824	5.6%	850	4.3%	282	5.0%	–	–
Total book value	3,843		2,754		635		216	
Maturities at market value	3,854		2,806		660		216	

Proceeds from maturities of investment securities during 1997 were $8,825 million (1996: $7,865 million, 1995: $8,127 million). The majority of these relate to the maturity of short-dated investment securities. Proceeds from sales of investment securities during 1997 were nil (1996: $5 million, 1995: nil). The investment securities sold in 1996 were as a result of the initial adoption of the FASB implementation guide to Statement 115. There were no gross gains or gross losses realised during 1997 or the preceding two years.

Maturity Analysis of Investment Securities at September 30, 1997[1]

At Call	**2**
Due in less than 3 months	**1,769**
Due after 3 months through to 1 year	**2,072**
Due after 1 year through to 5 years	**2,754**
Due after 5 years	**851**
	7,448

[1]Comparatives prior to 1997 are not available.

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1997*	*1996*	*1995*

13 Loans and advances

	Consolidated 1997	Consolidated 1996	Consolidated 1995	The Company 1997	The Company 1996	The Company 1995
Australia						
Overdrafts	**4,173**	3,353	3,664	**4,173**	3,264	3,272
Credit card outstandings	**1,817**	1,624	1,374	**1,817**	1,624	1,374
Market rate advances	**317**	140	55	**317**	140	55
Bills discounted	**–**	55	69	**–**	–	–
Lease finance	**4,458**	3,823	3,247	**4,372**	3,723	2,961
Housing loans	**33,420**	28,111	23,692	**33,420**	27,457	23,472
Other term lending	**21,690**	21,484	19,226	**21,132**	20,919	18,488
Equity participation in leveraged leases	**768**	597	686	**726**	596	683
Redeemable preference share finance	**415**	146	21	**415**	146	21
Other lending	**3,196**	2,711	2,251	**3,185**	2,641	2,239
	70,254	62,044	54,285	**69,557**	60,510	52,565
Overseas						
Overdrafts	**7,780**	7,011	6,770	**4**	3	4
Credit card outstandings	**1,470**	1,214	1,116	**–**	–	–
Market rate advances	**599**	572	503	**–**	–	–
Bills discounted	**284**	163	223	**190**	91	40
Lease finance	**2,877**	2,060	1,258	**2**	–	–
Housing loans	**16,103**	13,400	11,808	**54**	36	29
Other term lending	**29,248**	23,066	16,241	**2,639**	982	933
Equity participation in leveraged leases	**3**	4	4	**–**	–	–
Redeemable preference share finance	**445**	1	2	**–**	–	–
Other lending	**3,753**	4,180	1,532	**273**	883	745
	62,562	51,671	39,457	**3,162**	1,995	1,751
Total Loans and Advances (Gross)	**132,816**	113,715	93,742	**72,719**	62,505	54,316
Deduct: Unearned income	**(1,244)**	(1,118)	(1,173)	**(796)**	(730)	(666)
Provision for doubtful debts – Note 14	**(1,354)**	(1,286)	(1,031)	**(681)**	(648)	(571)
Total Loans and Advances (Net)	**130,218**	111,311	91,538	**71,242**	61,127	53,079
Leasing receivables included in lease finance net of unearned income :						
Current	**1,662**	1,734	1,715	**714**	1,010	1,170
Non-Current	**5,685**	4,108	2,810	**3,783**	2,770	2,029
	7,347	5,842	4,525	**4,497**	3,780	3,199

Maturity Analysis of Loans and Advances at September 30, 1997[1]

Overdraft	**11,953**
At Call	**8,164**
Due in less than 3 months	**10,806**
Due after 3 months through to 1 year	**14,519**
Due after 1 year through to 5 years	**28,910**
Due after 5 years	**56,501**
No Maturity Specified[2]	**(635)**
	130,218

[1]Comparatives prior to 1997 are not available.

[2]Includes general provision for doubtful debts as disclosed in Note 14.

The diversification and size of the Economic Entity is such that its lending is widely spread both geographically and in terms of the types of industries served. In accordance with SEC guidelines, the following table shows comparative year-end detail of the loan portfolio for each of the five years ended September 30. The table also demonstrates the concentration of credit risk by industry with the maximum credit risk represented by the carrying values less provision for doubtful debts.

	Consolidated				
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1994*	*1993*
Australia					
Government and public authorities	**828**	1,083	1,158	1,268	1,208
Agriculture, forestry and fishing	**4,615**	4,365	3,723	3,059	2,713
Financial, investment and insurance	**4,902**	3,854	2,615	2,891	2,724
Real estate – construction	**1,268**	1,191	1,157	1,140	1,025
Manufacturing[(1)]	**2,749**	2,515	3,194		
Real estate – mortgage	**31,931**	24,449	21,075	17,579	13,945
Instalment loans to individuals and other personal lending (including credit cards)	**7,223**	8,372	8,144	7,956	7,536
Lease financing	**5,226**	4,420	3,933	2,916	2,801
Other commercial and industrial[(2)]	**11,512**	11,795	9,286	10,520	10,557
	70,254	62,044	54,285	47,329	42,509
Overseas					
Government and public authorities	**530**	617	410	269	339
Agriculture, forestry and fishing	**3,881**	3,526	2,862	2,637	2,344
Financial, investment and insurance	**3,135**	2,205	1,890	1,679	2,028
Real estate – construction	**1,373**	1,342	1,292	1,199	1,522
Manufacturing[(1)]	**4,883**	4,139	3,127		
Real estate – mortgage	**16,103**	13,942	12,810	10,571	9,141
Instalment loans to individuals and other personal lending (including credit cards)	**9,214**	8,319	6,223	5,729	5,761
Lease financing	**2,880**	2,064	1,262	1,058	1,121
Other commercial and industrial[(2)]	**20,563**	15,517	9,581	10,902	11,444
	62,562	51,671	39,457	34,044	33,700
Total Loans and Advances (Gross)	**132,816**	113,715	93,742	81,373	76,209
Deduct: Unearned income	**(1,244)**	(1,118)	(1,173)	(963)	(1,021)
Provisions for doubtful debts – Note 14	**(1,354)**	(1,286)	(1,031)	(1,242)	(1,783)
Total Loans and Advances (Net)	**130,218**	111,311	91,538	79,168	73,405

(1) Comparatives prior to 1995 are not available.

(2) At September 30, 1997 there were no concentrations of other commercial and industrial loans exceeding 10% of total loans and advances.

Concentrations of credit risk by geographical location is based on the geographical location of the office in which the loans or receivables are booked.

	Consolidated		
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*
Australia	**68,827**	59,717	51,903
Europe	**31,199**	25,415	23,699
New Zealand	**17,395**	16,138	14,270
United States	**10,649**	8,725	536
Asia	**2,148**	1,316	1,130
Total	**130,218**	111,311	91,538

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

As at September 30, 1997 *Dollars in Millions*	*Due in 1 Year or less* [(1)]	*Due after 1 Year through 5 Years*	*Due after 5 Years*	*Total*
Australia				
Government and public authorities	75	261	492	828
Agriculture, forestry and fishing	3,024	1,226	365	4,615
Financial, investment and insurance	3,447	1,010	445	4,902
Real estate – construction	679	399	190	1,268
Manufacturing	1,690	802	257	2,749
Real estate – mortgage	3,469	948	27,514	31,931
Instalment loans to individuals and other personal lending (including credit cards)	3,310	2,563	1,350	7,223
Lease financing	977	3,999	250	5,226
Other commercial and industrial	5,047	3,104	3,361	11,512
	21,718	14,312	34,224	70,254
Overseas				
Government and public authorities	374	93	63	530
Agriculture, forestry and fishing	1,996	712	1,173	3,881
Financial, investment and insurance	1,842	1,183	110	3,135
Real estate – construction	897	294	182	1,373
Manufacturing	3,106	1,166	611	4,883
Real estate – mortgage	1,143	1,543	13,417	16,103
Instalment loans to individuals and other personal lending (including credit cards)	4,741	2,653	1,820	9,214
Lease financing	981	1,377	522	2,880
Other commercial and industrial	9,063	7,065	4,435	20,563
	24,143	16,086	22,333	62,562
Gross Loans and Advances	45,861	30,398	56,557	132,816
Interest Rate Sensitivity of Lending				
Variable interest rates[(2)]				
Australia	13,368	3,811	20,100	37,279
Overseas	16,486	8,496	14,063	39,045
Fixed interest rates				
Australia	8,352	10,499	14,123	32,974
Overseas	7,655	7,592	8,271	23,518
Total	45,861	30,398	56,557	132,816

[(1)] Overdrafts are not subject to a repayment schedule. Due to their characteristics, overdrafts are categorised as due within one year.

[(2)] Under the Consumer Credit Acts of the States of Victoria, New South Wales, South Australia and Western Australia, and the Australian Capital Territory, the Company must give notice to credit card holders when an increase in interest rates is sought. The legislation stipulates the notice period as two billing cycles plus 21 days which, in effect, means approximately 90 days' notice must be given. Such credit card outstandings have been included in the variable category.

As at September 30 Dollars in Millions	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995

14 Provisions for doubtful debts

Specific Provision

Opening balance	**648**	535	813	**256**	258	327
Provisions acquired	**–**	148	–	**2**	–	–
Bad debts recovered	**191**	215	131	**60**	64	47
Bad debts written off	**(539)**	(492)	(455)	**(185)**	(179)	(155)
Charge to profit and loss	**252**	263	53	**85**	114	37
Foreign currency translation and consolidation adjustments	**42**	(21)	(7)	**–**	(1)	2
Closing balance	**594**	648	535	**218**	256	258

General Provision

Opening balance	**664**	551	489	**416**	364	324
Provisions acquired	**–**	55	–	**6**	–	–
Charge to profit and loss	**80**	70	63	**46**	55	43
Foreign currency translation adjustments	**27**	(12)	(1)	**5**	(3)	(3)
Closing balance	**771**	664	551	**473**	416	364
Total Provisions	**1,365**	1,312	1,086	**691**	672	622

Total Specific Provision for Doubtful Debts

The total specific provision for doubtful debts of the Economic Entity is comprised as follows. For further information refer to Note 15 of the Financial Statements, Asset Quality Disclosures.

On balance sheet exposures	**583**	622	480	**208**	232	207
Off balance sheet credit related commitments(1)	**11**	26	55	**10**	24	51
Total Specific Provision for Doubtful Debts (as per above)	**594**	648	535	**218**	256	258
Total provision for doubtful debts	**1,365**	1,312	1,086	**691**	672	622
Deduct: Specific provision against off balance sheet credit related commitments(1)	**11**	26	55	**10**	24	51
Total Provision for Doubtful Debts Deducted from Loans (per Note 13)	**1,354**	1,286	1,031	**681**	648	571

(1) The specific provision for off balance sheet credit related commitments is shown as a liability in the financial statements. (Refer to Note 24).

Specific Provision as a percentage of Risk Weighted Assets

On balance sheet exposures – specific provision	**0.38%**	0.47%	0.44%
Off balance sheet credit related commitments – specific provision	**0.01%**	0.02%	0.05%
Total Specific Provision for Doubtful Debts	**0.39%**	0.49%	0.49%

Specific Provision for Doubtful Debts by Industry Category

The following table provides an analysis of the Economic Entity's total specific provision for doubtful debts including off balance sheet exposures by industry category.

	Consolidated				
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1994*	*1993*
Australia					
Agriculture, forestry and fishing	**16**	13	7	25	11
Financial, investment and insurance	**43**	46	39	113	84
Real estate – construction	**11**	12	49	27	43
Manufacturing(1)	**50**	58	79		
Real estate – mortgage	**2**	–	–	–	–
Instalment loans to individuals and other personal lending (including credit cards)	**30**	18	16	35	46
Lease financing	**1**	2	–	–	1
Other commercial and industrial	**40**	93	99	198	364
	193	242	289	398	549
Overseas					
Agriculture, forestry and fishing	**12**	13	14	21	67
Financial, investment and insurance	**6**	12	11	22	53
Real estate – construction	**27**	28	19	23	77
Manufacturing(1)	**43**	55	45		
Real estate – mortgage	**18**	15	7	26	9
Instalment loans to individuals and other personal lending (including credit cards)	**84**	71	38	56	81
Lease financing	**3**	2	3	15	26
Other commercial and industrial	**208**	210	109	252	523
	401	406	246	415	836
Total Specific Provision for Doubtful Debts	**594**	648	535	813	1,385

(1) Comparatives prior to 1995 are not available.

Analysis of Movements in Total Provision for Doubtful Debts

The following table provides an analysis of the Economic Entity's total specific provision for doubtful debts including off balance sheet exposures for each of the five years ended September 30. For further information, refer to Note 15 of the Financial Statements 'Asset Quality Disclosures' on page 97.

	Consolidated				
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1994*	*1993*
Balance at beginning of year	**1,312**	1,086	1,302	1,849	1,588
Provisions at acquisition date of entities acquired	**–**	203	–	–	719
Less Write-offs:					
Australia					
Agriculture, forestry and fishing	**15**	10	8	9	27
Financial, investment and insurance	**10**	7	23	32	104
Real estate – construction	**7**	5	10	10	46
Manufacturing(1)	**9**	32	22		
Real estate – mortgage	**8**	4	3	2	6
Instalment loans to individuals and other personal lending (including credit cards)	**78**	59	44	7	123
Lease financing	**6**	3	2	2	9
Other commercial and industrial	**50**	74	53	134	320
	183	194	165	196	635

As at September 30 *Dollars in Millions*	*Consolidated* *1997*	*1996*	*1995*	*1994*	*1993*
Overseas					
Agriculture, forestry and fishing	**9**	7	4	19	16
Financial, investment and insurance	**1**	3	2	22	33
Real estate – construction	**8**	21	31	57	49
Manufacturing[(1)]	**27**	29	26		
Real estate – mortgage	**5**	7	4	36	4
Instalment loans to individuals and other personal lending (including credit cards)	**175**	121	88	73	111
Lease financing	**4**	1	10	8	11
Other commercial and industrial	**127**	109	125	306	284
	356	298	290	521	508
Total write-offs	**539**	492	455	717	1,143
Plus Recoveries:					
Australia					
Agriculture, forestry and fishing	**2**	1	2	2	3
Financial, investment and insurance	**7**	17	10	6	17
Real estate – construction	**1**	1	1	2	2
Manufacturing[(1)]	**3**	2	4		
Real estate – mortgage	**1**	–	1	1	1
Instalment loans to individuals and other personal lending (including credit cards)	**20**	19	17	21	17
Lease financing	**1**	–	–	1	3
Other commercial and industrial	**25**	15	16	29	17
	60	55	51	62	60
Overseas					
Agriculture, forestry and fishing	**3**	1	1	1	–
Financial, investment and insurance	**4**	4	3	21	1
Real estate – construction	**4**	23	5	4	1
Manufacturing[(1)]	**22**	10	9		
Real estate – mortgage	**1**	2	–	1	1
Instalment loans to individuals and other personal lending (including credit cards)	**38**	32	24	20	16
Lease financing	**2**	1	1	–	–
Other commercial and industrial	**57**	87	37	33	23
	131	160	80	80	42
Total recoveries	**191**	215	131	142	102
Net write-offs	**(348)**	(277)	(324)	(575)	(1,041)
Charge to profit and loss	**332**	333	116	179	604
Provisions no longer required	**–**	–	–	(71)	–
Foreign currency translation adjustments	**69**	(33)	(8)	(80)	(21)
Balance at end of year	**1,365**	1,312	1,086	1,302	1,849
Ratio of net write-offs during the year to average loans and advances outstanding during the year (Refer average balance sheet – Note 32)	**0.28%**	0.26%	0.37%	0.76%	1.47%
Ratio of balance at end of year to risk weighted assets	**0.88%**	0.98%	1.00%	1.35%	2.02%

[(1)]*Comparatives prior to 1995 are not available*

15 Asset quality disclosures

The Economic Entity provides for doubtful debts as discussed in Note 1. Accordingly, when management determines that a loan recovery is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value. Interest and charges are no longer taken to profit when their payment is considered to be unlikely.

Gross amounts have been prepared without regard to security available for such loans. The inclusion of past due loans and restructured loans in both tables does not necessarily indicate that such loans are doubtful.

	Consolidated				
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1994*	*1993*
Non-Accrual Loans[(1)(2)]					
Gross					
Australia	**553**	579	818	1,057	1,656
Overseas[(3)]	**728**	865	807	1,181	2,052
	1,281	1,444	1,625	2,238	3,708
Specific Provisions					
Australia	**189**	228	284	395	532
Overseas[(3)]	**386**	413	246	413	853
	575	641	530	808	1,385
Net					
Australia	**364**	351	534	662	1,124
Overseas[(3)]	**342**	452	561	768	1,199
	706	803	1,095	1,430	2,323
Restructured Loans					
Australia	**–**	57	241	247	319
Overseas	**5**	6	–	2	35
	5	63	241	249	354
Assets Acquired through Security Enforcement[(4)]					
Real Estate					
Australia	**–**	–	–	–	
Overseas	**6**	6	–	–	
	6	6	–	–	
Other Assets					
Australia	**–**	–	–	–	
Overseas	**6**	4	3	1	
	6	4	3	1	
Total Impaired Assets					
Gross					
Australia	**553**	636	1,059	1,304	1,975
Overseas[(3)]	**745**	881	810	1,184	2,087
	1,298	1,517	1,869	2,488	4,062
Specific Provisions					
Australia	**189**	228	284	395	532
Overseas[(3)]	**386**	413	246	413	853
	575	641	530	808	1,385
Net					
Australia	**364**	408	775	909	1,443
Overseas[(3)]	**359**	468	564	771	1,234
	723	876	1,339	1,680	2,677

(1) *Includes loans amounting to $153 million gross ($90 million net) (1996: $220 million gross, $134 million net, 1995: $296 million gross, $188 million net, 1994: $366 million gross, $200 million net, 1993: $362 million gross, $225 million net) where some concerns exist as to the ongoing ability of the borrowers to comply with existing loan terms, but on which no principal or interest payments are contractually past due. Such loans were previously classified as 'additional provisioning'.*

(2) *Includes off-balance sheet credit exposures amounting to $43 million gross, $32 million net (1996: $72 million gross, $46 million net; 1995: $97 million gross, $69 million net).*

(3) *Michigan National Corporation (MNC) adopts a provisioning methodology under which a portion of its specific provision is determined against segments of its loan portfolio based on historical loan loss experience and current trends evident in those segments. As at September 30, 1997, this portion of MNC's specific provision amounted to $168 million (1996: $135 million). This amount is included in the specific provision figure quoted in the above table. Due to the nature of MNC's provisioning methodology, the above table does not include gross loan amounts to which this portion of the specific provision relates.*

(4) *1993 comparatives are not available.*

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	1994	1993
Memorandum Disclosures:					
Accruing loans past due 90 days or more with adequate security					
Australia	**11**	8	7	10	51
Overseas	**92**	91	96	159	148
	103	99	103	169	199
Accruing portfolio facilities past due 90 to 180 days[1]					
Gross					
Australia	**31**	22	14	5	
Overseas	**76**	36	7	19	
	107	58	21	24	
Specific Provisions					
Australia	**6**	4	4	3	
Overseas	**13**	3	1	2	
	19	7	5	5	
Net					
Australia	**25**	18	10	2	
Overseas	**63**	33	6	17	
	88	51	16	19	

[1] 1993 comparatives are not available.

Further analysis of non-accrual loans and interest received and forgone under the Reserve Bank of Australia asset quality disclosure guidelines is as follows.

As at September 30 Dollars in Millions	Consolidated 1997 Gross	1997 Specific Provisions	1997 Net	1996 Gross	1996 Specific Provisions	1996 Net	1995 Gross	1995 Specific Provisions	1995 Net
Non-Accrual Loans With Provisions and									
No performance									
Australia	**254**	**173**	**81**	256	206	50	414	224	190
Overseas	**390**	**331**	**59**	372	174	198	398	198	200
	644	**504**	**140**	628	380	248	812	422	390
Partial performance									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**32**	**6**	**26**	12	2	10	–	–	–
	32	**6**	**26**	12	2	10	–	–	–
Full performance									
Australia	**51**	**15**	**36**	60	22	38	168	60	108
Overseas	**129**	**50**	**79**	277	237	40	131	48	83
	180	**65**	**115**	337	259	78	299	108	191

As at September 30 *Dollars in Millions*	*Consolidated*								
	1997			*1996*			*1995*		
	Gross	*Specific Provisions*	*Net*	*Gross*	*Specific Provisions*	*Net*	*Gross*	*Specific Provisions*	*Net*
Non-Accrual Loans Without Provisions and No performance									
Australia	**241**	**–**	**241**	260	–	260	233	–	233
Overseas	**173**	**–**	**173**	193	–	193	262	–	262
	414	**–**	**414**	453	–	453	495	–	495
Full performance									
Australia	**6**	**–**	**6**	2	–	2	4	–	4
Overseas	**5**	**–**	**5**	12	–	12	15	–	15
	11	**–**	**11**	14	–	14	19	–	19
Total	**1,281**	**575**	**706**	1,444	641	803	1,625	530	1,095

Interest Income Received and Foregone

As to the non-accrual and restructured loans referred to above, the gross interest income that would have been recorded during 1997 had interest on such loans been included in income, amounted to $44 million (1996: $75 million, 1995: $68 million) for Australian loans and $54 million (1996: $62 million, 1995: $85 million) for overseas loans. Actual interest income received for the period ended September 30, 1997 subsequent to these balances becoming non-accrual or restructured was $5 million (1996: $20 million, 1995: $31 million) for Australian loans and $10 million (1996: $7 million, 1995: $16 million) for overseas loans.

Additional Information in respect of Impaired Assets

As at September 30 *Dollars in Millions*	*Consolidated*		
	1997	*1996*	*1995*
Fair Value of Security[(1)]			
Non-Accrual Loans			
Australia	**336**	378	482
Overseas	**450**	541	539
	786	919	1,021
Restructured Loans			
Australia	**–**	–	–
Overseas	**5**	6	–
	5	6	–
Loans newly classified into impaired assets categories during the period:			
Australia	**508**	188	155
Overseas	**475**	164	75
	983	352	230

[(1)] *Fair Value of Security is the amount for which that security could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Amounts of security held in excess of the outstanding balance of individual non-accrual or restructured loans are not included in this table.*

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

16 Shares in entities and other securities

Carrying value						
Shares in other entities (at market value)[1]	**–**	–	92	**–**	–	92
Shares in other entities (at cost)	**286**	184	55	**227**	149	29
Deduct: Provision for diminution in value	**(9)**	(12)	(6)	**(2)**	(6)	(2)
	277	172	141	**225**	143	119
Shares in controlled entities						
At cost	**–**	–	–	**3,112**	2,873	2,870
At Directors' valuation 1987	**–**	–	–	**185**	185	185
Deduct: Provision for diminution in value	**–**	–	–	**–**	–	(2)
	–	–	–	**3,297**	3,058	3,053
	277	172	141	**3,522**	3,201	3,172
Units in unlisted trust (at cost)	**3**	3	4	**–**	–	–
Debentures of other entities (at cost)	**–**	–	22	**–**	–	22
Total carrying value of Shares in Entities and Other Securities	**280**	175	167	**3,522**	3,201	3,194
Market value						
Shares in other entities	**297**	201	184	**253**	171	136
Units in unlisted trust	**3**	4	5	**–**	–	–
Debentures of other entities	**–**	–	22	**–**	–	22
Total market value of Shares in Entities and Other Securities	**300**	205	211	**253**	171	158

[1] Included in shares in other entities in 1995 is an investment in the Australian and New Zealand Banking Group Limited which was carried at market value net of the valuation of any associated options.

17 Regulatory deposits

Reserve Bank of Australia	**838**	746	662	**838**	733	650
Central Banks Overseas	**178**	159	107	**9**	3	3
Total Regulatory Deposits	**1,016**	905	769	**847**	736	653

Regulatory deposits represent deposits held by the regulatory bodies of the industry in which operations are conducted as a pre-condition for conducting business.

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

18 Fixed assets

Land and buildings						
Freehold						
At cost (acquired subsequent to previous valuation date)	**46**	57	130	**28**	43	101
At Directors' valuation 1997	**1,208**	–	–	**156**	–	–
At Directors' valuation 1996	**–**	1,318	–	**–**	225	–
At Directors' valuation 1995	**–**	–	1,330	**–**	–	230
Leasehold						
At cost (acquired subsequent to previous valuation date)	**3**	2	3	**–**	–	–
At Directors' valuation 1997	**77**	–	–	**–**	–	–
At Directors' valuation 1996	**–**	65	–	**–**	–	–
At Directors' valuation 1995	**–**	–	74	**–**	–	–
Less: Accumulated depreciation and amortisation on buildings	**(8)**	(5)	(8)	**(1)**	(1)	(1)
	1,326	1,437	1,529	**183**	267	330
Leasehold improvements						
At cost	**456**	388	331	**349**	298	268
Less: Accumulated amortisation	**(208)**	(171)	(173)	**(154)**	(125)	(148)
	248	217	158	**195**	173	120
Furniture, fixtures and fittings and other equipment						
At cost	**2,010**	1,570	1,307	**118**	105	142
Under finance lease	**13**	1	–	**–**	–	–
Less: Accumulated depreciation and amortisation	**(677)**	(542)	(516)	**(65)**	(56)	(94)
	1,346	1,029	791	**53**	49	48
Data processing equipment						
At cost	**1,197**	1,038	973	**499**	441	420
Under finance lease	**16**	17	17	**8**	10	9
Less: Accumulated depreciation and amortisation	**(857)**	(747)	(696)	**(365)**	(334)	(330)
	356	308	294	**142**	117	99
Total Fixed Assets	**3,276**	2,991	2,772	**573**	606	597

General Information

The Economic Entity is a substantial property owner in its own right due to the scale and nature of its operations. The majority of properties are in Australia with the largest proportion of the remainder being in the United Kingdom.

The Economic Entity's Australian operations are conducted through a network of 1,200 branches and other outlets. Operations outside of Australia are conducted through 1,221 branches and other offices, principally in the United Kingdom, United States, Ireland and New Zealand. Included in the Australian properties is the computer centre in Knoxfield, Melbourne which provides the Economic Entity with facilities for data processing operations.

A wholly owned entity, NBA Properties Limited together with its controlled entities, owns, operates and maintains the majority of the Economic Entity's properties in Australia. These entities do not invest in properties other than in conjunction with the Economic Entity's normal business operations. The leases, entered into between the property entities and other Economic Entity members, are on terms, including rentals, comparable to those that could be obtained from unrelated third parties.

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

19 Goodwill

At cost	**2,863**	2,817	1,847	**–**	–	–
Less: Accumulated amortisation	**(741)**	(599)	(462)	**–**	–	–
Total Goodwill	**2,122**	2,218	1,385	**–**	–	–

20 Other assets

Development land acquired and held for resale: Cost of acquisition	**5**	11	10	**–**	–	–
Future income tax benefits[(1)]	**497**	470	324	**178**	182	190
Accrued interest receivable	**2,710**	2,114	1,532	**2,052**	1,662	1,132
Prepayments	**100**	53	29	**53**	10	7
Receivables under contracts of sale	**9**	9	6	**–**	–	–
Unrealised gains on trading derivative financial instruments	**5,571**	3,708	3,684	**5,163**	3,466	3,536
Receivables from liquidator[(2)]	**30**	39	102	**30**	39	102
Other assets[(3)]	**1,891**	2,533	1,692	**713**	1,083	536
Total Other Assets	**10,813**	8,937	7,379	**8,189**	6,442	5,503
[(1)] Future income tax benefits comprise:						
Specific provision for doubtful debts	**137**	142	99	**71**	84	73
Other provisions	**135**	149	98	**81**	81	77
Tax losses	**30**	39	45	**–**	–	–
Other	**195**	140	82	**26**	17	40
Total Future Income Tax Benefits	**497**	470	324	**178**	182	190
Potential future income tax benefits not carried forward for the reasons outlined in Note 1 relating to the general provision for doubtful debts	**246**	221	198	**168**	150	131

[(2)]*Represents the liquidators' estimation of the net return to the Company from entities placed in voluntary liquidation. Movements in the estimated net return other than liquidators' distributions are recognised in the profit and loss account.*

[(3)]*Includes prepaid pension costs, securities sold but not yet settled and accrued fees receivable.*

As at September 30 Dollars in Millions	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995

21 Due to other financial institutions

Australia						
Due to other banks	**2,307**	3,996	4,088	**2,307**	3,838	3,146
Due to non-bank financial institutions	**1,223**	865	759	**1,223**	865	759
	3,530	4,861	4,847	**3,530**	4,703	3,905
Overseas						
Due to other banks	**8,464**	6,558	7,253	**6,950**	5,270	5,892
Due to non-bank financial institutions	**752**	1,376	2,526	**698**	1,261	2,140
	9,216	7,934	9,779	**7,648**	6,531	8,032
Total Due to Other Financial Institutions	**12,746**	12,795	14,626	**11,178**	11,234	11,937

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

Maturity Analysis of Due To Other Financial Institutions at September 30, 1997[(1)]

At Call	**3,598**
Due in less than 3 months	**7,923**
Due after 3 months through to 1 year	**1,003**
Due after 1 year through to 5 years	**18**
Due after 5 years	**196**
No Maturity Specified	**8**
	12,746

[(1)] *Comparatives prior to 1997 are not available.*

22 Deposits and other borrowings

Australia						
Deposits						
Deposits not bearing interest	**2,335**	1,878	2,305	**2,335**	1,865	2,306
On demand and short-term deposits[(1)]	**28,483**	22,658	19,305	**28,483**	22,062	18,716
Certificates of deposit	**3,954**	3,551	4,455	**3,899**	3,515	3,953
Term deposits	**17,050**	17,425	17,077	**16,946**	17,302	16,815
Borrowings	**4,704**	4,042	2,913	**4,704**	4,042	3,087
Total Australia	**56,526**	49,554	46,055	**56,367**	48,786	44,877
Overseas						
Deposits						
Deposits not bearing interest	**7,126**	6,501	4,489	**10**	9	10
On demand and short-term deposits[(1)]	**26,726**	25,314	19,803	**579**	76	86
Certificates of deposit	**6,280**	4,627	2,995	**3,932**	2,287	1,257
Term deposits	**26,414**	18,117	11,822	**9,279**	6,243	4,058
Borrowings	**5,397**	5,045	3,365	**33**	128	209
Total Overseas	**71,943**	59,604	42,474	**13,833**	8,743	5,620
Total Deposits and Other Borrowings	**128,469**	109,158	88,529	**70,200**	57,529	50,497

[(1)] *Deposits available on demand or lodged for periods of less than 30 days.*

Funds are derived from well diversified resources spread over the following geographic locations. Concentrations of deposits and other borrowings by geographical location are based on the geographical location of the office in which the deposits and other borrowings are recognised.

	Consolidated		
As at September 30	*1997*	*1996*	*1995*
Australia	**56,526**	49,554	46,055
Europe	**34,054**	27,458	23,434
New Zealand	**14,949**	13,248	12,489
United States	**16,202**	13,843	2,792
Asia	**6,738**	5,055	3,759
Total	**128,469**	109,158	88,529

Maturities of Deposits

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

	Three months or less	*Over three months through six months*	*Over six months through twelve months*	*Over twelve months*	*Total*
As at September 30, 1997					
Dollars in Millions					
Australia					
Certificates of deposit	1,199	1,070	1,571	114	3,954
Time deposits	9,588	119	6,207	1,136	17,050
Total	10,787	1,189	7,778	1,250	21,004
Overseas					
Certificates of deposit	4,951	796	443	90	6,280
Time deposits	20,353	2,113	1,579	2,369	26,414
Total	25,304	2,909	2,022	2,459	32,694
Total Certificates of Deposit and Time Deposits	36,091	4,098	9,800	3,709	53,698

Maturity Analysis of Deposits and Other Borrowings at September 30, 1997[1]

At Call	**56,744**
Due in less than 3 months	**47,025**
Due after 3 months through to 1 year	**18,283**
Due after 1 year through to 5 years	**2,908**
Due after 5 years	**902**
No Maturity Specified	**2,607**
	128,469

[1] *Comparatives prior to 1997 are not available.*

Short-Term Borrowings

The following table sets forth information concerning the Economic Entity's short-term borrowings for each of the last three years ended September 30.

	Consolidated		
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*
Balance at end of year:			
Commercial paper USA	**4,826**	4,430	2,473
Unsecured notes and deposits	**–**	581	166
Weighted average interest rate at year end:			
Commercial paper USA	**4.8%**	5.6%	4.8%
Unsecured notes and deposits	**–**	5.4%	6.9%
Maximum amount outstanding at any month end during year:			
Commercial paper USA	**4,826**	4,519	2,551
Unsecured notes and deposits	**–**	1,055	177
Average amount outstanding during year:			
Commercial paper USA	**4,418**	3,527	2,072
Unsecured notes and deposits	**–**	538	153
Weighted average interest rate during year:			
Commercial paper USA	**5.2%**	5.6%	5.9%
Unsecured notes and deposits	**–**	5.4%	7.7%

Short-term borrowings of the Economic Entity consist of commercial paper programs of National Australia Funding (Delaware) Inc.

23 Income tax liability

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1997*	*1996*	*1995*
Australia						
Provision for income tax	**405**	515	625	**313**	447	554
Provision for deferred income tax[1]	**498**	511	672	**491**	503	658
	903	1,026	1,297	**804**	950	1,212
Overseas						
Provision for income tax	**586**	449	474	**2**	6	8
Provision for deferred income tax[1]	**140**	163	109	**–**	–	–
	726	612	583	**2**	6	8
Total Income Tax Liability	**1,629**	1,638	1,880	**806**	956	1,220
[1] Provisions for deferred income tax comprise:						
Lease finance	**172**	153	50	**109**	99	–
Leveraged leasing	**315**	340	364	**310**	334	358
Depreciation	**57**	76	63	**2**	–	4
Other	**94**	105	304	**70**	70	296
Total Provision for Deferred Income Tax	**638**	674	781	**491**	503	658

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

24 Provisions

Final dividend	**692**	650	614	**692**	650	614
Employee entitlements	**325**	303	305	**260**	241	249
Non-lending losses/contingencies	**76**	117	110	**23**	26	31
Restructuring costs	**18**	31	23	**–**	–	1
Specific provision for off balance sheet credit related commitments	**11**	26	55	**10**	24	51
Other provisions	**170**	197	90	**4**	3	6
Total Provisions	**1,292**	1,324	1,197	**989**	944	952

25 Bonds, notes and subordinated debt

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

1995	JPY 1.6b Euro medium term notes due 12/10/95	–	–	22	–	–	22
	USD 34.2m Euro medium term notes due 29/12/95	–	–	45	–	–	45
1996	USD 11m Euro medium term notes due 5/1/96	–	–	15	–	–	15
	USD 11m medium term notes due 30/7/96(1)	–	–	14	–	–	14
	USD 31m medium term notes due 10/11/96(1)	–	37	41	–	37	41
	USD 50m medium term notes due 15/2/96(1)	–	–	66	–	–	66
	USD 50m medium term notes due 27/9/96(1)	–	–	66	–	–	66
	USD 50m medium term notes due 27/9/96(1)	–	–	66	–	–	66
	USD 54m medium term notes due 30/7/96(1)	–	–	63	–	–	63
	USD 250m medium term notes due 2/10/96(1)	–	315	–	–	315	–
	USD 250m medium term notes due 4/10/96(1)	–	315	–	–	315	–
1997	AUD 6% notes due 28/2/97	–	100	100	–	100	100
	AUD 9.75% notes due 24/11/97	**100**	100	100	**100**	100	100
	CHF 50m Euro medium term notes due 13/11/97	**48**	50	–	**48**	50	–
	HKD160m Euro medium term notes due 10/11/97	**29**	26	27	**29**	26	27
	JPY 10b subordinated debt due 30/7/97(5)	**–**	113	132	**–**	113	132
	JPY 700m Euro medium term notes due 29/8/97	**–**	8	–	**–**	8	–
	JPY 3b Euro medium term notes due 19/12/97	**34**	34	40	**34**	34	40
	JPY 3b Euro medium term notes due 30/12/97	**34**	34	41	**34**	34	41
	NLG 25m Euro medium term notes due 15/9/97	**–**	18	21	**–**	18	21
	USD 50m medium term notes due 28/2/97(1)	**–**	63	–	**–**	63	–
	USD 100m floating rate notes due 26/7/97	**–**	126	132	**–**	126	132
	USD 33m Euro medium term notes due 29/9/97(6)	**–**	42	44	**–**	42	44
	USD 250m medium term notes due 3/10/97(1)	**347**	–	–	**347**	–	–
	USD 250m medium term notes due 10/10/97(1)	**347**	–	–	**347**	–	–
	USD 500m floating rate notes due 21/2/97	**–**	630	–	**–**	630	–
1998	AUD 6.5% notes due 9/11/98	**100**	100	100	**100**	100	100
	AUD 7.75% notes due 31/3/98	**100**	100	100	**100**	100	100
	AUD 8.25% notes due 10/8/98	**100**	100	–	**100**	100	–
	AUD 10.5% notes due 23/2/98	**200**	200	200	**200**	200	200
	CHF 100m Euro medium term notes due 23/2/98	**95**	100	–	**95**	100	–
	HKD 116m Euro medium term notes due 20/3/98	**21**	19	20	**21**	19	20
	JPY 1b Euro medium term notes due 26/2/98	**11**	11	27	**11**	11	27
	JPY 2b Euro medium term notes due 5/3/98	23	23	27	23	23	27
	JPY 3b 5.7% fixed rate debt due 29/12/98	**34**	34	41	**34**	34	41
	JPY 5b Euro medium term notes due 13/11/98	**57**	57	–	**57**	57	–
	JPY 10b Euro medium term notes due 23/10/98	**115**	113	–	**115**	113	–
	NZD 100m Euro medium term notes due 29/7/98	**89**	–	–	**89**	–	–
	NZD 100m 8.75% notes due 4/9/98	**89**	88	–	**89**	88	–
	USD 100m medium term notes due 5/3/98(1)	**139**	–	–	**139**	–	–
	USD 150m floating rate subordinated debt due 30/3/98	**208**	189	199	**208**	189	199
	USD 300m 6.25% notes due 17/6/98	**417**	378	–	**417**	378	–
	USD 350m 9.7% subordinated notes due 15/10/98	**486**	441	463	**486**	441	463
	USD 300m floating rate notes due 16/10/98	**417**	–	–	**417**	–	–

As at September 30 Dollars in Millions		Consolidated 1997	1996	1995	The Company 1997	1996	1995
	USD 500m floating rate notes due 13/11/98	**695**	–	–	**695**	–	–
	USD 500m Euro medium term notes due 23/12/98	**695**	–	–	**695**	–	–
1999	AUD 6.25% notes due 29/3/99	**250**	250	250	**250**	250	250
	AUD 7.75% notes due 4/1/99	**125**	125	–	**125**	125	–
	AUD 8% notes due 22/6/99	**75**	75	75	**75**	75	75
	AUD 8.5% notes due 24/5/99	**125**	125	–	**125**	125	–
	AUD 8.5% notes due 20/8/99	**100**	100	–	**100**	100	–
	AUD 9.25% notes due 23/9/99	**100**	100	100	**100**	100	100
	AUD 9.5% notes due 26/10/99	**100**	100	100	**100**	100	100
	AUD 12% subordinated notes due 15/7/99	**300**	300	300	**300**	300	300
	CHF 100m 3.25% notes due 19/4/99	**95**	100	–	**95**	100	–
	JPY 3.08b subordinated debt due 23/2/99[(2)]	**35**	34	132	**35**	34	132
	USD 250m 5.375% notes due 9/2/99	**347**	315	–	**347**	315	–
	USD 250m 6% notes due 26/3/99	**347**	–	–	**347**	–	–
2000	AUD 6.5% notes due 17/3/2000	**150**	–	–	**150**	–	–
	AUD 8.5% notes due 11/8/2000	**100**	100	100	**100**	100	100
	AUD 8.75% notes due 10/7/2000	**175**	175	–	**175**	175	–
	AUD 7.50% notes due 8/12/2000	**150**	–	–	**150**	–	–
	AUD subordinated floating rate notes due 8/6/2000[(3)]	**–**	10	10	**–**	10	10
	GBP 150m variable rate notes due 6/9/2000	**336**	295	314	**336**	295	314
	HKD 155m Euro medium term notes due 12/6/2000	**28**	–	–	**28**	–	–
	JPY 6.5b Euro medium term notes due 3/7/2000	**74**	–	–	**74**	–	–
	JPY 10b Euro medium term notes due 18/9/2000	**115**	–	–	**115**	–	–
2001	AUD 7.5% notes due 26/11/2001	**100**	–	–	**100**	–	–
	AUD 8% notes due 10/4/2001	**200**	200	–	**200**	200	–
	GBP 15m Euro medium term notes due 6/3/2001	**34**	30	–	**34**	30	–
	GBP 57.792m variable rate notes due 20/6/2001	**130**	114	121	**–**	–	–
2002	AUD 7.25% notes due 5/2/2002	**100**	–	–	**100**	–	–
	AUD subordinated floating rate notes due 8/6/2002[(3)]	**–**	190	190	**–**	190	190
	CHF 100m 2.75% notes due 12/6/2002	**95**	–	–	**95**	–	–
	LUF 2b 6.875% notes due 30/12/2002	**76**	80	–	**76**	80	–
	USD 110.5m subordinated floating rate notes due 31/8/2002[(4)]	**153**	139	146	**153**	139	146
2003	HKD 116.25m Euro medium term notes due 2/9/2003	**21**	19	20	**21**	19	20
2004	AUD subordinated floating rate notes due 8/6/2004[(3)]	**90**	–	–	**90**	–	–
	AUD 200m Euro medium term notes due 23/7/2004	**200**	–	–	**200**	–	–
2007	USD 10m Euro medium term notes due 16/9/2007	**14**	–	–	**14**	–	–
2009	JPY 10b Euro medium term notes due 24/4/2009	**115**	–	–	**115**	–	–
2012	JPY 1b Euro medium term notes due 25/6/2012	**11**	–	–	**11**	–	–
	JPY 2b Euro medium term notes due 21/8/2012	**23**	–	–	**23**	–	–
	USD 55.95m Euro medium term notes due 20/8/2012	**78**	–	–	**78**	–	–
Total Bonds, Notes and Subordinated Debt		**9,597**	6,940	4,070	**9,467**	6,826	3,949
	Add: Net premiums and deferred gains/(losses) on Eurobonds	**(28)**	18	(3)	**(28)**	18	(3)
Net Bonds, Notes and Subordinated Debt		**9,569**	6, 958	4,067	**9, 439**	6,844	3,946

Where proceeds have been employed in currencies other than that of the ultimate repayment liability, swap or other hedge arrangements have been entered into.

(1) The Company has established a medium term deposit note program through the New York branch under which it may issue notes up to an aggregate amount of US$1 billion for terms of 9 months to 30 years. The medium term deposit note program through New York branch was updated on June 13, 1997. Under the program, the Company may still issue notes up to an aggregate amount of US$1 billion for terms of 9 months or more. As at September 30, 1997, the Company had US$600 million outstanding on the program (1996: US$580 million, 1995: US$239 million). A further medium term note program was established during 1991 under which the Company may issue notes up to an aggregate amount of US$500 million for terms of 9 months to 30 years. This program was updated on April 1, 1997 and the Company may now issue notes up to an aggregate of US$7.5 billion for terms of 9 months or more.

(2) Originally JPY 10 billion, on 22/7/96 JPY 6.92 billion was bought back to leave JPY 3.08 billion outstanding.

(3) Notes had an initial maturity of June 8, 2000 but were extended by two years, 30 days prior to the fifth anniversary of the issue date (June 8, 1990), and may be extended by two years each two years thereafter until 2003. On June 10, 1997, A$10 million of 8/6/2000 and A$100 million of 8/6/2002 were redeemed.

(4) US$531,643.61 of the US$110,500,000 Subordinated Floating Rate Notes due 2002 were redeemed on the August 26, 1991.

(5) On 30/7/97 JPY 10 billion subordinated debt due 31/7/99 were redeemed in full.

(6) The call option to redeem the US$33 million Euro medium term notes due 29/9/2004 on the interest payment date 29/9/97 was exercised, and the notes were redeemed in full.

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

26 Other debt issues

Perpetual Floating Rate Notes						
Issued by the Company	**347**	315	331	**347**	315	331
Issued by the Bank of New Zealand	**–**	109	128	**–**	–	–
Exchangeable Capital Units						
Issued by National Australia Capital Securities (UK) Limited	**1,262**	–	–	**–**	–	–
Total Other Debt Issues	**1,609**	424	459	**347**	315	331

Perpetual Floating Rate Notes

Issued by the Company

US$250 million (A$347 million) Undated Subordinated Floating Rate Notes (the 'Notes') were issued by the Company on October 9, 1986. Interest is payable semi-annually in arrears in April and October at a rate of 0.15 per cent per annum above the arithmetic average of the rates offered by the reference banks for six-month U.S. dollar deposits in London.

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

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

(ii) the payment of interest will also be optional if a dividend has not been declared, paid or made in the preceding twelve months, and

(iii) in the event of the winding up of the Company the rights of the Noteholders will rank in preference only to the rights of preferred and ordinary shareholders and creditors whose claims rank, or are expressed to rank, after the Noteholders and Couponholders.

The Notes are undated and have no final maturity. All or some of the Notes may be redeemed at the option of the Company on any interest payment date falling in or after October 1991. No redemption occurred in October 1996 or April 1997.

Issued by the Bank of New Zealand

US$200 million (A$278 million) Floating Rate Perpetual Notes were issued by the Bank of New Zealand in 1988. The liability for these Notes was recorded at inception as the net proceeds of the issue. US$67.5 million of these Notes were redeemed on February 28, 1997, and a further US$67.5 million of these Notes were redeemed on March 27, 1997. The remaining Notes (US$65 million) were redeemed on May 20, 1997.

Exchangeable Capital Units

On March 19, 1997 National Australia Capital Securities (UK) Limited, a controlled entity, received funds following the issue of 40 million Exchangeable Capital Units at US$25 each with a cumulative return of 7⅞% per annum. Under the terms of the Exchangeable Capital Units, National Australia Bank Limited has the option to require the exchange of all, but not part, of the Exchangeable Capital Units at any time for 7⅞% Convertible Non-Cumulative Preference Shares. Holders of the Exchangeable Capital Units or the Convertible Non-Cumulative Preference Shares, have the option at any time to exchange their holdings for ordinary shares of the National Australia Bank Limited initially at the rate of 1.6365 ordinary shares per Exchangeable Capital Unit or Convertible Non-Cumulative Preference Share, subject to anti-dilution provisions.

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

As at September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

27 Other liabilities

Accrued interest payable	**3,302**	2,796	2,189	**2,628**	2,320	1,734
Unrealised losses on trading derivative financial instruments	**6,395**	3,949	3,704	**6,000**	3,664	3,489
Notes in circulation	**1,314**	1,142	1,078	**–**	–	–
Other liabilities	**3,458**	3,724	2,318	**1,642**	2,071	1,084
Total Other Liabilities	**14,469**	11,611	9,289	**10,270**	8,055	6,307

For Years Ended September 30 Dollars in Millions	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995

28 Finance lease commitments

Data processing and other equipment						
Due within 1 year	**7**	4	2	**4**	2	2
Due within 1–2 years	**6**	3	1	**3**	2	–
Due within 2–5 years	**8**	4	1	**1**	2	–
Due after 5 years	**2**	6	3	**–**	4	3
Total commitments under finance leases	**23**	17	7	**8**	10	5
Deduct: Future finance charges (not provided for in the accounts)	**(2)**	(3)	–	**–**	(1)	–
Finance Lease Liabilities (included under other liabilities)	**21**	14	7	**8**	9	5

29 Changes in shareholders' equity

Issued and Paid-Up Capital (a)						
Opening balance (ordinary shares of $1.00 each)	**1,477**	1,429	1,369	**1,477**	1,429	1,369
Dividend reinvestment plan (b)	**21**	36	46	**21**	36	46
Bonus share plan (b)	**4**	5	7	**4**	5	7
Staff share scheme (b)	**1**	4	4	**1**	4	4
Executive option plan (b)	**4**	–	–	**4**	–	–
Share top up plan (b)	**3**	3	3	**3**	3	3
Share buy-back (c)	**(97)**	–	–	**(97)**	–	–
Closing balance (d)	**1,413**	1,477	1,429	**1,413**	1,477	1,429
General Reserve						
Opening balance	**62**	955	834	**4**	772	772
Appropriations from profits	**40**	47	125	**1**	1	–
Transfer to retained profits	**(10)**	(940)	(4)	**–**	(769)	–
Closing balance	**92**	62	955	**5**	4	772
Capital Reserve						
Opening balance	**–**	222	222	**–**	202	202
Transfer from asset revaluation reserve	**–**	–	6	**–**	–	–
Transfer to retained profits	**–**	(222)	(6)	**–**	(202)	–
Closing balance	**–**	–	222	**–**	–	202
Asset Revaluation Reserve						
Opening balance	**252**	288	240	**255**	265	241
Revaluation of properties	**22**	(31)	65	**(2)**	(8)	28
Revaluation of certain properties to recoverable amounts	**(14)**	–	–	**(8)**	–	–
Transfer to capital reserve	**–**	–	(6)	**–**	–	–
Transfer to retained profits	**(56)**	–	(7)	**(31)**	–	–
Other	**(4)**	(5)	(4)	**–**	(2)	(4)
Closing balance	**200**	252	288	**214**	255	265
Share Premium Reserve						
Opening balance	**5,266**	4,811	4,319	**5,266**	4,811	4,319
Premium on issue of shares	**490**	512	561	**490**	512	561
Bonus issue	**(60)**	(57)	(69)	**(60)**	(57)	(69)
Share buy-back (c)	**(1,714)**	–	–	**(1,714)**	–	–
Closing balance	**3,982**	5,266	4,811	**3,982**	5,266	4,811

For Years Ended September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995
Foreign Currency Translation Reserve						
Opening balance	**(159)**	51	(2)	**36**	36	(6)
Currency translation adjustments	**465**	(210)	53	**4**	–	42
Transfer to retained profits	**–**	–	–	**(4)**	–	–
Transfer from retained profits	**18**	–	–	**–**	–	–
Closing balance	**324**	(159)	51	**36**	36	36
Total Reserves	**4,598**	5,421	6,327	**4,237**	5,561	6,086

Details of movements in retained profits are contained in the Statements of Profit and Loss on page 74.

(a) The issues of ordinary shares were for general purposes of the Economic Entity

(b) Details of Issued and Paid-up Capital

The Company	September 1997 No. of Shares	September 1997 Issue Price	September 1996 No. of Shares	September 1996 Issue Price	September 1995 No. of Shares	September 1995 Issue Price
Dividend Reinvestment	**9,407,685**	**$19.26**	22,061,526	$11.87	23,351,080	$10.25
Plan Issues	**11,396,063**	**$14.52**	14,130,915	$11.32	22,988,453	$10.83
Bonus Share Plan Issues	**1,676,138**	**$19.26**	2,548,160	$11.87	3,835,267	$10.25
	1,886,582	**$14.52**	2,413,176	$11.32	2,774,085	$10.83
National Australia Bank Staff Share Scheme						
Executive Staff Share Scheme Issues	**58,940**	**$4.72**	55,830	$4.72	65,280	$4.72
	68,760	**$4.25**	68,700	$4.25	77,720	$4.25
	98,630	**$5.54**	79,376	$5.54	92,810	$5.54
	130,160	**$5.56**	109,837	$5.56	122,543	$5.56
	158,484	**$6.15**	129,120	$6.15	151,165	$6.15
	191,751	**$9.07**	122,470	$9.07	118,830	$9.07
	242,947	**$10.97**	108,360	$10.97	123,725	$10.97
	257,542	**$10.83**	113,778	$10.83	1,126,103	$10.83
	190,916	**$11.03**	1,696,554	$11.03	1,120,119(i)	$10.83
			794,579(i)	$11.03		
National Australia Executive Option Plan Issues	**4,333,500**	**$11.76**				
General Staff Share Scheme Issues			1,249,357	$11.03	931,729	$10.83
			162,036(i)	$11.03	236,557(i)	$10.83
National Australia Bank Limited						
Staff Reward Scheme Issues			191,471	$12.16	199,411	$10.50
Share Top Up Plan Issues	**1,969,342**	**$14.52**	1,698,154	$11.87	1,442,971	$10.25
	1,238,672	**$19.26**	1,633,263	$11.04	1,536,765	$10.83

All shares issued were fully paid ordinary unless otherwise noted (i) partly paid

(c) Share Buy-back Details

During the year, 97,612,111 ordinary shares were bought back and cancelled at an average price of $18.56. The highest price paid was $22.42 and the lowest price paid was $15.60.

Reconciliation of share buy-back:

Ordinary shares intended to be bought back as at March 24, 1997	**89,251,987**
Increase in number of Ordinary Shares to be bought back as at July 21, 1997	**11,083,823**
Increase in number of Ordinary Shares to be bought back as at September 11, 1997	**1,238,672**
Total shares available to be bought back	**101,574,482**
Ordinary shares bought back as at September 30, 1997	**97,612,111**

As at the date of this report the on market buy-back has been completed with 98,146,432 ordinary shares bought back and cancelled at an average price of $18.58. The highest price paid was $22.42 and the lowest price paid was $15.60. The Company has deferred a decision to buy back the remaining 3,428,050 shares.

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

	The Company		
For years ended September 30 *Dollars in Millions*	*1997*	*1996*	*1995*
Authorised Capital of $1.00 each	**3,000**	3,000	3,000
Ordinary shares of $1.00 each, fully paid	**1,412**	1,476	1,428
Ordinary shares of $1.00 each, paid to 10 cents as to capital and 15 cents as to premium	**1**	1	1
Total Issued and Paid-up Capital	**1,413**	1,477	1,429

Number of Ordinary Shares issued

Authorised Capital of $1.00 each	**3,000,000,000**	3,000,000,000	3,000,000,000
Ordinary shares of $1.00 each, fully paid	**1,412,396,637**	1,476,540,600	1,427,894,006
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 35 cents as to premium	**–**	–	236,557
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 38 cents as to premium	**–**	162,036	–
Ordinary shares of $1.00 each, paid to 10 cents as to capital and 15 cents as to premium	**3,785,105**	5,183,215	5,176,109
Total Number of Shares Issued	**1,416,181,742**	1,481,885,851	1,433,306,672

Share Options

For details of share options issued under the 'National Australia Executive Option Plan' refer to Note 31 below.

30 Outside equity interests

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*	*1997*	*1996*	*1995*
Issued and paid-up capital	**–**	–	7	–	–	–
Reserves	**5**	–	10	–	–	–
Retained profits	**(3)**	–	21	–	–	–
Total Outside Equity Interests	**2**	–	38	–	–	–

31 Employee share, bonus and option schemes

(a) National Australia Bank Staff Share Scheme (Staff Share Scheme)

The Staff Share Scheme was approved by shareholders in 1986. Shares issued under the scheme in 1996 and 1995 are shown in Table 1. Following approval by shareholders of the Staff Share Allocation Plan and the Staff Share Ownership Plan in January 1997 there is no intention of issuing further shares under this scheme.

Under the terms of the scheme, eligible employees were offered ordinary shares in the Company. The offer was generally open for a period of 4 weeks. Full time and part time employees of the Economic Entity were eligible to participate in the scheme if they were at least 18 years of age and had twelve months continuous service on the date the offer opened. For executive participants the twelve months continuous service requirement was waived.

As from January 19, 1995, employees of controlled entities in the United Kingdom (UK) and Republic of Ireland (RoI) were no longer eligible to participate in the Staff Share Scheme.

Shares were offered to executive participants (management status and above) generally on the basis of 10 shares for each A$1,000 of annual salary or part thereof. General participants (non-executive) were generally offered 200 shares each year.

Executive participants could elect to either fully or partly pay for their entitlement on subscription. If fully paid, the price was the initial market price, being the greater of 97.5% (92.5% for issues prior to September 30, 1994) of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer or the par value of the shares. If partly paid, an up-front payment of A$0.25 per share was required. Partly paid shares are only entitled to pro rata dividends based on the amount subscribed on account of the par value.

Executive participants may elect to pay the balance on partly paid shares during the 28 days following each half-yearly and yearly profit announcement. When a call is made, either at the request of the executive participant or upon retirement, or otherwise leaving the Economic Entity, partly paid shares must be fully paid. To fully pay up their shares, executive participants must pay the lower of the initial market price at the time of the issue, or 97.5% (92.5% for issues prior to September 30, 1994) of the market price immediately before the call is made, less the A$0.25 originally subscribed.

General participants may also elect to either fully or partly pay for their entitlement on subscription. Whether fully or partly paid, the price is the initial market price, being the greater of 97.5% (92.5% for issues prior to September 30, 1994) of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer or the par value of the shares. If partly paid, an up-front payment of 12.5% of the initial market price per share is required. General participants are required to fully pay up their partly paid shares by paying 25 equal fortnightly instalments, less the 12.5% originally subscribed.

Executive and general participants electing to fully pay for their entitlement on subscription, could pay such amount by cash, or by utilising the National Australia Bank Limited Staff Loan Scheme (Staff Loan Scheme) approved by shareholders in 1992 for this purpose. Generally, loans under the Staff Loan Scheme are interest free. As at September 30, 1997, aggregate loans receivable under the Staff Loan Scheme amounted to $37 million.

Executive and general participants domiciled outside Australia and New Zealand could be subject to different acceptance and payment conditions due to local legal requirements. In many cases, payment in full on subscription was required and the Staff Loan Scheme may not have been available. Where the loan was available it was made with the Company in Australian dollars.

The aggregate of partly paid shares on issue under the Staff Share Scheme, and shares where subscription has been funded by a loan under the Staff Loan Scheme, shall not at any time exceed 5% of the total number of fully paid ordinary shares of the Company on issue.

(b) National Australia Bank Limited Staff Reward Scheme (Executive Staff Bonus Share Scheme)

The Executive Staff Bonus Share Scheme was approved by shareholders in 1992. Shares issued under the scheme in 1997, 1996 and 1995 are as shown in Table 1.

Under the terms of the scheme, the Board of Directors (Board) could invite employees of the Economic Entity to participate and resolve to pay a performance based bonus which, after satisfying taxation and legislative requirements, was applied towards the acquisition of fully paid ordinary shares in the Company. The effect of this scheme was to require senior members of staff who were awarded a performance bonus to use half of the after tax value of the bonus to subscribe for ordinary shares in the Company at the market price on the date of subscription.

The subscription price was the greater of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer or the par value of the shares.

At the Board's discretion, the number of shares may be rounded up to the next whole share or rounded down to the last whole share with any remaining balance of the performance based bonus payment being paid to the participant.

The aggregate number of shares issued under the scheme in any financial year shall not exceed 1% of the total number of fully paid ordinary shares of the Company on issue.

(c) National Australia Executive Option Plan (Executive Option Plan)

The Executive Option Plan was approved by shareholders in 1994. Options issued under the plan for 1996 and 1995 are shown in Table 2. Following approval by shareholders of the Executive Share Option Plan No 2 in January 1997 there is no intention of issuing further options under this plan.

Under the plan, the Board could offer options to executives of the Economic Entity to subscribe for ordinary shares in the Company. The Board determined eligibility and entitlements having regard to each executive's contribution and potential contribution to the Economic Entity and to any other matters which the Board considered relevant.

During the year ended September 30, 1996 share options were issued to 359 executives covering a total of 14,120,000 share options. During the year ended September 30, 1995 share options were issued to 276 executives covering a total of 10,160,000 share options.

The options were issued free of charge to participants in the plan. Each option is to subscribe for one fully paid ordinary share in the Company.

The exercise price per share for an option was determined by the Board at the date the option was issued. The exercise price per option must be at least equal to the greater of the par value or 95% of the market value of the Company's ordinary shares as at the date the option was issued. The market value was the weighted average market price of the Company's ordinary shares in the week preceding the issue of the option.

An option may not be exercised before the third anniversary of its issue, and must be exercised by the fifth anniversary of its issue. As a precondition of the exercise of any option, the market price of the Company's shares after three years must have increased by at least 20% over the exercise price as determined at the date the option is issued, after allowing for share issues in the meantime.

Options will lapse if unexercised on or before their expiry date, or if the Board makes a determination that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any company in the Economic Entity and the option is to be forfeited. The plan's rules do not provide for options to lapse by reason only of the holder's ceasing to be employed by the Economic Entity.

Options may only be exercised within the limitations imposed by the Corporations Law and the Australian Stock Exchange Listing Rules. Under the Australian Stock Exchange Listing Rules, options may not be issued to Company Directors under an employee incentive scheme without specific shareholder approval. Shareholders approved the issue of options (and shares resulting from exercise of those options) to the Managing Director at the annual general meetings.

A loan may be available to executives if and when they wish to exercise their options. The plan's rules provide that the rate of interest applicable to such a loan is generally the standard rate charged by the Company on loans to employees. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

As at September 30, 1997, 4,333,500 options from the January 31, 1994 issue have been exercised.

(d) Employee Share Savings Plan – United Kingdom and Republic of Ireland (Employee Share Savings Plan)

The Employee Share Savings Plan was approved by shareholders in 1995. Shares issued under the plan in 1997 and 1996 are shown in Table 3.

Full time and part time employees of controlled entities in the United Kingdom (UK) and Republic of Ireland (RoI), who are resident in those countries and have had at least one full year's continuous service at the beginning of the savings period are eligible to participate in the plan. The plan allows for savings out of salary (up to a maximum of two percent) by participating employees and the investment of those savings by the acquisition of fully paid ordinary shares of the Company.

At the end of the savings period, each relevant controlled entity makes a cash contribution sufficient to purchase an equivalent number of shares as that purchased from the accumulated savings of participating employees. Contributions by controlled entities are accrued over the term of the savings period and are included in Provisions until paid.

Savings by participating employees and contributions by controlled entities are paid to trusts which purchase shares on market as soon as practicable after the close of each savings period. The price of the shares is the market price at the date the trusts acquire the shares. Shares acquired under the plan are required to be held in the trusts for a minimum of two years. The underlying regulations provide certain taxation concessions to employees where the employer funded shares are retained in the trusts for a period of three years.

The aggregate market value of shares issued to participating employees in the plan must be within the statutory requirements permitted by the taxation authorities from time to time.

The first savings period under the plan began on August 1,1995 and continued for six months, ending on January 31, 1996 for which there were 13,961 eligible participants. The plan has continued to operate with six monthly savings periods beginning on February 1, 1996, August 1, 1996, February 1, 1997 and August 1, 1997 for which there were 15,096, 15,466, 14,468 and 14,359 eligible participants respectively. The Board has established the savings limit for participating employees as one per cent of salary until otherwise determined.

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

The Staff Share Allocation Plan was approved by shareholders by special resolution in January 1997. No shares have been allotted under this plan to date.

The Staff Share Allocation Plan provides for the Board to invite any employee to participate in an offer under the plan. The offer for the year ended September 30, 1997 will be 25 shares per participant. The Company will provide funds for a Trustee to subscribe for or purchase, fully paid ordinary shares in the Company on behalf of the participating employee at no cost to the employee. The shares will be held by the Trustee for three years, or until the employee ceases employment with the Economic Entity, and may then be dealt with by the employee. It is currently intended that the Staff Share Allocation Plan will apply to all permanent staff not covered by the Employee Share Savings Plan in the UK and RoI.

Shares may not be issued under this plan if the total number of options and shares issued in the past five years under employee share or option plans, including the proposed offer, exceeds 5% of the number of shares in the issued capital of the Company at the date of the proposed offer.

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

The Staff Share Ownership Plan was approved by shareholders by special resolution in January 1997. No shares have been provided under this Plan to date.

Under the Staff Share Ownership Plan the Board may invite any employee to apply for a loan to acquire shares or offer to have the Company provide funds to acquire shares. The Company will provide funds for a Trustee to subscribe for or purchase, fully paid ordinary shares in the Company on behalf of the employee.

If shares are acquired using a loan under the plan, the shares will be held in Trust until the loan is repaid. The loan will be provided at no interest and the loan will be repaid by the dividends from the shares, after allowing for the tax payable on the dividend. If the employee ceases employment with the Economic Entity the loan must be repaid. In the event that when an employee ceases employment and sells the shares, and the proceeds of the sale are insufficient to fully repay the outstanding loan balance, the Company will forgive the difference. It is currently intended that the loan provisions of the Staff Share Ownership Plan will be made available to all permanent staff not covered by the Employee Share Savings Plans in the UK and RoI.

Shares obtained with funds provided by the Company will also be held in Trust and may not be dealt with by the employee until 10 years after they were acquired, unless otherwise determined by the Board. The shares may also be forfeited in the event the employee is dismissed for serious misconduct involving dishonesty. It is currently intended that this aspect of the plan will apply only to management staff in Australia as part of their flexible remuneration arrangements.

(g) National Australia Bank Executive Share Option Plan No 2 (Executive Share Option Plan No 2)

The Executive Share Option Plan No 2 was approved by shareholders by special resolution in January 1997. It is very similar to the Executive Share Option Plan and options issued under the plan in February 1997 are shown in Table 2.

Under the plan, the Board may offer options to executives of the Economic Entity to subscribe for ordinary shares in the Company. Options may not be issued if the total number of options and shares issued in the past five years under employee share or option plans, including the proposed offer, exceeds 5% of the number of shares on issue in the Company at the date of the proposed offer.

During the year ended September 30, 1997 share options were issued to 424 executives covering a total of 9,890,000 share options. Subsequent to this issue, 20,000 share options have been forfeited.

The options were issued free of charge to participants in the plan. Each option is to subscribe for one fully paid ordinary share in the Company.

The exercise price per share for an option is the greater of the par value or the market value of the Company's ordinary shares as at the date the option was issued. The market value is the weighted average market price of the Company's ordinary shares, on the Australian Stock Exchange, in the 5 trading days preceding the issue of the option.

Generally an option may not be exercised before the third anniversary of its issue, and must be exercised by the fifth anniversary of its issue. The Board may determine such other terms for the issue of options consistent with the Listing Rules and the terms of the plan. The Board has determined for the offer made on February 27, 1997 that options may only be exercised if on any day during the period between the third and fifth anniversaries of the issue of the options the total return to shareholders exceeds 65% of the Exercise Price. The total return includes the value of dividends and the share price growth over the relevant period.

Options may be exercised before the third anniversary of issue and notwithstanding the Total Return criteria in the event that the executive ceases employment with the Economic Entity as the result of death or total and permanent disability. The Board may also allow the option holders to exercise the options irrespective of the normal criteria in the event of certain events involving the capital restructure of the Economic Entity.

Options will lapse if unexercised on or before their expiry date, or if the Board makes a determination that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any company in the Economic Entity and the option is to be forfeited. The plan's rules do not provide for options to lapse by reason only of the holder's ceasing to be employed by the Economic Entity.

Options may only be exercised within the limitations imposed by the Corporations Law and the Australian Stock Exchange Listing Rules. Under the Australian Stock Exchange Listing Rules, options may not be issued to Company Directors under an employee incentive scheme without specific shareholder approval. Shareholders approved the issue of options (and shares resulting from exercise of those options) to the Managing Director at the annual general meetings.

A loan may be available to executives if and when they wish to exercise their options. The plan's rules provide that the rate of interest applicable to such a loan be the Company's Base Lending Rate plus any margin determined by the Board. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

Amounts loaned to participants, where applicable, are included in Loans and Advances and the costs in administering the above schemes and plans are expensed as incurred. Shares issued under the above schemes and plans rank pari passu with existing shares of the Company.

Table 1

	Ordinary Shares issued	*Issue price*	*Subscription details*
National Australia Bank Staff Share Scheme			
Executive participants			
1997	Nil		
1996	2,491,141	$11.03	807,137 partly paid $0.10 capital and $0.15 premium
			1,684,004 paid in full (1,609,623 under loan scheme)
1995	2,246,222	$10.83	1,122,899 partly paid $0.10 capital and $0.15 premium
			1,123,323 paid in full (1,024,528 under loan scheme)
General participants			
1997	Nil		
1996	1,411,393	$11.03	166,551 partly paid $1.00 capital and $0.38 premium
			1,244,842 paid in full (1,096,944 under loan scheme)
1995	1,168,286	$10.83	238,094 partly paid $1.00 capital and $0.35 premium
			930,192 paid in full (783,919 under loan scheme)

	Ordinary Shares issued	*Issue price*	*Subscription details*
National Australia Bank Limited Staff Reward Scheme			
1997	Nil		
1996	191,471	$12.16	paid in full
1995	199,411	$10.50	paid in full

Table 2
Option Plans

Issue Date of Option	*Exercise Period of Option*	*Latest Date for Exercise of Option*	*Exercise Price of Option*	*No. of Options Held at Sep 30, 1997*	*No. of Options Exercised During the Year*	*Fair Value of Options Granted During the Year*[(1)]
National Australia Executive Option Plan						
Jan 31, 1994	Jan 31, 1997 – Jan 31, 1999	Jan 31, 1999	$11.76	246,500	4,333,500	
Feb 13, 1995	Feb 13, 1998 – Feb 13, 2000	Feb 13, 2000	$10.55	10,160,000	–	
Jan 2, 1996	Jan 2, 1999 – Jan 2, 2001	Jan 2, 2001	$12.16	13,380,000	–	17,126,400
Jan 25, 1996	Jan 25, 1999 – Jan 25, 2001	Jan 25, 2001	$12.54	500,000	–	645,000
Jun 27, 1996	Jun 27, 1999 – Jun 27, 2001	Jun 27, 2001	$11.52	240,000	–	290,400
National Australia Bank Executive Share Option Plan No 2						
Feb 27, 1997	Feb 27, 2000 – Feb 27, 2002	Feb 27, 2002	$16.62	9,870,000	–	14,933,900

(1) Comparative information for 1994 and 1995 option issues is not available.

The market price of the Company's shares at September 30, 1997 was $21.22 (1996: $13.30; 1995: $11.72).

In determining the employee compensation costs arising from the National Australia Executive Option Plan and the National Australia Bank Executive Share Option Plan No 2, the principles of US Accounting Principles Board of Opinion No 25 have been applied. If the fair value basis of accounting had been applied to account for compensation costs as stipulated in US Statement of Financial Accounting Standards No 123, the effects on the net income and average earnings per share would not have been material.

Table 3

Employee Share Savings Plan – United Kingdom and Republic of Ireland

Savings Period	*Ordinary Shares Issued*	*Average Issue Price*	*Subscription Details*
Aug 1, 1995 – Jan 31, 1996	199,700	$12.76	Paid in full
Feb 1, 1996 – Jul 31, 1996	320,724	$12.36	Paid in full
Aug 1, 1996 – Jan 31, 1997	212,028	$15.91	Paid in full
Feb 1, 1997 – Jul 31, 1997	188,562	$19.01	Paid in full
Aug 1, 1997 – Jan 31, 1998[(1)]	–	–	

(1) *No shares have been issued at September 30, 1997 but $0.7 million has been contributed to the trust in respect of this Savings Period. Shares will be purchased at the end of this Savings Period.*

32 Average balance sheets and related interest

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

Non-accrual loans are included with Interest Earning Assets under 'Loans and Advances'.

Average Assets and Interest Income

Years ended September 30	*1997*			*1996*			*1995*		
	Average Balance	*Interest*	*Average Rate*	*Average Balance*	*Interest*	*Average Rate*	*Average Balance*	*Interest*	*Average Rate*
	$M	*$M*	*%*	*$M*	*$M*	*%*	*$M*	*$M*	*%*
Interest earning assets									
Due from other financial institutions									
Australia	**1,235**	**64**	**5.2**	1,314	102	7.8	1,207	97	8.0
Overseas	**9,550**	**543**	**5.7**	8,417	481	5.7	8,127	491	6.0
Regulatory deposits									
Australia	**782**	**7**	**0.9**	701	17	2.4	618	38	6.1
Overseas	**148**	**3**	**1.7**	124	2	1.8	115	3	2.9
Investment/available for sale/trading and other securities									
Australia	**5,613**	**371**	**6.6**	5,458	413	7.6	4,967	380	7.6
Overseas	**9,777**	**637**	**6.5**	7,741	553	7.1	5,411	425	7.9
Loans and advances									
Australia	**65,611**	**5,862**	**8.9**	55,804	5,805	10.4	48,181	5,010	10.4
Overseas	**57,603**	**5,119**	**8.9**	49,288	4,593	9.3	37,821	3,677	9.7
Other interest earning assets[1]	**1,501**	**231**	**N/A**	1,663	51	N/A	927	48	N/A
Total interest earning assets	**151,820**	**12,837**	**8.5**	130,510	12,017	9.2	107,374	10,169	9.5
Non-interest earning assets									
Acceptances									
Australia	**18,292**			17,092			15,625		
Overseas	**969**			916			1,123		
Fixed assets									
Australia	**1,864**			1,826			1,550		
Overseas	**1,359**			1,135			1,041		
Other assets									
Australia	**9,445**			7,629			6,964		
Overseas	**10,316**			9,742			6,950		
Total non-interest earning assets	**42,245**			38,340			33,253		
Provision for doubtful debts									
Australia	**(598)**			(566)			(608)		
Overseas	**(730)**			(712)			(694)		
Total assets	**192,737**			167,572			139,325		
Percentage of total average assets applicable to overseas operations	**46.7%**			46.6%			43.6%		

[1] Includes interest on derivatives.

Average Liabilities and Interest Expenditure

Years ended September 30	*1997* Average Balance	Interest	Average Rate	*1996* Average Balance	Interest	Average Rate	*1995* Average Balance	Interest	Average Rate
	$M	*$M*	*%*	*$M*	*$M*	*%*	*$M*	*$M*	*%*
Interest bearing liabilities and loan capital									
Time deposits									
Australia	**28,835**	**1,833**	**6.4**	26,164	1,915	7.3	21,806	1,606	7.2
Overseas	**33,524**	**2,204**	**6.6**	25,441	1,691	6.6	16,468	1,161	6.9
Savings deposits									
Australia	**4,723**	**219**	**4.6**	4,759	250	5.3	5,457	260	4.4
Overseas	**13,741**	**526**	**3.8**	13,006	539	4.1	11,874	549	4.6
Other demand deposits									
Australia	**19,150**	**1,025**	**5.4**	14,657	841	5.7	11,654	631	5.7
Overseas	**8,278**	**253**	**3.1**	7,404	280	3.8	5,991	249	4.2
Government and Official Institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**377**	**20**	**5.3**	249	13	5.2	176	9	5.1
Due to other financial institutions									
Australia	**3,800**	**181**	**4.8**	4,339	242	5.6	3,264	216	6.7
Overseas	**8,414**	**452**	**5.4**	8,481	497	5.8	7,972	481	6.3
Short-term borrowings									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**4,276**	**231**	**5.4**	4,065	225	5.5	2,224	133	6.0
Long-term borrowings									
Australia	**6,423**	**431**	**6.7**	4,062	280	6.9	2,463	190	7.7
Overseas	**1,927**	**107**	**5.6**	2,245	127	5.7	1,888	103	5.4
Other interest bearing liabilities	**35**	**20**	**N/A**	351	34	N/A	862	31	N/A
Other debt issues									
Australia	**326**	**20**	**6.1**	324	20	6.1	337	21	6.3
Overseas	**834**	**56**	**6.7**	119	4	3.6	135	6	4.6
Total interest bearing liabilities	**134,663**	**7,578**	**5.6**	115,666	6,958	6.0	92,571	5,646	6.1
Non-interest bearing liabilities									
Deposits not bearing interest									
Australia	**1,788**			1,770			2,576		
Overseas	**6,123**			5,583			3,969		
Liability on acceptances									
Australia	**18,292**			17,092			15,625		
Overseas	**969**			916			1,123		
Other liabilities									
Australia	**9,642**			8,145			7,503		
Overseas	**7,517**			6,074			5,053		
Total non-interest bearing liabilities	**44,331**			39,580			35,849		
Shareholders' equity	**13,743**			12,326			10,905		
Total liabilities and shareholders' equity	**192,737**			167,572			139,325		
Percentage of total average liabilities applicable to overseas operations	**48.1%**			47.6%			45.0%		

33 Interest rate risk

The following table represents a break down, by time, of the Group's asset position as at September 30, 1997. Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

As at September 30, 1997	*0 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Not Bearing Interest*	*Total*	*Weighted Average Effective Interest Rate*
Australian Dollars in Millions							
Australian Dollars							
Total assets	55,609	11,617	13,088	603	34,458	115,375	6.0%
Total liabilities and shareholders' equity	51,762	13,852	3,974	305	46,431	116,324	3.1%
On balance sheet interest rate sensitivity	3,847	(2,235)	9,114	298	(11,973)	(949)	
Off balance sheet interest rate sensitivity	4,426	(115)	(4,192)	(119)	–	–	
Total interest rate repricing gap	8,273	(2,350)	4,922	179	(11,973)	(949)	
Cumulative interest rate repricing gap	8,273	5,923	10,845	11,024	(949)	–	
New Zealand Dollars							
Total assets	11,987	1,917	4,761	33	1,252	19,950	9.1%
Total liabilities and shareholders' equity	12,494	1,920	381	52	2,323	17,170	5.6%
On balance sheet interest rate sensitivity	(507)	(3)	4,380	(19)	(1,071)	2,780	
Off balance sheet interest rate sensitivity	3,989	(267)	(3,691)	(31)	–	–	
Total interest rate repricing gap	3,482	(270)	689	(50)	(1,071)	2,780	
Cumulative interest rate repricing gap	3,482	3,212	3,901	3,851	2,780	–	
British Pounds and Irish Punts							
Total assets	27,291	3,774	4,839	1,182	4,736	41,822	8.5%
Total liabilities and shareholders' equity	29,068	1,033	446	286	11,179	42,012	4.4%
On balance sheet interest rate sensitivity	(1,777)	2,741	4,393	896	(6,443)	(190)	
Off balance sheet interest rate sensitivity	116	265	(103)	(278)	–	–	
Total interest rate repricing gap	(1,661)	3,006	4,290	618	(6,443)	(190)	
Cumulative interest rate repricing gap	(1,661)	1,345	5,635	6,253	(190)	–	
United States Dollars and Other Currencies							
Total assets	13,887	3,358	3,137	2,306	2,134	24,822	6.6%
Total liabilities and shareholders' equity	16,365	2,601	1,138	2,192	4,167	26,463	4.6%
On balance sheet interest rate sensitivity	(2,478)	757	1,999	114	(2,033)	(1,641)	
Off balance sheet interest rate sensitivity	(657)	447	660	(450)	–	–	
Total interest rate repricing gap	(3,135)	1,204	2,659	(336)	(2,033)	(1,641)	
Cumulative interest rate repricing gap	(3,135)	(1,931)	728	392	(1,641)	–	
Total Interest Rate Repricing Gap	6,959	1,590	12,560	411	(21,520)	–	

34 Financial reporting by segments

In accordance with Australian Accounting Standard AASB1005, 'Financial Reporting By Segments', the allocation of assets, income and profit is based on geographical location of the office in which transactions are booked. There are no material inter-segment transactions.

Risk weighted assets include off-balance sheet exposures.

	Consolidated					
For years ended September 30 Dollars in Millions	*1997*	*%*	*1996*	*%*	*1995*	*%*
Geographical						
Assets						
Australia	**107,573**	**53.3**	93,998	54.1	86,336	58.3
Europe	**47,273**	**23.4**	39,748	22.9	36,883	24.9
New Zealand	**20,674**	**10.2**	18,927	10.9	17,087	11.5
United States	**16,825**	**8.3**	14,433	8.3	3,365	2.3
Asia	**9,624**	**4.8**	6,604	3.8	4,452	3.0
	201,969	**100.0**	173,710	100.0	148,123	100.0
Risk Weighted Assets						
Australia	**84,389**	**54.7**	76,767	57.6	66,952	61.4
Europe	**34,197**	**22.2**	27,750	20.8	26,396	24.2
New Zealand	**15,433**	**10.0**	13,488	10.1	12,203	11.2
United States	**15,960**	**10.3**	12,564	9.4	1,620	1.5
Asia	**4,330**	**2.8**	2,744	2.1	1,814	1.7
	154,309	**100.0**	133,313	100.0	108,985	100.0
Gross Income						
Australia	**8,428**	**52.1**	8,144	54.5	7,134	56.5
Europe	**3,982**	**24.6**	3,382	22.6	3,308	26.2
New Zealand	**2,017**	**12.5**	1,920	12.9	1,666	13.2
United States	**1,228**	**7.6**	1,117	7.5	197	1.6
Asia	**516**	**3.2**	377	2.5	311	2.5
	16,171	**100.0**	14,940	100.0	12,616	100.0
Operating Profit Before Tax						
Australia	**2,026**	**61.1**	2,045	66.8	1,995	69.3
Europe	**749**	**22.6**	545	17.8	576	20.0
New Zealand	**276**	**8.3**	234	7.6	275	9.6
United States	**235**	**7.1**	215	7.0	9	0.3
Asia	**30**	**0.9**	23	0.8	24	0.8
	3,316	**100.0**	3,062	100.0	2,879	100.0
Operating Profit After Tax and Outside Equity Interests						
Australia	**1,329**	**59.8**	1,448	68.9	1,429	72.5
Europe	**488**	**22.0**	341	16.2	358	18.2
New Zealand	**197**	**8.9**	161	7.7	161	8.2
United States	**181**	**8.1**	131	6.2	3	0.2
Asia	**28**	**1.2**	21	1.0	18	0.9
	2,223	**100.0**	2,102	100.0	1,969	100.0

For years ended September 30 Dollars in Millions	Consolidated 1997	%	1996	%	1995	%
Industry						
Assets						
Banking	**200,635**	**99.3**	172,611	99.4	147,020	99.3
Finance and Life Insurance	**352**	**0.2**	215	0.1	214	0.1
Merchant and Investment Banking	**982**	**0.5**	884	0.5	889	0.6
	201,969	**100.0**	173,710	100.0	148,123	100.0
Gross Income						
Banking	**15,908**	**98.4**	14,702	98.4	12,340	97.8
Finance and Life Insurance	**154**	**0.9**	132	0.9	105	0.8
Merchant and Investment Banking	**109**	**0.7**	106	0.7	171	1.4
	16,171	**100.0**	14,940	100.0	12,616	100.0
Operating Profit Before Tax						
Banking	**3,222**	**97.2**	2,995	97.8	2,836	98.5
Finance and Life Insurance	**64**	**1.9**	33	1.1	(2)	(0.1)
Merchant and Investment Banking	**30**	**0.9**	34	1.1	45	1.6
	3,316	**100.0**	3,062	100.0	2,879	100.0
Operating Profit After Tax and Outside Equity Interests						
Banking	**2,135**	**96.0**	2,050	97.5	1,947	98.9
Finance and Life Insurance	**68**	**3.1**	29	1.4	(7)	(0.4)
Merchant and Investment Banking	**20**	**0.9**	23	1.1	29	1.5
	2,223	**100.0**	2,102	100.0	1,969	100.0

35 Notes to the statements of cash flows

For years ended September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995
(i) Reconciliation of Operating Profit after Income Tax to Net Cash Provided by Operating Activities						
Operating profit after income tax	**2,223**	2,102	1,969	**1,285**	1,377	1,302
Adjustments to reconcile net profit to net cash provided by operating activities:						
Increase in interest receivable	**(436)**	(617)	(503)	**(324)**	(482)	(223)
Increase in interest payable	**412**	643	794	**308**	585	587
Depreciation and amortisation	**419**	357	301	**87**	91	65
Provision for doubtful debts	**332**	333	116	**131**	169	80
Provision for long service leave and retiring allowances	**16**	6	12	**14**	4	10
Provision for annual leave	**8**	4	7	**7**	3	6
Provision for restructuring	**30**	57	20	**17**	24	–
Amortisation of goodwill	**142**	137	92	**–**	–	–
Other provisions	**45**	61	240	**16**	119	139
Increase (decrease) in provision for income tax	**27**	(135)	11	**(138)**	(109)	(51)
Net increase (decrease) in provision for deferred tax and future income tax benefit	**(63)**	(39)	29	**(8)**	(147)	53
Net (increase) decrease in trading instruments	**(1,527)**	(491)	(1,517)	**(1,434)**	(465)	(1,294)
Unrealised loss (profit) on revaluation of trading securities	**559**	202	(40)	**639**	258	(43)
Loss (profit) on available for sale securities	**–**	1	(3)	**–**	–	(2)
Net profit on sale of fixed assets and development property	**(23)**	(7)	(8)	**(5)**	(1)	(5)
Other	**26**	(33)	(24)	**(17)**	1	(6)
Total adjustments	**(33)**	479	(473)	**(707)**	50	(684)
Net cash provided by operating activities	**2,190**	2,581	1,496	**578**	1,427	618

For years ended September 30 Dollars in Millions	Consolidated 1997	1996	1995	The Company 1997	1996	1995

(ii) Reconciliation of Cash

For the purposes of reporting cash flows, cash and cash equivalents include 'cash and short-term liquid assets', 'due from other financial institutions' and 'due to other financial institutions'.

Cash and cash equivalents as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheets as follows:

Cash	**1,228**	1,724	1,594	**330**	871	250
Other short-term liquid assets[1]	**3,801**	3,147	3,117	**1,641**	665	414
Due from other financial institutions	**10,360**	9,675	9,868	**7,770**	6,370	6,619
Due to other financial institutions	**(12,746)**	(12,795)	(14,626)	**(11,178)**	(11,234)	(11,937)
	2,643	1,751	(47)	**(1,437)**	(3,328)	(4,654)

[1] Other short-term liquid assets include remittances in transit which represent funds flows which are in the process of imminent conversion into cash.

(iii) Non-Cash Financing and Investing Activities

New Share Issues:						
Dividend reinvestment plan	**347**	421	488	**347**	421	488
Bonus share plan	**59**	57	69	**59**	57	69
Movement in assets under finance lease	**10**	(12)	(16)	**(2)**	2	(14)

These amounts are not reflected in the Statements of Cash Flows

(iv) Financing Arrangements

Refer to Note 43.

(v) Acquisitions

On November 2 1995, the Company acquired 100% of the share capital of Michigan National Corporation for cash consideration. The operating results of Michigan National Corporation have been included in the consolidated profit and loss account from that date. Details of the acquisition were as follows:

For year ended September 30 Dollars in Millions	Consolidated 1996
Fair Value of Net Assets Acquired	
Cash and short term liquid assets	541
Due from other financial institutions	358
Trading securities	10
Investment securities	1,479
Loans and advances	7,963
Available for sale securities	304
Fixed assets	127
Other assets	535
Due to other financial institutions	(145)
Deposits and other borrowings	(9,626)
Other liabilities	(407)
Total net assets acquired	1,139
Goodwill on acquisition	950
Total net assets acquired after goodwill	2,089
Cash Consideration Paid	2,089

36 Particulars in relation to controlled entities

The following table highlights those controlled entities with contributions to consolidated operating profit of $5 million or more, or those that are deemed to be of particular interest. Those controlled entities with contributions to consolidated operating profit of less than $5 million have been aggregated and disclosed as 'other' under their immediate parent entity.

Entity Name *Dollars in Millions*	*Incorporated in*	*Contribution to Consolidated Operating Profit* *1997*	*1996*		*Nature of Business*
National Australia Bank Limited	Australia	**1,055**	1,199		Banking
Controlled Entities of National Australia Bank Limited					
National Equities Limited	Australia	**136**	97	a	Parent entity
National Australia Financial Management Ltd and its controlled entities	Australia	**43**	24		Life insurance and funds management
National Australia Group (NZ) Limited	New Zealand	**(50)**	(39)	b	Parent entity
Bank of New Zealand	New Zealand	**241**	254	b	Banking
BNZ Finance Limited	New Zealand	**18**	27	b	Registered bank
BNZ Funding Limited	New Zealand	**–**	5	b	Funding vehicle
BNZ Investments Limited	New Zealand	**51**	(1)	b	Investment company
BNZ Property Investments Limited and its controlled entities	New Zealand	**(22)**	(29)	b	Property company
BNZ Life Insurance Limited	New Zealand	**10**	7	b	Life insurance
Other BNZ Investments Limited controlled entities	New Zealand	**(2)**	4		Property company, investment company and nominee entities
Other Bank of New Zealand controlled entities	New Zealand, Hong Kong	**(1)**	–		Motor vehicle leasing and non-trading
National Australia Group (UK) Limited	England	**(37)**	(43)	b	Parent entity
Clydesdale Bank PLC (Group)	Scotland	**179**	136	b	Banking
Clydesdale Bank Equity Limited	Scotland	**10**	10	b	Venture/development
Clydesdale Bank Insurance Brokers Limited	Scotland	**16**	12	b	Insurance brokers
Other Clydesdale Bank PLC controlled entities	Scotland	**6**	5		Lease finance, pension trustee, nominee entity
National Americas Holdings Ltd	England	**10**	–	b	Parent entity
Michigan National Corporation	United States of America	**95**	37	b	Parent entity
Michigan National Bank and its controlled entities	United States of America	**127**	121	b	Banking
Other Michigan National Corporation controlled entities	United States of America	**–**	–		Asset management, investment advisory and underwriting
National Australia Life Company Ltd	England	**5**	(5)	b	Life insurance
National Australia Group (UK) Services Limited	Scotland	**(16)**	–	b	Computer services
National Australia Group (UK) Investments Limited	Scotland	**(10)**	–	b	Investment company
National Irish Holdings Ltd	England	**–**	–	b	Parent entity
National Irish Bank Limited and its controlled entities	Republic of Ireland	**33**	27	b	Banking
Northern Bank Ltd	Northern Ireland	**99**	74	b	Banking
Northern Bank Financial Services Ltd	Northern Ireland	**–**	–	b	Parent entity
Northern Bank Development Corporation Ltd and its controlled entities	Northern Ireland	**4**	15	b	Merchant bank
Other Northern Bank Financial Services controlled entities	Northern Ireland	**3**	–		Non-trading and lease financing
Other Northern Bank Ltd controlled entities	Northern Ireland	**13**	8		Factoring, nominee and trustee entities

36 Particulars in relation to controlled entities (continued)

Entity Name Dollars in Millions	Incorporated in	Contribution to Consolidated Operating Profit 1997	1996		Nature of Business
Yorkshire Bank PLC	England	**218**	138	b	Banking
Yorkshire Bank Retail Services Ltd and its controlled entity	England	**(14)**	5	b	Finance entity
Eden Vehicle Rentals Ltd	England	**6**	5	b	Vehicle contract hire
Yorkshire Bank Home Loans Ltd	England	**11**	7	b	Mortgage finance
Other Yorkshire Bank PLC controlled entities	England	**4**	4		Lease finance, insurance, property owner and non-trading entities
Other National Australia Group (UK) controlled entities	England	**(1)**	(2)		Finance, investment, management and computer services
National Australia Group Services Limited	Australia	**40**	37		Parent entity – finance provider
Custom Service Leasing Limited	Australia	**25**	30	a	Serviced lease finance
Other National Australia Group Services controlled entities	Australia	**–**	–		Property developer and nominee entities
NBA Properties Limited and its controlled entities	Australia	**19**	21	a	Property owner
CSPL Securities Pty Limited	Australia	**4**	8		Finance provider
National Australia Merchant Bank (Singapore) Limited	Singapore	**13**	8	b	Merchant bank
National Australia Corporate Services Limited	Australia	**–**	–	a	Parent Entity
Nautilus Insurance Pte. Ltd.	Singapore	**10**	8	b	General insurer under restricted licence
Vilexton Pty Limited	Australia	**10**	6		Finance provider
National Australia Finance (Asia) Limited	Hong Kong	**7**	5	b	Money lender
National Australia Trustees Limited and its controlled entity	Australia	**5**	3		Trustee entity
Other National Australia Bank Limited controlled entities	Australia	**(4)**	8		Investment, research and development, underwriting, infrastructure borrowings and nominee entities
Sub-Total		**2,369**	2,236		
Adjustments on Consolidation		**(4)**	3		
Goodwill Amortisation		**(142)**	(137)		
Operating profit after income tax (excluding outside equity interests)		**2,223**	2,102		

Beneficial interest in the shares of all entities listed above is 100%, with the exception of Eden Vehicle Rentals Ltd (75%).

a) *These controlled entities have entered into a deed of cross guarantee with their direct parent entities pursuant to Australian Securities Commission Class Order 95/1530 dated November 10, 1995, as amended by Class Orders 96/805 dated May 28, 1996 and 97/1018 dated July 9, 1997. Relief, therefore, was granted to these controlled entities from the Corporations Law requirements for preparation, audit and publication of financial statements. In addition to those highlighted, the following controlled entities are also part of the deed of cross guarantee.*

ARDB Ltd
Australian Banks' Export Re-Finance Corporation Ltd
C.B.C. Holdings Ltd
C.B.C. Investments Ltd
C.B.C. Investments Services Ltd
C.B.C. Properties Ltd
Canudos Ltd
Commercial Nominees Pty. Ltd
Dinant Ltd
Exchange Hiring Ltd
Groundsel Ltd
Laura Pty. Ltd
Lavallette Pty. Ltd
Layang Pty. Ltd
National Nominees (London) Ltd
Nosciter Ltd
NSW Housing No. 1 Pty. Ltd
Omnibus Leasing (1978) Ltd
Rail Leasing Ltd
River Boyne Pty. Ltd
River Embley Pty. Ltd
Roma Street Ltd
National Australia Investment Brokers Ltd
National Australia Leasing (Qld.) Pty. Ltd
NBA Leasing Pty. Ltd
NBA Properties (Qld.) Ltd
NBA Properties (Vic.) Ltd
VPL Securities Pty Ltd
Webb Dock No. 5 Container Terminal Ltd
Zermatt Ltd

b) Denotes controlled entities audited by overseas KPMG member firms. In addition to those highlighted, the following controlled entities are also audited by overseas KPMG member firms:

Allerton House Properties Ltd
Angelsea Assets Ltd
Belfast Bank Executor & Trustee Co. Ltd
Belfast Banking Co. Ltd
BNZ Branch Properties Ltd
BNZ Corporation Ltd
BNZ Equipment Ltd
BNZ International (Hong Kong) Ltd
BNZ International Ltd
BNZ Investment Advisory Services Ltd
BNZ Investment Management Ltd
BNZ Nominees Ltd
BNZ Properties (Auckland) Ltd
BNZ Properties Ltd
BNZ Property Holdings (No 2) Ltd
BNZ Property Holdings (No 3) Ltd
BNZ Property Services Ltd
BNZ Services Ltd
Braccleigh Holdings Ltd
Brunswick Collection Services Ltd
Camden Hurst Hotel Ltd
Causeway Credit Ltd
CB House Purchase Ltd
CB Nominees Ltd
CB Shelfco No. 1 Ltd (In liquidation)
CB Trustee Nominees Ltd
CGF No. 3 Ltd
CGF No. 6 Ltd
CGF No. 9 Ltd
CGF No. 12 Ltd
Clyde General Finance Ltd
Clydesdale Bank Custodian Nominees Ltd
Clydesdale Bank (Head Office) Nominees Ltd
Clydesdale Bank (London) Nominees Ltd
Clydesdale Bank Pension Trustee
Clydesdale Bank (Piccadilly) Nominees Ltd
Clydesdale-Murray Nominees Ltd.
Clydesdale Trustee & Custodial Services (Ireland) Ltd
Collinstown Property Holding Co Ltd
Comm Properties Ltd
Custom Fleet (NZ) Ltd
Detroit Diesel Capital Corporation
Executive Relocation Corporation
Fairhalsen Collections Ltd
Flamingo Holdings Incorporated
Forward Trust (Ireland) Ltd
Gael Developments Ltd
General Audit Systems
Hilden Holdings Ltd
Ibis of West Palm Beach, Inc.
Ibis Real Estate Sales Corp.(Inactive)
Independence One Brokerage Services, Inc.
Independence One Capital Management Corp.
Independence One Financial Services, Inc.
Independence One Life Insurance Co.
Independence One Mortgage Corporation
Independence One Realty Services Corp
Jacglen Ltd
Maroro Leasing Ltd
Meridian Investments, Inc.
MNB Community Development Corporation
MNB Interactive Services, Inc. (Integrion)
MNB Mondex Originator, Inc. (Inactive)
MNB Smartcard Technologies, Inc. (Inactive)
MNC Operations and Services Inc. (Inactive)
NAB Finance (Ireland) Ltd
NAB Investments Ltd
NAF Trustee Ltd
NAM Nominees Ltd
National Australia Capital Securities (Jersey) Ltd
National Australia Capital Securities (UK) Ltd
National Australia Finance (Commercial Leasing) Ltd
National Australia Finance (Equipment Leasing) Ltd
National Australia Finance (Industrial Leasing) Ltd
National Australia Finance (Leasing) Ltd
National Australia Funding (Delaware) Inc
National Australia Group CIF Trustee Ltd
National Australia Group SSP Trustee Ltd
National Australia Group SSP (ROI) Trustee Ltd
National Australia Group UK Pension Trustee Ltd
National Australia Life Services Ltd
National Australia Ltd
National Australia Trust Management Co Ltd
National Irish Bank Financial Services Ltd
National Irish Bank Leasing Ltd
National Irish Bank Nominees Ltd
National Irish Bank Pensions Ltd
National Irish Bank Trust Company Ltd
National Irish Investment Bank Ltd
National Irish Investment Bank Nominees Ltd
National Irish Investment Bank Pensions Ltd
New Zealand Card Services Ltd
Nordev Properties Ltd
Norfin Investments Ltd
North British Finance Group Ltd
North British Finance Ltd
North British Leasing Ltd
North British Motor Finance Ltd
Northern and General Finance Ltd
Northern Asset Finance Ltd
Northern Asset Management (IOM) Ltd
Northern Bank (I.O.M.) Ltd
Northern Bank Commercial Leasing Ltd
Northern Bank Equipment Leasing Ltd
Northern Bank Executor & Trustee Co. Ltd
Northern Bank Factors Ltd
Northern Bank Industrial Leasing Ltd
Northern Bank Insurance Services Ltd
Northern Bank Nominees Ltd
Northern Bank Pension Trust Ltd
Northern Bank Trust Company (IOM) Ltd
North of Scotland Bank Ltd
North of Scotland Bank London Nominees Ltd
Peterel Financing Ltd
Plimmer City Centre Ltd
Project Development (Balmoral) Ltd
Quill Financing Ltd
RIMCO VII, Inc.
RIMCO XIV, Inc.
RIMCO XVII, Inc.
Second National Fund of New Jersey
Storecard Ltd
Warren Collections Ltd
Warspite Nominees Ltd
YB Lease Ltd
YB Trust Company Ltd
Yorbank Nominees Ltd
Yorkshire Bank Commercial Leasing Ltd
Yorkshire Bank Equipment Leasing Ltd
Yorkshire Bank Finance Ltd
Yorkshire Bank Financial Services Ltd
Yorkshire Bank Investments Ltd
Yorkshire Bank Nominees Ltd
Yorkshire International Finance B.V.
Yorlease Ltd

Relief from the requirement to present the Consolidated accounts in the format required by paragraphs 5.1 and 5.2 of Accounting Standard AASB1034 'Information to be Disclosed in Financial Reports', insofar as those provisions require the disclosures of assets and liabilities in current and non-current format, was granted by Australian Securities Commission Class Order 97/1017 dated July 9, 1997. Two conditions attach to this relief. First, the disclosure of assets and liabilities is to comply with International Accounting Standard 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'. This standard, recognising that the current/non-current classification is inappropriate in a financial institution, states that a bank should present a balance sheet that groups assets and liabilities by nature and lists them in an order that reflects their relative liquidity. This represents the Company's existing practice. Second, information relating to the total assets and liabilities of controlled entities that are not prescribed corporations is to be shown by way of note. This information, which includes that relating to non-Australian banking corporations, is accordingly presented below. These figures represent an aggregation only, without the elimination adjustments which can only occur on consolidation with the Company.

As at September 30 *Dollars in Millions*	*1997*	*1996*	*1995*
Total Assets	**104,060**	78,218	61,876
Total Liabilities	**97,112**	72,764	56,824

37 Contingent liabilities and credit commitments

As at September 30 Dollars in Millions	Consolidated Notional Amount[1] 1997	 1996	 Credit Equivalent[2] 1997	 1996	The Company Notional Amount[1] 1997	 1996	 Credit Equivalent[2] 1997	 1996
Contingent Liabilities (a)								
Guarantees	**2,178**	1,998	**2,178**	1,998	**4,870**	3,808	**4,870**	3,808
Standby letters of credit	**1,760**	1,185	**1,760**	1,185	**1,123**	847	**1,123**	847
Bill endorsements	**10**	11	**10**	11	**10**	10	**10**	10
Documentary letters of credit	**575**	424	**88**	18	**365**	296	**61**	29
Performance related contingencies	**1,411**	1,365	**706**	683	**575**	493	**287**	246
Other	**514**	303	**514**	303	**397**	166	**397**	166
Total Contingent Liabilities	**6,448**	5,286	**5,256**	4,198	**7,340**	5,620	**6,748**	5,106

The Economic Entity has shared its exposure on letters of credit with other financial institutions to the extent of $12 million credit equivalent (1996: $11 million). This amount is not included in the above figures. The Economic Entity has recourse arrangements with customers and others in respect of the major portion of the remaining contingent liabilities.

As at September 30 Dollars in Millions	Consolidated Notional Amount[1] 1997	 1996	 Credit Equivalent[2] 1997	 1996	The Company Notional Amount[1] 1997	 1996	 Credit Equivalent[2] 1997	 1996
Credit Related Commitments (b)								
Outright forward purchases and forward deposits	**5**	3	**5**	3	**–**	–	**–**	–
Underwriting facilities	**237**	309	**118**	154	**237**	299	**118**	149
Other binding credit commitments	**46,619**	39,923	**11,567**	9,471	**33,000**	29,418	**9,289**	7,698
Total Credit Related Commitments	**46,861**	40,235	**11,690**	9,628	**33,237**	29,717	**9,407**	7,847

[1] The notional amount represents the maximum credit risk.

[2] The credit equivalent amount records the estimated maximum or total potential loss if the counterparty were to default, and is determined in accordance with the Reserve Bank of Australia's risk-weighted capital adequacy guidelines. These credit equivalents are then weighted in the same manner as balance sheet assets according to counterparty for capital adequacy purposes. (For additional information refer also to, 'Capital Adequacy' on page 53.)

In the normal course of business, various types of contracts are entered into that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers, and include commitments to extend credit, letters of credit and financial guarantees. The contracts expose the Economic Entity to various degrees of credit risk.

(a) Contingent Liabilities

The Economic Entity's exposure to potential loss in the event of non-performance by a counterparty to a financial instrument for commitments to extend credit, letters of credit and financial guarantees written, is represented by the contractual notional principal amount of those instruments. The Economic Entity uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets.

Letters of credit and financial guarantees written are conditional commitments issued by the Economic Entity to guarantee the performance of a customer to a third party. Those letters of credit and guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of the Economic Entity as a letter of credit or guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds, ongoing obligations to Government entities, etc.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Economic Entity holds collateral supporting these commitments where it is deemed necessary.

In accordance with the rules governing clearing arrangements contained in the Regulations of the Australian Paper Clearing System and in the Regulations of the Bulk Electronic Clearing System under the Australian Payments Clearing Associated Limited, the Company is subject to a commitment to provide liquidity support to the clearing system in the event of a failure of another clearing financial institution.

There are also contingent liabilities in respect of claims, potential claims and court proceedings against entities in the Economic Entity; the aggregate of potential liability, in respect thereof, cannot be accurately assessed. Where some loss is probable, appropriate provisions have been made.

The Economic Entity is defendant from time to time in legal proceedings arising from the conduct of its business. The Economic Entity does not consider that the outcome of any current proceedings, either individually or in the aggregate, are likely to have a material effect on its operations or financial position.

(b) Credit Related Commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. The Economic Entity evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Economic Entity upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

– a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;

– specific or interlocking guarantees;

– specific charges over defined assets of the counterparty; and

– loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

(c) Parent Entity Guarantees and Undertakings

Excluded from the consolidated amounts disclosed above are the following guarantees and undertakings to entities in the Economic Entity:

– Commercial paper issued by National Australia Funding (Delaware) Inc. totalling $4,826 million (1996: $4,430 million) is guaranteed by the Company.

– The Company has agreed to guarantee existing debenture holders secured under Broadbank Corporation Limited's (now National Australia Bank (NZ) Limited) Trust Deed as at December 31, 1987 until maturity. The outstanding liability as at September 30, 1997 was not material.

– Under arrangements with the Bank of England a letter has been issued by the Company to Clydesdale Bank PLC and Northern Bank Limited undertaking to maintain their capital base at regulatory levels in the event that losses are incurred on exposures to individual customers whose facilities exceed 25% of Clydesdale's or Northern's regulatory capital base.

– The Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer.

– The Company has guaranteed the repayment of debenture stock of Custom Credit Corporation Limited (in Liquidation) and payment of interest thereon. Debenture stock outstanding at September 30, 1997 amounted to $0.1 million (1996: $0.3 million) and is reflected in the carrying amount of the receivable due from the liquidator in Custom Credit Holdings Limited (in Liquidation) at balance date (refer Note 20).

– Pursuant to Australian Securities Commission Class Order 95/1530 dated November 10, 1995, as amended by Class Orders 96/805 dated May 20, 1996, and 97/1018 dated July 9, 1997, relief was granted to certain controlled entities (refer note 36, footnote a) from the Corporations Law requirements for preparation, audit and publication of financial statements. It is a condition of the Class Order that the Company and each of the controlled entities enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the Corporations Law. If a winding up occurs under other provisions of the Law, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. At September 30, 1997, the Company and controlled entities which are a party to the Deed have aggregate assets of $126,035 million (1996: $103,788 million), aggregate liabilities of $118,648 million (1996: $96,406 million), and their contribution to consolidated operating profit after income tax for the year ended September 30, 1997 was $1,237 million (1996: $1,307 million).

It is not envisaged that any material unrecorded loss is likely to arise from transactions described in this note.

38 Derivative financial instruments

In recent years there has been a well-publicised growth in the use of derivative financial instruments. This growth is the result of a number of factors. The most significant has been the prevalence, in the past twenty years, of considerable price volatility and uncertainty in financial markets. This has caused a widespread desire among users of these markets to find various ways of limiting their exposure to the associated risks.

However, derivatives should not be regarded entirely as a contemporary phenomenon. Although swaps were first devised in the early 1980's, other derivatives like forwards and options have been employed in commercial ventures for centuries. It is the recent emergence of powerful mathematical tools, coupled with rapid advances in technology and communications, that has brought about the creation of a global market dealing in the many variations of these basic instruments.

Whatever their form, derivatives continue to enable holders of actual or anticipated assets or liabilities – whose value may vary with movements in interest rates, foreign exchange rates or the prices of equities or commodities – to modify or eliminate those risks by transferring them to other entities willing to assume them.

Accounting methodologies have limited capacity to measure or portray the risks associated with derivatives. This can only be done through quantitative disclosure and narrative explanations. The purpose of the following discussion is to inform users of the financial statements of the type of instruments used by the Economic Entity, the reasons for using them, the accompanying risks, and how those risks are managed.

Definition of a Derivative

A derivative financial instrument is a contract or agreement whose value depends on (or derives from) the value of an underlying instrument, reference rate or index. As indicated above, derivatives are usually separated into three generic classes; forwards, options and swaps, although individual products may combine the features of more than one class. The principal features of each of these classes are summarised below.

Forward and Futures Contracts

Forward and futures contracts are contracts for delayed delivery of financial instruments in which the seller agrees to settle at a specified future date at a specified price or yield. A forward rate agreement is a confirmed agreement between two parties to exchange an interest rate differential on a notional principal amount at a given future date.

Options

Options are contracts that allow the holder of the option the right but not the obligation to purchase or sell a financial instrument at a specified price and within a specified period. Interest rate caps and floors are option contracts, and included as such in the disclosures below. They require the seller to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to the notional principal amount.

Swaps

Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying notional principal amount. A cross currency swap takes the form of an agreement to exchange one currency for another and to re-exchange the currencies at the maturity of the swap, using the same exchange rate, with the exchange of interest payments throughout the swap period.

Risk Associated with Derivatives

Derivatives are used primarily as a means to transfer risk. They expose the holder to various degrees and types of financial risk including market, credit and liquidity risk. These risks are discussed below.

Market Risk

Definition

Market risk of derivative financial instruments held or issued for trading purposes is the risk that the value of derivatives will be adversely affected by changes in the market value of the underlying instrument, reference rate or index. Market risk is relevant to the Economic Entity's trading activities in which it primarily acts as an intermediary to satisfy customer needs. However, not all risks associated with intermediation can be effectively hedged. The residual market exposures together with trading positions are managed within established limits approved by the Board. A unit independent of the trading activities monitors compliance within delegated limits on a daily basis.

Derivative Financial Instruments Held or Issued for Trading Purposes

General Description of Activities

The Economic Entity maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange and interest rate related services. In addition, the Economic Entity takes conservative positions on its own account, and carries an inventory of capital market instruments. It satisfies customer needs and maintains access to market liquidity by quoting bid and offer prices on those instruments and trading with other market makers. All positions held for trading purposes are revalued on a daily basis to reflect market movements and any revaluation gain or loss is recognised immediately in the profit and loss account.

Table 1 shows the fair value of all derivative instruments held or issued for trading and other than trading purposes as at September 30, 1997 and September 30, 1996 together with the average fair values that applied during those years. It should be noted that fair value at a particular point in time gives no indication of future gain or loss, or what the dimensions of that gain or loss are likely to be.

Table 1: Fair Value of Assets (Liabilities) Arising from Instruments Held or Issued.

Consolidated	*Other Than Trading Fair Value*[1]		*Trading Fair Value*[1]		*Trading Average Fair Value*	
For years ended September 30 Dollars in Millions	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*
Foreign Exchange Rate Related Contracts						
Spot and forward contracts to purchase foreign exchange						
In a favourable position	**511**	18	**3,944**	2,916	**2,995**	2,199
In an unfavourable position	**(105)**	(357)	**(4,451)**	(2,649)	**(3,115)**	(2,194)
Cross currency swaps						
In a favourable position	**62**	110	**30**	29	**41**	3
In an unfavourable position	**(12)**	(6)	**(77)**	(29)	**(54)**	(34)
Futures	**–**	–	**1**	–	**1**	–
Options						
Purchased	**–**	–	**136**	41	**47**	20
Written	**–**	–	**(108)**	(73)	**(57)**	(35)
Total Foreign Exchange Rate Related Contracts	**456**	(235)	**(525)**	235	**(142)**	(41)
Interest Rate Related Contracts						
Forward rate agreements						
In a favourable position	**–**	–	**20**	6	**20**	5
In an unfavourable position	**–**	–	**(19)**	(6)	**(18)**	(6)
Swaps						
In a favourable position	**261**	105	**1,375**	638	**908**	467
In an unfavourable position	**(420)**	(159)	**(1,717)**	(632)	**(1,197)**	(495)
Futures	**(1)**	(1)	**23**	(18)	**(1)**	(7)
Options						
Purchased	**1**	(3)	**35**	38	**20**	30
Written	**–**	–	**(22)**	(17)	**(15)**	(22)
Total Interest Rate Related Contracts	**(159)**	(58)	**(305)**	9	**(283)**	(28)
Total	**297**	(293)	**(830)**	244	**(425)**	(69)

[1] The positive fair value represents the credit risk to the Economic Entity if all the Economic Entity's counterparties were to default.

Foreign Exchange Rate Related Contracts

The table shows that the bulk of fair value is concentrated in foreign exchange spot and forward transactions. These contracts are of a standardised form and are usually of a maturity of less than twelve months.

The fair value of foreign exchange rate related contracts amounted to a net unrealised loss at September 30, 1997 of $525 million (1996: gain of $235 million). Total net realised and unrealised gains and losses on foreign exchange rate related contracts during the year totalled $150 million (1996: $146 million). Refer to Note 2.

Interest Rate Related Contracts

The table shows that the bulk of fair value is concentrated in interest rate swaps.

The fair value of interest rate related contracts amounted to a net unrealised loss at September 30, 1997 of $305 million (1996: gain of $9 million). Total net realised and unrealised gains and losses on both interest rate related contracts and physical securities, during the year totalled $135 million (1996: $76 million). Refer to Note 2.

Earnings at Risk

As foreign exchange and interest rate derivatives generally consist of offsetting commitments, they involve only limited net foreign exchange and interest rate risk, which is managed in the Economic Entity under strict trading guidelines. The overall market risk that any business unit can assume is approved by a special committee of the Board, through a combination of intraday trading limits and overnight earnings at risk limits.

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

The earnings at risk methodology is one means by which the Economic Entity manages volatility from market risk. Table 2 shows the Economic Entity's earnings at risk for both foreign exchange and interest rate trading portfolios, including both physical and derivative positions. The figures reflect the offsetting potential gains or losses across products and regions in which the Economic Entity operates.

Table 2: Earnings at Risk for physical and derivative positions

Consolidated	*Average Value During Reporting Period*		*Minimum Value During Reporting Period*		*Maximum Value During Reporting Period*	
For years ended September 30 Dollars in Millions	***1997***	*1996*	***1997***	*1996*	***1997***	*1996*
Earnings at risk at a 95% confidence level						
Foreign exchange risk	**2**	3	**1**	2	**3**	4
Interest rate risk	**5**	4	**4**	3	**7**	7

Derivative Financial Instruments Held or Issued for Purposes Other Than Trading

General Description

The operations of the Economic Entity are subject to risk of interest rate fluctuations, to the extent that there is a difference between the amount of the Economic Entity's interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. Derivative financial instruments are held or issued for the purposes of managing this interest rate risk.

Interest Rate Risk Analysis

The Economic Entity monitors its interest rate risk for derivative activities other than trading by simulating future net interest income resulting from applying a range of possible future interest rate environments to its projected balance sheets.

Anticipated Transactions

The Economic Entity holds or issues derivative financial instruments for the purpose of hedging foreign exchange rate or interest rate exposures arising from anticipated future transactions. The majority of such transactions arise on interest rate repricing mismatches revealed in risk analyses of the type mentioned above. In addition, the Company also uses foreign exchange rate related derivatives, in order to hedge anticipated cash flows such as those relating to dividends emanating from offshore controlled entities.

Table 3 shows the net deferred realised gains and losses arising from hedging contracts entered into to reduce the risk arising from identifiable assets, liabilities and commitments, together with the expected term of deferral.

Table 3: Net Deferred Gains and Losses

Consolidated	*Foreign Exchange Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 Dollars in Millions	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*
Within 6 Months	**–**	–	**–**	–	**–**	–
6 Months – 1 Year	**–**	–	**–**	–	**–**	–
1 – 2 Years	**–**	–	**–**	–	**–**	–
2 – 5 Years	**–**	–	**–**	–	**–**	–
After 5 Years	**–**	–	**–**	–	**–**	–
Total	**–**	–	**–**	–	**–**	–

Table 4 shows the net deferred gains and losses from hedging contracts entered into to reduce the risk arising from anticipated transactions together with the expected term of deferral.

Table 4: Net Deferred Gains and Losses Arising From Hedges of Anticipated Transactions

Consolidated	*Foreign Exchange Rate Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 Dollars in Millions	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*
Within 6 Months	**–**	–	**1**	(2)	**1**	(2)
6 Months – 1 Year	**–**	–	**–**	(1)	**–**	(1)
1 – 2 Years	**–**	–	**–**	–	**–**	–
2 – 5 Years	**–**	–	**–**	–	**–**	–
After 5 Years	**–**	–	**–**	–	**–**	–
Total	**–**	–	**1**	(3)	**1**	(3)

Credit Risk

Credit risk arises from the possibility that the counterparty to a derivative financial instrument will not adhere to the terms of the contract with the Economic Entity when settlement becomes due.

Notional principal is the amount of a derivative's underlying asset, reference rate or index, and is the quantum on which changes in the value of the derivative are measured. It provides an indication of the volume of business transacted by the Economic Entity. Changes in the value of a derivative are usually only a fraction of the notional principal amount and it is only those changes which have a positive fair value to the Economic Entity which create a potential for credit risk.

The Economic Entity's credit exposure has been determined in accordance with the Reserve Bank of Australia's capital adequacy guidelines. This 'credit equivalent' is derived by taking into account the residual maturity of each instrument, and then adding the fair value of all contracts which have a positive fair value. Futures and Option contracts which are traded on a recognised exchange and which are subject to margin payments are considered to have no credit exposure. Internal credit assessment applies a conservative methodology to determine potential counterparty exposure.

Table 5 shows the fair value of all derivative instruments as at September 30, 1997 and September 30, 1996. It should be noted that fair value at a particular point in time gives no indication of future gain or loss, or what the dimensions of that gain or loss are likely to be.

Credit risk is constantly assessed, measured and managed in strict accordance with the Bank's risk management policies. Member banks of the Economic Entity may take collateral to secure amounts due under treasury transactions, however collaterisation is assessed specifically at the time facilities are approved on a case-by-case basis.

Table 5: Notional Principal, Estimated Credit Equivalent and Fair Value of all Derivative Financial Instruments

Consolidated	Notional Principal		Credit Equivalent		Fair Value		Average Fair Value[2]	
As at September 30 Dollars in Millions	1997	1996	1997	1996	1997	1996	1997	1996
Foreign Exchange Rate Related Contracts								
Spot and forward contracts to purchase foreign exchange[1]								
Trading	**211,510**	185,302	**5,752**	4,024	**(506)**	267	**(120)**	5
Other than trading	**23,974**	23,942	**586**	163	**406**	(339)		
Total Foreign Exchange	**235,484**	209,244	**6,338**	4,187	**(100)**	(72)	**(120)**	5
Cross currency swaps[1]								
Trading	**4,904**	3,343	**245**	148	**(47)**	–	**(13)**	(31)
Other than trading	**1,359**	1,244	**106**	153	**50**	104		
Total Cross Currency Swaps	**6,263**	4,587	**351**	301	**3**	104	**(13)**	(31)
Total Futures Trading	**196**	13	**–**	–	**1**	–	**1**	–
Options								
Trading	**12,386**	4,892	**207**	118	**28**	(32)	**(10)**	(15)
Other than trading	**–**	–	**–**	–	**–**	–		
Total Options	**12,386**	4,892	**207**	118	**28**	(32)	**(10)**	(15)
Total Foreign Exchange Rate Related Contracts	**254,329**	218,736	**6,896**	4,606	**(68)**	–	**(142)**	(41)
Interest Rate Related Contracts								
Forward rate agreements								
Trading	**41,880**	16,835	**61**	11	**1**	–	**2**	(1)
Other than trading	**1,544**	519	**–**	–	**–**	–		
Total Forward Rate Agreements	**43,424**	17,354	**61**	11	**1**	–	**2**	(1)
Swaps								
Trading	**96,181**	46,161	**1,849**	805	**(342)**	6	**(289)**	(28)
Other than trading	**22,191**	14,794	**185**	214	**(159)**	(54)		
Total Swaps	**118,372**	60,955	**2,034**	1,019	**(501)**	(48)	**(289)**	(28)
Futures								
Trading	**90,322**	53,935	**–**	–	**23**	(18)	**(1)**	(7)
Other than trading	**1,265**	2,815	**–**	–	**(1)**	(1)		
Total Futures	**91,587**	56,750	**–**	–	**22**	(19)	**(1)**	(7)
Options								
Trading	**86,580**	29,878	**50**	49	**13**	21	**5**	8
Other than trading	**137**	92	**5**	3	**1**	(3)		
Total Options	**86,717**	29,970	**55**	52	**14**	18	**5**	8
Total Interest Rate Related Contracts	**340,100**	165,029	**2,150**	1,082	**(464)**	(49)	**(283)**	(28)
Other Index Related Contracts								
Swaps								
Other than trading	**12**	12	**–**	–	**–**	–		
Total Index Related Contracts	**12**	12	**–**	–	**–**	–		
Total	**594,441**	383,777	**9,046**	5,688	**(532)**	(49)	**(425)**	(69)

[1] In accordance with industry practice, notional principal amounts disclosed for spot and forward foreign exchange contracts represent the buy leg only and for cross currency swaps represent the receivable leg only.

[2] Average fair values of other than trading contracts are not captured.

Credit Equivalent by Maturity

As mentioned above, the credit equivalent amount includes an adjustment which takes account of the residual maturity of contracts. This is because credit risk is partly a function of the time over which the exposure will be held.

Table 6 provides a maturity profile of total counterparty exposure by credit equivalent amounts. It shows that 72% (1996: 75%) of the exposure is confined to maturities of one year or less and 94% (1996: 97%) matures within five years.

Table 6: Maturity Profile of Total Derivative Financial Instruments Counterparty Exposure by Credit Equivalent Amounts

Consolidated	*Foreign Exchange Rate Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 *Dollars in Millions*	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*
Within 6 Months	**4,259**	3,457	**121**	105	**4,380**	3,562
6 Months – 1 Year	**1,911**	605	**244**	82	**2,155**	687
1 – 2 Years	**449**	224	**476**	207	**925**	431
2 – 5 Years	**213**	292	**828**	522	**1,041**	814
After 5 Years	**64**	28	**481**	166	**545**	194
Total	**6,896**	4,606	**2,150**	1,082	**9,046**	5,688

Credit Equivalent by Concentration

Depending on the risks associated with an individual counterparty or groups of counterparties, a concentration of credit risk can be perceived as indicative of more or less credit risk. In general, the Economic Entity's dealings in derivatives involve counterparties in the Banking and Financial Services area, together with government and semi-government authorities and major corporates.

Table 7 shows the credit equivalent of derivatives allocated to broad sector and geographic locations. It shows that 75% (1996: 77%) of credit exposure is to government authorities and other financial institutions. In excess of 94% (1996: 94%) of the Economic Entity's derivative financial instruments outstandings in terms of the credit equivalent are to customers with a credit rating of investment grade or above under the Economic Entity's loan grading system.

Table 7: Credit Equivalent of Derivative Financial Instruments Allocated to the Sectors and Geographic Locations of the Ultimate Obligors

Consolidated	*Governments*	*Banks*	*Non Bank Financial Institutions*	*Corporate and All Other Sectors*	*Total*
As at September 30, 1997 *Dollars in Millions*					
Australia	375	3,317	437	1,386	5,515
Europe	–	744	9	67	820
New Zealand	3	116	3	181	303
United States of America	–	35	6	3	44
Asia	–	2,220	101	43	2,364
Total	378	6,432	556	1,680	9,046

Liquidity Risk

Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will force the Economic Entity to sell derivative positions at a value which is far below their underlying worth, or may result in the inability to exit from the positions. The liquidity of a derivative, or an entire market, can be reduced substantially as a result of some market event or change in market psychology, or the actions of individual participants.

In order to counter such risk, the Economic Entity concentrates its derivative activity in highly liquid markets. Table 5, for example, shows that approximately 55% (1996: 69%) of notional principal outstanding was represented by standard foreign exchange and interest rate futures contracts.

Special considerations apply in the case of interest rate and cross currency swaps. These are often specially tailored instruments whose cash flows are structured to suit the particular needs of individual clients. Such instruments have the appearance of illiquidity because hedging the position with another counterparty with exactly offsetting requirements would be an unlikely occurrence.

However, the Economic Entity hedges the risks of customised swap structures by using a combination of other instruments. Swaps, forward rate agreements, futures contracts, physical securities or even loans and deposits can be employed for this purpose. In other words, such swaps may appear illiquid, but their component risks are not. Furthermore, other market participants will always be willing to provide liquidity to an instrument they are able to hedge.

In addition, earnings at risk utilisations (Table 2) ensure that open positions are maintained at a very small level relative to total volume. Such levels ensure that, at a time of market stress, the Economic Entity would not be forced to compete for ever diminishing liquidity in order to dispose of, or hedge, its existing positions.

39 Fair value of financial instruments

Disclosed below is the estimated fair value of the Economic Entity's financial instruments presented in accordance with the requirements of Statement of Financial Accounting Standards No. 107 (SFAS 107), issued by the Financial Accounting Standards Board of the United States of America.

A financial instrument is defined by SFAS 107 as cash, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver to or receive cash or another financial instrument from a second entity on potentially favourable or unfavourable terms.

The following disclosures include all financial instruments other than items exempted from the provisions of the standard such as leases, controlled and associated entity investments and pension fund obligations. The disclosures also exclude the effect of any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax consequences, estimated transaction costs that may result from bulk sales or the relationships that may exist between various financial instruments.

There are various limitations inherent in this disclosure. First, it excludes a wide range of intangible, franchise and relationship benefits which are integral to a full assessment of the Economic Entity's financial position and the value of its net assets. Of prime significance among these exclusions, is the inability to assign a premium to non-interest bearing and call (ie. current account) deposits, notwithstanding that such deposits represent a stable source of long-term funding to the Economic Entity. The value of that premium is positively correlated with interest rates – it increases as interest rates rise. However, an interest rate rise will adversely affect the valuation of those longer term fixed rate financial assets which are, in part, funded by those deposits. Therefore, in the absence of any recorded increase in the premium value of such deposits, SFAS 107 disclosures will tend to indicate an interest rate sensitivity within the Economic Entity which in reality may not exist.

Additionally, some items are excluded from the SFAS 107 requirements even where they may be bought and sold in the market. For example, the intangible value of credit card relationships represent the value attributable to a credit card customer base, and are based on the expected duration of customer relationships. Recorded sales of credit card receivables in other entities indicate that this intangible carries significant premium market value. This market value has not been recognised in the disclosure below.

Furthermore, the valuation of other loans and deposits which, as explained below, generally involved the use of discounted cash flow techniques takes no account of the value to the Economic Entity of the customer relationships so formed and on which the Economic Entity's continued financial health depends.

Finally, although management has employed its best judgment in the estimation of fair values, there is inevitably a significant element of subjectivity involved in the calculations. This is particularly so in the case of those financial instruments which are non performing or which, like the majority of the Economic Entity's financial assets and liabilities, have a thin or non-existent market. Therefore, the fair value estimates presented below are not necessarily indicative of the amounts the Economic Entity could have realised in a sales transaction at September 30.

Methodologies

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

Liquid assets

The carrying values of certain on-balance sheet financial instruments approximate fair values. These include cash and short-term liquid assets, due to and from other financial institutions, acceptances outstanding and customers' acceptance liability, and accrued interest receivable and payable. These financial instruments are short-term in nature and the related amounts approximate fair value or are receivable or payable on demand.

Debt securities

The fair values of Trading, Investment, and Available for Sale securities, together with any related hedge contracts where applicable, are based on quoted market prices at September 30.

Loans and advances

The fair value of loans and advances that reprice within six months of balance date is assumed to equate to the carrying value. The fair value of all other loans and advances were calculated using discounted cash flow models based on the maturity of the loans. The discount rates applied in this exercise were based on the current interest rates of similar types of loans, if the loans were performing at reporting date.

The fair value of non-performing loans was derived from the results of a statistical sample of such loans in all banking entities in the Economic Entity. The purpose of the sample was to compare the carrying value, net of any related provisions, with the discounted present value of such loans based on estimates of future cash flows. As policies and procedures are in place to ensure that provisioning practices are uniformly applied across the Economic Entity, the results of that statistical sample have been utilised in arriving at a valuation of all non-performing loans within the Economic Entity. As noted, leasing assets have been excluded from the calculation of fair value.

Shares in entities and other securities

The fair value of shares in entities and other securities was based on quoted market prices where available. Where quoted market prices did not exist, the fair values were estimated after taking into account the underlying financial position of the investee or quoted market prices for similar instruments.

Regulatory deposits

The Economic Entity is required by law, in several of the countries in which it operates, to lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. As the obligation between the parties is not based on contract but on regulatory requirements, such deposits do not constitute a financial instrument within the definition contained in SFAS 107 and have been included in the table for Australian reporting purposes.

Deposits and other borrowings

As noted above, the fair value of non-interest bearing, call and variable rate deposits and fixed rate deposits repricing within six months was the carrying value at September 30. The fair value of other term deposits was calculated using discounted cash flow models, based on the deposit type and its related maturity.

Bonds, notes and subordinated debt/other debt issues

The fair value of bonds, notes and subordinated debt was calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument was used.

The fair value of off-balance sheet financial instruments that qualify as accounting hedges for the Economic Entity's long-term debt was included in the fair value amount of the hedged debt.

Commitments to extend credit, letters of credit and guarantees, warranties and indemnities issued

These financial instruments are generally not sold nor traded and estimated fair values are not readily ascertainable. Fair value of these items was not calculated for the following reasons. First, very few of the commitments extending beyond six months would commit the Economic Entity to a predetermined rate of interest. Secondly, the fees attaching to these commitments are the same as those currently charged to enter into similar arrangements. Finally, the quantum of fees collected under these arrangements, upon which a fair value calculation would be based, is not material.

Other off-balance sheet financial instruments

The fair values of foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

The fair values of these instruments are disclosed in Note 38, 'Derivative Financial Instruments' on pages 128 and 131.

Summary

The following table provides comparison of carrying and fair values for each item discussed above, where applicable.

	Carrying Value[1]	*Fair Value*[2]	*Carrying Value*[1]	*Fair Value*[2]
As at September 30	*1997*		*1996*	
Dollars in Millions				
Financial Assets				
Liquid assets	**5,029**	**5,029**	4,871	4,871
Due from other financial institutions	**10,360**	**10,360**	9,675	9,675
Due from customers on acceptances	**19,605**	**19,605**	17,283	17,283
Debt securities	**19,250**	**19,338**	15,344	15,387
Loans and advances	**123,359**	**123,303**	106,106	107,030
Regulatory deposits[3]	**1,016**	**1,016**		
Lease finance[3]	**7,335**	**7,341**		
Shares in entities and other securities	**280**	**300**	175	205
Total Financial Assets	**186,234**	**186,292**	153,454	154,451
Financial Liabilities				
Due to other financial institutions	**12,746**	**12,746**	12,795	12,795
Liability on acceptances	**19,605**	**19,605**	17,283	17,283
Deposits and other borrowings	**128,469**	**128,618**	109,158	109,253
Bonds, notes and subordinated debt	**9,569**	**9,687**	6,958	6,989
Other debt issues[4]	**1,609**	**1,582**	424	388
Total Financial Liabilities	**171,998**	**172,238**	146,618	146,708

(1) The credit risk on financial assets of the Economic Entity is their carrying value as listed above.

(2) The net fair value of the financial assets and financial liabilities are materially the same as the fair values disclosed above.

(3) For the purposes of SFAS 107 disclosures of lease finance and regulatory deposits are excluded from the definition of financial asset and have been included in this table for Australian reporting purposes. Comparatives for 1996 are not available.

(4) The Economic Entity has not written these financial liabilities down to their net fair value because it expects to recover their carrying amount fully.

40 Superannuation commitments

The Economic Entity sponsors a range of superannuation funds for employees which principally offer 2 types of benefits:

a) Defined benefits which provide a pension with the option of commutation of part of the pension on retirement; and

b) Accumulation benefits which provide a lump sum benefit on retirement or withdrawal.

Defined benefits are based on years of service and compensation levels during the latter years of service. For defined benefit funds, the Economic Entity's policy has been to contribute to the plans annually in amounts required to maintain sufficient plan assets to provide for accrued benefits.

Accumulation benefits are based on accumulated contributions and interest earnings thereon. Entities in the Economic Entity are obliged to contribute sufficiently to cover specified minimum benefit levels. These obligations are legally enforceable. The relevant trust deed allows for the permanent cessation of these contributions. Member and employer contributions are calculated as percentages of members salaries or wages. In the case of some funds, member contributions are not required.

The Economic Entity contributed $104 million in respect of all superannuation funds for the year ended September 30, 1997 (1996: $123 million).

All Trustees of the respective funds are of the opinion, based on the advice of the actuaries as at the last valuation date, that on termination of the funds or the voluntary or compulsory termination of each employee, all vested benefits are covered by the available assets of the respective funds.

Listed below are details of the major funds with total assets in excess of $10 million. The accrued benefits, plan assets at net market value, net surplus and vested benefits of these funds (converted as at September 30, 1997 exchange rates) were:

Name of Fund Dollars in Millions		*1997*				*1996*			
Defined Benefit Funds	*Last Assessment Date and Actuary Name*	*Accrued Benefits*	*Plan Assets*	*Net Surplus*	*Vested Benefits*	*Accrued Benefits*	*Plan Assets*	*Net Surplus*	*Vested Benefits*
National Australia Bank Group Superannuation Fund A[(1)]	September 30, 1994 Mr. SJ Schubert FIA, FIAA	**1,124**	**1,648**	**524**	**1,220**	1,124	1,433	309	1,056
Clydesdale Bank Pension Scheme[(2)]	June 30, 1997 Watson Wyatt Partners Consulting Actuaries	**925**	**1,088**	**163**	**828**	722	868	146	624
Northern Bank Pension Scheme[(2)]	June 30, 1997 Watson Wyatt Partners Consulting Actuaries	**600**	**893**	**293**	**551**	488	710	222	397
National Irish Bank Pension Scheme[(2)]	June 30, 1997 Watson Wyatt Partners Consulting Actuaries	**166**	**249**	**83**	**123**	161	189	28	131
National Australia Bank UK Retirement Benefits Plan[(2)(3)]	June 30, 1997 Sedgwick Noble Lowndes Actuarial Services Ltd	**47**	**51**	**4**	**40**	26	35	9	24
Yorkshire Bank Pension Scheme[(2)]	June 30, 1997 Watson Wyatt Partners Consulting Actuaries	**712**	**1,144**	**432**	**595**	573	880	307	478
Bank of New Zealand Officers Provident Association[(4)]	October 31, 1997 William M Mercer Ltd Consulting Actuaries	**206**	**306**	**100**	**204**	208	319	111	202
Bank of New Zealand Officers Provident Association (London) Pension Scheme[(2)(5)]	June 30, 1997 Watson Wyatt Partners Consulting Actuaries	**–**	**–**	**–**	**–**	15	22	7	16
Michigan National Corporation Pension Scheme[(6)]	September 30, 1997 William M Mercer Ltd Consulting Actuaries	**132**	**158**	**26**	**97**	101	112	11	78
Total Defined Benefit Funds		**3,912**	**5,537**	**1,625**	**3,658**	3,418	4,568	1,150	3,006

Notes:

(1) National Australia Bank Group Superannuation Fund A is technically a defined benefit fund although the vast majority of members have accumulation benefits. Accrued Benefits are at the date of the last actuarial assessment, which was September 30, 1994. Plan Assets and Vested Benefits are as at September 30, 1997.

(2) Accrued Benefits, Plan Assets and Vested Benefits are at the date of the last actuarial assessment, which was June 30, 1997. Comparative amounts are as the actuarial assessment date of June 30, 1996.

(3) National Australia Bank and National Australia Group employees working in the Group's UK and Irish Banks are covered under the National Australia Bank Limited UK Retirement Benefits Plan.

(4) Amounts for Division 1 and 2 of the Bank of New Zealand Officers Provident Association have been combined.

(5) The BNZ OPA (London) Pension Scheme was merged into the Yorkshire Bank PLC Pension Fund on October 1, 1996.

(6) Accrued Benefits, Plan Assets and Vested Benefits for the Plan are as at the date of the last actuarial assessment which was September 30, 1997.

As at September 30 Dollars in Millions	Consolidated 1997	Consolidated 1996	The Company 1997	The Company 1996

41 Operating lease commitments

Estimated minimum lease commitments:				
Due within 1 year	**231**	244	**161**	175
Due within 1–2 years	**159**	174	**95**	110
Due within 2–3 years	**139**	139	**78**	83
Due within 3–4 years	**122**	104	**66**	52
Due within 4–5 years	**98**	83	**46**	37
Due after 5 years	**790**	849	**30**	145
Total Operating Lease Commitments[(1)(2)]	**1,539**	1,593	**476**	602
Commitments by type:				
Commercial and residential buildings	**1,465**	1,493	**403**	503
Data processing and other equipment	**74**	100	**73**	99
	1,539	1,593	**476**	602

[(1)] Figures include liabilities taken up for surplus leased space and lease incentives.

[(2)] Includes non-cancellable operating lease commitments consisting of:

Due within 1 year	**64**	65	**–**	–
Due within 1–2 years	**60**	60	**–**	–
Due within 2–3 years	**57**	53	**–**	–
Due within 3–4 years	**52**	48	**–**	–
Due within 4–5 years	**48**	43	**–**	–
Due after 5 years	**693**	639	**–**	–
Total Non-Cancellable Operating Lease Commitments	**974**	908	**–**	–

42 Capital expenditure commitments

Land and buildings				
Due within 1 year	**32**	24	**20**	15
Due within 2–5 years	**1**	1	**–**	–
Data processing and other equipment				
Due within 1 year	**45**	27	**38**	23
Due within 1–2 years	**–**	1	**–**	–
Due within 2–5 years	**–**	1	**–**	–
Total Capital Expenditure Commitments	**78**	54	**58**	38

43 Financing arrangements

	Consolidated 1997 Amount Accessible	Consolidated 1997 Amount Unused	Consolidated 1996 Amount Accessible	Consolidated 1996 Amount Unused
The Company and other controlled entities have access to the following financing arrangements:				
Standby lines of credit	**259**	**259**	291	291
Overnight facilities and Other	**–**	**–**	–	–
	259	**259**	291	291

The standby lines of credit facilities are subject to a range of expiry dates from September 20, 1998 to December 6, 2001.

44 Related party disclosures

During the year there have been dealings between the Company and its controlled entities and other related parties. The Company provides a range of services including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, the provision of finance, forward exchange and interest rate cover. These transactions are normally subject to commercial terms and conditions.

Other transactions with controlled entities may involve leases of properties, plant and equipment, the provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are made on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Economic Entity, which may include accounting, secretarial and legal. Fees may be charged for these services.

The aggregate of material amounts receivable from or payable to controlled entities, at balance date are as disclosed in the balance sheet of the Company.

Directors of the Company who have held office during the financial year:

DCK Allen	DAT Dickins	DK Macfarlane	A Turnbull
DR Argus	WRM Irvine	TP Park	CM Walter
PJW Cottrell	GJ Kraehe	MR Rayner	Sir Bruce Watson
CM Deeley	BT Loton		

Details of remuneration paid or payable to these Directors and Directors of related entities, are set out in Note 45. Australian banks and the Australian parent entities of Australian banks have been exempted under Australian Securities Commission Class Order 97/1016 dated July 9, 1997, from providing details of certain loans or financial instrument transactions made by banks to related parties (other than Directors) in the ordinary course of banking business and on an arm's length basis or with the approval of shareholders of the relevant entity and its ultimate parent entity if any.

The Company is required under the terms of the Class Order to lodge a statutory declaration, signed by two Directors, with the Australian Securities Commission. The declaration must provide confirmation that the Company has instigated systems of internal control and procedures, which provide assurance that any loans or other financial instrument transactions of a bank which are not entered into on normal terms and conditions are drawn to the attention of the Directors so that they may be disclosed in the accounts.

The Company will lodge such a declaration with its annual return to the Australian Securities Commission for the year ended September 30, 1997.

Loans to Directors

Loans made to Non-Executive Directors of the Company and controlled entities are made in the ordinary course of business on commercial terms and conditions. Loans to Executive Directors of the Company and controlled entities are made on similar terms and conditions to other employees within the Economic Entity.

Under the Class Order referred to above, disclosure is limited to the aggregate amount of loans made or guaranteed by:
(i) the Company and its controlled entities to Directors of all entities within the Economic Entity, and
(ii) controlled non-banking entities to the related parties of Directors of all entities within the Economic Entity.

The aggregate amounts of such loans made, repayments received and amounts outstanding were:

	Consolidated		*The Company*	
Dollars in Thousands	*1997*	*1996*	*1997*	*1996*
Balance outstanding at September 30	**23,052**	21,540	**–**	–
Loans made during the year				
– Normal terms and conditions	**4,744**	1,154	**–**	–
– Employee terms and conditions	**2,836**	2,981	**–**	–
Repayments received during the year				
– Normal terms and conditions	**2,992**	1,631	**–**	2
– Employee terms and conditions	**4,723**	2,283	**–**	–

	Consolidated			*Consolidated*			*Consolidated*	
	1997	*1996*		*1997*	*1996*		*1997*	*1996*
The Duke of Abercorn	1,2,3	2,3	CK Hall	1,3	–	MJ Moorhouse	2,4	4
JO Anderson	2,4	1,2,4	P Halpin	2,3,4	3,4	AL Morgan	–	2,4
G Armbruster	1,2,3,4	1,2,3,4	GR Hamilton	4	4	AF Morrison	2,3	1,3
AMR Aynsley	1,2,3	1,4	TK Harley	2,4	4	EL Mosley	3	3
DA Baillie	2,4	1,2,4	P Harty	2,4	1,2,4	FL Nelson	1,2,3	–
BA Baker	1,2,4	1,2,4	A Haslam	1,2,4	4	WR Nixon	1,2,4	–
I Ballard	1,2,3,4	–	L Healy	1,2,3	–	GF Nolan	1,2,4	1,2,4
GL Barnes	1,2,4	4	DJ Heaney	1,2,4	–	H North	1,2,3	2,3
JF Bath	1,2,3,4	1,2,3,4	GCM Hendry	–	2,4	S O'Conner	2,3	3
SD Bedford	–	1,2,4	RM Heron	–	4	AJ O'Grady	2,4	2,4
JK Berry	1,2,4	2,4	EM Hetherington	1,2,3,4	2,3,4	P O'Sullivan Lacy	1,2,4	4
NR Berryman	2,4	1,2,3,4	TM Howard	1,2,4	–	M Oliver	2,4	4
TG Blake	2,4	2,4	G Hunt	2,3,4	3,4	GR Pellett	2,3,4	2,3,4
RC Bowden	2,4	2,4	P Hurley	–	2,3	WN Peters	2,3,4	1,2,3,4
RK Boyce	2,3	3	JC Hurst	2,4	–	MA Pinder	1,2,4	–
P Boyle	1,2,3,4	2,4	G Hyde	2,4	1,4	RP Pinney	1,2,3,4	1,2,3,4
CW Breeze	2,3	2,3	JJ Inglis	1,2,3	1,2,3	RH Polkinghome	1,2,4	2,3,4
JF Brennan	2,4	2,4	PA Jefferies	–	1,2,3	I Porter	2,4	1,2,4
R Briers	2,3	–	MF Johnstone	2,4	1,4	RMC Prowse	–	1,2,3,4
LC Brooke	1,2,4	1,2,4	DC Jones	–	1,2,4	JE Queen	2,4	1,2,4
MM Brown	2,4	2,4	MJ Keane	–	1,2,3,4	NJ Roden	–	1,2,4
PM Buckton	2,4	2,4	T Keefe	2,4	–	BT Rose	–	1,2,4
POA Byrne	1,2,3,4	–	BM Kelly	2,3	2,3	CA Russell	2,4	2,4
RJ Caldwell	1,2,4	1,2,4	V Koh Yok Har	1,2,4	–	LR Ryan	1,2,4	2,4
WJE Canning	2,3,4	2,4	DM Krasnostein	1,3	–	RH Samphier	2,4	1,2,4
JS Carton	2,3	1,3	PAK Laband	1,4	1,2,4	G Savage	1,2,4	–
BT Case	1,3	–	J Lacey	1,2,3	–	RG Scholes-		
AJ Casey	1,2,4	1,2,4	MT Laing	2,3	1,2,3	Robertson	1,2,3	–
MA Cassino	4	4	KJ Lawford	2,4	2,4	PJ Senior	2,4	1,2,4
FJ Cicutto	1,2,3	–	DIW Lawson	1,2,3,4	1,2,4	MR Shaw	2,3,4	1,2,3,4
A Clarke	2,3,4	–	SP Littlebury	2,4	1,2,4	MD Soden	2,4	1,4
PM Conacher	2,4	4	D Loftus	2,4	2,4	AJ Spain	2,3	1,3
JF Copeland	2,4	2,4	Lord Sanderson			JS Spence	1,3	–
IL Coulson	2,3,4	1,2,3,4	of Bowden	1,2,3	–	GR Spicer	2,3,4	1,2,3,4
PA Crutchley	1,2,4	–	TD Lorimer	2,3	3	JA Stainer	2,4	1,2,4
GG Cullen	–	1,2,4	NV Lucas	1,2,4	2,4	JE Stevenson	2,4	2,4
MS Darling	1,2,3	–	AD MacDonald	1,2,4	1,2,4	AA Stewart	2,4	2,4
CM Deeley	–	2,3	IG MacDonald	4	–	J Stones	–	2,4
RJ Diack	–	2,3	KW MacIntosh	–	2,4	JD Storey	1,2,3	–
RR Dobbins	1,2,3	2,3	B Mackay	3	–	GA Targett	2,4	1,4
J Donlon	2,3	1,3	JT Macken	1,2,4	1,2,4	JD Taylor	1,2,3,4	3,4
WK Doonan	2,4	2,4	DJ Mann	–	2,4	PL Thodey	–	1,2,4
AJ Douglas	2,4	2,4	RF Matrenza	2,4	–	A Thomson	1,2,3	–
CW Duncan	1,2,3,4	2,3,4	TJ Matthews	1,2,3,4	1,2,4	H Thomson	1,2,3,4	1,2,3,4
DE Ebert	1,2,3	2,3	IG Mattiske	2,4	2,3,4	J Treloar	1,2,4	4
DE Eccleshall	2,4	–	D Maull	2,4	2,4	DJ Tuck	2,3	1,2,3
MM Elliott	2,3	1,2,3	BS McComish	1,2,3,4	2,3	RP Tuckey	2,4	2,4
BG Everitt	2,4	4	M McCormick	2,3,4	1,2,3,4	RE Unger	2,4	1,2,4
JDC Faulkner	–	2,3	RP McCracken	–	4	SA Van Andel	3	2,3
PG Flavel	1,2,3	–	J McDonald	2,3,4	2,3,4	O Vanzuyden	2,3	–
J Foley	2,3,4	3,4	P McGrath	2,4	–	JD Walmsley	1,2,3,4	2,4
A Frankenburg	–	1,2,3,4	TD McKee	2,4	2,4	P Weanie	2,4	–
DT Gallagher	2,4	4	RE McKinnon	–	2,4	AW Webster	1,2,4	1,2,4
IH Gill	2,4	4	DC Mead	1,2,4	1,2,4	GJ Wheaton	2,3	1,2,3
M Gilligan	3,4	1,3,4	JB Meyer	2,3	2,3	G Willcock	2,4	–
P Gilligan	1,3,4	1,3,4	RB Miller	2,4	1,2,4	GD Willis	2,4	1,2,4
PR Goldsbrough	2,4	1,2,3,4	JD Moir	1,3	–	JR Wright	2,4	2,4
DA Grubb	2,3,4	1,2,3,4	RI Montgomery	2,4	2,4	S Wright	1,2,4	–
AG Haintz	4	4	C Moore	1,2,4	–			

(1) Loan made to this person during the year. Refer to page 137 for aggregate amounts.

(2) Repayment made by this person during the year. Refer to page 137 for aggregate amounts.

(3) Loan made in ordinary course of business on commercial terms and conditions. Refer to page 137 for aggregate amounts.

(4) Loan made on employee terms and conditions. Refer to page 137 for aggregate amounts.

Loans made by the Economic Entity in 1997 and 1996 to Directors, or to any associate of such persons, as defined by the Securities and Exchange Commission of the United States of America, at no time exceeded 5% of shareholders' equity.

Shares and share options of Directors

The aggregate number of shares and share options issued during the years ended September 30, 1997 and September 30, 1996 by the Company, including shares issued under the Dividend Reinvestment Plan, the Bonus Share Plan, the UK Dividend Plan and, where applicable, the Employee Share Scheme and Executive Option Plan, to Directors of the Company and to parties related to them were as follows:

	The Company	
	1997 *No.*	*1996* *No.*
Ordinary shares of $1.00 each, fully paid	**2,007**	24,198
Share options over ordinary shares of $1.00 each	**300,000**	500,000

Shares disposed of by Directors of the Company and by parties related to them during the year ended September 30, 1997 totalled 300,000 (1996: 93 shares).

Share options exercised by Directors of the Company and by parties related to them during the year ended September 30, 1997 totalled 300,000 (1996: nil).

The aggregate number of shares and share options held directly, indirectly or beneficially by Directors of the Company and by parties related to them at September 30, 1997 and September 30, 1996 were as follows:

	The Company	
	1997 *No.*	*1996* *No.*
Ordinary shares of $1.00 each, fully paid	**380,831**	493,528
Share options over ordinary shares of $1.00 each	**1,200,000**	1,200,000

All these transactions were conducted on the same terms and conditions applicable to all ordinary shareholders or, where applicable, to all employees of the Company under the Employee Share Scheme.

Other transactions of Directors

Directors and director related parties have acquired personal investments, including contributions to superannuation products, and used motor vehicles from controlled entities during the year. These transactions are within normal customer relationships on terms and conditions no more favourable than those available to customers.

1. A Director of Eden Vehicle Rentals Ltd (EVR), Mr P Gilligan is a Director in the County Garage Group of Companies (CG) who are motor vehicle traders. CG owns 25% of the issued capital of EVR. During the year CG entered into transactions with EVR involving the supply of new cars (total amount paid: $18,471,546) (1996: $12,011,488), disposal of used cars (total amount received $14,400,789, commission paid of $1,147,176) (1996: $12,217,562 and $1,045,802 respectively), rental of property (total amount paid $27,843) (1996: $20,908) and service and repair work (total amount paid: $450,471) (1996: $233,826). All transactions with CG were in the ordinary course of business and were on normal terms and conditions.
2. A Director of Michigan National Corporation (MNC), Mr S Forbes is a Partner in FCN Associates, a general partnership. FCN Associates has a majority ownership interest in an office building in which a subsidiary of MNC was a tenant. During the year the total rental paid for this tenancy was $1,783,123 (1996: $2,002,619). Additionally, MNC entered into an agreement to partially terminate the tenancy and paid $175,775 (1996: $759,938) to FCN Associates. All transactions with FCN Associates were in the ordinary course of business and on normal terms and conditions.
3. A Director of MNC, Mr R Dobbins is a Director in OmniCare Health Plan. Health insurance premiums paid to OmniCare Health Plan by MNC during the year were $130,159 (1996: $279,564). All transactions with OmniCare Health Plan were in the ordinary course of business and on normal terms and conditions.
4. Directors of Nautilus Insurance Pty Ltd, Mr R W Bovill and Mr G Tarabaras, are also Directors of Sedgwick Management Services Pty Ltd. This company provides management services to Nautilus Insurance Pty Ltd. During the year, Mr Bovill and Mr Tarabaras each received $113,898 for services provided. All transactions with Sedgwick Management Services Pty Ltd were in the ordinary course of business and on normal terms and conditions.
5. A Director of Swychco Infrastructure Services Pty Ltd (Swychco), Mr I Shepherd is also a Director of The Partnership Group Pty Ltd. This company provides management services to Swychco. During the year, the total amount paid for management services was $223,500. All transactions with The Partnership Group Pty Ltd were in the ordinary course of business and on normal terms and conditions.

Controlled entities

Refer to Note 16 for details of the Company's investment in controlled entities. Refer to Note 36 for details of controlled entities.

Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in Note 2.

In the context of the Economic Entity's operations, the Directors do not consider it practicable to collate details of dealings with related parties by transaction type, except to the extent that they have been collated and disclosed in respect of the specific transaction types referred to in the preceding paragraphs.

The Company has certain guarantees and undertakings with entities in the Economic Entity. These are set out in Note 37.

	Consolidated		The Company	
For years ended September 30 *Dollars in Thousands*	*1997*	*1996*	*1997*	*1996*

45 Remuneration of Directors

Total income paid or payable, or otherwise made available, to all Directors of the Company and each entity in the Economic Entity, directly or indirectly, by the Company or any related party consist of the following:

Salary package	**5,325**	6,042	**2,575**	2,473
Performance based bonuses(1)	**1,071**	1,110	**500**	400
Other benefits(2)	**3,868**	26,190	**2,319**	1,288
Total Remuneration	**10,264**	33,342	**5,394**	4,161

(1) Represents bonuses paid in respect of prior year performance.

(2) Directors Remuneration for 1996 includes $A23.9 million relating to the settlement of vested but unexercised stock options and contractual payments related to the change in control of Michigan National Corporation.

Options issued during the year to Executive Directors under the Executive Option Plan have an exercise price equivalent to the market value of the Company's ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be nil. Refer to Note 31 for details of all options issued under the Executive Option Plan.

The following table shows the number of Directors of the Company whose total income paid or payable, or otherwise made available, directly or indirectly, by the Company or any related party, falls within each of the bands:

Remuneration (Dollars)	*The Company 1997*	*1996*		*The Company 1997*	*1996*
0 – 10,000	**1**	1	150,001 – 160,000	***1**	–
60,001 – 70,000	**–**	2	160,001 – 170,000	**1**	–
70,001 – 80,000	**–**	4	320,001 – 330,000	**–**	1
80,001 – 90,000	**5**	1	330,001 – 340,000	***1**	–
90,001 – 100,000	**–**	1	460,001 – 470,000	**–**	*1
100,001 – 110,000	**1**	1	800,001 – 810,000	**–**	*1
110,001 – 120,000	**1**	**–**	1,700,001 – 1,710,000	**–**	1
120,001 – 130,000	**1**	**–**	1,890,000 – 1,900,000	**1**	–
140,001 – 150,000	**–**	1	2,070,001 – 2,080,000	***1**	–
Total number of Directors				**14**	15

** Includes retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

Agreements between the Company and Non-Executive Directors provide that, upon and in consequence of each of these Directors ceasing to be a Director by reason of retirement or death, the Company shall pay a lump sum retiring allowance in accordance with the following table. Such amounts are included in Directors' remuneration.

Period of Service	*Amount of Retirement Benefit*
Less than 15 years	One third of the average yearly emoluments paid by the Company to the Director: (a) during the last 3 years of service; or (b) when the period of such service is less than 3 years, during that period; for each completed year of service and proportionately for part of a year, as a non-executive Director of the Company.
15 or more years	Five times the average yearly emoluments paid by the Company to the Director during the last 3 years of service as a non-executive Director.

The Company's Articles of Association provide that the non-executive Directors shall be paid out of the funds of the Company an aggregate sum to be fixed by the Company in general meetings from time to time. At the Annual General Meeting held on January 25, 1996 this sum was set by shareholders at $1,750,000, such sum being divided among the Directors as they may agree.

For years ended September 30 Dollars in Thousands	Consolidated 1997	Consolidated 1996	The Company 1997	The Company 1996

46 Remuneration of Executives

Executives' remuneration received or due and receivable, directly or indirectly, by Executives of the Company and controlled entities from the Company and related parties consists of the following:

	Consolidated 1997	Consolidated 1996	The Company 1997	The Company 1996
Salary package	**18,078**	14,810	**17,061**	13,816
Performance based bonuses[1]	**4,020**	2,534	**3,722**	2,343
Other benefits	**2,197**	4,125	**2,140**	4,068
Total Remuneration	**24,295**	21,469	**22,923**	20,227

(1) Represents bonuses paid in respect of prior year performance.

Options issued during the year to executives under the Executive Option Plans have an exercise price equivalent to the market value of the Company's ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be nil. Refer to Note 31 for details of all options issued under the Executive Option Plans.

The table which follows shows the number of executives of the Company and controlled entities who work wholly or mainly within Australia receiving gross remuneration in each of the ranges stated from the Company and related bodies corporate:

Remuneration (Dollars)	*Consolidated 1997*	*Consolidated 1996*	*The Company 1997*	*The Company 1996*
130,001 – 140,000	**–**	1	**–**	1
140,001 – 150,000	**3**	1	**3**	1
150,001 – 160,000	**–**	1	**–**	1
170,001 – 180,000	**1**	2	**1**	2
180,001 – 190,000	**1**	–	**1**	–
190,001 – 200,000	**2**	3	**2**	3
200,001 – 210,000	**1**	2	**1**	2
210,001 – 220,000	**1**	1	**1**	–
220,001 – 230,000	**2**	1	**1**	1
230,001 – 240,000	**3**	4	**3**	3
240,001 – 250,000	**4**	2	**3**	2
250,001 – 260,000	***1**	2	***1**	1
260,001 – 270,000	**1**	1	**1**	1
270,001 – 280,000	***1**	*3	***1**	*3
280,001 – 290,000	**1**	1	**1**	1
290,001 – 300,000	**3**	2	**3**	2
300,001 – 310,000	**2**	2	**2**	2
310,001 – 320,000	**2**	3	**2**	3
330,001 – 340,000	**2**	–	**2**	–
340,001 – 350,000	**1**	2	**1**	2
350,001 – 360,000	**1**	2	**1**	2
370,001 – 380,000	***2**	1	***2**	1
380,001 – 390,000	**2**	–	**2**	–
390,001 – 400,000	**2**	–	**1**	–
400,001 – 410,000	**–**	1	**–**	1
410,001 – 420,000	**2**	1	**2**	1
420,001 – 430,000	**2**	1	**2**	1
440,001 – 450,000	**1**	1	**1**	1
450,001 – 460,000	**1**	–	**–**	–
460,001 – 470,000	**–**	2	**–**	2
470,001 – 480,000	**–**	1	**–**	1
500,001 – 510,000	**–**	*1	**–**	*1
530,001 – 540,000	**–**	1	**–**	–
540,001 – 550,000	**–**	*2	**–**	*2
560,001 – 570,000	**2**	–	**2**	–
580,001 – 590,000	**2**	–	**2**	–
600,001 – 610,000	**1**	–	**1**	–
610,001 – 620,000	**–**	1	**–**	1
630,001 – 640,000	**1**	–	**1**	–
650,001 – 660,000	**2**	–	**2**	–
660,001 – 670,000	**–**	2	**–**	2
670,001 – 680,000	**–**	*1	**–**	*1
680,001 – 690,000	**1**	1	**1**	1
790,001 – 800,000	**–**	*1	**–**	*1
840,001 – 850,000	**1**	–	**1**	–
890,001 – 900,000	**1**	–	**1**	–
900,001 – 910,000	**1**	–	**1**	–
990,001 – 1,000,000	**1**	–	**1**	–
1,000,001 – 1,010,000	**–**	*1	**–**	*1
1,700,001 – 1,710,000	**–**	1	**–**	1
1,880,001 – 1,890,000	**1**	–	**1**	–
Total number of Executives	**59**	56	**55**	52

** Includes retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

Arrangements or understandings between Executive Officers, Executive Directors and the Company are covered by a standard memorandum of agreement. Under the agreement, remuneration of Executive Officers and Executive Directors is at such rates and payable at such times as the company shall from time to time determine.

An executive includes persons who work in or mainly in Australia receiving gross remuneration in excess of $100,000, who are Board appointees, Executive Directors of controlled entities, or Group employees responsible for the strategic direction and management of major business units.

For years ended September 30 Dollars in Thousands	Consolidated 1997	 1996	 1995	The Company 1997	 1996	 1995
47 Remuneration of Auditors						
Total amounts received or due and receivable for audit and review of the financial statements by:						
Auditors of the Company	**4,712**	4,524	4,196	**2,003**	1,911	1,878
Total amounts received or due and receivable for other services by:						
Auditors of the Company	**4,905**	4,980	5,950	**2,450**	2,826	3,046
Total Remuneration of Auditors	**9,617**	9,504	10,146	**4,453**	4,737	4,924

By virtue of Australian Securities Commission Class Order 92/633 dated June 29, 1992, the auditors of National Australia Bank Limited and its controlled entities, KPMG, have been exempted from compliance with Section 324(2) of the Corporations Law. The Class Order exemption applies in that partners and associates of KPMG (other than those partners and associates engaged on the audit of National Australia Bank Limited and/or a controlled entity) may be indebted to National Australia Bank Limited and its controlled entities provided that such indebtedness is on ordinary commercial terms as to the rate of interest, the terms of repayment of principal and payment of interest, the security to be provided and otherwise.

48 Reconciliation with US GAAP

In this note, National Australia Bank Limited is referred to as 'the Company' and the 'Economic Entity' consists of the Company and those controlled entities listed in Note 36.

The Company files its annual report (Form 20-F) with the Securities and Exchange Commission of the United States of America.

The consolidated financial statements of the Economic Entity are prepared in accordance with Generally Accepted Accounting Principles applicable in Australia ('Australian GAAP') (refer Note 1) which differ in some respects from Generally Accepted Accounting Principles in the United States ('US GAAP').

The following are reconciliations of the accounts, for any significant adjustments, applying to US GAAP instead of Australian GAAP.

For years ended September 30 Dollars in Millions	Consolidated 1997	 1996	 1995
Consolidated Statements of Profit and Loss			
Net profit before abnormal item reported using Australian GAAP	**2,223**	2,102	1,936
Abnormal item reported using Australian GAAP	–	–	33
Net profit reported using Australian GAAP	**2,223**	2,102	1,969
Tax effect of increase in general provision for doubtful debts(1)	**32**	23	20
Depreciation charged on the difference between revaluation amount and historical cost of buildings(2)	**5**	7	8
Difference in profit or loss on disposal of land and buildings revalued from historical cost(2)	**56**	11	8
Amortisation of goodwill – difference resulting from treatment of loan losses as a purchase adjustment(3)	**4**	4	4
Amortisation of goodwill(4)	**5**	4	–
Amortisation of core deposit intangible(4)	**(23)**	(22)	–
Amortisation of deferred tax liability associated with core deposit intangible(4)	**6**	6	–
Pension expense(5)	**30**	12	4
Recognition of tax losses resulting from IRS Ruling(6)	**(49)**	–	–
Net income according to US GAAP(7)	**2,289**	2,147	2,013
Earnings per share (cents) according to US GAAP(8)	**152.2**	145.6	142.3

		Consolidated	
For years ended September 30 *Dollars in Millions*	*1997*	*1996*	*1995*
Shareholders' Equity[9]			
Shareholders' equity reported using Australian GAAP	**12,579**	12,519	11,381
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end[1]	**246**	214	182
Elimination of revaluation surplus of land and buildings[2]	**(292)**	(334)	(381)
Adjustment of provision for depreciation on buildings revalued[2]	**79**	74	67
Additional provisions relating to purchase adjustments, less amortisation[3]	**(39)**	(43)	(47)
Pension expense[5]	**(58)**	(88)	(100)
Provision for final cash dividend[10]	**692**	650	614
Unrealised profit on shares in entities and other securities[11]	**20**	30	44
Unrealised profit on available for sale debt securities[11]	**–**	1	1
Amortisation of goodwill, core deposit intangible and associated deferred tax liability[4]	**(25)**	(12)	–
Recognition of tax losses resulting from IRS Ruling[6]	**(49)**	–	–
Shareholders' equity according to US GAAP[7]	**13,153**	13,011	11,761
Consolidated Balance Sheets			
Total assets reported using Australian GAAP	**201,969**	173,710	148,123
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end[1]	**246**	214	182
Revaluation surplus of land and buildings[2]	**(292)**	(334)	(381)
Adjustment of provision for depreciation on buildings revalued[2]	**79**	74	67
Additional provisions relating to purchase adjustments, less amortisation[3]	**(39)**	(43)	(47)
Unrealised profit on shares in entities and other securities[11]	**20**	30	44
Unrealised profit on available for sale debt securities[11]	**–**	1	1
Amortisation of goodwill, core deposit intangible and associated deferred tax liability[4]	**(25)**	(12)	–
Recognition of tax losses resulting from IRS Ruling[6]	**(49)**	–	–
Total assets according to US GAAP[12]	**201,909**	173,640	147,989

The following is a summary of the significant adjustments made to consolidated net profit, shareholders' equity and total assets to reconcile from Australian GAAP to US GAAP.

Income Taxes (1)

The Economic Entity has applied SFAS109 'Accounting for Income Taxes' in preparing its US GAAP information. There is no significant difference between the provisions of SFAS109 and Australian GAAP except for the tax effecting of the general provision for doubtful debts. Under US GAAP, a deferred tax asset must be taken up in respect of the general provision for doubtful debts. Under Australian GAAP, a deferred tax asset (referred to as future income tax benefits) should only be carried forward where realisation of the asset can be regarded as being assured beyond any reasonable doubt. The timing of the realisation of the deferred tax asset associated with a bank's general provision may be regarded as uncertain and therefore the asset is not recognised under Australian GAAP. For US GAAP reconciliation purposes, the related deferred tax asset has been reinstated.

Land and Buildings (2)

The Economic Entity revalues land and buildings at various intervals (refer Note 1). The revaluation increments and decrements are included in the Economic Entity's reserves (after adjustment for bonus issues) which form part of shareholders' equity. Revalued buildings are depreciated over their estimated useful lives to the entity (land is not depreciated). Under US GAAP, revaluation of land and buildings is not permitted. Accordingly, depreciation charges on revalued buildings, and profit and loss on sale of revalued buildings, are adjusted back to a historical cost basis for US GAAP purposes.

Purchase Adjustments (3)

Additional provisions for loan losses relating to loans acquired on the acquisition of the controlled entities in January 1990 were treated as fair value adjustments under Australian GAAP. These additional provisions would have been charged against net income under US GAAP. Appropriate adjustments to goodwill amortisation have been made in subsequent years under US GAAP.

Amortisation of Goodwill, Core Deposit Intangible and Associated Deferred Tax Liability (4)

Under US GAAP, purchase adjustments that arise in the acquisition of a US company are required to be reflected in the acquiree's financial statements.

Following SEC regulations and guidelines, Michigan National Corporation (MNC) was required to separately identify and account for the intrinsic value of its retail deposit base on acquisition. The recognition of the intrinsic value of the retail deposit base, which arose from the premium paid to acquire MNC is considered to be a component of goodwill under Australian GAAP.

For US GAAP purposes, the intrinsic value of the retail deposit base is deemed to be a core deposit intangible which is amortised over a period of 10 years. In addition, US GAAP requires goodwill to be amortised over 20 years. Under Australian GAAP the total goodwill (which includes the core deposit intangible) is amortised over 20 years.

In the calculation of the core deposit intangible under US GAAP, a deferred tax liability was created. This tax liability is amortised over a 10 year period. Under Australian GAAP the deferred tax liability is not recognised.

Pension Plans (5)

For defined benefit pension plans, Australian GAAP recognises the actuarially-determined contribution payable as the expense for the year.

The disclosure requirements of SFAS87 'Employers' Accounting for Pensions' have been included in these financial statements in respect of the years ended September 30, 1997, 1996 and 1995. Under US GAAP, pension expense for defined benefit plans is a function of service and interest cost, return on fund assets and amortisation of any prior service costs and of any net gains or losses. US GAAP also requires the accrued pension liability to be reconciled with the funded status of the pension plan; the funded status being the difference between the projected benefit obligation and the fair value of the plan assets. As a result, under US GAAP, adjustments are required to reflect the appropriate pension expense for the year. Such a reconciliation is included under 'Details of Pension Expense and Reconciliation to Funded Status of Pension Plans' below.

Recognition of Tax Losses Arising from IRS Ruling (6)

In September 1997, Michigan National Corporation merged its wholly owned thrift, Independence One Banking Organization of California (IOBOC), with the Michigan National Bank (MNB). IOBOC contained tax losses that had not previously been brought to account due to doubts surrounding their realisability. Following a private ruling handed down by the U.S. Internal Revenue Service (IRS), these losses can now be accessed by MNB. Under US GAAP the tax losses are brought to account and deducted from the goodwill arising on the acquisition of MNC. Under Australian GAAP (Abstract 9 issued by the Urgent Issues Group, 'Accounting for Acquisitions – Recognition of Acquired Tax Losses'), these losses have been recognised in the Group's Profit and Loss Statement and represent a permanent tax difference.

Net Income (7)

Under US GAAP the concept of 'operating profit' is not recognised and only a limited number of items can be included under the headings of 'extraordinary items' and 'abnormal items'. Net profit under Australian GAAP is operating profit after income tax, including extraordinary items and excluding outside equity interests.

In performing the US GAAP profit reconciliation, the starting point is net profit reported using Australian GAAP (after goodwill amortisation and extraordinary or abnormal items).

Earnings Per Share (8)

Under Australian GAAP, basic earnings per share is calculated by dividing net profit by the weighted average number of fully paid equivalent ordinary shares outstanding during the year after adjusting for the bonus element of rights and other issues. The fully diluted earnings per share reflects dilution by exercisable options issued under the Executive Option Plans, adjusted for notional interest on uncalled capital associated with partly paid shares and exercisable options, and dilution by potential conversion of the Exchangeable Capital Units adjusted for the interest expense on these units. For the purpose of US GAAP, the options issued are considered common stock equivalents and are therefore included in the calculation of primary earnings per share. Net income has been adjusted for notional interest on uncalled capital associated with partly paid shares and options, and dilution by potential conversion of the Exchangeable Capital Units adjusted for the interest expense on these units. The bonus element of rights issues is excluded from US GAAP computations.

General and Capital Reserves (9)

As with Retained Profits, the General Reserve represents a retention of distributable profits available for general use in the business. This may include payment of cash dividends. The Capital Reserve, while also legally distributable as cash dividends, represents a reserve which the Directors have no long-term intention to utilise for distribution.

Provisions (10)

The term 'provisions' is used in Australian GAAP to designate accrued expenses with no definitive payment date. Provisions disclosed in Note 24 comply in all material respects with US GAAP with the exception of the provision for final cash dividend, which is not formally declared until shortly after balance date. Under US GAAP, dividends are recorded as liabilities only if formally declared prior to balance date. This difference in treatment has been amended in the US GAAP reconciliation of Shareholders' Equity.

Investments (11)

Under Australian GAAP 'Shares in entities and other securities' (Note 16), are carried at original cost less any provision for diminution in value. Under US GAAP these securities are deemed to be available for sale securities which are carried at market value with unrealised profits and losses in respect of market value adjustments recognised in Shareholders' Equity. These securities have been restated to market value with unrealised profit recognised in Shareholders' Equity.

In addition, under Australian GAAP available for sale debt securities are carried at the lower of aggregate cost or market value with unrealised losses in respect of market value adjustments recognised in profit and loss. Under US GAAP, available for sale securities are carried at market value with unrealised profits and losses in respect of market value adjustments recognised in Shareholders' Equity. Under US GAAP, available for sale securities have been restated to market value with unrealised profit recognised in Shareholders' Equity.

Consolidated Balance Sheets (12)

The following are reconciliations of balance sheet categories, for any significant adjustments, applying to US GAAP instead of Australian GAAP.

	Consolidated		
As at September 30 *Dollars in Millions*	***1997***	*1996*	*1995*
Other Assets using Australian GAAP	**10,813**	8,937	7,379
Deferred tax asset on general provision for doubtful debts(1)	**246**	214	182
According to US GAAP	**11,059**	9,151	7,561
Fixed Assets using Australian GAAP	**3,276**	2,991	2,772
Revaluation surplus of properties(2)	**(292)**	(334)	(381)
Provision for depreciation on buildings revalued(2)	**79**	74	67
According to US GAAP	**3,063**	2,731	2,458
Goodwill using Australian GAAP	**2,122**	2,218	1,385
Additional provisions relating to repurchase adjustments, less amortisation(3)	**(39)**	(43)	(47)
Core deposit intangible recognised separately under US GAAP(4)	**(173)**	(173)	–
Amortisation of core deposit intangible and goodwill(4)	**(36)**	(18)	–
Future income tax benefit resulting from IRS Ruling(6)	**(49)**	–	–
According to US GAAP	**1,825**	1,984	1,338
Shares in entities and other securities using Australian GAAP	**280**	175	167
Unrealised profit/loss on shares in entities and other securities(11)	**20**	30	44
According to US GAAP	**300**	205	211
Available for sale debt securities using Australian GAAP	**1,815**	364	333
Unrealised profit on available for sale debt securities(11)	**–**	1	1
According to US GAAP	**1,815**	365	334
Income Tax Liability using Australian GAAP	**1,629**	1,638	–
Deferred tax liability associated with core deposit intangible(4)	**12**	6	–
According to US GAAP	**1,641**	1,644	–

Life Insurance Controlled Entities

For Australian GAAP the assets of the statutory funds and the liabilities of these funds to their policyholders are excluded from the consolidated balance sheet. No adjustment has been made in the reconciliation to US GAAP. The gross assets of the funds, representing the liability to members of approximately the same amount, are $6,323 million at September 30, 1997 (1996: $4,984 million, 1995: $1,870 million) which is not material to the Economic Entity's total assets of $201,969 (1996: $173,710 million, 1995: $148,123 million).

Details of Pension Expense and Reconciliation to Funded Status of Pension Plans

The Company and its controlled entities provide substantially all employees with pension benefits. Effective October 1, 1989, the Economic Entity adopted the disclosure requirements of SFAS87 'Employers' Accounting for Pensions' for its significant pension plans.

The following table sets out the funded status at the measurement dates June 30, 1997, 1996 and 1995. The 1995 prepaid pension cost, and prior years where appropriate, have now been adjusted to include the cost of contribution taxes.

Dollars in Millions	*UK, US and NZ Plan Assets' Excess over Accumulated Benefits* **1997**	1996	1995
Actuarial present value of benefit obligations:			
Vested	**(2,318)**	(1,933)	(1,728)
Non-Vested	**(3)**	(30)	(9)
Accumulated benefit obligation	**(2,321)**	(1,963)	(1,737)
Effect of projected wage increases	**(341)**	(342)	(329)
Projected benefit obligation	**(2,662)**	(2,305)	(2,066)
Plan assets at fair value	**3,824**	3,155	2,659
Plan assets in excess of projected benefit obligation	**1,162**	850	593
Unrecognised gain net of amortisation	**(810)**	(606)	(413)
Unrecognised asset at transition, net of amortisation	**99**	98	165
Income taxes	**72**	58	69
Prepaid pension cost	**523**	400	414

Bank of New Zealand and Yorkshire Bank PLC were acquired on November 9, 1992 and January 18, 1990 respectively as business combinations and were accounted for by the purchase method. The assignment of the purchase price in the determination of goodwill resulted in the recognition of an on-balance sheet pension asset, which in turn eliminated any previously unrecognised amounts.

The expected long-term rate of return on plan assets was 8.5% to 9.5% for the year to June 30, 1997 (1996: 7.5% to 9.5%, 1995: 7.5 % to 9.5%). The rate of increase in future compensation levels ranged from 5.0% to 6.5% (1996: 5.0% to 6.5%, 1995: 5.0% to 6.5%). The discount rate used ranged from 7.8% to 8.5% (1996: 7.0% to 8.5%, 1995: 7.0% to 8.5%). The rate of increase of pensions ranged from 2.7% to 4.0% (1996: 2.7% to 5.5%, 1995: 4.0% to 5.5%). These assumptions are as at June 30, 1997.

The Economic Entity also sponsors defined contribution plans covering Australian and New Zealand employees (Refer Note 40). The Economic Entity's contributions are based on salary and amounted to $69 million in the year ended September 30, 1997 (1996: $86 million, 1995: $29 million).

For plans reporting under the provisions of SFAS87, the elements of the net pension expense are shown below:

Dollars in Millions	*UK, US and NZ Plans* **1997**	1996	1995
Service Cost-Benefits Earned during year	**83**	73	78
Interest Cost on Projected Benefit Obligation	**190**	180	179
Actual Return on Plan Assets	**(314)**	(257)	(245)
Net Amortisation and Deferral	**9**	3	2
Net Pension Expense	**(32)**	(1)	14

Post-Retirement Benefits

Michigan National Corporation (MNC) provides health care and life insurance benefits to retired employees who are eligible for a benefit under the pension plan, are at least 55 years old and have at least 15 years of service.

The following table reconciles the actuarial present value of the accumulated post-retirement benefit obligation (APBO) relating to health care and life insurance to the amount recorded in the Consolidated Balance Sheet.

Dollars in Millions	*September 30* **1997**	1996
Actuarial present value of APBO:		
Retirees	**29,316**	33,163
Fully eligible active plan participants	**1,521**	3,664
Other active plan participants	**850**	875
Total	**31,687**	37,702
Unrecognised net gain	**6,367**	2,662
Unrecognised prior service cost	**5,898**	–
Accrued post-retirement benefit liability	43,952	40,364

The following table sets out the elements of the net periodic post-retirement benefit expense.

	September 30	
Dollars in Millions	***1997***	*1996*
Service cost	**73**	122
Interest cost	**2,454**	2,561
Unrecognised prior service cost	**(456)**	–
Net periodic post-retirement cost	**2,071**	2,683
Curtailment gain	**(339)**	–
Total periodic post-retirement cost	**1,732**	2,683

MNC funds the cost of its post-retirement obligations as benefits are paid.

The 'projected unit credit' method is used in the determination of the accumulated post-retirement benefit obligation and net periodic post-retirement cost. At September 30, 1997 the assumed discount rate used in determining the actuarial present value of the accumulated benefit obligation was 7.8% (1996: 7.8%). The assumed annual rate of increase in the per capita cost of covered benefits (ie health care cost trend rate) was 7.3% at September 30, 1997 and 7.5 % at September 30, 1996, the 1997 rate was further assumed to decline linearly to 5.5% in 2007. A 1% increase in the assumed health care cost trend rate for each year would increase the accumulated post-retirement benefit obligation as of September 30, 1997 by an estimated $1.3 million (1996: $3.9 million) and the annual net periodic post-retirement health care cost by an estimated $64,000 (1996: $0.3 million).

Post-retirement cost for the eleven months ended September 30, 1996 was determined using assumptions employed in the measurement of the projected benefit obligation at acquisition date. The assumed discount rate used was 7% and the assumed health care cost trend rate was 7.5%.

49 Proforma consolidation information

The following table presents proforma financial data in respect of the acquisition of Michigan National Corporation (MNC). The proforma effects on the Economic Entity's consolidated results assuming the acquisition of MNC occurred on October 1, 1995 (the beginning of the 1996 fiscal year) would be as follows:

	As reported for		*Pro-forma and consolidated*	
	Australian GAAP	*US GAAP*	*Australian GAAP*	*US GAAP*
Year ended September 30, 1996 *Dollars in Millions*				
Net Profit ($ millions)	2,102	2,147	2,108	2,153
Earnings per Share (cents)	144.8	145.4	145.2	148.2

50 Fiduciary activities

The Economic Entity's fiduciary activities consist of life insurance business conducted through controlled entities and investment management activities conducted as trustee and/or manager for a number of investments and trusts including approved deposit and investment trusts. The aggregate amounts of funds concerned, which are not included in the Economic Entity's balance sheet, are as follows:

	September 30	
Dollars in Millions	***1997***	*1996*
Trustee and funds management	**26,379**	16,437
Life insurance business	**3,892**	2,997

51 Events Subsequent to balance date

On October 1, 1997, the Company announced its acquisition of the investment management company County NatWest Australia Investment Management Limited (CIM). At acquisition date, CIM had $9.2 billion of funds under management giving the National Australia Bank total funds under management of more than $15.1 billion in Australia.

On October 27, 1997, the Company announced that it had entered into a definitive agreement to purchase HomeSide Inc. HomeSide Inc. is a leading United States residential mortgage loan producer and servicer with approximately US$97 billion of loans in its servicing portfolio. The acquisition is subject to regulatory approvals and approval by HomeSide's stockholders at a special stockholders meeting. Stockholders will be paid US$27.825 for each HomeSide share, with the consideration amounting to US$1,231 million. The proposed acquisition is expected to be completed in early 1998.

Statement by the Directors

In the opinion of the Directors of National Australia Bank Limited:

1. (a) the financial statements set out on pages 74 to 147 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended September 30, 1997, and the state of affairs at September 30, 1997, of the Company and the Economic Entity;
   (b) the consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law; and
   (c) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.
2. The financial statements have been made out in accordance with applicable Accounting Standards and Urgent Issues Group Consensus Views.
3. There are reasonable grounds to believe that the Company and certain controlled entities will, as an Economic Entity, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to Australian Securities Commission Class Order 95/1530 dated November 10, 1995, as amended by Class Orders 96/800 dated May 28, 1996 and 97/1018 dated July 9, 1997 (refer to Notes 36 and 37 to the financial statements for further details).

Dated at Melbourne this 12th day of November, 1997 and signed in accordance with a resolution of the Board of Directors.

MR Rayner — DR Argus

Auditors' Report to the Members of National Australia Bank Limited

Scope

We have audited the financial statements of National Australia Bank Limited for the financial year ended September 30, 1997 consisting of the profit and loss accounts, balance sheets, statements of cash flows, accompanying notes, and the statement by the directors set out on pages 74 to 148. The financial statements comprise the accounts of the Company and the consolidated accounts of the Economic Entity, being the Company and its controlled entities. The Company's directors are responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards (which are substantially the same as auditing standards generally accepted in the United States of America) to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the Economic Entity's financial position, the results of their operations and their cash flows.

The names of the controlled entities audited by overseas KPMG member firms are set out in Note 36. We have received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated accounts.

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

Audit Opinion

In our opinion, the financial statements of National Australia Bank Limited are properly drawn up:

(a) so as to give a true and fair view of:
   (i) the state of affairs of the Company and the Economic Entity at September 30, 1997, 1996 and 1995, and the results and cash flows of the Company and the Economic Entity for the financial years in the three year period ended on September 30, 1997; and
   (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Australian Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Australian Corporations Law; and

(c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States of America. An explanation of the major differences between the two sets of principles is presented in Note 48 to the financial statements. The application of the United States principles would have affected the determination of consolidated net profit for each of the three years in the period ended September 30, 1997 and the determination of the consolidated financial position as of September 30, 1997, 1996 and 1995 to the extent summarised in Note 48 to the financial statements.

Signed at Melbourne this 12th day of November, 1997.

KPMG

KPMG
Chartered Accountants

NW Smart, Partner

Form 20-F Cross Reference Index

		Page
Currency of Presentation, Exchange Rates and Certain Definitions		153
Part I		
Item 1	Description of Business	34–37
		39–41
		61–65
Item 2	Description of Property	101
Item 3	Legal Proceedings	125
Item 4	Control of Registrant	150
Item 5	Nature of Trading Market	151
Item 6	Exchange Controls and Other Limitations Affecting Security Holders	152
Item 7	Taxation	152
Item 8	Selected Financial Data for the Five Years Ended September 30, 1997	39–41
Item 9	Management's Discussion and Analysis of Financial Conditions and Results of Operations	41–65
Item 10	Directors and Officers of Registrant	150
Item 11	Compensation of Directors and Officers	151
Item 12	Options to Purchase Securities from Registrant or Subsidiaries	71, 111–115, 151
Item 13	Interest of Management in Certain Transactions	72, 137–139
Part II		
Item 14	Description of Securities to be Registered(1)	
Part III		
Item 15	Defaults upon Senior Securities(2)	
Item 16	Changes in Securities and Changes in Security for Registered Securities(3)	
Part IV		
Item 17	Financial Statements(4)	
Item 18	Financial Statements(5)	
Item 19	Financial Statements and Exhibits	69–148
Signatures		156
Table of Contents		
Consolidated Statements of Income for years ended September 30, 1997, 1996 and 1995		74
Consolidated Balance Sheets as at September 30, 1997, 1996 and 1995		75
Consolidated Statements of Changes in Shareholders' Equity for years ended September 30, 1997, 1996 and 1995		109–111
Consolidated Statements of Cash Flows for years ended September 30, 1997, 1996 and 1995		76–77
Notes to and Forming Part of the Accounts		78–147
Report of Independent Auditors		148

Notes:
(1) Not required in this annual report
(2) (a) (b) None
(3) (a) (b) None
(c) Not applicable
(d) No changes
(4) Not applicable as Item 18 complied with
(5) As listed under Item 19

Control of Registrant

The Company is not directly or indirectly controlled by another entity or any foreign government. As at October 31, 1997, there is no person(s) or Group known to the Company to be the owner of more than 10% of the Ordinary Shares on issue at that date. Shareholdings of Directors and Executive Officers of the Company at that date are as follows:

Title of Class	*Identity of Person or Group*	*Amount of Shares Owned* [1]	*% of Class*
Ordinary Shares	Directors and Executive Officers (25 persons)	568,662	0.04%

[1] Includes 58,320 Ordinary Shares held by Executive Directors and Officers under the Company's Staff Share Scheme.

Directors and Officers

The Directors and Executive Officers of National Australia Bank Limited at September 30, 1997 were:

Position	*Name*	*Position Held Since*	*Directorship Held Since*
Chairman [1]	Mark Richard Rayner	1997	1985
Vice-Chairman	Brian Thorley Loton AC	1992	1988
Vice-Chairman	David Kennedy Macfarlane	1992	1985
Managing Director	Donald Robert Argus	1990	1989
Other Directors	David Charles Keith Allen AO		1992
	Peter John Waraker Cottrell AO OBE		1985
	Dr Christopher Michael Deeley		1992
	Graham John Kraehe [2]		1997
	Thomas Pearson Park		1996
	Catherine Mary Walter		1995
	Sir Bruce Dunstan Watson		1992

Position	*Name*	*Position Held Since*	*Year Joined Group*
Chief General Managers	Frank Cicutto *(Australian Financial Services)*	1996	1967
	Gordon John Wheaton *(Managing Director, Bank of New Zealand)*	1996	1986
	Glenn Lawrence Lord Barnes *(Managing Director, UK and Europe)*	1995	1990
	Bruce Sinclair McComish *(Chief Financial Officer)*	1994	1994
Group General Managers	Clifford William Breeze *(Corporate Centre)*	1996	1954
	Michael Coomer *(Information Technology)*	1996	1995
	Robert Ian Fyfe *(Business Solutions)*	1996	1996
	David Milton Krasnostein[3] *(Group General Counsel)*	1996	1996
	Robert Malcolm Charles Prowse *(USA and Asia)*	1996	1966
	Roland Frank Matrenza *(Group Strategic Development)*	1994	1967
	Leslie Raymond Ryan *(Group Risk Management)*	1994	1957
	Edwin Grant Steel *(Group Human Resources)*	1996	1993
	Michael Donald Soden [3] *(Global Wholesale Banking)*	1997	1997
Company Secretary	Garry Francis Nolan	1992	1970

[1] Mr WRM Irvine retired as a Director of National Australia Bank Limited effective September 12, 1997. Mr A Turnbull retired as a Director of National Australia Bank Limited effective April 24, 1997.

[2] Mr GJ Kraehe was appointed as a Director of National Australia Bank Limited effective August 28, 1997.

[3] The following changes took place during the 1996/97 financial year:
- *The position of Group General Manager, Group Marketing Distribution and Electronic Banking was vacated by David Stanford Kelly due to ill health. As a consequence, accountabilities for this role have been redistributed effective September 1997.*
- *David Milton Krasnostein was appointed Group General Counsel effective November 1996.*
- *Michael Donald Soden was appointed Group General Manager, Global Wholesale Banking effective January 1997.*

The Directors of the Company are classified as either Executive or Non-Executive, with the former being those Directors engaged in the full-time employment of the Company. Mr Donald Argus is the only Executive Director.

The aggregate remuneration paid by the Company and its subsidiaries during the year ended September 30, 1997 to all Directors and Executive Officers listed above as a group (25 persons in 1997 and 26 persons in 1996) was $12 million (1996: $10 million).

During the year ended September 30, 1997, Share Options were issued to 424 executives covering a total of 9,890,000 share options as per the Bank's Share Option register. A total of 2,650,000 options were issued to 15 of the 25 Directors and Officers listed above as a group.

Nature of Trading Market

Ordinary Shares

The Ordinary Shares are listed for trading on the Australian Stock Exchange Limited, a self-regulatory organisation which governs the open market quotation, purchase and sale of the Ordinary Shares in Australia. The Australian Stock Exchange Limited is the principal market for the Ordinary Shares, and operates in the following cities in Australia: Melbourne, Sydney, Brisbane, Perth, Adelaide and Hobart. The Ordinary Shares are also listed for quotation on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited; the London Stock Exchange Automated Quotation System; the Stock Exchange, New Zealand; and the Tokyo Stock Exchange. American Depository Shares ('ADSs') are listed on the New York Stock Exchange (refer below). The following table sets forth, for the calendar quarters indicated, the high and low sale prices of the Ordinary Shares as reported by the Australian Stock Exchange Limited.

	1997		*1996*		*1995*		*1994*	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	$17.22	$14.37	$13.04	$11.40	$11.56	$10.16	$13.06	$11.36
June Quarter	19.05	15.20	12.10	10.98	12.54	10.98	12.34	10.42
September Quarter	22.85	18.60	13.30	11.17	12.00	10.84	11.50	9.97
December Quarter[1]	21.95	16.87	15.65	13.15	11.80	11.12	10.70	10.10

[1] The 1997 December quarter represents the period from October 1 to October 31.

On October 31, 1997 the closing price on the Australian Stock Exchange Limited was $19.45 per Ordinary Share, with 1,411,893,240 Ordinary Shares (excluding partly-paid shares) outstanding and such shares were held by 263,414 holders.

American Depositary Shares ('ADSs')

The Ordinary Shares are traded in the United States in the form of ADSs evidenced by American Depositary Receipts ('ADRs') issued by Morgan Guaranty Trust Company of New York, as Depositary (the 'Depositary'), pursuant to a Deposit Agreement dated January 16, 1987, as amended as of June 24, 1988 (the 'Deposit Agreement'). Each ADS represents five Ordinary Shares. The ADSs are listed on the New York Stock Exchange (the 'NYSE'), which is the principal market in the United States for the trading of the ADSs. The ADSs trade on the NYSE under the symbol 'NAB'. At October 31, 1997 4,303,700 ADSs representing 21,518,500 Ordinary Shares, or approximately 1.5% of the Ordinary Shares outstanding on such date, were held by 221 holders with registered addresses in the United States. The following table sets forth, for the calendar quarters indicated, the high and low sale prices per ADS as reported on the NYSE composite tape.

	1997		*1996*		*1995*		*1994*	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	US$66.13	US$56.13	US$49.25	US$44.75	US$42.000	US$38.500	US$46.625	US$39.500
June Quarter	72.75	60.05	48.25	43.25	46.375	40.000	45.500	38.000
September Quarter	81.25	68.25	53.00	44.25	45.500	39.625	42.750	37.125
December Quarter[1]	80.00	63.50	62.50	52.50	44.875	42.250	40.250	37.250

[1] The 1997 December quarter represents the period from October 1 to October 31.

On October 31, 1997 the closing price per ADS as reported on the NYSE composite tape was US$69.00.

Exchange Controls and Other Limitations Affecting Security Holders

There are no limitations under the Company's Memorandum and Articles of Association restricting the rights of non-resident or foreign owners of Ordinary Shares to have an interest in or vote on their securities. However, under the Banks (Shareholdings) Act 1972 as currently in force, a person or corporation is not permitted to have an interest in 10% or more of the nominal value of the voting shares of any bank in Australia, unless an exemption has been granted by the Treasurer of the Commonwealth of Australia ('The Treasurer') to have an interest in up to 15% of the nominal value of such voting shares. The Treasurer may only refuse the exemption if it is deemed to be in the national interest to do so.

The Act also provides that the Governor General, after application to the Treasurer, may fix a percentage higher than 15% for any person or corporation. The Governor General may only grant such approval if it would be in the national interest to do so.

Changes in interests in Australian companies held by foreign persons may be subject to review and approval by the Treasurer of the Commonwealth of Australia under the Foreign Takeovers Act 1975. That statute requires prior notification of any acquisition of interests in 15% or more of the outstanding shares of an Australian company, or any acquisition which would result in one foreign person or group of associated foreign persons controlling 15% or more of total voting power. In addition, the statute requires prior notification of any acquisition by non-associated foreign persons resulting in foreign persons controlling, in the aggregate, 40% or more of total voting power or ownership.

Taxation

The taxation discussion set forth below is intended only as a descriptive summary, and does not purport to be a complete technical analysis or listing of all potential Australian tax effects to US persons who are ADR holders or holders of Shares ('US Holders'), and US Holders are advised to satisfy themselves as to the overall tax effects, including state and local tax effects, by consulting their own tax advisers. This summary is based in part on representations of the Depositary, and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any related agreement will be performed in accordance with its terms. Except as otherwise noted, the statements of Australian tax laws set out below are based on the laws in force as of the date of this annual report, and are subject to any changes in Australian law, and in any double taxation convention between the US and Australia, occurring after that date.

Australian Taxation

Under Australian revenue law, non-residents may be subject to withholding tax in respect of dividends received from shares in Australian companies depending upon the extent to which the dividends are franked. Also, in limited circumstances, such non-resident shareholders may be subject to Australian income tax in respect of gains made on the disposal of shares in Australian companies. In accordance with the provisions of the Australian/United States double tax agreement, withholding tax on dividend income derived by a non-resident of Australia, who is a resident of the United States, is limited to 15% of the gross amount of the dividend.

The Australian Government introduced a dividend imputation system effective from July 1, 1987. Under this system, to the extent that dividends are paid out of income on which Australian income tax has been levied, such dividends are considered as 'franked' dividends to that same extent. Where an Australian resident shareholder receives a franked dividend, he receives a tax credit which can be offset against the Australian income tax payable by the shareholder. The amount of the credit is dependent upon the extent to which the dividend paid is a franked dividend. Non-resident shareholders, rather than receiving a credit, are exempt from dividend withholding tax in respect of franked dividends received.

The company paid a fully franked interim dividend out of profits for the half year-ended March 31, 1997 and has declared a fully franked final dividend payable out of profits for the year ended September 30, 1997.

Subject to two exceptions, a non-resident disposing of shares in Australian public companies will be free from tax in Australia. The exceptions are as follows:

– Shares held as part of a trade or business conducted through a permanent establishment in Australia. In such a case, any profit on disposal would be assessable to ordinary income tax. Losses would constitute allowable deductions.
– Shares held in public companies where such shares represent a holding of 10% or more in the issued share capital of the company. In such a case, capital gains tax would apply, but not otherwise.

Capital gains tax in Australia is payable on real gains over the period in which the shares have been held, ie the difference between the disposal price and the original cost indexed for inflation over that period. Indexing does not apply where the shares are disposed of within 12 months of acquisition. Normal rates of income tax would apply to real gains so calculated. Capital losses are not subject to indexing; they are available as deductions, but only in the form of offset against other capital gains.

United Kingdom Dividend Plan

The United Kingdom Dividend Plan ('UKDP') enables a shareholder who elects to participate, to receive dividends from a United Kingdom subsidiary of the Company, as an alternative to the cash component of dividends paid on Ordinary Shares in the Company.

The Company's Australian resident corporate shareholders obtain no UK Advanced Corporation Tax credits or imputation credits on a dividend paid by the United Kingdom controlled entity. Dividends received from the Company on Ordinary Shares which do not participate in the UKDP carry an Australian imputation credit to the extent those dividends are 'franked'.

In addition, participants should not suffer Australian capital gains tax due solely to their participation in, or withdrawal from the UKDP.

Certain US Holders eligible for the benefits of the Income Tax Convention between the United States and the United Kingdom, and participating in the UKDP should on application to the US Internal Revenue Service (in the case of a first application) or the UK Inland Revenue (in the case of subsequent application), receive a refund of a portion of the UK Advance Corporation Tax from the United

Kingdom pursuant to the provisions of the Income Tax Convention between the United States and the United Kingdom.

In addition, US Holders may be able to claim a credit for United States Federal income tax purposes for the unrefunded portion of the UK Advanced Corporation Tax. The practice of overissuance may, however, affect a US Holder's ability to claim such credit.

Currency of presentation, exchange rates and certain definitions

All dollar amounts are expressed in Australian dollars unless otherwise stated. Merely for the convenience of the reader, this Annual Report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US$0.7250=A$1.00, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the 'Noon Buying Rate') on September 30, 1997.

Exchange Rates

Fluctuations in the exchange rate between the Australian dollar and the US dollar will affect the US dollar equivalent of the Australian dollar prices of the Ordinary Shares and, as a result, may affect the market price of the American Depositary Shares (ADSs) in the United States. Such fluctuations will also affect the US dollar conversion by the Depositary of cash dividends paid in Australian dollars on the Ordinary Shares represented by the ADSs (see 'American Depositary Shares (ADSs)' on page 151 for a description of the ADSs). For each of the National Australia Bank's fiscal years high, low, average and year-end Noon Buying Rates, see 'Selected Financial data for five years ended September 30, 1997' on page 39.

Certain Definitions

The National Australia Bank's fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 1997 is referred to as 1997 and other fiscal years are referred to in a corresponding manner.

'Financial Statements' means the National Australia Bank consolidated Financial Statements for the years ended September 30, 1997, September 30, 1996 and September 30, 1995 included herein at pages 69 to 148.

Any discrepancies between total and sums of components in tables contained in this Annual Report are due to rounding.

Shareholders of the Bank as at October 31, 1997

	Number of Shares	*%*
Westpac Custodian Nominees Limited	98,607,863	6.98
National Nominees Limited	92,395,919	6.54
Chase Manhattan Nominees Limited	82,944,312	5.87
ANZ Nominees Limited	59,903,791	4.24
Permanent Trustees Group	49,944,168	3.54
Perpetual Trustees Australian Group	46,009,024	3.26
Pendal Nominees Pty Limited	37,589,276	2.66
Australian Mutual Provident Group	27,674,988	1.96
State Authorities Superannuation Board	26,426,211	1.87
Queensland Investment Corporation	25,155,772	1.78
Citicorp Nominees Pty Limited	18,902,527	1.34
Commonwealth Custodial Services Limited	18,681,530	1.32
Bond Street Australia Limited	15,028,794	1.06
MLC Life Limited	14,825,081	1.05
NRMA Group	13,592,872	0.96
Mercantile Mutual Life Group	9,965,696	0.71
Invia Custodian Pty Limited	8,689,427	0.62
Commonwealth Superannuation Board of Trustees	7,721,680	0.55
National Mutual Life Group	7,554,372	0.54
Australian Foundation Investment Company Limited	6,839,612	0.48
	668,452,915	47.33

The twenty largest shareholders held 668,452,915 shares which is equal to 47.3% of the total issued capital of 1,411,893,240 ordinary shares of $1.00 each fully paid.

As at October 31, 1997 there was no person or corporation with a shareholding in excess of 10 per cent of the nominal capital of National Australia Bank Limited.

Distribution of Shareholdings

	Number of Shareholders	*% of Holders*	*Number of Shares*	*% of Shares*
Range				
1 – 1,000	130,767	56.2	59,815,989	4.2
1,001 – 5,000	78,661	33.8	177,147,969	12.6
5,001 – 10,000	13,626	5.9	96,324,481	6.8
10,001 – 100,000	9,189	3.9	199,088,005	14.1
100,001 and over	536	0.2	879,516,796	62.3
	232,779	**100.0**	**1,411,893,240**	**100.0**
Less than marketable parcel	**5,093**	**2.2**		
Address of Holders				
Australia	222,262	95.5	1,387,993,147	98.3
United Kingdom	3,676	1.5	7,219,558	0.5
New Zealand	5,045	2.2	10,780,762	0.8
United States	282	0.1	329,876	–
Other Overseas	1,514	0.7	5,569,897	0.4
	232,779	**100.0**	**1,411,893,240**	**100.0**

Voting Rights

The Holding Company's Articles provide in summary that every member (and person entitled under Article 39(1), the transmission Article) present in person or by proxy, attorney or representative at a general meeting of shareholders shall have one or more votes as follows:

On a show of hands – one vote*
On a poll – one vote for each share held.

** Where a member appoints two proxies, neither proxy is entitled to vote on a show of hands.*

National Australia Bank Limited

Mr MR Rayner, BSc (Hons), Chem Eng FTS, FAusIMM, FIEAust
Chairman

Mr DR Argus, FAIBF, FCPA, FAICD
Managing Director and Chief Executive Officer

Mr GF Nolan, MBus, FCIS, FAIBF, FAICD, ASIA, MCT
Company Secretary

Registered Office
Principal Share and Bond Registers and Shareholder Services

Mr MK Clark
Share Registrar,
24th Floor, 500 Bourke Street
Melbourne Victoria 3000
Australia
Postal Address:
GPO Box 2333V
Melbourne Vic 3001
Telephone: (03) 9641 4200
Freecall: 1800 033 408
Fax: (03) 9641 4927
Telephone (outside Australia):
+61 3 9641 4200

Branch Share Register

United Kingdom
c/- Australian Shareholder Services
7th Floor, Jupiter House
Triton Court
14 Finsbury Square
London EC2A 1BR
United Kingdom
Telephone: +44 171 920 0010
Fax: +44 171 920 0120

Investor Relations

Mr AA Bowden
29th Floor, 500 Bourke Street
Melbourne Victoria 3000
Australia
Telephone: (03) 9641 3060
Fax: (03) 9641 4937
Telephone (outside Australia):
+61 3 9641 3060

Solicitors

Mallesons Stephen Jaques
525 Collins Street
Melbourne Victoria 3000
Australia

Auditors

KPMG
Chartered Accountants
161 Collins Street
Melbourne Victoria 3000
Australia

Official Quotation

The following stock exchanges have granted quotation to shares in National Australia Bank Limited:

The Australian Stock Exchange;
The International Stock Exchange, London;
The Stock Exchange, New Zealand;
Tokyo Stock Exchange;
New York Stock Exchange.

In the United States the Company's ordinary shares are traded in the form of American Depositary Shares (ADSs) evidenced by American Depositary Receipts (ADRs) issued by Bank of New York.

The address of Bank of New York is
101 Barclay Street
22nd Floor West
New York NY 10286.

The company has also issued Exchangeable Capital Units which are listed under the symbol 'NAU' on the New York Stock Exchange Inc., and are also listed on the Luxembourg Stock Exchange.

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has caused this annual report to be signed on its behalf by the undersigned thereunto duly authorised.

National Australia Bank Limited

Registrant

Garry F Nolan

Secretary of the Company

Date: November 12, 1997

Principal Establishments

National Australia Bank Limited
Group Offices and Australian Financial Services
500 Bourke Street (GPO Box 84A)
Melbourne Vic 3001
Tel: +61 3 9641 3500
Telex: AA30241, AA30490 NATAUS
Fax: +61 3 9641 4916
Swift: NATAAU33033

National Australia Financial Management Limited
342 Flinders Street (GPO Box 9895)
Melbourne Vic 3001
Tel: +61 3 9612 4111
Toll free: 13 22 95
Fax: +61 3 9612 4321

National Australia Trustees Limited
271 Collins Street (PO Box 247B)
Melbourne Vic 3001
Tel: +61 3 9659 7522
Fax: +61 3 9659 7511

Michigan National Corporation
27777 Inkster Road (PO Box 9065)
Farmington Hills MI 48333-9065
USA
Tel: +1 248 473 3000
Telex: 4320029
Fax: +1 248 473 3086
Swift: MICHUS33

National Australia Bank – Americas
34th Floor, 200 Park Avenue
New York NY 10166-0001 USA
Tel: +1 212 916 9500
Telex: 175517
Fax: +1 212 949 6124
Swift: NATAUS33

New York Branch
34th Floor, 200 Park Avenue
New York NY 10166-0001 USA
Tel: +1 212 916 9500
Telex: 3728852
Fax: +1 212 983 1969
Swift: NATAUS33

Asia Regional Office
27/F, One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2822 9800
Fax: +852 2822 9801

Hong Kong Branch and National Australia Finance (Asia) Limited
27/F, One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2822 9888
Telex: HX75315
Fax: +852 2845 9251/9116
Swift: NATAHKHH

Seoul Branch
14/F, Kyobo Building
1, 1-ka, Chong-ro
Chongro-ku
Seoul Korea
Tel: +82 2 739 4600
Telex: K28844 NATAUS
Fax: +82 2 733 0738
Swift: NATA KR SE

Singapore Branch and National Australia Merchant Bank (Singapore) Ltd
5 Temasek Boulevard
15-01 Suntec City Tower
Singapore 038985
Tel: +65 338 0038
Telex: (65) 21583 NATAUS SIN
Fax: +65 338 0039
Swift: NATASGSG

Taipei Branch
10/F, Union Enterprise Plaza
109 Min Sheng East Road
Section 3, Taipei, Taiwan
Tel: +886 2 719 1031
Telex: 14214 NATATWTP
Fax: +886 2 719 6289
Swift: NATATWTP

Tokyo Branch
Mitsui Nigokan
2-1-1, Nihonbashi Muromachi
Chuo-ku, Tokyo 103, Japan
Tel: +81 3 3241 8781
Telex: 22714 NATAUS
Fax: +81 3 3241 5369
Swift: NATAJPJT

Bangkok International Banking Facility
16/F, Sathorn Thani Building I
90 North Sathorn Road
Bangrak, Bangkok 10500
Thailand
Tel: +66 2 236 6016/7
Telex: 20424 NATAUS TH
Fax: +66 2 236 6018

Beijing Representative Office
1904 CITIC Building
19 Jianguomenwai Dajie
Beijing 10004
People's Republic of China
Tel: +86 10 6500 3581
Telex: 22524 NATAUCN
Fax: +86 10 6500 3642

Jakarta Representative Office
9/F, Bank Bali Tower
J1, Jend. Sudirman Kav. 27
Jakarta 12920
Indonesia
Tel: +62 21 250 0685/250 0687
Fax: +62 21 250 0690

Labuan Branch
Level 12(C2) Main Office Tower
Financial Park Labuan
Jalan Merdeka
87000 W.P. Labuan
Malaysia
Tel: +60 87 44 3286/7
Fax: +60 87 44 3288

Kuala Lumpur Marketing Office
6/F, Wisma Genting
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia
Tel: +60 3 206 2230/1
Fax: +60 3 263 6559

New Delhi Representative Office
I/IV Park Wood Estate
Rao Tula Ram Marg
New Delhi 110022
India
Tel: +91 11 617 7599/5032
Telex: INDIA 31-72287 NABA IN
Fax: +91 11 617 5027

National Australia Group Europe Limited
The Athenaeum
8 Nelson Mandela Place
Glasgow G2 1BN
Scotland
Tel: +44 141 223 5958
Fax: +44 141 223 5959

London Office
6–8 Tokenhouse Yard
London EC2R 7AJ
Tel: +44 171 710 2100
Telex: 888912
Fax: +44 171 588 8356
Swift: NATAGB2L

National Australia Life
91 Gresham Street
London EC2V 7BL
Tel: +44 171 710 2100
Fax: +44 171 726 4926

National Australia Group Europe Services Limited
The Athenaeum
8 Nelson Mandela Place
Glasgow G2 1BN
Scotland
Tel: +44 141 223 5958
Fax: +44 141 223 5959

Clydesdale Bank PLC
30 St Vincent Place
Glasgow G1 2HL
Scotland
Tel: +44 141 248 7070
Telex: 77135
Fax: +44 141 204 0828
Swift: CLYDGB2S

Northern Bank Limited
PO Box 183
Donegall Square West
Belfast BT1 6JS
Northern Ireland
Tel: +44 1232 245 277
Telex: 747674
Fax: +44 1232 893 214
Swift: NORBGB2B

National Irish Bank Limited
7/8 Wilton Terrace
Dublin 2
Republic of Ireland
Tel: +353 1 678 5066
Telex: 93433
Fax: +353 1 661 4165
Swift: NIBKIE2D

Yorkshire Bank PLC
20 Merrion Way
Leeds LS2 8NZ
Yorkshire
Tel: +44 113 247 2000
Telex: 556292
Fax: +44 113 242 0733
Swift: YORKGB2L

Bank of New Zealand
BNZ Centre
1 Willis Street
Wellington, New Zealand
Tel: +64 4 474 6999
Fax: +64 4 474 6400
Swift: BKNZNZ22

Produced by Media Equation Pty Ltd

International photography coordinated by Media Equation Pty Ltd

Digital photographic enhancements and film separations by EGO Electronic Graphic Output

Printed on recycled paper by Canberra Press