NATIONAL AUSTRALIA BANK LTD
Form 20-F
November 26, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2002

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from [______] to [______]

Commission file number: 1-9945

National Australia Bank Limited

(Exact Name of Registrant as Specified in Its Charter)

Australia

(Jurisdiction of Incorporation or Organization)

500 Bourke Street, Melbourne, VICTORIA, 3000 Australia

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Ordinary Shares	**New York Stock Exchange**
American Depositary Shares, each representing five Ordinary Shares	**New York Stock Exchange**
Fully paid, Non Cumulative Preference shares, Liquidation Preference of US$12.50 per share	**New York Stock Exchange**
American Depositary shares, each representingeltwo Fully Paid Non Cumulative Preference shares, Liquidation Preference of US$12.50 per share	**New York Stock Exchange**
Exchangeable Capital units consisting of $7^1/_8$% Perpetual Capital Securities and Purchase Contracts	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares	**1,533,920,378**
Staff Share Scheme shares	**919,506 paid to 25 Australian cents**
Preference shares	**36,008,000**
National Income Securities	**20,000,000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 ý

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Presentation of information

Basis of presentation

This annual financial report is prepared in accordance with generally accepted accounting principles (GAAP) applicable in Australia (Australian GAAP), which differs in some respects from GAAP in the United States (US GAAP) *(as set out in note 58 in the financial report)*. Comparative amounts have been reclassified to accord with changes in presentation made in 2002, except where otherwise stated.

Currency of presentation

All currency amounts are expressed in Australian dollars unless otherwise stated. Merely for the convenience of the reader, this annual financial 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$0.5429 = 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 (noon buying rate) on September 30, 2002.

Certain definitions

National Australia Bank Limited is herein referred to as the Company and, together with its controlled entities, as the Group. The Company's fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 2002 is referred to as 2002 and other fiscal years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (ie. billions) of Australian dollars respectively. Financial statements means the Company's consolidated financial statements for the year ended September 30, 2002, September 30, 2001 and September 30, 2000 included herein at pages 115 to 266. Any discrepancies between total and sums of components in tables contained in this annual financial report are due to rounding.

Consistency of information

The Company is required to lodge a separate preliminary final report (Appendix 4B) with Australian Stock Exchange Limited (ASX) for the year ended September 30, 2002. That Appendix 4B is in the form, and contains the information, required by the ASX Listing Rules and does not contain all of the information in this annual financial report. Otherwise, there is no material difference between the information in the audited financial report and the information in the Appendix 4B.

Forward-looking statements

This annual financial report contains certain "forward-looking statements" within the meaning of section 21E of the United States *Securities Exchange Act of 1934*. The United States *Private Securities Litigation Reform Act of 1995* provides a safe harbour for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation, so long as the information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. The words anticipate, believe, expect, project, estimate, intend, should, could, may, target, goal, objective, plan and other similar expressions are used in connection with forward-looking statements.

In this annual financial report, forward-looking statements may, without limitation, relate to statements regarding:

- economic and financial forecasts, including but not limited to statements under the financial review and report of the directors;
- anticipated implementation of certain control systems and programs, including, but not limited to those described under the financial review risk management; and
- certain plans, strategies and objectives of management.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, that may cause actual results to differ materially from those expressed in the statements contained in this annual financial report. For example:

- the economic and financial forecasts contained in this annual financial report will be affected by movements in interest and foreign currency exchange rates, which may vary significantly from current levels, as well as by general economic conditions in each of the Group's major markets. Such variations, if adverse, may materially impact the Group's financial condition and results of operations;
- the implementation of control systems and programs will be dependent on such factors as the Group's ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel and the co-operation of customers and third party vendors; and
- the plans, strategies and objectives of management will be subject to, among other things, government regulation, which may change at any time and over which the Group has no control. In addition, the Group will continue to be affected by general economic conditions in Australia and worldwide, movements and conditions in capital markets, the competitive environment in each of its markets and political and regulatory policies.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this annual financial report.

Financial highlights

Profitability

- Net profit attributable to members of the Company increased 61.9% to $3,373 million.
- Net profit before significant items decreased 5.9% to $3,785 million.

The current year's result includes the following significant items:

- net restructuring costs of $412 million; and net profit on sale of SR Investment, Inc. (formerly known as HomeSide International, Inc.) of $6 million.

The 2001 result included the following significant items:

net profit from the sale of Michigan National Corporation of $1,681 million; and

net write-downs of mortgage servicing rights and goodwill relating to HomeSide Lending, Inc, totalling $3,617 million.

International activities contributed $1,672 million of net profit ($1,516 million after significant items), compared to $1,776 million in 2001 (loss of $160 million after significant items).

Net profit and significant items

Shareholder returns

Cash earnings per share more than doubled to 222.0 cents. Excluding significant items, cash earnings per share increased 4.9% to 248.2 cents.

Earnings per share increased 69.3% to 205.7 cents. Excluding significant items, earnings per share decreased 6.3% to 231.9 cents.

Return on average equity increased from 9.0% to 15.1%. Excluding significant items, return on average equity decreased from 18.4% to 17.0%.

Dividends were 147 cents per share compared with 135 cents per share last year. The final dividend of 75 cents was 90% franked.

Economic Value Added (EVA ®) increased 13.7% to $1,284 million.

EVA ® is a registered trademark of Stern Stewart & Co. EVA ® measures the economic profit earned in excess of the Group's cost of capital.

Cash earnings (before significant items) and dividends per share

Growth and diversification

- Net assets grew by 7.9% in local currency terms.
- Total assets grew by 2.7% in local currency terms.
- Movements in exchange rates decreased total assets (in Australian dollar terms) by $7.1 billion.
- Gross loans and advances increased 12.0% in local currency terms.
- Assets under management and administration (off-balance sheet assets) increased 1.2% to $64.6 billion.
- Assets under custody and administration (off-balance sheet assets) increased 5.8% to $365 billion.

Assets under control

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Selected financial data

The information hereunder has been derived from the audited financial report of the Group, or where certain items are not shown in the Group's financial report, has been prepared for the purpose of this annual financial report and should be read in conjunction with and qualified in their entirety by reference to the financial report. Comparative amounts have been reclassified to accord with changes in presentation made in 2002, except where otherwise stated.

	Group					
	2002 $m	**2002(1) US$m**	**2001(2) $m**	**2000(3) $m**	**1999 $m**	**1998(4) $m**
Summary statement of financial performance						
Australian GAAP						
Net interest income	**7,222**	**3,921**	6,960	6,371	6,066	5,858
Net life insurance income	**(10)**	**(5)**	128	332		
Other banking and financial services income	**7,006**	**3,803**	4,749	4,124	4,027	3,630
Mortgage servicing and origination revenue	**378**	**205**	810	640	536	323
Movement in the excess of net market value over net assets of life insurance controlled entities	**(155)**	**(84)**	510	202		
Significant revenue	**2,671**	**1,450**	5,314			
Operating expenses	**8,707**	**4,727**	6,470	5,807	5,701	5,320
Amortisation of goodwill	**101**	**55**	167	197	206	181
Charge to provide for doubtful debts	**697**	**379**	989	588	581	587
Significant expenses	**3,266**	**1,773**	6,866	204		749
Profit from ordinary activities before income tax expense	**4,341**	**2,356**	3,979	4,873	4,141	2,974
Income tax expense relating to ordinary activities	**962**	**522**	1,891	1,632	1,321	959
Net profit	**3,379**	**1,834**	2,088	3,241	2,820	2,015
Net profit/(loss) attributable to outside equity interest	**6**	**3**	5	2	(1)	1
Net profit attributable to members of the Company	**3,373**	**1,831**	2,083	3,239	2,821	2,014
Dividends paid/payable(5)	**2,266**	**1,230**	2,080	1,858	1,655	1,467

	Group					
Adjusted to accord with US GAAP						
Net income	**3,499**	**1,899**	1,866	3,051	2,862	2,099

	Group					
	2002 $m	**2002(1) US$m**	**2001(2) $m**	**2000(3) $m**	**1999 $m**	**1998(4) $m**
Summary statement of financial position						
Australian GAAP						
Investments relating to life insurance business	**31,012**	**16,836**	31,381	31,103		
Loans and advances (after provisions for doubtful debts)	**231,300**	**125,573**	207,797	195,492	165,620	160,001
Total assets	**377,387**	**204,883**	374,720	343,677	254,081	251,714
Total risk-weighted assets	**247,838**	**134,551**	257,513	238,589	197,096	199,476
Deposits and other borrowings	**206,864**	**112,306**	190,965	185,097	162,468	158,084
Life insurance policy liabilities	**30,425**	**16,518**	30,257	29,879		
Bonds, notes and subordinated debt	**22,192**	**12,048**	24,984	21,051	13,437	15,115
Perpetual floating rate notes	**460**	**250**	507	461	383	421
Exchangeable capital units(6)	**1,262**	**685**	1,262	1,262	1,262	1,262
Net assets	**23,251**	**12,623**	23,557	21,407	18,520	15,764
Contributed equity	**9,931**	**5,391**	10,725	9,855	9,286	6,675
Ordinary shares	**7,256**	**3,939**	8,050	7,180	6,611	5,942
Equity instruments(7)	**2,675**	**1,452**	2,675	2,675	2,675	733
Total equity (excludes outside equity interest)	**23,184**	**12,587**	23,489	21,361	18,520	15,761
Adjusted to accord with US GAAP						
Total assets	**380,280**	**206,452**	377,167	344,227	258,791	256,753
Total equity	**24,005**	**13,030**	23,987	21,836	19,226	16,359

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	Group					
	2002 $	**2002(1) US$**	**2001(2) $**	**2000(3) $**	**1999 $**	**1998(4) $**
Shareholder information						
Australian GAAP						
Cash earnings per share before significant items(8)	**2.48**	**1.35**	2.37	2.15	2.01	1.87
Cash earnings per share(8)	**2.22**	**1.21**	1.11	2.06	2.01	1.53
Earnings per share before significant items(9)						
Basic	**2.32**	**1.26**	2.47	2.11	1.87	1.75
Diluted	**2.21**	**1.20**	2.43	2.08	1.83	1.72
Earnings per share(9)						
Basic	**2.06**	**1.12**	1.22	2.02	1.87	1.40
Diluted	**2.03**	**1.10**	1.23	1.99	1.83	1.39
Dividends per share(5)	**1.47**	**0.80**	1.35	1.23	1.12	1.02
Dividends per American Depositary Share (ADS)(5)	**7.35**	**3.99**	6.75	6.15	5.60	5.10

	Group					
Dividend payout ratio (%)(5)	**71.12**	**38.61**	111.23	61.10	60.25	73.09
Net assets per share	**15.11**	**8.20**	15.15	14.12	12.46	10.87
Share price at year-end	**33.48**	**18.18**	25.66	25.51	22.43	20.39
Number of shares at year-end (No. 000)	**1,534,840**	**n/a**	1,551,575	1,516,111	1,486,295	1,450,427
Adjusted to accord with US GAAP						
Net income per share(9)						
Basic	**2.14**	**1.16**	1.07	1.90	1.89	1.46
Diluted	**2.08**	**1.13**	1.09	1.84	1.84	1.44
Dividends per ADS (US$)(5)(10)	**n/a**	**n/a**	3.51	3.50	3.62	3.17
Dividends as percentage of net income (%)	**64.76**	**35.16**	111.47	60.90	57.83	69.89

	Group				
	2002 %	**2001 %**	**2000 %**	**1999 %**	**1998 %**
Selected financial ratios					
Australian GAAP					
Net profit before significant items as a percentage of					
Average total assets (excluding statutory funds)	**1.2**	1.3	1.2	1.1	1.1
Average equity	**17.0**	18.4	18.1	17.3	17.8
Net profit as a percentage of					
Average total assets (excluding statutory funds)	**1.0**	0.7	1.2	1.1	0.8
Average equity	**15.1**	9.0	17.3	17.3	14.3
Average equity to average total assets (excluding statutory funds)	**7.2**	7.3	7.3	6.7	5.9
Average net interest spread	**2.4**	2.3	2.4	2.5	2.6
Average net interest margin	**2.7**	2.7	2.9	3.0	3.2
Net profit before significant items per average full-time equivalent employee ($'000)	**83.5**	82.9	71.5	59.9	n/a
Gross non-accrual loans to gross loans and acceptances	**0.62**	0.75	0.66	0.82	0.79
Net impaired assets to total equity	**4.7**	5.1	4.9	6.1	6.9
Total provisions for doubtful debts to gross impaired assets	**1.6**	1.6	1.8	1.6	1.7
Capital risk asset ratios(11)					
Tier 1	**7.8**	7.5	6.6	7.8	6.4
Tier 2	**3.7**	3.9	4.0	2.9	3.1
Deductions	**(1.3)**	(1.2)	(1.3)	(0.3)	(0.3)
Total	**10.2**	10.2	9.3	10.4	9.2
Ratio of earnings to fixed charges(12)	**1.5**	1.3	1.4	1.5	1.3
Adjusted to accord with US GAAP					
Net income as a percentage of					
Average total assets (excluding statutory funds)	**1.0**	0.5	1.2	1.1	0.9
Average equity	**14.7**	8.0	14.9	16.4	14.4
Total equity as percentage of total assets (excluding statutory funds)	**6.9**	7.0	7.0	7.4	6.4
Ratio of earnings to fixed charges(12)	**1.5**	1.3	1.4	1.5	1.3

	Group				
	2002	**2001**	**2000**	**1999**	**1998**

	Group				
Other information					
Total staff					
Full-time and part-time	**46,642**	49,710	51,879	51,566	50,973
Full-time equivalent (core)(13)	**41,428**	44,983	47,417	45,676	46,300
Full-time equivalent(14)	**43,202**	47,597	49,514	46,837	n/a
Exchange rates (average and closing per A$1.00)					
Average					
British pound	**0.3622**	0.3626	0.3902	0.3934	0.3914
Euro	**0.5798**	0.5880	0.6310	0.5825	0.5840
United States dollar	**0.5324**	0.5227	0.6102	0.6404	0.6468
New Zealand dollar	**1.1992**	1.2474	1.2648	1.2012	1.1576
Closing					
British pound	**0.3474**	0.3354	0.3710	0.3697	0.3480
Euro	**0.5528**	0.5393	0.6166	0.6146	0.5041
United States dollar	**0.5440**	0.4928	0.5427	0.6528	0.5934
New Zealand dollar	**1.1565**	1.2135	1.3351	1.2589	1.1880

	Group					
	2003(15)	**2002**	**2001**	**2000**	**1999**	**1998**
(US$per A$1.00)						
Average(16)	**0.5473**	**0.5322**	0.5221	0.6091	0.6404	0.6571
September 30		**0.5429**	0.4915	0.5415	0.6528	0.5930

On November 7, 2002 the noon buying rate was US$0.5660 per A$1.00.

	Group 2002					
	October	**September**	**August**	**July**	**June**	**May**
United States dollar (per A$1.00)						
High	0.5500	0.5518	0.5534	0.5688	0.5748	0.5660
Low	0.5422	0.5419	0.5280	0.5370	0.5583	0.5365

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(1) Translated at the noon buying rate on September 30, 2002 of US$0.5429 = A$1.00.

(2) Includes amounts relating to Michigan National Corporation and its controlled entities to March 31, 2001. The Group sold this entity on April 1, 2001.

(3) Includes amounts relating to the MLC group from July 1, 2000. The Group acquired these entities on June 30, 2000.

(4) Includes amounts relating to SR Investment, Inc. (formerly known as HomeSide International, Inc.) from February 10, 1998, the date on which the Group acquired this entity.

(5)

Dividend amounts are for the year for which they are declared and includes issues under the bonus share plan in lieu of cash and scrip dividends. Dividends and book value per ordinary share and per American Depositary Share (ADS) calculations are based on year-end fully paid equivalent ordinary shares, adjusted for loans and rights issues as appropriate. Net profit is based on amounts attributable to ordinary shareholders after deducting distributions to other equityholders.

(6)

The exchangeable capital units of US$1 billion are recorded in this annual financial report at the historical rate of US$0.7922 = A$1.00.

(7)

Equity instruments incorporate preference shares and National Income Securities.

(8)

Cash earnings are based on earnings attributable to ordinary shareholders excluding the movement in the excess of net market value over net assets of life insurance controlled entities and goodwill amortisation.

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(9)

Refer to notes 8 and 58 in the financial report for an explanation of earnings per share.

(10)

Dividend amounts are translated into US dollars per ADS (representing five fully paid ordinary shares) at the exchange rate on each of the respective payment dates for interim and final dividends. The 2002 final dividend of A$0.75 per ordinary share is not payable until December 11, 2002. Accordingly, the total US dollar dividend per ADS cannot be determined until that date.

(11)

As defined by Australian Prudential Regulation Authority (refer to "capital resources" on page 64 and "regulation of the financial services system" on page 22).

(12)

For the purpose of calculating these ratios, fixed charges are comprised of interest on all indebtedness including interest on deposits, and one-third of rental charges (which is used to be representative of an interest factor). Earnings are calculated after all operating and income deductions, except fixed charges, extraordinary items and tax based on profit and are stated before outside equity interest.

(13)

Full-time equivalent includes part-time staff (pro-rated). Core excludes contractors and casual staff.

(14)

Full-time equivalent includes part-time staff (pro-rated). Comparative information in relation to full-time equivalents has been restated to include contractors and casual staff.

(15)

Through to October 18, 2002.

(16)

The daily average of the noon buying rates.

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Business overview

Introduction

The Group is an international financial services group that provides a comprehensive and integrated range of financial products and services.

The Company traces its history back to the establishment of The National Bank of Australasia in 1858. National Australia Bank Limited is a public limited company, incorporated on June 23, 1893 in Australia, which is the Company's main domicile. Its registered office is 24th floor, 500 Bourke Street, Melbourne, Victoria 3000, Australia. The Company operates under the requirements of the *Banking Act* 1959 (Cth) and *Corporations Act* 2001 (Cth).

Globally, as at September 30, 2002, the Group had:

- total assets of $377 billion;
- almost $65 billion in assets under management and administration;
- $365 billion in assets under custody and administration; and
- almost 8 million banking customers and more than 2.8 million wealth management customers.

The Company is the largest financial services institution (by market capitalisation) listed on the stock market of Australian Stock Exchange Limited. It is one of the world's top 50 financial services companies by revenues, as listed in the July 2002 edition of Fortune Magazine.

Strategy

The Group operates as one international financial services group, delivering advice and solutions to help customers achieve their goals. Moving forward, the focus for the Group will be on creating growth through excellent relationships. To achieve this the Group will:

- deliver solutions that meet customers' financial needs;
- build and sustain a high performance culture;
- build trusted relationships with all stakeholders;
- build and manage the Group's portfolio of businesses to achieve strong and sustainable shareholder returns; and
- create and leverage strategic assets and capabilities for competitive advantage.

Positioning for Growth strategic review

In October 2001, the Group launched a program to drive long-term growth, termed Positioning for Growth. Positioning for Growth was designed to ensure that the Group continued to meet its performance objectives whilst making the investments necessary to underpin future growth.

The program looked to strengthen and invigorate the Group through the simplification of its structure, systems and processes, and the development of its talent base. It also examined opportunities to maximise revenue, reduce cost structures and use resources more efficiently.

In January 2002, the Group announced plans for a new corporate structure based around its principal areas of operation and designed to support clearer accountability, greater customer focus, simpler reporting and reduced bureaucracy. The new structure creates regional integrated financial services teams with broader authority and more control over distribution, products and services.

The key elements of the new structure are:

- creating three regional financial services business units Australia, Europe and New Zealand;

- Wholesale Financial Services and Wealth Management remain as global businesses (while undergoing an internal restructure);
- the previous global divisions of Business and Personal Financial Services, Specialist and Emerging Businesses and National Shared Services have been integrated into the three regional financial services business units; and
- the support functions of Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO are organised on a global basis; however, much of their functionality is integrated within the business units.

Business operating model

In recent years, the Group's operating model has been a combination of global and regionally-oriented businesses. Where managing or transferring core skills or products between geographical markets gives the Group a competitive edge, a global management model has existed and where regional focus is more important, a regional management structure has existed. This approach continues; however, alignment with customers, rather than along product lines, has been strengthened to enhance the Group's relationship-based customer advocacy stance. This enables improved integration of banking, investment and insurance offerings at the customer interface.

The Group consists of five lines of business:

- Financial Services Australia;
- Financial Services Europe;
- Financial Services New Zealand;
- Wholesale Financial Services; and
- Wealth Management.

These business lines are supported by the following global functions Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO.

In September 2001, a decision was taken by the Board of directors of the Company to pursue the sale of HomeSide Lending, Inc. (HomeSide US). Following this, the operating assets and operating platform of HomeSide US were sold on March 1, 2002. HomeSide US retained the mortgage servicing rights. However, on May 31, 2002, HomeSide US sold mortgage servicing rights of approximately US$12.8 billion of mortgages. On August 27, 2002, the Company entered into a contract for the sale of SR Investment, Inc., the holding company of HomeSide US. The sale closed on October 1, 2002. *Refer to page 20 for a detailed discussion.*

Introduction to Financial Services

The Group's Financial Services businesses, or the retailing arms of the Group, provide a range of financial products and services tailored to the needs of their customers.

The recent restructure has created regional businesses with broader authority and more control over distribution, products and services. Each region is managed separately with a distinct focus Financial Services Australia, Financial Services Europe and Financial Services New Zealand.

The Financial Services businesses in each region are organised around customer segments, with products, services and the skills of staff matched to the needs of a similar group of customers in each region. This reflects the Group's core strategy of "creating growth through excellent relationships". The aim is to develop mutually beneficial, long-term relationships with customers in each region.

The segment-based businesses include Business, Personal, Agribusiness, Cards, Payments and Asset Finance. The segment-based businesses are supported by the specialist units of Business Development and Strategy, Channel and Process Optimisation, and Shared Services.

Business

Business provides tailored financial solutions to its customers, which range from sole traders to multi-national businesses. This segment provides total financial solutions that span the range of products and services of the Group.

Personal

Personal supports both retail and premium (higher net worth) customers, with a strong focus on tailoring financial solutions to meet all its customers' personal financial needs. This segment is committed to having the most effective sales organisation and highest standards of service.

Agribusiness

Agribusiness is dedicated to serving the agricultural sector and concentrates solely on meeting the needs of primary producers, service providers to agriculture and processors of agricultural produce. With this focus, Agribusiness has a strong understanding of the financial needs of agricultural business.

Cards

Cards manages the Group's credit card business (predominantly Visa and MasterCard).

Payments

Payments is responsible for the processing and completion of payment transactions and the development of payment processes and systems, particularly in e-commerce.

Asset Finance and Fleet Management

Asset Finance and Fleet Management specialises in plant, equipment and motor vehicle leasing, as well as the broader area of fleet management. While Asset Finance is a segment-based business, Fleet Management is run on a global management model. On September 28, 2002, a controlled entity of the Company, Custom Fleet (NZ) Limited, entered into an agreement to purchase the New Zealand-based Hertz Fleetlease Limited and its Australian-based controlled entity, Hertz Lease Ltd. This transaction settled on November 1, 2002. The purchase provides Fleet Management with a solid position in both the Australian and New Zealand markets.

Business Development and Strategy

Business Development and Strategy represents the centralisation of strategy, marketing and product development within the retailing operations in each region.

Channel and Process Optimisation

Channel and Process Optimisation is responsible for the back office offerings and quality delivery of retail products and services. It focuses on distribution and channel management.

Shared Services

Shared Services enables the Group to more readily take an end-to-end perspective on what it does and to give greater control over the services provided to meet the needs of local customers more effectively. It comprises operational services Collections, Corporate Real Estate, Lending Services, Strategic Sourcing and Transaction and Business Services. Within Shared Services, the Group undertakes a number of specialised business activities through its controlled entities and its business units. These include a property owning company, NBA Properties Limited, which, with its subsidiary companies, is primarily an owner of the Group's business-related properties.

Financial Services Australia

Financial Services Australia is the Australian retailing arm of the Group that provides a range of financial products and services that consistently meet the full financial needs of its 3.4 million customers in Australia.

At September 30, 2002, Financial Services Australia had 19,100 full-time equivalent employees.

The Group is one of the largest providers of financial services in Australia. It is the largest provider of financial services to business (measure: credit outstandings, source: Greenwich Associates, date: June 2002).

The Group's strong position in business markets is the result of initiatives over a number of years, centred on a relationship management model. These initiatives have included the development of Business and Agribusiness banking teams with specialist knowledge and a sound understanding of the financial needs of businesses.

Services to business customers comprise a range of deposit, lending and payment facilities supplemented with a number of other financial services. These services include treasury, asset finance, equity finance, nominee and custodian services, corporate trustee services and insurance and investment products.

Business customer sales and relationship management are primarily conducted through a network of business banking centres and business banking suites.

In the personal segments, the Group has implemented a relationship management approach for the top 20% of the customer base, with responsibility for managing different wealth segments allocated between Wealth Management and Financial Services Australia. Financial Services Australia has dedicated bankers to pro-actively manage the portfolios of these customers, and uses a range of specialists such as financial advisers and estate planners to meet their more complex needs. Retail customers are able to access the Group's products and services through the branch network, contact centres, certain Australia Post outlets, automatic teller machines (ATMs) and the internet.

The acquisition and integration of the MLC group has resulted in the provision of additional expertise and services to both staff and customers. This has been reflected in the continued strong performance of the financial planning force, which is now established in all consumer and business segments.

Customer transactions, sales and enquiry services are provided through a network of branches and electronic distribution channels. The Group has almost 800 branches and 152 banking centres in Australia and in addition to those outlets personal customers are able to conduct transactions at over 2,900 Australia Post outlets. The number of ATMs has also increased to over 1,650. Customers are also able to conduct a range of product purchases and transactions and source information services via the internet, by telephone, by email, through contact centres, or through an extensive network of point of sale (EFTPOS) terminals. Only 9% of all transactions (by value) are now carried out through the branch network, reflecting changing customer preferences.

These channels are supported by customer relationship management systems, data warehouses and lead generation systems. These provide bankers with integrated customer information to better service and meet the needs of customers.

Refer to page 46 for detailed information of the financial performance of Financial Services Australia.

Financial Services Europe

Financial Services Europe is the European retailing arm of the Group that provides a range of financial products and services tailored to the needs of its 3.5 million customers in Great Britain and Ireland.

At September 30, 2002, Financial Services Europe had 11,900 full-time equivalent employees.

The Group's retailing activities in Europe (Great Britain and Ireland) operate under four brands. A brief discussion of the activities in Great Britain and Ireland follows.

Great Britain

The focus of the Group in Great Britain has been to grow the business and consumer segments by implementing relationship management models, which have been successfully adopted elsewhere in the Group. This is supported by the introduction of innovative products and services (such as Rapid Repay mortgages), and continued investment in alternative channels to assist customers by extending the range of channels with which they can choose to manage their financial affairs.

The Group has 491 outlets in Great Britain (of which three are located in London), including 89 business banking centres and premium outlets. These are supported by two customer contact centres (which also service the Group's Irish operations), internet facilities and 933 ATMs.

The Group's regional banks in Great Britain are Clydesdale Bank in Scotland and Yorkshire Bank in northern England. Each bank offers a broad range of financial services to both retail and business customers.

Clydesdale Bank is one of the major banks in Scotland, with a strong business customer franchise, and has been part of the Group since 1987. Yorkshire Bank was acquired in 1990 and is a significant player in its natural marketing area of Yorkshire and the surrounding counties. Yorkshire Bank has a strong consumer franchise, with a growing business segment.

Ireland

The primary aims of the Group in Ireland are consistent with those in Great Britain: to grow the relationship management segments while investing in integrated channels. The focus over the past year has been on continuing the integration of support areas to better use the Group's resources and achieve scale economies.

The Group has 154 outlets in Ireland, including 21 business banking centres and premium outlets. These are supplemented with a network of 264 ATMs, an internet presence and access to the customer contact centres in Great Britain.

The Group has owned Northern Bank in Northern Ireland and National Irish Bank in the Republic of Ireland since 1987. Each bank offers a broad range of financial services.

Northern Bank is one of the largest banks in Northern Ireland (measure: main current accounts, source: MORI/MRC, date: March 2002), and over recent years has expanded its profile in the consumer segment.

National Irish Bank's primary strength is in the consumer segment. It has benefited from the introduction of innovative financial products and strong growth in the economy of the Republic of Ireland during the past three years.

Refer to page 46 for detailed information of the financial performance of Financial Services Europe.

Financial Services New Zealand

Financial Services New Zealand is the New Zealand retailing arm of the Group that provides a range of financial products and services tailored to the needs of its more than 960,000 customers in New Zealand.

At September 30, 2002, Financial Services New Zealand had 3,900 full-time equivalent employees.

The Group's retailing activities in New Zealand operate under the Bank of New Zealand (BNZ) brand.

BNZ was acquired by the Group in 1992. BNZ has a strong brand position in the New Zealand market with comprehensive coverage across the country. It offers a range of financial services and is one of the largest financial service providers in New Zealand (measure: credit outstandings, source: Reserve Bank of New Zealand, date: June 2002). BNZ enjoys a leadership position in the cards market with innovative solutions including GlobalPlus (measure: outstandings, source: ACNielsen, date range: January-June 2002).

Growth in these segments is being driven through BNZ's customer relationship management strategy called TOPS. TOPS is a computer-based system that notifies staff of trigger events from customer transactional activity and milestone attainment, resulting in customers being contacted by BNZ at a time when they need it. The system has been developed from the Group's leading and award-winning customer relationship management platform.

The ongoing enhancement of the physical distribution network, coupled with improved technology, automation and functionality through electronic and remote channels, continues to be a core strategy. BNZ's vision is to provide customers with tailored financial solutions, which are deliverable through a range of convenient and cost-effective channels.

The distribution network is comprised of 183 outlets including 19 business banking centres, 383 ATMs, and shared access to an extensive nationwide EFTPOS network. BNZ also has well-established telephone banking capabilities and in 2002 launched an improved internet banking service now catering for almost 100,000 active users.

Refer to page 47 for detailed information of the financial performance of Financial Services New Zealand.

Wholesale Financial Services

Wholesale Financial Services manages the Group's relationships with large corporations, banks, financial institutions, supranationals (such as development banks) and government bodies. It operates in Australia, Europe, New Zealand, New York and Asia (Hong Kong, Singapore, Seoul and Tokyo). Each region has a dedicated leadership team to provide local, accessible senior management for customers.

At September 30, 2002, Wholesale Financial Services had 2,500 full-time equivalent employees.

Wholesale Financial Services comprises Corporate Banking, Markets, Specialised Finance, Financial Institutions Group, Custodian Services and a Support Services unit.

Corporate Banking

Corporate Banking is responsible for the Group's relationships with large corporations and provides corporate lending products and other financing solutions. Customer teams are selected to provide the appropriate blend of relationship management, industry knowledge and product skills.

Customer coverage is organised along industry segment lines to promote specialist knowledge and understanding. There are five major industry segments: consumer goods and services; telecommunications, media and technology; industrials, materials and health care; energy and utilities; and property and construction finance.

Markets

Markets focuses on traded products and risk management solutions. It provides foreign exchange, money market, commodities and derivatives products globally through a dedicated 24 hour dealing capability. These products assist both Wholesale Financial Services' customers and the Group's business customers to manage their diverse financial risks.

Markets is active in the debt capital markets, securitisation and loan syndications markets, helping customers to diversify their financing arrangements and supplying investors with a variety of asset classes.

Markets also manages the liquidity portfolio for the Group in each of its major markets. It assists in interest rate risk management and provides short-term funding for the Group.

Specialised Finance

Specialised Finance supplies a range of financial solutions utilised in large-scale, complex transactions such as project finance, structured finance and acquisition finance.

Using its specialised knowledge of the respective legal, commercial, regulatory and financial implications of these transactions, it develops innovative financing structures for customers.

Financial Institutions Group

Financial Institutions Group manages the Group's relationships with banks, other financial institutions (insurance and fund managers), supranationals and government bodies; this includes the Group's correspondent banking relationships.

Custodian Services

Custodian Services provides custody and related services to foreign institutions, superannuation funds, government bodies, fund managers, insurance companies and other entities within Australia, New Zealand and Great Britain.

The key products offered include sub-custody, global custody, master custody, investment administration outsourcing, trustee services (Great Britain only), securities lending and cash deposit facilities.

The Company, through Custodian Services, is one of the largest custodian banks in Australia (measure: assets under custody and administration, source: Australian Custodial Services Association, date: June 2002). Globally, Custodian Services had assets under custody and administration of $365 billion at September 30, 2002.

Support Services

Support Services is responsible for the management of the operating platform for Wholesale Financial Services, including technology, operations, portfolio management, human resources, finance and marketing. Technology and operations have two regional hubs (Australia and Europe) to promote efficiency, optimise future investment and provide common product capability across five geographic regions.

Refer to page 47 for detailed information of the financial performance of Wholesale Financial Services.

Wealth Management

Wealth Management manages a diverse portfolio of financial services businesses. It provides financial planning, insurance, private banking, superannuation and investment solutions to both retail and corporate customers and portfolio implementation systems and infrastructure services to financial advisers. It operates in Australia, New Zealand, Europe (Great Britain and Ireland) and Asia (Hong Kong, Thailand and Indonesia).

At September 30, 2002, Wealth Management had almost $65 billion in assets under management and administration and more than 2.8 million customers. It is the second largest retail fund manager in Australia with a 14.5% market share (source: ASSIRT, June 2002).

As at September 30, 2002, Wealth Management had 5,500 full-time equivalent employees.

Wealth Management applies a manager of managers investment approach that involves investment manager research, selection, blending and ongoing monitoring using a range of specialist investment managers providing a specific mix of strategies. It is the fourth largest pure manager of managers organisation in the world (measure: assets under management, source: Cerulli Report, date: July 2002), with over 16 years experience in both advice and investing.

Over $200 million is to be invested in the Australian operations of Wealth Management over the next three to four years. This is expected to enhance the Group's capabilities to be the preferred business partner for financial advisers, and lead the market evolution towards the provision of quality advice across the entire spectrum of a customer's financial needs. This includes insurance, investment advice, debt management, tax planning and estate planning to help customers achieve their financial and lifestyle goals.

The Group is focused on exporting Wealth Management's domestic capabilities across the international businesses, which are in different stages of the financial services market evolution.

Wealth Management is dedicated to being a leading provider of financial services to retail and corporate customers and business partner of choice for financial advisers.

Wealth Management is comprised of the following business units Investments, Insurance and Other.

Investments

Investments provides the following business activities:

- funds management, covering superannuation and investment services to retail and corporate customers;
- funds administration, supplying retail customers with the ability to direct their investments to fund managers and investment products of their choice, through one point of service;
- asset management, providing investment management advisory services including research, selection and monitoring of investment managers under a multi-manager, multi-style approach, which underpins Wealth Management's investment offerings; and
- online investing, providing self-directed investors with portfolio services and access to share trading and retail managed funds at wholesale rates.

Insurance

Insurance supplies retail insurance (covering life insurance, income insurance and general insurance agency) and group insurance for members of a corporate, business or club.

Other

Other businesses within Wealth Management incorporate the Private Bank and Distribution.

Private Bank focuses on relationship management using a range of specialists including financial advisers and estate planners to meet customers' more complex needs.

Distribution provides ongoing recruitment, training and development of financial advisers to the Group's multiple dealership groups. Further, it offers a number of business platforms and support services to financial advisers so as to support the delivery of quality financial planning services and help customers achieve their financial and lifestyle goals.

Refer to page 48 for detailed information of the financial performance of Wealth Management.

Other

Support functions

The Group's support functions focus on strategic and policy direction for the Group and incorporate the following units: Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO. While these support functions are organised on a global basis, many of their operations are integrated within the Group's business lines and their contribution to the Group is reported within the results of those businesses.

HomeSide US

HomeSide Lending, Inc. (HomeSide US), based in Jacksonville, Florida, was acquired by the Group in 1998.

In September 2001, a strategic decision was taken by the Board of directors of the Company to pursue the sale of HomeSide US, after reviewing its position within the Group's core strategies of banking and wealth management.

The Group commissioned a report by New York law firm Wachtell, Lipton, Rosen & Katz, in conjunction with US regulatory consultants Promontory Financial Group LLC on the events surrounding last year's write-downs at HomeSide US. While the report remains confidential, the Group released the report's conclusions on January 21, 2002. The review found no evidence that the Company's directors or executives were derelict in their duties.

As a response to the conclusions in the review, the Board of directors undertook the actions including the following:

- senior executives skilled in finance and risk management appointed to and to remain as members of the executive teams of all major subsidiaries, regardless of the type of business;

- current policies and processes were reviewed to ensure that in the future all issues identified during due diligence investigations are approrpriately dealt with; and

- internal audit processes were revised to enhance the level of oversight by the audit committee of controlled entity company audit issues.

The operating assets and operating platform of HomeSide US were sold to Washington Mutual Bank, FA. on March 1, 2002. HomeSide US retained the mortgage servicing rights and outsourced the servicing of the underlying loans, through a sub-servicing agreement, to Washington Mutual Bank, FA.

On May 31, 2002, HomeSide US sold mortgage servicing rights of approximately US$12.8 billion of mortgages, representing approximately 8% of its mortgage servicing portfolio.

Further, on August 27, 2002, the Group agreed to sell all of its shares in SR Investment, Inc. (formerly known as HomeSide International, Inc.), the parent entity of HomeSide US, to Washington Mutual Bank, FA. The sale has resulted in the complete disposal of HomeSide US and the associated mortgage servicing rights. The sale closed on October 1, 2002. *For further details refer to "material contracts" on page 281 of this annual financial report.*

Competition

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

These forces are evident across all of the Group's businesses in each of its geographic markets. Within the broader financial services industry, increased competition has led to a reduction in operating margins only partly offset by fees and other non-interest income and increased efficiencies. The latter has been largely achieved through greater investment in new technologies for processing, manufacturing and retailing products and services. These trends towards increasingly contestable markets offering improved access, wider choice and lower prices are expected to continue in the future.

In a number of countries, regulatory authorities have been reviewing competition issues, including the UK Competition Commission with regard to small business banking, the Reserve Bank of Australia (RBA) with regard to the payments system, and the review of the *Trade Practices Act* 1974 (Cth) being undertaken by a committee chaired by Sir Daryl Dawson.

In March 2002, the UK Competition Commission issued its conclusion on its inquiry into the small to medium enterprise banking market. The Commission found that major banks in England, Scotland and Northern Ireland, including Clydesdale Bank and Northern Bank, were acting as part of a complex monopoly. Yorkshire Bank was not named as part of the complex monopoly, due to its relatively small share of the English market.

As a result of the Commission's proposals, the four largest clearing banks operating in England are required to comply with a pricing remedy from January 1, 2003. This remedy will result in these banks offering their small to medium enterprise banking market customers a more competitive proposition.

The adoption of remedies by the four largest clearing banks may have a material impact on the results and operations of Clydesdale and Yorkshire Banks and Northern Bank, as the pricing remedies will directly influence the market within which they operate.

In the short-term this is expected to have an impact on the results and operations of banks operating in the UK, including an adverse material impact on the results and operations of Clydesdale and Yorkshire Banks and Northern Bank. Banks operating in the UK have not stated which of the pricing options they will offer their small to medium enterprise banking market customers, therefore it is not known at this time how the UK market will react. Clydesdale and Yorkshire Bank's and Northern Bank's senior management have worked through scenarios of the market's reaction, including consideration of the financial impact of these scenarios. The impact on future results and operations of Clydesdale and Yorkshire Bank and Northern Banks will be dependent upon this market reaction.

In August 2002, the RBA released its reforms on the credit card payment system in Australia. These reforms provide merchants with the ability to surcharge credit charge transactions, allow non-banks to issue and acquire credit cards and significantly reduce interchange fees (ie. the fees banks pay one another to balance costs). The Group expects very little impact in 2003, as the interchange fee reduction is not required to be implemented until October 31, 2003. However, the Group is currently exploring and modelling its available options following the release of these reforms. In relation to 2004 and future years, the impact of the reduction in interchange fees on revenues and expenses of the Group will be dependent upon the outcome of this modelling exercise and any strategic decisions undertaken.

The Committee reviewing the *Trade Practices Act* 1974 (Cth) had not reported its findings as at the date of this report, but is expected to do so by the end of November 2002.

Regulation of the financial services system

Australia

The Australian Prudential Regulation Authority (APRA) has responsibility for the prudential and regulatory supervision of Australian deposit takers (referred to as "authorised deposit-taking institutions" (ADIs), which comprise banks, building societies, and credit unions) as well as insurance companies, superannuation funds, and friendly societies.

The RBA has overall responsibility for monetary policy, financial system stability and, through a Payments System Board, payments system regulation including the operations of Australia's real-time gross settlement system.

The Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission have responsibility for certain consumer protection measures. ASIC has primary responsibility for market integrity and disclosure issues.

The *Banking Act* 1959 (Cth) allows APRA to issue prudential standards that, if breached, can trigger legally enforceable directions. Proposed amendments to the Act will require an ADI to inform APRA of breaches of prudential requirements, and also of any materially adverse events. The amendments also include "fit and proper" tests for directors and senior management of ADIs.

APRA's prudential framework for ADIs includes prudential standards covering liquidity, credit quality, market risk, capital adequacy, audit and related arrangements, large exposures, equity associations, outsourcing, and funds management and securitisation. APRA is also expected to finalise draft standards covering board composition and the supervision of conglomerates, which contain an ADI.

APRA carries the responsibility for depositor protection in relation to the ADIs it supervises. To achieve this, it has strong and defined powers to direct the activities of an ADI in the interests of depositors or when an ADI has contravened its prudential framework. These "direction powers" enable APRA to impose correcting action without assuming control.

APRA requires banks to provide regular reports covering a broad range of information, including financial and statistical data relating to their financial position and prudential matters. APRA gives special attention to capital adequacy *(refer to "capital adequacy" on page 65 for current details)*, sustainability of earnings, loan loss experience, liquidity, concentration of risks, potential exposures through equity investments, funds management and securitisation activities and international banking operations.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from banks with selective on-site visits by specialist teams to overview discrete areas of banks' operations. These include asset quality, market risk and operational risk reviews and formal meetings with banks' senior management and external auditors.

APRA has also formalised a consultative relationship with each bank's external auditors with the agreement of the banks. The external auditors provide additional assurance to APRA that prudential standards agreed with the banks are being observed, and that statutory and other banking requirements are being met. External auditors also undertake targeted reviews of specific risk management areas selected at the annual meeting between the bank, its external auditors and APRA. In addition, each bank's chief executive officer attests to the adequacy and operating effectiveness of the bank's management systems to control exposures and limit risks to prudent levels.

There are no formal prohibitions on the diversification by banks through equity involvements or investments in subsidiaries. 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 business (by amalgamation or otherwise), or for the carrying on of business in partnership with an ADI, or effect a reconstruction.

Non-Australian jurisdictions

APRA, under the international Basel framework, now assumes the role of "home banking supervisor" and maintains an active interest in overseeing the operations of the Group, including its offshore branches and subsidiaries.

The Group's branches and banking subsidiaries in Europe (Great Britain and Ireland), New Zealand and the US are subject to supervision by the Financial Services Authority, Central Bank of Ireland, Reserve Bank of New Zealand (RBNZ), and the Office of the Comptroller of the Currency, respectively.

In Great Britain and Ireland, the local regulatory frameworks are broadly similar to those in force in Australia. Each of the banking regulatory authorities in these countries has introduced risk-based capital adequacy guidelines in accordance with the framework developed by the Basel Committee on Banking Supervision.

The emphasis of the RBNZ's regulatory approach is primarily on enhanced disclosure and directors' attestations to key matters. Under conditions of registration, banks are required to comply with minimum prudential and capital adequacy requirements. The RBNZ monitors banks' financial condition and conditions of registration, off-site, principally on the basis of published disclosure statements.

In other offshore areas of activity, the Group is subject to operating requirements of relevant local regulatory authorities.

Changing regulatory environment

Both within the financial services industry and more generally, businesses are working within a changing regulatory environment. There is a heightened emphasis on corporate governance, disclosure, accounting practices and audit oversight. During the year, the US introduced broad legislation in these areas which applies to the Company. The Australian Commonwealth Government has also released its own corporate and audit reform proposals, known as CLERP 9. The Group has an excellent record of corporate governance and has in place standards which have been externally recognised as according with best practice *(refer to "corporate governance" for further details of the Horwath 2002 corporate governance report).*

In addition to these legislative initiatives, regulators are taking actions that indicate a more pro-active approach to regulation in these areas. The US Securities and Exchange Commission is increasing its review of filings, ASIC has announced a new accounting surveillance project directed to areas of accounting abuse recently uncovered in the US and Australian Stock Exchange Limited (indirectly through the ASX Corporate Governance Council) and New York Stock Exchange, Inc. are promulgating enhanced corporate governance guidelines. Further, APRA has recently increased its focus on corporate governance by engaging an external party to provide rating and analysis of large, regulated institutions. APRA has also introduced a new internal rating system to guide supervisory resource allocation. The rating system includes explicit assessment of corporate governance matters.

ASIC is placing increased focus upon accounting for capitalised and deferred expenses, recognition of revenue, and recognition of controlled entities and assets. The Group's accounting policies in relation to these items are disclosed in note 1 to the financial report. The Group complies with all applicable Australian accounting standards.

Areas other than governance and audit are also the subject of substantial regulatory change. Measures have been adopted to restrict the financial capacity of terrorists and terrorist organisations. International standards for determining capital adequacy are changing under the Basel II Capital Accord. The regulation of the Australian financial sector has recently been significantly altered by the *Financial Sector Reform Act* 2001 (Cth), and the Australian Bankers Association recently released a revised Code of Banking Practice, which is supported by the Group. There has also been particular regulatory emphasis within Australia and elsewhere on privacy and the use of customer information.

The Group manages its regulatory obligations within a global compliance framework, and has a strong culture of compliance. It intends to maintain this standard of compliance within the changing regulatory environment and has appropriate measures in place to deal with the regulatory developments impacting on the Group.

Within the context of regulatory change, the Group will test and challenge its existing practices and procedures and take those steps necessary to maintain its position at the forefront of good governance practices. The Group is also enhancing its ability to manage regulatory change, implementing a new program to assist in the effective detection, co-ordination and implementation of change across business units and geographic regions. The aim of this new program is to leverage off the considerable experience accumulated in recent compliance initiatives such as the introduction of the goods and services tax, the reform of the financial sector and the introduction of privacy principles. In this way, the Group will enhance its existing capabilities in handling the impact of regulatory change on the Group's operations to meet the high standards of regulatory compliance expected by the Board of directors and management.

European Economic and Monetary Union

January 2002 saw the successful introduction of euro notes and coin across the 12 countries in the eurozone in replacement of national currency denominations. The Group's own program as part of this historic event was implemented as planned in National Irish Bank and other affected business entities.

In the UK, the existing Government is committed to the entry of the UK into European Economic and Monetary Union (EMU), subject to certain economic criteria being met and a national referendum in favour of UK entry, while the opposition remains uncommitted. Against this uncertain background, the Group has assessed the impact that UK entry into EMU might have and has laid the foundations of a program to prepare for such entry should it occur. The Group continues to monitor the UK Government and industry developments so that its operations will not be disrupted whatever the eventual outcome. The Group is also seeking to ensure that it can continue to service its customers as the use of the euro in business evolves.

Further developments in respect of EMU and possible UK entry are not expected to have a materially adverse effect on the Group. However, it is not possible to predict all strategic practical implications of EMU and there may be other key potential impacts. Where the Group is relying on third parties to provide EMU-related services, there can be no guarantee that they will supply those services in a timely manner, but it is not expected that the late provision of those services would disrupt materially the Group's operations during any transitional period.

Organisational structure

National Australia Bank Limited is the holding company for the Group, as well as the main operating company. During 2002 the Company had eight main operating subsidiaries: Bank of New Zealand, Clydesdale Bank PLC, MLC Limited, National Wealth Management Holdings Limited, National Irish Bank Limited, Northern Bank Limited, SR Investment, Inc. (formerly HomeSide International, Inc.) and Yorkshire Bank PLC. On August 27, 2002, the Company entered into a contract for the sale of SR Investment, Inc. The sale closed on October 1, 2002.

Refer to note 44 in the financial report for details of the principal controlled entities of the Group.

Description of property

The Group operates about 2,000 outlets and offices worldwide, of which 51% are in Australia, with the largest proportion of the remainder being in Great Britain. Approximately 19% of the 2,000 outlets and offices are owned directly by the Group, with the remainder being held under commercial leases.

In June 2001, the Company announced that Lend Lease Corporation Limited had won the bid to develop its new office complex at Victoria Harbour in the Docklands precinct of Melbourne, Australia. The Company entered into an agreement to lease two commercial buildings in the precinct, and the leases are expected to commence in November 2003 and August 2004, respectively. Construction is now well underway, with plans for more than 3,500 staff to move into the buildings at the commencement of the leases. The principles behind the design and workstyle practices employed at Docklands (ie. those of a single working team) are to be representative of the way that the Group wants to operate at all its locations in the future.

The Group's premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for the Group's current and future operations.

Certain legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business. For further information on contingent liabilities of the Group, including those relating to Australian Market Automated Quotation (AUSMAQ) System Limited litigation, refer to note 45 in the financial report. The Group does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

Financial review

Summary

	Group		
	2002 $m	**2001 $m**	**2000 $m**
Net profit	**3,379**	2,088	3,241
Adjust for significant items:			
Significant revenue	**(2,671)**	(5,314)	
Significant expenses	**3,266**	6,866	204
Attributable income tax expense/(benefit)	**(189)**	384	(68)
Significant expenses after tax	**406**	1,936	136
Net profit before significant items	**3,785**	4,024	3,377

	Group		
Net profit attributable to members of the Company	**3,373**	2,083	3,239
Adjust for:			
Distributions	**(187)**	(213)	(198)
Significant expenses after tax	**406**	1,936	136
Movement in the excess of net market value over net assets of life insurance controlled entities (after tax)	**152**	(333)	(146)
Amortisation of goodwill	**101**	167	197
Cash net profit before significant items	**3,845**	3,640	3,228

Year ended 30 September 2002 compared with year ended 30 September 2001

Net profit of $3,379 million in 2002, increased $1,291 million or 61.8% compared with 2001.

Significant items are those individually significant items included in profit from ordinary activities. The 2002 result included the following significant items:

- $412 million (after-tax) of restructuring expenses paid/provided for; and
- $6 million net profit on sale of SR Investment, Inc., including its controlled entity, HomeSide Lending, Inc. (HomeSide US), which conducted the Group's mortgage servicing rights business in the US.

The 2001 result included the following significant items:

- $1,681 million net profit on sale of Michigan National Corporation and its controlled entities; and
- $3,617 million (after-tax) write-downs of mortgage servicing rights and goodwill relating to HomeSide US.

Net profit before significant items of $3,785 million in 2002, decreased $239 million or 5.9% compared with 2001. On a cash basis, net profit before significant items of $3,845 million in 2002, increased $205 million or 5.6% compared with 2001.

Net interest income of $7,222 million in 2002, was $262 million or 3.8% higher than 2001. This was driven by asset growth, particularly in relation to housing lending and a 4 basis point decrease in net interest margin to 2.67%. The fall in margin largely resulted from the loss of contribution of Michigan National Corporation following its sale and the impact of product mix in Financial Services Australia.

Net life insurance income decreased by $138 million to $(10) million in 2002, from $128 million in 2001. This was driven by a decline in investment revenue resulting from uncertain global equity markets in the second half of the year and an increase in claims more than offsetting higher premium and related revenue.

Other banking and financial services income of $7,006 million in 2002, was $2,257 million or 47.5% higher than 2001. Excluding the proceeds received from the sale of HomeSide US's operating assets and operating platform of $2,314 million, other banking and financial services income was down 0.1%. This was driven by a decline in treasury-related income resulting from subdued foreign exchange and interest rate market volatility, partially offset by fee growth as housing and card volumes grew.

Mortgage servicing and origination revenue of $378 million in 2002, was $432 million or 53.3% lower than 2001. Servicing fees declined as a result of higher prepayment activity. Following the sale of HomeSide US's operating assets on March 1, 2002, origination revenue was no longer derived by the Group.

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of $155 million in 2002, a decrease of $665 million from 2001, impacted by the effect of assumption and experience changes underlying the valuation.

Total expenses (before goodwill amortisation, significant expenses and the charge to provide for doubtful debts) of $8,707 million in 2002, were $2,237 million or 34.6% higher than 2001. Excluding the carrying value of HomeSide US's operating assets and operating platform sold and other expenses attributable to the sale of $2,322 million, total expenses were down 1.3%, largely driven by a reduction in employee numbers during the year.

The charge to provide for doubtful debts of $697 million in 2002, was $292 million or 29.5% lower than 2001. The current year's charge was impacted by a review of the loan portfolio with regard to reducing its risk profile.

Year ended 30 September 2001 compared with year ended 30 September 2000

Net profit of $2,088 million in 2001, decreased $1,153 million or 35.6% compared with 2000.

The 2001 result included the following significant items:

- $1,681 million net profit on sale of Michigan National Corporation and its controlled entities; and
- $3,617 million (after-tax) write-downs of mortgage servicing rights and goodwill relating to HomeSide US.

The 2000 result included $136 million (after-tax) of restructuring and business integration costs, which were classified as significant expenses.

Net profit before significant items of $4,024 million in 2001, increased $647 million or 19.2% compared with 2000. On a cash basis, net profit before significant items of $3,640 million in 2001, increased $412 million or 12.8% compared with 2000.

Net interest income of $6,960 million in 2001, was $589 million or 9.2% higher than 2000. This was driven by asset growth and reduced funding costs, partly offset by lower deposit margins and the impact of the sale of Michigan National Corporation and its controlled entities on April 1, 2001.

Net life insurance income of $128 million in 2001, was $204 million or 61.4% lower than 2000, primarily driven by a decline in investment revenue (offset by a decrease in policy liabilities).

Other banking and financial services income of $4,749 million in 2001, was $625 million or 15.2% higher than 2000. This was largely a reflection of the first full year's contribution of the MLC group, which drove higher fee, commission and other income, and increased treasury-related income.

Mortgage servicing and origination revenue of $810 million in 2001, was $170 million or 26.6% higher than 2000, driven by higher production volumes.

The movement in the excess of net market value over net assets of life insurance controlled entities of $510 million in 2001, increased $308 million or 152.5% from 2000.

Total expenses (before goodwill amortisation, significant expenses and the charge to provide for doubtful debts) of $6,470 million in 2001, were $663 million or 11.4% higher than 2000. This was driven by higher personnel expenses, occupancy costs and software amortisation, and the first full year's contribution from the MLC group.

The charge to provide for doubtful debts of $989 million in 2001, was $401 million or 68.2% higher than 2000. This mainly reflected the impact of a small number of large corporate exposures in Australia, as well as loan growth and macro-economic conditions.

Adjusted to accord with US GAAP

Prepared in accordance with US GAAP, consolidated net income for the year to September 30, 2002 was $3,499 million compared to $1,866 million in 2001 and $3,051 million in 2000. Note 58 in the financial report discloses reconciliations of the Group's financial statements for the last three years for any significant adjustments to Australian GAAP, which would be reported in applying US GAAP. There were no individually material adjustments between US GAAP net income and Australian GAAP net profit attributable to members of the Company for the years ended September 30, 2002, 2001 and 2000, other than those disclosed in note 58 in the financial report.

Economic outlook

This section contains forward-looking statements. *Refer to "forward-looking statements" on page 4*.

Although the world economy has been experiencing its worst downturn since the recession of the early 1990s, there have been large variations between the economies and markets in which the Group operates. The US, key euro-area economies and much of East Asia fell into recession in 2001 and there are still questions around the timing, sustainability and strength of the recovery that emerged earlier this year.

By contrast, business conditions have generally been better in Australia, New Zealand and the UK economies that contain the bulk of the Group's assets. Within that generally favourable performance, there have been some common trends as well as some marked disparities between regions and markets. Among the common trends have been strong house prices, particularly in Australia and the UK, and resilient consumer spending. This has fuelled continued expansion in home mortgage lending and consumer credit. Manufacturing, on the other hand, has fared much worse. The communications, telecommunications and media sectors have also continued to weaken following the burst of the high technology bubble.

The emergence of two-track economies, with the housing and consumer markets faring much better than industrial sectors, has been especially prevalent in the UK, Australia and the US. The housing market in the latter has even stayed strong despite the recession that hit the economy last year. Within the UK, the two-track economy has had the usual consequences in terms of variations in economic conditions across the regions. Those areas dependent on manufacturing have seen much lower growth than in the previous few years and where high technology industries have loomed large in industrial structure (notably Central Scotland) output has slowed very sharply.

The parallels in recent economic conditions between the Group's main areas of operation mean that there are similarities in their economic risks and vulnerabilities for the next year. Across several of the Group's main markets, there are concerns that house prices could soften after recording rapid growth in the past five years. So far, only one housing market has experienced a softening after previous strong growth (Republic of Ireland) and the end of that boom has not turned into a price bust.

Another widespread concern centres on the accumulation of larger amounts of household debt, the result of consumers' increased gearing associated with lower interest rates. In Australia, debt-servicing ratios generally remain near historic levels but debt-income ratios have climbed to new records in many economies. The avoidance of severe economic downturns, particularly those associated with large increases in unemployment, is a crucial factor in the maintenance of credit quality in personal lending books.

While there are several risks to the global economic recovery that started in early calendar 2002, a moderate upturn seems likely to continue. The large drop in global equity markets seen this year will further lower household wealth and erode balance sheets and dampen consumer and business spending.

Critical accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Group's financial report has been prepared in accordance with Australian GAAP. The Group's principal accounting policies are disclosed in note 1 to the financial statements and in note 58 with respect to policies that differ to US GAAP.

Certain of these policies are considered to be critical to the representation of the Group's financial performance and position, since they require difficult, subjective, or complex judgements. The following disclosure is intended to provide an enhanced level of understanding of these judgements and their impact on the Group's financial statements. These judgements necessarily involve assumptions or estimates in respect of future events, which can frequently vary from what is forecast. However, the Company believes that its financial statements and its ongoing review of the estimates and assumptions utilised in preparing those financial statements, is appropriate to provide a true and fair view of the Group's financial performance and position over the relevant period.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee and the Committee has reviewed the Group's disclosure relating to them in this financial review.

The following are considered critical accounting policies of the Group.

Provision for doubtful debts

Under Australian GAAP, loans and advances are carried at their recoverable amount, representing the gross value of the outstanding balance adjusted for provisions for doubtful debts and unearned income. To best meet this requirement, the Group has adopted a statistically-based provisioning methodology for its general provision for doubtful debts, which is consistent with other large financial institutions in Australia and the US. Under this methodology, the Group estimates the level of losses inherent, but not specifically identified, in its existing credit portfolios based on the historical loss experience of the component exposures. The statistical provisioning methodology is applied to existing credit portfolios, including loans and advances drawn down in the current year. When the Group first adopted its statistically-based provisioning methodology, management predetermined certain model parameters.

In applying the statistically-based provisioning methodology, two key inputs are used in a statistical model: probability of default and the level of collateral held. For determining the probability of default, the majority of data input into the model is based on objective, verifiable external data. A small degree of subjective data is input into the model, in relation to economic and industry outlooks and assessment of the borrower's management.

A change in management's assessment of the predetermined parameters or outlook assumptions would be likely to result in a change to the Group's general provision for doubtful debts. To mitigate the risk of uncertainty and validate assumptions, the Group regularly reviews the parameters, key inputs and assumptions. In addition, the Group undertakes periodic sensitivity analysis to assess the impact of deterioration in credit risk on the credit portfolio. The Group considers the assumptions used in the calculation of the general provision for doubtful debts to be reasonable and supportable in the existing economic environment.

In addition to the general provision, specific provisions for doubtful debts are recognised when there is reasonable doubt over the collectability of principal and interest in accordance with respective loan agreements. Amounts provided for are determined by specific identification or by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Upon identification of a loan requiring a specific provision (that is an impaired loan), the respective loan's general provision balance is transferred to the specific provision. An assessment is then made by management as to whether the transferred balance is adequate to cover the estimated credit loss on that impaired loan.

For larger-balance, non-homogeneous loans that have been individually determined to be impaired, the level of specific provision required is based on an assessment of the recoverability of each loan. This takes into account available evidence on the collateral and other objective and subjective factors that may impact the collectability of the outstanding loan principal and interest. Management judgement is required in determining the valuation of the loan collateral. Independent valuations are frequently obtained by management to provide expert advice.

Each portfolio of smaller-balance, homogenous loans, including credit cards and personal loans, is collectively evaluated for impairment. The Group uses both dynamic modelling and specific provisioning at the account level. Management considers overall portfolio indicators, including historical credit losses and delinquency rates, in determining the level of specific provision required for each portfolio.

The historical experience of the Group has shown that management's judgement of the specific provisions required in the past has been reasonably accurate. The Group considers the assumptions used in the calculation of the specific provision for doubtful debts to be reasonable and supportable in the existing economic environment.

Valuation of life insurance controlled entities

The Group is required by Australian Accounting Standard AASB 1038 "Life Insurance Business" to measure all the assets and liabilities of its life insurance controlled entities at net market value. Movement in the excess of net market value over net assets of life insurance controlled entities is recognised in the profit and loss account as an unrealised gain or loss.

Directors' bi-annual valuations of the life insurance controlled entities are carried out by management using industry-accepted actuarial valuation methodologies. Value is determined in three distinct areas, being:

- value of each entity's net assets;
- value of future profits from current business contracts; and
- value of future profits from future (yet to be written) business contracts.

In determining the value of all future profits to emerge from the life insurance controlled entities, careful consideration is given to both future business and economic assumptions affecting the business. Many of these assumptions require significant judgement because they are dependent on a number of factors that cannot be precisely determined at the time the valuation is made.

The key business assumptions used relate to sales (volume and growth), profit margin squeeze, discontinuances, expenses and claims. These assumptions are determined after an examination of the experience of the Group's life insurance controlled entities, their short-term and long-term business plans, and industry experience and expectations.

The key economic assumptions used relate to investment earnings, risk discount, inflation and tax rates. These assumptions are determined after an examination of current market rates and future market expectations. In addition, the overall assumptions set and their impact on value are reviewed against the transactions in the market place, current prices of listed entities and other publicly-available information.

Changes in management's assessment of key business factors and economic conditions (global, regional and sector specific) in the future would affect the valuation of life insurance controlled entities. As a result, the carrying value of life insurance controlled entities recorded in the statement of financial position and the movement in the excess of net market value over net assets of life insurance controlled entities recorded in the statement of financial performance could be materially different in the future. The Group considers the assumptions used in the valuations to be reasonable and supportable in the existing economic environment. Further, the valuations are supported by discounted cash flow valuations prepared by Tillinghast-Towers Perrin and the key business and economic assumptions are approved by a committee of senior management prior to recommendation of the final valuation to the Wealth Management audit and compliance committee and Wealth Management board of directors.

Key valuation results and assumptions are disclosed in note 25 to the financial statements.

Life insurance policy liabilities

Policy liabilities in the Group's statement of financial position and the change in policy liabilities disclosed as an expense have been calculated using the Margin on Services methodology in accordance with guidance provided by the Life Insurance Actuarial Standard Board's Actuarial Standard AS 1.02 "Valuation Standard".

Policy liabilities for investment-linked business are calculated using the accumulation method. The liability is generally the accumulation of amounts invested by policyholders plus investment earnings less fees specified in policy contracts. Deferred acquisition costs are offset against this liability.

Policy liabilities from non-investment-linked business are measured mainly using the projection method, which is the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses).

The measurement of policy liabilities is subject to actuarial assumptions, which involve complex judgements. Assumptions made in the calculation of policy liabilities at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance date. A summary of the significant actuarial methods and assumptions used is contained in note 57 to the financial statements.

Economic assumptions are based on the prevailing interest rate and economic environment. Other assumptions are based on company experience, or where this is insufficient, industry experience. A summary of the significant actuarial methods and assumptions used is contained in note 57 to the financial statements. Many of these assumptions are based on actuarial tables published by the Institute of Actuaries of Australia.

The Group considers the assumptions used in the calculation of life insurance policy liabilities to be reasonable and supportable in the existing economic environment. Changes in actual experience and management's assessment of economic conditions (global, regional and sector specific) in the future could affect the level of life insurance policy liabilities recorded. As a result, the amount of policy liabilities recorded in the statement of financial position and the change in policy liabilities recorded in the statement of financial performance could be different in the future.

Mortgage servicing rights

Mortgage servicing rights (MSR) are the rights to receive a portion of the interest coupon and fees collected from the mortgagor for performing specified servicing activities. The total cost of loans originated or acquired is allocated between the MSR and the mortgage loans without the servicing rights, based on relative fair values. The value of servicing rights acquired through bulk transactions is capitalised at cost.

The determination of the fair value of the MSR requires significant judgement. The market value of MSR is not readily ascertainable with precision because these assets are not actively traded in stand-alone markets.

The Group uses available market prices of similar mortgage servicing assets and discounted future net cash flows, considering market prepayment rates, historic prepayment rates, portfolio characteristics, interest rates and other economic factors to estimate fair value. The key assumptions used in the valuation model are anticipated loan prepayments and discount rates.

In determining the fair value of the MSR, the Group has incorporated underlying assumptions, including anticipated loan prepayments and discount rates, to compute fair values. The Group reviews all major valuation assumptions periodically using the most recent empirical and market data available and makes adjustments where warranted.

MSR are amortised in proportion to and over the period of estimated net servicing revenue. They are evaluated for impairment by comparing the carrying amount of the MSR to their fair value. For purposes of measuring impairment, the MSR are stratified by the predominant risk characteristics which include product types of the underlying loans and interest rates of the mortgage. Impairment is recognised through a valuation reserve for each impaired stratum and is generally included in amortisation of MSR.

The carrying value of MSR on the Group's statement of financial position as at September 30, 2002 is not considered to be subject to management judgement due to the contract for sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) to Washington Mutual Bank, FA. The existence of this contract is evidence of the market value for this asset. Following completion of this sale on October 1, 2002, the Group no longer recognises MSR on its statement of financial position and as such it will no longer be a critical accounting policy of the Group.

Net interest income

2002	$7,222 million
2001	$6,960 million
2000	$6,371 million

Net interest income 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, amounts due to and from other financial institutions, regulatory deposits and managing the Group's other interest-sensitive assets and liabilities, especially trading securities, available for sale securities and investment securities.

Net interest income increased by $262 million or 3.8% to $7,222 million in 2002, after increases of 9.2% in 2001 and 5.0% in 2000. During 2002, movements in exchange rates increased net interest income by $25 million, after increases of $264 million in 2001 and $20 million in 2000. Excluding the impact of exchange rate movements, the increase in 2002 was 3.4%, compared with 5.1% in 2001 and 4.7% in 2000.

Growth in net interest income has been impacted by the sale of Michigan National Corporation and its controlled entities on April 1, 2001. Prior to its sale, Michigan National Corporation and its controlled entities contributed $350 million of net interest income to the Group in 2001 and $636 million in 2000. Excluding both the impact of the sale and exchange rate movements, net interest income increased 8.9% during 2002. This increase was the result of lending growth, particularly in relation to housing, partly offset by a reduction in deposit margins and adverse product mix.

Volume and rate analysis

The following table allocates changes in net interest income between changes in volume and changes in rate for the last three years ended September 30. Volume and rate variances have been calculated on the movement in average balances and the change in 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.

	2002 over 2001 Increase/(decrease) due to change in			2001 over 2000 Increase/(decrease) due to change in			2000 over 1999 Increase/(decrease) due to change in		
	Average balance $m	Average rate $m	Total $m	Average balance $m	Average rate $m	Total $m	Average balance $m	Average rate $m	Total $m
Interest-earning assets									
Due from other financial institutions									
Australia	**38**	**(47)**	**(9)**	27	4	31	20	17	37
Overseas	**(44)**	**(303)**	**(347)**	153	(80)	73	103	70	173
Marketable debt securities									
Australia	**106**	**(18)**	**88**	(18)	4	(14)	117	65	182
Overseas	**(29)**	**(410)**	**(439)**	448	(39)	409	29	68	97
Loans and advances									
Australia	**755**	**(895)**	**(140)**	797	(69)	728	571	413	984
Overseas	**261**	**(1,559)**	**(1,298)**	883	(206)	677	679	(7)	672
Other interest-earning assets	**(489)**	**(810)**	**(1,299)**	917	(419)	498	(519)	825	306
Change in interest income	**598**	**(4,042)**	**(3,444)**	3,207	(805)	2,402	1,000	1,451	2,451

	2002 over 2001 Increase/(decrease) due to change in			2001 over 2000 Increase/(decrease) due to change in			2000 over 1999 Increase/(decrease) due to change in		
	Average balance $m	Average rate $m	Total $m	Average balance $m	Average rate $m	Total $m	Average balance $m	Average rate $m	Total $m
Interest-bearing liabilities									
Due to other financial institutions									
Australia	**33**	**(54)**	**(21)**	42	(9)	33	11	46	57
Overseas	**(226)**	**(389)**	**(615)**	600	(148)	452	417	(141)	276
Savings deposits									
Australia	**11**	**(47)**	**(36)**	(18)	8	(10)	67	49	116
Overseas	**(22)**	**(257)**	**(279)**	(19)	(34)	(53)	19	62	81
Other demand deposits									
Australia	**138**	**(297)**	**(159)**	100	111	211	(2)	29	27
Overseas	**82**	**(120)**	**(38)**	77	(19)	58	70	49	119
Time deposits									
Australia	**196**	**(125)**	**71**	20	75	95	205	(157)	48

	2002 over 2001 Increase/(decrease) due to change in			2001 over 2000 Increase/(decrease) due to change in			2000 over 1999 Increase/(decrease) due to change in		
Overseas	**213**	**(1,305)**	**(1,092)**	635	(127)	508	(97)	235	138
Government and official institution deposits									
Australia	**3**	**(8)**	**(5)**	(2)	1	(1)	37		37
Overseas	**(20)**	**(57)**	**(77)**	34	(6)	28	46	6	52
Short-term borrowings									
Overseas	**(136)**	**(177)**	**(313)**	16	7	23	141	10	151
Long-term borrowings									
Australia	**66**	**(421)**	**(355)**	320	(6)	314	209	68	277
Overseas	**(91)**	**(55)**	**(146)**	153	(111)	42	17	51	68
Other debt issues									
Australia	**(3)**	**(9)**	**(12)**	15	(9)	6	5	6	11
Overseas	**(7)**	**(2)**	**(9)**	(4)	24	20	(25)	32	7
Other interest-bearing liabilities	**796**	**(1,416)**	**(620)**	(171)	258	87	(15)	696	681
Change in interest expense	**1,033**	**(4,739)**	**(3,706)**	1,798	15	1,813	1,105	1,041	2,146
Change in net interest income	**(435)**	**697**	**262**	1,409	(820)	589	(105)	410	305

Interest spreads and margins

	2002 $m	2001 $m	2000 $m
Australia			
Net interest income	**3,613**	3,374	3,106
Average interest-earning assets	**129,458**	115,747	104,806
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.67**	2.59	2.38
Interest foregone on non-accrual and restructured loans (%)	**(0.04)**	(0.03)	(0.04)
Net interest spread (%)(1)	**2.63**	2.56	2.34
Benefit of net free liabilities, provisions and equity (%)	**0.16**	0.35	0.62
Net interest margin (%)(2)	**2.79**	2.91	2.96
Overseas			
Net interest income	**3,609**	3,586	3,265
Average interest-earning assets	**154,282**	151,104	120,580
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.03**	2.05	2.35
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.02)	(0.03)
Net interest spread (%)(1)	**2.01**	2.03	2.32
Benefit of net free liabilities, provisions and equity (%)	**0.33**	0.34	0.39
Net interest margin (%)(2)	**2.34**	2.37	2.71

	2002 $m	2001 $m	2000 $m

	2002 $m	2001 $m	2000 $m
Group			
Net interest income	**7,222**	6,960	6,371
Average interest-earning assets	**270,527**	256,603	220,987
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.41**	2.37	2.42
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.03)	(0.03)
Net interest spread (%)(1)	**2.39**	2.34	2.39
Benefit of net free liabilities, provisions and equity (%)	**0.28**	0.37	0.49
Net interest margin (%)(2)	**2.67**	2.71	2.88

(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.

Net interest income increased by $262 million to $7,222 million in 2002, driven by 5.4% growth in average interest-earning assets to $270.5 billion, offsetting the 4 basis point decline in interest margin to 2.67%. Australian net interest income increased by 7.1% to $3,613 million, with average interest-earning assets growing 11.8% to $129.5 billion and the interest margin declining 12 basis points to 2.79%. Overseas net interest income increased 0.6% to $3,609 million, with average interest-earning assets growing by 2.1% to $154.3 billion, and the interest margin falling 3 basis points to 2.34%.

Volumes

Average interest-earning assets for 2002 increased by $13.9 billion or 5.4% to $270.5 billion, from $256.6 billion in 2001 and $221.0 billion in 2000. The main contributors to the growth were loans and advances in Australia and Europe, which increased by 10.6% and 14.6% respectively. Loan growth was predominantly in real estate, reflecting a continuing low interest rate environment and a strong product offering, as well as in term lending. Average interest-earning assets were impacted by the sale of Michigan National Corporation and its controlled entities on April 1, 2001. *For a further discussion of the main factors influencing the movement in average interest-earning assets, refer to "gross loans and advances" on page 69.*

Net interest margin

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, decreased by 4 basis points to 2.67% in 2002, from 2.71% in 2001 and 2.88% in 2000. The decrease during 2002 was impacted by the loss of contribution of Michigan National Corporation following its sale, the recapitalisation of HomeSide Lending, Inc. following the write-downs in 2001 and lower deposit margins. The impact of these were partially offset by the steeper yield curve in the US during the year, with strong growth in funding and liquidity management activities within Wholesale Financial Services.

The interest rate on Australian interest-earning assets decreased by 160 basis points to 6.9% in 2002, from 8.5% in 2001 and 8.2% in 2000, while the interest rate on interest-bearing liabilities decreased by 160 basis points to 4.3% from 5.9% in 2001 and 2000. Interest margins in Australia declined during 2002, resulting from lower deposit margins and adverse product mix.

The interest rate on overseas interest-earning assets decreased by 180 basis points to 5.2% in 2002 from 7.0% in 2001 and 7.6% in 2000, while the interest rate on interest-bearing liabilities decreased by 180 basis points to 3.2% in 2002, from 5.0% in 2001 and 5.3% in 2000. Overseas interest margins also reduced slightly in 2002.

Net life insurance income

2002	$(10) million
2001	$128 million
2000	$332 million

Net life insurance income comprises those components of premiums that are revenue and interest, dividends, realised and unrealised capital gains and other returns on all the investments under the life insurer's control, claims expense, change in policy liabilities, policy acquisition and maintenance costs, and investment management fees *(refer to note 57 in the financial report for a definition of the life insurer).*

Net life insurance income decreased by $138 million to $(10) million in 2002, from $128 million in 2001 and $332 million in 2000.

Life insurance income decreased by $51 million to $146 million in 2002 from $197 million in 2001 and $1,557 million in 2000. This decline was impacted by a reduction in investment revenue (decrease of $111 million in 2002) arising from the decline in global equity markets, which was offset by a decrease in policy liabilities. There is a further offset within the income tax expense, which includes the tax benefits for policyholders of the reduction in investment income. Premium and related revenue increased $60 million or 5.6% to $1,134 million. In the prior year, an amount of $93 million of change in policy liabilities was included in premium and related revenue, and including the impact of this, premium and related revenue increased 15.6% during 2002, due to strong sales growth, particularly in Australia.

Life insurance expenses increased by $87 million to $156 million in 2002 from $69 million in 2001 and $1,225 million in 2000. This is due to the decrease in policy liabilities resulting from the decline in global equity markets, and is consistent with the decrease in investment revenue. Claims expense increased $357 million or 59.6% to $956 million. In the prior year, an amount of $126 million was included in change in policy liabilities, and including the impact of this, claims expense has increased 31.9% during 2002. This resulted from an increase in surrenders and maturities in the closed traditional life business, as well as increased protection claims resulting from an increase in the incidence and duration of disability claims and growth in volumes.

Other banking and financial services income

2002	$7,006 million
2001	$4,749 million
2000	$4,124 million

Other banking and financial services income includes loan fees from banking, money transfer fees, fees and commissions, treasury-related income and other income (including rental income, dividends received and profit on sale of property, plant and equipment).

Other banking and financial services income increased by $2,257 million or 47.5% to $7,006 million in 2002, after increases of 15.2% in 2001 and 2.4% in 2000. The movement reflects the proceeds received from the sale of HomeSide Lending, Inc.'s operating assets and operating platform of $2,314 million, the loss of contribution of Michigan National Corporation and its controlled entities following their sale on April 1, 2001, as well as the reduced contribution from HomeSide Lending, Inc., following the sale of its operating assets and operating platform to Washington Mutual Bank, FA. on March 1, 2002. Refer below for a detailed analysis of the main categories of other banking and financial services income.

Loan fees from banking

2002	$1,361 million
2001	$1,334 million
2000	$1,246 million

Loan fees from banking primarily consist of acceptance fees for accepting bills of exchange, application fees to cover costs of establishing lending facilities, commitment fees 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 increased by $27 million or 2.0% to $1,361 million in 2002, after increases of 7.1% in 2001 and 15.7% in 2000. Excluding the impact of the loss of contribution of Michigan National Corporation and its controlled entities following their sale on April 1, 2001, loan fees from banking increased 3.0% during 2002. This increase reflects solid lending growth across all regions, particularly in relation to housing lending, which was buoyed by a continuing low interest rate environment.

Money transfer fees

2002	$1,014 million
2001	$1,043 million
2000	$1,048 million

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

Money transfer fees decreased by $29 million or 2.8% to $1,014 million in 2002, after a decrease of 0.5% in 2001 and an increase of 1.7% in 2000. Excluding the impact of the loss of contribution of Michigan National Corporation and its controlled entities following their sale on April 1, 2001, money transfer fees actually increased 5.6% during 2002. This increase reflects sustained activity across regions during the year.

Fees and commissions

2002	$1,415 million
2001	$1,303 million
2000	$1,098 million

Fees and commissions consist of fees charged to cover the costs of establishing credit card facilities and commissions from selling insurance and investment products.

Fees and commissions increased by $112 million or 8.6% to $1,415 million in 2002, after increases of 18.7% in 2001 and 15.0% in 2000. Excluding the impact of the loss of contribution of Michigan National Corporation and its controlled entities following their sale on April 1, 2001, fees and commissions increased 14.2% during 2002. This increase is primarily due to increased credit card fees related to growth in volumes, sales activity in the retail business and higher fee income reflecting growth in funds under management and administration in the trust business.

Treasury-related income

2002	$	563 million
2001	$	721 million
2000	$	468 million

Treasury-related 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.

Treasury-related income decreased by $158 million or 21.9% to $563 million in 2002, after increases of 54.1% in 2001 and 2.4% in 2000. The decrease during 2002 has primarily resulted from lower activity in Wholesale Financial Services, reflecting subdued volatility in foreign exchange and interest rate markets.

Other income

2002	$	2,653 million
2001	$	348 million
2000	$	264 million

Other income includes rental income, dividends received, profit on sale of property, plant and equipment, fleet service fees, other general insurance income and sundry income.

Other income increased by $2,305 million to $2,653 million in 2002, after an increase of 31.8% in 2001 and decrease of 48.0% in 2000. The increase during 2002 reflects the proceeds received from the sale of HomeSide Lending, Inc.'s operating assets and operating platform of $2,314 million *(refer to "net profit by segment" on page 53)*. Excluding the impact of the proceeds, other income decreased by 2.6% during 2002, reflecting a reduced level of dividend income and profits received on sale of property, plant and equipment.

Mortgage servicing and origination revenue

Net mortgage servicing fees

2002	$	187 million
2001	$	474 million
2000	$	535 million

Net mortgage servicing fees relate to HomeSide Lending, Inc. and represent fee income derived from mortgage servicing activities less amortisation of capitalised costs *(refer to note 1 in the financial report).*

Net mortgage servicing fees decreased by $287 million or 60.5% to $187 million in 2002, after a decrease of 11.4% in 2001 and an increase of 71.5% in 2000.

The decrease during 2002 reflects flat mortgage servicing fees more than offset by the higher amortisation of mortgage servicing rights driven by higher refinancing/prepayment activity, which is a result of low US interest rates. Further, the decrease reflects the sale of mortgage servicing rights of approximately US$12.8 billion of mortgages during the year.

On August 27, 2002, the Group agreed to sell all of its shares in SR Investment Inc., the parent entity of HomeSide Lending, Inc., to Washington Mutual Bank, FA. The sale has resulted in the complete disposal of HomeSide Lending, Inc. and the associated mortgage servicing rights. The sale closed on October 1, 2002. Following this sale, net mortgage servicing fees will no longer be derived by the Group.

Net mortgage origination revenue

2002	$	191 million
2001	$	336 million
2000	$	105 million

Net mortgage origination revenue relate to HomeSide Lending, Inc. and comprises fees earned on the origination of mortgage loans, gains and losses on the sale of loans, gains and losses resulting from hedges of secondary marketing activity, and fees charged to review loan documents for purchased loan production.

Net mortgage origination revenue decreased by $145 million or 43.2% to $191 million in 2002, after an increase of more than 200% in 2001 and a decrease of 53.1% in 2000. On March 1, 2002 HomeSide Lending, Inc. sold its operating assets and operating platform to Washington Mutual Bank, FA. Following this sale, net mortgage origination revenue was no longer derived by the Group.

Movement in the excess of net market value over net assets of life insurance controlled entities

2002	$	(155) million
2001	$	510 million
2000	$	202 million

Australian Accounting Standard AASB 1038 "Life Insurance Business" (AASB 1038) requires life insurance entities of the Group to value their investments in controlled entities at market value, with changes in the excess of net market value over net assets reflected in the consolidated statement of financial performance.

The revaluation of life insurance entities' interest in controlled entities gave rise to a loss of $155 million before tax, reflecting the movement in the excess of the net market value over the net assets of controlled entities owned by National Australia Financial Management Limited (NAFM), adjusted for capital. Values shown are directors' market valuations. The valuations are based on discounted cash flow (DCF) valuations prepared by Tillinghast-Towers Perrin, using, for the Australian and New Zealand entities, risk discount rates specified by the directors.

NAFM subsidiaries market value summary

	Net assets(1) $m	Value of inforce business $m	Embedded value $m	Value of future new business (2) $m	Value of future synergy benefits $m	Market value $m
Market value at September 30, 2001	710	2,138	2,848	2,676	467	5,991

	Net assets(1) $m	Value of inforce business $m	Embedded value $m	Value of future new business (2) $m	Value of future synergy benefits $m	Market value $m
Operating profit after tax(3)	260		260			260
Net capital transfers(4)	379		379			379
Increase in shareholders' net assets	639		639			639
Movement in the excess of net market value over net assets of life insurance controlled entities, components before tax:						
Business assumptions and roll forward						
Roll forward of DCF(5)		358	358	99	26	483
Change in assumptions and experience		(820)	(820)	(373)		(1,193)
Expected synergies		30	30	463	(493)	
One off transactions						
Acquisitions		345	345	57		402
Transfers of business		153	153			153
Movement in the excess of net market value over net assets of life insurance controlled entities before tax(6)		66	66	246	(467)	(155)
Excess of internal restructure(7)	(48)	48				
Market value at September 30, 2002	1,301	2,252	3,553	2,922		6,475

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

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

(3) Operating profit after tax is before the movement in the excess of net market value over net assets of life insurance controlled entities and excludes operating profits of entities outside the market value accounting environment (ie. the operating profits after tax from NAFM's own business, and other entities not owned by NAFM).

(4) Net capital transfers represent movements in value that do not impact on the movement in the excess of net market value over net assets of life insurance controlled entities and operating profit, such as the payment of dividends, capital injections, net assets of entities acquired, foreign exchange movements on market value due to intra-Group funding and surplus debt funding on the internal restructure.

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

(6) The movement in the excess of net market value over net assets of life insurance controlled entities before tax does not include any uplift in respect of NAFM's own business. AASB 1038 requires assets of a life company to be valued at net market value. As NAFM is the parent life entity, the change in market value of its own life business is not brought to account.

(7) Excess of internal restructure represents foreign exchange movement on market value due to intra-Group funding and surplus debt funding on internal restructure.

The components that contributed to the reported movement in the excess of net market value of life insurance controlled entities comprised:

the transfer on January 1, 2002, of the life insurance, funds management and other certain non-banking financial services businesses conducted by controlled entities of Bank of New Zealand and National Australia Group Europe Limited, to a controlled entity of NAFM, as part of an internal restructure. In accordance with AASB 1038, these controlled entities are required to be carried at their net market value. The difference between the acquired entities' net assets and the directors' net market value results in an increase in the valuation of $402 million before tax;

the transfer of certain unit-linked NAFM businesses to MLC Limited in line with integration initiatives and the inclusion of $16 million in respect of the New Zealand general insurance brokerage business. Future profit margins in relation to these businesses will be earned in a market value environment. These transactions increased the valuation by $153 million before tax;

the effect of assumption and experience changes primarily comprises the impact of investment earnings being lower than expected over the year, the overall impact of lower retail sales volumes, change in mix of new business, and changes in assumptions relating to policy lapses and claims. Additionally, there have been changes to management fee and investment expense assumptions for investment-linked business following a detailed review of experience relating to the application of business tax reform and goods and services tax legislation and subsequent repricing. These changes, net of the roll forward of the DCF, have decreased the valuation by $710 million before tax; and

as synergy benefits are realised from the integration of the MLC group with the Company's wealth management businesses, the value associated will transfer to the value of inforce business and value of future new business. The synergy benefits of $467 million at September 30, 2001 have been absorbed into the overall business valuation.

Significant revenue

Proceeds from the sale of foreign controlled entities

The results of SR Investment, Inc. and its controlled entities are included up to and including the year to September 30, 2002. On August 27, 2002, the Group entered into a contract for the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) to Washington Mutual Bank, FA. Controlled entities other than HomeSide Lending, Inc. were excluded from the sale. This transaction settled on October 1, 2002. As at September 30, 2002, the assets and liabilities of SR Investment, Inc. and its controlled entities have been consolidated in the Group's statement of financial position. Following settlement and change in ownership and control of SR Investment, Inc., the assets and liabilities of SR Investment, Inc and HomeSide Lending, Inc. no longer form part of the Group. The Group received proceeds on sale of US$1,453 million (A$2,671 million) for assets with a cost of A$2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including taxation.

Michigan National Corporation and its controlled entities' results are included up to and including the six months to March 31, 2001. On April 1, 2001, the Group sold Michigan National Corporation and its controlled entities to ABN AMRO North America Inc., a subsidiary of ABN AMRO NV. The Group received proceeds on sale of US$2,750 million (A$5,314 million) from the sale of assets with a cost of A$2,929 million, resulting in a profit on sale of $1,681 million after all disposal costs, including taxation. Further, an amount of $1,118 million was transferred from the foreign currency translation reserve to distributable retained profits in relation to the sale, giving rise to a total gain on sale of $2,799 million.

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Operating expenses

Personnel expenses

2002	$	3,706 million
2001	$	3,725 million
2000	$	3,424 million

Personnel expenses decreased by $19 million or 0.5% to $3,706 million in 2002, after increases of 8.8% in 2001 and 4.8% in 2000. Excluding the impact of the loss of contribution of Michigan National Corporation and its controlled entities following their sale on April 1, 2001, personnel expenses increased 4.5% during 2002. This increase reflects market-based salary increases across regions, increased contractor costs and $327 million of termination benefits paid or provided as a result of Positioning for Growth restructuring and efficiency initiatives. The impact of this was offset by a reduction in staff (full-time equivalent employee) numbers, as a result of Positioning for Growth, particularly in Financial Services Australia (*refer to'employees' on page 54)*, and a reduced contribution from HomeSide Lending, Inc., following the sale of its operating assets and operating platform to Washington Mutual Bank, FA. on March 1, 2002.

Occupancy expenses

2002	$	627 million
2001	$	587 million
2000	$	550 million

Occupancy expenses increased by $40 million or 6.8% to $627 million in 2002, after increases of 6.7% in 2001 and 10.4% in 2000. Excluding the impact of the loss of contribution of Michigan National Corporation and its controlled entities following their sale on April 1, 2001, occupancy expenses increased 10.6% during 2002. The increase reflects appreciating rental rates and on-costs (eg. security expenses), the expansion of business banking centres in Europe, and $68 million of surplus lease space write-offs as a result of the implementation of Positioning for Growth restructuring and efficiency initiatives, partially offset by a reduced contribution from HomeSide Lending, Inc., following the sale of its operating assets and operating platform to Washington Mutual Bank, FA. on March 1, 2002.

General expenses

2002	$	4,954 million
2001	$	2,158 million
2000	$	1,929 million

General expenses increased by $2,796 million to $4,954 million in 2002, after an increase of 11.9% in 2001 and decrease of 0.4% in 2000. The increase during 2002 includes the carrying value of HomeSide Lending, Inc.'s operating assets and operating platform sold and other expenses attributable to the sale of $2,322 million *(refer to "net profit by segment" on page 53).* Excluding the impact of this, general expenses increased $474 million during 2002. The increase has been impacted by $185 million of restructuring costs paid or provided for relating to the implementation of Positioning for Growth restructuring and efficiency initiatives, mainly in relation to technology write-offs, and as announced in August 2002, the impact of $64 million in compensation provided for investors relating to a reduction in unit prices, which occurred in October 2001 in relation to certain products managed by National Australia Financial Management Limited. Further, the increase has been impacted by higher depreciation charges and software amortisation, increased credit card-related expenses, and higher volume-related expenses within Wealth Management.

(Refer to notes 4 and 5 in the financial report for details of revenue and expense items)

Charge to provide for doubtful debts

2002	$	697 million
2001	$	989 million
2000	$	588 million

The total charge to provide for doubtful debts decreased by $292 million or 29.5% to $697 million in 2002, after increases of 68.2% in 2001 and 1.2% in 2000.

The charge in Australia decreased by $365 million to $108 million in 2002, after increases of 128.5% in 2001 and 15.0% in 2000. The 2001 charge was impacted by a small number of large corporate exposures within Wholesale Financial Services, as well as a charge in relation to the collapse of a significant Australian customer and the Group's position as merchant transaction acquirer. The 2002 year has seen a more concentrated focus on long-term relationships, and a review of the risk profile within Wholesale Financial Services and Financial Services Australia (Business) loan portfolios, which has resulted in a reduced charge for the year. *(The nature of general and specific provisioning is explained in note 1(q)(i) in the financial report.)*

The charge in Europe decreased by $11 million or 2.8% to $385 million in 2002, after increases of 36.1% in 2001 and 10.2% in 2000. Clydesdale and Yorkshire Banks' charges increased by $14 million reflecting a higher general provision charge in 2002 compared with the prior year, consistent with loan volume growth. Northern and National Irish Banks' charges increased by $7 million, reflecting loan volume growth and macroeconomic conditions. The balance of the reduction reflects the impact of the realignment of Wholesale Financial Services' loan portfolio in order to reduce its risk profile.

The charge in New Zealand decreased by $22 million to a credit of $12 million in 2002, compared with a charge of $10 million in 2001 and $11 million in 2000. The decrease has resulted from a reduced general provision charge following a review of provision requirements.

The charge in the United States increased by $108 million or 101.0% to $215 million in 2002, after an increase of 52.9% in 2001 and a decrease of 22.2% in 2000. The increase has resulted from a major provisioning charge for a large corporate exposure in Wholesale Financial Services.

Charge to provide for doubtful debts by region

	2002 $m	2001 $m	2000 $m	2002/2001 % change
Australia	**108**	473	207	(77.2)
Europe				
Clydesdale and Yorkshire Banks	**362**	348	260	4.0
Northern and National Irish Banks	**23**	16	27	43.8
Other		32	4	large
	385	396	291	(2.8)
New Zealand	**(12)**	10	11	large
United States	**215**	107	70	large
Asia	**1**	3	9	(66.7)
Total charge to provide for doubtful debts	**697**	989	588	(29.5)

Net write-offs (bad debts written-off less recoveries) in 2002 were $814 million compared with $587 million in 2001 and $433 million in 2000. As a percentage of risk-weighted assets, net write-offs were 0.3% in 2002, 0.2% in 2001 and 0.2% in 2000.

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Percentage of risk-weighted assets

	2002 %	2001 %	2000 %
Australia(1)			
Charge	**0.08**	0.36	0.18
Net write-offs	**0.23**	0.19	0.15
Europe(1)			
Charge	**0.53**	0.53	0.50
Net write-offs	**0.55**	0.41	0.38
New Zealand(1)			
Charge	**(0.05)**	0.05	0.06
Net write-offs	**0.05**	0.05	0.02
United States(1)			
Charge	**1.35**	0.43	0.16

	2002 %	2001 %	2000 %
Net write-offs	**0.64**	0.09	0.04
Asia(1)			
Charge	**0.02**	0.04	0.15
Net write-offs	**(0.02)**	(0.01)	0.40
Group			
Charge	**0.28**	0.38	0.25
Net write-offs	**0.33**	0.23	0.18

(1) Ratio calculated as a percentage of risk-weighted assets of Australia, Europe, New Zealand, United States and Asia, as appropriate.

The Group maintains a conservative and prudent approach to actual and potential loan losses. The overall provision for doubtful debts *(refer to notes 1 and 17 in the financial report)* 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 "risk management" on page 76.

Significant expenses

Restructuring costs

During 2002, the Group recognised restructuring costs of $580 million resulting from the Positioning for Growth and other restructuring initiatives *(refer to note 5(a) in the financial report).* The majority of these costs are expected to be recovered by the end of 2004 from annual productivity improvements and revenue enhancements. The Positioning for Growth initiative comprises a fundamental reorganisation of the management and organisational structure of the Group, including the appointment of a new senior management team. Personnel costs of $327 million relate to termination benefit expenses for approximately 2,955 positions in management, support and customer-facing roles. For 2002, payments of $101 million were made in respect of approximately 859 positions made redundant.

During 2000, the Group recognised restructuring costs of $96 million resulting from two major initiatives *(refer to note 5(a) in the financial report).* The majority of these costs are expected to be recovered by the end of 2003 from annual productivity improvements and revenue enhancements. The first initiative involved a significant transformation of the Financial Services Australia (previouly Business and Personal Financial Services) distribution network to meet the rapidly-changing customer preferences for accessing financial services. The second initiative will bring about globally-consistent processes and the centralisation of processes where scale efficiencies can be realised for Wholesale Financial Services. The remainder of the provision for restructuring costs raised in 2000 relates to occupancy costs. Future payments will be made in periods corresponding with the relevant lease terms.

Other restructuring costs incurred in 2002, 2001 and 2000 have been expensed as incurred. Such costs were not material *(refer to note 5 in the financial report).*

Cost of foreign controlled entities sold

The results of SR Investment, Inc. and its controlled entities are included up to and including the year to September 30, 2002. On August 27, 2002, the Group entered into a contract for the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) to Washington Mutual Bank, FA. Controlled entities other than HomeSide Lending, Inc. were excluded from the sale. This transaction settled on October 1, 2002. As at September 30, 2002, the assets and liabilities of SR Investment, Inc. and its controlled entities have been consolidated in the Group's statement of financial position. Following settlement and change in ownership and control of SR Investment, Inc., the assets and liabilities of SR Investment, Inc and HomeSide Lending, Inc. no longer form part of the Group. The Group received proceeds on sale of US$1,453 million (A$2,671 million) for assets with a cost of A$2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including taxation.

Michigan National Corporation and its controlled entities' results are included up to and including the six months to March 31, 2001. On April 1, 2001, the Group sold Michigan National Corporation and its controlled entities to ABN AMRO North America Inc., a subsidiary of ABN AMRO NV. The Group received proceeds on sale of US$2,750 million (A$5,314 million) from the sale of assets with a cost of $2,929 million, resulting in a profit on sale of $1,681 million after all disposal costs, including taxation. Further, an amount of $1,118 million was transferred from the foreign currency translation reserve to distributable retained profits in relation to the sale, giving rise to a total gain of $2,799 million.

Impairment loss on mortgage servicing rights

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

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

Charge to provide for mortgage servicing rights valuation adjustment

On September 2, 2001, the directors of the Company decided to value HomeSide Lending, Inc. at its estimated market sale value, rather than as an ongoing part of the Group, after reviewing its position within the Group's current core strategies of banking and wealth management. As a result of this decision, the carrying value of HomeSide Lending, Inc.'s core asset, mortgage servicing rights, was revalued and a provision for mortgage servicing rights valuation adjustment of $1,436 million was recognised in order to reflect the mortgage servicing rights asset at its estimated market sale value.

Impairment loss on goodwill

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

Business integration costs

During 2000, the Group recognised business integration costs of $108 million resulting from the integration of the MLC group's operations with the Group's existing life insurance and funds management businesses. The total integration charge includes costs for the integration of asset management and administration systems, changes to information technology and distribution systems, the ongoing functional requirements of the MLC group as a result of the separation from Lend Lease Corporation Limited (the previous owner of the MLC group), and the write-off of capitalised software and systems, which would not form part of the integrated Wealth Management business going forward. At September 30, 2002, the provision has been fully utilised.

Net profit by segment

Contribution to Group net profit by operating segment

The Group's results have been presented under a new organisation structure announced in January 2002 as part of the Positioning for Growth review. The new structure has created regional integrated financial services teams with broader authority and more control over distribution, products and services.

	2002 $m	2001 $m
Financial Services Australia	**1,575**	1,377

	2002 $m	2001 $m
Financial Services Europe	**733**	749
Financial Services New Zealand	**289**	223
Wholesale Financial Services	**793**	739
Wealth Management	**112**	720
Other(1)	**(129)**	(1,725)
Net profit attributable to members of the Company	**3,373**	2,083

(1) Incorporates the net profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001, as well as Michigan National Corporation's contribution to profit of $132 million prior to it being sold. Also incorporates the results of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.).

(Refer to note 3 in the financial report for detailed information by operating segment.)

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Financial Services Australia

Financial Services Australia increased net profit 14.4% to $1,575 million in 2002, from $1,377 million in 2001. However, before significant expenses of $195 million (after tax) net profit increased 28.5%. Details of the increase in net profit are as follows.

Total revenue increased 6.6% to $5,151 million. Net interest income increased 6.2% to $3,284 million, reflecting growth in lending volumes, particularly housing lending, and growth in retail deposits. This was partially offset by a 19 basis point reduction in net interest margin to 3.42%, caused by the increased proportion of housing in the loan portfolio and the impact of lower market rates on deposits margins.

Non-interest income (including inter-segment revenue) increased 7.2% to $1,867 million, driven by strong housing loan growth and higher transaction levels during the year.

Total expenses increased 7.0% to $2,918 million. This includes $276 million of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives and a $146 million charge to provide for doubtful debts. Excluding these items, total expenses increased 3.9%. This was due to higher personnel expenses with the impact of lower staff numbers offset by enterprise bargaining agreement increases, and an increase in the superannuation contribution. Expenses were further impacted by costs associated with upgrade of the credit card transaction processing system, an increase in credit card reward point costs and higher software amortisation due to the continued enhancement of the network. Occupancy expenses also increased due to higher security costs, the impact of the sale and leaseback of property undertaken in 2002 and goods and services tax on renewed lease agreements. The cost to income ratio decreased from 49.7% to 48.5%.

Asset quality management remained a key priority during the year. The charge to provide for doubtful debts decreased from $324 million in 2001 to $146 million in 2002. The 2002 year saw an improvement in the charge due to improving economic conditions and active credit risk management, and the favourable impact from extensive review of the business loan portfolio. Financial Services Australia has undertaken a comprehensive program to improve capital efficiency and reduce credit risk over the past 18 months.

Financial Services Europe

Financial Services Europe decreased net profit 2.1% to $733 million in 2002, from $749 million in 2001. However, before significant expenses of $117 million (after tax) net profit increased 13.5%. Details of the movement in net profit are as follows.

Total revenue increased 6.5% to $3,409 million. Net interest income increased 8.9%, or 8.9% in local currency terms, to $2,362 million, due to growth in retail deposits and lending, particularly mortgage and business lending, as well as an eight basis point improvement in net interest margin to 4.05%, resulting from higher lending margins on fixed rate loans, partially offset by lower deposit margins.

Non-interest income increased 1.3%, or 1.3% in local currency terms, to $1,047 million, driven by higher lending fees, reflecting the growth in asset volumes, partially offset by lower income from the distribution of Wealth Management products and the transition of customers to lower cost channels.

Total expenses increased 12.1% to $2,306 million. This includes $166 million of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives, $62 million of goodwill amortisation and a $382 million charge to provide for doubtful debts. Excluding these items, total expenses increased 4.0%, or 3.9% in local currency terms. This was a result of flat personnel costs due to annual salary reviews being offset by reductions in overall staff numbers, costs associated with the opening of a second European call centre in October 2001 and higher occupancy costs resulting from the opening of a number of new business banking centres and rental and rate reviews. The cost to income ratio decreased from 50.9% to 49.8%.

The charge to provide for doubtful debts increased from $364 million in 2001 to $382 million in 2002. Asset quality management remained a key priority during the year and has improved significantly, with the level of impaired assets falling as a result of earlier identification and actioning of distressed loans.

Financial Services New Zealand

Financial Services New Zealand increased net profit 29.6% to $289 million in 2002, from $223 million in 2001. However, before significant expenses of $4 million (after tax) net profit increased 31.3%. Details of the increase in net profit are as follows.

Total revenue increased 10.5% to $882 million. Net interest income increased 14.1%, or 9.6% in local currency terms, to $599 million, reflecting growth in lending volumes, particularly in fixed rate housing mortgages and term lending, growth in retail deposit volumes and a four basis point increase in the net interest margin to 2.85%. Net interest income also benefited from a higher level of retained capital during the year.

Non-interest income increased 3.7% to $283 million, or was flat in local currency terms, with increased lending fees resulting from strong volumes, offset by lower income from the transition of customers to lower cost channels.

Total expenses decreased 4.5% to $442 million. This includes $6 million of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives, $1 million of goodwill amortisation and a $5 million credit for doubtful debts. Excluding these items, total expenses decreased 2.0%, or 5.4% in local currency terms. This was due to improved efficiencies and continued focus on cost management disciplines, lower non-lending losses and lower branch refurbishment costs. The cost to income ratio decreased from 56.2% to 49.9%.

The charge to provide for doubtful debts decreased from $13 million in 2001 due to a credit of $5 million in 2002, following a review of provisioning requirements.

Wholesale Financial Services

Wholesale Financial Services increased net profit 7.3% to $793 million in 2002, from $739 million in 2001. However, before significant expenses of $32 million (after tax), net profit increased 11.6%. Details of the increase in net profit are as follows.

Total revenue decreased marginally by 1.2% to $1,929 million, as a result of more challenging environment and a more concentrated focus on long-term relationships. The split of income between net interest income and non-interest income can vary considerably in the wholesale market, depending on activity and environmental conditions. This was particularly evident in this year's results.

Net interest income increased 20.3%, to $1,077 million, mainly due to the continuing reduction in interest rates enabling strong growth in the Markets unit's net interest income from funding and liquidity management activities in the US, Europe and Australia. Net interest margin increased by six basis points to 0.79%.

Non-interest income decreased 19.5%, to $852 million, driven by subdued volatility in foreign exchange and interest rate markets that lowered demand for sales of risk management products and constrained risk management income, as well as lower Corporate Finance fees.

Total expenses increased 1.0% to $951 million. This includes $43 million of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives and a $167 million charge to provide for doubtful debts. Excluding these items, total expenses increased 2.1%. This was primarily due to higher technology-related expenses, with other expenses held flat or reduced from the prior year. The cost to income ratio increased from 37.2% to 38.4%.

The quality of the loan portfolio across all regions remains high, with approximately 84% of credit exposures equivalent to investment grade or above. The charge to provide for doubtful debts decreased from $216 million in 2001 to $167 million in 2002.

Wealth Management

Wealth Management decreased net profit 84% to $112 million in 2002, from $720 million in 2001. The result comprised of $264 million of profit generated through operations (2001: $387 million) and $152 million of the decrease in the excess of the net market value over the net assets of life insurance controlled entities, after tax (2001: positive $333 million).

The main factors impacting the profit generated through operations are:

- as announced in August 2002, the impact of $45 million (after tax) in compensation provided for investors relating to a reduction in unit prices, which occurred in October 2001 in relation to certain products managed by National Australia Financial Management Limited (NAFM);
- the impact of the significant deterioration in global equity market conditions, which has reduced earnings generated on shareholders' invested capital and fee revenue on a reduced level of funds under management;
- increased disability claims incidence, duration and reserving resulting in an increase in claims expense;
- investment expenditure of $23 million (after tax), including operational and amortised capitalised expenditure) in Australia and Europe; and
- significant expenses of $20 million (after tax) relating to Positioning for Growth restructuring and efficiency initiatives.

Further financial highlights supporting the profit generated through operations include:

- growth in premiums and related revenue;
- capitalised losses due to increased annuitant life expectancy experience;
- growth in the contribution of the Private Bank as a result of strong lending and deposit volumes; and
- the write-down in market value of the Thai life insurance joint venture interest.

The valuation of businesses held in the mark-to-market environment increased by $484 million from $5,991 million at September 30, 2001 to $6,475 million at September 30, 2002. This increase in value comprised $639 million from growth in shareholders' net assets less $155 million ($152 million after tax) from other components over and above the increase in net assets, which are reported as the movement in the excess of net market value over net assets of life insurance controlled entities.

The components that contributed to the $155 million ($152 million after tax) negative movement in the net market value of the life insurance controlled entities comprised:

the transfer on January 1, 2002, of the life insurance, funds management and certain other non-banking financial services businesses conducted by controlled entities of Bank of New Zealand and National Australia Group Europe Limited, to a controlled entity of NAFM, as part of an internal restructure. In accordance with AASB 1038 "Life Insurance Business", these controlled entities are required to be carried at their net market value. The difference between the acquired entities' net assets and the directors' net market value results in an increase in the valuation of $402 million before tax;

the transfer of certain unit-linked NAFM businesses to MLC Limited in line with integration initiatives and the inclusion of $16 million in respect to the New Zealand general insurance brokerage business. Future profit margins on these businesses will be earned in the market value environment. These transactions increased the valuation by $153 million before tax;

the effect of assumption and experience changes primarily comprises the impact of investment earnings being lower than expected over the period, the overall impact of lower retail sales volumes, change in mix of new business, and changes in assumptions relating to policy lapses and claims. Additionally, there have been changes to management fee and investment expense assumptions for investment-linked business following a detailed review of experience relating to the application of business tax reform and goods and services tax legislation and subsequent repricing. These changes decreased the valuation $710 million before tax (net of the roll forward of the discounted cash flow); and

as synergy benefits are recognised from the integration of the MLC group with the Group's wealth management businesses, the associated value transfers to the value of inforce business and value of future business. As a result, the synergy benefits of $467 million recognised at September 30, 2001 have been absorbed into the overall business valuation.

Contribution to Group net profit by major geographic area

	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
Australia					
Australia (excluding Wealth Management)(1)	**1,798**	3,264	1,406	1,308	1,031
Wealth Management	**73**	666	241	97	67
Deduct: Goodwill amortisation	**(8)**	(1)	(1)	(11)	(6)
	1,863	3,929	1,646	1,394	1,092
Europe					
Clydesdale and Yorkshire Banks	**733**	819	708	605	394
Northern and National Irish Banks	**191**	200	174	202	202
National Wealth Management Europe Holdings(2)	**22**				
Other(3)	**67**	4	(16)	16	(57)
Deduct: Goodwill amortisation	**(62)**	(62)	(62)	(62)	(62)
	951	961	804	761	477
New Zealand					
Bank of New Zealand	**433**	348	311	298	262
Other(4)	**(29)**	(35)	(30)	(27)	(42)
Deduct: Goodwill amortisation	**(31)**	(31)	(31)	(31)	(31)

	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
	373	282	250	240	189
United States					
Michigan National Corporation		156	291	254	239
SR Investment, Inc.	**98**	(3,438)	141	153	84
Other(5)	**31**	191	161	78	(7)
Deduct: Goodwill amortisation		(73)	(103)	(102)	(82)
	129	(3,164)	490	383	234
Asia					
Asian branches	**44**	71	39	33	10
Other(6)	**13**	4	10	10	12
	57	75	49	43	22
Net profit attributable to members of the Company	**3,373**	2,083	3,239	2,821	2,014

(1) Australia (excluding Wealth Management) included the net profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001.

(2) National Wealth Management Europe Holdings Limited was incorporated on May 21, 2001. On January 1, 2002, the European life insurance, funds management and certain other non-banking financial services businesses of the Group were transferred to National Wealth Management Europe Holdings Limited.

(3) Europe Other includes National Australia Group Europe Limited, the London branch of the Company, NAB Investments Limited, NAB Finance (Ireland) Limited and, prior to January 1, 2002, National Australia Life Company Limited.

(4) New Zealand Other includes National Australia Group (NZ) Limited and National Wealth Management New Zealand Holdings Limited.

(5) United States Other includes the New York branch of the Company, National Australia Funding (Delaware), Inc. and National America Investment, Inc..

(6) Asia Other includes Nautilus Insurance Pte Limited, Hong Kong MLC Holdings Limited and PT MLC Life Indonesia.

Australia

Australia's net profit decreased by 52.6% to $1,863 million from $3,929 million in 2001 and $1,646 million in 2000. The 2001 result was impacted by the net profit on sale of Michigan National Corporation and its controlled entities of $1,681 million. Further, the 2002 result includes $256 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit decreased 5.7% due to the solid performances of the retail banking operations, being more than offset by the performance of Wealth Management.

Australia (excluding Wealth Management)

The net profit of Australia (excluding Wealth Management) (before goodwill amortisation) decreased 44.9% in the year to $1,798 million from $3,264 million in 2001 and $1,406 million in 2000. Excluding the net profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001, and significant expenses (after tax) in 2002, net profit of $2,044 million increased 29.1% from the prior year.

Net interest income increased $222 million or 6.7%, despite a 12 basis point decline in net interest margin to 2.79% (for Australia including Wealth Management) over the same period. The increase was driven by strong lending growth, with housing loans performing particularly well in a continuing low interest rate environment. Non-interest income increased $208 million or 9.2%, due largely to higher lending and account and other fee income, partially offset by lower treasury-related income from Wholesale Financial Services.

Total expenses (before significant expenses) increased $221 million or 8.1%, reflecting higher personnel expenses with the impact of lower staff numbers offset by enterprise bargaining agreement increases, and an increase in the superannuation contribution. Expenses were further impacted by costs associated with upgrade of the credit card transaction processing system, an increase in credit card reward point costs, higher software amortisation and technology costs and higher occupancy expenses. The cost to income ratio remained fairly flat at 49.2%, compared to 49.0% in the prior year.

The charge to provide for doubtful debts decreased by $360 million or 76.6%. The 2001 charge was impacted by a small number of large corporate exposures within Wholesale Financial Services, as well as a charge in relation to the collapse of a significant Australian customer and the Group's position as merchant transaction acquirer. The 2002 year has seen the realignment of Wholesale Financial Services' loan portfolio in order to reduce its risk profile and the review of the loan portfolio within Financial Services Australia (Business), resulting in a reduced charge for the year.

Wealth Management

Net profit for Wealth Management Australia decreased 89.0% to $73 million in 2002, from $666 million in 2001. The result comprised of $225 million of profit generated through operations (2001: $320 million) and $152 million of the negative net movement in the excess of net market value over the net assets of life insurance controlled entities (2001: positive $333 million). Excluding significant expenses (after tax), profit from operations was $235 million.

Profit generated through operations was impacted by the unavoidable impact of the significant deterioration in global equity market conditions, which has negatively impacted earnings generated on shareholders' invested capital, investment returns, fee revenue on a reduced level of funds under management, and as announced in August 2002, the impact of $45 million (after tax) in compensation provided for investors relating to a reduction in unit prices, which occurred in October 2001 in relation to certain products managed by National Australia Financial Management Limited (NAFM). It also includes the impact of investment expenditure (including operational and amortised capitalised expenditure).

Further financial highlights supporting the net operating profit result include:

- growth premiums and related revenue;
- increased disability claims incidence duration and reserving resulting in an increase in claims expense;
- capitalised losses due to increased annuitant life expectancy experience; and
- growth in the contribution of the Private Bank as a result of strong lending and deposit volumes.

For a discussion of the $152 million movement in the excess of net market value over net assets of life insurance controlled entities refer to page 48.

Europe

Europe's net profit decreased 1.0% in the year to $951 million from $961 million in 2001 and $804 million in 2000. The 2002 result includes $130 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit increased 12.5%.

Clydesdale and Yorkshire Banks' contributed net profit (before goodwill amortisation) of $733 million, a decrease of 10.5% from the prior year. Excluding significant expenses (after tax), net profit of $822 million remained flat.

Net interest income increased by $137 million or 7.6% driven by strong growth in core lending (mortgages and selected business term lending) and retail deposits (consumer products and increased liquidity in the banking system), partly offset by a small contraction in margin. Non-interest income decreased by 15.2% primarily due to reduced creditor insurance income, falling custody fees, lower sales of interest rate risk management products and declining account fees.

Total expenses (before significant expenses) decreased $11 million or 0.9%, reflecting personnel expense decreases as a result of merit increases in the trading banks being more than offset by a reduction in employee numbers. The cost to income ratio improved from 44.6% to 44.4%. The charge to provide for doubtful debts increased $13 million or 3.6% due to increased provisioning as a result of higher lending volumes.

Northern and National Irish Banks' contributed net profit (before goodwill amortisation) of $191 million, a decrease of 4.5% from the prior year. Excluding significant expenses (after tax), net profit of $218 million increased 9.4% from the prior year.

Net interest income increased by $24 million or 4.6% as a result of solid growth in core lending (term business lending and mortgages) and sustained margins. Non-interest income decreased by 9.4% as a result of reduced creditor insurance income and gains on property disposals recognised in the prior year.

Total expenses (before significant expenses) decreased $30 million or 6.6% and the cost to income ratio improved from 60.2% to 56.2%. In 2001, expenses included a net charge of $30 million in respect of settlement of customer claims pertaining to the sale of certain offshore insurance products, investigation expenses and restructuring costs. After adjusting for this, expenses were in line with the previous year. The charge to provide for doubtful debts increased $57 million or 42.2% due to increased provisioning as a result of growth in lending volumes.

New Zealand

New Zealand's net profit increased 32.3% in the year to $373 million from $282 million in 2001 and $250 million in 2000. The 2002 result includes $14 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit increased 37.2%.

The New Zealand operations of Bank of New Zealand (BNZ) contributed net profit (before goodwill amortisation) of $433 million, an increase of 24.4% from the prior year. Excluding significant expenses (after tax), net profit of $447 million increased 28.4% from the prior year.

Net interest income grew $95 million or 15.8% as a result of growth in core lending (particularly housing) and deposit volumes, while the net interest margin increased due to strong focus on margin management and the benefit of a higher level of retained capital.

On January 1, 2002 the life insurance and funds management businesses of BNZ were transferred to a controlled entity of National Australia Financial Management Limited, as part of an internal restructure. Non-interest income increased 9.1% primarily due to an increase in commission income for the sale of wealth management products, which has arisen as a result of this restructure.

Total expenses (before significant expenses) decreased $20 million or 4.4%, primarily reflecting the impact of the aforementioned restructure and lower personnel expenses as a result of a decline in staff numbers during the year. The cost to income ratio improved from 49.2% to 45.3%. The charge to provide for doubtful debts decreased by $22 million to a credit of $12 million in 2002, resulting from a reduced general provision charge following a review of provision requirements in the region.

United States

The United States' contributed a net profit of $129 million compared to a net loss of $3,164 million in 2001 and a net profit of $490 million in 2000. The net loss in 2001 included significant expenses (after tax) of $3,617 million. The 2002 result includes $4 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit decreased

70.6%.

SR Investment, Inc. recorded a net profit (after goodwill amortisation) of $98 million in 2002, compared to a net loss of $3,486 million in the prior year.

The prior year results were impacted by uncertainty and turbulence in the US mortgage servicing market and the discovery of an incorrect interest rate assumption embedded in the mortgage servicing rights valuation model, which was subsequently corrected. These factors resulted in the recognition of the following significant expenses in 2001:

$1,323 million (after-tax) impairment loss on mortgage servicing rights;

$1,436 million provision for changes in valuation assumptions to reduce the carrying value of the mortgage servicing rights to an estimated market sale value; and

$858 million goodwill write-down.

SR Investment, Inc.'s net profit (before goodwill amortisation and significant expenses) decreased from $179 million in 2001 to a net profit of $98 million in 2002.

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The sale of HomeSide Lending, Inc.'s operating assets and operating platform to Washington Mutual Bank, FA. occurred on March 1, 2002. Proceeds from the sale of $2,314 million, less the carrying value of the assets sold and costs incidental to the sale of $2,322 million, resulted in a loss of $8 million, which is included in the results. Net mortgage origination revenue decreased 43%, due to the sale of operating assets resulting in only five months of revenue being recognised. Net servicing revenue decreased by 61%, impacted by the increase in the amortisation of mortgage servicing rights, as low mortgage rates resulted in higher prepayment activity. Other operating expenses fell by 23% primarily driven by the sale of the operating assets and operating platform.

The net profit (before goodwill amortisation) of the Company's New York branch decreased 78.7% from $165 million to $35 million. The decrease in net profit was due to the impact of a major provisioning charge for a large corporate exposure in Wholesale Financial Services.

The Group sold Michigan National Corporation and its controlled entities on April 1, 2001. In the half year to March 31, 2001, Michigan National Corporation and its controlled entities contributed net profit (before goodwill amortisation and significant items) of $156 million.

Asia

Asia's net profit decreased 24.0% in the year to $57 million from $75 million in 2001 and $49 million in 2000. The 2002 result includes $8 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit decreased 13.3%.

The fall in profit was largely driven by Wholesale Financial Services. The Markets unit has experienced lower revenues largely from reduced trading opportunities and Corporate Finance activities have also decreased due to the slowing of activities in the region.

In 2002, Wealth Management's Asian operations contributed a $5 million profit to the result, compared to a $7 million loss in 2001 (after outside equity interests).

Employees

The following tables summarise the Group's staffing position as at September 30:

	2002 Number	2001 Number	2000 Number

Total staff			
Full-time and part-time(1)	**46,642**	49,710	51,879
Full-time equivalents (core)(2)(3)	**41,428**	44,983	47,417
Full-time equivalents(3)(4)	**43,202**	47,597	49,514
Net profit before significant items per average full-time equivalent employee ($'000)	**$ 83,537**	$ 82,912	$ 71,475

(1) Full-time and part-time staff excludes the effect of unpaid absences (eg. maternity leave).

(2) Core excludes contractors and casual staff.

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

(4) Comparative information in relation to full-time equivalents has been restated to include contractors and casual staff.

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	2002 Number	2001(1) Number	2000(2) Number
By region			
Australia	**24,294**	24,897	25,106
Europe	**13,542**	13,706	13,587
New Zealand	**4,560**	4,731	4,672
United States	**165**	3,506	5,902
Asia	**641**	757	247
Total full-time equivalents(3)	**43,202**	47,597	49,514

	2002 Number	2001(1)(4) Number
By line of business		
Financial Services Australia	**19,138**	19,631
Financial Services Europe	**11,850**	12,125
Financial Services New Zealand	**3,860**	4,001
Wholesale Financial Services	**2,467**	2,596
Wealth Management	**5,547**	5,559
Other(5)	**340**	3,685
Total full-time equivalents(3)	**43,202**	47,597

(1) Includes 3,363 SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.).

(2) Includes 3,337 Michigan National Corporation and its controlled entities full-time equivalents.

(3)

Comparative information in relation to full-time equivalents has been restated to include contractors and casual staff.

(4) 2001 line of business comparatives have been restated to reflect the new business organisation structure.

(5) Includes Corporate Centre functions. Also includes HomeSide Lending, Inc. prior to March 1, 2002.

The Group's full-time equivalent employee numbers reduced by 4,395 people or 9.2% from 47,597 for 2001 to 43,202 for 2002. Excluding the impact of the sale of HomeSide Lending, Inc.'s operating assets and operating platform on March 1, 2002, full-time equivalent employee numbers decreased 2.4%. This compares with a 3.1% increase from 2000 to 2001, excluding the impact of the sale of Michigan National Corporation and its controlled entities. The reduction during 2002 has generally resulted from the implementation of efficiency improvements as a result of the Positioning for Growth program. Further reductions as part of this program are expected during 2003.

The focus of the Positioning for Growth program has been to improve and streamline processes, create efficiency improvements and realign employees to areas of revenue growth. This has resulted in a reduction in employee numbers across the Group.

It was recognised early on in the Positioning for Growth program that organisational and process changes would only succeed when supported by a workforce that is empowered and motivated to deliver high quality customer service. A revitalisation project was established to affect this dynamic of cultural change. The project has launched a wide range of initiatives as a catalyst in the process of cultural renewal; these have been well received by employees and are producing the desired outcomes.

In Australia, employees decreased by 603 in 2002, having decreased by 209 in the previous year. The decrease in 2002 mainly resulted from a reduction in employees in Financial Services Australia, as well as in Group support functions. This was a result of the corporate restructure and rationalisation of processes undertaken as part of the Positioning for Growth program during the year.

In Europe, employees decreased by 164 in 2002, having increased by 119 in the previous year. The net decrease in employees in 2002 resulted from a reduction in employees through various Positioning for Growth initiatives such as outsourcing and efficiency saving in the back office, partly offset by an increase in Wealth Management employees through the expansion of the Wealth Management strategy.

In New Zealand, employees decreased by 171 in 2002, having increased by 59 in the previous year. The 2002 decrease resulted from a reduction in employees through various Positioning for Growth initiatives such as systems improvements and reduced project expenditure.

In the United States, employees decreased 3,341 in 2002 primarily as a result of the sale of HomeSide Lending, Inc.'s operating assets and operating platform on March 1, 2002. In 2001, employees decreased 2,396 primarily as a result of the sale of Michigan National Corporation and its controlled entities.

In Asia, employees decreased 116 in 2002, having increased by 510 in the previous year (although 482 of this prior year increase related to the transfer of Wealth Management Asia employees previously classified within Australia). The 2001 employee numbers incorporate 109 employees of joint venture interests of the Group; however, these employees have been excluded from 2002 in order to apply consistent treatment across the Group. Excluding the impact of this, employee numbers remained fairly constant, only decreasing by seven in 2002.

Approximately 45% of Group employees in Australia are members of the Finance Sector Union of Australia (FSU). Over the last 12 months, the Company has continued to strive for a good relationship with the FSU through the enterprise bargaining process. Following industrial disruption that continued into the first quarter of 2002, a negotiated settlement of a new enterprise agreement with the FSU occurred in June. The new three year enterprise agreement was certified in the Australian Industrial Relations Commission on October 24, 2002 covering many aspects of employment issues such as training, career and pay structures.

Assets and equity

Year-end total assets increased to $377.4 billion from $374.7 billion at September 30, 2001. Following the sale of the operating assets and operating platform of HomeSide Lending, Inc. (HomeSide US) on March 1, 2002, $3.8 billion of total assets were removed from the Group's balance sheet. The appreciation of the Australian dollar, primarily against the US dollar and British pound, decreased total assets by $7.1 billion in 2002, compared to a $17.0 billion increase in 2001. Excluding the impact of the exchange rate movements, total assets (in Australian dollar terms) grew $9.7 billion or 2.6% during 2002, primarily reflecting growth in lending.

Year-end total equity in the Group decreased from $23.6 billion at September 30, 2001 to $23.3 billion during 2002. The decrease in total equity was primarily attributable to an increase of $0.8 billion (2001: $0.8 billion) in retained profits, dividend reinvestment and share issues totalling $0.5 billion (2001: $0.9 billion), offset by share buy-backs of $1.2 billion (2001: $nil) and the impact of movements in the foreign currency translation reserve of $(0.5) billion (2001: $0.2 billion).

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In Australia during 2002, total assets grew by $8.0 billion to $213.4 billion with gross loans and advances increasing by 13.2% to $120.9 billion. The major contributor to this increase was housing loans, which grew by 23.1% to $68.5 billion, buoyed by a continuing low interest rate environment and the Australian Commonwealth Government's first home buyers grant. In Australian dollar terms, total assets in Europe increased by 12.4% to $107.1 billion during 2002. Excluding the effect of exchange rate movements, total assets in Europe grew by 16.8%, reflecting growth in lending, particularly in term lending, as well as solid housing lending growth. In Australian dollar terms, total assets in New Zealand increased by 1.1% to $30.4 billion in 2002. Excluding the effect of exchange rate movements, total assets in New Zealand fell by 3.9%, due to lower cash and Wholesale Financial Services lending, offsetting strong retail lending growth, particularly in relation to housing lending, up 8.1%. In Australian dollar terms, total assets in the United States decreased by 42.2% to $17.3 billion in 2002. Excluding the effect of exchange rate movements, total assets in the United States fell by 33.4%. This was due to the sale of HomeSide US's operating assets and operating platform on March 1, 2002, which removed $3.8 billion of assets from the Group's balance sheet, lower mortgage servicing rights, and reduced activity in Wholesale Financial Services. In Australian dollar terms, total assets in Asia increased by 34.7% to $9.1 billion in 2002. Excluding the effect of exchange rate movements, total assets in Asia decreased 29.3%, reflecting reduced activity in Wholesale Financial Services.

Following the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) which closed on October 1, 2002, $1.4 billion of total assets have been removed from the Group's balance sheet.

Assets and equity adjusted to accord with US GAAP

Year-end total assets calculated in accordance with US GAAP increased to $380.3 billion in 2002 after an increase to $377.2 billion at September 30, 2001. In US dollar terms, year-end total assets increased by US$21.1 billion, or 11.4%, from US$185.4 billion in 2001 to US$206.5 billion in 2002. The increase in total assets in 2002 is mainly attributable to the factors outlined above (offset in part by the impact of the strong Australian dollar). In 2002, total equity under US GAAP reported in Australian dollars remained flat at $24.0 billion. *(Refer to note 58 in the financial report for a detailed reconciliation of total assets and total equity according to US GAAP.)*

Return on average equity

Profitability, as measured by return on average equity before significant items, decreased to 17.0% in 2002 from 18.4% in 2001 and 18.1% in 2000. This was principally impacted by a reduced contribution to Group earnings from Wealth Management in 2002 and an increase of 2.0% in weighted average equity due to the retention of profits within the Company funding of business growth, offset by the impact of the buy-back of ordinary shares.

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Cash return attributable to ordinary shareholders (as measured by net profit attributable to ordinary shareholders, excluding significant items, the movement in the excess of net market value over net assets of life insurance controlled entities and goodwill amortisation), on average tangible equity (excluding goodwill), decreased in 2002, with average tangible equity growing at a faster rate than cash earnings.

	2002 $m	**2001 $m**	**2000 $m**	**1999 $m**	**1998 $m**
Weighted average equity(1)	**21,172**	20,752	17,586	15,915	14,054
Return on average equity (%)(1)(2)	**17.0**	18.4	18.1	17.3	17.8
Cash return on average tangible equity (%)(3)	**17.6**	18.2	19.4	21.1	22.9

(1) Based on amounts attributable to ordinary shareholders.

(2) Based on net profit before significant items.

(3) Cash return is based on cash earnings attributable to ordinary shareholders excluding significant items, the movement in the excess of net market value over net assets of life insurance controlled entities and goodwill amortisation.

Earnings and dividends per share

	2002 Cents	2001 Cents(1)	2000 Cents(1)	1999 Cents(1)	1998 Cents(1)
Cash earnings per share before significant items	**248.2**	236.6	214.8	200.6	187.3
Cash earnings per share	**222.0**	110.7	205.7	201.0	153.0
Earnings per share before significant items					
Basic	**231.9**	247.4	211.3	186.6	174.6
Diluted(2)	**221.2**	243.2	207.7	183.4	171.9
Earnings per share					
Basic	**205.7**	121.5	202.3	186.6	140.0
Diluted(2)	**202.5**	122.8	199.1	183.4	138.8
Dividends per share	**147.0**	135.0	123.0	112.0	102.0

(1) The calculation of cash earnings per share and earnings per share for the 1998, 1999, 2000 and 2001 years has been restated to reflect the impact of the application of revised Australian Accounting Standard AASB 1027 "Earnings per Share".

(2) Calculated based on the weighted average diluted number of ordinary shares, which includes the impact of options, potential conversion of exchangeable capital units and partly paid ordinary shares, as set out in note 8 in the financial report.

Cash earnings per share before significant items increased 4.9% in 2002 to 248.2 cents, from 236.6 cents in 2001, and 214.8 cents in 2000. Including the impact of significant items, cash earnings per share increased 100.5% for 2002 to 222.0 cents, from 110.7 cents in 2001 and 205.7 cents in 2000. The increase in cash earnings per share before significant items reflects strong growth in profitability before significant items, goodwill amortisation and the movement in the excess of net market value of life insurance controlled entities. It further reflects the active capital management activities of the Group during the year, in particular the impact of the Company's ordinary share buy-back program.

Basic earnings per share before significant items decreased 6.3% in 2002 to 231.9 cents, from 247.4 cents in 2001 and 211.3 cents in 2000. Including the impact of significant items, basic earnings per share increased 69.3% for 2002 to 205.7 cents, from 121.5 cents in 2001 and 202.3 cents in 2000.

Interim dividends of 72, 67 and 59 cents per ordinary share were paid during the years ended September 30, 2002, 2001 and 2000 respectively. The final dividend declared from the 2002 profit was 75 cents, an increase of seven cents, or 10.3% compared with 2001 at 68 cents and 2000 at 64 cents. The 2002 final dividend is payable on December 11, 2002.

The Company expects to continue its policy of paying regular cash dividends; however, there is no assurance as to future dividends. Future dividend policies will be determined by the Board of directors with regard to the Company's earnings, capital requirements, financial conditions and applicable government regulations and policies. In addition, the payment of dividends is subject to the restrictions described in note 7 in the financial report.

The interim dividend paid was fully franked and the final dividend is 90% franked. The franked portion of these dividends carry imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. For non-resident shareholders of the Company, the unfranked portion of the dividend will be paid from the Company's foreign dividend account and therefore will not be subject to Australian withholding tax.

The extent to which future dividends will be franked will depend on a number of factors, including the level of the Group's profits that will be subject to Australian income tax and any future changes to the Australian business tax systems as a result of the Australian Commonwealth Government's tax reform initiatives. The Company currently expects to be able to frank available dividends to the extent of 85% to 100% during the course of 2003.

The Company has a bonus share plan 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. The Company's Dividend Reinvestment Plan permits reinvestment of cash dividends in new ordinary shares. In addition, the UK dividend plan permits ordinary shareholders to receive dividends paid out of the profits of a UK subsidiary.

Shareholder value

The Group is committed to growing value for its shareholders. Shareholders look to management to invest capital and earn a return that exceeds the cost of that capital. Economic Value Added (EVA®) is measured by subtracting from profit the cost of the capital invested.

More precisely, it is EVA®'s net operating profit after tax (NOPAT) less the cost of capital (economic capital × the cost of that capital). EVA®'s NOPAT is based on reported net operating profit before tax, adjusted to better reflect the underlying cash earnings performance of the Group and to attribute value to imputation credits generated. Economic capital is based on shareholders' equity, adjusted to more fully reflect the capital being used by the Group. The cost of capital is the Group's cost of equity capital, which is currently 11.5%, calculated using the capital asset pricing model.

During the year, the Group continued embedding the use of EVA®, which is measured at the divisional level, into the way the Group prices products, and assesses investment opportunities. EVA® is also linked directly to at-risk compensation for senior managers, and indirectly for all staff.

Annual economic value added has grown 13.7%, from $1,129 million to $1,284 million, reflecting strong growth in the core businesses, the positive impact of the reduction in the Australian corporate tax rate, and more efficient capital management strategies.

	2002 $m	**2001 $m**	**2000 $m**	**1999 $m**	**1998 $m**
EVA®'s net operating profit after tax	**4,157**	3,881	3,680	3,328	2,692
Deduct: Cost of capital	**2,873**	2,752	2,301	1,938	1,735
EVA®	**1,284**	1,129	1,379	1,390	957
Average annual cost of capital (%)	**11.5**	11.5	11.4	10.5	10.5

EVA® is a registered trademark of Stern Stewart & Co.

Liquidity and funding

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of insurance policy benefits, claims and surrenders, the payment of operating expenses and taxation, the payment of dividends to shareholders, and the ability to fund new and existing loan commitments.

The Group's banking entities comply with the regulatory liquidity requirements of the banking regulators in Australia, the UK, the Republic of Ireland, New Zealand, US, Singapore, Hong Kong, Korea and Japan as required. Wealth Management also complies with the regulatory liquidity requirements of dealers' licences. Liquidity within the Group is also managed in accordance with policies approved by the Board, with oversight from regional and Group Asset and Liability Management Committees *(refer to "liquidity risk" under "risk management" on page 83 for a detailed discussion).*

The principal sources of liquidity for the Group are:

- the maturity of available for sale and investment securities;
- interest received from customer loans;
- customer deposits;
- life insurance premiums received;
- proceeds from bonds, notes and subordinated debt issues;
- fee income; and
- interest and dividends from investments.

The Group's primary source of funding is from customer deposits either on-demand and short-term deposits, and term deposits and bank issued certificates of deposit. Of total liabilities at September 30, 2002 of $354.1 billion, funding from customer deposits and certificates of deposit amounted to $188.8 billion (53%). Although a substantial portion of customer accounts are contractually repayable within one year, on-demand, or at short notice, customer deposit balances have traditionally provided a stable source of core long-term funding for the Group.

Deposits taken from the inter-bank market of $43.3 billion as at September 30, 2002 supplement the Group's customer deposits.

The Group also accesses the domestic and international debt capital markets under its various funding programs. As at September 30, 2002, the Group had on issue $22.2 billion of term debt securities (bonds, notes and subordinated debt) and the following funding programs available to fund the Group's general banking businesses:

Short-term funding programs:

- US commercial paper program;
- Global commercial paper and certificate of deposit program; and
- Bank of New Zealand global commercial paper program.

Long-term funding programs:

US domestic medium-term note (MTN) program;

US MTN program;

Euro MTN program; and

Australian transferable certificates of deposit program.

The cost and availability of senior unsecured financing is influenced by credit ratings. At September 30, 2002, the Company's credit ratings were as follows:

	Short-term debt	Senior long-term debt
Standard & Poor's Corporation	A-1+	AA
Fitch, Inc.	F1+	AA
Moody's Investors Service, Inc.	P-1	Aa3

The ability to sell assets quickly is also an important source of liquidity for the Group. The Group holds sizeable balances of marketable treasury and other eligible bills and debt securities which could be disposed of to provide additional funding should the need arise. As at September 30, 2002, the Group held $19.6 billion of trading securities and $6.2 billion of available for sale securities. In addition, the Group held $235.7 billion of gross loans and advances to customers, of which $88.9 billion is due to mature within one year although a proportion of these maturing customer loans will be extended in the normal course of business.

Within the Group's Wealth Management business, the principal sources of liquidity are premiums received from policyholders, charges levied upon policyholders, investment income and the proceeds from the sale and maturity of investments. The investment policies adhered to by the Group's life insurance companies consider the anticipated cash flow requirements by matching cash inflows with projected liabilities.

Based on the level of resources within the Group's businesses, and the ability of the Group to access wholesale money markets and issue debt securities should the need arise, overall liquidity is considered more than sufficient to meet current obligations to customers, policyholders and debtholders.

The following table sets out the amounts and maturities of the Group's contractual cash obligations at September 30, 2002:

	Payments due by period				
	Less than 1 year $m	1 to 3 year(s) $m	3 to 5 years $m	After 5 years $m	Total $m
Long-term debt dated	4,547	9,958	1,155	6,529	22,189
Operating leases	178	391	362	1,020	1,951
Total contractual cash obligations	4,725	10,349	1,517	7,549	24,140

The above table excludes deposits and other liabilities taken in the normal course of banking business and short-term and undated liabilities, including life insurance policy liabilities. At September 30, 2002, the Group had $1,866 million of undated long-term debt outstanding.

The following table sets out the amounts and maturities of the Group's contingent liabilities and other commercial commitments at September 30, 2002:

	Amount of commitment expiration per period				
	Less than 1 year $m	1 to 3 year(s) $m	3 to 5 years $m	After 5 years $m	Total $m
Contingent liabilities					
Guarantees	2,830	176	19	4	3,029
Letters of credit	2,308	822	145	975	4,250
Performance-related contingencies	2,390	125	22	26	2,563
Other contingent liabilities	278	21	25	1	325
Other commercial commitments					
Outright forward purchases and forward deposits(1)	4				4
Other binding credit commitments(1)	60,982	9,415	3,440	2,951	76,788
Investment commitments(2)	638				638
Total commercial commitments	69,430	10,559	3,651	3,957	87,597

(1) Credit-related commitments arise from contracts entered into in the normal course of business generally relating to financing needs of customers (*refer to note 45 in the financial report*).

(2) In the normal course of business of the Group's life insurance business statutory funds, various types of investment contracts are entered into that give rise to contingent or future obligations.

Refer to note 45 in the financial report for further discussion of "contingent liabilities and credit commitments".

Special purpose entities

Special purpose entities (SPEs) are entities that are typically set up for a specific, limited purpose and generally would not enter into an operating activity or have any employees. The most common form of SPE involves the acquisition of financial assets that are funded by the issuance of securities to external investors. The repayment of these securities is determined by the performance of the assets acquired by the SPE. These vehicles form an integral part of many financial markets.

An important feature of financial accounts prepared under Australian GAAP, is that they are required to present a true and fair view, which includes reflecting the economic substance of transactions and arrangements, and not just the legal form and structure.

Australian Accounting Standard AASB 1024 "Consolidated Accounts" (AASB 1024) requires a company to consolidate entities it controls, and not just entities in which it has majority ownership. Therefore, an SPE would be required to be consolidated if the Group has the capacity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of the SPE, so as to enable the SPE to operate with it in pursuing the objectives of the Group.

Further, Urgent Issues Group Consensus Views Abstract 28 "Consolidation Special Purpose Entities" provides additional guidance as to some of the factors that would indicate control relating to the activities, decision making powers, risks and benefits of an SPE that would generally require the SPE to be consolidated.

An SPE is consolidated in the Group if it either meets the requirements of AASB 1024 or if the risks and rewards associated with the SPE lie with the Group such that the substance of the relationship is that of a controlled entity. Substance over form means examining all the agreements in relation to the transaction, including side letters or agreements relating to either the provision of guarantees or collateral on the loans, or equity funding based on the value of the entity.

The Group, in the ordinary course of business, has established or sponsored the establishment of SPEs in various areas, which are described below along with their Australian GAAP treatment.

Asset securitisation

The Group makes limited use of asset securitisation arrangements as a source of alternative funding. SPEs for securitisation are created when the Group has an asset (eg. a loan portfolio), which it sells to an SPE. The SPE in turn sells interests in the asset as securities to investors. The Group does not recognise the assets and liabilities of these SPEs and they are not reported on the Group's statement of financial position at September 30, 2002. This is because the risks and rewards of the assets in the SPE no longer lie with the Group (ie. the Group no longer retains any significant exposure to the returns on these assets.)

The Company completed its inaugural sale of residential mortgage-backed securities in January, 2001. Class A mortgage-backed floating rate notes of US$1.06 billion were issued into the offshore markets, and Class B notes of $20 million were issued into the Australian domestic debt capital markets. Certain administrative activities and the provision of interest rate and currency swaps have been transacted with the SPE on an arm's length basis. As at September 30, 2002, securitised assets not recognised on the Group's statement of financial position were $929 million. *(Refer to notes 1 and 16 in the financial report.)*

Multi-seller securitisation conduits

The Group manages two multi-seller securitisation conduits, Titan and Quasar. These conduits provide off-balance sheet funding for the Group's corporate customers. The securitisation programs use SPEs to provide access to funding via the asset-backed commercial paper and medium-term note (MTN) investor markets. These securitisation programs generally involve the sale of financial assets by customers to SPEs, which then issue commerical paper or MTNs to fund the purchases. The assets acquired by the conduits, which totalled $1,878 million at September 30, 2002, included debt securities, mortgages, lease receivables, commodity receivables and loans.

These financial assets represent assets in which the Group has no interest and which are not reported on the Group's statement of financial position at September 30, 2002. Certain administrative activities and the provision of liquidity and credit facilities to the programs are performed by the Group under arm's length contracts that it, or the conduits' independent board of directors, can terminate. Fees received by the Group for performing these services are recorded as fees and commission income when earned.

Repackaging securitisation

The Group sponsors a repackaging securitisation vehicle, Script Securitisation Pty Ltd (Script). Script acquires debt instruments and, through the application of derivatives, generates master-funded repackaged debt instruments for sale to customers of the Group. The Group has no interest in the debt instruments acquired and these instruments are not reported on the Group's statement of financial position at September 30, 2002.

Structured finance transactions

The use of an SPE to isolate cash flows and assets is common in the banking industry to enable a customer to minimise their funding cost or maximise their investment returns, and the bank to have access to specific collateral. The Group has relationships with numerous SPEs to provide financing to customers. Any financing relationships are entered into under normal lending criteria and are subject to the Group's credit approval process. The assets arising from these financing activities are generally included in loans and advances to customers, investment securities, or shares in entities and other securities. The Group also has relationships with SPEs to enable the placing of customers' surplus funds with the Group. These surplus funds are in all cases included in the Group's statement of financial position. Exposures in the form of guarantees or undrawn credit lines are included within contingent liabilities and credit-related commitments.

Capital resources

	2002 $m	2001 $m	2000 $m
Total equity (parent entity interest)	**23,184**	23,489	21,361
Outside equity interest	**67**	68	46
Perpetual floating rate notes	**460**	507	461
Exchangeable capital units	**1,262**	1,262	1,262
Total liquidity and capital resources	**24,973**	25,326	23,130

The Group assesses its capitalisation against market, regulatory and ratings agency expectations, having regard to Australian and international peers and the Group's own asset base, risk profile and capital structure. The Group believes it has sufficient capital to meet current and future commitments.

As indicated in the above table, the Group's capital position remained stable during the year. The Group has a history of internally generating capital through retained profits and has traditionally relied on retained profits to augment its capital resources to allow for real and inflation-induced growth in its asset base. The capital position also increases from the reinvestment of dividends under the Company's Dividend Reinvestment Plan (DRP) and share issues pursuant to option plans.

During the years ended September 30, 2002, 2001 and 2000, 9.8 million, 19.2 million and 15.0 million fully paid ordinary shares were issued under the DRP to shareholders at varying prices.

In November 2001, the Group adopted a continuing policy to buy back fully paid ordinary shares equal to new shares issued under the Group's various share and option plans. In May 2002, the Group announced its intention to extend the buy-back program until September 30, 2003, and to increase the value of shares subject to the buy-back by an additional $1,000 million. The DRP was also modified by introducing a cap of 15,000 on the number of shares per shareholder eligible to participate in the DRP. On August 28, 2002, following the announcement of the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.), the Group announced a further increase of $750 million in the value of shares subject to the ongoing share buy-back.

The stability in the capital position for the past year is a result of the Group's on-market buy-back program, which has offset internal capital generation and new shares issued under the Group's various share and option plans. During the year, the Group bought back 36,150,513 ordinary shares. The shares were bought back at an average price of $34.52 per share, thereby reducing ordinary equity by $1,248 million. The highest price paid was $36.05 per share and the lowest price paid was $31.00 per share. All buy-backs are subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time.

Capital adequacy

As at September 30, 2002, the Group's total capital adequacy ratio was 10.2%, consisting of Tier 1 capital of 7.8%, Tier 2 capital of 3.7% and deductions of 1.3%.

The Group's primary prudential supervisor is the Australian Prudential Regulation Authority (APRA). APRA imposes capital adequacy requirements on banks, the prime objective of which is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. Consistent with the international standards of the Basel Committee on Banking Supervision, APRA's approach to assessing capital adequacy of banks focuses on three main elements: the credit risk associated with a bank's exposures, the market risk associated with a bank's trading activities, and the form and quantity of a bank's capital.

In order to provide a broad indication of relevant credit risk, all assets are risk weighted according to four categories (0%, 20%, 50% and 100%). The assets to which those weightings apply are described more fully below *(refer to "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 to a risk-weighted category.

Off-balance sheet activities giving rise to credit risk are categorised as follows: direct credit substitutes such as financial guarantees and standby letters of credit; trade and performance-related contingent items such as performance bonds, warranties, and documentary letters of credit; long-term commitments such as formal credit lines with a residual maturity exceeding one year; and market-related transactions such as foreign exchange contracts, currency and interest rate swaps and forward rate agreements.

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices pertaining to interest rate-related instruments and equities in the trading book, and foreign exchange risk and commodities risk throughout the Group. APRA's current capital requirements for market risk, which involve creating equivalent risk-weighted exposures *(refer to "risk-adjusted assets and off-balance sheet exposures")* are broadly consistent with the Basel Committee on Banking Supervision's recommendations.

For regulatory purposes, capital comprises two elements, eligible Tier 1 capital (ie. Tier 1 capital, net of any deductions) and Tier 2 capital from which certain further deductions are made. The resultant amount of capital forms the capital base. Eligible Tier 1 capital must constitute at least 50% of the capital base. Tier 1 capital includes fully paid ordinary capital (including hybrid instruments such as National Income Securities), fully paid non-cumulative irredeemable preference shares, reserves (other than asset revaluation reserves), retained profits less goodwill and other intangible assets. In addition, where recognised future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital. Tier 2 capital includes asset revaluation reserves, general provision for doubtful debts (net of associated future income tax benefits), certain hybrid debt/equity instruments, and subordinated long-term debt.

Net assets in non-consolidated controlled entities and holdings of other bank's capital instruments are deducted from the capital base.

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As the measure of capital adequacy, Australian banks are required to maintain a minimum ratio of capital base to total risk-weighted assets of 8%, of which a minimum of 4% must be held in Tier 1 capital.

The numerator of the ratio is the capital base. The denominator of the ratio is the total risk-weighted asset exposure, (ie. sum of credit risk-weighted exposures and the equivalent market risk-weighted exposure).

Under guidelines issued by APRA, life insurance and funds management activities are excluded from the calculation of risk-weighted assets, and the related controlled entities are deconsolidated for the purposes of calculating capital adequacy. The intangible component of the investment in these controlled entities (the difference between the appraisal value, which includes the value of future business and the embedded value, which does not include the value of future business), is deducted from Tier 1 capital, and embedded value is deducted from the total of eligible Tier 1 and Tier 2 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of Tier 1 capital to the extent that they have not been remitted to the Company in the form of dividends.

The Basel Committee on Banking Supervision has released wide-ranging and detailed proposals for the reform of capital adequacy guidelines for banks in the Basel II Capital Accord. The Basel Committee on Banking Supervision's reform objective is to develop more risk-sensitive, internationally-accepted, capital adequacy guidelines that are aligned more accurately with the individual risk profiles of banks.

Capital ratios

	2002 %	**2001** %	**2000** %
Tier 1	**7.8**	7.5	6.6
Tier 2	**3.7**	3.9	4.0
Deductions	**(1.3)**	(1.2)	(1.3)
Total capital	**10.2**	10.2	9.3

The capital ratios at September 30, 2002, include the effect of the on-market share buy-back program, the sale of the HomeSide Lending, Inc. operating assets and operating platform and the sale of HomeSide Lending, Inc.'s mortgage services rights of approximately US$12.8 billion of mortgages on May 31, 2002. The capital ratios do not include the effect of the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) which settled on October 1, 2002.

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The following tables provide details of the Tier 1 and Tier 2 capital position, risk-adjusted assets and off-balance sheet exposures as at September 30:

Regulatory capital

	2002 $m	2001 $m	2000 $m
Tier 1			
Contributed equity	**9,931**	10,725	9,855
Reserves	**2,105**	2,427	2,006
Retained profits	**11,148**	10,337	9,500
Outside equity interest	**67**	68	46
Estimated reinvestment under the Dividend Reinvestment Plan(1)	**127**	365	283
Deduct:			
Asset revaluation reserve	**(7)**	(16)	(14)
Goodwill	**(775)**	(876)	(2,617)
Intangible component of investment in non-consolidated controlled entities	**(2,448)**	(2,448)	(2,290)
Other	**(917)**	(1,352)	(938)
Total Tier 1 capital	**19,231**	19,230	15,831
Tier 2			
Asset revaluation reserve	**7**	16	14
General provisions for doubtful debts	**1,414**	1,538	1,562
Perpetual floating rate notes	**460**	507	461
Exchangeable capital units	**1,262**	1,262	1,262
Dated subordinated debt	**6,174**	6,815	6,277
Notional revaluation of investment securities to market	**12**	11	(28)
Total Tier 2 capital	**9,329**	10,149	9,548
Total Tier 1 and 2 capital	**28,560**	29,379	25,379
Deductions			
Investment in non-consolidated controlled entities (net of intangible component deducted from Tier 1)	**(2,808)**	(2,780)	(2,788)
Holdings of other financial institutions' capital instruments	**(445)**	(445)	(446)
Total regulatory capital	**25,307**	26,154	22,145

(1) The amount is derived from reinvestment experience on the Company's dividend reinvestment and bonus share plans.

Risk-adjusted assets and off-balance sheet exposures

	Balance				Risk-adjusted balance(1)		
	2002 $m	2001 $m	2000 $m	Risk weights %	2002 $m	2001 $m	2000 $m
Assets							
	25,191	21,663	19,257	0			

					Risk-adjusted balance(1)		
Cash, claims on Reserve Bank of Australia, Australian Commonwealth and State governments, OECD central governments and central banks(2)							
Claims on Australian banks, local governments and banks incorporated in OECD countries	**45,053**	47,438	31,188	20	**9,011**	9,488	6,238
Housing loans(3)	**88,212**	81,515	69,348	50	**44,106**	40,757	34,674
All other assets	**163,854**	166,843	164,195	100	**163,854**	166,843	164,195
Total assets(4)	**322,310**	317,459	283,988		**216,971**	217,088	205,107

	Contract or notional amount 2002 $m	Credit equivalent amount 2002 $m	Risk weights %	Risk-adjusted balance(1) 2002 $m	2001 $m	2000 $m
Off-balance sheet exposures						
Financial guarantees, standby letters of credit and other letters of credit	**9,932**	**8,704**	0 100	**7,788**	9,115	8,743
Performance-related guarantees, warranties and indemnities	**3,010**	**1,505**	0 100	**1,452**	1,347	1,480
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**91,942**	**12,906**	0 100	**11,032**	15,672	15,156
Foreign exchange, interest rate and other market-related transactions	**1,203,183**	**24,437**	0 50	**7,120**	10,817	6,334
Total off-balance sheet exposures	**1,308,067**	**47,552**		**27,392**	36,951	31,713
Total risk-adjusted assets				**216,971**	217,088	205,107
Total risk-adjusted assets and off-balance sheet exposures credit risk				**244,363**	254,039	236,820
Add: Risk-adjusted assets market risk(5)				**3,475**	3,474	1,769
Total assessed risk exposure				**247,838**	257,513	238,589

(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. Both categories held in the banking book attract a 0% risk weighting.

(3) Housing loans approved after September 5, 1994 having a loan to market valuation ratio in excess of 80% must be risk weighted at 100%. However, these loans may qualify for the 50% risk weighting if they are covered by an adequate level of mortgage insurance provided by an acceptable lenders mortgage insurer. These loans are reported under "all other assets".

(4) Total assets differ from those in the Group's statement of financial position due to the adoption of APRA's classification of certain items for capital adequacy purposes, particularly goodwill and general provision for doubtful debts. In addition, fair values of trading derivative financial instruments have been excluded as they have been incorporated into the calculation of the credit equivalent amount of off-balance sheet exposures.

(5) Under APRA Prudential Standard APS 113 "Capital Adequacy: Market Risk", Australian banks are required to hold sufficient levels of capital to cover market risk.

Gross loans and advances

Average balances

	2002 $bn	2001 $bn	2000 $bn
Average gross loans and advances			
Australia	**113**	102	91
Overseas	**103**	99	88
Total average gross loans and advances	**216**	201	179

The diversification and size of the Group is such that its lending is widely spread both in terms of geography and types of industries served. The loan portfolio continues to consist of short-term outstandings with 37.7% of the loans at September 30, 2002 maturing within one year and 24.1% maturing between one year and five years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after five years. The average balance of loans and advances in 2002 equated to 59.5% of the average total assets of the Group. This compares with 56.7% in 2001 and 62.8% in 2000.

Average gross loans and advances increased $14.2 billion or 7.1% to $215.5 billion in 2002, from $201.3 billion in 2001 and $179.2 billion in 2000. A continuing low interest rate environment assisted in growth in lending volumes.

Australian average gross loans and advances accounted for 52.3% of the total average gross loans and advances in 2002, compared with 50.7% in 2001 and 50.9% in 2000. Australian average gross loans and advances increased $10.8 billion, or 10.6% to $112.7 billion in 2002, from $101.9 billion in 2001 and $91.1 billion in 2000. The increase mainly reflects strong growth in housing lending.

Overseas average gross loans and advances increased $3.5 billion, or 3.5% to $102.8 billion in 2002, from $99.3 billion in 2001 and $88.0 billion in 2000. Excluding the impact of Michigan National Corporation and its controlled entities which were sold on April 1, 2001, overseas average gross loans and advances increased 12.7% in 2002. The increase mainly related to Europe and New Zealand, reflecting strong housing and term lending growth.

Loans by industry for the Group as at September 30, 2002

	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Government and public authorities	1,588	1,022	218	50	145	3,023
Agriculture, forestry and fishing	4,890	2,482	3,341	15	164	10,892
Financial, investment and insurance	3,053	13,454	3,734	3,681	1,254	25,176
Real estate construction	1,807	2,080	132	863	198	5,080
Manufacturing	2,034	4,011	1,227	824	683	8,779
Real estate mortgage	68,461	17,496	9,523	13	583	96,076
Instalment loans to individuals and other personal lending (including credit cards)	11,352	11,614	1,680			24,646

	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Lease financing	7,168	8,669	2		43	15,882
Other commercial and industrial	20,532	17,103	5,845	1,784	866	46,130
Total gross loans and advances	120,885	77,931	25,702	7,230	3,936	235,684
Deduct: Unearned income	(1,021)	(893)				(1,914)
Provisions for doubtful debts	(1,190)	(980)	(145)	(122)	(33)	(2,470)
Total net loans and advances	118,674	76,058	25,557	7,108	3,903	231,300

In Australia, net loans and advances grew by $14.3 billion, or 13.7% to $118.7 billion at September 30, 2002, with strong growth in housing lending and other personal lending. Residential mortgage loans increased by $12.8 million, or 23.1% to $68.5 billion, aided by a low interest rate environment and the Australian Commonwealth Government's first home buyers grant. Other personal lending grew by $1.5 billion, or 15.2% during 2002 to $11.4 billion.

In Europe, net loans and advances grew by $5.7 billion, or 8.1% to $76.1 billion at September 30, 2002; however, excluding the impact of exchange rate movements, net loans and advances grew by 11.9%. Residential mortgages increased by 3.5% and term lending increased 19.6%, reflecting the success of products such as the tailored business loan and Wholesale Financial Services lending.

In New Zealand, net loans and advances grew by $1.7 billion, or 7.2% to $25.6 billion at September 30, 2002; however, excluding the impact of exchange rate movements, net loans and advances grew by 2.1%. Growth was principally in relation to residential mortgages up 13.4%, reflecting the success of products such as GlobalPlus and Fly Buys housing loans, partially offset by a reduction in Wholesale Financial Services lending.

In the United States, net loans and advances grew by $2.6 billion, or 56.0% to $7.1 billion at September 30, 2002; however, excluding the impact of exchange rate movements, net loans and advances grew by 72.3%, resulting from growth in Wholesale Financial Services lending.

In Asia, net loans and advances decreased by $0.8 billion, or 17.1% to $3.9 billion at September 30, 2002, resulting from movements in end of period loan balances in relation to the Wholesale Financial Services operations.

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Impaired assets, provisions and allowance for loan losses

Non-accrual loans

		2002			2001	
	Gross $m	Specific provision $m(1)	Net $m	Gross $m	Specific provision $m(1)	Net $m
Australia	**888**	**299**	**589**	959	325	634
Europe	**545**	**145**	**400**	692	187	505
New Zealand	**27**	**4**	**23**	43	8	35
United States	**128**	**51**	**77**	31	5	26
Asia	**2**	**1**	**1**	7	3	4
Total	**1,590**	**500**	**1,090**	1,732	528	1,204
Percentage of risk-weighted assets	**0.6%**	**0.2%**	**0.4%**	0.7%	0.2%	0.5%

	2002 Gross $m	2002 Specific provision $m(1)	2002 Net $m	2001 Gross $m	2001 Specific provision $m(1)	2001 Net $m

	2002 $m	2001 $m	2000 $m
Net non-accrual loans	**1,090**	1,204	1,025
Total equity	**23,251**	23,557	21,407
Percentage	**4.7%**	5.1%	4.8%

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

Total non-accrual loans less specific provision for credit losses at September 30, 2002 were $1,090 million, a decrease of $114 million, or 9.5% from the 2001 balance of $1,204 million. This decrease reflects an improvement in asset quality across regions following a review of loan portfolios, most notably in relation to Wholesale Financial Services, with a view to reducing their risk profile and the Group's conservative approach to writing-off doubtful debts. The balance also reflects the impact of a large non-accrual loan in the United States.

Gross non-accrual loans at September 30, 2002 were $1,590 million, a decrease of $142 million, or 8.2% from the balance at September 30, 2001.

The Group's gross non-accrual loans to risk-weighted assets were 0.6% at September 30, 2002, a decrease from 0.7% at September 30, 2001, primarily reflecting an improvement in asset quality in relation to the Group's balance sheet (refer comment noted above). The Australian component of the gross non-accrual loans at September 30, 2002 was $888 million, decreasing $71 million, or 7.4% from 2001. In Europe, gross non-accrual loans decreased by $147 million or 21.2% to $545 million; however, excluding the impact of exchange rate movements, gross non-accrual loans decreased by 18.6%. In New Zealand, gross non-accrual loans decreased by $16 million or 37.2% to $27 million; however, excluding the impact of exchange rate movements, gross non-accrual loans decreased by 40.5% In the United States, gross non-accrual loans increased by $97 million to $128 million; however, excluding the impact of exchange rate movements, gross non-accrual loans increased $100 million, reflecting the transfer to non-accrual status of a large corporate exposure in Wholesale Financial Services.

The Group has specialist Credit Restructuring units operating in each region, which continue to result in the earlier identification and work-out of problem loans.

Provisions for doubtful debts closing balance by region

	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
Australia					
General	**971**	1,140	1,056	995	1,031
Specific(1)	**219**	266	208	231	193
	1,190	1,406	1,264	1,226	1,224
Europe					
General	**809**	803	642	528	542

	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
Specific(1)	**169**	222	178	164	167
	978	1,025	820	692	709
New Zealand					
General	**135**	154	137	132	133
Specific(1)	**10**	10	14	22	24
	145	164	151	154	157
United States					
General	**75**	85	383	377	403
Specific(1)	**48**	5	51	15	5
	123	90	434	392	408
Asia					
General	**32**	25	20	23	34
Specific(1)	**2**	5	3	26	13
	34	30	23	49	47
Group					
General	**2,022**	2,207	2,238	2,055	2,143
Specific(1)	**448**	508	454	458	402
Total provisions for doubtful debts	**2,470**	2,715	2,692	2,513	2,545
Percentage of risk-weighted assets	**1.0%**	1.1%	1.1%	1.3%	1.3%

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

Total allowance for loan losses, excluding off-balance sheet credit exposures, held at September 30, 2002 were $2,470 million or 1.0% of risk-weighted assets, compared with $2,715 million or 1.1% of risk-weighted assets at September 30, 2001. Of the total allowance for loan losses at September 30, 2002, the general provision represented $2,022 million or 0.8% of risk-weighted assets.

Credit quality data

The Group has adopted a statistically-based provisioning methodology to determine its general provision for doubtful debts *(refer to notes 1 and 17 in the financial report).*

	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
Provisions for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**448**	508	454	458	402
General	**2,022**	2,207	2,238	2,055	2,143
Gross non-accrual and restructured loans	**1,596**	1,736	1,471	1,573	1,476
Charge to profit and loss account	**697**	989	588	581	587

Ratios(1)	%	%	%	%	%
Provisions for doubtful debts at year end as a percentage of year-end loans (before provisions)					
Specific	**0.19**	0.24	0.23	0.27	0.25
General	**0.86**	1.04	1.12	1.21	1.31
	1.05	1.28	1.35	1.48	1.56
Provisions for doubtful debts at year end as a percentage of year-end loans and acceptances (before provisions)					
Specific	**0.18**	0.22	0.20	0.24	0.22
General	**0.79**	0.95	1.00	1.07	1.15
	0.97	1.17	1.20	1.31	1.37
Provisions for doubtful debts at year end as a percentage of year-end risk-weighted assets					
Specific	**0.18**	0.20	0.19	0.23	0.20
General	**0.82**	0.86	0.94	1.04	1.07
	1.00	1.06	1.13	1.27	1.27
Non-accrual and restructured loans as a percentage of year-end loans (before provisions)	**0.68**	0.82	0.74	0.93	0.90
Charge to profit and loss account as a percentage of					
Year-end loans	**0.30**	0.47	0.29	0.34	0.36
Year-end loans and acceptances	**0.27**	0.43	0.26	0.30	0.31
Average loans and acceptances	**0.29**	0.44	0.29	0.29	0.34
Year-end risk-weighted assets	**0.28**	0.38	0.25	0.29	0.29

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

Provisioning coverage ratio

The provisioning coverage ratio (ie. the level of provisioning for non-accrual loans) 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 in the Group 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 loan 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 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:

	2002 %	2001 %	2000 %
Specific provision coverage(1)	**31.3**	30.4	29.8
Total provision coverage(1)	**161.0**	160.5	182.5

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

In addition to the specific provision, the Group maintains a general provision to provide cover for doubtful debts which are inherent in lending, but which are not identified. The Group has adopted a statistically-based provisioning methodology. Under this methodology, the Group estimates the level of losses inherent, but unidentified, in its existing loan portfolio, based on the historical loss experience of component exposures.

The operation of a statistically-based provisioning methodology is such that when individual loans are classified as non-accrual, a specific provision will be raised by making a transfer from the general provision for the amount required. The general provision is then re-established based on the remaining book of performing credit exposures *(refer to note 1 in the financial report for additional information).*

The general provision provides further coverage against these loans of 126.5% at September 30, 2002, bringing total effective coverage to 161.0%.

Deposits and other borrowings

Total deposits and other borrowings (net of set-offs) increased by $15.9 billion, or 8.3% to $206.9 billion at September 30, 2002, compared with $191.0 billion at September 30, 2001. Excluding the effect of exchange rate movements during 2002, deposits and other borrowings increased by 10.0%. The increase was the result of business growth, aided by the general increase in cash deposits following the impact of terrorist attacks on the US on September 11, 2001, and volatility and uncertainty in global equity markets.

Non-interest-bearing deposits at September 30, 2002 represent 6.6% of total deposits compared to 6.3% at September 30, 2001.

In Australia, deposits and other borrowings increased by $8.2 billion or 9.4% to $94.9 billion. In Europe, deposits and other borrowings increased by $5.0 billion, or 7.3% to $73.2 billion; however, excluding the impact of exchange rate movements, the increase was 11.1%. In New Zealand, deposits and other borrowings increased by $1.6 billion, or 8.2% to $20.9 billion; however, excluding the impact of exchange rate movements, the increase was 3.1%. In the United States, deposits and other borrowings increased by $1.1 billion, or 8.5% to $14.3 billion; however, excluding the impact of exchange rate movements, the increase was 19.7%. In Asia, deposits and other borrowings remained flat.

Deposits and other borrowings for the Group as at September 30, 2002

	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Deposits not bearing interest (net)	4,973	7,168	845	685	1	13,672
On-demand and short-term deposits	40,378	34,715	5,191	5,315	112	85,711
Certificates of deposit	13,361	19,752	2,342	645		36,100
Term deposits	25,870	11,538	10,048	2,354	3,502	53,312
Borrowings	10,308	3	2,475	5,283		18,069
Total deposits and other borrowings	94,890	73,176	20,901	14,282	3,615	206,864

Assets under management and administration

The assets of the Group as reported on the statement of financial position include assets managed on behalf of others. In addition, the Group and its associated entities also manage and perform administration for entities such as superannuation funds and units trusts, the assets of which do not form part of the total assets recorded on the Group's balance sheet, as set out below:

	2002 $m	2001 $m
By type		
Assets under management	**51,794**	51,333
Assets under administration	**12,800**	12,504
Total assets under management and administration	**64,594**	63,837
By region		
Australia	**60,138**	59,865
Europe	**1,835**	1,774
New Zealand	**2,151**	1,777
Asia	**470**	421
Total assets under management and administration	**64,594**	63,837
By investor		
Retail	**52,073**	53,112
Corporate	**12,521**	10,725
Total assets under management and administration	**64,594**	63,837

Total assets under management and administration increased by 1.2% to $64,594 million at September 30, 2002, compared with $63,837 million at September 30, 2001. The growth in total assets under management and administration reflects net sales and investment returns as volatility and uncertainty impacted global equity markets.

Risk management

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

An enterprise-wide risk management model structure implemented throughout the Group comprises a common policy framework and a 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, procedures and controls.

Overview and monitoring of this process throughout the Group is undertaken by the globally-focused divisions of Risk Management. Risk Management comprises Credit Risk Management, Internal Audit, Operational Risk, Insurance and Regulatory Compliance, Market Risk and Prudential Control, and Legal.

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

Developments are being made in the quantification of risks, and the allocation of appropriate risk capital. Portfolio management methods are being adopted to manage the Group's risk profile. Modelling to forecast future risk management trends is being used increasingly to assist in decision making. This will continue to increase in importance as the Group prepares to implement the Basel II Capital Accord industry across the various risk streams.

Periodically, Risk Management prepares and submits to the Board of directors (hereinafter referred to as the Board), the Group risk profile. This document profiles the major recognised balance sheet and off-balance sheet strategy/performance and operational risks, together with procedures for their day-to-day management, control and responsibility.

A Group Risk Policy Committee, comprising executive and senior management, is the principal risk policy decision making body within the Group. A Risk Policy Committee also exists in each region. These Risk Policy Committees operate under criteria detailed in a risk management template.

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

Credit risk

Credit risk is the potential that a bank borrower or a counterparty will fail to meet its obligations in accordance with agreed terms.

The Group's credit risk management infrastructure is framed to provide sound management principles and practices for the maintenance of appropriate asset quality across the Group.

Credit Risk Management, a unit of Risk Management, is structured to develop and maintain credit policies and key credit risk systems, provide monitoring and reporting of asset quality, and undertake the independent oversight of credit portfolios across the Group.

The management of credit risk within the Group is achieved through both the traditional focuses on approval and monitoring of individual transactions together with analysis of the performance of the various credit risk portfolios. Portfolio monitoring covers such areas as industry or geographic concentrations and delinquency trends.

Credit risk within the life insurance business arises from money market investments, investment in bonds, loans, reliance on reinsurance and counterparty exposure from the use of derivatives. The investment-linked funds management business, from a shareholder perspective, is considered to have minimal credit risk exposure as the investors bear both the investment risk and reward.

Establishing an appropriate credit risk environment

Significant credit risk strategies and policies are approved, and reviewed annually, by the Board, which, through such policies as industry concentration limits, also establishes the Group's tolerance for risk. These policies are delegated to, and disseminated under the guidance and control of, executive management.

The Group's credit policies, which are subject to ongoing review, are documented and disseminated in a form that provides a consistent view of all major credit policies supporting the credit operations of the Group.

For complex credit products and services, Credit Risk Management provides product profiles that identify and quantify risks, and establish the means of mitigating such risks.

Single large exposure policies and industry concentration limits are in place across the Group. Overall composition and quality of credit portfolio exposures are monitored and periodically reported to the Board, and, where required, to the relevant regional supervisory authorities.

A key factor in the introduction of new products and services is the identification of credit risk inherent in such products and services. This is managed through a process requiring acceptance by all impacted areas of the business and approval by Risk Policy Committees prior to implementation.

Operating under a sound credit granting process

The Group's established credit culture reinforces the continued use of sound credit granting criteria. These include:

- establishment of overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties for both on-balance sheet and off-balance sheet exposures;
- satisfaction with repayment capacity and integrity of the counterparty;
- use of financial covenants;
- use of collateral; and
- consideration of economic and industry conditions.

Supporting the Group's credit culture are well-defined and documented policies and processes for the granting of credit. The key elements of the process include:

- clearly-defined authorities for the approving of credit; and
- a system of overview of credit approvals by a higher level of authority to ensure adherence to policies and good credit practice.

The current year has seen the implementation of new financial analysis software in all member banks. The new software provides for common templates across the Group for credit applications for the Business units in the Financial Services businesses and Wholesale Financial Services, and drives analysis and commentary on all of the critical credit assessment factors.

The Group's credit rating system has been the hub of credit assessment and related processes for a number of years. The system, based on probability of default of a counterparty, has been implemented globally and provides meaningful differentiation of credit risk, and will enable greater focus in pricing for risk.

For consumer credit, robust scoring solutions are in place and are supported by the mandatory use of appropriate monitoring tools. These tools provide the essential continual review of data integrity, scorecard performance and decision strategies. Software to validate and verify input data is used globally to support data integrity and prevent fraudulent activity.

Maintaining an appropriate credit administration, measurement and monitoring process

Efficient and effective credit administration operations and adequate control over back office procedures such as monitoring documentation, contractual requirements, legal covenants and collateral are recognised as being vitally important aspects of the end-to-end credit process.

The Group assigns these responsibilities to various business units (eg. Cards, Payments, and Asset Finance and Fleet Management), together with centralised structures supporting the branch network, and business bankers, such as Shared Services (Lending Services). These business units are all subject to quality controls and periodic audit.

Monitoring the condition of individual credits in the Business units in the Financial Services businesses and Wholesale Financial Services principally rests with the customer-facing relationship managers, with overview by supervising authorities.

Exception reporting of credits that are outside agreed arrangements continues to be enhanced. These enhancements will provide the Group with the ability to monitor credit portfolios independently of relationship management.

Ensuring adequate controls over credit risk

There is a formal process, undertaken by specialist units, of independent oversight of credit in each region across the Group. Detailed quarterly reports are submitted to executive management and the Audit Committee. Additionally, credit processes and policy compliance are subject to internal audit and targeted credit reviews of specific business units or regions are undertaken as considered appropriate.

On a regular basis, credits that are outside agreed arrangements are reported to the appropriate levels of authority for attention and monitoring of actions taken.

Delinquent credits pass to specialist units that undertake the collections and recovery processes. Credit Restructuring, a functional stream reporting to Credit Risk Management, has proven highly effective in remediating stressed credits and exiting severely impaired credits with minimal losses. The Group is considered to employ industry best practice in this regard, with the use of skilled internal resources, supported by external secondment and upskilling of internal staff.

The role of supervisors

The Group is subject to supervision by the Australian Prudential Regulation Authority (APRA), together with the local supervisors in each of the countries in which the Company, or its subsidiary banks, carry on business. In addition to regular dialogue, APRA undertakes periodic visits to the Company to review asset quality and the operation of credit risk management processes.

The Group also provides quarterly information to APRA, detailing exposures to individual customers or groups of related customers in excess of 10% of total Tier 1 and Tier 2 capital. Advance notification to APRA is required prior to approving any exceptionally large exposures.

Market risk

Market risk is the potential for losses to the Group resulting from adverse changes in interest rates, foreign exchange rates, option volatility and commodity prices in the financial markets in which the Group operates.

Trading risk management

The Group has a comprehensive independent market risk control framework in operation. Market Risk and Prudential Control is responsible for approving and monitoring trading limits and the approval of new products to be used by the Markets unit. This risk control function is fully segregated from Wholesale Financial Services and the Markets unit to ensure the independence necessary for prudent internal risk management and to satisfy regulatory requirements.

Value at Risk (VaR)

Trading risk is managed using VaR limits, supplemented by stress testing, scenario analysis, concentration limits and position and sensitivity limits. The Markets unit has a VaR limit approved by the Board to cover all trading activities.

Limits for the management of trading risk are delegated to regional or global management in accordance with the organisational structure of the Markets unit. VaR is applied to all activities conducted by Markets irrespective of whether mark-to-market or accrual accounting applies to the specific activity.

VaR methodology

VaR is an estimate of potential losses resulting from shifts in interest rates, foreign currency prices, option volatility and commodity prices. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions.

VaR can be calculated using a number of different methods. The Group's VaR is predominantly calculated using historical simulation. Portfolio transactions are repriced according to daily market shifts over two years of market history. The 99th percentile loss is reported as VaR. For example, a VaR exposure of $1 million means that on 99 days out of 100, given the historical behaviour of rates, an overnight loss on the trading portfolio should not exceed $1 million.

The confidence level used in this method has changed since 2001, when VaR was measured at a 95% confidence level. Production of 95% VaR was discontinued in April 2002. The change to a 99% interval was made to align internal reporting to regulatory reporting. The change also has the advantage of including large market shifts previously excluded from the VaR results.

The Group's VaR should be viewed in light of the limitations of the methodologies used. These limitations include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. The historical data may cause the underestimation of losses in more volatile market conditions, or the over-estimation of losses in placid market conditions;
- market shifts may exceed the most extreme shifts in the historical data leading to significant underestimation of losses;
- VaR methodology assumes that positions are held for one day and no attempt is made to manage risk during that day. The positive or negative impact of transactions intended to manage risk on the portfolio are excluded from the loss estimate; and
- VaR is calculated at the close of business and positions may change substantially during the course of the trading day. Intra-day exposures are not subject to intra-day VaR calculations.

Given these limitations of VaR methodology, the Group employs supplementary risk measures in the form of stress testing, to estimate losses resulting from extreme market shifts, and position and sensitivity limits, which provide specific controls on risk at a portfolio level.

The following table shows the Group's VaR for all member banks' trading portfolios, including both physical and derivative positions. The figures reflect the potential losses across products and regions in which the Group operates.

		2002	
Value at Risk at 99% confidence	**Average value $m**	**Minimum value(1) $m**	**Maximum value(1) $m**
Foreign exchange risk	7.3	1.8	26.5

Value at Risk at 99% confidence	Average value $m	2002 Minimum value(1) $m	Maximum value(1) $m
Interest rate risk	15.1	9.0	23.3
Volatility risk	3.6	2.4	5.1
Commodities risk	0.3		0.9
Diversification benefit	(7.1)	n/a	n/a
Total	19.2	11.4	34.2

(1) The VaR numbers in these tables could be taken from different days; hence, they are not additive.

A comparison of 99%VaR for the half year to September 30, 2002 with the half year to March 31, 2002, is incorporated to provide an indication of changing market risk levels during the year:

Value at Risk at 99% confidence	Half year to Sep 30, 2002 $m	Mar 31, 2002 $m
Average value during reporting period		
Foreign exchange risk	7.1	7.4
Interest rate risk	16.0	14.2
Volatility risk	3.7	3.4
Commodities risk	0.4	0.2
Diversification benefit	(7.0)	(7.2)
Total	20.2	18.0
Minimum value during reporting period(1)		
Foreign exchange risk	3.0	1.8
Interest rate risk	10.1	9.0
Volatility risk	2.4	2.6
Commodities risk	0.1	
Maximum value during reporting period(1)		
Foreign exchange rate	19.0	26.5
Interest rate	22.7	23.3
Volatility risk	5.1	4.7
Commodities risk	0.9	0.6

(1) The VaR numbers in these tables could be taken from different days; hence, they are not additive.

Balance sheet (non-trading) risk

The Group Asset and Liability Management Committee (Group ALCO), under delegated Board authority, sets policies in relation to the management of structural balance sheet exposures. These exposures include structural interest rate risk, structural foreign exchange risk and liquidity risk. The Group's global structural balance sheet risk is monitored against approved policies by Group Balance Sheet Management and reported on a monthly basis to Group ALCO.

Wealth Management and each regional bank in the Group has an Asset and Liability Management Committee (ALCO) which is delegated the responsibility for managing local structural balance sheet risks in accordance with Group Balance Sheet Management policies. Group ALCO supervises the management of these local structural risks and monitors activity for compliance with Group policies.

Structural interest rate risk

In carrying out its business activities, each regional bank and non-banking entity in the Group strives to meet customer demands for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of assets and liabilities. As interest rates and yield curves change over time, the size and nature of these mismatches may result in a loss or gain in earnings.

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

Structural interest rate risk is calculated using balance sheet simulation processes, which are undertaken across the Group's Wealth Management and banking operations. The balance sheet simulation process is based on planned product volumes and margins, which are regularly updated to reflect the Group's latest views on business projections and interest rate environments.

The results of balance sheet simulations, together with other balance sheet risk management information and strategies, are presented and reviewed by Wealth Management and each regional bank ALCO, Group ALCO on a monthly basis and at scheduled Board meetings.

The table below presents a summary of the aggregated structural earnings at risk relating to non-trading assets and liabilities (other than mortgage servicing rights) that are sensitive to changes in interest rates. Based on the structural interest rate risk position at balance date, the table shows the possible impact on net interest income, for the year ended September 30, 2003, under a rising or declining interest rate environment.

The Group applies a wide range of interest rate scenarios in measuring structural interest rate risk. These interest rate scenarios are derived using estimates of volatility to generate a range of potential outcomes around the market implied yield curve. This provides the ability to derive a statistical distribution of potential movements in net interest income. To capture a wide range of potential outcomes, structural interest rate risk is measured to a 99% confidence interval.

The interest rate scenarios for the non-banking entities are based on a sudden and sustained 50 basis point increase or decrease in market interest rates over 12 months.

The impact of interest rate movements on the net interest income of life insurance and funds management entities and mortgage servicing rights owned by HomeSide Lending, Inc. are not incorporated within the table below. However, interest rate movements are one of the factors taken into account in determining the change in net market value of life insurance and funds management entities when applying Australian Accounting Standard AASB 1038 "Life Insurance Business".

	Forecast effect on net interest income 2003(1)		Forecast effect on net interest income 2002(1)	
	Rising rates $m	Declining rates $m	Rising rates $m	Declining rates $m

	Forecast effect on net interest income 2003(1)		Forecast effect on net interest income 2002(1)	
Australian dollars	67	(44)	21	(19)
Non-Australian dollars	21	(8)	(7)	(30)

(1) Represents the forecast effect on net interest income for the year ended September 30, 2003 and the prior year comparative.

The exposure expressed in non-Australian dollars is a net exposure of offshore banking and non-banking entities. Structural interest rate exposure in some currencies may be biased towards rising interest rates, whilst others may be biased to declining interest rates.

Structural foreign exchange risk

Structural foreign exchange 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.

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Reported earnings and equity are exposed to movements in exchange rates as a result of the need to translate earnings and net assets of the foreign operations into the Australian dollar consolidated financial statements. This exposure of reported earnings and equity to movements in exchange rates is sometimes referred to as an accounting or translation exposure which, in the absence of any long-term realignment in exchange rates, has no impact on underlying economic exposures.

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

The net assets of the Group's integrated foreign operations are denominated in US dollars. As at September 30, 2002 the net assets of US$120 million were fully hedged.

Real foreign exchange exposures, on the other hand, arise independent of the accounting process. Such transaction exposures arise from the risk that future cash flows will be converted to Australian dollars at less favourable rates than at present. Such cash flows could result from the repatriation of profits or capital back to the Company. The policy of the Group is to fully hedge these exposures at the time of commitment, if they are of a material nature. Hedging of transaction exposures relating to offshore acquisitions and divestments is assessed on a case-by-case basis.

Liquidity risk

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

Throughout the year, the Group managed liquidity risk by a combination of positive cash flow management, the maintenance of portfolios of high quality liquid assets, and diversification of its funding base. In accordance with the requirements of APRA, cash flow liquidity risk is measured and managed in the Group's banking entities on a cash flow basis. Each regional bank is required to monitor liquidity under both "going concern" and "name crisis" scenarios, and cash flow mismatch limits have been established to limit the Group's liquidity exposure. In addition, regional banks are required to hold liquid asset portfolios to meet any unexpected cash flow requirement.

Regulatory authorities in some countries in which the Group operates may impose additional requirements to ensure that liquidity is managed prudently. These requirements may require the holding of a reserve deposit account with the central bank or the holding of a portfolio of liquid securities.

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

A contingency plan has also been established for management of an escalated liquidity requirement where the Group experiences either restricted access to wholesale funding, or a large increase in withdrawal of funds.

Refer also to "liquidity and funding" on page 60.

Mortgage servicing rights

The Group was, until the closing of the sale of SR Investments, Inc. on October 1, 2002, exposed to fluctuations in the value of mortgage servicing rights through its investment in US-based controlled entity, HomeSide Lending, Inc. The economic value of the asset fluctuated based on a number of factors in the US including mortgage coupon rates, mortgage prepayment rates, mortgage servicing fees and the like.

Prior to completion of the sale a hedging strategy was used to protect the economic value of the asset that comprises a range of financial instruments including interest rate swaps, mortgage securities, options and treasury securities. A perfect hedge could not be achieved and therefore the effectiveness of the hedging strategy may have been impacted by modelling versus actual prepayments and unexpected volatility in the relationship between mortgage rates and other interest rates, the relationship between long-term and short-term rates, and several other factors. As a result, material changes may have occurred in the value of the asset, which could not be fully covered by the hedging strategy.

HomeSide Lending, Inc. established risk management policies and a Mortgage Servicing Rights Hedge Committee to oversee management of the risk inherent in the mortgage servicing rights asset.

Risk management policies were extensively reviewed and modified following the write-down in the mortgage servicing rights asset during the prior year.

The Group will no longer have exposure to mortgage servicing rights following the closing of the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) on October 1, 2002, as detailed on page 40.

Life insurance and funds management market risk

The life insurance business is exposed to market risk arising from adverse movements in market prices affecting fee income on investment-linked policies and the returns obtained from investing shareholders' capital held in each life company. Market risk is also affected by mismatches between assets and the guaranteed returns offered on some classes of policy, which may not have been effectively hedged through the matching of assets.

The Group attempts to, wherever possible, segregate policyholder funds from shareholder funds. Appropriate investment mandates are then developed for each. The Group (for investment mandates set for assets in policyholder funds) attempts to match asset characteristics with the nature of policy obligations; however, certain clauses included in policy and sales documents, regulatory constraints or the lack of suitable investments may affect this.

The majority of the policyholder assets are held for investment-linked policies where the policyholder bears the risk of movements in the market value and determines the allocation of the assets. Should markets fall, fee income will decrease as it is based on the amount of assets invested.

Market risk in the life insurance and funds management businesses also arises from movements in the value of the controlled entities of National Australia Financial Management Limited. The economic value of these assets fluctuates based on a number of factors including interest rates, retention rates and fee income.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, people, or systems, or from external events.

Individual business units are responsible for the development of action plans to mitigate high risks. The documented plans are reported to executive management and the Board on a regular basis for their information and approval.

Operational Risk is responsible for co-ordinating the risk assessment process of new products and services to ensure changes occurring within the Group and industry are reviewed in a timely manner.

To enhance the Group's ability to identify, measure and manage operational risk, a systematic framework and methodology for operational risk management has been developed and implemented in each regional bank. The methodology includes risk modelling, risk evaluation, and risk forecasting (which is under development). Risk modelling is the statistical estimation of operational risk exposure based on internal and external historical loss experience. Risk evaluation involves the quality mapping and appraisal of the internal control environment based on end-to-end evaluation criteria. Risk forecasting is the forward-looking analysis of new and emerging risks, which may not be captured or recognised in historical loss experience.

Regulatory compliance

The Group's regulatory compliance framework aims to ensure that it has met the obligations imposed on it by relevant laws, regulators, industry codes and the Group's own organisational standards.

Regulatory Compliance seeks to ensure that the Group pro-actively manages and meets legislative and fiduciary requirements across its amalgamated product portfolios and corporate obligations.

The Group's reputation is fundamental to its success. Therefore, the Group aims to foster a positive compliance culture through the development of compliance processes, supplemented by tools that are incorporated into the core operations of the business.

The Group works towards an actionable and communicable compliance framework that is constantly re-evaluated with a view to promoting best practice compliance standards.

Country risk

Sound international credit practices require not only commercial credit analysis of the counterparty, of the type normally associated with domestic credit, but also an assessment of country risk. Country risk arises from economic, financial, political or social factors within a country, which may affect a counterparty's ability and willingness to repay loans made by the Group. This consideration is applied notwithstanding the fact that the counterparty's own credit standing domestically might not have been impaired.

The Group has an established process for measuring country risk, which is used in determining and monitoring its cross border exposures. This includes setting prudential cross border limits based upon the Group's maximum appetite to each country. Amongst other things, these limits are reflective of a country's credit grading, size, level of foreign exchange reserves and ability to meet financial obligations.

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

Cross border outstandings by industry category

The following table analyses the aggregate cross border outstandings due from countries other than Australia where such outstandings individually exceed 0.75% of the Group's assets. For the purposes of this presentation, cross border outstandings are based on the country of domicile of the counterparty 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.

	Bank and other financial Institutions $m	Other commercial and industry $m	Total $m	% of Group total assets	Commitments including irrevocable letters of credit

As at September 30, 2002					
Germany	5,132	2,075(1)	7,207	1.9	3,748
United Kingdom	4,358	1,507	5,865	1.6	6,686
United States	1,596	3,540	5,136	1.4	11,916
As at September 30, 2001					
Germany	6,164	874	7,038	1.9	3,660
United Kingdom	4,007	1,153	5,160	1.4	5,882
Japan	4,053	249	4,302	1.1	129
United States	2,056	2,589	4,645	1.2	10,776
As at September 30, 2000					
United Kingdom	2,093	1,192	3,285	1.0	3,744
Japan	5,384	125	5,509	0.6	2,887
United States	1,424	1,481	2,905	0.8	6,942

(1) Includes $79 million relating to governments.

Life insurance risk

Life insurance risk occurs when the experience of mortality and morbidity claims compares adversely to that assumed when pricing life insurance policies. Factors affecting this include the trend of future claims and incidence of actual claims, unforeseen diseases or epidemics, and longer than assumed recovery periods for morbidity claims. Life insurance risk also occurs when the mortality and morbidity experience is higher than the assumptions used to determine the fair value of the life insurance business.

These risks are controlled by ensuring that the Group's underwriting policies and procedures adequately identify any potential risk, while retaining the right to amend premiums on risk policies where appropriate, and through the effective use of reinsurance. The experiences of the Group's life insurance business and that of the industry are reviewed on an annual basis to ensure that the risks continue to be effectively managed.

Disclosure and internal control and procedures

Under new US legislation applicable to the Company, the Chief Executive Officer and the Chief Financial Officer must each review and evaluate the Group's disclosure controls and procedures and other internal controls.

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as at September 30, 2002. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as at September 30, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls, subsequent to September 30, 2002.

Transactions with related and other non-independent parties

In the year to September 30, 2002, the Group had a number of related party transactions *(refer to note 52 in the financial report).* These transactions were made in the ordinary course of business and were normally subject to commercial terms and conditions or charged on the basis of equitable rates agreed between the parties (including interest rates and collateral), as those prevailing at the time for comparable transactions with other persons. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

Other non-independent parties are parties that are able to negotiate terms of transactions that are not on an arm's length basis, but do not meet the definition of a related party. The Group is not aware of any relationships or transactions with such parties that would materially affect its financial position or results of operations.

Risk factors

Business conditions and general economy

As an international financial services group, the Group's businesses are affected by the external environment in the markets in which it operates. The profitability of the Group's businesses could be adversely affected by a worsening of general economic conditions in Australia, the UK, the US, or elsewhere, as well as by foreign and domestic trading market conditions. Such factors could also adversely affect the credit quality of the Group's on-balance sheet and off-balance sheet assets. An economic downturn can impact the Group's results and financial position by affecting demand for the Group's products and services. Such a downturn, international disruption, dispute or event, or significantly higher interest rates could impact the credit quality of the Group's counterparties, increasing the risk that a greater number of the Group's customers would default on their loans or other obligations to the Group, or would refrain from seeking additional credit.

For a discussion of the Group's economic outlook, refer to "economic outlook" on page 28.

Competitive forces

The Group faces intense competition in all markets in which it operates (*refer to "competition" on page 21 for a detailed discussion).*

Government policies and economic controls

The Group's businesses and earnings are affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian Commonwealth Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Group's control.

Fluctuations in currency exchange rates

As the Group prepares its accounts in Australian dollars, changes in currency exchange rates, particularly between the Australian dollar and the British pound or US dollar, may have an adverse effect on the earnings that it reports.

For a discussion of the Group's risk management procedures, including the management of currency risk, refer to "risk management" on page 76.

Credit risk

The Group's provisions for doubtful debts provide for risks of losses inherent in loans and advances. Estimating potential losses is inherently uncertain and depends on many factors, including general economic conditions, rating migration, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements.

For a discussion of the Group's risk management procedures, including the management of credit risk, refer to "risk management" on page 76.

Market risk

The Group's earnings are also subject to market risk exposures, principally changes in market interest and foreign exchange rates, commodity and equity prices, and associated financial derivatives. The Group has in place stringent controls and processes governing market risk activities together with oversight at the appropriate level of management.

For a discussion of the Group's risk management procedures, including the management of market risk, refer to "risk management" on page 79.

Operational risk

As an international financial services group, the Group is exposed to a number of other risks relating to people, processes, and systems and from external events. These risks are identified, measured and managed by the co-ordinated efforts of the individual business units and the Operational Risk unit, through the rigorous application of the Group's systematic risk framework and methodology.

For a discussion of the Group's risk management procedures including the management of operational risk, refer to "risk management" on page 84.

Control systems and programs

The implementation of control systems and programs is dependent upon such factors as the Group's ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel, the competence and performance of employees, the co-operation of customers, or third party vendors.

Accounting developments

The following is a summary of the impact of recently issued accounting standards and other developments that are expected to have a material effect on the Group's future financial performance or position:

International accounting standards

The Financial Reporting Council in Australia has formally announced that Australian reporting entities will be required to adopt international accounting standards for accounting periods beginning on or after January 1, 2005. The adoption of international accounting standards is expected to have a material effect on the Group's financial performance and position. The timing and impact of these standards will be unknown until the International Accounting Standards Board finalises all international accounting standards and the Australian Accounting Standards Board (AASB) determines how and when they are to be applied in Australia.

Income taxes

In December 1999, the AASB reissued AASB 1020 "Income Taxes" (AASB 1020). The revised AASB 1020 requires income tax to be accounted for using the balance sheet method of tax-effect accounting in contrast to the current income statement method. It focuses on temporary differences rather than timing differences and requires the difference between the carrying amount of a revalued asset and its tax base to be recognised as an assessable temporary difference. The tax payable on the taxable income of a reporting period is to be recognised as an expense in the period and is referred to as current tax. The tax that remains unpaid at reporting date, is recognised as a current tax liability in the balance sheet. Future tax consequences of transactions recognised give rise to deferred tax liabilities or assets in the period in which the transactions are recognised. In May 2002, the AASB deferred the operative date of AASB 1020 for one year to reporting periods commencing on or after July 1, 2003. In October 2002, the AASB further deferred the operative date of AASB 1020 until the adoption of the equivalent international accounting standard, in line with the commitment for Australia to adopt all international accounting standards from January 1, 2005. In light of these developments, it is not possible to assess the impact of this standard on the Group.

Provisions, contingent liabilities and contingent assets

In October 2001, the AASB issued AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" (AASB 1044). AASB 1044 deals with the recognition, measurement and presentation of provisions and contingent liabilities and contingent assets. In general, the introduction of the standard will result in a tightening of the rules relating to the recognition of provisions and will limit the recognition of provisions for final dividends in annual financial reports. Provisions are required to be discounted to present value where the effect of discounting is material. The standard will apply to the Group's financial report for the first time in the year ending September 30, 2003 and is not expected to have a significant impact in general, apart from the Group no longer recognising a provision for dividend until dividends are declared.

Goodwill and other intangible assets

In June 2001, the Financial Accounting Standards Board in the US issued Statement of Financial Accounting Standards No 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 addresses how intangible assets should be accounted for in the financial statements upon their acquisition and after initial recognition. SFAS 142 requires that goodwill no longer be amortised to earnings, but instead be subject to periodic testing for impairment using a fair value approach. Goodwill of a reporting unit would be tested when events and circumstances occur indicating that it might be impaired. The Group will apply the new rules on accounting for goodwill and other intangible assets from October 1, 2002, for the purposes of presenting financial information in accordance with United States generally accepted accounting principles (US GAAP). It is estimated that the impact of adopting SFAS 142 will be a reduction in goodwill amortisation expense of $290 million under US GAAP in the first year of adoption. The impact in future years depends on the results of periodic impairment testing.

In addition to the above recently-issued accounting standards and other developments, the following is a recent accounting development in the Australian accounting regulatory environment.

Accounting surveillance program

In July 2002, the Australian Securities and Investments Commission (ASIC) announced a new accounting surveillance project directed to areas of accounting abuse of the type recently uncovered in the US. This project will focus on capitalised and deferred expenses, recognition of revenue, and recognition of controlled entities and assets.

In focusing on these issues, ASIC is reviewing compliance with Australian Accounting Standard AASB 1040 "Statement of Financial Position", AASB 1018 "Statement of Financial Performance", AASB 1004 "Revenue" and AASB 1024 "Consolidated Accounts".

The Group's accounting policies in relation to capitalisation and deferral of expenses are set out in note 1 in the financial report in relation to the recognition, measurement, and amortisation of software, loan-related costs, and life insurance deferred acquisition costs.

The Group's accounting policies in relation to revenue recognition are also set out in note 1 in the financial report in relation to interest income, dividend income, loan-related fees, trading income, fees and commissions, and life insurance business.

The Group's accounting policies in relation to controlled entities and special purpose entities are also set out in note 1 in the financial report and in the "liquidity and funding" section of the financial review.

In addition to reporting in conformity with the above accounting standards and related Group accounting policies, additional assurances have been provided by management to the Audit Committee to substantiate overall compliance.

Corporate governance

Corporate governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. The main corporate governance practices that were in place during the year to September 30, 2002 are discussed in this section.

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

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

Responsibilities and functions of the Board

The most significant responsibilities of the Board are:

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

Composition of the Board

The Board of the Company comprises one executive director and eight independent non-executive directors. The Chairman is a non-executive director and the Managing Director is the executive director.

The qualifications, experience and expertise of the directors are set out in the report of the directors.

Appointment of Board members

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

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

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

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

The retirement age for directors is fixed by the Company's constitution at 70 years of age.

Board appraisal

The Board has a process to review and evaluate the performance of the Board. The process involves consideration of all of the Board's key areas of responsibility. During the year, an external independent expert was brought in to review and make recommendations on the many aspects of the Board's activities. These recommendations, together with the outcome of an ongoing self-assessment program, are being adopted to enhance the effectiveness of the Board.

Remuneration of directors

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

The remuneration of non-executive directors includes a share acquisition component under a non-executive directors' share arrangement under the National Australia Bank Staff Share Ownership Plan.

Independence of Board members

The Company's constitution provides that a director may enter into an arrangement with the Company or with any controlled entity. Directors or their firms may act in a professional capacity for the Company or controlled entities, other than to act as an auditor of the Company. These arrangements are subject to the restrictions of the *Corporations Act* 2001 (Cth). Financial services are provided to directors, including the Managing Director and Chief Executive Officer, under terms and conditions that would normally apply to the public.

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

When a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, the director concerned takes no part in discussions nor exercises any influence over other members of the Board if a potential conflict of interest exists. The non-executive directors meet informally from time to time, without the Managing Director and Chief Executive Officer and other members of management being present, to ensure that the non-executive directors maintain independence of thought and judgement.

Board meetings

The frequency of Board meetings and directors' attendance at those meetings is set out in the report of the directors. Directors are expected to adequately prepare for meetings and attend and participate at Board meetings. Some on-site inspections are conducted which directors are also expected to attend. The Board meets once each year in Europe where the Group has a substantial proportion of its assets. Directors are assisted in gaining an understanding and knowledge of the Group through the provision of technical reading material, tutorials and workshops. The amount of work undertaken is considerable. The time requirement varies depending on the number of Board committee meetings and subsidiary company board meetings a director attends.

Access to independent professional advice

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

Restrictions on share dealings by directors

Directors are subject to the *Corporations Act* 2001 (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so), if they are in possession of inside information. Inside information is that information which is not generally available, and which if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Company.

Further, directors may only trade in the Company's securities (subject to the insider trading restrictions above) during each of the eight weeks commencing the day following each half yearly profit announcement or the date of issue of a prospectus. Directors are further required to discuss their intention to trade in the Company's securities with the Chairman prior to trading.

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

Shareholding requirements

Directors are required to hold at least 2,000 shares in the Company. Non-executive directors are required to receive at least 10% and up to 40% of their annual remuneration in the form of shares in the Company, through the non-executive directors' share arrangement under the National Australia Bank Staff Share Ownership Plan, which was approved by shareholders at the Company's annual general meeting in 2000. Such shares are acquired at market price. The executive director may receive share options as approved by shareholders and, as a staff member, may also receives shares in the Company. During 2002, the Managing Director and Chief Executive Officer did not receive shares or share options.

Details of all holdings by directors in the Company are set out in the report of the directors.

Confidential information

The Company, through its operations, possesses confidential information about a number of customers and organisations and, quite apart from its legal obligations including the requirements under the *Privacy Act* 1988 (Cth), the Company has systems and processes to ensure that this information is not released to its related entities, such as the funds management and development capital business units. This ensures that such information is not exploited for the benefit of the Company.

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

Board committees

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

Board and committee agendas

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

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

Audit Committee

Membership

The members of the Audit Committee at the date of this annual financial report are:

Mrs Catherine M Walter (Chairman);
Mr Peter JB Duncan;
Mr Graham J Kraehe; and
Dr Kenneth J Moss.

All members of the Audit Committee must be independent, non-executive directors. They are appointed for an initial term of three years. Membership is reviewed every three years and periodic rotation is encouraged whereby no more than one member each year can resign as a result of periodic rotation. At least one member of the Audit Committee is required to have accounting or related financial expertise, which would include past employment, professional qualification or other comparable experience.

Responsibilities and Audit Committee charter

The Audit Committee's role and responsibilities are documented in an Audit Committee charter, which has been approved by the Board and is reviewed annually.

The responsibilities of the Audit Committee are to:

- oversee and appraise the independence, quality, cost effectiveness and extent of the total audit effort;
- perform an independent overview of the financial information prepared by Company management for shareholders and prospective shareholders;
- evaluate the adequacy and effectiveness of the Company's and the Group's risk management and financial control, and other internal control systems and evaluate the operation thereof; and
- review and endorse the Chief Executive Officer's annual attestation statement in accordance with regulatory requirements.

The Audit Committee is required to meet at least four times per year, and during the year met on eight occasions.

The internal and external auditors, the Consulting Actuary, the Managing Director and Chief Executive Officer, the Chief Financial Officer, the Executive General Manager, Risk Management and other members of management are invited to attend meetings at the discretion of the Audit Committee. Non-executive directors who are not members of the Audit Committee may attend a meeting at any time.

External auditor independence

The Audit Committee is responsible for nominating the external auditor to the Board for re-appointment. If the Audit Committee recommends a change of external auditor to the Board, the Board's nomination of external auditor requires the approval of shareholders. The Audit Committee recommends to the Board the compensation of the external auditor.

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit. The Audit Committee meets with internal audit, the external auditor and the Consulting Actuary separately, without the presence of management, at least annually.

During the year, the Board put the Company's external audit services out to competitive tender. It initiated this move as a matter of good corporate governance and to ensure it had access to best practice audit services.

After a thorough selection process, the Board re-appointed KPMG as the Company's external auditor.

During the year, the Audit Committee took steps to further enhance procedures and policies relating to the oversight of the external auditor's independence. Inter alia, the external auditor will not provide services to the Company where the auditor would have a mutual or conflicting interest with the Company; be in a position where they audit their own work; function as management of the Company; or have their independence impaired or perceived to be impaired in any way.

Specifically, the external auditor will not normally provide the following services:

- bookkeeping or other services related to the accounting records or financial statements of the Group;
- financial information or information technology systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution-in-kind reports;
- actuarial services;

- internal audit outsourcing services;
- management functions, including temporary staff assignments or human resource services, including recruitment of senior management;
- broker or dealer services, investment advisor, corporate finance or investment banking services; and
- legal or litigation support services.

Procedures are in place governing approval of any non-audit work before the commencement of any engagement.

In accordance with the Audit Committee charter, the Company requires that the external audit engagement partner and review partner be rotated every five years.

The Audit Committee receives certified assurances from the external auditor that they meet the independence requirements of the Company's global regulators.

Compensation and Nomination Committee

Membership

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

Dr Edward D Tweddell (Chairman);
Dr Kenneth J Moss; and
Mr D Charles K Allen.

Responsibilities

The role of the Compensation and Nomination Committee is documented in the terms of reference as approved by the Board. In accordance with these terms of reference, the Compensation and Nomination Committee's responsibilities are to:

- monitor, review and make recommendations to the Board as necessary and appropriate regarding:
  - the objectives for and assessment of the performance of the Managing Director and Chief Executive Officer;
  - the compensation arrangements for the Managing Director and Chief Executive Officer, including incentive plans, other benefits and service contracts; and
  - the remuneration arrangements for non-executive directors;
- oversee the remuneration policies of the Group generally;
- review and approve:
  - offers under existing share and option plans from time to time on such conditions (not inconsistent with the provisions of the relevant plan) as the Compensation and Nomination Committee thinks fit, including setting the terms of issue of shares and options, within the aggregate number of securities able to be made available under the relevant plan as approved by the Board;
  - remuneration reviews and payments under current incentive plans for senior executives and reward pools under various specialist incentive plans;
  - fees and retirement benefits for the members of the boards of controlled entities; and

  - changes to the factors regarding the measurement of EVA®;
- review and make recommendations to the Board as appropriate, with regard to:

the size and composition of the Board;

the criteria for Board membership and desirable specifications of qualifications, experience and domicile for individual new appointees to the Board; and

identification of potential candidates for appointment to the Board; and

review the Compensation and Nomination Committee's terms of reference, as well as its composition, annually.

Appointment of senior executives and review of performance

The Compensation and Nomination Committee reviews the succession planning for senior executives and reports to the Board on such issues. Senior executives' remuneration is reviewed and determined by the Compensation and Nomination Committee and reported to the Board.

The Board reviews performance and sets the remuneration package applicable to the Managing Director and Chief Executive Officer following recommendations from the Compensation and Nomination Committee. This performance review involves meeting established performance-based criteria structured on increasing shareholder value.

The remuneration policy for senior executives is set out in the report of the directors.

Communication with shareholders/continuous disclosure

The Board's policy is that shareholders are informed of all major developments that impact on the Company. There is a detailed continuous disclosure policy in place, which is intended to maintain the market integrity and market efficiency of the Company's shares listed on international stock exchanges. The policy sets out the requirements on management globally to report to the Company Secretary, any matter that may have a continuous disclosure implication. Management is required to confirm quarterly that compliance with this policy has occurred at all times. The continuous disclosure process ensures compliance with the Company's continuous disclosure and reporting obligations, consistent with the Australian Stock Exchange Limited Listing Rules and the listing rules of the other exchanges on which the Company's securities are listed, the *Corporations Act* 2001 (Cth), and equivalent legislation in relevant jurisdictions. The continuous disclosure policy is regularly reviewed to ensure that it reflects, and is consistent with, both regulatory and legislative requirements, as well as the Company's open and transparent culture.

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

documents are provided to the Board containing an outline of obligations and requirements under the continuous disclosure regime and the consequences of non-compliance;

guidance is provided to management on identifying significant events from ongoing reviews of business and financial reports and minutes of board meetings of affiliate entities; and

regular reviews of global procedures are undertaken to ensure timely identification of disclosure material and materiality thresholds.

Information is communicated to shareholders through:

- the concise annual report (unless a shareholder has requested not to receive the document);
- the annual financial report (for those shareholders who have requested a copy);

- disclosures to the stock exchanges in Australia, London, Luxembourg, New York, New Zealand and Tokyo, the Australian Securities and Investments Commission and the US Securities and Exchange Commission;
- notices and explanatory memoranda of annual general meetings;
- occasional letters from the Managing Director and Chief Executive Officer and Chairman to specifically inform shareholders of key matters of interest; and
- the Company's website on the internet: *www.national.com.au*.

Risk management

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

More comprehensive details on risk management appear on pages 76 to 87.

Ethical standards

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

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

- personal conduct;
- honesty;
- relations with customers;
- prevention of fraud;
- financial advice to customers;

conflict of interest; and

disclosure.

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

The Board supports the Code of Conduct issued by the Australian Institute of Company Directors.

In addition, the Company strongly supports the Code of Banking Practice, recently launched by the Australian Bankers Association, which includes:

internal dispute resolution processes;

the definition of standards of disclosure for potential guarantors;

the extension of the Code of Banking Practice to include small business customers for the first time; and

the creation of an independent external body, the Code Compliance Monitoring Committee, to investigate complaints about non-compliance.

The Company is working towards being ready for the implementation of the Code of Banking Practice in August 2003, from which time compliance with the Code of Banking practice will be monitored.

Corporate governance framework controlled entities of the Company

The Company has a corporate governance framework, which is provided as guidance to directors of controlled entities of the Group.

The corporate governance framework sets out the specific roles and responsibilities of the boards of controlled entities of the Group, in the context of setting the key expectations that the Company's Board would have of those boards of controlled entities of the Group.

Horwath 2002 corporate governance report

During 2002, research into corporate governance in Australia was commissioned by accounting company Horwath (NSW) Pty Limited and carried out by The University of Newcastle Business School in Australia. The Horwath 2002 corporate governance report provided evidence in relation to the debate on corporate governance. This evidence was derived from a systematic and objective analysis of the governance structures of Australia's top 250 listed businesses.

Based on the model described in the report, an overall corporate governance assessment and ranking was performed for each of the 250 companies. The Company has been assessed as equal first in ranking with eight other companies. The Company is the only financial services company to be ranked at this level. The companies that have achieved this ranking have been described as follows:

"Corporate governance structures were outstanding. The structures met all best practice standards and could not be faulted. Companies demonstrated unequivocal independence in all key areas including their board of directors, audit committees, remuneration committees and nomination committees. The board and related committees met regularly and disclosure on related party transactions was clear and unambiguous."

The full report can be obtained from the following website at *http://www.newcastle.edu.au/school/newc-business/horwath.html*.

United States *Sarbanes-Oxley Act of 2002*

On July 30, 2002 the *Sarbanes-Oxley Act of 2002* became law in the US. This legislation applies to the Group, and introduces, among other things, a broad range of governance-related reforms. The Group has best practice corporate governance structures in place as demonstrated by the recognition it received in the Horwath 2002 corporate governance report. The Group is continuing to test and challenge its existing practices and procedures and take those steps necessary to maintain its position at the forefront of good governance practices.

Report of the directors

The directors of National Australia Bank Limited (hereinafter referred to as the Company) present their report together with the financial report of the Company and of the Group, being the Company and its controlled entities, for the year ended September 30, 2002 and the audit report thereon.

Directors

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

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

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

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

Experience

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

Other directorships

Amcor Limited, The Australian Gas Light Company (AGL), Air Liquide Australia Limited and Earthwatch Australia.

Mr Frank J Cicutto
BCom, FAIBF, FCIBS

Mr Cicutto, the Managing Director and Chief Executive Officer, was appointed to the Board as an executive director in 1998.

Experience

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

Other directorships

Melbourne Business School Limited.

Dr J Brian Clark
DSc

Dr Clark was appointed an independent non-executive director in 2001.

Experience

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

Other directorships

Vodafone Pacific Limited and associated group entities.

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

Mr Duncan was appointed an independent non-executive director in 2001. He is a director of Bank of New Zealand and a member of the Audit Committee.

Experience

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

Other directorships

Orica Limited, GasNat Australia Limited and Commonwealth Scientific and Industrial Research Organisation (CSIRO). President of the Australian German Association. Honorary member of the Business Council of Australia.

Mr Graham J Kraehe
BEc

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

Experience

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

Other directorships

Brambles Industries Limited, Brambles PLC, The News Corporation Limited and Djerriwarrah Investments Limited. Chairman of BHP Steel Limited. President of the German-Australian Chamber of Industry and Commerce.

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

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

Experience

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

Other directorships

Adsteam Marine Limited, GPT Management Limited, Hunter Area Health Service. Chairman of Australian Maritime Safety Authority, Boral Limited and Centennial Coal Company Limited.

Mr Geoffrey A Tomlinson
BEc

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

Experience

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

Other directorships

Amcor Limited, Mirrabooka Investments Limited. Chairman of Neverfail Springwater Limited, Reckon Limited, Funtastic Limited and Programmed Maintenance Services Limited. Deputy Chairman of Hansen Technologies Limited.

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

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

Experience

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

Other directorships

Chairman of Ansell Limited. Director of Australian Postal Corporation and Commonwealth Scientific and Industrial Research Organisation (CSIRO).

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

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

Experience

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

Other directorships

Australian Stock Exchange Limited, Orica Limited, Queensland Investment Corporation, Australian Foundation Investment Company Limited, Melbourne Business School Limited and The Walter and Eliza Hall Institute of Medical Research.

Board changes

During the year Dr Brian J Clark and Mr Peter JB Duncan were appointed as independent non-executive directors.

Directors' and officers' indemnity

The Company's constitution

Article 21 of the Company's constitution provides:

Every person who is or has been an officer is entitled to be indemnified out of the property of the Company to the "relevant extent" against:

- every liability incurred by the person in the capacity as an officer (except a liability for legal costs); and
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil, criminal or of an administrative or investigatory nature, in which the officer becomes involved in that capacity,

unless:

- the Company is forbidden by statute to indemnify the person against the liability or legal costs; or
- an indemnity by the Company of the person against the liability or legal costs would, if given, be made void by statute.

The reference to the "relevant extent" means to the extent and for the amount that the officer is not otherwise entitled to be indemnified and is not actually indemnified.

The Company may also pay, or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in their capacity as an officer, including a liability for legal costs, unless:

- the Company is forbidden by statute to pay or agree to pay the premium; or
- the contract would, if the Company paid the premium, be made void by statute.

The Company may enter into a contract with an officer or former officer to give:

effect to the rights of the officer or former officer conferred by Article 21; and

an officer or former officer access to papers, including those documents provided from or on behalf of the Company or a related body corporate of the Company to the officer during their appointment and those documents which are referred to in such documents or were made available to the officer for the purpose of carrying out their duties as an officer.

Article 21 does not limit any right the officer otherwise has. In the context of Article 21, "officer" means a director, secretary or executive officer of the Company or of a related body corporate of the Company.

The existing and former directors, secretaries and executive officers of the Company and of its related bodies corporate are indemnified in terms of Article 21.

The Company has executed deeds of indemnity in terms of Article 21 in favour of each non-executive director of the Company and each non-executive director of a related body corporate of the Company.

Directors' and officers' insurance

During the year, the Company, pursuant to Article 21, paid a premium for a contract insuring all directors, secretaries, executive officers and employees of the Company and of each related body corporate of the Company. The insurance does not provide cover for the independent auditors of the Company or of a related body corporate of the Company.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance and the amount of the premium paid under the contract.

Principal activities and significant changes in nature of activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services. On October 1, 2002, the Group ceased its mortgage servicing activities in the US.

Review of operations

A review of the operations of the Group during the year, and the results of those operations are contained on pages 2 to 3, 11 to 13, and 17 to 28 of the concise annual report 2002. For a more detailed review of the operations of the Group, refer to pages 6 to 90 of this annual financial report.

Group results

The net profit of the Group for the year ended September 30, 2002 attributable to the members of the Company was $3,373 million, an increase of $1,290 million (61.9%) on the previous year. The net profit before significant items of the Group for the year ended September 30, 2002 was $3,785 million, a decrease of $239 million (5.9%) on the previous year's result. Significant items included in the current year's result were $406 million after tax (2001: $1,936 million).

A detailed review of the Group results is contained on pages 11 to 13 of the concise annual report 2002. For a more detailed review of the Group results, refer to pages 6 to 90 of this annual financial report.

Dividends

The directors have declared a final dividend of 75 cents per fully paid ordinary share, 90% franked, payable on December 11, 2002. The proposed payment amounts to $1,151 million.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended September 30, 2001 of 68 cents per fully paid ordinary share, fully franked, paid on December 12, 2001. The payment amount was $1,054 million; and

- the interim dividend for the year ended September 30, 2002 of 72 cents per fully paid ordinary share, fully franked, paid on July 3, 2002. The payment amount was $1,115 million.

Information on the dividends paid and declared to date is contained in note 7 in the financial report.

The franked portion of these dividends carry imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. For non-resident shareholders of the Company, the unfranked portion of the dividend will be paid from the Company's foreign dividend account. Accordingly, for non-resident shareholders the unfranked portion of the dividend will not be subject to Australian withholding tax.

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

Significant changes in the state of affairs

In the opinion of the directors, there have been no significant changes in the state of affairs during the year ended September 30, 2002, other than the restructure of the organisation and the sale of SR Investment, Inc.

Restructure of the organisation

In October 2001, the Group launched a program to drive long-term growth, termed Positioning for Growth. Positioning for Growth was designed to ensure that the Group continued to meet its performance objectives whilst making the investments necessary to underpin future growth.

As part of this program, in January 2002, the Group announced plans for a new corporate structure based around its principal areas of operation and designed to support clearer accountability, greater customer focus, simpler reporting and reduced bureaucracy.

The five new lines of business are:

- Financial Services Australia;
- Financial Services Europe;
- Financial Services New Zealand;
- Wholesale Financial Services; and
- Wealth Management.

These business lines are supported by the following global functions Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO.

Sale of SR Investment, Inc. and HomeSide Lending, Inc.

In the prior year, a decision was taken by the Board to pursue the sale of the Company's wholly-owned controlled entity HomeSide Lending, Inc., after reviewing its position within the Group's core strategies of banking and wealth management.

On March 1, 2002, the Group sold the operating assets and operating platform of HomeSide Lending, Inc. to Washington Mutual Bank, FA. This resulted in a loss on sale of $8 million.

On October 1, 2002, the Group sold SR Investment, Inc. (the immediate holding company of HomeSide Lending, Inc.) to Washington Mutual Bank, FA. This resulted in a net profit on sale of $6 million, which has been recognised in the Group's profit and loss account for the year ended September 30, 2002.

The portions of the business sold contributed $98 million to the Group's 2002 result.

While the above matters are considered to be significant changes, a more detailed review of matters affecting the Group's state of affairs is also contained on pages 12 to 90 of this annual financial report.

Events after end of financial year

On October 21, 2002, the first two tranches of the Australian Commonwealth Government's tax consolidation legislation were determined to be substantively enacted for financial reporting purposes. This may impact the calculation of deferred tax assets and liabilities of certain entities within the Group from that date. The financial effects of this legislation cannot be estimated reliably at this point in time and have not been brought to account in the financial statements for the year ended September 30, 2002.

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

Future developments

Details of the likely major developments in the operations of the Group in future years and the expected results of those operations are referred to on pages 1 and 4 to 10 in the concise annual report 2002.

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

Environmental regulation

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

Rounding of amounts

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

Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Company by a member or other person entitled to do so under section 237 of the *Corporations Act* 2001 (Cth).

Remuneration policy and relationship to Company performance

Non-executive directors

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

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

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

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

Less than 15 years

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

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

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

for each completed year of service and proportionately for part of a year, as a non-executive director; or

15 years or more

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

During the year, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors. The contractual arrangements with existing directors will be "grandfathered" under the current plan. That is, current directors will either continue to accrue retirement allowance benefits under the current plan as approved by shareholders for their entire tenure as a director, or they will be provided with the opportunity to build flexibility into their remuneration. For all new non-executive directors, who would have no entitlement to a retirement allowance benefit, their directors' fees would be set at a higher level than the current fees payable. The new directors would then have flexibility in relation to their remuneration, including the opportunity to set aside additional superannuation beyond the compulsory superannuation guarantee levy, if so desired. The total level of fees paid to directors will be limited to the maximum aggregate amount approved by shareholders for this purpose.

The following table shows details of the nature and amount of each element of the emoluments of each non-executive director of the Company for 2002. No options have been granted to non-executive directors during or since the end of 2002 as part of their remuneration.

	Fees, cash component(1) $	Fees, share component(1)(2) $	Other benefits(3) $	Total remuneration $	Accrual of retirement allowance benefits $
Non-executive directors					
D Charles K Allen	286,253	106,091	23,893	416,237	313,111
J Brian Clark	79,781	30,050	6,614	116,445	30,067
Peter JB Duncan	106,870	16,350	8,911	132,131	32,100
Graham J Kraehe	116,299	23,925	9,639	149,863	60,081
Kenneth J Moss	115,241	22,333	9,579	147,153	36,278
Geoffrey A Tomlinson	195,847	41,900	16,205	253,952	63,000
Edward D Tweddell	145,040	12,050	12,020	169,110	64,403
Catherine M Walter	185,987	34,135	15,393	235,515	94,252

(1) Non-executive directors' remuneration represents fees in connection with their roles, duties and responsibilities as non-executive director, and includes attendance at meetings of the Board, Board committees and boards of controlled entities.

(2) The aggregate number of shares acquired by non-executive directors as part of their remuneration was 9,233 shares issued at an average price of $34.50.

(3) Reflects compulsory Company contributions to superannuation, which will reduce the amount otherwise payable as non-executive directors' retirement allowance.

Senior executives

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

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

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

Senior executive remuneration is made up of three components:

Base or fixed remuneration

This element reflects the scope of the job and the level of skill and experience of the individual;

Short-term incentive

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

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

Long-term incentive

This is currently paid through the issue of executive share options and links the reward of the executive directly to the total shareholder return (TSR) of the Company (calculated as share price growth and dividend yield). This aspect of the reward program focuses the executive on the future performance of the Group over the next three to eight years.

Before executive share options can be exercised, a performance hurdle must be met. This hurdle compares the TSR of the Company with the TSRs of the 50 largest corporations (excluding the Company) by market capitalisation on the stock market of Australian Stock Exchange Limited (ASX) as at the date the options are issued. The number of options that may be exercised, if any, depends on the relevant ranking of the Company compared with this group.

The executive must pay the full exercise price to acquire the shares.

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

Each option granted is over one ordinary share of the capital of the Company.

The following table shows the remuneration details for the five senior executives (including the executive director) receiving the highest emoluments from the Company and the Group during 2002:

Senior executive emoluments (current employees at September 30, 2002)

Name and position(1)	Salary package(2) $	Performance-based remunera-tion(3) $	Retention allowances (4) $	Other benefits (5) $	Total remunera-tion $	Options granted (6) (No.)	Exercise price(7) $	Date first exercisable	Fair value of options at grant date(8) $
Joseph J Whiteside(9) Former Chairman and Chief Executive Officer, HomeSide Lending, Inc.	1,493,381	3,380,917	316,961	690,259	5,881,518	75,000	36.14	14/6/2005	478,500
Peter B Scott Executive General Manager, Wealth Management	631,150	547,000	2,192,159	79,722	3,450,031	250,000	36.14	14/6/2005	1,595,000
Frank J Cicutto Managing Director and Chief Executive Officer	1,756,725	765,000		98,541	2,620,266				
Stephen C Targett Executive General Manager, Financial Services Europe	618,155	783,271		1,167,718	2,569,144	250,000	36.14	14/6/2005	1,595,000
Ian R Crouch Chief Information Officer	248,374	211,460		1,073,210	1,533,044	350,000	36.14	14/6/2005	2,233,000

Senior executive emoluments (ceased employees)

Name and position(1)	Salary package(2) $	Performance-based remuneration $	Retirement allowances (10) $	Other benefits (5) $	Total remuneration $	Options granted (No.)	Exercise price (7) $	Date first exercisable	Fair value of options at grant date(8) $
Robert MC Prowse Former Executive General Manager, Office of the CEO	714,187	181,238	2,384,336	53,493	3,333,254				
Glenn LL Barnes Former Executive General Manager, eTransformation	394,162	327,380	1,815,681	22,155	2,559,378				
Michael T Pratt Former Chief Executive Officer, Australian Financial Services	298,791	155,375	1,461,873	17,008	1,933,047				

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

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

(3) Reflects performance-based remuneration in respect of performance for the year to September 30, 2001, except for Ian R Crouch who was entitled to receive payment for the performance year to September 30, 2002 by year end under the terms of his employment agreement. The payment to Joseph J Whiteside includes an amount under a long-term incentive plan, which vested on the sale of SR Investment, Inc. and HomeSide Lending, Inc.

(4) Reflects payment made on retention. The payment to Peter B Scott was effective two years following the date of acquisition of the MLC group by the Company.

(5) Reflects non-salary package remuneration and includes Company contributions to superannuation, benefits received under the Group's employee share plans and expatriate benefits. The payments to Stephen C Targett and Ian R Crouch include payments for relocation costs.

(6) No options have been granted since September 30, 2002. Options issued to Ian R Crouch include 150,000 on commencement of employment.

(7) Refer to "share options" below for details of the valuation of options granted and an explanation of the performance hurdles that must be achieved before the options can be exercised.

(8) Fair value is based on a numerical pricing method. Refer to "share options" below and note 39 in the financial report for further information.

(9) Joseph J Whiteside ceased employment in October 2002, following the sale of SR Investment, Inc. and HomeSide Lending, Inc.

(10) Reflects payments made on termination and retirement (including long service leave).

Share options

The share options currently issued by the Company are options over ordinary shares granted by the Group under the Company's National Australia Bank Executive Share Option Plan No. 2 (plan). Note that the holders of exchangeable capital units have the right to exchange those units for ordinary shares in the Company or, at the Company's option, cash. Refer to note 32 in the financial report for full details of the number and terms of exchangeable capital units issued by the Group.

The number and terms of options over ordinary shares granted by the Group under the plan and the Company's valuation of those options at grant date are detailed below.

During and since the end of 2002, the following share options were granted to 751 senior employees (including the options granted to senior executives referred to immediately above):

Issue date of options	Exercise period of options	Exercise price of options $	Options held at September 30, 2002 (No.)	Options lapsed(1) during the period (No.)	Options granted (No.)	Fair value of options as at grant date(2) $
June 14, 2002	June 14, 2005 June 13, 2010(3)	36.14	11,261,000	2,500	11,263,500	71,861,130

(1) These share options lapse 30 days after the termination of employment.

(2) Fair value is based on a numerical pricing method. Refer below and to note 39 in the financial report for further information.

(3) Share options expire on the last day of their exercise period.

The plan was approved by shareholders by special resolution in January 1997 and options issued under the plan since that date are detailed in note 39 in the financial report.

The plan provides for the Board to offer options to executives of the Group to subscribe for fully paid ordinary shares in the Company. Options must not be issued if the total number of shares issued in the last five years under the Company's employee share or option plans and of outstanding options under its plans, including the proposed offer, exceeds 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. This calculation does not include offers made or shares or options acquired as a result of an offer made to a person situated outside Australia at the time of the offer or which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided to executive officers of the Company), otherwise than as a result of relief granted by the Australian Securities and Investments Commission.

Options are issued free of charge to participants in the plan. Each option is to subscribe for one fully paid ordinary share in the Company. The exercise price per share for an option is the market price of the Company's fully paid ordinary shares as at the date the option was issued. The market price is the weighted average of the prices at which the Company's fully paid ordinary shares were traded on the ASX in the one week up to and including the day of the issue of the option.

Generally, these options may not be exercised before the third anniversary of their issue, and must be exercised before the fifth or eighth anniversary (depending on the particular terms of each option) of issue. The Board may determine such other terms for the issue of options consistent with the ASX Listing Rules and the terms of the plan.

Options may, however, be exercised before the third anniversary of issue and notwithstanding the performance hurdle (described below) where an executive ceases employment with the Group as the result of death or total and permanent disablement. The Board may also allow the option holders to exercise the options irrespective of the normal criteria where certain events occur, such as the making of a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.

Options will lapse if unexercised on or before their expiry date or, for options issued prior to November 1999, if the Board determines that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any entity in the Group and for options issued after November 1999, 30 days after an executive ceases to be employed by the Group otherwise than as a result of death or total and permanent disablement.

A loan may be available to executives if and when they wish to exercise their options, subject to the provisions of applicable laws and regulations (including the US *Sarbanes-Oxley Act of 2002*). The plan 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.

Exercise of the options is subject to satisfaction of a performance hurdle. The performance hurdle for options issued after November 1999 is measured after the first three years by comparing the performance of the Company with the performance of other companies in which shareholders may potentially invest. Options become exercisable depending on the maximum total shareholder return of the Company relative to the total shareholder return of a group of companies during the relevant performance period. This group of companies is based on the top 50 companies listed on the ASX by market capitalisation (excluding the Company), determined at the date when the options are issued.

In accordance with US Accounting Principles Board Option No. 25 "Accounting for Stock Issued to Employees", the Company adopts the intrinsic value method for valuing options issued under the plan. Under the intrinsic value method, a nil value is ascribed to the options issued under the plan, as the exercise price and market value of the options at issue date are equivalent. Accordingly, a nil value is ascribed to options included in the senior executives' remuneration table above and a nil expense is recorded in the Group's profit and loss account. In July 2001, the International Accounting Standards Board (IASB) announced that as part of its work program it would review accounting for share-based payments (including employee share options and their repricing). The Company intends to adopt the new standard in relation to accounting for share options once it is issued by the IASB and the Australian Accounting Standards Board.

There were 4,234,500 fully paid ordinary shares of the Company issued during and since the end of the year as a result of options issued being exercised, for a total consideration of $81,345,710. The amount paid on issue of each of these shares is set out in note 39 of the financial report. There are currently 47,817,500 options outstanding under the plan.

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

Directors' meetings

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

	Directors' meetings of the Company		Audit Committee meetings of the Company		Compensation and Nomination Committee meetings of the Company		Directors' meetings of controlled entities		
Directors	**Meetings attended(1)**	**Meetings held(2)**	**Meetings attended**	**Meetings held(2)**	**Meetings attended**	**Meetings held**	**Meetings attended**	**Meetings held(2)**	**Additional meetings attended(3)**
D Charles K Allen	25	25	8(4)	8(4)	8	8	13	13	25
Frank J Cicutto	24(5)	25	8(4)	8(4)	3(4)	3(4)	17	17	12
J Brian Clark	22(1)	25	1(4)	1(4)			13	14	4
Peter JB Duncan	24(1)	25	6(2)	6(2)			14	15	13
Graham J Kraehe	20(1)	25	8	8			10	11	13
Kenneth J Moss	24(1)	25	8	8	8	8	13	13	10
Geoffrey A Tomlinson	24(1)	25	1(4)	1(4)			30	31	17
Edward D Tweddell	25	25	1(4)	1(4)	8	8	11	11	24
	24(1)	25	8	8			27	28	39

	Directors' meetings of the Company	Audit Committee meetings of the Company	Compensation and Nomination Committee meetings of the Company	Directors' meetings of controlled entities
Catherine M Walter				

(1) Where a directors is unable to attend an unscheduled Board meeting called at short notice, the director is provided with a separate briefing on the matters to be considered at the meeting, and the views of the director are obtained.

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

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

(4) Reflects the number of committee meetings attended, even though the director is not a member of the committee.

(5) Leave of absence was granted to Mr Frank J Cicutto from attendance at one Board meeting, to allow the Board to undertake a review of HomeSide Lending, Inc., independent of management.

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Directors' interests

The table below shows the interests of each director in the issued ordinary shares and National Income Securities of the Group, and in registered schemes made available by the Group as at the date of this report. No director held an interest in the Trust Units Exchangeable for Preferred Shares or exchangeable capital units of the Company*Trust Units Exchangeable for Preferred Shares is a trademark of Merrill Lynch & Co., Inc.*

	Fully paid ordinary shares of the Company			Options over fully paid ordinary shares of the Company	National Income Securities		Registered schemes	
Directors	**Held beneficially**	**Held non-beneficially**	**Shares acquired as a result of options exercised**	**Held beneficially**	**Held beneficially**	**Held non-beneficially**	**Held beneficially**	**Held non-Beneficially**
D Charles K Allen(1)	17,187							
Frank J Cicutto(2)(3)	241,092(4)		200,000	1,400,000				
J Brian Clark(1)	3,308							
Peter JB Duncan(1)	3,701							
Graham J Kraehe(1)	14,357				670			
Kenneth J Moss(1)	3,514							
Geoffrey A Tomlinson(1)	17,588				500			
Edward D Tweddell(1)	3,530							
Catherine M Walter(1)	16,969							

(1)

Includes shares acquired under National Australia Bank Staff Share Ownership Plan.

(2) Includes staff share plan issues.

(3) Includes shares acquired as a result of the exercise of options.

(4) Shares held beneficially as at the date of this report, represent the total holding as at that date.

There are no contracts, other than those disclosed above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for or deliver interests in a registered scheme made available by the Company or a related body corporate.

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

Signed in accordance with a resolution of the directors:

D Charles K Allen
Chairman

Frank J Cicutto
Managing Director

November 14, 2002

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Statement of financial performance

For the year ended September 30	Note	Group 2002 $m	Group 2001 $m	Group 2000 $m	Company 2002 $m	Company 2001 $m
Interest income	4	**16,475**	19,919	17,517	**11,438**	13,485
Interest expense	5(b)	**9,253**	12,959	11,146	**7,545**	10,479
Net interest income		**7,222**	6,960	6,371	**3,893**	3,006
Premium and related revenue	4	**1,134**	1,074	487		
Investment revenue	4	**(988)**	(877)	1,070		
Claims expense	5(b), 57	**956**	599	262		
Change in policy liabilities	5(b), 57	**(1,637)**	(1,318)	664		
Policy acquisition and maintenance expense	5(b), 57	**751**	699	261		
Investment management fees	5(b)	**86**	89	38		

		Group			Company	
Net life insurance income		**(10)**	128	332		
Other banking and financial services income	4	**7,006**	4,749	4,124	**3,260**	4,641
Mortgage servicing and origination revenue	4	**378**	810	640		
Movement in the excess of net market value over net assets of life insurance controlled entities	4	**(155)**	510	202		
Significant revenue						
Proceeds from the sale of foreign controlled entities	4, 5(a)	**2,671**	5,314			
Personnel expenses	5(b)	**3,379**	3,725	3,401	**1,851**	1,778
Occupancy expenses	5(b)	**559**	587	512	**276**	269
General expenses	5(b)	**4,769**	2,158	1,894	**1,052**	963
Amortisation of goodwill	5(b)	**101**	167	197		
Charge to provide for doubtful debts	5(b), 17	**697**	989	588	**259**	532
Significant expenses						
Restructuring costs	5(a), (b)	**580**		96	**363**	
Cost of foreign controlled entities sold	5(a), (b)	**2,686**	2,929		**138**	
Impairment loss on mortgage servicing rights	5(a), (b)		1,643			
Charge to provide for mortgage servicing rights valuation adjustment	5(a), (b)		1,436			
Impairment loss on goodwill	5(a), (b)		858			
Business integration costs	5(a), (b)			108		
Profit from ordinary activities before income tax expense		**4,341**	3,979	4,873	**3,214**	4,105
Income tax expense relating to ordinary activities	6	**962**	1,891	1,632	**712**	611
Net profit		**3,379**	2,088	3,241	**2,502**	3,494
Net profit attributable to outside equity interest		**6**	5	2		
Net profit attributable to members of the Company		**3,373**	2,083	3,239	**2,502**	3,494
Other changes in equity other than those resulting from transactions with owners as owners						
Net credit/(debit) to asset revaluation reserve	35	**9**	8	29	**3**	(123)
Net credit/(debit) to foreign currency translation reserve	35	**(520)**	1,380	931		19
Net credit to retained profits on adoption of AASB 1038 "Life Insurance Business"	36			58		
Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised directly in equity		**(511)**	1,388	1,018	**3**	(104)
Total changes in equity other than those resulting from transactions with owners as owners		**2,862**	3,471	4,257	**2,505**	3,390
Basic earnings per share (cents)	8	**205.7**	121.5	202.3		
Diluted earnings per share (cents)	8	**202.5**	122.8	199.1		
Dividends per ordinary share (cents)						
Interim	7	**72**	67	59		
Final	7	**75**	68	64		

Statement of financial position

As at September 30	Note	Group 2002 $m	Group 2001 $m	Company 2002 $m	Company 2001 $m
Assets					
Cash assets	9	**6,294**	7,993	**1,515**	1,529
Due from other financial institutions	10	**15,876**	16,472	**12,579**	11,945
Due from customers on acceptances	11	**19,474**	19,353	**19,400**	19,110
Trading securities	12	**19,590**	19,713	**17,471**	18,288
Available for sale securities	13	**6,192**	6,665	**6,150**	6,637
Investment securities	14	**13,541**	10,697	**9,644**	5,224
Investments relating to life insurance business	15	**31,012**	31,381		
Loans and advances	16	**231,300**	207,797	**143,607**	123,212
Mortgage loans held for sale		**85**	3,688		
Mortgage servicing rights	19	**1,794**	5,445		
Due from controlled entities				**28,923**	35,651
Shares in entities and other securities	20	**1,199**	1,412	**11,926**	11,906
Regulatory deposits	21	**129**	98	**38**	20
Property, plant and equipment	22	**2,640**	2,869	**1,201**	1,177
Income tax assets	23	**1,292**	1,296	**741**	674
Goodwill	24	**775**	876		
Other assets	25	**26,194**	38,965	**13,533**	26,157
Total assets		**377,387**	374,720	**266,728**	261,530
Liabilities					
Due to other financial institutions	26	**43,279**	42,873	**39,983**	39,859
Liability on acceptances	11	**19,474**	19,353	**19,400**	19,110
Deposits and other borrowings	27	**206,864**	190,965	**134,885**	123,072
Life insurance policy liabilities	28	**30,425**	30,257		
Income tax liabilities	29	**1,609**	2,575	**814**	476
Provisions	30	**2,809**	2,440	**2,123**	1,755
Due to controlled entities				**16,563**	13,306
Bonds, notes and subordinated debt	31	**22,192**	24,984	**20,841**	21,412
Other debt issues	32	**1,866**	1,985	**460**	507
Other liabilities	33	**25,618**	35,731	**14,349**	24,131
Total liabilities		**354,136**	351,163	**249,418**	243,628
Net assets		**23,251**	23,557	**17,310**	17,902
Equity					
Contributed equity	34	**9,931**	10,725	**9,931**	10,725
Reserves	35	**2,105**	2,427	**73**	94
Retained profits	36	**11,148**	10,337	**7,306**	7,083
Total parent entity interest		**23,184**	23,489	**17,310**	17,902
Outside equity interest	37	**67**	68		
Total equity	38	**23,251**	23,557	**17,310**	17,902

Statement of cash flows

		Group			Company	
For the year ended September 30	**Note**	**2002 $m**	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Cash flows from operating activities						
Interest received		**15,680**	20,373	17,471	**10,254**	11,958
Interest paid		**(9,304)**	(13,020)	(10,978)	**(6,523)**	(8,901)
Dividends received		**35**	44	38	**839**	2,226
Fees and other income received		**5,307**	5,248	4,776	**2,889**	2,898
Life insurance						
Premiums received		**10,378**	7,157	576		
Investment and other revenue received		**2,024**	1,985	1,041		
Policy payments		**(8,483)**	(4,784)	(215)		
Fees and commissions paid		**(274)**	(288)	(111)		
Personnel expenses paid		**(3,637)**	(3,634)	(3,343)	**(2,001)**	(1,711)
Occupancy expenses paid		**(549)**	(504)	(435)	**(251)**	(211)
General expenses paid		**(3,176)**	(2,392)	(2,569)	**(1,313)**	(1,115)
Income tax paid		**(2,131)**	(2,245)	(1,431)	**(481)**	(942)
Goods and services tax paid		**(68)**	(102)		**(60)**	(99)
Net decrease/(increase) in trading securities		**136**	(4,400)	(2,268)	**789**	(4,405)
Net decrease/(increase) in mortgage loans held for sale		**1,304**	(763)	(274)		
Net cash provided by/(used in) operating activities	43(a)	**7,242**	2,675	2,278	**4,142**	(302)
Cash flows from investing activities						
Movement in investment securities						
Purchases		**(40,653)**	(37,041)	(172,874)	**(39,311)**	(30,901)
Proceeds on maturity		**37,434**	30,828	175,661	**34,641**	28,957
Movement in available for sale securities						
Purchases		**(14,765)**	(18,803)	(11,540)	**(14,735)**	(19,050)
Proceeds from sale		**90**	26	5	**84**	26
Proceeds on maturity		**14,543**	15,247	9,037	**14,530**	14,599
Net increase in investments relating to life insurance business		**(2,148)**	(2,236)	(3,287)		
Net increase in loans and advances		**(27,415)**	(19,109)	(24,081)	**(22,711)**	(13,784)
Net decrease/(increase) in amounts due from controlled entities					**8,951**	(3,477)
Net decrease/(increase) in shares in entities and other securities		**212**	(36)	(308)	**(18)**	(810)
Payments for mortgage servicing rights		**(74)**	(2,700)	(1,272)		
Proceeds from sale of mortgage servicing rights		**98**				
Payments for acquisition of controlled entities	43(e)		(131)	(4,660)		
Proceeds from sale of controlled entities	43(f)		5,415			
Payments for property, plant and equipment		**(791)**	(982)	(725)	**(383)**	(577)
Proceeds from sale of operating assets		**2,314**				
Net proceeds from sale of property, plant and equipment		**418**	132	143	**157**	68
Net decrease/(increase) in regulatory deposits		**(35)**	23	36	**(18)**	(7)
Net decrease/(increase) in other assets		**10,057**	291	(287)	**6,528**	(2,492)
Net cash used in investing activities		**(20,715)**	(29,076)	(34,152)	**(12,285)**	(27,448)
Cash flows from financing activities						
Net increase in deposits and other borrowings		**18,840**	11,793	16,802	**13,526**	13,967
Net proceeds from bonds, notes and subordinated debt		**6,738**	6,986	8,747	**6,808**	6,481

		Group			Company	
Repayments of bonds, notes and subordinated debt		**(8,314)**	(4,537)	(2,309)	**(6,234)**	(3,704)
Payments from provisions		**(116)**	(221)	(189)	**(32)**	(140)
Net proceeds from issue of ordinary shares		**130**	261	194	**130**	261
Payments made under on-market buy-back of ordinary shares		**(1,248)**			**(1,248)**	
Dividends paid		**(1,948)**	(1,494)	(1,490)	**(1,878)**	(1,398)
Net increase/(decrease) in other liabilities		**(5,017)**	4,426	1,501	**(4,387)**	2,402
Net cash provided by financing activities		**9,065**	17,214	23,256	**6,685**	17,869
Net decrease in cash and cash equivalents		**(4,408)**	(9,187)	(8,618)	**(1,458)**	(9,881)
Cash and cash equivalents at beginning of year		**(18,408)**	(10,037)	(1,434)	**(26,385)**	(15,113)
Effects of exchange rate changes on balance of cash held in foreign currencies		**1,707**	(1,015)	15	**1,954**	(1,391)
Cash and cash equivalents of controlled entities sold			1,831			
Cash and cash equivalents at end of year	43(b)	**(21,109)**	(18,408)	(10,037)	**(25,889)**	(26,385)

Notes to the financial statements

1 Principal accounting policies

In this financial report, National Australia Bank Limited, the parent entity, is referred to as the Company. The Group consists of the Company and all entities over which it has control.

The financial report is a general purpose financial report which is prepared in accordance with the requirements of the *Banking Act* 1959 (Cth)*, Corporations Act* 2001 (Cth), Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

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

The preparation of the financial report requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although the Group 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.

(a) Historical cost

The financial report is based on historical cost and therefore does not reflect changes in the purchasing power of money or current valuations of non-monetary assets, except for:

- certain non-monetary assets which are reflected at independent valuation *(refer to note 1(v))*;
- trading securities which are reflected at market value *(refer to note 1(l))*; and
- the assets and liabilities of the Group's life insurance business which are measured at net market value and net present value respectively *(refer to note 1(p), (x) and (aa))*.

(b) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(c) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated July 10, 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

(d) Changes in accounting policy

Earnings per share

The Group has applied the revised Australian Accounting Standard AASB 1027 "Earnings per Share" from October 1, 2001. The standard introduces changes to the method of calculating earnings per share. The changes have not had a material impact on earnings per share. Comparatives have been restated to reflect the change in method of calculating basic and diluted earnings per share.

(e) Reclassification of financial information

The revised Australian Accounting Standard AASB 1018 "Statement of Financial Performance" which was issued in June 2002 has resulted in the Group making certain presentational changes to the financial report. The adoption of the standard has not resulted in any line items or sub-totals being reclassified in the financial statements although some line items have been repositioned.

In order to provide users of the financial report with an enhanced level of understanding of the Group's property, plant and equipment, application software has been disclosed as a separate category of plant and equipment. As a result of this change, certain reclassifications have been made to 2001 comparatives. Previously certain items of software were included in other asset classes. Accordingly, $33 million previously disclosed as other equipment in the class furniture, fittings, fixtures and other equipment, and $38 million previously disclosed in the class other assets, have been reclassified to application software to accord with the new classification.

To assist users' understanding of the financial report, note 57 Life insurance business disclosures has been enhanced to show disaggregated information for statutory funds only. This has resulted in the reclassification of $60 million from other income to premium and related revenue, and investment revenue in the 2001 comparatives. In addition, $81 million has been reclassified from general other expenses to policy acquisition and maintenance expense in the 2001 comparatives, to accord with the new presentation and classification.

(f) Comparative amounts

Comparative amounts have been reclassified to accord with changes in presentation made in 2002, except where otherwise stated.

(g) Principles of consolidation

All entities which are controlled by the Company are consolidated in the financial report. Control means the ability or power of the Company to dominate decision making directly or indirectly in relation to the financial and operating policies of another entity, to enable that other entity to operate with it in pursuing its objectives.

All inter-entity balances, transactions and profits and losses 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. Controlled entity acquisitions have been accounted for using the purchase method of accounting.

Outside interest in the equity and results of the entities that are controlled by the Company is shown as a separate item, "outside equity interest', in the consolidated financial statements.

Statutory funds of the Group's life insurance business have been consolidated into this financial report as required by Australian Accounting Standard AASB 1038 "Life Insurance Business". The financial report consolidates all the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective of whether they are designated as relating to policyholders or shareholders.

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 the profit and loss account. When applied to the Group, the impact of this method does not differ significantly from accounting for associates under the equity method.

(h) Foreign currency translation

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

Differences arising on the translation of the financial report of the Group's overseas operations which are considered to be economically self-sustaining are included in the foreign currency translation reserve, net of any related hedges, on a pre-tax basis. Differences arising on the translation of the financial report of all other overseas controlled entities and overseas branches are recognised immediately in the profit and loss account.

It is the Group'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.

Assets

(i) Cash assets

Cash assets are items readily convertible into cash and are generally repayable on demand. Cash assets are brought to account at the face value or the gross value of the outstanding balance where appropriate.

(j) Due from other financial institutions

Due from other financial institutions includes loans, nostro balances, certificates of deposit and settlement account balances due from other financial institutions. They are brought to account at the gross value of the outstanding balance.

(k) Acceptances

The Group's liability under acceptances is reported in the statement of financial position. The Group has equal and offsetting claims against its customers which are reported as an asset. The Group'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.

(l) 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 profits 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.

(m) 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 profits 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.

(n) 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.

(o) 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.

(p) Investments relating to life insurance business

Investment assets held by the Group's life insurance business have been recorded at net market value including an allowance for estimated realisation costs. Where no quoted market values exist, the directors adopt various valuation methods. In those cases, the values adopted are deemed equivalent to net market value. Details of particular methods adopted are as follows:

- freehold land and leasehold properties are stated at values not greater than independent valuations, which are carried out at regular intervals not exceeding three years. As market value is adopted, building depreciation is not provided for;

- ordinary and preference shares, equity options and investments in unit trusts that are not controlled entities, are recorded at their latest available market value or, where no quoted security exists, at directors' valuations with reference to net tangible assets;

- investments in controlled entities of life insurance operations that do not have quoted market values are recorded at not greater than independent valuation or where no independent valuation is available at directors' valuations, or, for entities in voluntary liquidation, at net tangible assets;

- investments in associates are recorded at directors' valuation with reference to the life insurance entity's proportionate interest in the market value of each associate;

- interest-bearing securities quoted on stock exchanges are shown at prices quoted at balance date. Unquoted interest-bearing securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable quoted investments; and

participations in lease transactions are included in investment assets. The transactions are recorded at market value, based on the net present value of the after-tax cash flows arising from the transactions.

Restrictions on assets

The assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act* 1995 (Cth) and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act* 1995 (Cth) are met. Therefore, assets held in statutory funds are not available for use by other parts of the Group's business other than any profits generated in the statutory funds. Conversely, the liabilities of the statutory funds (including policyholder liabilities) are not obligations of the Group but are obligations of, and are quarantined to, the statutory funds *(refer to note 2).*

(q) Loans and advances

Loans and advances include overdrafts, credit card lending, market rate advances, bill financing, housing loans, lease finance, other term lending and redeemable preference share finance. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for doubtful debts and unearned income.

(i) Bad and doubtful debts

Provisions for doubtful debts provide for losses inherent in loans, and off-balance sheet credit extensions such as letters of credit, guarantees and undrawn commitments to extend credit.

The specific provision for doubtful debts 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 specific provision for doubtful debts in the reporting period in which they are classified as irrecoverable.

The Group has adopted a statistically-based provisioning methodology for its general provision for doubtful debts. Under this methodology, the Group estimates the level of losses inherent but not specifically identified in its existing credit portfolios based on the historical loss experience of the component exposures.

The operation of the statistically-based provisioning methodology is such that when individual loans are classified as non-accrual, specific provisions will be raised by making a transfer from the general provision for doubtful debts. The general provision for doubtful debts is then re-established based on the remaining portfolios of performing credit exposures.

All loans and off-balance sheet credit extensions are subject to continuous management surveillance.

(ii) Asset quality

The Group has disclosed certain components of its loan portfolios as impaired assets according to the classifications discussed below *(refer to note 18).*

Non-accrual loans 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 Group'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 Group'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.

(iii) Revenue recognition on non-accrual loans

When a loan is classified as non-accrual, interest 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. Interest charged on non-accrual loans in the current reporting period is reversed against income.

Cash receipts in relation to non-accrual loans are recognised as interest income to the extent that the cash receipts represent unaccrued interest except where there is a contrary agreement with the borrower, or the receipts relate to proceeds from the sale of security, or are scheduled principal repayments.

(iv) Leasing

Finance leases in which the Group is the lessor are included in loans and advances 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 Group is a lessee, finance lease assets are capitalised and the corresponding liability is recognised in other liabilities.

Leveraged leases with lease terms beginning on or after October 1, 1999 are accounted for as finance leases. Investments in leveraged leases entered into before October 1, 1999 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.

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

(v) Unearned income

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

(r) Mortgage loans held for sale

Mortgage loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is based on the contract prices at which the mortgage loans will be sold or, if the loans are not committed for sale, the current market price. Deferred hedge gains and losses on risk management hedge instruments are included in the cost of the mortgage loans held for sale for the purpose of determining the lower of aggregate cost or fair value. Mortgage loans are typically sold within three months of origination.

(s) Mortgage servicing rights

Mortgage servicing rights are the rights to receive a portion of the interest coupon and fees collected from the mortgagor for performing specified servicing activities. The total cost of loans originated or acquired is allocated between the mortgage servicing rights and the mortgage loans without the servicing rights, based on relative fair values. The value of servicing rights acquired through bulk transactions is capitalised at cost.

Mortgage servicing rights are amortised in proportion to and over the period of estimated net servicing revenue. They are evaluated for impairment by comparing the carrying amount of the servicing rights to their fair value. Fair value is estimated using market prices of similar mortgage servicing assets and discounted future net cash flows, considering market prepayment rates, historic prepayment rates, portfolio characteristics, interest rates and other economic factors.

For purposes of measuring impairment, the mortgage servicing rights are stratified by the predominant risk characteristics which include product types of the underlying loans and interest rates of the mortgage. Impairment is recognised through a valuation reserve for each impaired stratum and is generally included in amortisation of mortgage servicing rights.

(t) Shares in entities and other securities

Except where a life insurance controlled entity consolidates a controlled entity *(refer to note 1(p))*, shares in entities and other securities are stated at original cost less any necessary provision for diminution in value. Unrealised losses relating to diminution in the value of shares in entities and other securities are recognised in the profit and loss account.

(u) Regulatory deposits

In several countries in which the Group operates, the law requires that regulatory deposits be lodged with the local central bank at a rate of interest generally below that prevailing in the market. The amount of the deposit and the interest rate receivable are determined in accordance with the requirements of the local central bank.

(v) Property, plant and equipment

Except for life insurance business investments, all land and buildings are revalued annually by directors to reflect fair values. Directors' valuations are based on advice received from independent valuers and regular independent valuations. Revaluation increments are credited to the asset revaluation reserve. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments and any excess is recognised as an expense.

A provision for capital gains tax is only made when it is known that the relevant asset will eventually be sold. This provision, when required, is made against the asset revaluation reserve.

All other property, plant and equipment acquired since the last revaluation are carried at the lower of cost, less accumulated depreciation or amortisation, and recoverable amount. If the carrying amount of property, plant and equipment exceeds its recoverable amount, the asset is written down to the lower value. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value unless otherwise stated.

The costs of developing, acquiring and enhancing internal-use software are capitalised on a component or module basis and amortised over the estimated useful life of the software, which ranges from three to ten years. The costs of developing websites are capitalised and amortised over their useful life, except for costs incurred during the planning and implementation stages, which are expensed as incurred.

With the exception of land, all property, plant and equipment are depreciated or amortised using the straight-line method at the rates appropriate to its estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation or amortisation are: buildings 3.3%; leasehold improvements up to 10%; furniture, fixtures and fittings and other equipment from 10% to 20%; personal computers and related application software 33.3%; and other data processing equipment and related application software from 10% to 33.3%.

Profit or loss on the sale of property, plant and equipment, which is determined as the difference between the carrying amount of the property, plant and equipment at the time of sale and the sale proceeds, is treated as revenue or expense.

(w) 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 non-life insurance controlled entity, is recognised as an asset. Goodwill is amortised from the date of acquisition by systematic charges on a straight-line basis to the profit and loss account 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.

(x) Other assets

Where a life insurance entity within the Group consolidates a controlled entity, any difference between the values consolidated line by line and the market value of the controlled entity recorded in the life insurer's financial report is shown as "excess of net market value over net assets of life insurance controlled entities'. This excess represents:

acquired goodwill to the extent it remains at balance date;

increases in the value of goodwill of the controlled entity since acquisition or establishment; and

differences between the values assigned to the assets and liabilities of the controlled entity within the Group financial report and those in the financial report of the controlled entity, arising due to valuation methodology differences.

The excess is not amortised. Movements in the excess of net market value over net assets of life insurance controlled entities are included in the Group's revenue.

Liabilities

(y) Due to other financial institutions

Due to other financial institutions includes deposits, vostro balances and settlement account balances due to other financial institutions. They are brought to account at the gross value of the outstanding balance.

(z) Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, certificates of deposit, interest-bearing deposits, debentures and other funds raised publicly by borrowing corporations. They are brought to account at the gross value of the outstanding balance.

(aa) Life insurance policy liabilities

Policy liabilities in the Group's statement of financial position and the change in policy liabilities disclosed as an expense have been calculated using the Margin on Services (MoS) methodology in accordance with guidance provided by the Life Insurance Actuarial Standard Board's Actuarial Standard AS 1.03 "Valuation Standard" *(refer to note 1(nn)).*

Policy liabilities for investment-linked business are calculated using the accumulation method. The liability is generally the accumulation of amounts invested by policyholders plus investment earnings less fees specified in policy contracts. Deferred acquisition costs are offset against this liability.

Policy liabilities from non-investment-linked business are measured mainly using the projection method which is the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses). The accumulation method may be used only where the result would not be materially different to the projection method.

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment-linked policyholders that have not yet vested with specific policyholders.

The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance date. A summary of the significant actuarial methods and assumptions used is contained in note 57.

(bb) Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not discounted to the present value of their expected net future cash flows except where stated below.

(i) Employee entitlements

Employee entitlements to long service leave are accrued using an actuarial calculation, based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases. This method does not differ significantly from calculating the amount using present value techniques.

The provision for annual leave is accrued based on each employee's total remuneration package.

(ii) Restructuring costs

Provision for restructuring costs includes provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. Provisions for restructuring are only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced. This includes the cost of staff termination benefits and surplus leased space. Costs related to ongoing activities are not provided for.

(iii) Surplus leased space Provision is made for surplus leased space when it is determined that no substantive future benefit will be obtained by the Group from its occupancy. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, or are being sub-leased for lower rentals than the Group pays, or there are no substantive benefits beyond a known future date. The provision is determined on the basis of the present value of net future cash flows.

(iv) Restoration costs Provision is made for costs of restoring property, plant and equipment as soon as the need is identified.

(cc) Bonds, notes and subordinated debt

Bonds, notes and subordinated debt issued by the Group are recorded at cost or at cost adjusted for premium or discount amortisation.

(dd) Other debt issues

Other debt issues include perpetual floating rate notes, exchangeable capital units and fixed rate securities issued by the Group. They are recorded at cost or at cost adjusted for premium or discount amortisation.

(ee) Derivative financial instruments held or issued for trading purposes

Derivative financial instruments held or issued for trading purposes, also referred to as trading derivatives, include swaps, futures, forward, option and other contingent or exchange-traded contracts in the interest rate and foreign exchange markets. Trading derivatives are measured at fair value and the resultant profits and losses are recognised in other income. The fair value of trading derivatives is reported on a gross basis as other assets or other liabilities, as appropriate.

The fair value of a derivative financial instrument represents the present value of future expected cash flows arising from that instrument.

(ff) 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 Group. 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 revenue or expense on derivatives used to manage interest rate exposures is 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 revenue.

Gains or losses on derivatives used to hedge exposures arising from anticipated future transactions, are deferred within other assets or other liabilities until such time as the accounting impact of the anticipated transaction is recognised in the financial report. Such gains or losses only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is recognised immediately in other revenue.

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.

(gg) Trustee and funds management activities

The Group's financial statements include the shareholders' interest in trustee companies, which act as the trustee, custodian or manager of a number of funds and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. These funds and trusts, as disclosed in note 56, are not included in the Group's financial statements as the Group does not have direct or indirect control of the funds and trusts as defined by Australian Accounting Standard 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 Group's financial statements.

Commissions and fees earned in respect of the Group's trust and funds management activities are included in the profit and loss account *(refer to note 1(mm))*.

(hh) Securitisation

Through its Australian loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors. In such transactions, the Group receives fees for various services provided to the program on an arm's length basis, including servicing fees and management fees. Fee income is recognised in revenue on an accruals basis in relation to the reporting period in which the costs of providing these services are incurred.

Interest rate swaps and liquidity facilities are provided to the program by the Group on an arm's length basis, in accordance with Australian Prudential Regulation Authority guidelines.

The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. The residual income is recognised in revenue when receivable.

Due to the significant uncertainties inherent in estimating the underlying loan repayment rates and interest margins with respect to the Australian loan securitisation program, future cash flows cannot be reliably measured. Therefore, no asset or liability, or profit or loss on sale of the loans has been recognised.

This level of uncertainty is not inherent in the Group's securitisation activities in the United States. Refer to note 1(r) and (s) for the Group's accounting policy with respect to mortgage loans held for sale and mortgage servicing rights with respect to the United States loan securitisation program operated by HomeSide Lending, Inc.

Revenue and expense recognition

(ii) Interest income

Interest income is reflected in the profit and loss account when earned on an accruals basis *(refer also to note 1(o), (q)(iii) and (q)(iv)).*

(jj) Dividend income

Dividend income is recorded in the profit and loss account on an accruals basis when the Group obtains control of the right to receive the dividend.

(kk) Loan-related fees and costs

Loan origination fees, if material, are recognised as revenue over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised as revenue over the life of the loan as an adjustment of yield or, if unexercised, recognised as revenue 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 as revenue when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as revenue over the commitment period. Loan-related administration and service fees are recognised as revenue over the period of service. Credit card fees are recognised as revenue over the card usage period. Syndication fees are recognised as revenue after certain retention, timing and yield criteria are satisfied.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised as revenue 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 as revenue as an adjustment of yield using the constant yield method of amortisation. All other loan-related fees are recognised as revenue using the straight-line method of amortisation.

(ll) Trading income

Profits and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the profit and loss account. Realised and unrealised profits and losses on trading derivative instruments are reflected in the profit and loss account *(refer to note 1(l) and (ee)).*

(mm) Fees and commissions

When fees and commissions relate to specific transactions or events, they are recognised as revenue in the reporting period in which they are received. When they are charged for services provided over a period, they are recognised as revenue on an accruals basis.

(nn) Life insurance business revenue and expenses

The Group conducts its life insurance business through a number of controlled entities including National Australia Financial Management Limited, MLC Limited, MLC Lifetime Company Limited, National Australia Life Company Limited, BNZ Life Insurance Limited, MLC (Hong Kong) Limited, PT MLC Life Indonesia and their controlled entities.

(i) Types of business

The Australian life insurance operations of the Group consist of investment-linked business and non-investment-linked business, which are conducted in separate statutory funds as required under the *Life Insurance Act* 1995 (Cth). The overseas life insurance operations of the Group consist primarily of non-investment-linked business.

Investment-linked business relates to business where policyholders' investments are made into the statutory funds and policyholders' returns are directly linked to the investment performance of the assets in that fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets, however, the policy value is calculated by reference to the market value of the statutory fund's assets. Investment-linked business includes superannuation and allocated pension business.

Non-investment-linked business refers to business where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, either the continuance of the annuitant's life or the expiry of the annuity term. The benefit payable is not directly referable to the market value of the fund's assets. Non-investment-linked business includes traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholders and shareholders) and risk policies such as death, disability and income insurance (where the shareholder bears all the financial risks).

(ii) Allocation of profit

Profits are brought to account in the statutory funds on a MoS basis. Under MoS, profit is recognised as fees are received and services are provided to policyholders. When fees are received but the service has not been provided, the profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of policies to be charged to the profit and loss account over the period that the policy will generate profits. Costs may only be deferred, however, to the extent that a policy is expected to be profitable *(refer to note 1(nn)(vii)).*

Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested, over operating expenses and amortisation of policy acquisition costs.

Profit arising from policies comprising non-investment-linked business is based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment-linked business. This profit sharing is governed by the *Life Insurance Act* 1995 (Cth) and the life insurance companies' constitutions. This profit sharing amount is treated as an expense in the profit and loss account.

(iii) Premium revenue

Premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks including protection business are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to deposits, are recognised as an increase in policy liabilities. The initial fee, which is the difference between the premium received and the initial surrender value, is recognised as premium revenue. For the Group's investment-linked business, premiums are recognised as an increase in policy liabilities.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue or an increase in policy liabilities on a cash received basis. Premiums due before the end of the year but not received at balance date are included as outstanding premiums in note 25. Premiums due after but received before the end of the year are accounted for as premiums in advance.

(iv) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income.

Net realised and unrealised profits and losses represent changes in the measurement of net market values in respect of all investments recognised at net market value *(refer to note 1(p))*.

(v) Claims

Claims are recognised when the liability to a policyholder under a policy contract has been established or upon notification of the insured event, depending on the type of claim.

Claims incurred in respect of investment-linked business, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities.

Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.

(vi) Basis of expense apportionment

All expenses charged to the profit and loss account are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act* 1995 (Cth) as follows:

expenses and other outgoings that related specifically to a particular statutory fund have been directly charged to that fund;

expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocatable) have been apportioned between each statutory fund and shareholders' fund. Expenses are apportioned between classes of business by first allocating the expenses to major functions and activities, including those of sales support and marketing, new business processing and policyholder servicing, and then to classes of products using relevant activity cost drivers, including commissions, policy counts, funds under management and benchmark profit; and

investment income, profits and losses on sale of property, plant and equipment, profits and losses on sale of investments, and appreciation and depreciation of investments have been directly credited or charged to the appropriate statutory fund or shareholders' fund.

Apportionment between policy acquisition, policy maintenance and investment management has been made in line with principles set out in Actuarial Standard AS 1.02.

(vii) Deferred acquisition costs

Policy acquisition costs are deferred, provided that the business generated continues to be profitable. The deferred costs are reflected as a reduction in policy liabilities and are amortised in the profit and loss account over the expected duration of the relevant policies.

(oo) Superannuation

Superannuation expense represents the Group's contributions to various superannuation plans. The contributions are determined on an actuarial basis. The assets and liabilities of plans are not consolidated as the Group has no control over them.

(pp) Income tax

The Group adopts tax-effect accounting using the income statement 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 financial statements, is included in the provision for deferred income tax or future income tax benefits, as applicable, at the tax rate expected to apply when the timing differences reverse. 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. In the statement of financial position, future income tax benefits are reflected within income tax assets and the provision for deferred income tax is reflected within income tax liabilities.

Capital gains tax, if applicable, is provided for in determining the income tax expense in the reporting period in which an asset is sold.

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and shareholders on different bases. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

- superannuation policies 15%;
- annuity policies 0%; or
- non-superannuation investment policies 30%.

The life insurance business shareholders' funds are taxed at the company rate of 30% on fee income and profit arising from insurance risk policies, less deductible expenses. For five years from July 1, 2000 (the date that the current life company tax regime commenced), there is a transitional provision that allows a one-third exemption from assessable income of fee income derived from policies in force as at July 1, 2000.

(qq) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the cost of the expense or the acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included within other assets or other liabilities.

Cash flows are included in the statement of cash flows on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

(rr) Overseas classification

Amounts booked in branches and controlled entities outside Australia are classified as overseas.

2 Supplementary statement of financial position

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

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

		2002			2001		
	Note	Group operating businesses $m	Statutory funds $m	Total $m	Group operating businesses $m	Statutory funds $m	Total $m
Assets							
Cash assets	9	**5,445**	**849**	**6,294**	6,957	1,036	7,993
Due from other financial institutions	10	**15,876**		**15,876**	16,472		16,472
Due from customers on acceptances	11	**19,474**		**19,474**	19,353		19,353
Trading securities	12	**19,590**		**19,590**	19,713		19,713
Available for sale securities	13	**6,192**		**6,192**	6,665		6,665
Investment securities	14	**13,541**		**13,541**	10,697		10,697
Investments relating to life insurance business(1)	15	**59**	**30,953**	**31,012**	590	30,791	31,381
Loans and advances	16	**231,300**		**231,300**	207,797		207,797
Mortgage loans held for sale		**85**		**85**	3,688		3,688
Mortgage servicing rights	19	**1,794**		**1,794**	5,445		5,445
Shares in entities and other securities	20	**1,199**		**1,199**	1,412		1,412
Regulatory deposits	21	**129**		**129**	98		98
Property, plant and equipment	22	**2,640**		**2,640**	2,869		2,869
Income tax assets	23	**1,289**	**3**	**1,292**	1,292	4	1,296
Goodwill	24	**775**		**775**	876		876
Other assets	25	**25,256**	**938**	**26,194**	37,635	1,330	38,965
Total assets		**344,644**	**32,743**	**377,387**	341,559	33,161	374,720
Liabilities							
Due to other financial institutions	26	**43,279**		**43,279**	42,873		42,873
Liability on acceptances	11	**19,474**		**19,474**	19,353		19,353
Deposits and other borrowings	27	**206,864**		**206,864**	190,965		190,965
Life insurance policy liabilities(1)	28		**30,425**	**30,425**		30,257	30,257
Income tax liabilities	29	**1,790**	**(181)**	**1,609**	2,470	105	2,575
Provisions	30	**2,809**		**2,809**	2,440		2,440
Bonds, notes and subordinated debt	31	**22,192**		**22,192**	24,984		24,984
Other debt issues	32	**1,785**	**81**	**1,866**	1,893	92	1,985
Other liabilities	33	**24,156**	**1,462**	**25,618**	33,850	1,881	35,731
Total liabilities		**322,349**	**31,787**	**354,136**	318,828	32,335	351,163
Net assets		**22,295**	**956**	**23,251**	22,731	826	23,557
Equity							
Contributed equity	34	**9,750**	**181**	**9,931**	10,538	187	10,725
Reserves	35	**2,105**		**2,105**	2,427		2,427
Retained profits	36	**10,373**	**775**	**11,148**	9,698	639	10,337
Total parent entity interest		**22,228**	**956**	**23,184**	22,663	826	23,489
Outside equity interest	37	**67**		**67**	68		68

		2002			2001		
Total equity	38	**22,295**	**956**	**23,251**	22,731	826	23,557

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

3 Segment information

The following segment information is disclosed in accordance with revised Australian Accounting Standard AASB 1005 "Segment Reporting" and US accounting standard, Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). For the purposes of this note, a business/primary operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in assessing performance. The Group results are based on the business segments as reviewed separately by the chief operating decision maker, the Managing Director and Chief Executive Officer, as well as other members of senior management.

The Group's results have been presented under a new organisation structure announced in January 2002 as part of the Positioning for Growth review. The new structure has created regional integrated financial services teams with broader authority and more control over distribution, products and services.

The Group's business is organised into five major operating segments: Financial Services Australia, Financial Services Europe, Financial Services New Zealand, Wholesale Financial Services, and Wealth Management. Financial Services Australia, Europe and New Zealand are the retailing arms of the Group and provide a full range of financial services to customers. These Financial Services businesses are managed on a regional basis across Australia, Europe and New Zealand. Wholesale Financial Services is responsible for the Group's relationships with large corporations, institutions, supranationals and government bodies worldwide. It comprises Corporate Banking, Markets, Specialised Finance, Financial Institutions Group, Custodian Services and a Support Services unit. Wealth Management manages a diverse portfolio of financial services businesses, comprising Investments, Insurance and Other (Private Bank and Distribution). The Group's "Other' business segment includes Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO, as well as HomeSide which manages the Group's mortgage servicing rights financial assets, and are not considered to be separate reportable operating segments under SFAS 131.

Revenues and expenses directly associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between segments operating within the same country and are at arm's length between segments operating in different countries.

Comparatives for the previous corresponding year have been restated to reflect the current basis of business segmentation. Comparatives for the current basis of segmentation are disclosed for the year ended September 30, 2001, only. It is impracticable to provide comparative segment information for the year ended September 30, 2000 on this basis and, as such, information has been disclosed for the business segments as defined in the annual financial report 2001.

Business segments

Year ended September 30, 2002	Financial Services Australia $m	Financial Services Europe(1) $m	Financial Services New Zealand $m	Wholesale Financial Services $m	Wealth Management $m	Other $m	Inter-segment eliminations $m	Total Group $m
Net interest income	3,284	2,362	599	1,077	97	(197)		7,222
Non-interest income	1,811	884	281	870	721	2,808		7,375

Year ended September 30, 2002	**Financial Services Australia $m**	**Financial Services Europe(1) $m**	**Financial Services New Zealand $m**	**Wholesale Financial Services $m**	**Wealth Management $m**	**Other $m**	**Inter-segment eliminations $m**	**Total Group $m**
Significant revenue						2,671		2,671
Inter-segment revenue	56	163	2	(18)	(2)	55	(256)	
Total revenue	5,151	3,409	882	1,929	816	5,337	(256)	17,268
Significant expenses	276	166	6	43	29	2,746		3,266
Other expenses	2,797	2,109	339	753	715	2,948		9,661
Inter-segment expenses	(155)	31	97	155	189	(61)	(256)	
Total expenses	2,918	2,306	442	951	933	5,633	(256)	12,927
Profit/(loss) from ordinary activities before tax	2,233	1,103	440	978	(117)	(296)		4,341
Income tax expense/(benefit)	658	370	151	185	(235)	(167)		962
Net profit/(loss)	1,575	733	289	793	118	(129)		3,379
Outside equity interest					6			6
Net profit/(loss) attributable to members of the Company	1,575	733	289	793	112	(129)		3,373
Total assets	123,934	67,402	22,466	151,011	46,442	15,549	(49,417)	377,387
Total liabilities	124,233	56,326	22,751	148,110	37,363	14,770	(49,417)	354,136
Acquisition of property, plant and equipment and intangible assets	390	170	56	14	73	88		791
Depreciation and amortisation of plant and equipment	206	128	24	14	28	19		419
Amortisation of goodwill		62	1			38		101
Non-cash expenses other than depreciation and amortisation	510	562	20	283	110	55		1,540

Year ended September 30, 2001	**Financial Services Australia $m**	**Financial Services Europe(1) $m**	**Financial Services New Zealand $m**	**Wholesale Financial Services $m**	**Wealth Management $m**	**Other(2) $m**	**Inter-segment eliminations $m**	**Total Group $m**
Net interest income	3,092	2,168	525	894	77	204		6,960
Non-interest income	1,662	977	266	1,050	1,246	1,065		6,266
Significant revenue						5,314		5,314
Inter-segment revenue	79	57	7	8	1	145	(297)	
Total revenue	4,833	3,202	798	1,952	1,324	6,728	(297)	18,540
Significant expenses						6,866		6,866
Other expenses	2,859	2,025	354	807	495	1,155		7,695
Inter-segment expenses	(132)	32	109	135	113	40	(297)	
Total expenses	2,727	2,057	463	942	608	8,061	(297)	14,561

Year ended September 30, 2001	**Financial Services Australia $m**	**Financial Services Europe(1) $m**	**Financial Services New Zealand $m**	**Wholesale Financial Services $m**	**Wealth Management $m**	**Other(2) $m**	**Inter-segment eliminations $m**	**Total Group $m**
Profit/(loss) from ordinary activities before tax	2,106	1,145	335	1,010	716	(1,333)		3,979
Income tax expense/(benefit)	729	396	112	271	(9)	392		1,891
Net profit/(loss)	1,377	749	223	739	725	(1,725)		2,088
Outside equity interest					5			5
Net profit/(loss) attributable to members of the Company	1,377	749	223	739	720	(1,725)		2,083
Total assets	110,309	68,770	20,499	154,757	43,548	34,843	(58,006)	374,720
Total liabilities	104,354	56,274	20,666	153,142	35,852	38,881	(58,006)	351,163
Acquisition of property, plant and equipment and intangible assets	605	201	57	29	221	56		1,169
Depreciation and amortisation of plant and equipment	177	97	20	12	22	52		380
Amortisation of goodwill		62	1			104		167
Non-cash expenses other than depreciation and amortisation	492	392	33	310	58	4,076		5,361

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Year ended September 30, 2000	**Business and Personal Financial Services $m**	**Wealth Management (3) $m**	**Wholesale Financial Services(3) $m**	**Specialist and Emerging Businesses $m**	**HomeSide $m**	**National Shared Services $m**	**Other(3)(4) $m**	**Inter-segment eliminations $m**	**Total Group $m**
Net interest income	5,288	(8)	506	554	(77)	(105)	213		6,371
Non-interest income	2,387	1,867	787	771	653	37	21		6,523
Inter-segment revenue	175		8	205		1,540	160	(2,088)	
Total revenue	7,850	1,859	1,301	1,530	576	1,472	394	(2,088)	12,894
Significant expenses	86	108	12			(1)	(1)		204
Other expenses	2,839	1,365	407	642	377	1,627	560		7,817
Inter-segment expenses	1,473	24	107	411	(4)	91	(14)	(2,088)	
Total expenses	4,398	1,497	526	1,053	373	1,717	545	(2,088)	8,021
Profit/(loss) from ordinary activities before tax	3,452	362	775	477	203	(245)	(151)		4,873
Income tax expense/(benefit)	1,179	142	189	163	62	(81)	(22)		1,632
Net profit/(loss)	2,273	220	586	314	141	(164)	(129)		3,241

Year ended September 30, 2000	Business and Personal Financial Services $m	Wealth Management (3) $m	Wholesale Financial Services(3) $m	Specialist and Emerging Businesses $m	HomeSide $m	National Shared Services $m	Other(3)(4) $m	Inter-segment eliminations $m	Total Group $m
Outside equity interest		2							2
Net profit/(loss) attributable to members of the Company	2,273	218	586	314	141	(164)	(129)		3,239
Total assets	175,959	33,488	107,402	12,369	13,151	2,717	(1,409)		343,677
Total liabilities	131,816	32,132	125,563	10,536	11,015	406	10,801		322,270
Depreciation and amortisation of plant and equipment	52	9	6	3	20	226	15		331
Amortisation of goodwill							197		197
Non-cash expenses other than depreciation and amortisation	669	119	90	131	84	27	(24)		1,096

It is impracticable to report the acquisition of property, plant and equipment and intangible assets on a segmental basis for the 2000 year, as this information was not required in previous reporting periods. The total cost for the acquisition of property, plant and equipment and intangible assets for the Group was $4,584 million.

(1) Includes the results of Vivid for the years to September 30, 2002 and 2001.

(2) Includes the results of Michigan National Corporation and its controlled entities up to the date of their sale on April 1, 2001 (refer to note 5(a)).

(3) The basis of segmentation reported in the annual financial report 2001, which is used for the 2000 comparatives reported above, differs to the current business segmentation. The definition of Wealth Management, Wholesale Financial Services and Other is different under the current basis of segmentation. Accordingly, these segments are not fully comparable under the two bases of segmentation reported in this note.

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

Geographical segments

The Group has operations in Australia (the Company's country of domicile), Europe, New Zealand, the United States and Asia. The allocation of revenue and assets is based on the geographical location in which transactions are booked. There are no material inter-segment transactions.

	Group

	Group					
	2002 $m	**2002 %**	**2001 $m**	**2001 %**	**2000 $m**	**2000 %**
Total revenue						
Australia	**11,425**	**43.1**	12,867	40.8	12,385	51.5
Australia significant revenue	**2,671**	**10.1**	5,314	16.9		
Europe	**6,422**	**24.2**	6,829	21.7	5,767	24.0
New Zealand	**2,194**	**8.3**	2,332	7.4	2,126	8.8
United States(1)	**3,351**	**12.6**	3,193	10.1	3,192	13.3
Asia	**458**	**1.7**	964	3.1	570	2.4
Total revenue	**26,521**	**100.0**	31,499	100.0	24,040	100.0
Total assets(2)						
Australia	**213,428**	**56.6**	205,364	54.8	185,748	54.1
Europe	**107,169**	**28.4**	95,284	25.5	75,148	21.9
New Zealand	**30,319**	**8.0**	30,051	8.0	25,465	7.4
United States(3)	**17,339**	**4.6**	30,022	8.0	44,799	13.0
Asia	**9,132**	**2.4**	13,999	3.7	12,517	3.6
Total assets	**377,387**	**100.0**	374,720	100.0	343,677	100.0
Acquisition of property, plant and equipment and intangible assets						
Australia	**416**	**52.6**	775	66.2	4,291	93.6
Europe	**221**	**27.9**	277	23.7	142	3.1
New Zealand	**59**	**7.5**	57	4.9	46	1.0
United States(3)	**90**	**11.4**	57	4.9	101	2.2
Asia	**5**	**0.6**	3	0.3	4	0.1
Acquisition of property, plant and equipment and intangible assets	**791**	**100.0**	1,169	100.0	4,584	100.0

(1) Includes the results of Michigan National Corporation and its controlled entities up to the date of their sale on April 1, 2001, and for the full 2000 year.

(2) Includes statutory funds' assets of $32,743 million at September 30, 2002 (2001: $33,161 million, 2000: $32,329 million).

(3) 2000 comparatives include assets of Michigan National Corporation and its controlled entities, which were sold during 2001.

4 Revenue from ordinary activities

		Group			Company	
	Note	**2002 $m**	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Interest income						

		Group			Company	
Loans to customers(1)		**13,821**	15,259	13,854	**7,994**	8,271
Marketable debt securities		**1,509**	1,860	1,465	**1,159**	1,387
Other financial institutions		**439**	795	691	**338**	631
Controlled entities					**1,327**	1,603
Other interest		**706**	2,005	1,507	**620**	1,593
		16,475	19,919	17,517	**11,438**	13,485
Life insurance income						
Premium and related revenue		**1,134**	1,074	487		
Investment revenue		**(988)**	(877)	1,070		
		146	197	1,557		
Other banking and financial services income						
Dividends received from						
Controlled entities					**806**	2,197
Other entities		**35**	44	38	**34**	30
Profit on sale of property, plant and equipment(2)		**13**	19	27	**3**	3
Loan fees from banking		**1,361**	1,334	1,246	**1,063**	1,045
Money transfer fees		**1,014**	1,043	1,048	**464**	418
Trading income(3)						
Foreign exchange derivatives		**229**	601	399	**66**	432
Trading securities		**214**	217	76	**214**	195
Interest rate derivatives		**120**	(97)	(7)	**104**	(123)
Foreign exchange income		**15**	12	19		
Fees and commissions		**1,415**	1,303	1,098	**471**	438
Proceeds from sale of operating assets(4)		**2,314**				
Other income		**276**	273	180	**35**	6
		7,006	4,749	4,124	**3,260**	4,641
Mortgage servicing and origination revenue						
Net mortgage servicing fees		**187**	474	535		
Net mortgage origination revenue		**191**	336	105		
		378	810	640		
Movement in the excess of net market value over net assets of life insurance controlled entities		**(155)**	510	202		
Significant revenue						
Proceeds from the sale of foreign controlled entities	5(a)	**2,671**	5,314			
Total revenue from ordinary activities		**26,521**	31,499	24,040	**14,698**	18,126

(1) Included within interest income is rental income of $423 million (2001: $409 million, 2000: $297 million) and depreciation of $299 million (2001: $280 million, 2000: $209 million) in relation to operating leases where the Group is the lessor.

(2) For the Group, net profit on sale of property, plant and equipment of $7 million (2001: $1 million, 2000: $13 million) is the difference between the proceeds from sale of $418 million (2001: $132 million, 2000: $143 million) and their carrying value of $411 million (2001: $131 million, 2000: $130 million). Net profit on sale consists of gross profits of $13 million (2001: $19 million, 2000: $27 million) and gross losses of $6 million (2001: $18 million, 2000: $14 million) as disclosed in Note 5(b). For the Company, net profit on sale of property, plant and equipment of $1 million (2001: $2 million) is the difference between the proceeds from sale of $157 million (2001: $68 million) and their carrying value of $156 million (2001: $66 million). Net profit on sale consists of gross profits of $3 million (2001: $3 million) and gross losses of $2 million (2001: $1 million) as disclosed in Note 5(b).

(3) Under Australian Accounting Standard AASB 1032 "Specific Disclosures by Financial Institutions", separate disclosure of trading income arising from foreign exchange trading, securities trading and interest rate derivatives trading is required. As the Group manages its trading positions utilising a variety of instruments, fluctuations between the disclosed components may occur.

(4) The operating assets of HomeSide Lending, Inc. were sold to Washington Mutual Bank, FA. on March 1, 2002. Under the terms of the sale, HomeSide Lending, Inc. received proceeds of $2,314 million after interim settlement adjustments for the operating assets, which consisted primarily of loans held for sale. The carrying value of the assets sold was $2,322 million. The sale was subject to final sale adjustments, which will be recognised during the 2003 year.

5 Profit from ordinary activities before income tax expense

(a) Individually significant items included in profit from ordinary activities before income tax expense

	Group			Company	
	2002 $m	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Restructuring costs					
Personnel termination benefits	**327**		23	**201**	
Occupancy	**68**		38	**29**	
Write-off of property, plant and equipment(1)	**132**		29	**106**	
Other	**53**		6	**27**	
Total restructuring costs	**580**		96	**363**	

(1) Includes write-off of redundant components of the Integrated Systems Implementation application software assets of $54 million during 2002. These components are redundant largely as a result of the move from a global business model to a regional business model.

During 2002, the Group recognised restructuring costs of $580 million resulting from the Positioning for Growth and other restructuring initiatives. The majority of these costs are expected to be recovered by the end of 2004 from annual productivity improvements and revenue enhancements. The Positioning for Growth initiative comprises a fundamental reorganisation of the management and organisational structure of the Group, including the appointment of a new senior management team.

Personnel costs of $327 million relate to termination benefit expenses for approximately 2,955 positions in management, support and customer-facing roles. For 2002, payments of $101 million were made in respect of approximately 859 positions made redundant. The reduction in staff numbers has occurred in both managerial and non-managerial positions in the following regions:

Australia	Europe	Asia	Total

			New Zealand	United States		
Original number of positions to be made redundant	1,852	910	121	36	36	2,955
Number of positions made redundant during 2002	707	56	51	18	27	859
Number of positions to be made redundant as at September 30, 2002	1,145	854	70	18	9	2,096

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During 2000, the Group recognised restructuring costs of $96 million resulting from two major initiatives. The majority of these costs are expected to be recovered by the end of 2003 from annual productivity improvements and revenue enhancements. The first initiative comprises a significant transformation of the Financial Services Australia (previously Business and Personal Financial Services) distribution network to meet the rapidly-changing customer preferences for accessing financial services. The second initiative will bring about globally-consistent processes and centralisation of processes where scale efficiencies can be realised for Wholesale Financial Services. For 2002, payments of $4 million (2001: $8 million, 2000: $3 million) were made in respect of approximately 39 positions (2001: 86 positions, 2000: 56 positions) made redundant. The reduction in staff numbers has occurred in both managerial and non-managerial positions. The balance of the provision relating to redundancy costs was written-back during 2002, based on a periodic evaluation to ensure any accrued amount no longer needed for its originally intended purpose is reversed in a timely manner. The remainder of the provision for restructuring costs raised in 2000 relates to occupancy-related costs. Future payments will be made in periods corresponding with the relevant lease terms *(refer to note 1(bb)(ii) and (iii)).*

Sale of foreign controlled entities

(i) SR Investment, Inc.

On August 27, 2002, the Group entered into a contract for the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) to Washington Mutual Bank, FA. Controlled entities of SR Investment, Inc. other than HomeSide Lending, Inc. were excluded from the sale. This transaction settled on October 1, 2002. At September 30, 2002, the assets and liabilities of SR Investment, Inc. and its controlled entities have been consolidated in the Group's statement of financial position. Following settlement and change in ownership and control of SR Investment, Inc., the assets and liabilities of SR Investment, Inc. and HomeSide Lending, Inc. no longer form part of the Group. The loss (before tax) arising from the sale was as follows:

	Group 2002		
	Proceeds from sale $m	**Cost of assets sold $m**	**Loss on sale (before tax) $m**
SR Investment, Inc. and HomeSide Lending, Inc.	**2,671**	**(2,686)**	**(15)**

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The financial performance, financial position and cash flows of SR Investment, Inc. and its controlled entities up to the date of sale, and therefore included in the results of the Group, were as follows:

	2002 $m	**2001 $m**	**2000 $m**
Financial performance			
Net interest income	**14**	(77)	(77)
Non-interest income	**2,737**	871	653
Charge to provide for doubtful debts	**46**	62	55
Other expenses	**2,693**	527	372
Significant expenses		3,937	

	2002 $m	2001 $m	2000 $m
Profit/(loss) from ordinary activities before income tax expense	**12**	(3,732)	149
Income tax expense/(benefit) relating to ordinary activities	**(86)**	(246)	62
Net profit/(loss)	**98**	(3,486)	87
Financial position			
Total assets	**4,072**	12,576	13,151
Total liabilities	**1,805**	10,072	11,015
Net assets	**2,267**	2,504	2,136
Cash flows			
Net cash provided by/(used in) operating activities	**3,320**	(4,321)	18
Net cash provided by/(used in) investing activities	**(221)**	3,256	(1,295)
Net cash provided by/(used in) financing activities	**(3,708)**	2,084	1,108
Net increase/(decrease) in cash and cash equivalents	**(609)**	1,019	(169)

(ii) Michigan National Corporation

On April 1, 2001, the Group sold Michigan National Corporation and its controlled entities to ABN AMRO North America, Inc., a controlled entity of ABN AMRO NV. The Group received proceeds on sale of $5,314 million from the sale of assets with a cost of $2,929 million, resulting in a profit on sale of $2,385 million.

Michigan National Corporation and its controlled entities contributed $132 million net profit to the Group in the 2001 year up to the date of sale (2000: $243 million full year contribution). The net asset position of these entities at the date of sale was $2,591 million (2000: $2,457 million at year end). The net cash outflow of these entities in the 2001 year to the date of sale was $451 million, which is reflected in the Group's cash flows (2000: $1,237 million full year net cash outflow).

Impairment loss on mortgage servicing rights

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

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

Charge to provide for mortgage servicing rights valuation adjustment

On September 2, 2001, the directors of the Company decided to value HomeSide Lending, Inc. at its estimated market sale value, rather than as an ongoing part of the Group, after reviewing its position within the Group's current core strategies of banking and wealth management. As a result of this decision, the carrying value of HomeSide Lending, Inc.'s core asset, mortgage servicing rights, was revalued and a provision for mortgage servicing rights valuation adjustment of $1,436 million was recognised in order to reflect the mortgage servicing rights asset at its estimated market sale value.

Impairment loss on goodwill

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

Business integration costs

During 2000, the Group recognised business integration costs of $108 million, resulting from the integration of the MLC group's operations with the Group's existing life insurance and funds management business. The total integration charge includes costs for the integration of asset management and administration systems, changes to information technology and distribution systems, the ongoing functional requirements of the MLC group as a result of the separation from Lend Lease Corporation Limited (the previous owner of the MLC group), and the write-off of capitalised software and systems which would not form part of the integrated Wealth Management business going forward. At September 30, 2002, the provision had been fully utilised.

(b) Expenses included in profit from ordinary activities before income tax expense

	Group			Company	
	2002 $m	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Interest expense					
Deposits and other borrowings	**6,867**	9,213	8,225	**4,926**	6,347
Other financial institutions	**1,271**	1,907	1,422	**1,181**	1,694
Bonds, notes and subordinated debt	**944**	1,647	1,333	**802**	1,186
Controlled entities				**620**	1,218
Other debt issues	**171**	192	166	**16**	34
Total interest expense	**9,253**	12,959	11,146	**7,545**	10,479
Life insurance expenses					
Claims expense	**956**	599	262		
Change in policy liabilities	**(1,637)**	(1,318)	664		
Policy acquisition and maintenance expense	**751**	699	261		
Investment management fees	**86**	89	38		
Total life insurance expenses	**156**	69	1,225		
Personnel expenses					
Salaries	**2,438**	2,618	2,368	**1,297**	1,250
Related personnel expenses					
Superannuation	**130**	155	129	**93**	73
Payroll tax	**158**	159	154	**93**	88
Fringe benefits tax	**46**	30	26	**41**	28
Charge to provide for					
Annual leave	**27**	35	20	**10**	18
Long service leave and retiring allowances	**43**	54	37	**41**	49
Performance-based compensation	**221**	237	192	**130**	116
Restructuring costs	**4**	27	23	**4**	22
Other expenses	**312**	410	452	**142**	134

	Group			Company	
	3,379	3,725	3,401	**1,851**	1,778
Significant restructuring costs(1)					
Termination benefits	**104**			**79**	
Charge to provide for termination benefits	**223**		23	**122**	
Total personnel expenses	**3,706**	3,725	3,424	**2,052**	1,778
Occupancy expenses					
Depreciation of buildings and amortisation of leasehold assets	**79**	83	77	**40**	39
Operating lease rental expense	**269**	277	234	**162**	158
Maintenance and repairs	**79**	91	76	**20**	19
Electricity, water and rates	**88**	94	84	**26**	29
Other expenses	**44**	42	41	**28**	24
	559	587	512	**276**	269
Significant restructuring costs(1)					
Charge to provide for surplus leased space	**68**		38	**29**	
Total occupancy expenses	**627**	587	550	**305**	269

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	Group			Company	
	2002 $m	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
General expenses					
Depreciation and amortisation of plant and equipment	**340**	297	254	**158**	128
Loss on sale of property, plant and equipment(2)	**6**	18	14	**2**	1
Operating lease rental expense	**53**	45	44	**35**	20
Charge to provide for					
Non-lending losses and contingencies	**112**	69	35	**39**	54
Diminution in value of shares in entities(3)	**13**	13		**47**	13
Fees and commissions	**172**	264	93	**85**	76
Communications, postage and stationery	**473**	507	459	**185**	184
Computer equipment and software	**222**	258	216	**125**	122
Advertising	**192**	191	184	**123**	110
Professional fees	**267**	320	296	**165**	132
Travel	**50**	65	69	**26**	32
Freight and cartage	**59**	54	45	**41**	34
Carrying value of operating assets sold(4)	**2,322**				
Motor vehicle expenses	**29**	30	14	**9**	10
Other expenses	**459**	27	171	**12**	47
	4,769	2,158	1,894	**1,052**	963
Significant restructuring costs(1)					
Write-off of property, plant and equipment(5)	**132**		29	**106**	
Other	**53**		6	**27**	

	Group			Company	
Total general expenses	**4,954**	2,158	1,929	**1,185**	963
Amortisation of goodwill					
Australia	**8**	1	1		
European banks	**62**	62	62		
Bank of New Zealand	**31**	31	31		
HomeSide Lending, Inc.		48	54		
Michigan National Corporation		25	49		
Total amortisation of goodwill	**101**	167	197		
Charge to provide for doubtful debts					
General(6)	**697**	989	588	**259**	532
Other significant expenses(1)					
Cost of foreign controlled entities sold	**2,686**	2,929		**138**	
Impairment loss on mortgage servicing rights		1,643			
Charge to provide for mortgage servicing rights valuation adjustment		1,436			
Impairment loss on goodwill		858			
Business integration costs			108		

(1) Refer to note 5(a).

(2) Refer to note 4, footnote (2).

(3) Includes provision for diminution in value of investments held by National Australia Investment Capital Limited in 2002 and in Mondex and Peakhour Pty Ltd in 2001.

(4) The operating assets of HomeSide Lending, Inc. were sold to Washington Mutual Bank, FA on March 1, 2002. Under the terms of the sale, HomeSide Lending, Inc. received proceeds of $2,314 million after interim settlement adjustments for the operating assets, which consisted primarily of loans held for resale. The carrying value of the assets sold was $2,322 million. The sale was subject to final sale adjustments, which will be recognised during the 2003 year.

(5) Includes write-off of redundant components of the Integrated Systems Implementation application software assets of $54 million during 2002 (refer to note 5(a)).

(6) Refer to note 17.

6 Income tax expense

	Group			Company	
	2002 $m	2001 $m	2000 $m	2002 $m	2001 $m

	Group			Company	
Reconciliation of income tax expense shown in the statement of financial performance with prima facie tax payable on the pre-tax accounting profit					
Profit from ordinary activities before income tax expense					
Australia	**2,288**	5,383	2,411	**3,069**	3,802
Overseas	**2,053**	(1,404)	2,462	**145**	303
Add/deduct: (Profit)/loss from ordinary activities before income tax expense attributable to the statutory funds of the life insurance business (1)	**28**	(56)	(222)		
Total profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business, before income tax expense	**4,369**	3,923	4,651	**3,214**	4,105
Prima facie income tax at 30% (2001: 34%, 2000: 36%)	**1,311**	1,334	1,674	**964**	1,396
Add/(deduct): Tax effect of permanent differences					
Non-allowable depreciation on buildings	**7**	5	9		
Rebate of tax on dividends, interest, etc.	**44**	(31)	(77)	**(249)**	(756)
Foreign tax rate differences	**(6)**	(245)	(97)	**(22)**	1
Amortisation of goodwill	**29**	59	70		
Non-allowable impairment loss on goodwill		292			
Timing differences not carried forward as income tax assets(2)		764			
Non-taxable amounts attributable to HomeSide US operation	**(53)**				
Future income tax benefits no longer recognised	**2**	(4)	10	**1**	8
Restatement of tax timing differences due to change in the Australian company income tax rate	**2**	(8)	42		21
Under/(over) provision in prior years	**6**	(17)	(24)	**(1)**	(9)
Recognition of HomeSide US operation future income tax benefit not previously recognised	**(89)**				
Non-assessable gain on Group hedging activities			(14)		
Impact of lower effective tax rate on HomeSide US operation deferred tax liabilities			(11)		
Other	**(43)**	(46)	(58)	**19**	(50)
Total income tax expense on profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business(3)(4)	**1,210**	2,103	1,524	**712**	611
Income tax expense/(benefit) attributable to the statutory funds of the life insurance business(1)	**(248)**	(212)	108		
Total income tax expense(3)(4)	**962**	1,891	1,632	**712**	611

(1) The income tax expense attributable to the statutory funds of the life insurance business has been determined after segregating the life insurance business into various classes of business and then applying, when appropriate, different tax treatments to these classes of business (refer to note 1(pp)).

(2) Refer to note 23 for further information on income tax assets not taken to account.

(3) Total income tax expense on profit from ordinary activities includes $21 million income tax benefit attributable to the loss on sale of SR Investment, Inc. in 2002 (refer to notes 5(a) and 23).

(4)

Total income tax expense on profit from ordinary activities includes $704 million income tax expense attributable to the profit on sale of Michigan National Corporation and its controlled entities in 2001.

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7 Dividends and distributions

	Group			Company	
	2002 $m	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Dividends paid or provided for					
Interim					
72c ordinary dividend paid (2001: 67c, 2000: 59c), fully franked at a rate of 30% (2001: 30%, 2000: 34%)	**1,115**	1,026	882	**1,115**	1,026
Final					
75c ordinary dividend provided for (2001: 68c, 2000: 64c), 90% franked at a rate of 30% (2001: fully franked 30%, 2000: fully franked 34%)	**1,151**	1,054	976	**1,151**	1,054
Total dividends paid or provided for	**2,266**	2,080	1,858	**2,266**	2,080

In 2002 and 2001, the dividend payout was based on after-tax cash earnings (adjusted for significant items) following a revision to the dividend approach in 2001. In prior years, the dividend payout was based on after-tax accounting earnings.

With effect from July 1, 2002, Australian tax law requires companies to maintain franking accounts on a tax paid basis. The disclosures below, including the prior year comparatives, therefore reflect the new tax paid basis of measuring franking credits.

The franking credits available to the Group at September 30, 2002, after allowing for tax payable in respect of the current reporting period's profits that will be subject to Australian income tax, the payment of the final dividend, and the receipt of dividends recognised as receivable at balance date, are estimated to be $nil (2001: $nil, 2000: $nil).

The franking credits that will be available to the Group at June 30, 2003 (being the end of the Group's franking year), after allowing for the instalments of tax payable in respect of the 2003 financial year, are estimated to be $nil (2001: $65 million, 2000: $nil).

The extent to which future dividends will be franked will depend on a number of factors including the level of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system (including the dividend imputation system) as a result of the Australian Commonwealth Government's tax reform initiatives.

	Group			Company	
	2002 $m	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Distributions on other equity instruments					
Trust units exchangeable for preference shares	**70**	71	61		
National Income Securities	**117**	142	137	**117**	142
Total distributions on other equity instruments	**187**	213	198	**117**	142

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8 Earnings per share

	Group					
	2002		2001		2000	
	Basic	**Diluted(1)**	**Basic**	**Diluted(1)**	**Basic**	**Diluted(1)**
Earnings ($m)						
Net profit attributable to members of the Company	**3,373**	**3,373**	2,083	2,083	3,239	3,239
Distributions on other equity instruments	**(187)**	**(187)**	(213)	(213)	(198)	(198)
Potential dilutive adjustments						
Interest expense on exchangeable capital units		**102**		102		85
Adjusted earnings	**3,186**	**3,288**	1,870	1,972	3,041	3,126
Weighted average ordinary shares (no. '000)						
Weighted average ordinary shares	**1,549,136**	**1,549,136**	1,538,633	1,538,633	1,503,253	1,503,253
Potential dilutive ordinary shares						
Options		**8,335**		1,152		192
Partly paid ordinary shares		**670**		895		1,098
Exchangeable capital units		**65,460**		65,460		65,460
Total weighted average ordinary shares	**1,549,136**	**1,623,601**	1,538,633	1,606,140	1,503,253	1,570,003
Earnings per share (cents)	**205.7**	**202.5**	121.5	122.8	202.3	199.1

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

The Group has applied the revised Australian Accounting Standard AASB 1027 "Earnings per Share" from October 1, 2001. The standard introduces changes to the method of calculating earnings per share. The changes have not had a material impact on earnings per share. Comparatives have been restated to reflect the change in method of calculating basic and diluted earnings per share.

During 2001, the Group changed its accounting policy with respect to accounting for the revaluation of non-current assets. This change did not have an impact on basic or diluted earnings per share. During 2000, the Group changed its accounting policies with respect to accounting for the Group's life insurance business and income recognition on non-accrual loans. Neither of these changes had an impact on basic or diluted earnings per share.

There has been no conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares since September 30, 2002 and before the completion of this financial report.

For further information on earnings per share calculations, refer to the financial review.

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9 Cash assets

	Group	Company

	2002 $m	2001 $m	2002 $m	2001 $m
Australia				
Coins, notes and cash at bank	**1,932**	2,024	**845**	619
Money at short call	**150**	155	**150**	155
Other (including bills receivable and remittances in transit)	**2,171**	2,459	**222**	705
	4,253	4,638	**1,217**	1,479
Overseas				
Coins, notes and cash at bank	**815**	2,831	**6**	18
Money at short call	**646**	384	**215**	
Other (including bills receivable and remittances in transit)	**580**	140	**77**	32
	2,041	3,355	**298**	50
Total cash assets	**6,294**	7,993	**1,515**	1,529

The cash assets within the Group's life insurance business statutory funds of $849 million (2001: $1,036 million) are subject to restrictions imposed under the *Life Insurance Act* 1995 (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group *(refer to note 1(p))*.

10 Due from other financial institutions

	2002 $m	2001 $m	2002 $m	2001 $m
Australia				
Interest-earning	**1,837**	1,485	**1,716**	1,234
Non-interest-earning	**26**	58	**19**	58
	1,863	1,543	**1,735**	1,292
Overseas				
Interest-earning	**13,409**	14,146	**10,274**	10,109
Non-interest-earning	**604**	783	**570**	544
	14,013	14,929	**10,844**	10,653
Total due from other financial institutions	**15,876**	16,472	**12,579**	11,945

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11 Due from customers on acceptances

	Group		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Australia				
Government and public authorities	**5**	5	**5**	5
Agriculture, forestry and fishing	**1,801**	1,493	**1,801**	1,493
Financial, investment and insurance	**4,111**	4,235	**4,111**	4,235

	Group		Company	
Real estate construction	**824**	1,140	**824**	1,140
Manufacturing	**2,118**	2,539	**2,118**	2,539
Instalment loans to individuals and other personal lending (including credit cards)	**316**	357	**316**	357
Other commercial and industrial	**10,071**	9,109	**10,071**	9,109
	19,246	18,878	**19,246**	18,878
Overseas				
Agriculture, forestry and fishing	**4**	16		16
Financial, investment and insurance	**114**	78	**72**	
Manufacturing	**22**	37	**17**	34
Other commercial and industrial	**88**	344	**65**	182
	228	475	**154**	232
Total due from customers on acceptances	**19,474**	19,353	**19,400**	19,110

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12 Trading securities

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Listed Australia				
Australian Government Treasury notes	**199**	129	**199**	129
Australian Government bonds and securities	**1,371**	1,644	**1,318**	1,605
Securities of Australian and semi-government authorities	**2,130**	2,024	**2,130**	2,024
Private corporations/other financial institutions' certificates of deposit	**2,122**	2,057	**2,122**	2,057
Private corporations/other financial institutions' bills	**9,830**	11,491	**9,830**	11,491
Other securities	**430**		**401**	
	16,082	17,345	**16,000**	17,306
Listed Overseas				
Securities of Australian and semi-government authorities	**2**		**2**	
Securities of or guaranteed by UK/Irish governments	**4**		**4**	
Securities of or guaranteed by New Zealand Government	**48**		**48**	
US Treasury and other US Government agencies		57		57
Private corporations/other financial institutions' bonds	**1,022**	645	**1,022**	645
Other government bonds and securities	**95**		**95**	
	1,171	702	**1,171**	702
Total listed trading securities	**17,253**	18,047	**17,171**	18,008
Unlisted Overseas				
Securities of or guaranteed by New Zealand Government	**296**	203		
Private corporations/other financial institutions' certificates of deposit	**1,591**	623	**146**	145
Private corporations/other financial institutions' bills		137		
Private corporations/other financial institutions' bonds	**92**	133		

	Group		Company	
Other government bonds and securities	**39**	46		
Other government treasury notes		6		
Private corporations/other financial institutions' commercial paper	**113**		**113**	
Private corporations/other financial institutions' medium-term notes	**36**		**36**	
Private corporations/other financial institutions' floating rate notes		124		
Private corporations/other financial institutions' promissory notes	**156**	259		
Other securities	**14**	135	**5**	135
Total unlisted trading securities	**2,337**	1,666	**300**	280
Total trading securities	**19,590**	19,713	**17,471**	18,288

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13 Available for sale securities

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Listed Australia				
Other securities		60		60
		60		60
Listed Overseas				
Securities of or guaranteed by UK/Irish governments	**4**	5		
Private corporations/other financial institutions' certificates of deposit/bills	**4,581**	4,527	**4,581**	4,527
Private corporations/other financial institutions' bonds	**100**		**100**	
Other securities	**5**	219		194
	4,690	4,751	**4,681**	4,721
Total listed available for sale securities	**4,690**	4,811	**4,681**	4,781
Unlisted Overseas				
Private corporations/other financial institutions' certificates of deposit/bills	**214**	302	**214**	302
Private corporations/other financial institutions' bonds	**66**		**66**	
Other government treasury notes	**67**	44	**67**	44
Private corporations/other financial institutions' commercial paper	**659**	929	**659**	931
Private corporations/other financial institutions' medium-term notes	**463**	449	**463**	449
Private corporations/other financial institutions' floating rate notes		130		130
Other securities	**33**			
Total unlisted available for sale securities	**1,502**	1,854	**1,469**	1,856
Total available for sale securities	**6,192**	6,665	**6,150**	6,637

Market value information

	Group		Company	
Listed Australia				
Other securities		60		60
		60		60
Listed Overseas				
Securities of or guaranteed by UK/Irish governments	**4**	5		
Private corporations/other financial institutions' certificates of deposit/bills	**4,581**	4,527	**4,581**	4,527
Private corporations/other financial institutions' bonds	**100**		**100**	
Other securities	**5**	219		196
	4,690	4,751	**4,681**	4,723
Total listed available for sale securities at market value	**4,690**	4,811	**4,681**	4,783
Unlisted Overseas				
Private corporations/other financial institutions' certificates of deposit/bills	**214**	302	**214**	302
Private corporations/other financial institutions' bonds	**66**		**66**	
Other government treasury notes	**67**	44	**67**	44
Private corporations/other financial institutions' commercial paper	**659**	929	**659**	929
Private corporations/other financial institutions' medium term notes	**463**	449	**463**	449
Private corporations/other financial institutions' floating rate notes		130		130
Other securities	**33**			
Total unlisted available for sale securities at market value	**1,502**	1,854	**1,469**	1,854
Total available for sale securities at market value	**6,192**	6,665	**6,150**	6,637

The following table reconciles gross unrealised profits and losses of the Group's holdings of available for sale securities at September 30 for the years shown:

	2002				2001			
	Amortised cost $m	Gross unrealised profits $m	Gross unrealised losses $m	Market value $m	Amortised cost $m	Gross unrealised profits $m	Gross unrealised losses $m	Market value $m
Securities of or guaranteed by UK/Irish governments	**4**			**4**	5			5
Private corporations/other financial institutions' certificates of deposit/bills	**4,795**			**4,795**	4,829			4,829
Private corporations/other financial institutions' bonds	**166**			**166**				
Other government treasury notes	**67**			**67**	44			44
Private corporations/other financial institutions' commercial paper	**659**			**659**	929			929
Private corporations/other financial institutions' medium-term notes	**463**			**463**	449			449
Private corporations/other financial institutions' floating rate notes					130			130
Other securities	**38**			**38**	279	1	1	279

	2002				2001			
Total	**6,192**			**6,192**	6,665	1	1	6,665

Maturities of available for sale securities

The following table analyses the maturity of the Group's holdings of available for sale securities at September 30, 2002:

	$m	0 to 1 year yield pa	$m	1 to 5 year(s) yield pa	$m	5 to 10 years yield pa	$m	Over 10 years yield pa
Securities of or guaranteed by UK/Irish governments							4	3.1%
Private corporations/other financial institutions' certificates of deposit/bills	4,795	2.2%						
Private corporations/other financial institutions' bonds	66	3.0%	100	5.0%				
Other government treasury notes	67	0.7%						
Private corporations/other financial institutions' commercial paper	659	2.6%						
Private corporations/other financial institutions' medium-term notes	463	2.2%						
Other securities	38	2.6%						
	6,088		100				4	
Total maturities at carrying value	6,088		100				4	
Total maturities at market value	6,088		100				4	

Proceeds from maturities of available for sale securities during 2002 were $14,543 million (2001: $15,247 million, 2000: $9,037 million). Proceeds from sale of available for sale securities during 2002 were $90 million (2001: $26 million, 2000: $5 million). Gross profits during 2002 of $nil (2001: $nil, 2000: $1 million) and gross losses of $1million (2001: $nil, 2000: $nil) were realised on sale.

14 Investment securities

	Group		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Listed Australia				
Securities of Australian and semi-government authorities	**25**	26	**25**	26
Other securities	**427**		**427**	
	452	26	**452**	26
Listed Overseas				
Securities of or guaranteed by UK/Irish governments(1)	**366**	377		
US Treasury and other US Government agencies	**13**	25	**13**	25

	Group		Company	
Private corporations/other financial institutions' certificates of deposit/bills	**6,059**	2,972	**6,059**	2,403
Private corporations/other financial institutions' bonds	**718**	798	**408**	798
Other government bonds and securities	**29**	30	**29**	30
Other government treasury notes	**12**		**12**	
Private corporations/other financial institutions' commercial paper	**2,038**	838	**2,038**	838
Private corporations/other financial institutions' floating rate notes	**15**	255	**15**	255
Other securities	**68**	41	**68**	41
	9,318	5,336	**8,642**	4,390
Total listed investment securities	**9,770**	5,362	**9,094**	4,416
Unlisted Overseas				
Securities of or guaranteed by UK/Irish governments		9		
Securities of or guaranteed by New Zealand Government	**550**	657		
Private corporations' Eurobonds	**21**		**21**	
Private corporations/other financial institutions' certificates of deposit/bills	**259**	38		12
Private corporations/other financial institutions' bonds	**2,138**	3,225		
Other government bonds and securities		702		702
Other central banks bonds and securities		93		93
Private corporations/other financial institutions' promissory notes	**243**			
Other securities	**560**	611	**529**	1
Total unlisted investment securities	**3,771**	5,335	**550**	808
Total investment securities	**13,541**	10,697	**9,644**	5,224

(1) $363 million (2001: $372 million) of securities have been pledged as security for borrowings of the Group and are therefore subject to restrictions regarding sale until the pledge is released.

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Market value information				
Listed Australia				
Securities of Australian and semi-government authorities	**26**	26	**26**	26
Other securities	**427**		**427**	
	453	26	**453**	26
Listed Overseas				
Securities of or guaranteed by UK/Irish governments	**366**	383		
US Treasury and other US Government agencies	**13**	25	**13**	25
Private corporations/other financial institutions' certificates of deposit/bills	**6,066**	2,980	**6,066**	2,410
Private corporations/other financial institutions' bonds	**743**	800	**409**	800
Other government bonds and securities	**29**	30	**29**	30
Other government treasury notes	**12**		**12**	
Private corporations/other financial institutions' commercial paper	**2,042**	841	**2,042**	841

	Group		Company	
Private corporations/other financial institutions' floating rate notes	**15**	256	**15**	256
Other securities	**68**	71	**68**	40
	9,354	5,386	**8,654**	4,402
Total listed investment securities at market value	**9,807**	5,412	**9,107**	4,428
Unlisted Overseas				
Securities of or guaranteed by UK/Irish governments		9		
Securities of or guaranteed by New Zealand Government	**550**	657		
Private corporations' Eurobonds	**20**		**20**	
Private corporations/other financial institutions' certificates of deposit/bills	**259**	38		12
Private corporations/other financial institutions' bonds	**2,130**	3,197		
Other government bonds and securities		703		703
Other central banks bonds and securities		93		93
Private corporations/other financial institutions' promissory notes	**243**			
Other securities	**561**	611	**530**	4
Total unlisted investment securities at market value	**3,763**	5,308	**550**	812
Total investment securities at market value	**13,570**	10,720	**9,657**	5,240

The following table reconciles gross unrealised profits and losses of the Group's holdings of investment securities at September 30 for the years shown:

	2002				2001			
	Amortised cost $m	**Gross unrealised profits $m**	**Gross unrealised losses $m**	**Market value $m**	**Amortised cost $m**	**Gross unrealised profits $m**	**Gross unrealised losses $m**	**Market value $m**
Securities of Australian and semi-government authorities	**25**	**1**		**26**	26			26
Securities of or guaranteed by UK/Irish governments	**366**			**366**	386	6		392
Securities of or guaranteed by New Zealand Government	**550**			**550**	657			657
US Treasury and other US Government agencies	**13**			**13**	25			25
Private corporations' Eurobonds	**21**		**1**	**20**				
Private corporations/other financial institutions' certificates of deposit/bills	**6,318**	**7**		**6,325**	3,010	8		3,018
Private corporations/other financial institutions' bonds	**2,856**	**17**		**2,873**	4,023		26	3,997
Other government bonds and securities	**29**			**29**	732	1		733
Other government treasury notes	**12**			**12**				
Other central banks bonds and securities					93			93
Private corporations/other financial institutions' commercial	**2,038**	**4**		**2,042**	838	3		841

	2002				2001			
paper								
Private corporations/other financial institutions' floating rate notes	**15**			**15**	255	1		256
Private corporations/other financial institutions' promissory notes	**243**			**243**				
Other securities	**1,055**	**1**		**1,056**	652	30		682
Total	**13,541**	**30**	**1**	**13,570**	10,697	49	26	10,720

Maturities of investment securities

The following table analyses the maturity of the Group's holdings of investment securities at September 30, 2002:

	$m	0 to 1 year yield pa	$m	1 to 5 year(s) yield pa	$m	5 to 10 years yield pa	$m	Over 10 years yield pa
Australia								
Securities of Australian and semi-government authorities			25	7.5%				
Other securities			427	5.4%				
	-		452					
Overseas								
Securities of or guaranteed by UK/Irish governments	255	3.8%	111	5.1%				
Securities of or guaranteed by New Zealand Government	550	5.8%						
US Treasury and other US Government agencies	13	1.9%						
Private corporations' Eurobonds			21	0.6%				
Private corporations/other financial institutions' certificates of deposit/bills	6,318	2.8%						
Private corporations/other financial institutions' bonds	88	3.4%	2,608	5.5%	160	5.0%		
Other government bonds and securities	29	9.4%						
Other government treasury notes	12	1.8%						
Private corporations/other financial institutions' commercial paper	2,038	3.0%						
Private corporations/other financial institutions' floating rate notes	15	6.7%						
Private corporations/other financial institutions' promissory notes	243	4.5%						
Other securities	560	0.9%	68	4.4%				
	10,121		2,808		160			
Total maturities at carrying value	10,121		3,260		160			
Total maturities at market value	10,134		3,265		171			

Proceeds from maturities of investment securities during 2002 were $37,434 million (2001: $30,828 million, 2000: $175,661 million). The majority of these relate to the maturity of short-dated investment securities. Proceeds from the sale of investment securities during 2002 were $nil (2001: $nil, 2000: $nil). No gross profits (2001: $nil, 2000: $3 million) and no gross losses (2001: $nil, 2000: $nil) were realised on sale during 2002.

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15 Investments relating to life insurance business

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Equity security investments				
Direct	**11,401**	15,467		
Indirect	**10,578**	6,379		
	21,979	21,846		
Debt security investments				
Interest-earning securities				
National government	**2,174**	1,689		
Other public sector	**852**	904		
Private sector	**5,457**	5,981		
	8,483	8,574		
Properties				
Indirect	**278**	611		
Other investments	**272**	350		
Total investments relating to life insurance business	**31,012**	31,381		

Direct investments refer to investments that are held directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Investments held in the statutory funds of the Group's Australian life insurance business can only be used within the restrictions imposed under the *Life Insurance Act* 1995 (Cth). The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements is met.

Investment assets held in statutory funds are not available for use by other parts of the Group's business *(refer to notes 1(p) and 2).*

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16 Loans and advances

	Group	Company

		Group		Company	
		2002 $m	2001 $m	2002 $m	2001 $m
Australia					
Overdrafts		**5,023**	5,417	**5,023**	5,417
Credit card outstandings		**3,525**	3,207	**3,525**	3,207
Market rate advances		**165**	88	**165**	88
Lease finance		**6,929**	6,709	**6,800**	6,603
Housing loans		**68,461**	55,629	**68,461**	55,629
Other term lending		**30,710**	30,373	**30,524**	30,164
Equity participation in leveraged leases		**239**	364	**239**	364
Other lending		**5,833**	5,002	**5,469**	4,733
		120,885	106,789	**120,206**	106,205
Overseas					
Overdrafts		**13,742**	14,707	**4,535**	5,435
Credit card outstandings		**3,059**	2,911		
Market rate advances			1,138		
Bills discounted		**39**	102		
Lease finance		**8,714**	8,703	**43**	52
Housing loans		**27,615**	26,010	**105**	195
Other term lending		**54,575**	47,403	**17,659**	12,964
Redeemable preference share finance		**1,831**	2,239		
Other lending		**5,224**	2,432	**3,429**	919
		114,799	105,645	**25,771**	19,565
Total gross loans and advances		**235,684**	212,434	**145,977**	125,770
Deduct:	Unearned income	**(1,914)**	(1,922)	**(992)**	(1,009)
	Provisions for doubtful debts (refer to note 17)	**(2,470)**	(2,715)	**(1,378)**	(1,549)
Total net loans and advances		**231,300**	207,797	**143,607**	123,212

	Group		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Leasing receivables included in lease finance net of unearned income:				
Current	**2,427**	4,704	**475**	3,433
Non-current	**12,240**	9,864	**5,737**	2,697
Total leasing receivables included in lease finance	**14,667**	14,568	**6,212**	6,130

The diversification and size of the Group are 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 last 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 provisions for doubtful debts.

	Group				
	2002 $m	**2001 $m**	**2000 $m**	**1999 $m**	**1998 $m**
Australia					
Government and public authorities	**1,588**	425	478	1,270	929
Agriculture, forestry and fishing	**4,890**	5,251	5,329	5,039	5,794
Financial, investment and insurance	**3,053**	4,807	4,656	5,006	4,940
Real estate construction	**1,807**	1,941	1,661	1,637	1,367
Manufacturing	**2,034**	3,263	2,268	2,714	2,524
Real estate mortgage	**68,461**	55,629	48,719	41,968	37,763
Instalment loans to individuals and other personal lending (including credit cards)	**11,352**	9,850	8,223	8,098	7,272
Lease financing	**7,168**	7,073	6,929	6,522	5,981
Other commercial and industrial(1)	**20,532**	18,550	19,001	13,956	13,885
	120,885	106,789	97,264	86,210	80,455
Overseas					
Government and public authorities	**1,435**	1,382	1,590	821	1,010
Agriculture, forestry and fishing	**6,002**	5,473	5,099	4,608	4,835
Financial, investment and insurance	**22,123**	12,335	12,065	8,906	7,527
Real estate construction	**3,273**	3,312	3,061	1,862	1,775
Manufacturing	**6,745**	6,476	7,446	6,536	6,618
Real estate mortgage	**27,615**	26,010	22,611	19,978	20,215
Instalment loans to individuals and other personal lending (including credit cards)	**13,294**	12,903	12,012	10,443	11,096
Lease financing	**8,714**	8,703	7,448	5,478	4,750
Other commercial and industrial(1)	**25,598**	29,051	31,400	24,878	25,781
	114,799	105,645	102,732	83,510	83,607
Total gross loans and advances	**235,684**	212,434	199,996	169,720	164,062
Deduct: Unearned income	**(1,914)**	(1,922)	(1,812)	(1,587)	(1,516)
Provisions for doubtful debts (refer to note 17)	**(2,470)**	(2,715)	(2,692)	(2,513)	(2,545)
Total net loans and advances	**231,300**	207,797	195,492	165,620	160,001

(1) At September 30, 2002, there were no concentrations of other commercial and industrial loans exceeding 10% of total loans and advances.

Concentrations of credit risk by geographical location are based on the geographical location of the office in which the loans or advances are booked. The amounts shown are net of unearned income and provisions for doubtful debts:

Australia	**118,674**	104,354	94,986	84,046	78,356
Europe	**76,058**	70,335	57,388	44,319	45,875
New Zealand	**25,557**	23,847	20,466	20,097	18,113
United States	**7,108**	4,555	19,323	14,111	14,367
Asia	**3,903**	4,706	3,329	3,047	3,290
Total net loans and advances	**231,300**	207,797	195,492	165,620	160,001

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The following tables show the maturity distribution of loans and advances to customers and interest rate sensitivity of such loans for the Group as at September 30, 2002:

	Group			
	0 to 1 year(1) $m	1 to 5 year(s) $m	Over 5 years $m	Total $m
Maturity distribution of loans and advances				
Australia				
Government and public authorities	190	1,230	168	1,588
Agriculture, forestry and fishing	2,909	1,404	577	4,890
Financial, investment and insurance	1,591	1,094	368	3,053
Real estate construction	1,054	241	512	1,807
Manufacturing	1,437	373	224	2,034
Real estate mortgage	16,404	3,868	48,189	68,461
Instalment loans to individuals and other personal lending (including credit cards)	2,682	8,381	289	11,352
Lease financing	921	5,942	305	7,168
Other commercial and industrial	12,995	3,783	3,754	20,532
	40,183	26,316	54,386	120,885
Overseas				
Government and public authorities	662	442	331	1,435
Agriculture, forestry and fishing	2,741	1,625	1,636	6,002
Financial, investment and insurance	17,385	4,283	455	22,123
Real estate construction	1,437	1,479	357	3,273
Manufacturing	3,121	2,478	1,146	6,745
Real estate mortgage	3,056	4,312	20,247	27,615
Instalment loans to individuals and other personal lending (including credit cards)	7,415	3,882	1,997	13,294
Lease financing	1,958	2,898	3,858	8,714
Other commercial and industrial	10,951	9,102	5,545	25,598
	48,726	30,501	35,572	114,799
Total gross loans and advances	88,909	56,817	89,958	235,684
Interest rate sensitivity of loans and advances				
Variable interest rates(2)				
Australia	21,568	6,247	36,557	64,372
Overseas	24,400	18,705	19,633	62,738
Fixed interest rates				
Australia	18,615	20,069	17,829	56,513
Overseas	24,326	11,796	15,939	52,061
Total gross loans and advances	88,909	56,817	89,958	235,684

	Group			

(1) Overdrafts are not subject to a repayment schedule. Due to their characteristics, overdrafts are categorised as due within one year.

(2) For a range of credit products that the Company classifies as variable, the Company is required to give a period of notice before a change in the applicable interest rate is effective.

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Securitisation of loans

During the year ended September 30, 2001, the Group securitised Australian loans amounting to $1,924 million through its HomeSide Mortgage Securities Trust 2001-1 securitisation program. No loans were securitised during 2002. Outstanding securitised loans of the program totalled $929 million as at September 30, 2002 (2001: $1,440 million). The securities issued by the program do not represent liabilities of the Company or the Group. Neither the Company nor the Group stands behind the capital value or performance of securities or assets of the program except to the limited extent provided in the transaction documents for the program through the provision of arm's length services and facilities *(refer to note 1(hh))*. The Company and the Group do not guarantee the payment of interest or repayment of principal due on the securities. The Company and the Group are not obliged to support any losses that may be suffered by the investors and do not intend to provide such support. The Company and the Group have no obligation to repurchase any of the securitised loans other than in limited circumstances.

17 Provisions for doubtful debts

	Group			Company	
	2002 $m	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Specific provision for doubtful debts	**553**	586	471	**369**	348
General provision for doubtful debts	**2,022**	2,207	2,238	**1,113**	1,277
Total provisions for doubtful debts	**2,575**	2,793	2,709	**1,482**	1,625
Deduct: Specific provision for off-balance sheet credit-related commitments(1)	**105**	78	17	**104**	76
Net provisions for doubtful debts (refer to note 16)	**2,470**	2,715	2,692	**1,378**	1,549

(1) The specific provision for off-balance sheet credit-related commitments is shown as a liability in the financial report (refer to note 30).

Reconciliation of movements in provisions for doubtful debts

Specific provision

Opening balance	**586**	471	474	**348**	232
Transfer from general provision	**788**	748	423	**417**	388
Provision of foreign controlled entity sold		(58)			
Bad debts recovered	**171**	151	224	**66**	67
Bad debts written-off	**(985)**	(738)	(657)	**(468)**	(341)
Foreign currency translation and consolidation adjustments	**(7)**	12	7	**6**	2
Closing balance	**553**	586	471	**369**	348
General provision					
Opening balance	**2,207**	2,238	2,055	**1,277**	1,122
Transfer to specific provision	**(788)**	(748)	(423)	**(417)**	(388)
Provision of foreign controlled entity sold	**(70)**	(336)			
Charge to profit and loss account	**697**	989	588	**259**	532
Foreign currency translation and consolidation adjustments	**(24)**	64	18	**(6)**	11
Closing balance	**2,022**	2,207	2,238	**1,113**	1,277
Total provisions for doubtful debts	**2,575**	2,793	2,709	**1,482**	1,625

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Provisions for doubtful debt ratios

	Group			Company	
	2002 $m	**2001 $m**	**2000 $m**	**2002 $m**	**2001 $m**
Specific provision as a percentage of risk-weighted assets					
On-balance sheet exposures	**0.18%**	0.20%	0.19%		
Off-balance sheet credit-related commitments	**0.04%**	0.03%	0.01%		
Specific provision for doubtful debts as a percentage of risk-weighted assets	**0.22%**	0.23%	0.20%		
Total provisions for doubtful debts as a percentage of risk-weighted assets	**1.04%**	1.08%	1.14%		
Bad debts written-off as a percentage of average loans and advances(1)	**0.38%**	0.29%	0.24%		

(1) Refer to note 40 for average loans and advances.

Specific provision for doubtful debts by industry category

The following table provides an analysis of the Group's specific provision for doubtful debts including off-balance sheet exposures by industry category for each of the five years ended September 30:

Group

	Group				
	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
Australia					
Agriculture, forestry and fishing	**75**	34	24	46	26
Financial, investment and insurance		13	2	50	45
Real estate construction	**3**	5	8	14	14
Manufacturing	**7**	15	34	76	63
Real estate mortgage	**3**			2	2
Instalment loans to individuals and other personal lending (including credit cards)	**3**	14	46	21	25
Lease financing	**12**	8	9	8	4
Other commercial and industrial	**217**	253	89	17	18
	320	342	212	234	197

	Group				
	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
Overseas					
Agriculture, forestry and fishing	**22**	14	15	12	12
Financial, investment and insurance		2	2	4	2
Real estate construction	**2**	2	8	11	15
Manufacturing	**1**	24	48	44	32
Real estate mortgage	**5**	6	7	7	13
Instalment loans to individuals and other personal lending (including credit cards)	**84**	111	60	50	48
Lease financing	**9**	10	8	9	5
Other commercial and industrial	**110**	75	111	103	96
	233	244	259	240	223
Total specific provision for doubtful debts	**553**	586	471	474	420

Bad debts written-off and bad debts recovered by industry category

The following table provides an analysis of bad debts written-off and bad debts recovered by industry category for each of the five years ended September 30. *For further information, refer to asset quality disclosures in note 18.*

	Group				
	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
Bad debts written-off					
Australia					
Agriculture, forestry and fishing	**24**	9	27	7	9
Financial, investment and insurance	**17**	9	26	5	6
Real estate construction	**8**	8	14	8	8

	Group				
Manufacturing	**10**	29	56	30	19
Real estate mortgage	**7**	8	7	10	11
Instalment loans to individuals and other personal lending (including credit cards)	**144**	109	72	112	97
Lease financing	**19**	32	16	8	7
Other commercial and industrial	**136**	108	34	60	60
	365	312	252	240	217
Overseas					
Agriculture, forestry and fishing	**3**	7	4	8	9
Financial, investment and insurance	**2**		6	6	16
Real estate construction	**16**	9	16	11	18
Manufacturing	**35**	27	30	44	32
Real estate mortgage	**2**	2	3	7	24
Instalment loans to individuals and other personal lending (including credit cards)	**386**	289	206	200	243
Lease financing	**11**	9	11	6	2
Other commercial and industrial	**165**	83	129	105	134
	620	426	405	387	478
Total bad debts written-off	**985**	738	657	627	695
Bad debts recovered					
Australia					
Agriculture, forestry and fishing	**3**	1	1	3	4
Financial, investment and insurance		7	4	7	2
Real estate construction	**1**		1	1	1
Manufacturing	**2**	1	2	3	2
Real estate mortgage	**1**	1	1	1	1
Instalment loans to individuals and other personal lending (including credit cards)	**43**	40	41	33	27
Lease financing	**3**	3	1	1	1
Other commercial and industrial	**9**	6	30	14	16
	62	59	81	63	54

	Group				
	2002 $m	**2001 $m**	**2000 $m**	**1999 $m**	**1998 $m**
Overseas					
Agriculture, forestry and fishing				1	1
Financial, investment and insurance	**4**	5	11	5	15
Real estate construction			1	1	17
Manufacturing			16	15	15
Real estate mortgage				1	1

	Group				
Instalment loans to individuals and other personal lending (including credit cards)	**83**	56	62	56	40
Lease financing				2	
Other commercial and industrial	**22**	31	53	61	95
	109	92	143	142	184
Total bad debts recovered	**171**	151	224	205	238

18 Asset quality disclosures

The Group provides for doubtful debts as discussed in note 1(q)(i). 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 the profit and loss account when their payment is considered to be unlikely, with the exception of cash received in respect of non-accrual loans as discussed in note 1(q)(iii).

The following table provides an analysis of the asset quality of the Group's impaired loans and advances for each of the last five years ended September 30. Gross amounts have been prepared without regard to security available for such loans and advances. The inclusion of past due loans and restructured loans in both tables does not necessarily indicate that such loans are doubtful.

	Group				
	2002 $m	**2001 $m**	**2000 $m**	**1999 $m**	**1998 $m**
Non-accrual loans(1)(2)					
Gross					
Australia	**888**	959	568	644	602
Overseas	**702**	773	899	926	868
	1,590	1,732	1,467	1,570	1,470
Specific provision for doubtful debts					
Australia	**299**	325	196	226	189
Overseas	**201**	203	246	231	214
	500	528	442	457	403
Net					
Australia	**589**	634	372	418	413
Overseas	**501**	570	653	695	654
Total net non-accrual loans	**1,090**	1,204	1,025	1,113	1,067
Restructured loans					
Australia	**6**	4	4		

	Group				
Overseas				3	6
Total restructured loans	**6**	4	4	3	6
Assets acquired through security enforcement					
Real estate					
Overseas			8	8	5
			8	8	5
Other assets					
Overseas	**3**	4	5	5	7
	3	4	5	5	7
Total assets acquired through security enforcement	**3**	4	13	13	12

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	Group				
	2002 $m	**2001 $m**	**2000 $m**	**1999 $m**	**1998 $m**
Total impaired assets					
Gross					
Australia	**894**	963	572	644	602
Overseas	**705**	777	912	942	886
	1,599	1,740	1,484	1,586	1,488
Specific provision for doubtful debts					
Australia	**299**	325	196	226	189
Overseas	**201**	203	246	231	214
	500	528	442	457	403
Net					
Australia	**595**	638	376	418	413
Overseas	**504**	574	666	711	672
Total net impaired assets	**1,099**	1,212	1,042	1,129	1,085

(1) Includes loans amounting to $137 million gross, $93 million net (2001: $170 million gross, $124 million net, 2000: $252 million gross, $182 million net, 1999: $124 million gross, $86 million net, 1998: $184 million gross, $116 million net) where some concerns exist as to the ongoing ability of the

borrowers to comply with existing loan terms, but on which no principal or interest payments are contractually past due.

(2) Includes off-balance sheet credit-related commitments amounting to $138 million gross, $33 million net (2001: $219 million gross, $141 million net, 2000: $33 million gross, $16 million net, 1999: $40 million gross, $24 million net, 1998: $51 million gross, $33 million net).

Memorandum disclosures

	Group				
	2002 $m	**2001 $m**	**2000 $m**	**1999 $m**	**1998 $m**
Accruing loans past due 90 days or more with adequate security					
Australia	**29**	48	39	22	15
Overseas	**49**	54	68	74	91
Total accruing loans past due 90 days or more with adequate security	**78**	102	107	96	106
Accruing portfolio facilities past due 90 to 180 days					
Gross					
Australia	**37**	35	23	27	33
Overseas	**46**	83	36	29	68
	83	118	59	56	101
Specific provision for doubtful debts					
Australia	**22**	18	15	9	7
Overseas	**31**	40	14	8	10
	53	58	29	17	17
Net					
Australia	**15**	17	8	18	26
Overseas	**15**	43	22	21	58
Total net accruing portfolio facilities past due 90 to 180 days	**30**	60	30	39	84

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Further analysis of non-accrual loans at year end and interest income received and foregone under the Australian Prudential Regulation Authority asset quality disclosure guidelines is as follows for the Group, for each of the last three years ended September 30:

	2002			2001			2000		
	Gross $m	**Specific provision $m**	**Net $m**	**Gross $m**	**Specific provision $m**	**Net $m**	**Gross $m**	**Specific provision $m**	**Net $m**

	2002			2001			2000		
Non-accrual loans with provisions and:									
No performance									
Australia	**449**	**275**	**174**	502	299	203	251	186	65
Overseas	**458**	**178**	**280**	495	180	315	370	169	201
	907	**453**	**454**	997	479	518	621	355	266
Partial performance									
Australia									
Overseas	**4**	**1**	**3**	6	2	4	48	8	40
	4	**1**	**3**	6	2	4	48	8	40
Full performance									
Australia	**74**	**24**	**50**	119	26	93	30	10	20
Overseas	**68**	**22**	**46**	54	21	33	248	69	179
	142	**46**	**96**	173	47	126	278	79	199
Non-accrual loans without provisions and:									
No performance									
Australia	**329**		**329**	303		303	260		260
Overseas	**142**		**142**	206		206	224		224
	471		**471**	509		509	484		484
Full performance									
Australia	**36**		**36**	35		35	27		27
Overseas	**30**		**30**	12		12	9		9
	66		**66**	47		47	36		36
Total non-accrual loans	**1,590**	**500**	**1,090**	1,732	528	1,204	1,467	442	1,025

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	Group		
	2002 $m	2001 $m	2000 $m
Interest income received and foregone			
Interest and other income received and taken to the profit and loss account on non-accrual loans and restructured loans			

	Group		
Australia	**11**	12	10
Overseas	**5**	4	13
	16	16	23
Net interest and other income foregone on non-accrual loans and restructured loans			
Australia	**63**	54	49
Overseas	**29**	40	48
	92	94	97
Additional information in respect of impaired assets			
Fair value of security(1)			
Non-accrual loans			
Australia	**440**	420	322
Overseas	**448**	515	629
	888	935	951
Loans newly classified into impaired asset categories during the year			
Australia	**965**	1,154	510
Overseas	**526**	403	514
	1,491	1,557	1,024

(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.

19 Mortgage servicing rights

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Opening balance	**5,445**	8,226		
Additions	**671**	2,700		
Sale of servicing rights	**(397)**			
Deferred hedge gains applied(1)	**(2,219)**	(1,771)		
Amortisation	**(1,193)**	(1,252)		
Impairment loss(2)		(1,643)		

	Group		Company	
Foreign currency translation adjustments	**(513)**	621		
	1,794	6,881		
Deduct: Provision for valuation adjustment(2)		(1,436)		
Total mortgage servicing rights	**1,794**	5,445		

(1) Refer to note 46 for information on derivative financial instruments used to hedge mortgage servicing rights.

(2) Refer to note 5(a).

On August 27, 2002, the Group entered into a contact for the sale of SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) which included the sale of all mortgage servicing rights and associated derivative financial instruments used to hedge mortgage servicing rights *(refer to note 5(a)).* This transaction settled on October 1, 2002. This asset is no longer recognised on the Group's statement of financial position from that date.

20 Shares in entities and other securities

Shares in controlled entities				
At cost			**11,581**	11,513
Deduct: Provision for diminution in value			**(114)**	(66)
			11,467	11,447
Shares in other entities				
At cost	**668**	612	**485**	485
Deduct: Provision for diminution in value	**(70)**	(62)	**(26)**	(26)
	598	550	**459**	459
Units in unlisted trusts (at cost)	**601**	862		
Total shares in entities and other securities	**1,199**	1,412	**11,926**	11,906
Market value information				
Shares in other entities	**942**	790	**783**	692
Units in unlisted trusts	**601**	862		
Total shares in entities and other securities at market value	**1,543**	1,652	**783**	692

21 Regulatory deposits

Central banks overseas	**129**	98	**38**	20
Total regulatory deposits	**129**	98	**38**	20

22 Property, plant and equipment

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Land and buildings				
Freehold				
At cost (acquired subsequent to previous valuation date)	**25**	46		
At directors' valuation 2002	**546**		**32**	
At directors' valuation 2001		702		43
Leasehold				
At cost (acquired subsequent to previous valuation date)	**20**	21	**20**	19
At directors' valuation 2002	**93**			
At directors' valuation 2001		91		
Deduct: Accumulated depreciation and amortisation on buildings	**(21)**	(27)	**(4)**	(2)
	663	833	**48**	60
Leasehold improvements				
At cost	**764**	725	**544**	515
Deduct: Accumulated amortisation	**(380)**	(335)	**(270)**	(239)
	384	390	**274**	276
Furniture, fixtures and fittings and other equipment				
At cost	**793**	780	**120**	122
Under finance lease	**25**	27		
Deduct: Accumulated depreciation and amortisation	**(469)**	(478)	**(86)**	(86)
	349	329	**34**	36
Data processing equipment				
At cost	**1,498**	1,541	**681**	678
Under finance lease	**32**	32	**7**	11
Deduct: Accumulated depreciation and amortisation	**(1,170)**	(1,096)	**(481)**	(424)
	360	477	**207**	265
Application software				
At cost	**1,054**	954	**740**	597
Deduct: Accumulated amortisation	**(170)**	(114)	**(102)**	(57)
	884	840	**638**	540
Total property, plant and equipment	**2,640**	2,869	**1,201**	1,177

Reconciliations of movements in property, plant and equipment

Land and buildings

	Group		Company	
Balance at beginning of year	**833**	936	**60**	61
Additions	**34**	41	**4**	18
Net amount of revaluation increments less decrements(1)	**9**	6	**(3)**	
Disposals	**(152)**	(60)	**(11)**	(18)
Depreciation and amortisation	**(22)**	(25)	**(1)**	(3)
Net foreign currency movements arising from self-sustaining foreign operations	**(19)**	65	**(1)**	2
Sale of operating assets(2)	**(20)**			
Sale of foreign controlled entities		(130)		
Balance at end of year	**663**	833	**48**	60

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	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Leasehold improvements				
Balance at beginning of year	**390**	377	**276**	267
Additions	**68**	89	**39**	51
Disposals	**(6)**	(7)	**(3)**	(6)
Amortisation	**(57)**	(57)	**(38)**	(36)
Net foreign currency movements arising from self-sustaining foreign operations	**(4)**	8		
Sale of operating assets(2)	**(7)**			
Sale of foreign controlled entities		(20)		
Balance at end of year	**384**	390	**274**	276

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**329**	329	**36**	39
Additions	**125**	84	**9**	10
Disposals(3)	**(5)**	(12)	**(1)**	(3)
Depreciation and amortisation	**(72)**	(68)	**(9)**	(10)
Net foreign currency movements arising from self-sustaining foreign operations	**(6)**	21	**(1)**	
Sale of operating assets(2)	**(22)**			
Sale of foreign controlled entities		(25)		
Balance at end of year	**349**	329	**34**	36
Data processing equipment				
Balance at beginning of year	**477**	514	**265**	321
Additions	**184**	180	**78**	55
Disposals(3)	**(101)**	(34)	**(38)**	(24)
Depreciation and amortisation	**(162)**	(165)	**(97)**	(88)
Net foreign currency movements arising from self-sustaining foreign operations	**(10)**	15	**(1)**	1
Sale of operating assets(2)	**(28)**			
Sale of foreign controlled entities		(33)		
Balance at end of year	**360**	477	**207**	265

	Group		Company	

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	Group		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Application software				
Balance at beginning of year	**840**	281	**540**	144
Additions	**380**	647	**254**	441
Disposals(3)(4)	**(147)**	(18)	**(103)**	(15)
Amortisation	**(106)**	(65)	**(53)**	(30)
Net foreign currency movements arising from self-sustaining foreign operations	**(13)**	13		
Sale of operating assets(2)	**(70)**			
Sale of foreign controlled entities		(18)		
Balance at end of year	**884**	840	**638**	540

(1) The fair values of freehold and leasehold land and buildings have been determined by independent valuations. Such valuations were performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the valuation date (refer to note 1(v)).

(2) The operating assets of HomeSide Lending, Inc. were sold on March 1, 2002 (refer to notes 4 and 5(b)).

(3) Disposals include amounts written-off as part of the restructuring initiative of $132 million (refer to note 5(a)).

(4) Includes write-off of redundant components of the Integrated Systems Implementation application software assets of $54 million during 2002 (refer to note 5(a)).

23 Income tax assets

Future income tax benefits	**1,292**	1,296	**741**	674
Total income tax assets	**1,292**	1,296	**741**	674
Future income tax benefits comprise:				
Specific provision for doubtful debts	**93**	78	**98**	82
General provision for doubtful debts	**608**	669	**337**	388
Other provisions	**533**	459	**267**	200
Statutory funds	**4**	4		
Tax losses	**54**	86	**39**	4
Total future income tax benefits	**1,292**	1,296	**741**	674

Future income tax benefits not brought to account

Future income tax benefits have not been brought to account for the following items as realisation of the benefits is not regarded as virtually certain:

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Capital gains tax losses(1)	**1,110**	3		
Mortgage servicing rights impairment loss and provision for valuation adjustment(2)		820		

(1) Includes maximum Australian capital gains tax losses in relation to the sale of SR Investment, Inc. and the return of capital.

(2) Reflected at the applicable income tax rate for HomeSide Lending, Inc. of 36.5%.

These future income tax benefits will only be obtained if:

- future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

24 Goodwill

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
At cost	**2,368**	2,368		
At recoverable amount(1)				
Deduct: Accumulated amortisation	**(1,593)**	(1,492)		
Total goodwill	**775**	876		

(1)

On September 2, 2001, the directors of the Company determined that the carrying value of goodwill in relation to HomeSide Lending, Inc. exceeded its recoverable amount, based on their decision to value that controlled entity on an estimated market sale value basis. As a result, the carrying value of goodwill which arose on the acquisition of HomeSide Lending, Inc. of $858 million was fully written-off. The impairment loss recognised in 2001 due to the write-down was accounted for as a significant expense (refer to note 5(a)).

25 Other assets

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Accrued interest receivable	**2,242**	1,613	**744**	921
Prepayments	**1,594**	1,169	**122**	152
Receivables under contracts of sale	**4**	4		
Fair value of trading derivative financial instruments	**12,128**	18,083	**11,498**	17,380
Receivables from liquidator(1)	**32**	35	**32**	35
Excess of net market value over net assets of life insurance controlled entities	**5,174**	5,281		
Other life insurance assets(2)				
Accrued income receivable	**127**	182		
Outstanding premiums receivable	**85**	90		
Unsettled investment transactions	**481**	197		
Other	**167**			
Other(3)	**4,160**	12,311	**1,137**	7,669
Total other assets	**26,194**	38,965	**13,533**	26,157

(1) Represents the liquidators' estimate of the net return from entities placed in voluntary liquidation. Movements in the estimated net return other than liquidators' distributions are recognised in the profit and loss account.

(2) Refer to note 1(p) for restrictions on assets of the life insurance business.

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

Excess of net market value over net assets of life insurance controlled entities

Life insurance entities within the Group are required to value their investments in controlled entities at market value, with components of the change in the excess of net market value over net assets reflected on the Group's statement of financial performance *(refer to note 1(x))*. Valuations shown are directors' valuations. The valuations used are based on Discounted Cash Flow (DCF) valuations prepared by Tillinghast-Towers Perrin, using, for Australian and New Zealand entities, risk discount rates specified by the directors.

The following table analyses the excess of net market value over net assets of National Australia Financial Management Limited's (NAFM) controlled entities as at September 30 for the years shown. These controlled entities include MLC Limited, MLC Lifetime Company Limited and overseas life insurance entities. The net market value and net assets of NAFM are not included in this table.

	Group 2002	Group 2001

	Group 2002			Group 2001		
	Net market value(1) $m	Net assets $m	Excess of net market value over net assets $m	Net market value(1) $m	Net assets $m	Excess of net market value over net assets $m
Insurance(2)	**2,444**	**444**	**2,000**	2,349	235	2,114
Investments(2)	**3,847**	**694**	**3,153**	3,694	251	3,443
Other	**184**	**163**	**21**	(52)	224	(276)
Total	**6,475**	**1,301**	**5,174**	5,991	710	5,281

(1) Significant assumptions used in the valuation basis underlying the directors' valuations include:

(2) The lines of business have been presented under Wealth Management's new business segmentation. 2001 comparatives have been restated to reflect the current basis of segmentation.

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the valuations are based on the present value of estimated after-tax distributable profits together with the present value of 70% of attaching imputation credits in the case of Australian entities;

	2002	2001
present values have been determined at the following risk discount rates:		
Life insurance business within Australia	11%	11%
Funds management business within Australia	11-12%	11-12.25%
Business written in British pounds within the UK	10%	n/a
Business written in NZ dollars within New Zealand	11.75-12.75%	n/a
Life insurance business written in US dollars within Indonesia	12.5%	11.5%
Life insurance business written in Indonesian rupiah within Indonesia	20.5%	20.5%
Life insurance business written in US dollars within Hong Kong	12.5%	12.5%
Life insurance business written in Hong Kong dollars within Hong Kong	12.5%	12.5%

and in the case of the life insurance entities, the value of future new business has been determined by applying a multiplier to the value of one year's sales. The average multipliers used were as follows:

	2002	2001
Life insurance business in Australia	10.1	10.5
Funds management business within Australia	8.7	8.6
Business written in UK	n/a	n/a
MLC (Hong Kong) Limited	9.0	9.4
PT MLC Life Indonesia	4.6	7.0
Business written in New Zealand	8.1	n/a.

The following table provides explanation of the changes in the Group's excess of net market value over net assets of NAFM's controlled entities from 2001 to 2002:

	Increase/ (decrease) in value of inforce business $m	Increase in value of future new business $m	Increase/(decrease) in value of future synergy benefits $m	Decrease in excess on internal restructure(2) $m	Total increase/ (decrease) in excess of net market value over net assets $m
Insurance(1)	(84)	2	(32)		(114)

	Increase/ (decrease) in value of inforce business $m	Increase in value of future new business $m	Increase/(decrease) in value of future synergy benefits $m	Decrease in excess on internal restructure(2) $m	Total increase/ (decrease) in excess of net market value over net assets $m
Investments(1)	(152)	297	(435)		(290)
Other	297			(48)	249
Total	61	299	(467)	(48)	(155)

(1) The lines of business have been presented under Wealth Management's new business segmentation. 2001 comparatives have been restated to reflect the current basis of segmentation.

(2) The excess of net market value over net assets is impacted by foreign exchange movements on market value due to intra-Group funding and surplus debt funding.

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26 Due to other financial institutions

	Group		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Australia				
Interest-bearing	**3,171**	2,224	**3,171**	2,224
Non-interest-bearing	**26**	16	**26**	16
	3,197	2,240	**3,197**	2,240
Overseas				
Interest-bearing	**39,839**	39,708	**36,558**	36,734
Non-interest-bearing	**243**	925	**228**	885
	40,082	40,633	**36,786**	37,619
Total due to other financial institutions	**43,279**	42,873	**39,983**	39,859

27 Deposits and other borrowings

Australia				
Deposits				
Deposits not bearing interest	**4,973**	4,545	**4,973**	4,544
On-demand and short-term deposits(1)	**40,378**	42,370	**40,379**	42,370
Certificates of deposit	**13,361**	7,921	**13,282**	7,832
Term deposits	**25,870**	23,165	**25,763**	23,058
Borrowings	**10,308**	8,722	**10,306**	8,705

	94,890	86,723	**94,703**	86,509
Overseas				
Deposits				
Deposits not bearing interest	**8,699**	7,533	**686**	539
On-demand and short-term deposits(1)	**45,333**	40,931	**6,711**	3,068
Certificates of deposit	**22,739**	22,563	**20,243**	19,311
Term deposits	**27,442**	27,797	**12,542**	13,645
Borrowings	**7,761**	5,418		
	111,974	104,242	**40,182**	36,563
Total deposits and other borrowings	**206,864**	190,965	**134,885**	123,072

(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.

Australia	**94,890**	86,723
Europe	**73,176**	68,166
New Zealand	**20,901**	19,318
United States	**14,282**	13,166
Asia	**3,615**	3,592
Total deposits and other borrowings	**206,864**	190,965

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Maturities of deposits

The following table shows the maturity profile of the Group's certificates of deposit and time deposits at September 30, 2002:

	0 to 3 months $m	3 to 6 months $m	6 to 12 months $m	Over 12 months $m	Total $m
Australia					
Certificates of deposit	10,761	1,615	914	71	13,361
Time deposits	17,511	98	66	8,195	25,870
	28,272	1,713	980	8,266	39,231
Overseas					
Certificates of deposit	12,850	4,936	4,309	644	22,739
Time deposits	20,448	2,917	1,449	2,629	27,442

	0 to 3 months $m	3 to 6 months $m	6 to 12 months $m	Over 12 months $m	Total $m
	33,298	7,853	5,758	3,273	50,181
Total certificates of deposit and time deposits	61,570	9,566	6,738	11,539	89,412

Short-term borrowings

Short-term borrowings of the Group consist of commercial paper programs of National Australia Funding (Delaware), Inc., HomeSide Lending, Inc. (for 2001 and 2000 years only) and Bank of New Zealand. The following table sets forth information concerning the Group's short-term borrowings for each of the last three years ended September 30:

	2002 $m	2001 $m	2000 $m
Commercial paper			
Balance outstanding at balance date	**7,091**	4,965	9,625
Maximum outstanding at any month end	**10,112**	14,216	9,671
Approximate average amount outstanding during the year	**5,614**	9,557	6,698
Approximate weighted average interest rate on:			
Balance outstanding at balance date (per annum)	**1.3%**	8.0%	4.4%
Average amount outstanding during the year (per annum)	**1.5%**	4.1%	6.5%

28 Life insurance policy liabilities

	Group		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Business valued by projection method				
Value of future policy benefits	**5,051**	5,079		
Future bonuses	**698**	1,125		
Value of future expenses	**831**	846		
Future profit margins	**714**	746		
Value of future premiums	**(3,726)**	(3,568)		
Total business valued by projection method	**3,568**	4,228		
Business valued by accumulation method				
Value of future policy benefits	**27,268**	26,412		
Future charges for acquisition costs	**(536)**	(581)		
Total business valued by accumulation method	**26,732**	25,831		
Unvested policyholder benefits	**125**	198		
Total policy liabilities(1)	**30,425**	30,257		

	Group		Company	

(1) Included in the above policy liabilities are capital guarantees of $4,303 million (2001: $4,682 million) provided on annuity products, money invested in the cash options of investment-linked business, whole of life and endowment policies and investment account policies.

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in note 57. All policy liabilities relate to the business conducted in the statutory funds, including international life insurance funds, and will be settled from the assets of each statutory fund *(refer to note 1(aa))*.

29 Income tax liabilities

	Group		Company	
	2002 $m	**2001 $m**	**2002 $m**	**2001 $m**
Provision for income tax	**689**	781	**520**	29
Provision for deferred income tax	**920**	1,794	**294**	447
Total income tax liabilities	**1,609**	2,575	**814**	476
Provision for deferred income tax comprises:				
Lease finance	**107**	130	**92**	109
Leveraged leasing	**74**	124	**74**	123
Depreciation	**85**	86	**29**	19
Statutory funds	**(59)**	129		
Other timing differences	**713**	1,325	**99**	196
Total provision for deferred income tax	**920**	1,794	**294**	447