A Banking Heritage

National Australia Bank Limited has a long and proud heritage. Established in Melbourne in 1858 as The National Bank of Australasia, the National has successfully expanded its banking activities and absorbed other banking institutions.

Banks acquired by the National Australia Bank Group include The Colonial Bank of Australasia (established in 1855) in 1918, The Bank of Queensland (1886) in 1922, The Queensland National Bank (1872) in 1948 and The Ballarat Banking Company (1865) in 1955. In 1981 The National Bank of Australasia merged with The Commercial Banking Company of Sydney (1834) to form what is now National Australia Bank. Earlier, in 1927, The Commercial Banking Company of Sydney acquired the Bank of Victoria (1853).

As National Australia Bank, the National made its first overseas acquisitions in 1987 when it bought Clydesdale Bank (1838) in Scotland, Northern Bank (1824) in Northern Ireland and National Irish Bank (1986) in the Republic of Ireland. Yorkshire Bank (1859) was added to the Group in 1990.

Overseas expansion continued in 1992 with the acquisition of Bank of New Zealand (1861). In 1995 the Group established a significant presence in the United States with the acquisition of Michigan National Corporation (1941).

Today, National Australia Bank Group is ranked as one of the world's largest and most successful banking and financial services organisations.

Group Mission

To provide core banking and selected financial services professionally, efficiently and competitively to achieve a pre-eminent position in chosen markets.

Values

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

Financial calendar

- Full year results announced 21 November 1996.
- Record date (books closing date) for final dividend is 27 December 1996 for shareholders on the Australian register.
- Shares quoted ex-dividend on the Australian Stock Exchange on 17 December 1996.
- Final dividend payable on 22 January 1997 (44c per share).
- Interim results for the 1996-97 financial year to be announced on 15 May 1997.
- Full year results for the 1996-97 financial year to be announced on 6 November 1997.
- Interim dividend for the 1996-97 financial year payable July 1997, and final dividend payable December 1997.

Annual General Meeting

The Annual General Meeting of the members of National Australia Bank Limited will be held at 10.00am (Melbourne time) on Thursday 23 January 1997 in the John Batman Theatre, Level 3, World Congress Centre, corner Spencer and Flinders Streets, Melbourne, Victoria, Australia.

Shareholders' gatherings

Gatherings of members of National Australia Bank Limited will be held at 9.45am (Sydney time) on Thursday 23 January 1997 in the Grand Ballroom at the Sheraton Wentworth, 61 Philip Street, Sydney; and at 8.45am (Brisbane time) on Thursday 23 January 1997 in the Grand Ballroom at the Brisbane Hilton, 190 Elizabeth Street, Brisbane.

Group debt ratings

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

	Short term	*Long term*
S&P/Australian Ratings	A1+	AA
IBCA	A1+	AA
Moody's Investor Services	P–1	AA3

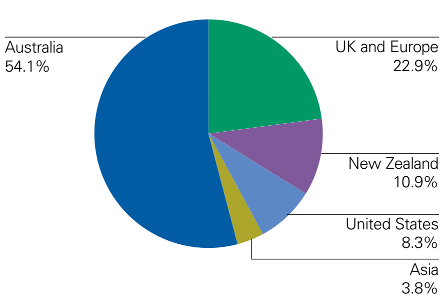
Summary of Key Business Units

National Australia Bank Group is a geographically diverse banking and financial services group. At September 30, 1996, overseas assets accounted for 45.9% of the Group's assets.

A strategy of overseas expansion has been pursued over the past decade to increase the Group's potential market and diversify its sources of income. Under this strategy, the Group has identified the United Kingdom, Ireland, New Zealand and the United States as preferred overseas markets. The Group owns full service banks in all of these markets, and is actively developing the banking and financial service activities of each bank within its region.

Asia is also a preferred market. The Group has branches or representative offices in ten major business capitals in the Asian region, which have provided trade finance and treasury services for many years. The Group's presence in the region is being expanded through the development of markets in wholesale and consumer banking.

Geographic distribution of assets
September 1996



Australian Bank
Established 1858

Bank of New Zealand
Established 1861

Clydesdale Bank
Established 1838

Yorkshire Bank
Established 1859

National Irish Bank
Established 1986

Northern Bank
Established 1824

Michigan National Corporation
Established 1941

National Australia Financial Management
Established 1985

Business Operations	*1996 Results*	*Outlook*
• National Australia Bank is the largest bank in Australia in terms of assets. The National offers a full range of banking and financial services across all Australian states and major territories.	• Net operating profit of $1,307 million – steady with the previous year. • Continued growth in share of housing market, strong growth in sales of financial services.	• Competition to intensify further, placing continued pressure on interest margins. • Well positioned in core banking markets and in financial services. • Slowing economic activity will make growth more difficult.
• Bank of New Zealand is the second-largest bank in New Zealand. It offers a full range of banking services and selected financial services to personal, business, rural and corporate customers.	• Net operating profit up 5.7% to a record $279 million. • Higher lending volumes in personal and business markets. • Cost-to-income ratio reduced sharply from 62.3% to 58.0%.	• Well positioned to capitalise on expected rebound in credit growth in 1997.
• Clydesdale Bank is the third-largest bank in Scotland, with a substantial base in consumer and business banking.	• Net operating profit down 1.2% to $162 million. • In local currency terms, net operating profit up 8.0% to £81 million. • Strong growth in business markets. • Cost-to-income ratio improved to 57.7%.	• Economic growth in the UK expected to increase to around 3.5%. • Strengthening position in Scottish business market. • Will benefit from economy-of-scale initiatives across the UK/Irish Group.
• Yorkshire Bank is strongly represented in Northern England and the Midlands region. Renowned for its strength in consumer banking, and has established strong business banking capability.	• Net operating profit 16.3% lower at $159 million. • Underlying performance sound, but net profit affected by large increase in charges to provide for doubtful debts. • Good growth in lending volumes, despite flat economic conditions.	• Earnings assisted by recent efficiency improvements. • Sales of National Australia Life products provide significant new earnings stream. • Economic growth in UK expected to increase to around 3.5%.
• National Irish Bank provides banking and financial services to individuals, farms and businesses in the Republic of Ireland. It is expanding rapidly in the business banking market.	• Net operating profit up 8.0% to $27 million. • Earnings boosted by successful expansion in business banking.	• Strong economic growth in Ireland set to continue, at around 5.0%. • Will continue to expand network. • Well positioned to capitalise on business lending opportunities.
• Northern Bank is the largest bank in Northern Ireland. It offers a full banking service to personal, business and rural customers, and a growing range of financial services.	• Net operating profit up 21.3% to a record $97 million. • Record lending for housing. • Costs significantly reduced.	• Northern Ireland economy should continue to provide solid growth opportunities. • Initiatives in business banking and financial services expected to assist growth.
• Michigan National Corporation's principal subsidiary, Michigan National Bank, is the fifth-largest bank in Michigan and the 58th-largest in the United States. Offers commercial and consumer banking services.	• Contribution to Group result of $158 million (before amortisation of goodwill) in the 11 months to September 30, 1996. • Costs reduced.	• US economic growth expected to remain at around 2.5%. • Foundations set for higher growth in consumer and small business markets.
• National Australia Financial Management manufactures financial services products such as life insurance, superannuation, rollovers and investment funds. Investment activities are conducted through a specialised subsidiary, National Australia Asset Management Ltd.	• Net operating profit up 38.9% to $25 million. • Record sales of $1 billion, reflecting launch of popular new products and strong sales performance by financial planners. • Funds under management increased by 30% to almost $5 billion.	• Closer integration of financial services within National Australia Bank from October 1996 will support further boost in sales. • New asset management opportunities to be developed in 1997.

Group *Structure*

Board of Directors

Managing Director and Chief Executive Officer
D R Argus

- *Group General Manager*
  Corporate Centre
  C W Breeze
  - *Assisting the Managing Director*
  - *Group Legal*
  - *Group Secretariat*
- *Chief Financial Officer*
  B S McComish
  - *Group Analysis and Reporting*
  - *Group Accounting Policy*
  - *Group Taxation Policy*
  - *Group Financial Reporting*
  - *Group Treasury*
  - *Investments and Advisory*
- *Group General Manager*
  Group Strategic Development
  R F Matrenza
  - *Economics*
  - *Group Corporate Relations*
  - *Corporate Strategy*
  - *Project Management*
  - *Group Sales and Service Culture*
- *Group General Manager*
  Group Human Resources
  E G Steel
  - *Remuneration and Benefits*
  - *Organisation and Succession Planning*
  - *Executive Development*
  - *Executive Offices Operations*
  - *Performance Management*
- *Group General Manager*
  Group Marketing, Distribution and Payments
  D S Kelly
  - *Electronic Banking Strategy*
  - *Group Payments Strategy*
  - *Retail Strategy*
- *Group General Manager*
  Information Technology
  M B Coomer
  - *Group Technology*
- *Group General Manager*
  Group Risk Management
  L R Ryan
  - *Group Credit Bureau*
  - *Group Insurance and Operational Risk*
  - *Group Audit*
  - *Independent Risk Oversight and Prudential Control*
- *Group General Manager*
  Business Re-Engineering
  R I Fyfe
  - *Business Re-Engineering*
- *Chief General Manager*
  Australian Financial Services
  F J Cicutto
  - *Australian Bank*
  - *National Australia Financial Management Ltd*
  - *National Australia Asset Management Ltd*
  - *National Australia Trustees Ltd*
  - *National Custodian Services*
- *Managing Director*
  Bank of New Zealand
  G J Wheaton
- *Group General Manager*
  USA and Asia
  R M C Prowse
  - *Michigan National Corporation*
  - *Americas*
  - *Asia*
- *Managing Director*
  UK/Europe
  G L L Barnes
  - *National Australia Group (UK) Limited*
  - *Yorkshire Bank PLC*
  - *Clydesdale Bank PLC*
  - *Northern Bank Limited*
  - *National Irish Bank Limited*
  - *National Australia Life*
  - *National Australia Group Services (UK)*
  - *Treasury and Wholesale Banking – Europe*

Group *Financial Highlights*

Profit

Group operating profit increased by 6.8% to a record $2,102 million – the fourth consecutive year of record earnings.

Underlying profit (before tax and charges to provide for doubtful debts) was up 14.5% to $3,392 million.

Earnings per share increased from 141.0 cents to 144.8 cents.

Return on average shareholders' funds eased from 17.8% to 17.0%.

Geographic results

Net operating profit of Australian banking and financial services activities was steady at $1,307 million.

UK/Irish Group lifted operating profit in local currency terms by 2.6% to £202 million. Reported profit in Australian dollars decreased by 4.0% to $403 million as a result of the stronger Australian dollar.

Bank of New Zealand lifted net operating profit by 5.7% to $279 million.

Michigan National Corporation contributed $158 million (before amortisation of goodwill) to the Group result in the 11 months to September 30, 1996.

Dividend

Directors increased the annual dividend from 83 cents to 87 cents a share. Dividends continue to be fully franked.

Income

Group net interest income rose by 11.9% to $5,059 million, reflecting solid growth in core business activities.

Non-interest income increased by 19.3% to $2,920 million.

Expenses

Non-interest expenses rose by 14.4% to $4,587 million. Non-interest expenses as a proportion of income declined from 56.2% to 55.8%.

Assets

Growth in lending and the acquisition of Michigan National Corporation lifted Group assets by 17.3% to $173.7 billion.

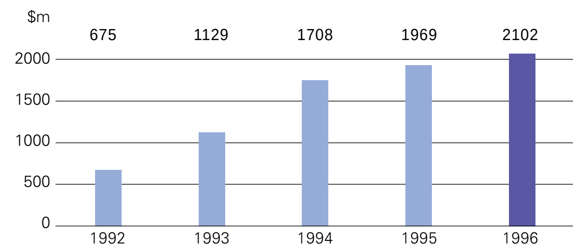
Capital resources

Average shareholders' equity grew by 13.0% to $12.3 billion. Capital risk asset ratio remains sound at 9.3%.

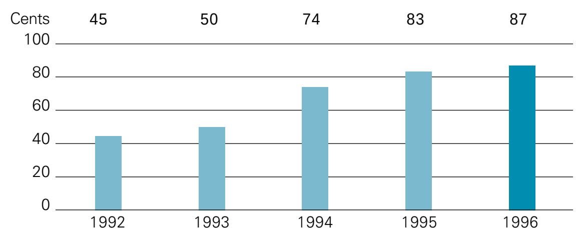
Credit quality

Credit quality continued to improve, with gross impaired assets declining from $1,869 million to $1,517 million. Non-accrual loans (net of specific provisions) decreased by 26.7% to $803 million.

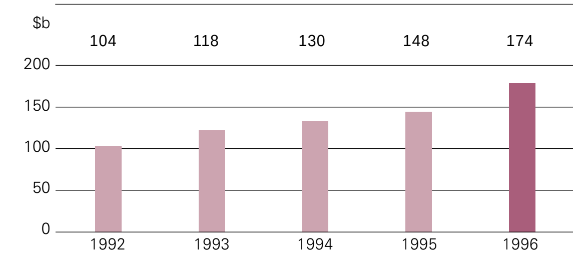
Group Operating Profit



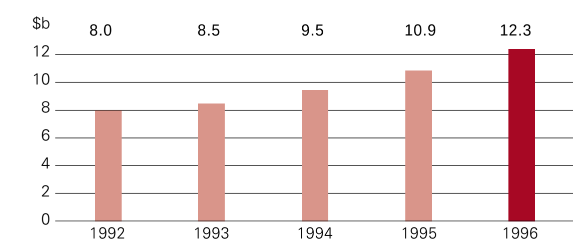
Dividend



Total Assets

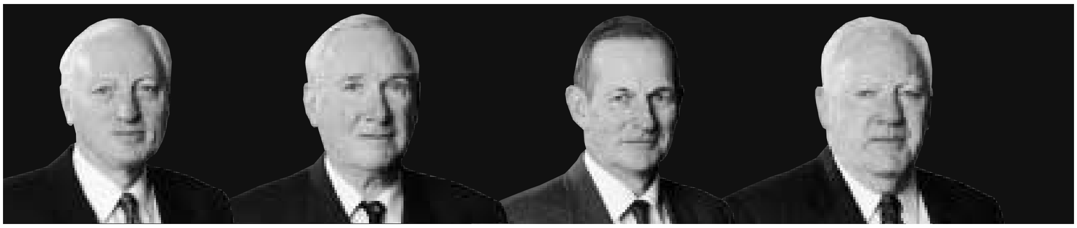


Average Shareholders' Equity



Board of *Directors*

WRM Irvine (Chairman) *DR Argus (Managing Director and Chief Executive Officer)*



BT Loton (Vice-Chairman) *DK Macfarlane (Vice-Chairman)* *DCK Allen* *PJW Cottrell*

CM Deeley *DAT Dickins* *TP Park* *MR Rayner*

A Turnbull *CM Walter* *Sir Bruce Watson*

Year in Review

by the Chairman and the Managing Director

We are pleased to report another year of growth and record earnings for the National Australia Bank Group in 1996.

Group net operating profit after tax rose by 6.8% to $2,102 million in the year to September 30, 1996 – our fourth consecutive year of record profit.

Our underlying profit increased by 14.5% to $3,392 million. Underlying profit represents earnings before tax and charges to provide for doubtful debts. It is the measure of our core business results, and it shows that we continue to perform strongly in the fundamental areas of winning customers and running our business efficiently.

Total dividend to shareholders increased from 83 cents to 87 cents a share. Our dividends continue to be fully franked, providing a tax benefit for many of our 235,000 shareholders.

It is particularly satisfying to report continued growth when many financial services organisations and other enterprises are showing the effects of years of low economic growth, intensified competition and fundamental changes in markets.

Our ability to consistently improve financial results, despite changing business conditions, highlights the value of our international growth strategies of organic growth and acquisitions.

Over the past decade, the Group has diversified the geographic range of its activities by acquiring soundly based regional banks in the United Kingdom, the Republic of Ireland, New Zealand and the United States. Overseas activities now comprise almost half of the Group's assets.

Our international spread of activities reduces our dependence on any single economy and has ensured a diversified earnings stream.

The year under review was an important one in our international development. Michigan National Corporation became part of the Group in November 1995, amid considerable scepticism about the ability of an Australian-based organisation to succeed in the US banking market.

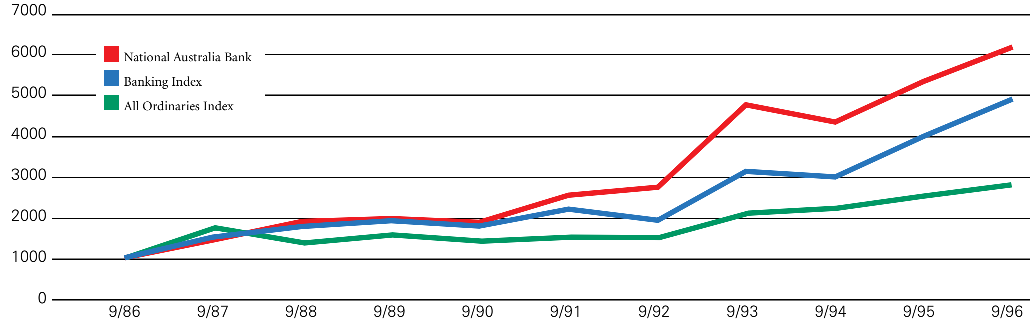
However, Michigan National Corporation has proved a valuable addition to the Group, contributing $158 million to Group profit (before amortisation of goodwill) in the 11 months to September 30, 1996. New products and services were developed, which promise to broaden Michigan's customer base and generate substantial new revenues in the coming year.

In Michigan we applied the same operating formula that drives all of our business units around the Group – close attention to customer needs, successful marketing, sound management of risks, and cost control.

Ultimately, it is our workforce of almost 53,000 people which makes this formula work. Our Group result is the sum of many

Creating wealth for shareholders is a primary objective of the Group. The graph shows how an investment of $1,000 in National Australia Bank shares in 1986 has increased in value to more than $6,000. Cumulative returns from National shares have exceeded returns from an equivalent investment in the banking sector generally, and the Australian share market.

Wealth Index



fine efforts by individuals and teams. It was particularly pleasing to see staff around the Group embracing the sales and service practices that have featured in our training initiatives over the past two years.

Across the Group there were some common themes of change.

Getting closer to our customers

We are a customer-driven organisation. Our success owes much to listening closely to customer needs and developing innovative solutions that set us apart from our competitors. This customer-first approach is now being built into the organisational structures of our business units.

In Australia we have organised ourselves around our major customer segments – retail, premium retail, agricultural, business and wholesale. This change recognises that different types of customers have different needs.

By focusing our attention and resources directly on market segments, we can improve our tailoring of services and respond more quickly to changes in customer needs and market conditions.

Managing our business units in this way is a logical extension of the specialised customer service networks we have created for personal, business and rural customers. These networks have been highly successful in improving service and strengthening customer relationships.

Financial services

The importance of offering financial services that are complementary to our core banking products has been recognised in our mission statement for a number of years. We are upgrading our financial service capabilities in all of our business units. Australia and New Zealand are leading the way with some bold organisational changes which integrate the delivery of banking and financial services. These activities are described more fully later in this report.

Managing technology

New technology is revolutionising the way businesses and people communicate, particularly across national boundaries. This has profound implications for our industry.

Devices such as smartcards, the Internet and personal banking software give us the potential to provide faster and more convenient customer service, with greater efficiency for the Group.

Group Marketing, Distribution and Payments is researching and developing new technologies, with a firm focus on how they can improve the way we serve our customers.

Key initiatives in the year under review included:

- Investment by Michigan National Bank in the Integrion Financial Network, a joint venture with 18 other North American banks and IBM. Integrion will provide the Group with a secure network for electronic banking across North America. Services will include home banking, financial management and on-line bill payments for consumers and small businesses.
- Investment in joint ventures to develop Mondex smartcard technology in Australia, New Zealand and the United States. We believe Mondex technology is a key component in the development of a 'relationship card', which will be the means by which we offer most of our electronic banking services.

Human Resources (full-time equivalents)

	As at September 1996	As at September 1995	Change %
Australia	22,622	23,525	(3.8)
UK/Irish Group	15,078	15,851	(4.9)
New Zealand Group	5,534	5,857	(5.5)
US Group	3,717	119	large
Asia	227	233	(2.6)
Total	47,178	45,585	3.5

As an equity holder in Mondex, the Group will also develop non-interest revenue streams.
- Participation in the trial of Visa smartcards on the Gold Coast, Australia.
- Development of a multimedia terminal, for trial in Australia in early 1997. The new terminal combines telephone, fax and video links with personal banking staff and telephone service centres.
- Pilot of Internet home loan applications. Our home page was redesigned to provide customers with easy access to information about buying a home, including relevant National products and services. It also enables customers to initiate a home loan application.
- Participation through Michigan National Bank in trials of Microsoft Money and Quicken.

In data processing operations, the Group's productivity performance ranked among world best practice. We achieved dramatic declines in unit cost of information technology services in the United Kingdom and Ireland, which demonstrated the success of our strategy to consolidate data centres.

This strategy has been extended to Australia, New Zealand and Asia with the formation of a specialised technology services organisation to serve this large region. This will drive further improvements in productivity and business capability during the coming years.

Similarly, we have begun to build a global services organisation to support the current treasury business units as they become integrated under a global structure.

Building a common culture

The Group has grown into a geographically diverse organisation of almost 53,000 staff.

A major challenge for the Group is creating a common understanding of our values as an organisation. This is important in binding us together, and in ensuring consistency in the behaviour and decision making of our people, wherever they are around the world.

To this end, we continued a major Values program in 1996. This initially involved a two-day course for each of our top 1,000 managers and will involve all staff by the end of 1997.

Supporting this program was the introduction of a method to assess the leadership behaviour of managers, particularly their performance at 'living' the values of the Group in their daily activities.

The second Group-wide employee opinion survey was conducted. This yielded extensive feedback, which will again be used to improve staff relations, levels of job satisfaction and staff development programs for our people.

The number of staff who own part of the Group continued to rise following a further staff share issue in 1996. At balance date, more than 13,000 staff owned shares in National Australia Bank Limited.

Industry changes

The Australian financial services industry and its users have been well served by the various regulatory and supervisory processes that have evolved since deregulation of the Australian banking industry in the 1980s.

However, the industry is changing rapidly. Advances in communications technology and the globalisation of financial markets are creating fundamental change in the marketplace in Australia and abroad.

Against this background of change, there is a need to ensure that our regulatory structures and supervisory practices reflect contemporary industry trends in Australia and overseas.

These issues will become more pressing as banks, life insurance companies and other financial service providers converge in the types of products and services they offer. This is part of a wider trend in which the special role of banks as financial intermediaries is diminishing.

Recognising these trends, the Federal Treasurer of Australia launched an inquiry during the year under review into the Australian financial system. The inquiry, due to report in March 1997, is an important opportunity to complete the process of deregulation.

In our submission to the inquiry, the Group has called for a range of measures to boost competition. We believe Australia's financial system could be significantly improved through changes in the function, structure and supervision of banks and other institutions. In essence, we are proposing a more competitive, open system.

Board

During the year we welcomed Mr Thomas P Park as a Director. Mr Park is the Area Director of Australia and New Zealand for Kraft Foods Inc. and has been Managing Director of Kraft Foods Limited since 1987. He has already proved a valuable addition to the Board.

In other changes, The Lord Nickson and Mr Charles Trethowan retired as Directors during the year. Mr David Dickins also retired from the Board, effective October, 1996.

The Lord Nickson joined the Board in 1991. With more than 30 years' experience as a director of public companies and government bodies in the United Kingdom, The Lord Nickson made an important contribution as the Group developed its activities in the UK and Irish market. He remains Chairman of Clydesdale Bank.

Mr Trethowan joined the Board of National Australia Bank in 1984. He is a former Chairman and General Manager of the State Electricity Commission of Victoria. Mr Dickins joined the Board in 1981. He was a Director of The Commercial Banking

Company of Sydney for the 14 years prior to the merger that created National Australia Bank. We benefited greatly from the experience and good judgement of both men during a period of major growth for the Group.

On behalf of the Board and shareholders, we extend our thanks and good wishes to Mr Trethowan, The Lord Nickson and Mr Dickins.

A number of executive appointments were made. At a Group level, these included Mr EG (Grant) Steel as Group General Manager, Group Human Resources and Mr RI (Rob) Fyfe as Group General Manager, Business Re-Engineering. Both men were former executives of Bank of New Zealand.

Mr GJ (Gordon) Wheaton succeeded Mr RMC (Robert) Prowse as Managing Director of Bank of New Zealand. Mr Prowse returned to Melbourne to take up the new role of Group General Manager, USA and Asia. After balance date, Mr DM (David) Krasnostein was appointed Group General Counsel, while Mr MD (Michael) Soden was appointed Group General Manager, Global Wholesale Banking.

In Australia, Mr FJ (Frank) Cicutto returned from Clydesdale Bank to succeed Mr AW (Allan) Diplock as Chief General Manager, Australian Financial Services. Mr TJ (Trevor) Matthews, the former Managing Director of Legal and General, was appointed General Manager, Personal Financial Services. Other appointments included Mr JR (John) Spence, also formerly of Legal and General, as Managing Director of National Australia Financial Management and General Manager, Premium Financial Services. Mr GP (Grahame) Savage, former State Manager, SA and NT, was appointed General Manager, Retail Financial Services.

In other moves, Mr D (Denis) Mead was appointed Managing Director of National Australia Trustees Ltd, and Mr AJ (Tony) O'Grady was appointed General Manager, National Australia Custodian Services.

Financial overview

The Group achieved a 6.8% increase in operating profit after tax and outside equity interests to a record $2,102 million in the year to September 30, 1996.

The improved result was driven by a combination of growth in interest income and fees.

Group net interest income rose by 11.9% to $5,059 million with higher volumes of lending to business and personal customers in all our major geographic markets.

We were also successful at building non-interest income, which increased by 19.3% to $2,920 million.

Asset quality continued to improve, with gross impaired assets of the Group declining from $1,869 million to $1,517 million.

However, charges to provide for doubtful debts increased from $116 million to $333 million. This followed continued slowing of economic activity in some of our major markets, including Australia and New Zealand. We expect it will be some time before the cycle of economic activity turns, and felt it prudent to provision accordingly.

The profit contribution of our Australian banking and financial services activities was steady at $1,307 million in the year to September 30, 1996. This represented a creditable performance in a difficult operating environment.

Overseas activities contributed $654 million to Group net profit, an increase of 21.1% on the previous year. The UK/Irish Group lifted earnings in local currency terms, but reported earnings for the year were slightly lower because of a stronger Australian dollar. Continued growth in earnings by Bank of New Zealand and a solid contribution by Michigan National Corporation in its first year helped to boost overseas earnings as a proportion of the Group net result from 27.4% to 31.1%.

Growth in lending lifted Group assets by 17.3% to $173.7 billion at year end. The $2.1 billion acquisition of Michigan National Corporation in November 1995 also boosted assets. The acquisition was funded from internal sources and accounted for a decrease in the Group's capital risk asset ratio from 11.6% to 9.3%.

Community involvement

As a major employer, the Group is a large supporter of the communities in which it operates.

The Group also recognises that it has a responsibility to take a direct role in supporting the community.

For example, Bank of New Zealand is a major sponsor of the Kiwi Recovery Program, which is leading efforts to save New Zealand's national bird from extinction. It also funds BNZ Heart House, which provides accommodation for families of children undergoing heart surgery at Auckland's Greenlane Hospital.

In the United States, Michigan National Bank has committed to a US$785 million lending program to improve the social and business character of the City of Detroit. This involves lending to consumer and commercial customers, including businesses owned by members of minority groups.

In Australia, the National CommunityLink program was launched during the year. National CommunityLink involves sponsorship of community groups, focusing on issues such as youth support, education, physical and mental health, community leadership, rural support and cultural diversity. The program also involves close consultation with community groups and will be expanded to boost the role of National staff in the community.

In other initiatives, the National has continued to improve the conservation of its archives and artefacts, which form a rich record of colonial banking in Australia. Artefacts previously in long-term storage, including rare colonial banknotes, are being made more accessible to the community and carefully preserved for future generations.

The year ahead

Economic growth in Australia is expected to moderate to around 2.5% in 1996-97, compared to 4% in 1995-96. After balance date, the Reserve Bank announced a 0.5% cut in the official cash rate to 6.5% pa – the second easing of monetary policy in the calendar year 1996. However, there remains uncertainty about whether this will be sufficient to slow the rate of reduction in business and economic activity.

In the UK and Ireland, the Group will be assisted by increased growth of about 3.5% in economic activity in 1996-97. The US economy is expected to maintain growth of about 2.5% in the year ahead.

New Zealand's economy is expected to slow to around 2.0% growth as tight monetary policy continues to take effect.

The Group will continue to pursue its strategies of organic growth and carefully selected acquisitions. These strategies have served the Group well for the past decade and remain appropriate to market and economic conditions.

The Asian region will be an area of renewed focus for the Group. Opportunities in consumer and wholesale banking will be developed in 1996-97 as part of a carefully considered strategy to increase the Group's role in this important region.

We continue to have clear sight of the fundamentals of our business – meeting customer needs, managing risks effectively and containing costs. We also have a vast potential market through our international spread of business units.

We are in a strong position to meet the challenges of changing markets, and to deliver consistently high performance for the benefit of our customers, shareholders and staff.

WRM Irvine
Chairman

DR Argus
Managing Director and
Chief Executive Officer

Distribution Network as at September 30, 1996

	Michigan	BNZ	Northern	National Irish	Yorkshire	Clydesdale
Branches	203	226	107	60	270	268
Business Centres	–	5	3	3	37	34
Service Centres	–	20	6	5	1	41
Eftpos Terminals	879	6,759	1050	85	1,450	2,700
ATMs	295	155	151	29	356	331
Outlets closed	–	39	–	–	1	2
Outlets established	10	3	–	1	1	1

Australia

Financial Highlights	*1996* $	*Change* %
Operating Profit (before goodwill)	1277m	(0.5)
Underlying Profit	1965m	4.1
Net Lending Assets and Acceptances	75.8b	11.8
Risk Weighted Assets	74.1b	15.2
Net Non-Accrual Loans	336m	(31.9)

Key Ratios	*1996* %	*1995* %
Cost/Income Ratios	52.3	52.4
Return on Average Assets	1.4	1.5
Net Non-Accrual Loans/ Risk Weighted Assets	0.4	0.8

Photographs from top:

Upskilling of people and programs to encourage and assist leadership are fundamental to the National's success. Deborah Batten of Personal Financial Services is pictured leading a team meeting.

Business Banker, Paul Martyn, with Glen Cross of biomedical equipment designer, manufacturer and exporter, Vision Systems.

The National and Cabcharge Australia have trialled Eftpos in taxis. The launch of Eftpos in all taxis in Australia in 1997 will be the world's largest application of mobile Eftpos technology.

The National's refurbished branch at Oberon, NSW.

Main photograph: The National's Rural Finance Manager in Roma, Barry Lewis, with customer Keith Cameron on the Cameron family property, 'Ardno'.

Mr F J Cicutto
Chief General Manager
Australian Financial Services

The Australian operations experienced difficult conditions in the year under review. Economic growth in Australia slowed significantly from the previous year, and interest margins came under more pressure from intensified competition.

However, net operating profit of the Australian operations was steady at $1,307 million in the year to September 30, 1996. This included the results of National Australia Financial Management and National Australia Trustees.

The result was supported by continued success in the housing finance market and in lending to small and medium sized businesses. Growth in lending volumes lifted net interest income by 3.9% to $2,590 million, and more than offset a reduction in the net interest margin from 4.3% to 3.7%.

The Australian banking activities also achieved growth in other operating income, which rose by 7.6% to $1,580 million.

Total loans and acceptances outstanding increased by 11.8% to $75.8 million, while total deposits rose by 8.8% to $49.6 billion.

The steady profit result was achieved despite an increase in the charge to provide for doubtful debts from a low level of $78 million in the previous year to $185 million. Provisions were lifted to take account of the adverse effect on some customers of slowing economic growth. Importantly, asset quality improved, with gross impaired assets as a proportion of all loans decreasing from 1.8% to 1.0%.

Non-interest expenses grew by 6.4%, primarily the effect of wage rises which were negotiated under a new enterprise bargaining agreement early in the year and the end of a contribution holiday to staff superannuation. However, the cost-to-income ratio improved slightly to 52.3% for the year to September 30, 1996 – easily the lowest of any major Australian bank.

A combination of factors contributed to our solid performance, including close attention to customer needs, and successful marketing. An intensive training effort over the past two years to create a culture of sales and service is also flowing through in the form of higher sales activity in traditional products and financial services such as life insurance and managed funds.

Total financial services sales increased by 38% to a record $2.6 billion during the year. This can be attributed largely to the successful move of financial planners from National Australia Financial Management to the branch network.

Financial services sales are expected to grow even more strongly in the current year, following a complete restructure of our Australian activities from October 1996. The new structure welds together financial services and banking as core activities across personal, business and wholesale markets.

This move is vital to our ability to meet customer needs, and more specifically, deliver on our promise of helping customers fulfil their 'bigger picture'.

A key feature of the new structure is the way management of our business is reorganised on the basis of customer segments, rather than geographic location of business activity. This will help us get even closer to our customers.

Retail Financial Services

The National was again the most successful bank in Australia's fiercely competitive home loan market, writing more new loans than any other bank in the year to September 30, 1996. The total home loan portfolio grew by 17.0% to $27.5 billion.

The Bank's ability to win business at the expense of competitors was reflected in the growth in share of the owner-occupied home loan market from 15.9% to 17.0% (of all banks).

During the year under review, the National:

- dropped its standard variable home loan rate to 9.25% pa, establishing a new industry benchmark (this has reduced by a further 0.5% pa since balance date)
- aligned investment and owner-occupied home loan rates, which contributed to a strong lift in sales of residential investment home loans
- widened the range of loans available under our 'Choice' banking packages for professionals and executives, and introduced a similar banking package for residential property investors.

Credit card balances increased by 18.2%, and market share of outstandings was maintained. This performance was achieved despite strong competition from new card programs and loyalty schemes. The FLYBUYS™ program in which the National participates remains Australia's most popular loyalty scheme, with more than two million Australian households in the program.

From November 1996, lending to personal customers is regulated by a Uniform Consumer Credit Code. The introduction of the Code required substantial staff training and extensive reviews of the Bank's systems, procedures and documentation.

Business Financial Services

We consolidated our position as the leading banker to Australian business. Total business credit for the year increased by 12.6%, consistent with overall growth in business credit.

Growth was supported by the National Business Investment Loan, which generated $1.3 billion in new lending to small and medium sized businesses. Leasing finance also showed continued strong growth.

International trade finance commitments increased by 19.0% and international fee income grew by 26.0%. This continued the good results since 1994, when the National improved access to its trade finance specialists and its strong networks of overseas representation and correspondent banks.

Important additions were made to the National's range of payment services, including the launch of the National Purchasing System – an electronic, credit card-based system for controlling low-value, high-volume purchases. This is an expanding area of activity, with potential for new fee-based business.

The success of National Business Finance was one of the year's highlights. Established in March 1995, National Business Finance provides simple, low-cost finance, secured by the value of invoices issued by a business to its customers.

This form of cashflow lending, known as invoice discounting, is provided by our business bankers and relationship managers as an integrated service. In the year to September 1996, $1 billion of invoices were purchased, making National Business Finance the leader in its industry.

Wholly owned subsidiary, Custom Fleet, continued to perform strongly. The company owns and manages 40,000 vehicles, making it the largest funded fleet management company in Australia. A new computer system installed in 1995 has improved the company's ability to tailor fleet management services to the needs of individual clients, and helped to secure several large corporate customers in the year to September 1996.

The National added equity finance to its range of business financial services with the establishment of National Australia Investment Capital Ltd. An investment management team was appointed, which has already reviewed a large number of equity finance proposals.

In rural banking, the National continued to increase lending to farmers and rural industries. Rural advances increased by 12.2% to $5,661 million. Credit quality continued to improve, with non-accrual rural loans declining by almost 20% to $44 million.

Wholesale Financial Services

Services to corporate customers were amalgamated as part of the restructure of Australian activities. The new Wholesale Financial Services unit is comprised of Corporate Banking, Treasury, International Banking Relations, Corporate Finance and Capital Markets (including Project and Structured Finance) and National Custodian Services.

The integration of wholesale financial services enables the coordinated delivery of complex financial services to corporate and institutional clients.

Corporate banking activities achieved growth in earnings, despite a difficult business climate in which fees and margins were squeezed by increased competition.

The Project and Structured Finance team had a particularly successful year. Highlights included:

- co-lead arranger of a syndicated bank loan of $865 million to finance the acquisition of United Energy Ltd
- co-lead arranger of a syndicated bank loan of $1,480 million to finance the acquisition of Yallourn Energy Pty Ltd
- the arrangement mandate of $600 million of debt finance for the Eastern Distributor toll way for Leighton Holdings Ltd.

The Capital Markets Group broadened its product range during the year. Highlights included increased syndicate loan arrangements and appointments to a further eight commercial paper programs.

Treasury lifted its contribution to National Australia Bank's profit. The National's Treasury unit was named in a *Euromoney* survey as one of the world's top 20 participants in foreign exchange markets. Growth in profits reflected higher volumes of business per customer and improvements in risk management methods.

National Custodian Services, which provides a full range of custody and related services for domestic and offshore institutions, achieved a 27.7% increase in assets under custody in the year to September 1996.

A number of major new customers were acquired, including the Victorian Funds Management Corporation. During the year National Custodian Services was judged by *Global Custodian* magazine as the best custodian in Australia and New Zealand.

Network

For increasing numbers of customers, the local branch no longer features in their regular contact with the National. ATMs, Eftpos and telephone banking give them access to their accounts without stepping into a branch. Customers can even obtain many of the National's key products and services over the phone.

The shift towards new distribution channels is highlighted by growth in the number of transactions conducted outside our branches. In the year to September 1996, almost 70% of all transactions fell into this category. This compares to 46.0% only five years ago.

Given this trend, we reviewed the way we distribute our products and services with the goal of ensuring that services are delivered cost-effectively, and at times and locations that customers demand.

A number of strategies flowed from the review. In the years ahead, these will lead to fewer traditional full-service branches, more specialised banking outlets and the introduction of partly and fully automated branches. Greater use of telephone banking and more mobile bankers can also be expected.

Branches will remain a key component of our distribution network. In fact, the National invested $51.6 million during the year to upgrade premises, with a further $2.6 million spent establishing two new branches and seven business banking centres.

Many of the changes flowing from our network review are already underway. In the year to September 30, 1996 we:

- reduced the number of outlets (branches, service centres and agencies) from 1,307 to 1,234
- signed up more than 200,000 new customers to our National Flexiphone service for paying bills, transferring funds and obtaining account information
- extended our range of telephone banking services to include sales over the phone of credit cards, personal loans, home loans, term deposits and cash management accounts
- boosted our Eftpos terminal numbers by 55.0% to 45,624 and installed another 50 National FlexiTeller ATMs, lifting the total ATM number to 979.

The National connects more customers with retailers via Eftpos than any other bank. We are set to strengthen our position in the Eftpos payments system in 1997 through a $25 million program to install Eftpos in Australia's fleet of 12,000 taxis. This follows a successful trial with Cabcharge over the past year. The installation of Eftpos in Australian taxis is the world's largest application of mobile Eftpos technology, and highlights the National's position as a leading Eftpos provider.

Distribution Network as at September 30, 1996

Australian Bank	NSW/ACT	QLD	VIC/TAS	SA/NT	WA	Total
Branches*	340	224	302	73	94	1,033
Business Centres**	42	23	39	4	7	115
Agencies	19	3	49	7	8	86
Eftpos terminals	15,153	12,434	9,638	3,907	4,492	45,624
ATMs	285	219	307	68	100	979
Outlets closed	25	23	17	12	5	82
Outlets established	5	3	0	1	0	9

Notes *Including service centres **Including District Commercial Branches and stand-alone Business Banking Centres

People

The number of staff (full-time equivalent) in Australia decreased by 3.8% to 22,622. This stemmed from ongoing efforts to re-engineer major processes and improve productivity. Reductions in staff numbers were achieved largely through normal retirements and resignations.

The National successfully concluded its 1996 Enterprise Bargaining Agreement without disruption, reflecting a solid and cooperative relationship between the National and the Finance Sector Union. The new agreement strengthens links between remuneration and employee performance, and provides greater flexibility in the use of temporary staff.

An Employee Care Package was introduced to provide employees with access to free professional counselling, as well as discounted private health insurance. Services to help families were launched, including a child care referral service, concessional credit facilities for workers on maternity leave, an improved 'Career Break' scheme and special payments to help workers return from maternity leave.

National Australia Financial Management

Contribution to Group profit by National Australia Financial Management increased by 38.9% to $25 million in the year to September 30, 1996.

Sales improved in life insurance, superannuation and managed investment products, as reflected by a 44.0% increase in total sales to a record $1 billion during the year.

A number of factors contributed to the improved performance. These included the successful integration of financial planners within the branch network and the introduction of popular new products such as the National Australia Mortgage Fund and fixed term annuities.

A better investment performance also figured strongly in the improved result. Fund management skills were upgraded in 1995 with the establishment of National Australia Asset Management as a specialist asset management subsidiary. Total funds under management increased by 30.0% to almost $5 billion. Retail funds inflow in the year to September 1996 was the second-highest of the major banks and fourth-highest in the industry.

With the introduction of a new organisational structure for the Australian activities in October 1996, National Australia Financial Management's role is focused on the manufacture of products for distribution through the National's retail and wholesale networks, as well as through independent financial advisers and other groups.

National Australia Trustees

National Australia Trustees achieved a 94.6% gain in net operating profit to $3 million. Earnings benefited from a strong performance by the Common Fund A1, which consistently ranked in the top quartile of investment performance. Deposits in the Common Fund A1 rose by 119.0% to $252.9 million during the year.

National Australia Trustees also achieved substantial growth in corporate trust business and successfully launched the National Private SuperFund for individuals wishing to take more control of their retirement savings.

Assets under trusteeship and management were more than $10 billion at the end of the year.

Europe

The Group's operations in the United Kingdom and Ireland comprise four regional banks, a life insurance company, a developing wholesale banking operation and a service company which provides technology support to the regional banks.

Regional banks in the United Kingdom are Clydesdale Bank in Scotland, Yorkshire Bank in Northern England and Northern Bank in Northern Ireland. The Group also owns National Irish Bank in the Republic of Ireland.

Economic growth was subdued in the United Kingdom in 1996, particularly in the business sector. There was also greater competition in the financial services sector, and many building societies reduced lending margins.

Against this background, the Group's operations in the UK and the Republic of Ireland made good progress.

In local currency terms, operating profit (before amortisation of goodwill) was 2.6% higher compared to the previous year. Significant growth in lending was achieved in personal and business markets.

The improved result was achieved despite an increase in charges to provide for doubtful debts from A$129 million to A$223 million. Provisions were increased as a result of further weakening of economic activity during the year, and the North of England's slow recovery from recession. Some additional specific provisions were raised because of the beef export crisis.

Asset quality improved, with gross impaired assets declining from A$545 million to A$533 million.

Reported operating profit (before amortisation of goodwill) of the UK/Irish banking and financial services group decreased by 4.0% to A$403 million as a result of a stronger Australian dollar.

The cost-to-income ratio of the UK/Irish Group reduced from 61.7% to 59.0%. A further improvement is expected in 1997 following initiatives to unlock the benefits of economies of scale across the major business units in the region.

In October 1995, National Australia Life launched a range of life insurance and investment products, marketed through Clydesdale Bank, Northern Bank and Yorkshire Bank. Sales activity in early months was slower than anticipated, but has lifted in recent months following improvements to the effectiveness of the sales force of 430 personal bankers.

The decision to establish a new life insurance business is providing the UK/Irish Group with significant advantages over established competitors, who are finding it difficult to lower their relatively high cost structures. The manufacturing and service support functions of National Australia Life have performed well.

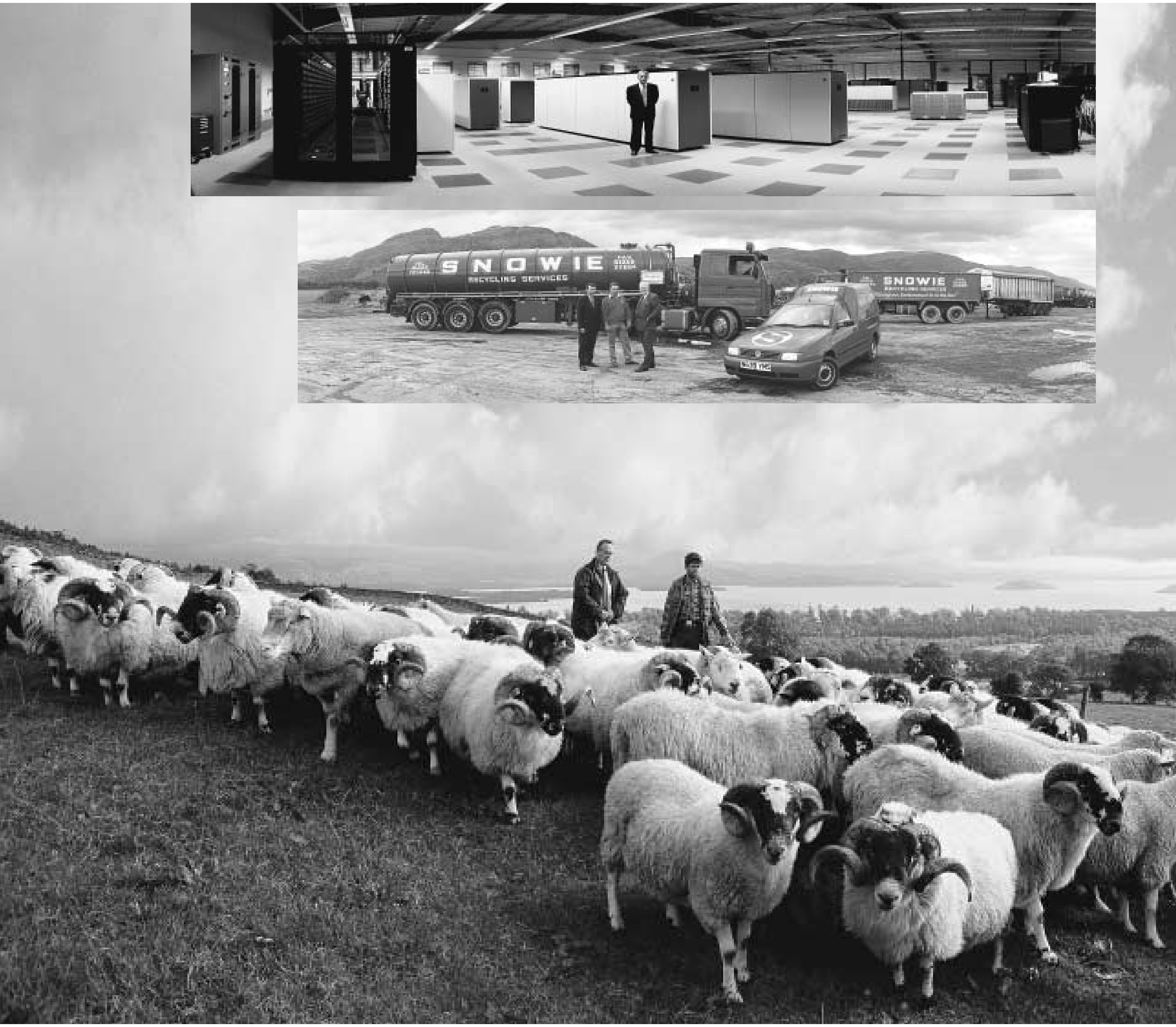
National Australia Life recorded a small loss in its first year of operations, which was in line with expectations.

Other highlights included the start-up of a new mainframe operating system at Yorkshire Bank in November 1995. The system will be installed in phases at other business units in the region, starting with mortgage and personal loan products.

A number of initiatives were taken to upgrade our wholesale banking capability. New dealing rooms were established at Clydesdale Bank and National Irish Bank, and further investment in dealing room facilities is planned in 1997 at Yorkshire Bank and Northern Bank. Skills were boosted by selective recruitment of a highly regarded capital markets team in London and new heads of treasury at Clydesdale and Yorkshire Bank. Skills within the Corporate and Structured Finance unit in London were also upgraded.

The outlook for the UK/Irish Group is broadly positive in 1997. The UK/Irish Group will continue to develop its business banking service, which has been the source of a considerable proportion of lending growth in recent years. Personal banking activity is expected to grow through offers of tailored services to carefully selected segments of our customer base.

Mr GLL Barnes
Managing Director UK/Europe



Clydesdale Bank

Clydesdale Bank

Financial Highlights	*1996 A$*	*Change %*
Operating Profit (before goodwill)	162m	(1.2)
Underlying Profit	297m	6.5
Net Lending Assets and Acceptances	11.6b	9.3
Risk Weighted Assets	10.6b	3.9
Net Non-Accrual Loans	173m	(8.0)

Key Ratios	*1996 %*	*1995 %*
Cost/Income Ratios	57.7	60.0
Return on Average Assets	1.1	1.1
Net Non-Accrual Loans/ Risk Weighted Assets	1.6	1.8

Photographs from top:

The new data processing centre at Clydebank, Glasgow, with Paul Browning, the Group's Services Operations Manager.

Waste recycler, Malcolm Snowie, pictured with Clydesdale managers John Scott and Gordon Gray, is typical of the innovative and successful business people with whom the Group has established strong relationships.

Main photograph: Clydesdale Bank's Henry Graham with customer Bobbie Lennox on his Luss property, overlooking Loch Lomond.

Clydesdale Bank is the third-largest bank in Scotland.

Net operating profit in local currency terms increased by 8.0% to a record £81 million in the year to September 30, 1996. However, the appreciation of the Australian dollar contributed to a reduction in Clydesdale Bank's reported net operating profit from A$164 million to A$162 million.

Tight cost control was a feature of the latest result, as reflected by a lowering of Clydesdale's cost-to-income ratio from 60.0% to 57.7%.

Net interest income in local currency increased during the year with higher lending volumes in personal and business markets.

Another 19 Business Banking Centres were opened, lifting to 34 the number of specialised business banking outlets. This network has substantially improved the quality of service to businesses and has helped to generate solid growth in Clydesdale Bank's share of the business banking market.

New business lending increased significantly during the year and exceeded the rate of growth in the business lending market in Scotland. This performance was driven by carefully targeted business lending initiatives such as the Business Investment Loan.

Business deposits increased with the introduction of the Business Term Deposit. Customers also welcomed the launch of TeleBank Business – an electronic banking service that enables customers to access account information from their own computer.

In personal markets, customers continued to respond well to Clydesdale Bank's offer of flexible products, tailored to individual needs. The Tailored Mortgage Package helped to increase the share of the home lending market, and growth continued in personal lending following the launch in 1995 of the Tailored Personal Loan.

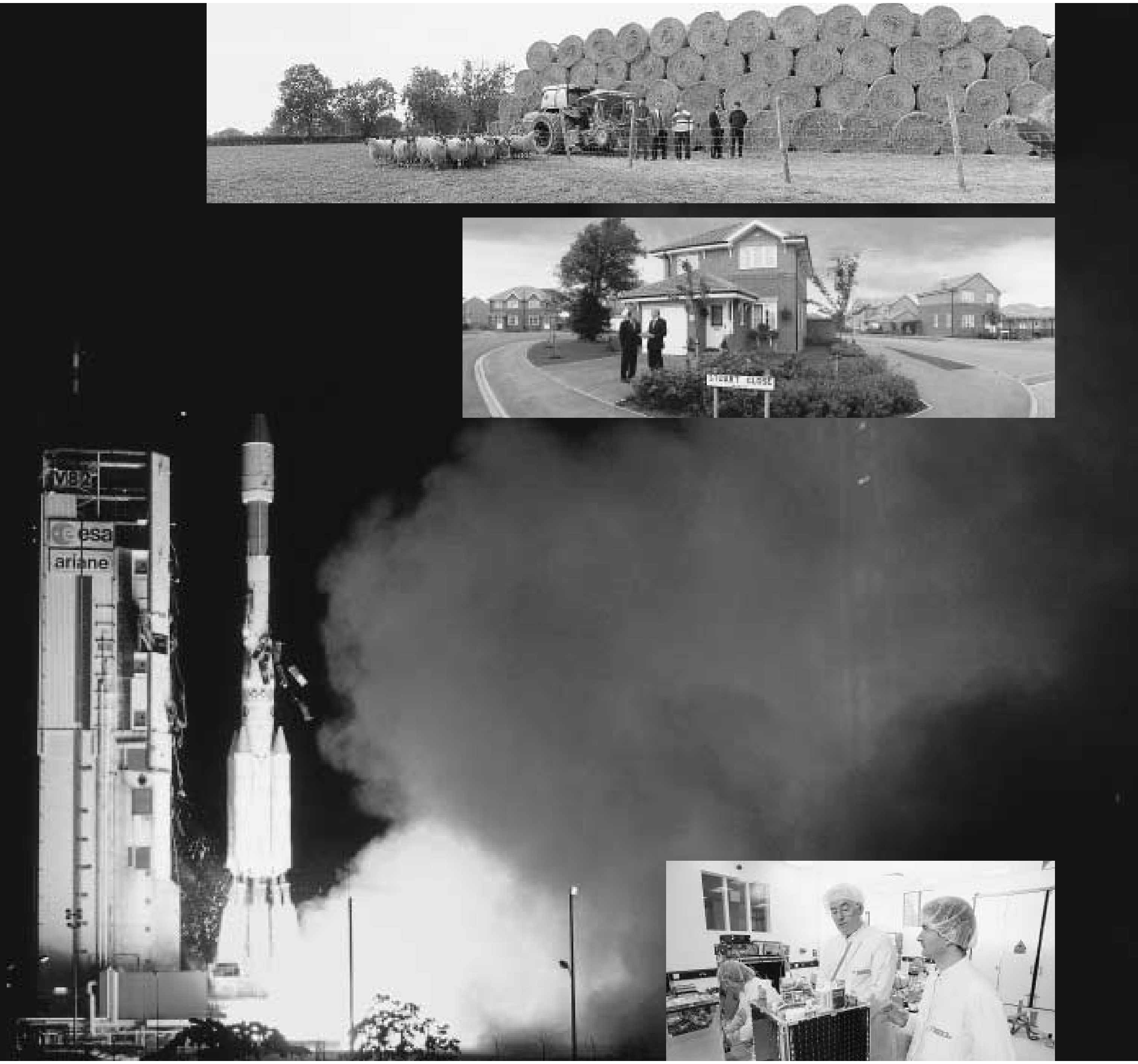
At the start of the year, Clydesdale Bank trained 152 personal bankers to market National Australia Life products through its branch network. More personal bankers will be added to meet growing customer demand in 1997.

The year ended with Clydesdale Bank being voted the best-perceived Scottish bank in a UK-wide survey by the independent Forum of Private Business.

Mr Fred Goodwin was appointed Chief Executive Officer in March 1996. He replaced Mr Frank Cicutto, who returned to Australia to take up the role of Chief General Manager, Australian Financial Services.

The Lord Nickson
Chairman

Mr FA Goodwin
Chief Executive



YorkshireBank

Yorkshire Bank

Financial Highlights	*1996 A$*	*Change %*
Operating Profit (before goodwill)	159m	(16.3)
Underlying Profit	394m	5.6
Net Lending Assets and Acceptances	8.0b	2.4
Risk Weighted Assets	8.1b	–
Net Non-Accrual Loans	129m	(24.1)

Key Ratios	*1996 %*	*1995 %*
Cost/Income Ratios	53.3	54.5
Return on Average Assets	1.7	1.9
Net Non-Accrual Loans/ Risk Weighted Assets	1.6	2.1

Photographs from top:

Agricultural manager David Lee (second from left) and local manager Colin Gladwin (second from right) with Ian, Mick and Howard Pattison on the Pattison property at Little Langton, Northallerton, North Yorkshire.

Business banker, David Clarke, with Brian Taylor of Persimmon PLC, on the site of a residential development at Strensall.

Main photograph and lower inset: Yorkshire Bank developed relationships in the business market during the year. One such relationship was with the University of Surrey in south-east England. The University wholly owns England's only company building and launching microsatellites. Pictured are Teresa Lowe, Vice-Chancellor Professor Patrick Dowling and Yorkshire Bank's Simon Learoyd.

Lord Clitheroe
Chairman

Mr D T Gallagher
Chief Executive

Yorkshire Bank is based in Leeds in Northern England and operates a network of 270 branches.

Underlying performance was sound, but net operating profit was adversely affected by a doubling of charges for doubtful debts from A$77 million to A$158 million. However, there was no change in the level of gross impaired assets.

Net operating profit decreased by 16.3% from A$190 million to A$159 million. Net interest income increased in local currency terms, but was down by 2.6% in Australian dollar terms because of the appreciation of the Australian dollar.

Other operating income rose by 7.9% to A$313 million.

Non-interest expenses reduced following a restructure of Yorkshire Bank's head office to improve efficiency, and strong cost containment in all areas. Joint processing of mortgage and personal loans with Clydesdale Bank also contributed to a reduction in costs. Yorkshire Bank's cost-to-income ratio declined from 54.5% to 53.3%.

A new computer operating system was commissioned, which has improved the quality of customer information and will support the delivery of new products.

Mortgage outstandings grew by 14.0%, with a continued strong response by home buyers to Yorkshire Bank's innovative Flexible Payment Mortgage.

Personal lending, a traditional strength of Yorkshire Bank's activity, rose by 9.0%, despite an increasingly competitive market. Sales of personal loans over the phone began and a pilot study of a telephone banking service was initiated.

Retail deposits also grew following the launch of Premium Plus, which attracted more than A$200 million in deposits in less than six months.

Yorkshire Bank continued to invest in the development of its business banking capability. New business banking units were opened in Manchester and Doncaster, lifting the total number of specialised banking outlets to 37.

The accessibility of business services was further improved with the launch of an online service known as TeleBank Business.

Business lending increased by 8.4%. Asset Finance continued to be a major force in the growth of Yorkshire Bank's business banking activity. New business increased by 40% to A$460 million, following 49.0% growth in the previous year. Growth in business lending was assisted by the introduction of invoice discounting.

Yorkshire Bank's initiatives for business customers were recognised during the year by the independent Forum of Private Business, which voted Yorkshire Bank as the best business bank in the UK for accessibility, value for money and price.

The launch of National Australia Life provided a welcome addition to Yorkshire Bank's financial services capability. More than 100 personal bankers joined the branch network at the start of the year, and numbers had doubled by year's end. Yorkshire Bank also introduced two highly competitive insurance products – annual travel insurance and car insurance.

NORTHERN BANK

Northern Bank

Financial Highlights	*1996 A$*	*Change %*
Operating Profit (before goodwill)	97m	21.3
Underlying Profit	160m	21.2
Net Lending Assets and Acceptances	3.9b	–
Risk Weighted Assets	4.1b	–
Net Non-Accrual Loans	28m	21.7

Key Ratios	*1996 %*	*1995 %*
Cost/Income Ratios	54.8	59.8
Return on Average Assets	1.5	1.3
Net Non-Accrual Loans/ Risk Weighted Assets	0.7	0.6

Photographs from top:

Local manager, Cynthia Cherry, with Gill Jefferson at Old Bushmills Distillery, the oldest whiskey distillery in the world.

Northern Bank's modern branch at Donegall Square North.

Vehicle leasing is an important component of Northern Bank's business. Ken Knox of Component Distributors is pictured with Northern Bank Leasing's Barry McConkey and a range of new vans and cars leased by Northern.

Main photograph: Belfast, with City Hall in the foreground and Harland and Wolff Shipyard in the background.

Northern Bank is the largest bank in Northern Ireland, with 107 branches.

Net operating profit rose by 21.3% to a record A$97 million in the year to September 30, 1996.

Lending for housing grew by 15.0% to record levels as more home buyers recognised the benefits of Northern Bank's tailored home loan. Personal lending grew at a similar rate. Business lending grew by 6.0%.

Good lending volumes translated into an increase in net interest income in local currency terms, despite a reduction in Northern Bank's net interest margin from 4.9% to 4.6%.

However, reported net interest income declined marginally as a result of the strengthening Australian dollar.

A key factor in the higher profit result was an 11.7% reduction in non-interest expenses from A$213 million to A$188 million. The decrease reflected exchange rate movements, a writeback of excess provisions for restructuring costs, and lower staff costs.

A number of initiatives were undertaken to improve the accessibility of our services and support the development of stronger customer relationships. These included extending the opening hours of 23 key branches to include Saturday mornings, and longer weekday hours at 14 other branches.

Mobile sales teams were expanded to include business, personal and rural markets, and more business centres were opened.

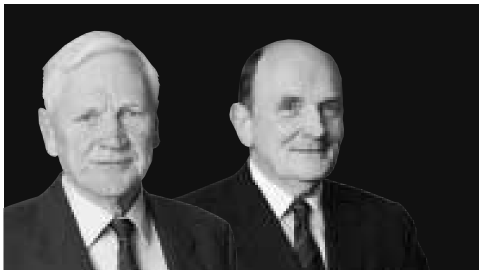
Electronic banking services were made even more widely available with a 66.0% increase in the number of Eftpos terminals and the launch of Switch debit cards throughout Northern Ireland.

In other developments, telephone sales of travel funds, home loans and credit cards were added to the telephone banking service launched in 1995, and Internet home pages for Northern Bank and Northern Offshore Financial Services were established.

Northern Bank caters for the broader financial service needs of customers by offering home and car insurance. Sales of home insurance continued at high levels, while the number of car insurance policies issued increased by 130.0%.

Life insurance services were added during the year with the launch of National Australia Life. Pleasing sales results were achieved through Northern Bank's branch network. The number of personal bankers who can sell National Australia Life products will be doubled in the year ahead.

The Northern Ireland economy continues to outperform many regions in the United Kingdom, which will support continued growth by Northern Bank in the current year.



Sir Desmond Lorimer
Chairman

Mr JR Wright
Chief Executive
Northern Bank and National Irish Bank

National Irish Bank

National Irish Bank

Financial Highlights	*1996 A$*	*Change %*
Operating Profit (before goodwill)	27m	8.0
Underlying Profit	49m	8.9
Net Lending Assets and Acceptances	1.9b	12.5
Risk Weighted Assets	1.8b	12.5
Net Non-Accrual Loans	30m	7.1

Key Ratios	*1996 %*	*1995 %*
Cost/Income Ratios	63.4	64.9
Return on Average Assets	1.1	1.0
Net Non-Accrual Loans/ Risk Weighted Assets	1.7	1.8

National Irish Bank's expansion of services in the business banking market in 1995-96 has been particularly successful.

Photographs from top:

Alan Edgerton-Smith of Independent News.

Telephone Banking Centre, Dublin.

Main photograph: Glenpatrick Spring Water's Kieran Hynes with relationship manager Michelle Reynolds.

Lower inset: Dara O Broin of Dawn Fresh Foods with relationship manager Jim Donagh.

National Irish Bank serves personal and business customers in the Republic of Ireland through 60 branches and an expanding electronic network of ATMs and electronic funds transfer.

The Bank achieved another year of growth, with particular success in the business banking market.

Net operating profit increased by 8.0% to A$27 million in the year to September 30, 1996. This followed a doubling of net operating profit in the previous year.

Earnings in the year under review were buoyed by good growth in lending and higher net interest income.

National Irish Bank's move into the business banking market in 1995 was well received, with business lending in the year under review growing by 34.2%. New business centres were opened in Tallaght, Cork and College Green.

The addition of invoice discounting to National Irish Bank's business finance range has also proved popular.

Personal banking services were expanded, with the opening of a second branch in Limerick and the installation of several 'off-site' ATMs in shopping centres and other locations. More new branches are planned in 1997.

An exciting addition was made to the distribution network with the launch in May 1996 of a 'Phone-a-Loan' unit, which provides personal loans over the telephone. More services will become available over the telephone in 1997.

Trials of Ireland's debit card (Laser) began during the year.

A reduction in non-interest expenses, combined with growth in revenue, led to a reduction in the cost-to-income ratio from 64.9% to 63.4%.

In July 1996, Mr Barry Seymour returned to the National Australia Bank Group UK office in London after a successful term as Managing Director of National Irish Bank. Concurrently, Mr Phillip Halpin was appointed to the new role of Chief Operating Officer and Executive Director. Mr John Wright, Chief Executive Officer of Northern Bank, was also appointed Chief Executive Officer at National Irish Bank. In this broader role, Mr Wright will be looking to expand the Group's presence in Ireland and maximise economies of scale which are available within the UK/Irish Group.

Mr A J Spain
Chairman

Mr J R Wright
Chief Executive
Northern Bank and
National Irish Bank

Mr P Halpin
Chief Operating
Officer

Bank of New Zealand

New Zealand

Financial Highlights	*1996 A$*	*Change %*
Operating Profit (before goodwill)	279m	5.7
Underlying Profit	341m	11.1
Net Lending Assets and Acceptances	16.4b	12.5
Risk Weighted Assets	15.2b	11.8
Net Non-Accrual Loans	89m	(26.4)

Key Ratios	*1996 %*	*1995 %*
Cost/Income Ratios	58.0	62.3
Return on Average Assets	1.4	1.4
Net Non-Accrual Loans/ Risk Weighted Assets	0.6	0.9

Photographs from top:

BNZ relationship manager, Rob Nicholson, with Hong Joe at Hong and Nam Market Garden, Palmerston North.

Robert Connors of BNZ and David Blue of BMW Auckland, pictured at the modern drive-through branch in the suburb of Penrose, Auckland.

Regional sales manager, John Smith, with Graham Dawson of PEC, which produces point-of-sale terminals, card access security systems and petrol pumps.

Main photograph: Ski area manager, Peter Thomson, with Jeff Kerkhofs of BNZ, at Treble Cone ski field, near Queenstown.

Bank of New Zealand enjoyed another year of consistent growth. Net operating profit in the year to September 30, 1996 rose by 5.7% to a record A$279 million.

These results were achieved even though business was harder to obtain than in the previous year. The New Zealand economy grew by 1.7% in the year to September 30, 1996 – less than half the growth rate of the previous year – and borrowers of all kinds were deterred by higher interest rates and political uncertainty.

However, BNZ achieved 10.8% growth in total loan outstandings during the year, with higher volumes in personal and business markets.

The improved earnings were supported by continued reduction in costs. Progress with cost reduction was highlighted by an improvement in BNZ's cost-to-income ratio from 62.3% to 58.0%.

BNZ's ability to report consistent growth, even in an environment of very low growth and strong competition, says much about the value of the Bank's customer-first approach to banking and financial services.

In recent years Bank of New Zealand has overhauled its product range, introducing new types of loans and savings accounts that can be tailored to customers' individual needs. Having improved what BNZ delivers to customers, major improvements are being made to where and how customers are served.

These changes include intensive sales and service training for staff, supported by an overhaul of the branch network. The new network allows branch staff more time to get acquainted with customers and their banking and financial service needs.

Improvements to BNZ's distribution network include innovations such as 24-hour drive-through banking outlets. BNZ is also at the forefront of payment technologies through its investment in the Mondex smartcard joint venture in New Zealand.

Growth in financial services continued. Bank of New Zealand Financial Services Group ended the year under review as the largest retail fund manager in New Zealand, with NZ$446.7 million in gross funds under management. The range of financial services was broadened with the introduction of LoanCare Insurance cover.

BNZ is in a strong position to capitalise on an anticipated recovery in credit growth in 1996-97.

Mr TK McDonald
Chairman

Mr G J Wheaton
Managing Director

Michigan National Bank

USA and Asia

Michigan National Corporation

Financial Highlights	*1996 A$*
Operating Profit (before goodwill)	158m
Underlying Profit	257m
Net Lending Assets and Acceptances	8.0b
Risk Weighted Assets	10.8b

Key Ratios	*1996 %*
Cost/Income Ratios	56.3
Return on Average Assets	1.3

Photographs from top:

Paul Clark of Archway's Ashland, Ohio Bakery and Michigan National's Joseph McCorkle examine one of the company's products. Archway is the third-largest cookie company in the United States.

One of Michigan National Bank's 21 supermarket branches, which offer full service over convenient hours throughout Michigan.

Relationship manager Ed Lewan (centre) with Mike Savoie Chevrolet's Carol Shepherd and dealer principal Mike Savoie Jr, at the dealership in Troy.

Main photograph: The Renaissance Centre in downtown Detroit, Michigan, photographed from the air.

Mr R M C Prowse
Group General Manager
USA and Asia

Americas

The Group operates a branch in New York, with a staff of 117 and assets of A$2.6 billion.

The New York branch provides treasury and trade finance services to Group customers doing business in the US. Services are also marketed to US companies with operations in Australia, New Zealand, Asia, Ireland and the United Kingdom.

A New York treasury unit raises United States dollar funding for the Group and serves the global treasury needs of Group customers. New heads of treasury and corporate banking were recruited during the year as part of moves to upgrade the National Australia Bank Group's global wholesale banking capability.

Net operating profit increased to A$17 million in the year to September 30, 1996.
The improvement in the result from a A$3 million profit in the previous year largely reflected writebacks of provisions for doubtful debts.

Michigan National Corporation

Michigan National Corporation became part of the Group in November 1995.

The principal subsidiary is Michigan National Bank, which is ranked as the fifth-largest bank in Michigan and 58th-largest in the US.

At September 30, 1996, Michigan National Bank had total assets of A$11.8 billion and 4,187 employees (or 3,596 full-time equivalent positions).

Following the acquisition, Mr Douglas E Ebert was promoted to Chief Executive Officer. A number of executives from the Group moved to Michigan, including Mr Alan Frankenburg to the new role of Chief Operating Officer. These appointments contributed to Michigan National Bank's rapid integration with the Group.

At the same time, a number of executives from Michigan National Bank transferred to head office in Melbourne, highlighting the two-way transfer of knowledge and expertise within the Group.

In the 11 months to September 30, 1996, a net operating profit of A$158 million (before amortisation of goodwill) was achieved, in line with expectations.

During the year, Michigan National Bank focused on setting the foundations for future growth and implementing the 'best practices' of the Group.

Like other members of the Group, Michigan National Bank made some

Mr J A Williams
Chairman
Michigan National Corporation

Mr D E Ebert
President and Chief Executive Officer
Michigan National Corporation

USA and Asia

fundamental changes to align its organisational structure with key segments of the customer base. The new structure focuses on three key customer segments – consumer, business (with lending of less than US$500,000), and commercial.

Michigan National Bank also established a more aggressive sales and leadership culture and centralised its marketing function to drive new product development, assess performance gaps and develop strategies to gain market share.

In addition, a new business unit was formed to develop new distribution channels.

Many initiatives have already been undertaken to build Michigan National Bank's business, particularly through expansion in consumer and small business markets. New products and services were developed for release in 1997. Good progress has already been achieved in the small business market, with lending to this category increasing by 23.0% compared with the previous year.

Seven supermarket financial service centres were opened during the year, lifting to 21 the total number of such outlets. These have been developed in response to customer demand for more convenient ways of banking. Michigan National Bank also expanded its telephone banking service, which enables customers to open accounts, apply for loans and conduct transactions over the phone.

Michigan National Bank made investments on behalf of the Group in two joint ventures to develop future distribution channels for financial services. More information about these initiatives (Mondex and the Integrion Financial Network) is on page 8.

Looking ahead, Michigan National Bank can expect to benefit from continued moderate levels of economic growth.

National Australia Bank Asia

From its regional headquarters in Hong Kong, National Australia Bank Asia operates five branches and five representative offices in Asia's major business capitals. More than 230 staff are employed in the Group's Asian business activities.

Net operating profit of the Group's Asian banking and financial service activities doubled to A$10 million in the year to September 30, 1996.

The Group's outlets in Asia have traditionally provided trade finance and treasury services to Australian-based customers who trade with Asia. These services are being upgraded to support the activities of the Group's vast customer base in Australia, the United Kingdom, Ireland, New Zealand and the United States.

The Group's strategy for the Asian region will see a broadening of services for business and corporate customers in 1997. Capital markets, corporate banking and structured finance services will be introduced to create a full service wholesale banking unit in Asia.

The Group is also developing consumer banking services in Asia's maturing economies. The Asian region provides opportunities for the Group to develop consumer banking markets by capitalising on product offerings and expertise that are proven in other markets. In this regard, the Tailored Home Loan, which has been highly successful in Australia, the United Kingdom and New Zealand, was launched in the Hong Kong market in November 1996.

National Australia Bank Group's R Adams Perry III in Wall Street

National Australia Bank Asia

Introduction

National Australia Bank Limited (the Group) ranks among the world's 50 largest banks in terms of shareholders' equity. At September 30, 1996 the Group had total assets of $173.7 billion.

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

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

At September 30, 1996 54.1% of the Group's total assets were domiciled in Australia. The balance was located in the UK and Ireland (22.9%), New Zealand (10.9%), United States (8.3%) and Rest of the World (3.8%).

At September 30, 1996 the Group had 52,912 full-time and part-time employees worldwide (equivalent to 47,178 full-time positions).

Regulation of the Banking System

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

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

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

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

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

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

Prudential requirements currently applying to Australian banks include the following:

- The Reserve Bank's risk-based capital adequacy guidelines which are generally consistent with the approach agreed upon by the Basle Committee on Banking Regulation and Supervisory Practices. Refer to Capital Adequacy on page 47.
- The Prime Assets Ratio (PAR) arrangements, in which banks are required to hold a proportion of their domestic assets in specified, high quality liquefiable assets, (eg. cash, balances with the Reserve Bank and Commonwealth Government paper). The minimum PAR ratio is now 6.0% of total liabilities (other than shareholders' equity) invested in Australian dollar assets within Australia. At September 30, 1996 the Group's PAR ratio was 6.6%.
- Banks are required to lodge in a special Non-Callable Deposit (NCD) account with the Reserve Bank an amount equivalent to 1.0% of total liabilities (other than shareholders' equity) funding Australian dollar assets in Australia. The interest rate paid on NCD accounts is set at a rate equal to the average yield at tender in the previous month on 13-week Treasury Notes less 500 basis points.

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

The Commonwealth of Australia announced on May 30, 1996 that it was establishing an inquiry into the Australian financial system. The purpose of the inquiry is to review a wide range of issues arising from financial deregulation in Australia since the early 1980s and the forces driving future change. The inquiry is expected to report to the Australian Treasurer by March 31, 1997 and make recommendations on the nature of the regulatory arrangements governing the Australian financial system. The inquiry is expected to address such matters as whether foreign ownership restrictions should be relaxed and whether the Commonwealth government should permit mergers between the four major banks and between banks and insurance companies.

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

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

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

With effect from January 1, 1996 a new regulatory framework was implemented by the Reserve Bank of New Zealand. The emphasis is primarily on capital adequacy and systematic risk management.

It represents a move from detailed rules and private monitoring by the supervisor, in favour of enhanced public disclosure of financial information, a relaxation of supervisory regulation and increased emphasis on the role of bank directors.

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

Australian Operations

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

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

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

In recent years the Group's performance in Australia has seen it emerge as Australia's largest bank in terms of assets. At September 30, 1996 it held 19.3% of all commercial banking assets in Australia according to the *Reserve Bank of Australia Bulletin.*

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

It provides service through 1,234 outlets with a staff of 25,137 (or 22,622 full-time equivalent positions). The National is actively reducing the number of outlets as part of a steady shift in transactional activity from branches to alternative distribution channels. Customer demand for these alternatives has led to growth in the number of Automatic Teller Machines (ATMs) and terminals providing electronic funds transfer at point of sale (Eftpos). The supply of information and services over the telephone has also grown dramatically in the past three years.

The National has a large retail customer base, with around 3 million customers. It has direct access to the Australian payments system, allowing it to clear cheques and other instruments for its customers. The National also acts as an agent for other licensed banks and non-bank financial institutions.

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

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

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

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

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

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

As part of this change, NAFM has become a supporting business unit with a specialised focus on the manufacture and service of financial products. It functions alongside National Australia Asset Management Limited (NAAM), which is a wholly owned funds management subsidiary. At September 30, 1996 NAAM's funds under management totalled $4.9 billion.

The National is a substantial provider of business banking in Australia and a large banker to Australia's rural enterprises. The National's strong position in business markets is the result of carefully targeted initiatives over a number of years. These have included the development of a specialised network of more than 70 business banking outlets – known as District Commercial Branches and Business Banking Centres.

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

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

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

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

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

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

Merchant and investment banking is provided as an integrated part of the National's wholesale banking service. Prior to June 1994, these services were provided by National Australia Limited and certain subsidiaries, First National Limited and First National Finance Limited. These companies were placed into member's voluntary liquidation in June, 1994 following the integration of their activities with the National.

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

United Kingdom and Ireland Operations

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

These investments make the Group the second largest, foreign owned banking and financial services group in the region in terms of assets, with more than 750 outlets and four million customers.

The Group is increasingly active in wholesale financial markets, with investments in technology and personnel. A wholesale banking unit provides services in treasury, capital markets and corporate finance.

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

All four banks offer a full range of banking services in their own markets.

Clydesdale Bank is the third largest bank in Scotland in terms of assets, with total assets of $14.6 billion at September 30, 1996. It has 339 outlets and 5,405 staff (or 4,920 full-time equivalent positions).

Yorkshire Bank operates through 271 outlets in the north of England and the Midlands with a staff of 7,026 (or 6,057 full-time equivalent positions). At September 30, 1996 it had total assets of $9.5 billion.

Northern Bank is the largest bank in Northern Ireland, in terms of assets, with total assets of $6.4 billion at September 30, 1996. It has 116 outlets throughout the Province and a staff of 2,618 (or 2,377 full-time equivalent positions).

National Irish Bank has 68 outlets in the Republic of Ireland, a staff of 873 (or 846 full-time equivalent positions) and assets of $2.5 billion at September 30, 1996.

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

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

New Zealand Operations

Bank of New Zealand (BNZ) was acquired by the Group in 1992. It is the second largest financial institution in New Zealand in terms of assets, with a staff of 6,541 (or 5,534 full-time equivalent positions) at September 30, 1996 and 251 outlets on the North and South Islands.

BNZ offers a full range of banking services to personal, business and corporate customers. BNZ's total assets were $20.6 billion at September 30, 1996.

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

BNZ's distribution network is being reconfigured resulting in a reduction in the number of traditional branches, the establishment of specialised branches for business customers and the introduction of other initiatives such as 24-hour drive-through outlets.

United States Operations

The Group increased its presence in the United States following the acquisition in November, 1995 of Michigan National Corporation (MNC). MNC's principal subsidiary is Michigan National Bank (MNB), which is ranked as the fifth largest bank in Michigan and 58th largest in the US in terms of total assets. At September 30, 1996 MNB had total assets of $11.8 billion and 4,187 employees (or 3,596 full-time equivalent positions).

It operates through 203 financial service centres (including 18 supermarket financial services centres) and 295 Automatic Teller Machines (ATMs) across the State. MNB also provides a telephone banking service that enables customers to open accounts, apply for loans and conduct transactions over the phone.

Commercial business represents approximately 72% of MNB's loan portfolio, with the balance in consumer business. MNB has targeted growth in banking and financial services in the small business and consumer markets. This is expected to be achieved by combining the MNB's local market knowledge and the Group's resources in technology, marketing and employee development.

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

Asian Operations

From its regional headquarters in Hong Kong, National Australia Bank Asia operates five branches and five representative offices in Asia's major business capitals. More than 230 staff are employed in the Group's Asian business activities.

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

Overview

The Financial Review on pages 35 to 63 is prepared in accordance with Generally Accepted Accounting Principles applicable in Australia ('Australian GAAP').

For years ended September 30 *Dollars in Millions unless otherwise stated*	*1996 AUD*	*1996[1] USD*	*Consolidated 1995 AUD*	*1994 AUD*	*1993 AUD*	*1992 AUD*
Summary of Consolidated Statements of Income						
Australian GAAP						
Interest income	**12,017**	**9,508**	10,169	7,913	8,395	8,447
Interest expense	**6,958**	**5,505**	5,646	3,716	4,292	4,877
Net interest income	**5,059**	**4,003**	4,523	4,197	4,103	3,570
Charge to provide for doubtful debts	**333**	**263**	116	179	604	908
Net interest income after provision for doubtful debts	**4,726**	**3,740**	4,407	4,018	3,499	2,662
Other operating income	**2,920**	**2,310**	2,447	2,358	2,051	1,728
Other operating expenses	**4,587**	**3,629**	4,008	3,757	3,659	3,088
Operating profit before abnormal item	**3,059**	**2,421**	2,846	2,619	1,891	1,302
Abnormal gain (loss)	**3**	**2**	33	50	59	(127)
Operating profit	**3,062**	**2,423**	2,879	2,669	1,950	1,175
Income tax expense attributable to operating profit	**959**	**759**	906	953	811	500
Operating profit after income tax	**2,103**	**1,664**	1,973	1,716	1,139	675
Outside equity interests in operating profit (loss) after tax	**1**	**1**	4	8	10	–
Operating profit after income tax attributable to members of the Company	**2,102**	**1,663**	1,969	1,708	1,129	675

[1] Translated at the Noon Buying Rate on September 30, 1996 of US$0.7912 = A$1.00. See 'Selected Financial Data for Five Years Ended September 30, 1996 – Exchange Rates' on page 37.

- Net interest income in 1996 increased by 11.9% to $5,059 million after increases of 7.8% and 2.3% in 1995 and 1994 respectively.
- Charge to provide for doubtful debts increased to $333 million from the charge in 1995 of $116 million which had decreased 35.2% from 1994.
- Other operating income in 1996 increased by 19.3% to $2,920 million after increases of 3.8% and 15.0% in 1995 and 1994 respectively.
- Other operating expenses in 1996 increased by 14.4% to $4,587 million after increases of 6.7% and 2.7% in 1995 and 1994 respectively.
- Operating profit before abnormal item and income tax increased by 7.5% to $3,059 million in 1996 after increasing by 8.7% to $2,846 million in 1995 and 38.5% to $2,619 million in 1994.
- Operating profit after income tax and before abnormal item increased by 8.4% to $2,099 million in 1996 after increasing 16.8% to $1,936 million in 1995 from $1,658 million in 1994.
- An abnormal gain of $3 million (no tax applicable) was recorded in 1996 compared to an abnormal gain of $33 million in 1995 and an abnormal gain of $50 million in 1994. After abnormal item, profit increased 6.8% to $2,102 million.
- Total provisions for doubtful debts increased 20.8% in 1996 to $1,312 million from $1,086 million in 1995 and $1,302 million in 1994. Gross non-accrual loans of $1,444 million in 1996 decreased by 11.1% from $1,625 million in 1995.
- The Group's Tier 1 capital ratios as at September 30, 1996, 1995 and 1994 were 7.6%, 9.2% and 8.5% respectively. The total risk weighted capital ratios at September 30, 1996, 1995 and 1994 were 9.3%, 11.6% and 11.5% respectively.

Following strong growth of around 4.0% in 1995/96, economic activity in Australia appears set to moderate in 1996/97 as a result of relative weakness in domestic demand and the tighter fiscal stance adopted in the 1996/97 Federal Budget which is expected to contribute to slower growth in the near term. Underlying inflation is expected to remain relatively consistent with the Reserve Bank of Australia's target band of 2–3%, reflecting a sluggish labour market and the recent strength of the Australian dollar. Consistent with moderate activity levels and lower inflationary expectations, interest rates have fallen in the latter part of 1996.

Economic activity in the UK is expected to pick up in 1996/97, buoyed by consumer confidence and spending. With inflation above the Bank of England's target, monetary policy began to tighten in the latter part of 1996. Irish growth is expected to improve in 1996/97 albeit at a slower pace than the very strong performance of the past year. While inflation remains relatively subdued, current price pressures are likely to lead to further rises in short-term interest rates, especially with Ireland's entry to the European Monetary Union pending.

New Zealand growth is expected to slow in 1996/97 as tight monetary policy takes effect on activity. Inflation is currently higher than the Reserve Bank of New Zealand's 0.0% to 2.0% target range, but is relatively low. While there remains some policy uncertainty surrounding the formation and workings of a coalition government following from the first Mixed Member Proportional election held in October 1996, monetary policy has shown signs of easing in 1997.

The United States economy is expected to record another moderate growth performance in 1996/1997, following an outcome of around 2.0% in 1995/96. Domestic activity however is not anticipated to contribute strongly to inflation, with moderate growth being accommodated within current capacity constraints in the economy. Only small upward adjustments in monetary policy are anticipated in 1997.

Despite some recent moderation, growth prospects in non-Japan Asia are fundamentally sound and the region is expected to remain one of the fastest growing in the world. The Japanese economy is experiencing a gradual recovery in activity, but business and consumer confidence remains fragile and there is widespread concern that the upturn could lose momentum. Without fiscal stimulus, the Japanese economy is expected to record sluggish growth in 1996/1997. However, with Japanese interest rates very low, some upward pressure is likely in 1997.

Selected Financial Data for Five Years Ended September 30, 1996

The Economic Entity's financial statements are prepared in accordance with accounting principles generally accepted in Australia, which differ in certain material respects from accounting principles generally accepted in the United States (see Note 47 to the Financial Statements 'Reconciliation with US GAAP'). The information hereunder has been derived from the audited Financial Statements of the Economic Entity or, where certain items are not shown in those consolidated Financial Statements, have been prepared for the purpose of this Annual Report and should be read in conjunction with and qualified in its entirety by reference to the Financial Statements and Notes included elsewhere in this report. For details of credit quality data refer to pages 92–97. Comparative amounts have been reclassified to accord with changes in presentation made in 1996, except where otherwise stated.

			Consolidated			
For years ended September 30	*1996*[1]	*1996*[1][2]	*1995*	*1994*	*1993*[3]	*1992*
Dollars in Millions unless otherwise stated	*AUD*	*USD*	*AUD*	*AUD*	*AUD*	*AUD*
Share Information						
Dividends paid/payable[4][5]	**1,276**	**1,010**	1,173	1,003	652	564
Earnings per share (after abnormal item)($)[6]						
– basic	**1.45**	**1.15**	1.41	1.27	0.87	0.54
– fully diluted	**1.45**	**1.15**	1.41	1.27	0.87	0.54
Dividends per share ($)[4][5]	**0.87**	**0.69**	0.83	0.74	0.50	0.45
Dividends per ADS ($)[4][5]	**4.35**	**3.45**	4.15	3.70	2.50	2.25
Dividends per ADS (US$)[4][5][7]	**N/A**	**N/A**	3.02	2.70	1.70	1.59
Dividend cover (times)	**1.65**	**1.65**	1.68	1.70	1.73	1.20
Net tangible asset backing per ordinary share ($)[8][9]	**6.97**	**5.52**	7.00	6.12	5.51	5.49
Share prices for the year						
– High[10]	**13.30**	**10.55**	12.54	13.06	12.10	8.29
– Low[10]	**10.98**	**8.71**	10.16	9.97	6.72	7.07
– End ($)	**13.30**	**10.55**	11.70	10.32	12.08	7.24
Adjusted to Accord with US GAAP						
Net income	**2,147**	**1,699**	2,013	1,807	1,089	671
Earnings per share[6] (primary and fully diluted)	**1.45**	**1.15**	1.43	1.34	0.84	0.54
Earnings per ADS[6] (primary and fully diluted)	**7.25**	**5.75**	7.15	6.70	4.20	2.70
Summary of Consolidated Balance Sheets						
Australian GAAP						
Loans and receivables (after provision for doubtful debts)	**111,468**	**88,193**	92,013	79,168	73,405	65,038
Total assets	**173,710**	**137,439**	148,123	130,436	117,980	103,552
Risk weighted assets	**133,313**	**105,477**	108,985	96,115	91,572	81,400
Deposits and other borrowings	**110,921**	**87,761**	90,654	79,451	75,873	66,162
Perpetual floating rate notes	**424**	**335**	459	480	561	351
Convertible notes	**–**	**–**	–	–	–	9
Bonds, notes and subordinated debt	**6,958**	**5,505**	4,067	3,980	3,476	3,871
Paid-up capital	**1,477**	**1,169**	1,429	1,369	1,315	1,264
Shareholders' equity[9]	**12,519**	**9,905**	11,381	9,852	8,816	7,995
Book value per share	**8.48**	**6.71**	7.96	7.20	6.70	6.33
Book value per ADS	**42.40**	**33.55**	39.80	36.00	33.50	31.65
Adjusted to Accord with US GAAP						
Shareholders' equity[9]	**13,011**	**10,294**	11,761	10,119	8,849	7,897
Total assets	**173,640**	**137,384**	147,989	130,273	117,700	103,005

For years ended September 30	Consolidated 1996 %	1995 %	1994 %	1993 %	1992 %
Selected Financial Ratios					
Australian GAAP					
Net income (after abnormal item) as a percentage of:					
Average total assets	**1.3**	1.5	1.4	1.0	0.7
Average shareholders' equity	**17.1**	18.1	18.1	13.2	8.4
Average shareholders' equity and convertible notes	**17.1**	18.1	18.1	13.2	8.4
Year end total assets	**1.2**	1.3	1.3	1.0	0.7
Year end shareholders' equity	**16.8**	17.3	17.3	12.8	8.4
Year end shareholders' equity and convertible notes	**16.8**	17.3	17.3	12.8	8.4
Dividends as a percentage of net income[(4)(5)]	**60.7**	59.6	58.7	57.7	83.5
Average shareholders' equity as a percentage of average total assets	**7.5**	8.0	7.8	7.5	8.3
Average shareholders' equity and convertible unsecured notes as a percentage of average total assets	**7.5**	8.0	7.8	7.5	8.3
Capital: risk asset ratios [(11)]					
– Tier 1	**7.6**	9.2	8.5	7.8	8.0
– Tier 2	**1.9**	2.6	3.2	3.7	3.8
– deductions	**(0.2)**	(0.2)	(0.2)	(0.3)	(0.2)
– total	**9.3**	11.6	11.5	11.2	11.6
Net average interest margin	**3.9**	4.2	4.4	4.4	4.6
Adjusted to Accord with US GAAP					
Net income as a percentage of period end:					
Total assets	**1.2**	1.4	1.4	0.9	0.7
Shareholders' equity	**16.5**	17.1	17.9	12.3	8.5
Shareholders' equity and convertible notes	**16.5**	17.1	17.9	12.3	8.5
Dividends as percentage of net income[(4)(5)]	**59.4**	58.3	55.5	59.8	84.1
Shareholders' equity as percentage of total assets	**7.5**	7.9	7.8	7.5	7.7
Shareholders' equity and convertible notes as percentage of total assets	**7.5**	7.9	7.8	7.5	7.7
Exchange Rates (Average and Closing)					
Average					
– British pound	**0.5000**	0.4672	0.4705	0.4528	0.4147
– Irish pound	**0.4846**	0.4622	0.4824	0.4461	0.4417
– United States dollar	**0.7710**	0.7424	0.7108	0.6841	0.7528
– New Zealand dollar	**1.1426**	1.1439	1.2292	1.2794	1.3832
– Singapore dollar	**1.0880**	1.0604	1.1037	1.1079	1.2283
Closing					
– British pound	**0.5082**	0.4773	0.4687	0.4286	0.3981
– Irish pound	**0.4959**	0.4683	0.4723	0.4467	0.3782
– United States dollar	**0.7935**	0.7550	0.7400	0.6470	0.7125
– New Zealand dollar	**1.1341**	1.1491	1.2276	1.1764	1.3288
– Singapore dollar	**1.1172**	1.0725	1.0989	1.0261	1.1318

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

	1997[(12)]	*1996*	*1995*	*1994*	*1993*	*1992*
(US$ per A$1.00)						
High	**0.7962**	**0.8017**	0.7778	0.7467	0.7224	0.8011
Low	**0.7830**	**0.7350**	0.7100	0.6450	0.6450	0.7112
Average[(13)]	**0.7902**	**0.7591**	0.7394	0.7099	0.6908	0.7570
September 30		**0.7912**	0.7555	0.7400	0.6450	0.7139

On November 8, 1996 the Noon Buying Rate was US$0.7880 per A$1.00.

	1996	1995	1994	1993	1992
Other Information (Numbers)					
Economic Entity branches and business outlets	**2,513**	2,356	2,373	2,613	2,443
Economic Entity staff					
– full-time and part-time[14]	**52,912**	52,567	49,163	47,964	41,516
– full-time equivalent[15]	**47,178**	45,585	43,871	43,542	39,010

Notes:

(1) *Includes the amounts relating to MNC from November 2, 1995, the date on which the Economic Entity acquired this bank.*
(2) *Translated at the Noon Buying Rate on September 30, 1996 of US$0.7912 = A$1.00.*
(3) *Includes the amounts relating to BNZ from November 9, 1992, the date on which the Economic Entity acquired this bank.*
(4) *Dividend amounts are for the year for which they are declared. Dividends and book value per share and per ADS calculations are based on year end fully-paid equivalent shares, adjusted for loans and rights issues as appropriate.*
(5) *Includes issues under the Bonus Share Plan in lieu of cash and scrip dividends.*
(6) *See Note 47 of the Financial Statements, 'Reconciliation with US GAAP' for explanation of earnings per share.*
(7) *Dividend amounts are translated into US$ per ADS (representing five ordinary shares) at the exchange rate on each of the respective payment dates for interim and final dividends. The 1996 final ordinary dividend of A$0.44 per share is not payable until January 22, 1997. Accordingly, the total US$ dividend per ADS cannot be determined until that date.*
(8) *After deducting goodwill.*
(9) *Excludes outside equity interests.*
(10) *Translated at the daily average of the Noon Buying Rates.*
(11) *Based on Tier 1 and Tier 2 capital, as defined by Reserve Bank of Australia, related to risk weighted assets. See 'Capital Adequacy' on pages 47 – 49. Also see 'Regulation of the Banking System' on page 32.*
(12) *Through to November 8, 1996.*
(13) *The daily average of the Noon Buying Rates.*
(14) *Full-time and part-time staff excludes unpaid absences (eg maternity leave). Full-time equivalent includes part-time staff (pro rated).*
(15) *Full-time equivalent includes part-time staff (pro rated).*

Net Interest Income

1996	*$5,059 million*
1995	*$4,523 million*
1994	*$4,197 million*

The principal source of income for the Group is net interest income which is the difference between interest income and interest expense. Net interest income is derived from diverse business activities, including extending credit to customers, accepting deposits from customers, regulatory deposits with Central Banks, amounts due to and from other banks and managing the Group's other interest-sensitive assets and liabilities, especially investment, available for sale and trading securities. Net interest income in 1996 increased by 11.9% to $5,059 million after increases of 7.8% to $4,523 million in 1995 and 2.3% to $4,197 million in 1994. Excluding Michigan National Corporation (MNC), net interest income increased by $133 million or 2.9% in 1996.

Interest income increased by 18.2% to $12,017 million in 1996 after increasing by 28.5% to $10,169 million in 1995 and falling by 6.0% to $7,913 million in 1994. Excluding the impact of MNC, interest income increased by 10.9% in 1996. This was primarily due to increases in lending volumes and a reduction in non-accrual loans across the Group. Interest expense increased by 23.2% to $6,958 million in 1996 after increasing by 51.9% to $5,646 million in 1995, and falling by 13.8% to $3,716 million in 1994. Excluding the impact of MNC, interest expense increased by 17.2% in 1996.

Average interest earning assets increased by 21.5% to $130.5 billion from $107.4 billion in 1995, an increase of 12.3% from $95.6 billion in 1994 which was 2.1% higher than 1993. Excluding the impact of MNC, average interest earning assets increased by $13.8 billion or 12.9% in 1996.

The interest margin (net interest income as a percentage of average interest earning assets), which includes the impact of non-accrual loans on net interest income, was 3.9% in 1996 compared with 4.2% in 1995 and 4.4% in 1994. The interest spread (the difference between the average interest rate earned and the average interest rate paid) decreased to 3.2% from 3.3% in 1995 and 3.8% in 1994.

For further information, refer to 'Interest Margins and Spreads' on page 56.

Bad and Doubtful Debts

1996	*$333 million*
1995	*$116 million*
1994	*$179 million*

Softening economic conditions in the Group's major markets have resulted in a significant increase in the total charge (specific and general) for bad and doubtful debts to $333 million from $116 million in 1996. Within this increase, the charge for the Australian Group's specific provision increased to $135 million from $32 million in 1995 compared to $90 million in 1994, reflecting a conservative provisioning approach underlying the subdued activity levels in the economy.

The specific provision charge in the United Kingdom and Ireland was $206 million, an increase of 77.6% over the charge of $116 million in 1995 which was 24.2% lower than the charge of $153 million in 1994. The major increases in the specific provision charge were recorded by Yorkshire Bank (up $83 million to $155 million) and Clydesdale Bank (up $10 million to $40 million). The increased charge in Yorkshire arose as a result of the softening economic climate together with the greater rigour of Yorkshire's new operating system which became operational in November 1995 as part of the new technology platform. Although gross non-accrual loans declined during the year, higher specific provisioning was adopted in Yorkshire Bank to give a greater coverage, considered prudent in light of continuing economic uncertainty.

The New Zealand Group continued to record writebacks of doubtful debts as a result of economic conditions which improved during 1996. Net specific provision writebacks amounted to $77 million in 1996 compared to $97 million in 1995 and $108 million in 1994. With the acquisition of MNC, the United States Group recorded a specific charge of $3 million in 1996 compared to a net recovery of $3 million in 1995.

Charge to provide for Bad and Doubtful Debts

For years ended September 30	***1996 $M***	*1995 $M*	*1994 $M*	*1996 over 1995 %*
Specific provision				
Australian Group	**135**	32	90	large
UK/Irish Group:				
Clydesdale Bank	**40**	30	46	33.3
Northern Bank	**9**	9	2	–
National Irish Bank	**4**	3	19	33.3
Yorkshire Bank	**155**	72	90	large
Other UK	**(2)**	2	(4)	large
Total UK/Irish Group	**206**	116	153	77.6
New Zealand Group	**(77)**	(97)	(108)	(20.6)
United States Group	**3**	(3)	–	large
Other Group Entities	**(4)**	5	(1)	large
General provision	**70**	63	45	11.1
Total	**333**	116	179	large

Net write-offs (advances written off less recoveries) in 1996 were $277 million compared with $324 million in 1995 and $575 million in 1994. As a percentage of risk weighted assets, net write-offs were 0.2% in 1996, 0.3% in 1995 and 0.6% in 1994.

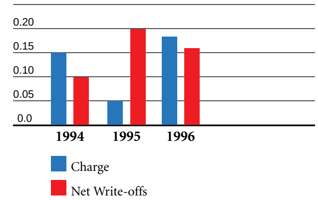
Percentage of Risk Weighted Assets

For years ended September 30	***1996 %***	*1995 %*	*1994 %*
Australian Group[1]			
Charge	**0.18**	0.05	0.15
Net write-offs	**0.16**	0.20	0.10
UK/Irish Group[1]			
Charge	**0.74**	0.44	0.64
Net write-offs	**0.57**	0.70	1.60
New Zealand Group[1]			
Charge	**(0.57)**	(0.79)	(1.08)
Net write-offs	**0.14**	0.30	0.70
United States Group[1]			
Charge	**0.02**	(0.19)	–
Net write-offs	**(0.18)**	0.23	2.07
Group			
Charge	**0.20**	0.05	0.14
Net write-offs	**0.21**	0.30	0.60

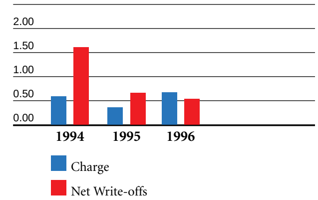
(1) Ratio calculated as a percentage of risk weighted assets of Australian Group, UK/Irish Group, New Zealand Group and United States Group, as appropriate.

The Group maintains a conservative and prudent approach to actual and potential loan losses. The overall provision for doubtful debts (see Note 1 and 14 to the Financial Statements) is augmented as necessary by a charge against profit having regard to both specific and general factors. An explanation of the Group's lending and risk analysis policies is provided within the Risk Management section on page 60.

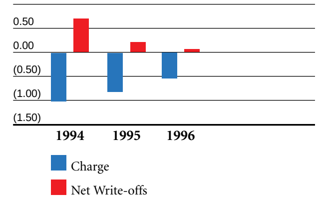
Australian Group
% *Doubtful Debts Charge to Profit and Net Write-offs as a % of Risk Weighted Assets*



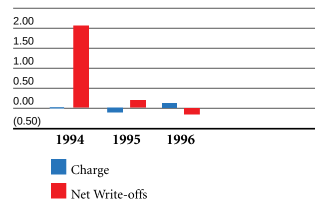
UK/Irish Group
% *Doubtful Debts Charge to Profit and Net Write-offs as a % of Risk Weighted Assets*



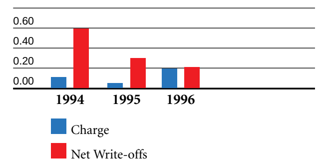
New Zealand Group
% *Doubtful Debts Charge to Profit and Net Write-offs as a % of Risk Weighted Assets*



United States Group
% *Doubtful Debts Charge to Profit and Net Write-offs as a % of Risk Weighted Assets*



Group
% *Doubtful Debts Charge to Profit and Net Write-offs as a % of Risk Weighted Assets*



Other Operating Income

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

Other operating income increased by $473 million or 19.3% in 1996 after an increase of 3.8% in 1995. This was due to an increase of $120 million in money transfer fees, $20 million in loan fees from banking, $106 million in fees and commissions, $9 million in foreign exchange income, $59 million in trading income and $159 million in other income.

1996	*$2,920 million*
1995	*$2,447 million*
1994	*$2,358 million*

Money Transfer Fees

1996	$768 million
1995	$648 million
1994	$609 million

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

Money transfer fees in 1996 increased by $120 million or 18.5% after increasing 6.4% in 1995. The increase in 1996 is primarily a combination of increased volumes during the year, the introduction of new charges for certain services and the inclusion of MNC.

Loan Fees from Banking

1996	$739 million
1995	$719 million
1994	$690 million

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

Loan fees from banking in 1996 increased $20 million or 2.8% after increasing 4.2% in 1995.

Fees and Commissions

1996	$573 million
1995	$467 million
1994	$445 million

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

Fees and commissions income increased by $106 million or 22.7% in 1996 after increasing 4.9% in 1995. The increase in 1996 is primarily due to the inclusion of MNC.

Foreign Exchange Income

1996	$73 million
1995	$64 million
1994	$57 million

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

Foreign exchange income increased by $9 million or 14.1% in 1996 after increasing by 12.3% in 1995.

Trading Income

1996	$222 million
1995	$163 million
1994	$182 million

Trading income includes all realised and unrealised profits and losses resulting directly from foreign exchange trading activities, trading securities and interest rate related derivative trading activities. Trading income increased by $59 million or 36.2% in 1996 after decreasing by 10.4% in 1995. The increase for 1996 is primarily a result of improved results from trading activities and improved practices adopted during the year.

Other Income

1996	$545 million
1995	$386 million
1994	$375 million

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

Other income increased by $159 million or 41.2% after increasing by 2.9% in 1995. The increase for 1996 is primarily a result of the inclusion of MNC, and increased dividends received from the subsidiaries in liquidation during the year.

Other Operating Expenses (Excluding Goodwill Amortisation)

1996	$4,450 million
1995	$3,916 million
1994	$3,665 million

In 1996 other operating expenses, incorporating personnel, occupancy and other general expenses increased $534 million or 13.6% over 1995.

Excluding MNC, other operating expenses increased by $204 million or 5.2%. This compares with an increase of 6.8% in 1995. The movement in expenses was principally the result of:

– personnel costs increasing $314 million or 14.8% in 1996 (excluding MNC: increase of $131 million or 6.1%) after increasing 9.1% in 1995;
– occupancy costs increasing $8 million or 2.0% in 1996 (excluding MNC: decrease of $13 million or 3.2%) after increasing 9.3% in 1995;
– general expenses increasing $212 million or 15.3% in 1996 (excluding MNC: increase of $86 million or 6.2%) after increasing 2.8% in 1995.

The increase in personnel costs in 1996 is due primarily to increases in salaries, related on-costs and restructuring costs. The underlying decrease in occupancy costs in 1996 (excluding MNC) is primarily due to the impact of the initial raising of a provision for surplus leased space in 1995 amounting to $26 million. The increase in general expenses in 1996 is mainly due to increases in fees and commissions, communication and stationery expenses and expenditure on computer equipment and software resulting from higher levels of business activity.

The Group's cost-to-income ratio was 55.8% in 1996 compared to 56.2% in 1995. Excluding restructuring costs, the ratio was 55.1% in 1996 and 55.9% in 1995. Cost-to-income ratio details for the key business units are provided in the table following.

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

For years ended September 30	***1996***	*1995*	*1994*	*1993*	*1992*
Dollars in Millions, except percentages					
Australia Bank:					
Other operating expenses[1]	**2,205**	2,073	1,918	1,727	1,617
Operating income[2]	**4,170**	3,961	3,647	3,428	3,069
%	**52.9**	52.3	52.6	50.4	52.7
Clydesdale Bank:					
Other operating expenses[1]	**405**	438	426	436	482
Operating income[2]	**702**	717	707	718	714
%	**57.7**	61.2	60.3	60.7	67.4
Northern Bank:					
Other operating expenses[1]	**188**	213	190	264	235
Operating income[2]	**348**	345	324	325	357
%	**54.3**	61.9	58.5	81.3	65.8
National Irish Bank:					
Other operating expenses[1]	**85**	86	81	82	76
Operating income[2]	**134**	131	120	126	108
%	**63.4**	65.7	66.9	65.0	70.4
Yorkshire Bank:					
Other operating expenses[1]	**474**	487	422	404	420
Operating income[2]	**868**	860	802	845	899
%	**54.6**	54.6	52.6	47.8	46.7
Bank of New Zealand:					
Other operating expenses[1]	**525**	509	456	441	444
Operating income[2]	**866**	816	685	533	653
%	**60.7**	62.7	66.5	82.8	67.9
Michigan National Corporation:					
Other operating expenses[1]	**332**	–	–	–	–
Operating income[2]	**589**	–	–	–	–
%	**56.3**	–	–	–	–
Group:					
Other operating expenses[1]	**4,450**	3,916	3,665	3,570	3,026
Operating income[2]	**7,979**	6,970	6,555	6,154	5,298
%	**55.8**	56.2	55.9	58.0	57.1

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

Operating Profit After Income Tax

Profitability

Operating Profit after income tax (after goodwill and before abnormal item) increased 8.4% to $2,099 million in 1996 from $1,936 million in 1995. This compares with a 16.8% increase in 1995.

Operating profit after tax and abnormal item was $2,102 million. The abnormal item represents an adjustment to reflect market value and profit on sale of shares and options held by the Group in the Australia and New Zealand Banking Group Limited.

This increase in earnings after tax primarily reflected:

– a $158 million contribution to profit by MNC following its acquisition in November 1995;

– a $536 million or 11.9% increase in net interest income in 1996 (excluding MNC: increase of $133 million or 2.9%) after a $326 million or 7.8% increase in 1995;

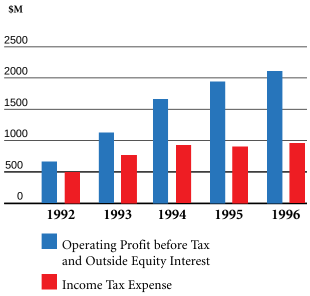
– a $473 million or 19.3% increase in other operating income in 1996 (excluding MNC: increase of $286 million or 11.7%) and $89 million or 3.8% in 1995;

– continued efficiencies in the Group's operations resulting in a marginal rise in other operating expenses (excluding the impact of MNC) of 5.2% or $204 million after a $251 million increase in 1995 (before goodwill amortisation). Despite an increase in capital expenditure associated with technology improvements and the introduction of new products, the Group's cost-to-income ratio (excluding restructuring costs) was 55.1% in 1996 compared with 55.9% in 1995.

These results were partially offset by a $333 million charge to provide for doubtful debts. For further information, see 'Bad & Doubtful Debts' on page 38.

For years ended September 30	***1996 $M***	*1995 $M*	*1994 $M*	*1993 $M*	*1992 $M*	*Average Compound Growth %*
Operating profit (After tax and outside equity interest)	**2,102**	1,969	1,708	1,129	675	32.8
Income tax expense	**959**	906	953	811	500	17.7
Operating profit (before tax)	**3,061**	2,875	2,661	1,940	1,175	27.0

Group Operating Profit and Income Tax Expense



Adjusted to Accord with US GAAP

Prepared in accordance with US GAAP, consolidated net income for the year to September 30, 1996 was $2,147 million compared with $2,013 million in 1995 and $1,807 million in 1994. There were no material adjustments between US GAAP net income and Australian GAAP net profit for the years ended September 30, 1996, 1995 and 1994 other than the effect of the modification of Group Accounting Policy for the valuation of the shareholding in Australia and New Zealand Banking Group Limited in 1994. See Note 47 to the Financial Statements for a detailed reconciliation of Australian GAAP net profit to US GAAP net income.

Underlying Profit

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

For years ended September 30	***1996 $M***	*1995 $M*	*1994 $M*	*1993 $M*	*1992 $M*
Operating profit before tax, doubtful debt expense and goodwill amortisation	**3,529**	3,054	2,890	2,584	2,272
Goodwill amortisation	**(137)**	(92)	(92)	(89)	(62)
Underlying profit	**3,392**	2,962	2,798	2,495	2,210
Deduct:					
Charge to provide for doubtful debts	**(333)**	(116)	(179)	(604)	(908)
Income tax expense	**(959)**	(906)	(953)	(811)	(500)
Operating profit before abnormal item	**2,100**	1,940	1,666	1,080	802
Add/(Deduct) abnormal item	**3**	33	50	59	(127)
Operating profit after income tax (per Statement of Profit and Loss)	**2,103**	1,973	1,716	1,139	675

Operating Profit by Segments

During 1996 improved results were achieved in most of the Group's major business units. The increased diversification of income streams outside of Australia was a direct outcome of strategic initiatives undertaken during the past decade to broaden the Group's retail and business banking base.

Contributions to Consolidated Operating Profit by Major Business Areas:

For years ended September 30	***1996*** ***$M***	*1995* *$M*	*1994* *$M*	*1993* *$M*	*1992* *$M*
Australian Group:					
Australian Bank[(a)]	**1,277**	1,284	1,026	765	666
NAFM	**25**	18	28	18	4
Other[(b)]	**5**	4	3	4	4
Total Australian Group	**1,307**	1,306	1,057	787	674
UK/Irish Group:					
Clydesdale Bank	**162**	164	156	130	91
Northern Bank	**97**	80	87	31	64
Yorkshire Bank	**159**	190	195	190	111
National Irish Bank	**27**	25	12	21	18
National Australia Life	**(9)**	(35)	–	–	–
Other	**(33)**	(4)	(22)	(79)	(102)
Total UK/Irish Group	**403**	420	428	293	182
New Zealand Group:					
Bank of New Zealand	**279**	264	205	82	–
Other	**(52)**	(49)	(62)	13	9
Total New Zealand Group	**227**	215	143	95	9
United States Group:					
Michigan National Corporation	**158**	–	–	–	–
Other	**17**	3	14	(27)	(21)
Total United States Group	**175**	3	14	(27)	(21)
Other Group Entities:					
Asia	**10**	5	6	(2)	10
Other	**114**	79	102	13	10
Total Other Group Entities	**124**	84	108	11	20
Operating profit after tax before goodwill amortisation	**2,236**	2,028	1,750	1,159	864
Deduct: Goodwill amortisation	**137**	92	92	89	62
Operating profit after tax and outside equity interest before abnormal item	**2,099**	1,936	1,658	1,070	802
Abnormal Item	**3**	33	50	59	(127)
Operating profit after tax and outside equity interest	**2,102**	1,969	1,708	1,129	675

(a) Australian Bank includes the Australian Trading Bank, the Australian Property Companies and Custom Service Leasing Ltd.
(b) Other includes ARDB Limited and National Australia Trustees Limited.

Australian Group

The Australian Group is comprised of the Australian Bank, NAFM, Custodian Services and National Australia Trustees Limited.

Australian Bank

The Australian Bank profit decreased 0.5% to $1,277 million from $1,284 million in 1995 and $1,026 million in 1994. The Australian Bank includes the Australian Trading Bank, the Australian Property Companies, Custom Credit Group (liquidated 1994), National Australia Limited (liquidated 1994) and First National Limited (liquidated 1994). Comparative figures have been restated accordingly.

The relatively steady performance of the Australian Bank saw the impact of increases in net interest income and other operating income offset by increases in other operating expenses and the charge for doubtful debts.

Specifically, the key factors contributing to this result were:
- net interest income increased by $98 million or 3.9% to $2,590 million reflecting growth in housing and other term lending. Falling margins due to competitive pressures continued to restrain income growth but these pressures were more than offset by growth in outstandings;
- other operating income increased by $111 million or 7.6% to $1,580 million. Lending growth together with increased trading income contributed to the increase;
- other operating expenses increased by $132 million or 6.4% to $2,205 million. Media expenses increased as a result of the successful 'Bigger Picture' advertising campaign. Expenditure on computer and other communication related expenses increased as the Australian Bank expanded its telephone capabilities and technological ability to face new and existing competitors. Growth in expenses also arose from the cessation of the Bank's superannuation contribution holiday;
- charge for doubtful debts increased significantly by $107 million to $185 million reflecting the subdued activity levels in the economy. Volume growth this year resulted in a higher general provision charge due to the growth in risk weighted assets. Net non-accrual loans declined by $156 million or 31.7% to $336 million in 1996.

National Australia Financial Management

National Australia Financial Management (NAFM), the Group's superannuation and financial services arm, contributed a profit of $25 million for 1996, compared to $18 million in 1995 and $28 million in 1994. The 1994 result incorporates an additional three months contribution to align NAFM's reporting period to that of other business units within the Group. NAFM's increased profit is a reflection of its improved performance over the year with improved sales and claim experiences. Included in NAFM's results are those of National Australia Asset Management which was established in August 1995.

UK/Irish Group

The UK/Irish Group profit contribution (before goodwill amortisation of $62 million) decreased by 4.0% to $403 million from $420 million in 1995 ($428 million in 1994). The 1995 and 1994 results included a $19 million and $5 million (before tax) charge for restructuring costs, respectively.

Clydesdale Bank's profit decreased by 1.2% to $162 million in 1996 from $164 million in 1995 ($156 million in 1994). Northern Bank's profit increased by 21.3% to $97 million from $80 million in 1995 ($87 million in 1994). Yorkshire Bank's profit decreased by 16.3% to $159 million from $190 million in 1995 ($195 million in 1994). National Irish Bank's profit increased 8.0% to $27 million from $25 million in 1995 ($12 million in 1994). National Australia Life contributed a loss of $9 million in 1996 compared to a loss of $35 million when it commenced operations in 1995.

Major factors contributing to the UK/Irish result were:
- a decrease in net interest income of $57 million or 4.2% to $1,308 million. In local currency terms, net interest income rose marginally through higher lending volumes. However, due to the strengthening Australian dollar, net interest income fell in gross Australian dollar terms when compared to the prior year;
- specific charge for doubtful debts increased by $90 million or 77.6% to $206 million after declining by 24.2% or $37 million in 1995. For further discussion of this point, see 'Bad and Doubtful Debts' on page 38.

New Zealand Group

The New Zealand Group contributed a profit after tax of $227 million (before goodwill amortisation of $31 million) compared to $215 million in 1995.

BNZ contributed a profit of $279 million in 1996 compared to $264 million in 1995, an increase of 5.7%. This reflected strong growth in net interest and other operating income offset by a reduction in bad debt recoveries and writebacks of specific provisions. Specifically:
- net interest income increased by $33 million or 5.9% to $596 million reflecting increased housing loan volumes, primarily in the areas of fixed and capped rate lending, together with increases in business lending. Interest margins contracted during the year;
- other operating income increased by $17 million or 6.7% to $270 million reflecting growth in business volumes, plus improved money transfer fee income and higher trading;
- net doubtful debt charge writeback fell by 22.2% or $20 million to $70 million in 1996;
- increased other operating expenses reflected the continuing change in BNZ's service delivery. Reduced occupancy costs together with writebacks in non-lending loss provisions, as a result of the satisfactory conclusion of certain litigation matters, were offset by increases in personnel and general expenses.

United States Group

The United States Group contributed a profit after tax of $175 million (before goodwill amortisation of $44 million) compared to $3 million in 1995. The increase reflects the $158 million contribution of Michigan National Corporation which was acquired in November 1995.

Other

Total Other Group entities' profit contribution increased by $40 million or 47.6% to $124 million from $84 million in 1995 and $108 million in 1994. Other is made up of the Asian operations and other Group entities. A $10 million profit was achieved by the five branches and two subsidiaries in Asia in 1996, compared to $5 million in the previous year.

Other Group entities includes National Equities Limited, Nautilus Insurance Pte Limited and Relationship Services Limited. Operating profit before tax increased by $35 million or 44.3% to $114 million from $79 million in 1995 and $102 million in 1994.

In March 1996, National Australia Investment Capital Limited was established to undertake equity financing of medium-sized businesses.

In July 1994, the Group sold the assets of National Australia Travel. During the period to the date of disposal it contributed a profit of $9 million (including profit on sale of the business).

On June 21, 1994 National Australia Limited (NAL) and First National Limited (FNL) were placed into member's voluntary liquidation. The ongoing operations of these companies was transferred to the Australian Bank as part of the formal winding-up process. NAL contributed to Group profit after tax, a loss of $1 million in 1994. FNL contributed to Group profit after tax, profits of $0.3 million in 1994.

Assets and Shareholders' Equity

Year-end assets increased to $173.7 billion (excluding MNC: $163.9 billion) after an increase to $148.1 billion at September 30, 1995 from $130.4 billion in 1994. Of the $25.6 billion increase in 1996, $19.5 billion was attributable to growth in lending, of which $4.6 billion related to real estate lending and $8.4 billion to other commercial and industrial lending. Gross unrealised gains on trading derivative financial instruments remained steady in 1996 at $3.7 billion, which was an increase of $1.6 billion from 1994. Over the same period shareholders' equity in the Group continued its steady increase to $12.5 billion in 1996 from $11.4 billion in 1995 and $9.9 billion in 1994.

In 1996, the increase in shareholder's equity was attributable mainly to an increase of $2.0 billion in retained profits and $455 million in the share premium reserve of which $386 million related to reinvestment under the dividend reinvestment plan.

In Australia during 1996, assets grew strongly by $7.7 billion to $94.0 billion with major contributions coming from home loans which grew 18.7% to $28.1 billion and other term lending (largely personal and other instalment lending) which grew 10.1% to $21.6 billion. There was moderate growth in assets in the United Kingdom and Republic of Ireland of 7.8% to $39.7 billion in 1996 largely due to growth in lending assets, particularly in Clydesdale Bank which experienced strong increases in housing loans, lease financing and overdraft lending. In New Zealand, assets grew 10.8% to $18.9 billion in 1996 due largely to increases in housing loans and business lending. In the United States, the addition of MNC's total assets of $11.8 billion saw total assets rise from $3.4 billion in 1995 to $14.4 billion in 1996.

Assets and Shareholders' Equity Adjusted to Accord with US GAAP

Year-end assets under US GAAP increased to $173.6 billion in 1996 after an increase to $148.0 billion at September 30, 1995 from $130.3 billion in 1994. The increase in assets in 1996 of $25.6 billion is mainly attributable to the factors outlined above under 'Assets and Shareholders' Equity'. In 1996, shareholders' equity under US GAAP increased to $13.0 billion from $11.8 billion in 1995 and $10.1 billion in 1994. (See Note 47 for a detailed reconciliation of total assets and shareholders' equity according to US GAAP.)

Return on Average Shareholders' Equity

Profitability, as measured by return (before abnormal item) on average shareholders' equity after goodwill, decreased to 17.0% in 1996 from 17.8% in 1995 and 17.5% in 1994. In 1996, the return decreased primarily as a result of the increase in average shareholders' equity which was largely due to the inclusion of MNC, and this was partially offset by an increase in the profits. In 1995 and 1994, profit (before abnormal item) also grew substantially by 16.8% and 55.0% respectively.

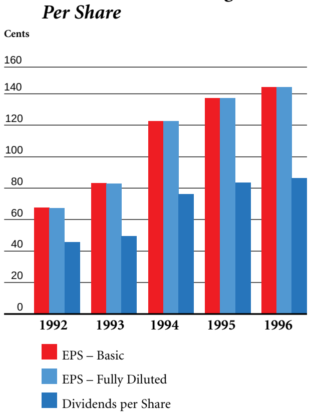
For years ended September 30 *Dollars in Millions, except percentages*	***1996***	*1995*	*1994*	*1993*	*1992*
Weighted average shareholders' equity	**12,326**	10,905	9,454	8,538	8,011
Return (before abnormal item) on average equity %	**17.0**	17.8	17.5	12.5	10.0

Dividends and Earnings Per Share

Basic earnings per share (after goodwill and before abnormal item) in 1996 were 144.6 cents (138.7 cents in 1995). Basic earnings per share (after abnormal item) were 144.8 cents in 1996 (141.0 cents in 1995 restated for the bonus element of the shares issued at a discount during the 1996 fiscal year).

The increase in basic earnings per share (before abnormal item) from 1994 of 123.5 cents to 138.7 cents in 1995 and 144.6 cents in 1996 reflects improved profitability in 1995 and 1996.

Dividends and Earnings Per Share



For years ended September 30 *Cents*	***1996***	*1995*	*1994*	*1993*	*1992*
EPS – Basic (before abnormal item)	**144.6**	138.7	123.5	82.6	64.0
– Fully diluted (before abnormal item)	**144.7**	138.8	123.6	82.6	64.0
Dividend	**87.0**	83.0	74.0	50.0	45.0

Interim dividends of 43, 40 and 35 Australian cents per Ordinary Share were paid during the years ended September 30, 1996, 1995 and 1994, respectively. The final dividend of 44 Australian cents (1995: 43 cents, 1994: 39 cents) declared from the 1996 profit is payable on January 22, 1997.

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

Liquidity and Capital Resources

As at September 30 *Dollars in Millions*	***1996***	*1995*	*1994*
Shareholders' equity	**12,519**	11,381	9,852
Outside equity interest	**–**	38	34
Perpetual floating rate notes	**424**	459	480
Total	**12,943**	11,878	10,366

As indicated in the above table, the Group has significantly increased its capital position over the past three years. The increase in shareholders' equity has resulted mainly from improved profitability and a higher share premium reserve resulting from the reinvestment of dividends under the Group's Dividend Reinvestment Plan (DRP). During the three years ended September 30, 1996, 1995 and 1994, 36.2 million, 46.3 million and 42.4 million Ordinary Shares, respectively, were issued under the DRP to shareholders at varying prices.

As is the case with most major banking groups, the Company has traditionally relied on retained earnings to augment its capital resources to allow for real and inflation-induced growth in its asset base. In Australia, the introduction of dividend imputation or 'franked' dividends (effectively the removal of double taxation on company dividends) has produced a desire for higher dividend payout ratios than has been normal in the banking sector.

Changes in Financial Condition

For years ended September 30	***1996***	*1995*	*1994*	*1993*	*1992*
Average balances (Dollars in Billions)					
Total assets	**164**	136	122	113	97
Total liabilities and loan capital	**151**	125	112	105	89

Average total assets in 1996 increased by 20.6% to $164 billion from $136 billion in 1995 and $122 billion in 1994. Year-end total assets increased 17.3% from 1995. See 'Assets and Shareholders' Equity' above for an explanation of major movements in 1996. A discussion of changes in significant assets and liabilities follows.

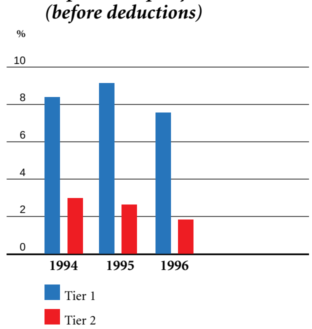
Capital Adequacy

As of September 30, 1996 the Group's total risk weighted capital was 9.3%, consisting of Tier 1 capital of 7.6% and Tier 2 capital of 1.9% and deductions of 0.2%.

Capital Adequacy Ratios

As at September 30	***1996*** %	*1995* %	*1994* %
Tier 1	**7.6**	9.2	8.5
Tier 2	**1.9**	2.6	3.2
Deductions	**(0.2)**	(0.2)	(0.2)
Total	**9.3**	11.6	11.5

Capital Adequacy Ratios (before deductions)



The decrease in Tier 1 and 2 capital is principally due to the growth in risk weighted assets associated with the acquisition of MNC during 1996.

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

The capital base for regulatory purposes is comprised of two elements; namely Tier 1 and Tier 2 capital, after making certain deductions. Tier 1 capital includes paid-up ordinary capital, paid-up non-cumulative irredeemable preference shares, retained earnings, reserves (other than asset revaluation reserves) less goodwill and other intangible assets. Additionally where future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital. This was not the case as at September 30, 1996 and as such no adjustment was required.

Tier 2 capital includes asset revaluation reserves, general provision for doubtful debts, hybrid debt/equity instruments and subordinated term debt with an original maturity of at least 7 years.

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

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

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

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

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

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

Regulatory Capital

As at September 30	***1996 $M***	*1995 $M*	*1994 $M*
Tier 1			
Issued and partly paid capital	**1,477**	1,429	1,369
Reserves	**5,421**	6,327	5,613
Retained profits	**5,530**	3,556	2,828
Minority interests	**–**	38	34
Estimated reinvestment under dividend reinvestment plan[1]	**194**	310	–
Less:			
Asset revaluation reserve	**(252)**	(288)	(240)
Goodwill	**(2,218)**	(1,385)	(1,477)
Other	**(3)**	(4)	(6)
Total Tier 1 capital	**10,149**	9,983	8,121
Tier 2			
Asset revaluation reserve	**252**	288	240
General provisions for doubtful debts	**664**	551	489
Perpetual floating rate notes	**315**	331	338
Dated subordinated debts[2]	**1,342**	1,762	2,019
Notional revaluation of investment securities to market	**17**	15	15
Total Tier 2 capital	**2,590**	2,947	3,101
Total Tier 1 and 2 capital	**12,739**	12,930	11,222
Less Deductions:			
Eliminations of net assets in life insurance and trustee controlled entities[3]	**(129)**	(124)	(74)
Holdings of other banks' capital instruments	**(127)**	(91)	(80)
Total regulatory capital	**12,483**	12,715	11,068

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

[2] Prior period Tier 1 and Tier 2 capital amounts have been restated to reflect the Group's change in treatment of the US$200 million Floating Rate Subordinated Perpetual Capital Notes issued by BNZ (refer to Note 28). The change aligns the treatment of this instrument as part of the Group's regulatory capital as prescribed by the Reserve Bank of Australia.

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

Risk-Adjusted Assets and Off-Balance Sheet Exposures

As at September 30	*Balance* **1996** *$M*	*1995* *$M*	*1994* *$M*	*Risk Weights* *%*	*Risk Adjusted Balance*[1] **1996** *$M*	*1995* *$M*	*1994* *$M*
Assets							
Cash claims on RBA and short-term claims on Australian Commonwealth Government[2]	**6,055**	7,007	6,263	0	–	–	–
Longer term claims on Australian Commonwealth Government, claims on State governments, OECD governments and Central Banks other than RBA	**7,732**	6,357	6,589	10	**773**	636	659
Claims on OECD banks and local governments	**20,604**	16,064	15,088	20	**4,121**	3,213	3,018
Housing loans[3]	**37,655**	35,749	31,621	50	**18,827**	17,875	15,810
All other assets	**96,029**	77,213	67,415	100	**96,029**	77,213	67,415
Total assets[4]	**168,075**	142,390	126,976		**119,750**	98,937	86,902

As at September 30	*Contract or Notional Amount* **1996** *$M*	*Credit Equivalent Amount* **1996** *$M*	*Risk Weights* *%*	*Risk Adjusted Balance*[1] **1996** *$M*	*1995* *$M*	*1994* *$M*
Off-Balance Sheet Exposures						
Financial guarantees, standby letters of credit and other letters of credit	**5,880**	**5,060**	0–100	**4,803**	4,092	2,155
Performance related guarantees, warranties and indemnities	**1,692**	**846**	0–100	**719**	621	493
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**45,906**	**7,920**	0–100	**6,496**	3,964	5,355
Foreign exchange, interest rate and other market related transactions	**375,144**	**5,688**	0–50	**1,545**	1,371	1,210
Total off-balance sheet exposures	**428,622**	**19,514**		**13,563**	10,048	9,213
Total risk-adjusted assets				**119,750**	98,937	86,902
Total risk-adjusted assets and off-balance sheet exposures				**133,313**	108,985	96,115

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

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

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

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

Gross Loans and Other Receivables

Average Balances

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries served. The loan portfolio continues to consist of short term outstandings with 39.2% of loans at September 30, 1996 maturing within one year and 19.2% maturing between 1 year to 5 years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after 5 years. The average balance of loans in 1996 was 64.5% of average total assets. This compares with 64.4% in 1995.

Average Australian loans and other receivables accounted for 53.2% of the total in 1996, 56.4% in 1995 and 56.5% in 1994.

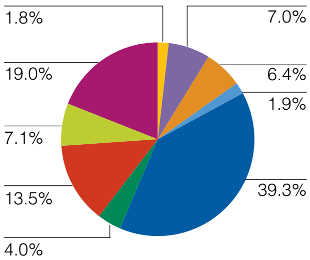
Average net loans and other receivables were $104.3 billion in 1996 an increase of 22.4% over the 1995 balance of $85.2 billion, which followed an increase of 15.4% over the 1994 balance of $73.8 billion. The increase for 1996 was principally due to the inclusion of MNC.

1996	*Australia*	*$56 billion*
	Overseas	*$49 billion*
1995	*Australia*	*$49 billion*
	Overseas	*$38 billion*
1994	*Australia*	*$43 billion*
	Overseas	*$33 billion*

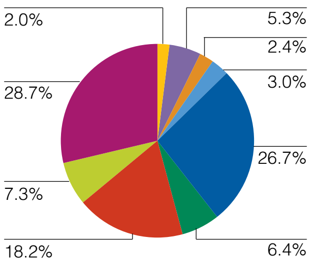
Year-End Loans by Industry

In Australia, there was a slowing in the pace of growth during the past year, which had seen a significant slowing in growth over the previous year. However, there was strong asset growth experienced mainly in the areas of housing, business investment loans, leasing, overdrafts, credit cards and fixed rate lending. Net lending assets (including acceptances) increased 11.8% to $75.9 billion in 1996 with residential mortgage loans increasing by $3.4 billion or 16% and lease financing increasing by $400 million or 13.1% over 1995.

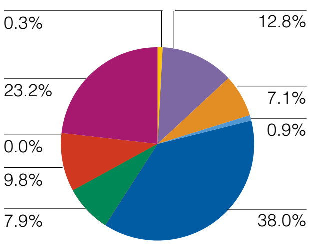
Australian Group
Gross Loans and Other Receivables by Industry 1996 (%)



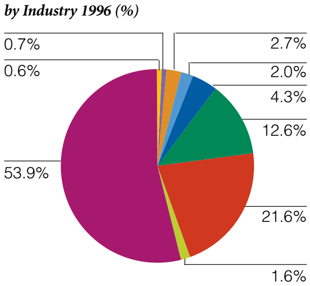
UK/Irish Group
Gross Loans and Other Receivables by Industry 1996 (%)



New Zealand Group
Gross Loans and Other Receivables by Industry 1996 (%)



United States Group
Gross Loans and Other Receivables by Industry 1996 (%)



- Government and Public Authorities
- Agriculture, Forestry and Fishing
- Financial Investment and Insurance
- Real Estate Construction
- Real Estate Mortgage
- Manufacturing
- Instalment Loans to Individuals
- Lease Financing
- Other Commercial and Industrial

	Australian Group		*UK/Irish Group*		*New Zealand Group*		*United States Group*	
As at September 30, 1996	*$M*	*%*	*$M*	*%*	*$M*	*%*	*$M*	*%*
Government & public authorities	1,083	1.8	517	2.0	48	0.3	52	0.6
Agriculture, forestry & fishing	4,365	7.0	1,381	5.3	2,084	12.8	62	0.7
Financial, investment & insurance	3,945	6.4	613	2.4	1,159	7.1	247	2.7
Real estate construction	1,191	1.9	789	3.0	142	0.9	185	2.0
Real estate mortgage	24,449	39.3	6,982	26.7	6,176	38.0	386	4.3
Manufacturing	2,515	4.0	1,668	6.4	1,276	7.9	1,138	12.6
Instalment loans to individuals	8,372	13.5	4,754	18.2	1,595	9.8	1,956	21.6
Lease financing	4,420	7.1	1,917	7.3	8	–	140	1.6
Other commercial & industrial	11,795	19.0	7,494	28.7	3,781	23.2	4,866	53.9
Total	62,135	100.0	26,115	100.0	16,269	100.0	9,032	100.0
Less unearned income	(745)		(333)		–		(40)	
Provision for doubtful debts	(596)		(296)		(128)		(249)	
Net loans & other receivables	60,794		25,486		16,141		8,743	

The UK/Irish Group's net loans and other receivables increased by 6.7% to $25.5 billion in 1996 with gross real estate mortgages increasing by 1.5% in 1996. Factors contributing to the growth in the United Kingdom and Republic of Ireland included the opening of dedicated business branches focusing on customer needs, the introduction of tailored personal and business loans and successful marketing initiatives such as special packages to attract new customers.

New product initiatives supported by promotional activities increased the New Zealand Group's net loans and other receivables by 14.2% to $16.1 billion in 1996. One of the major areas of growth was real estate related lending (gross) which increased by $800 million to $6.2 billion in 1996.

The inclusion of MNC contributed $8.0 billion of net loans and acceptances to the United States Group in 1996. In 1995, net loans and acceptances were $0.6 billion.

Impaired Assets, Provisions and Allowance for Loan Losses

Non-Accrual Loans

In 1994, the Group amended its asset quality disclosure classifications to conform with the new Reserve Bank of Australia asset quality disclosure guidelines. Comparatives for September 1993 were amended accordingly. For further information on Asset Quality Disclosures, refer to Note 15 of the Financial Statements, 'Asset Quality Disclosures' on page 94.

Total non-accrual loans less specific provisions for credit losses at September 30, 1996 were $803 million, a decrease of 26.7% from the 1995 balance of $1,095 million. At September 1994, non-accrual loans less specific provisions for credit losses were $1,430 million. As a ratio to year end risk weighted assets, net non-accrual loans represented 0.6%, a decrease from 1.0% at 1995. In 1994, the ratio of net non-accrual loans to year end risk weighted assets was 1.5%.

Gross non-accrual loans in 1996 were $1,444 million, a $181 million or 11.1% decrease from the 1995 balance of $1,625 million. In 1994, gross non-accrual loans amounted to $2,238 million.

The Australian Group component of gross non-accrual loans in 1996 amounted to $555 million (representing a $143 million or 20.5% decrease from the 1995 balance). In the United Kingdom and Ireland, gross non-accrual loans were $530 million in 1996 (representing a $12 million or 2.2% decrease from the 1995 balance). In New Zealand, gross non-accrual loans were $144 million in 1996 (representing a $128 million or 47.1% decrease from the 1995 balance). In the United States, the first time inclusion of MNC resulted in an additional $119 million in gross non-accrual loans. The decline in impaired assets in all business areas is associated with a slowdown in the rate of growth of non-accrual loans, further write-offs and asset sales and a conscious effort to resolve impaired assets.

	September 30, 1996			*September 30, 1995*		
	Gross $M	*Specific[1] Provisions $M*	*Net $M*	*Gross $M*	*Specific[1] Provisions $M*	*Net $M*
Australian Group	**555**	**219**	**336**	698	206	492
UK/Irish Group	**530**	**162**	**368**	542	126	416
New Zealand Group	**144**	**55**	**89**	272	151	121
United States Group	**193**	**193**	**–**	87	30	57
Other	**22**	**12**	**10**	26	17	9
Total	**1,444**	**641**	**803**	1,625	530	1,095
Percentage of risk weighted assets	**1.1**	**0.5**	**0.6**	1.5	0.5	1.0

	1996	*1995*
Net non-accrual loans	**803**	1,095
Shareholders' equity	**12,519**	11,419
%	**6.4**	9.6

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

Doubtful Debts Closing Balance by Geographic Group

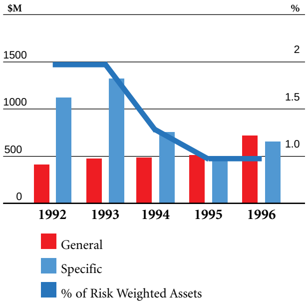
As at September 30	***1996 $M***	*1995 $M*	*1994 $M*	*1993 $M*	*1992 $M*
Australian Group					
General	**378**	325	283	242	225
Specific[1]	**218**	178	272	330	477
Total	**596**	503	555	572	702
UK/Irish Group					
General	**134**	125	115	127	136
Specific[1]	**162**	126	192	462	588
Total	**296**	251	307	589	724
New Zealand Group					
General	**73**	65	55	55	5
Specific[1]	**55**	150	252	482	17
Total	**128**	215	307	537	22
United States Group[2]					
General	**74**	26	26	30	27
Specific[1]	**175**	11	25	32	72
Total	**249**	37	51	62	99
Other					
General	**5**	10	10	10	11
Specific [1]	**12**	15	12	13	30
Total	**17**	25	22	23	41
Group					
General	**664**	551	489	464	404
Specific [1]	**622**	480	753	1,319	1,184
Total	**1,286**	1,031	1,242	1,783	1,588
% of Risk Weighted Assets	**1.0**	0.9	1.3	1.9	2.0

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

[2] MNC adopts a provisioning methodology under which a portion of its specific provision is determined against segments of its loan portfolio based on historical loan loss experience and current trends evident in those segments of its loan portfolio. As at September 30, 1996, this portion of MNC's specific provision amounted to $135 million. This amount is included in the specific provision quoted in the above table.

Total provisions for doubtful debts, excluding off-balance sheet credit exposures, held at September 30, 1996 were $1,286 million or 1.0% of risk weighted assets. This compares with $1,031 million or 0.9% of risk weighted assets in 1995 and $1,242 million or 1.3% of risk weighted assets in 1994. Of the total at September 30, 1996, general provisions represented $664 million or 0.5% of risk weighted assets.

Doubtful Debts Closing Balance as a Percentage of Risk Weighted Assets



Credit Quality Data

In 1994, the Group amended its asset quality disclosure classifications to conform with the new Reserve Bank of Australia asset quality disclosure guidelines. Comparatives for September 30, 1993 were amended accordingly. Comparatives for September 30, 1992 are presented in accordance with the RBA guidelines applicable to those years.

For further information on Asset Quality Disclosures, see Note 15 of the Financial Statements 'Asset Quality Disclosures' on page 90.

Years ended September 30	***1996 $M***	*1995 $M*	*1994 $M*	*1993 $M*	*1992 $M*
Provision for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**622**	480	753	1,319	1,184
General	**664**	551	489	464	404
Gross non-accrual and restructured loans	**1,507**	1,866	2,487	4,062	3,697
Charge to profit & loss	**333**	116	179	604	908
Ratios[(1)]					
Provision for doubtful debts at end of period as a percentage of end of period loans (before provisions)					
Specific	**0.55**	0.51	0.93	1.73	1.74
General	**0.58**	0.58	0.61	0.63	0.61
	1.13	1.09	1.54	2.36	2.35
Provision for doubtful debts at end of period as a percentage of end of period loans & acceptances (before provisions)					
Specific	**0.47**	0.43	0.77	1.51	1.48
General	**0.51**	0.49	0.50	0.53	0.52
	0.98	0.92	1.27	2.04	2.00
Provision for doubtful debts at end of period as a percentage of risk weighted assets					
Specific	**0.47**	0.44	0.78	1.43	1.45
General	**0.50**	0.51	0.51	0.50	0.50
	0.97	0.95	1.29	1.93	1.95
Non-accrual and restructured loans as a percentage of end of period loans (before provisions)	**1.32**	1.97	3.12	5.50	5.57
Charge to profit & loss as a percentage of:					
Period end loans	**0.29**	0.12	0.22	0.82	1.37
Period end loans and acceptances	**0.25**	0.10	0.19	0.69	1.16
Average loans	**0.32**	0.13	0.24	0.86	1.44
Risk weighted assets	**0.25**	0.11	0.18	0.65	1.12

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

Provisioning Coverage Ratio

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

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

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

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

Years ended September 30	***1996***	*1995*	*1994*
	%	*%*	*%*
Actual coverage	**42.7**	28.6	32.7
Effective coverage	**56.7**	42.6	47.7

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

The increase in both the actual and effective coverage rates reflects a more conservative level of provisioning resulting from the significant slowing of economic activity in most of the Group's major markets; Australia, the United Kingdom and Ireland and the United States.

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

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

The general provision (which is non tax effected) provides further coverage against these loans of 33.1% at September 30, 1996, bringing total effective coverage to 89.8%.

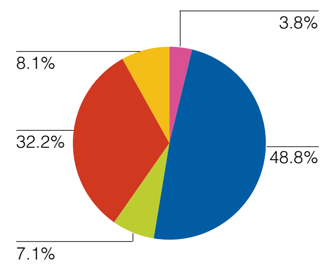
Deposits and Other Borrowings

Total deposits and other borrowings (net of set-offs) increased to $110.9 billion at September 30, 1996 or by 22.3% compared to $90.7 billion or a 14.0% increase in 1995 and $79.5 billion in 1994. Deposits not bearing interest at September 30, 1996 represent 7.6% of total deposits compared to 7.5% in 1995.

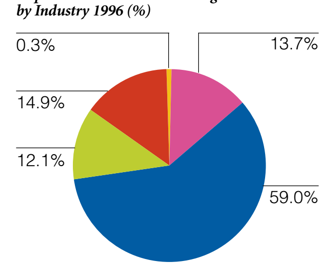
In Australia, deposits increased by $4,841 million or 10.8%. In the United Kingdom/Ireland, deposits increased by $3,115 million or 12.0% (excluding the impact of UK/Irish exchange rate movements, deposits increased by $4,987 million). In New Zealand deposits increased by $862 million or 7.0% (excluding the impact of exchange rate movements, deposits increased by $689 million) and in the United States deposits grew by $11,052 million primarily due to the acquisition of MNC.

As at September 30, 1996	*Australian Group* *$M*	*%*	*UK/Irish Group* *$M*	*%*	*New Zealand Group* *$M*	*%*	*United States Group* *$M*	*%*
Not bearing interest (Net)	1,875	3.8	4,002	13.7	552	4.2	1,957	14.1
Demand & short-term deposits	24,234	48.8	17,169	59.0	4,694	35.4	4,110	29.7
Certificates of deposit	3,515	7.1	3,519	12.1	1,101	8.3	36	0.3
Term deposits	16,009	32.2	4,337	14.9	6,740	50.9	2,930	21.2
Other debt obligations	4,042	8.1	74	0.3	161	1.2	4,810	34.7
Total deposits	49,675	100.0	29,101	100.0	13,248	100.0	13,843	100.0

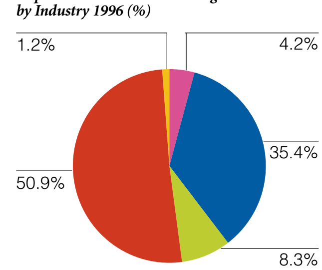
Australian Group
Deposits and Other Borrowings by Industry 1996 (%)



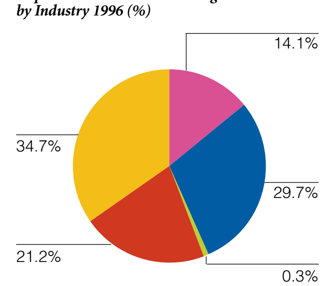
UK/Irish Group
Deposits and Other Borrowings by Industry 1996 (%)



New Zealand Group
Deposits and Other Borrowings by Industry 1996 (%)



United States Group
Deposits and Other Borrowings by Industry 1996 (%)



Not Bearing Interest (Net)
Demand and Short-Term deposits
Certificates of Deposit
Term Deposits
Other Debt obligations

Average Balance Sheets and Related Interest

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

Non-accrual loans are included with Interest Earning Assets under 'Loans and Other Receivables'.

Average Assets and Interest Income

Years ended September 30		*1996*			*1995*			*1994*	
	Average Balance $M	*Interest $M*	*Average Rate %*	*Average Balance $M*	*Interest $M*	*Average Rate %*	*Average Balance $M*	*Interest $M*	*Average Rate %*
Interest earning assets									
Due from other banks									
Australia	**909**	**65**	**7.2**	751	53	7.1	875	42	4.8
Overseas	**8,252**	**470**	**5.7**	8,067	486	6.0	7,254	351	4.8
Regulatory deposits with central banks									
Australia	**701**	**17**	**2.4**	618	38	6.1	538	26	4.8
Overseas	**124**	**2**	**1.8**	115	3	2.9	144	4	3.1
Investment/available for sale/trading and other securities									
Australia	**5,458**	**413**	**7.6**	4,967	380	7.6	4,411	250	5.7
Overseas	**7,828**	**558**	**7.1**	5,411	425	7.9	6,758	408	6.0
Loans and other receivables									
Australia	**56,180**	**5,840**	**10.4**	48,583	5,051	10.4	42,412	3,925	9.3
Overseas	**49,365**	**4,598**	**9.3**	37,881	3,685	9.7	32,916	2,855	8.7
Other interest earning assets[1]	**1,693**	**54**	**N/A**	981	48	N/A	634	52	N/A
Total interest earning assets	**130,510**	**12,017**	**9.2**	107,374	10,169	9.5	95,942	7,913	8.3
Non-Interest Earning Assets									
Acceptances									
Australia	**17,092**			15,625			14,312		
Overseas	**916**			1,123			1,248		
Fixed assets									
Australia	**1,826**			1,550			1,504		
Overseas	**1,135**			1,041			999		
Other assets									
Australia	**5,130**			4,395			3,761		
Overseas	**8,292**			5,816			5,514		
Total non-interest earning assets	**34,391**			29,550			27,338		
Provision for doubtful debts									
Australia	**(566)**			(608)			(525)		
Overseas	**(712)**			(694)			(1,022)		
Total assets	**163,623**			135,622			121,733		
Percentage of total average assets applicable to overseas operations	**46.8%**			43.9%			44.7%		

[1] Includes interest on derivatives.

Average Liabilities and Interest Expenditure

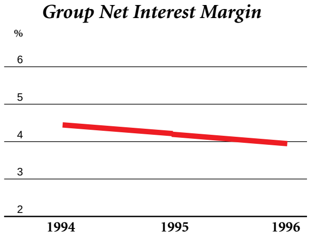
Years ended September 30	*1996* Average Balance $M	*1996* Interest $M	*1996* Average Rate %	*1995* Average Balance $M	*1995* Interest $M	*1995* Average Rate %	*1994* Average Balance $M	*1994* Interest $M	*1994* Average Rate %
Interest bearing liabilities and loan capital									
Time deposits									
Australia	**26,850**	**1,919**	**7.1**	22,428	1,609	7.2	18,051	967	5.4
Overseas	**23,948**	**1,602**	**6.7**	17,505	1,207	6.9	12,582	704	5.6
Savings deposits									
Australia	**4,761**	**250**	**5.3**	5,458	238	4.4	6,590	212	3.2
Overseas	**15,436**	**684**	**4.4**	11,946	553	4.6	11,600	440	3.8
Other demand deposits									
Australia	**14,772**	**885**	**6.0**	11,747	673	5.7	10,285	385	3.7
Overseas	**7,450**	**281**	**3.8**	6,040	253	4.2	5,837	167	2.9
Government and Official Institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**359**	**19**	**5.2**	176	9	5.1	138	5	3.9
Due to other banks									
Australia	**3,524**	**196**	**5.6**	2,536	171	6.7	2,666	105	3.9
Overseas	**7,388**	**432**	**5.8**	6,813	428	6.3	6,810	314	4.6
Short-term borrowings									
Australia	**–**	**–**	**–**	–	–	–	57	6	10.9
Overseas	**4,065**	**225**	**5.5**	2,224	133	6.0	2,851	112	3.9
Long-term borrowings									
Australia	**4,062**	**280**	**6.9**	2,463	190	7.7	2,171	134	6.2
Overseas	**2,245**	**127**	**5.7**	1,888	102	5.4	2,070	100	4.8
Other interest bearing liabilities	**351**	**34**	**N/A**	862	53	N/A	949	42	N/A
Loan capital									
Australia	**324**	**20**	**6.1**	337	21	6.3	353	14	3.9
Overseas	**119**	**4**	**3.6**	135	6	4.6	154	9	5.8
Total interest bearing liabilities & loan capital	**115,654**	**6,958**	**6.0**	92,558	5,646	6.2	83,164	3,716	4.5
Non-interest bearing liabilities									
Deposits not bearing interest									
Australia	**1,782**			2,587			2,522		
Overseas	**5,583**			3,969			3,835		
Liability on acceptances									
Australia	**17,092**			15,625			14,312		
Overseas	**916**			1,123			1,248		
Other liabilities									
Australia	**5,673**			4,943			3,970		
Overseas	**4,597**			3,912			3,228		
Total non-interest bearing liabilities	**35,643**			32,159			29,115		
Shareholders' equity	**12,326**			10,905			9,454		
Total liabilities, loan capital & shareholders' equity	**163,623**			135,622			121,733		
Percentage of total average liabilities applicable to overseas operations	**47.9%**			45.3%			45.7%		

Interest Margins and Spreads

Years ended September 30 *Dollars in Millions, except percentages*	***1996***	*1995*	*1994*
Australia			
Net interest income	**2,799**	2,609	2,420
Average interest earning assets	**63,564**	55,104	48,305
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**3.5**	3.6	4.4
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[1] %	**3.4**	3.5	4.3
Benefit of net free liabilities, provisions, and equity %	**1.0**	1.2	0.7
Interest margin[2] %	**4.4**	4.7	5.0
Overseas			
Net interest income	**2,260**	1,914	1,777
Average interest earning assets	**66,946**	52,270	47,637
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**3.0**	3.3	3.5
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.2)
Interest spread[1] %	**2.9**	3.2	3.3
Benefit of net free liabilities, provisions, and equity %	**0.5**	0.5	0.4
Interest margin[2] %	**3.4**	3.7	3.7
Group			
Net interest income	**5,059**	4,523	4,197
Average interest earning assets	**130,510**	107,374	95,942
Interest spread adjusted for interest foregone on non-accrual and restructured loans %	**3.3**	3.4	3.9
Interest foregone on non-accrual and restructured loans %	**(0.1)**	(0.1)	(0.1)
Interest spread[1] %	**3.2**	3.3	3.8
Benefit of net free liabilities, provisions, and equity %	**0.7**	0.9	0.6
Interest margin[2] %	**3.9**	4.2	4.4

[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.*

Group Net Interest Margin



The interest rate on Australian interest earning assets remained steady at 10.0% from 1995 and which increased from 8.8% in 1994 while the interest rate on interest bearing liabilities also remained steady at 6.5% from 1995 which was an increase from 4.4% in 1994. Interest income in Australia increased 14.7% while interest expense increased 21.4% in 1996. The interest margins in Australia remained tight, particularly in the highly competitive housing lending market. Competition from both traditional and non traditional competitors is expected to continue in the foreseeable future.

The interest rate on overseas interest earning assets decreased to 8.5% in 1996 from 8.9% in 1995 which was an increase from 7.7% in 1994 while the interest rate on interest bearing liabilities decreased to 5.6% in 1996 from 5.7% in 1995 which was an increase from 4.4% in 1994. Overseas interest income increased 22.2% while interest expense increased 25.2% in 1996. The overseas interest margins remained tight due to competitive pressures.

During the twelve months to September 1996, net interest income increased $536 million or by 11.9% to $5,059 million. Australian net interest income increased 7.3% to $2,799 million, while overseas net interest income increased 18.1% to $2,260 million. Average interest earning assets increased 21.5% to $130.5 billion during the year. Australian interest earning assets grew by 15.3% to $63.6 billion, while overseas grew by 28.1% to $66.9 billion due to increased lending and business activity generally and the inclusion of MNC. The lower overseas spread and margin reflects the inclusion of a higher proportion of lower yielding treasury assets and non-accrual loans in the Group's United States and Asian branches as compared to Australia.

Volume and Rate Analysis

The following table allocates changes in net interest income between changes in volume and changes in rate for the latest three years. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. The variance caused by changes as of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total. The calculation methodology for determining this allocation was revised during 1994 to remove the distortion caused by netting of variances in the formula. Comparatives have been restated accordingly.

Years ended September 30	***1996 over 1995***			*1995 over 1994*			*1994 over 1993*		
	Increase/(decrease) due to change in			*Increase/(decrease) due to change in*			*Increase/(decrease) due to change in*		
Dollars in Millions	***Average Balance***	***Average Rate***	***Total***	*Average Balance*	*Average Rate*	*Total*	*Average Balance*	*Average Rate*	*Total*
Interest earning assets									
Due from other banks									
Australia	**11**	**1**	**12**	(7)	18	11	(1)	(1)	(2)
Overseas	**11**	**(27)**	**(16)**	42	93	135	(46)	(108)	(154)
Regulatory deposits with central banks									
Australia	**4**	**(25)**	**(21)**	4	8	12	1	17	18
Overseas	**–**	**(1)**	**(1)**	(1)	(1)	(2)	(2)	(2)	(4)
Investment/available for sale/ trading and other securities									
Australia	**37**	**(4)**	**33**	34	96	130	(16)	(39)	(55)
Overseas	**175**	**(42)**	**133**	(91)	108	17	(110)	(42)	(152)
Loans and other receivables									
Australia	**793**	**(4)**	**789**	608	520	1,128	341	(385)	(44)
Overseas	**1,076**	**(163)**	**913**	460	371	831	91	(228)	(137)
Other interest earning assets	**26**	**(20)**	**6**	22	(28)	(6)	(2)	48	46
Change in interest income	**2,133**	**(285)**	**1,848**	1,071	1,185	2,256	256	(740)	(484)
Interest bearing liabilities									
Time deposits									
Australia	**316**	**(6)**	**310**	267	375	642	58	(32)	26
Overseas	**432**	**(37)**	**395**	316	187	503	35	(148)	(113)
Savings deposits									
Australia	**(35)**	**25**	**(10)**	(40)	88	48	–	(33)	(33)
Overseas	**156**	**(24)**	**132**	13	100	113	29	(147)	(118)
Other demand deposits									
Australia	**180**	**32**	**212**	61	227	288	89	(56)	33
Overseas	**55**	**(26)**	**29**	6	80	86	(5)	(97)	(102)
Government and official institutions									
Australia	**–**	**–**	**–**	–	–	–	–	–	–
Overseas	**10**	**–**	**10**	2	2	4	(1)	(1)	(2)
Due to other banks									
Australia	**59**	**(34)**	**25**	(5)	72	67	33	(24)	9
Overseas	**35**	**(31)**	**4**	–	114	114	(157)	(53)	(210)
Short-term borrowings									
Australia	**–**	**–**	**–**	(3)	(3)	(6)	(43)	(2)	(45)
Overseas	**104**	**(11)**	**93**	(29)	50	21	(9)	13	4
Long-term borrowings									
Australia	**113**	**(23)**	**90**	19	37	56	12	(39)	(27)
Overseas	**20**	**5**	**25**	(9)	11	2	(1)	12	11
Other interest bearing liabilities	**(27)**	**27**	**–**	(10)	(2)	(12)	17	(29)	(12)
Loan Capital									
Australia	**–**	**(1)**	**(1)**	(2)	9	7	(1)	1	–
Overseas	**(1)**	**(1)**	**(2)**	(1)	(2)	(3)	(2)	5	3
Change in interest expense	**1,417**	**(105)**	**1,312**	585	1,345	1,930	54	(630)	(576)
Change in net interest income	**716**	**(180)**	**536**	486	(160)	326	202	(110)	92

Risk Elements

Interest Rates

	1996 %	*1995* %	*1994* %
NAB Base Lending Rate (published average)	**11.1**	10.7	9.2
NAB Benchmark Lending Rate (published average)	**10.7**	10.4	9.0
NAB Housing Loan Rate (regulated)	**13.5**	13.5	13.5
NAB Housing Rate (deregulated)	**10.3**	10.3	8.8
US Prime Rate	**8.3**	8.8	7.8

Cross-Border Outstandings by Industry Category

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

	Government $M	*Banks and other financial institutions $M*	*Other commercial and industrial $M*	*Total $M*	*% of Group assets %*	*Commitments including irrevocable letters of credit $M*
As at September 30, 1996						
United Kingdom	**–**	**112**	**49**	**161**	**0.1**	**1,681**
Japan	**–**	**3,024**	**114**	**3,138**	**1.8**	**1,265**
New Zealand	**90**	**1,567**	**7**	**1,664**	**1.0**	**81**
United States	**–**	**738**	**39**	**777**	**0.4**	**1,490**
As at September 30, 1995						
United Kingdom	–	107	3	110	0.1	563
Japan	–	4,081	29	4,110	2.8	934
New Zealand	116	1,012	5	1,133	0.8	56
United States	–	181	23	204	0.1	854
As at September 30, 1994						
United Kingdom	–	255	26	281	0.2	510
Japan	–	3,649	29	3,678	2.9	930
New Zealand	190	1,197	–	1,387	1.1	20
United States	–	74	126	200	0.7	951

Highly Leveraged Finance Transactions ('HLTs')

The Group's outstandings to HLTs as defined by the criteria issued by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System in the United States at September 30, 1996 which includes traditional Leveraged Buy-Out business, totalled A$449 million (1995: A$152 million) or 0.3% (1995: 0.1%) of total Group assets. The increase is attributable in part to the inclusion of MNC which, as shown in the table below, has resulted in an increase in the percentage of HLT's attributable to the Group's United States operations to 29% of the Group's total HLTs in 1996 from 2% in 1995 and 4% in 1994.

	1996	*1995*	*1994*
The geographic spread of the portfolio as at September 30 is approximately:	%	%	%
Australia	**7**	30	32
New Zealand	**15**	3	11
United States Operations	**29**	2	4
United Kingdom and Ireland	**49**	65	53
	100	100	100

The HLT portfolio consists of 73 (1995: 36) transactions diversified over broad industry groups. Generally these transactions are subject to relatively prompt reduction in outstandings from a combination of asset sales and/or cash flow.

Interest Rate Risk

The following table represents a break down, by time, of the Group's asset position as at September 30, 1996. Sensitivity to interest rates arises from mismatches in the maturities of assets and their corresponding liability funding. These 'gap positions' are actively managed in accordance with Group policy guidelines.

As at September 30, 1996 Australian Dollars in Millions	*0 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Not Bearing Interest*	*Total*
Australian Dollars						
Total assets	45,212	8,334	15,243	698	29,348	98,835
Total liabilities and shareholders' equity	42,081	14,889	3,588	–	41,942	102,500
On balance sheet interest rate sensitivity	3,131	(6,555)	11,655	698	(12,594)	(3,665)
Off balance sheet interest rate sensitivity	8,853	(1,306)	(7,108)	(413)	–	26
Total interest rate repricing gap	11,984	(7,861)	4,547	285	(12,594)	(3,639)
Cumulative interest rate repricing gap	11,984	4,123	8,670	8,955	(3,639)	–
New Zealand Dollars						
Total assets	11,909	1,759	2,780	102	1,347	17,897
Total liabilities and shareholders' equity	9,596	2,013	300	81	3,004	14,994
On balance sheet interest rate sensitivity	2,313	(254)	2,480	21	(1,657)	2,903
Off balance sheet interest rate sensitivity	404	(1,066)	(1,223)	(3)	–	(1,888)
Total interest rate repricing gap	2,717	(1,320)	1,257	18	(1,657)	1,015
Cumulative interest rate repricing gap	2,717	1,397	2,654	2,672	1,015	–
British Pounds and Irish Punts						
Total assets	25,743	2,252	3,329	729	4,665	36,718
Total liabilities and shareholders' equity	23,519	1,251	400	1,361	8,942	35,473
On balance sheet interest rate sensitivity	2,224	1,001	2,929	(632)	(4,277)	1,245
Off balance sheet interest rate sensitivity	533	(418)	(114)	–	–	1
Total interest rate repricing gap	2,757	583	2,815	(632)	(4,277)	1,246
Cumulative interest rate repricing gap	2,757	3,340	6,155	5,523	1,246	–
United States Dollars and Other Currencies						
Total assets	7,693	1,295	2,744	1,640	6,888	20,260
Total liabilities and shareholders' equity	7,463	2,295	982	904	9,099	20,743
On balance sheet interest rate sensitivity	230	(1,000)	1,762	736	(2,211)	(483)
Off balance sheet interest rate sensitivity	(57)	1,196	716	6	–	1,861
Total interest rate repricing gap	173	196	2,478	742	(2,211)	1,378
Cumulative interest rate repricing gap	173	369	2,847	3,589	1,378	–
Total Interest Rate Repricing Gap	17,631	(8,402)	11,097	413	(20,739)	–

Human Resources

The table below summarises the Group's staffing position

	1996	*1995*	*1994*	*1993*	*1992*
Number of employees – full-time and part-time[(1)]	**52,912**	52,567	49,163	47,964	41,516
Number of employees – full-time equivalents[(2)(3)]	**47,178**	45,585	43,871	43,542	39,010
Operating profit after tax per full-time employee	**44,885**[(4)]	43,194	38,932	26,285[(5)]	17,306

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

[(2)] The calculation of full-time equivalents changed in 1994 to align with the underlying cost base (primarily through the inclusion of service staff). Comparative figures for 1993 and 1992 have been restated.

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

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

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

The Group's full-time equivalent employee numbers increased by 1,593 or 3.5% from 1995 to 1996. The acquisition of MNC contributed 3,596 full-time equivalent employees. Excluding the MNC personnel, full-time equivalent employee numbers decreased by 4.4%. This compares with a 3.9% increase from 1994 to 1995. The decrease in Australia of 903 people or 3.8% reflected the current focus on cost management and was largely achieved through natural attrition. The decrease in the UK/Irish Group of 773 people or 4.9% and the decrease in the New Zealand Group of 323 people or 5.5% is also the result of cost management and of various strategic initiatives currently underway.

Approximately 55% of the employees of the Australian Bank (which is the largest employer within the Group) are union members. In 1996, the Australian Bank concluded an Enterprise Agreement which operates until June 30, 1997. The agreement provides salary increases of 10% for 1996 and 1997 and improvements to performance pay and temporary employee wage. The agreement continues a cooperative relationship with the Finance Sector Union which is based on mutual commitment and a consultative approach to change and productivity improvements.

Risk Management

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

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

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

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

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

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

Refer to Note 36, 'Derivative Financial Instruments' on page 123 for a profile of the Group's derivatives risk exposures.

Market Risk

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

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

Overview of transactional risk is provided through regular reporting to Group Treasury and Group Asset/Liability Committee. In addition, the Group Independent Risk Oversight Unit is directing the development of a global market risk measurement system for monitoring market risk exposure using parallel running systems in Australia. Similar Independent Risk Oversight Units are expected to be established in each member bank/regional treasury progressively throughout 1997.

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

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

Operational Risk

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

To enhance the Group's ability to identify, measure and manage operational risks, a systematic framework and methodology for operational risk management has been developed and implemented in each regional bank, except for MNC where it is expected to be formally established in December, 1996. Group Insurance and Operational Risk is responsible for the overview of action plans to mitigate high risks, and administration of the methodology and process discipline, including maintenance of a Group Risk profile to ensure changes occurring within the organisation and industry are reviewed in a timely manner.

Asset and Liability Management

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

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

Structural Interest Rate Risk

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

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

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

Group Structural Foreign Exchange Risk

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

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

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

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

Liquidity Risk

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

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

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

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

Credit Risk

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

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

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

Separate Credit Control Committees and Boards also operate in each of the regional member banks with various lending authorities delegated by the Group's Board of Directors. Fundamental to the Group's lending culture and philosophy, is a system of overview of lending approvals by the next level of authority.

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

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

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

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

Accounting Developments

The following is a summary of recently issued accounting standards and exposure drafts which will have some impact on the accounting and reporting of the Group's transactions when adopted in future periods.

Additional Disclosures by Financial Institutions

In March 1995, the Australian Accounting Research Foundation released exposure draft ED63, 'Additional Disclosures by Financial Institutions', for comment. ED63 proposes additional disclosure requirements for the accounts of financial institutions. ED63 does not cover recognition and measurement matters. The exposure draft is generally consistent with the standard issued on the same subject by the International Accounting Standards Board, IAS30, 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions', with which the Group accounts comply. The standard arising from ED63 is likely to apply to the Group's accounts for the year ending September 30, 1998.

Presentation and Disclosure of Financial Instruments

In June 1995, the Australian Accounting Research Foundation released exposure draft ED65, 'Presentation and Disclosure of Financial Instruments', for comment. ED65 proposes general presentation and disclosure requirements for financial assets and financial liabilities, essentially providing a framework for reporting financial instruments held or issued and the financial risks arising therefrom. ED65 does not cover recognition and measurement matters. The Group accounts currently comply with the vast majority of the proposed disclosures. The exposure draft is closely based on the standard issued on the same subject by the International Accounting Standards Board, IAS32, 'Presentation and Disclosure of Financial Instruments', which will apply to the Group's accounts for the year ending September 30, 1997. The standard arising from ED65 is likely to apply to the Group's accounts for the year ending September 30, 1998.

Information to be Disclosed in the Financial Reports

In December 1995, the Australian Accounting Research Foundation released exposure draft ED67, 'Information to be Disclosed in the Financial Reports', for comment. It is intended that ED67 will replace the disclosure requirements currently applicable under Schedule 5 of the Corporations Law with the majority of the existing Schedule 5 disclosure requirements having been either omitted from the proposed accounting standard because they are covered by existing Australian accounting standards, or amended to be consistent with the requirements of existing Australian accounting standards. This will be effected by the Second Corporations Law Simplification Bill and is not expected to have a significant impact upon the Group accounts. The standard arising from ED67 is likely to apply to the Group's accounts for the year ending September 30, 1997.

Accounting for Investments in Associates by the Equity Method

In December 1995, the Australian Accounting Research Foundation released exposure draft ED71, 'Accounting for Investments in Associates by the Equity Method', for comment. ED71 proposes that an investor apply the equity method of accounting to investments in associates in the preparation of consolidated accounts. Under ED71 the investor will record its share of the profits or losses and the retained reserves of the associate. The Group currently recognises its investments in associates at the lower of cost and net realisable value and recognises dividends received in the profit and loss account. Application of the standard arising from ED71 is not expected to have a significant impact upon the Group's accounts as the Group's investments in associates are not material. The standard arising from ED71 is likely to apply to the Group's accounts for the year ending September 30, 1997.

Changes to the Application of AASB Accounting Standards to Reflect the First Corporate Law Simplification Act 1995

In April 1996, the Australian Accounting Research Foundation released exposure draft ED72, 'Changes to the Application of AASB Accounting Standards to Reflect the First Corporate Law Simplification Act 1995', for comment. The First Corporate Law Simplification Act 1995 came into effect on 9 December 1995 and requires all proprietary companies which meet the criteria for classification as 'large', to lodge their accounts with the Australian Securities Commission. ED72 proposes that all accounts lodged with the Australian Securities Commission, including the accounts of 'large' proprietary companies, comply with the requirements of all accounting standards issued by the Australian Accounting Standards Board. Application of the standard arising from ED72 is not expected to have a significant impact on the Group's accounts as they are currently prepared in accordance with the ED72 proposals and substantially all of the Group's 'large' controlled entities have relief from preparation, audit and lodgement of accounts under an Australian Securities Commission Class Order 95/1530 dated November 10, 1995. The standard arising from ED72 is likely to apply to the Group's accounts for the year ending September 30, 1997.

Financial Reporting of Life Insurance Business

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

Accounting for the Impairment of Long-Lived Assets

The Financial Accounting Standards Board in the United States of America issued SFAS121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of'. SFAS121 prescribes that long-lived assets must be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS121 requires the recognition of an impairment loss where the sum of the expected future cash flows (undiscounted) of a long-lived asset is less than its carrying value. SFAS121 specifies that an impairment loss is to be measured as the amount by which the carrying value of the asset exceeds its fair value. Long-lived assets held for sale are required to be reported at the lower of carrying value or fair value less costs to sell. Application of the standard is not expected to have a significant impact upon the Group's accounts as the current treatment adopted is in accordance with the SFAS121 requirements. The standard will apply to the Group's accounts for the year ending September 30, 1997.

Accounting for Mortgage Servicing Rights

The Financial Accounting Standards Board in the United States of America has issued SFAS122, 'Accounting for Mortgage Servicing Rights'. SFAS122 prescribes that enterprises engaged in originating, marketing and servicing real estate mortgage loans for other than its own account recognise as an asset the rights to service those loans. Application of the standard is not expected to have a significant impact on the Group's accounts. The standard will apply to the Group's accounts for the year ending September 30, 1997.

Accounting for Stock Based Compensation

The Financial Accounting Standards Board in the United States of America has issued SFAS123, 'Accounting for Stock Based Compensation'. SFAS123 prescribes the adoption of either the intrinsic value or the fair value method of measuring employee compensation under stock based compensation plans. Where the intrinsic value method is used, the fair value of options granted must be disclosed as a pro-forma adjustment to net income and if material, earnings per share. Application of the standard is not expected to have a significant impact on the Group's accounts as the intrinsic value method is currently adopted. The standard will apply to the Group's accounts for the year ending September 30, 1997.

Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Financial Accounting Standards Board in the United States of America has issued SFAS125, 'Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities'. SFAS125 prescribes the adoption of a 'financial components' approach to the transfers of financial assets and extinguishment of liabilities that focuses on control. Accordingly, a transfer of financial assets, or part thereof, in which the transferor surrenders control over those assets is accounted for as a sale. Where the transferor retains control the transfer is accounted for as a secured borrowing. In addition, the standard extends the requirements of SFAS122 to all servicing assets and liabilities. Application of the standard is not expected to have a significant impact on the Group's accounts. The standard will apply to the Group's accounts for the year ending September 30, 1997.

Harmonisation of Australian Accounting Standards

The Australian Accounting Standards Board has undertaken a project to harmonise Australian accounting standards with International accounting standards. The harmonisation process will involve the modification of existing Australian accounting standards and the development of new Australian accounting standards, where required, to achieve compliance with International accounting standards. The effect of the harmonisation process on the Group's accounts is not known at this stage, however, it is not expected to have a significant impact on the Group's accounts. The harmonisation project is expected to be completed by December 1998.

Corporate Governance

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

The Board of Directors and its Committees

The Board is responsible for National Australia Bank Limited and its controlled entities (the Company and the Economic Entity) including:
- setting the strategic direction;
- confirming financial objectives;
- establishing and monitoring the achievement of targets; and
- reporting to shareholders.

There is a Board Audit Committee and other Board Committees have been set up to consider large credit facilities.

The composition of the Board of Directors of the Company at the date of the Report of the Directors is one executive director and eleven independent non-executive directors including the Chairman. The Report of the Directors on pages 66 to 69 of this Annual Report contains further details concerning individual directors.

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

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

The retirement age for non-executive directors is fixed by the shareholders.

The Articles of Association provide that a director may enter into an arrangement with the Company or with any controlled entity. Directors or their firms may act in a professional capacity for the Company or controlled entities, other than to act as an Auditor. These arrangements are subject to the restrictions of the Corporations Law. Banking services provided to Directors and Director related parties must be conducted under terms and conditions that would normally apply to the public, or in the case of the executive director under terms and conditions that would normally apply to employees. Disclosure of related party transactions is set out in Note 42 to the financial statements.

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

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

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

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

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

Non-executive directors are remunerated for their services from the maximum aggregate amount approved by shareholders for that purpose. The amount paid may vary from Director to Director depending upon their level of responsibilities on the Company's board, board committees and the boards of controlled entities.

Remuneration of Directors is set out in Note 43 to the financial statements.

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

Remuneration of executives is set out in Note 44 to the financial statements.

Audit Committee

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

The current members of the Audit Committee are:

Mr DK Macfarlane (Chairman)

Mr DCK Allen

Mr MR Rayner

Mr A Turnbull

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

The responsibilities of the Audit Committee include:
- directing and evaluating the internal audit function;
- reviewing internal and external audit reports to ensure that any major deficiencies or breakdowns in controls or procedures have been identified and prompt remedial action is taken by management;
- liaising with the external auditors and ensuring that the annual statutory audit and half-year limited review are conducted in an effective manner;
- reviewing internal controls and recommending enhancements;
- reviewing Economic Entity accounting policies and practices; and
- reviewing the consolidated financial statements.

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

Business Risks

The Board receives regular reports from the Group Risk Management division on areas where significant business risk or exposure concentrations may exist, and on the management of these risks.

More comprehensive details on risk management are set out on pages 60 to 62 of this Annual Report.

Ethical Standards

The operations of the Economic Entity are driven by the Group Mission Statement and Objectives which appear on the front inside cover of this Annual Report. All of the Objectives are of importance and overlay every aspect of daily banking and financial service practices. The Objectives include that the business be conducted in a manner consistent with a high standard of corporate and business ethics.

This Objective is reinforced by the Company's internal publication entitled Code of Conduct, which is provided to all staff members and which requires observance of strict ethical guidelines. The Code of Conduct covers the following:
- Personal conduct;
- Honesty;
- Relations with customers;
- Prevention of fraud;
- Financial advice to customers;
- Conflict of interest; and
- Disclosure.

The Company has also identified the following values that are important in the Company and the Economic Entity and which must be considered in arriving at each business decision:
- Service to our customers;
- Quality in everything we do;
- Competitiveness and a will to win;
- Growth and development of our people;
- Professionalism in our actions and ethics;
- Profit through our efficiency and productivity;
- Continuous productivity improvements; and
- Growing profit for our stakeholders.

An ongoing training program has been developed to assist staff to understand and live the values.

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

Report of the Directors

The Directors of National Australia Bank Limited (hereinafter referred to as 'the Company') present their report together with the financial statements of the Company and of the Economic Entity, being the Company and its controlled entities, for the year ended September 30, 1996 and the auditors' report thereon.

Directors

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

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

WRM Irvine
(Chairman and Non-Executive Director) Age 68

19 years' experience as a partner in the firm Hedderwick Fookes & Alston, Solicitors until June 1979. Director of the Company since 1979 and appointed Chairman in 1992. A Director of Bank of New Zealand; Chairman of National Australia Financial Management Limited and National Australia Group (UK) Limited. He is also a Director of Caltex Australia Limited, Burns Philp and Co. Limited and Ericsson Australia Pty Limited.

DK Macfarlane
(Vice Chairman and Non-Executive Director) Age 66

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

BT Loton AC BMetE FAusIMM FAICD
(Vice Chairman and Non-Executive Director) Age 67

42 years' experience with The Broken Hill Proprietary Company Limited, 9 years as Managing Director and 4 years as Chairman. A Director of the Company since 1988 and Vice Chairman since 1992. Alternate Director of National Australia Group (UK) Limited. Chairman of Atlas Copco Australia Pty Limited. He is also a Director of Amcor Limited, Australian Foundation Investment Company Limited and Hoechst Australia Limited.

DR Argus FAIBF FCPA FAICD
(Managing Director and Chief Executive Officer) Age 58

41 years' experience in banking. A Director of the Company since 1989 and Managing Director and Chief Executive Officer since 1990. A Director of Bank of New Zealand, National Australia Group (UK) Limited, Clydesdale Bank PLC, National Irish Bank Limited, Northern Bank Limited, Yorkshire Bank PLC, Michigan National Corporation, National Australia Financial Management Limited and National Australia Asset Management Limited. He was also appointed a Director of The Broken Hill Proprietary Company Limited in November 1996.

DCK Allen AO MA MSC DIC FAICD
(Non-Executive Director) Age 60

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

PJW Cottrell AO OBE ME(Syd) DGS (B'ham)
(Non-Executive Director) Age 68

36 years' experience with Email Limited, 18 years as Managing Director until 1992 and 3 years as Chairman. A Director of the Company since 1985. Chairman of Boral Limited, DJL Limited, The Adelaide Steamship Company Limited and Tooth and Co. Limited.

CM Deeley MA DPhil (Oxon)
(Non-Executive Director) Age 66

27 years' experience with ICI Australia Limited, 5 years as Managing Director and Chief Executive, until 1992. A Director of the Company since 1992. He is also Chairman of North Limited and Director of Air Liquide Australia Limited and Greening Australia Limited.

TP Park BSc MBA
(Non-Executive Director) Age 49

21 years' experience in the food industry, 9 years as Managing Director of Kraft Foods Limited and current Area Director – Australia and New Zealand. Appointed as a Director of the Company in August, 1996.

MR Rayner BSc (Hons) Chem Eng FTS FAusIMM FIEAust
(Non-Executive Director) Age 58

34 years' experience with Comalco Ltd, including 19 years as a Director and 11 years as Chief Executive, also including 6 years as a Director and 13 years as a Group Executive of CRA Limited, until 1995. A Director of the Company since 1985 and a member of the Company's Principal Board Audit Committee. He is also Chairman of Pasminco Limited, Deputy Chairman of Comalco Limited and Director of Boral Limited, Leighton Holdings Limited and Mayne Nickless Limited.

A Turnbull C Eng BSc FIE (Aust) MIEE (Lon) MAICD
(Non-Executive Director) Age 65

14 years' experience with Burns Philp and Company Limited; 10 years as Managing Director and Chief Executive and now Chairman. A Director of the Company since 1992 and a member of the Company's Principal Board Audit Committee. He is also Chairman of GEC Alsthom Australia Limited and Brambles Industries Limited, and Director of John Fairfax Holdings Limited and Metal Manufactures Limited.

CM Walter LLB (Hons) LLM MBA MAICD
(Non-Executive Director) Age 44

20 years' experience as a solicitor, 8 years as a partner in the firm Clayton Utz, until 1994. A Director of the Company since September 1995. She is also a Director of SGIO Insurance Limited, Australian Stock Exchange Limited, Mercury Asset Management Limited and Melbourne Business School Limited.

Sir Bruce Watson B Elec B Com Hon D ENG DUniv (Griff) FAICD
(Non-Executive Director) Age 68

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

Directors' Benefits

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

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

Directors' related party disclosures are set out in Note 42 to the financial statements.

Indemnification

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

Insurance

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

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

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

Rounding of Amounts

Pursuant to Australian Securities Commission Class Order 94/1253, the Company has rounded amounts in this Report and the accompanying financial statements to the nearest million dollars.

Dividends

The Final Dividend in respect of the previous financial year ended September 30, 1995, declared and paid by the Company on January 24, 1996 was $614 million being a dividend of 43 cents per share fully franked to 36%.

This sum of $614 million comprises a cash payment of $322 million, an amount of $261 million that was reinvested by participants in the Dividend Reinvestment Plan ('DRP'), $30 million that was paid in lieu of dividends to participants in the Bonus Share Plan ('BSP') and an amount of $1 million being the entitlement of participants under the UK Dividend Plan.

The Interim Dividend for 1996 of 43 cents per share fully franked to 36% paid on July 10, 1996 amounted to $626 million. This sum comprises a cash payment of $438 million, an amount of $160 million that was reinvested by participants in the DRP, $27 million that was paid in lieu of dividends to participants in the BSP and an amount of $1 million being the entitlement of participants under the UK Dividend Plan.

The Final Dividend payable on January 22, 1997 totalling $650 million will be 44 cents per share fully franked to 36%.

Review of Operations

A review of the operations of the Economic Entity during the financial year, and the results of those operations are contained in the Chairman's and Managing Director's Review on pages 7 to 11 of the annual report.

Board Changes

During the financial year, Mr J C Trethowan retired as a Director of the Company having reached the age of 70 years. Mr Trethowan had been a Director of the Company since 1984. The Lord Nickson also retired as a Director of the Company. However he will remain as Chairman of Clydesdale Bank PLC. The Lord Nickson had been a Director of the Company since 1991. Mr TP Park was appointed as a Director of the Company in August, 1996. Since the end of the financial year, Mr D A T Dickins retired as a Director of the Company, having been a Director of the Company since 1981 and a Director of The Commercial Banking Company of Sydney Limited for the 14 years immediately prior to the merger.

The Board has recorded its thanks to Mr Trethowan, The Lord Nickson and Mr Dickins for their contributions as Directors of the Company.

State of Affairs

As previously reported in the Economic Entity's 1995 Annual Report and the December 1995 Quarterly Profit Announcement, the acquisition of Michigan National Corporation was finalised on November 2, 1995.

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

Events after End of Financial Year

No matter, item, transaction nor event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this Report that, in the opinion of the Directors of the Company, has or may significantly affect the operations of the Economic Entity, the results of those operations, or the state of affairs of the Economic Entity in subsequent financial years.

Future Developments

Disclosure of information relating to likely developments in the operations of the Economic Entity and the expected results of those operations in subsequent financial years which will not, in the opinion of the Directors, be prejudicial to the interests of the Economic Entity are contained in the Chairman's and Managing Director's Review on pages 7 to 11 of the Annual Report.

Principal Activities

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

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

Economic Entity Results

The operating profit after tax of the Economic Entity for the year ended September 30, 1996 attributable to the Members of the Company was $2,102 million, an increase of $133 million (6.8%) on the previous year's results.

Included in that result is an abnormal gain of $3 million reflecting the adjustment to market value and profit on sale of shares and options held in the ANZ Banking Group Limited.

If the abnormal item is excluded, operating profit after tax and outside equity interests would have amounted to $2,099 million. This compares with $1,936 million in the previous year, an increase of 8.4%. The contribution of each entity in the Economic Entity to operating profit is shown in Note 34 to the financial statements.

Options

On January 20, 1994 at the annual general meeting, shareholders approved the establishment of the 'National Australia Executive Option Plan' ('the Plan'). Under the Plan the Board of Directors ('the Board') may offer options to executives of the Economic Entity to subscribe for ordinary shares in the Company. The Board determines eligibility and entitlements having regard to each executive's contribution and potential contribution to the Economic Entity and to any other matters which the Board considers relevant.

During the year ended September 30, 1996, share options were issued to:

i) 353 executives covering a total of 13,380,000 share options with an exercise price of $12.16 per share and an expiration date of January 1, 2001.

ii) 1 executive covering a total of 500,000 share options with an exercise price of $12.54 per share and an expiration date of January 25, 2001.

iii) 5 executives covering a total of 240,000 share options with an exercise price of $11.52 per share and an expiration date of June 27, 2001.

During the year ended September 30, 1995, share options were issued to 276 executives covering a total of 10,160,000 share options with an exercise price of $10.55 per share and an expiration date of February 13, 2000. During the year ended September 30, 1994, share options were issued to 83 executives covering a total of 4,580,000 share options with an exercise price of $11.76 and an expiration date of January 31, 1999.

The options are issued free of charge to participants in the plan. Each option is to subscribe for one ordinary share in the Company.

The exercise price per share for an option is determined by the Board at the date the option is issued. The exercise price per share must be at least equal to the greater of the par value or 95% of the market value of the Company's ordinary shares as at the date the option is issued. The market value is the weighted average market price of the Company's ordinary shares in the week preceding the issue of the option.

An option may not be exercised before the third anniversary of its issue, and must be exercised by the fifth anniversary of its issue. If the Board determines and the law permits, an option may be exercised at a date later than the fifth anniversary of its issue. As a precondition of the exercise of any option, the market price of the Company's shares after three years must have increased by at least 20% over the exercise price as determined at the time of the grant of the option, after allowing for share issues in the meantime.

Options will lapse if unexercised on or before their expiry date, or forfeited if the Board makes a determination that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any company in the Economic Entity. The plan's rules do not provide for options to lapse by reason only of the holder's ceasing to be employed by the Economic Entity.

Options may only be exercised within the limitations imposed by the Corporations Law and the Australian Stock Exchange Listing Rules. Under the Australian Stock Exchange Listing Rules, options may not be issued to Company Directors under an employee incentive scheme without specific shareholder approval. Shareholders approved the issue of options (and shares resulting from exercise of those options) to the Managing Director at prior annual general meetings.

The names of the Executives who currently hold options are entered in the Register of Options kept by the Company pursuant to Section 215 of the Corporations Law. The Register may be inspected free of charge. Pursuant to Australian Securities Commission Class Order 94/284, the Directors have taken advantage of relief available from the requirement to disclose the names of persons, not being Directors, to whom options are issued, and the number of options issued to each person. For details of the options granted to a Director of the Company, please refer to Directors' Interests later in this Report.

At September 30, 1996, no options had been exercised. There will be no impact on shareholders' equity until options are exercised.

Directors' Meetings

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

Directors	*Directors' Meetings of the Company*		*Audit Committee Meetings of the Company*		*Directors' Meetings of Controlled Entities*		*Additional Meetings*[2]
	No. of Meetings attended	*No. of Meetings held*[1]	*No. of Meetings attended*	*No. of Meetings held*[1]	*No. of Meetings attended*	*No. of Meetings held*[1]	*No. of Meetings attended*
WRM Irvine	13	13	–	–	13	17	32
DK Macfarlane	13	13	6	6	6	7	2
BT Loton	13	13	–	–	–	–	6
DR Argus	12	13	–	–	24	33	19
DCK Allen	11	13	5	6	6	7	4
PJW Cottrell	13	13	–	–	–	–	1
CM Deeley	13	13	–	–	–	–	6
DAT Dickins[3]	13	13	–	–	1	1	3
The Lord Nickson[4]	2	2	–	–	13	13	3
TP Park[5]	1	1	–	–	–	–	–
MR Rayner	13	13	6	6	–	–	13
JC Trethowan[6]	5	5	–	–	1	1	5
A Turnbull	10	13	6	6	–	–	1
CM Walter	13	13	–	–	–	–	12
Sir Bruce Watson	12	13	–	–	–	–	2

(1) Reflects the number of meetings held during the time the Director held office during the year. Where the Company holds Board Meetings in a country other than the country of residence of the Director, then the number of meetings held is the number of Meetings the Director was expected to attend, which may not be every Board Meeting held by the Company during the year.

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

(3) Mr Dickins retired as a Director of the Company on October 31, 1996.

(4) The Lord Nickson retired as a Director of the Company on March 28, 1996. The Lord Nickson resides in the United Kingdom and had a special responsibility in relation to the Group's assets in Europe.

(5) Mr Park was appointed as a Director of the Company on August 22, 1996.

(6) Mr Trethowan retired as a Director of the Company on January 25, 1996.

Directors' Interests

The table below shows the interests of each Director in the share capital of the Company as at December 2, 1996:

	Ordinary Shares of $1 each		*Options over Ordinary Shares*
	Held Beneficially	*Held Non-Beneficially*	*Held Beneficially*
WRM Irvine	47,350		
DK Macfarlane	9,200		
BT Loton	159,837	7,200	
DR Argus	49,187*		1,200,000
DCK Allen	10,150		
PJW Cottrell	13,300		
CM Deeley	24,250		
TP Park	2,000		
MR Rayner	18,850		
A Turnbull	15,600		
CM Walter	10,500		
Sir Bruce Watson	47,750		

** includes Staff Share Scheme Issues*

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

Dated at Melbourne, Australia this 2nd day of December, 1996 and signed in accordance with a resolution of the Directors.

WRM Irvine DR Argus

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Statement of Profit and Loss

For years ended September 30 Dollars in Millions	Note	Consolidated 1996	Consolidated 1995	Consolidated 1994	The Company 1996	The Company 1995	The Company 1994
Interest income	2	**12,017**	10,169	7,913	**7,407**	6,388	4,866
Interest expense	2	**6,958**	5,646	3,716	**4,777**	3,837	2,446
Net interest income		**5,059**	4,523	4,197	**2,630**	2,551	2,420
Charge to provide for doubtful debts	2 ,14	**333**	116	179	**169**	80	159
Net interest income after provision for doubtful debts		**4,726**	4,407	4,018	**2,461**	2,471	2,261
Other operating income	2	**2,920**	2,447	2,358	**1,638**	1,308	1,829
Total operating income		**7,646**	6,854	6,376	**4,099**	3,779	4,090
Other operating expenses	2	**4,587**	4,008	3,757	**2,270**	2,018	1,915
Operating profit before abnormal item		**3,059**	2,846	2,619	**1,829**	1,761	2,175
Abnormal gain (nil tax applicable)	3	**3**	33	50	**3**	33	50
Operating profit		**3,062**	2,879	2,669	**1,832**	1,794	2,225
Income tax expense attributable to operating profit	4	**959**	906	953	**455**	492	578
Operating profit after income tax		**2,103**	1,973	1,716	**1,377**	1,302	1,647
Outside equity interests in operating profit after income tax		**1**	4	8	**–**	–	–
Operating profit after income tax attributable to members of the Company		**2,102**	1,969	1,708	**1,377**	1,302	1,647
Retained profits at the beginning of the financial year		**3,625**	2,870	2,103	**1,972**	1,759	1,006
Dividend provisions not required	5	**55**	67	53	**74**	84	63
Aggregate of amounts transferred from reserves	29	**1,162**	17	145	**971**	–	48
Total available for appropriation		**6,944**	4,923	4,009	**4,394**	3,145	2,764
Dividends provided for or paid (fully franked)	5	**1,276**	1,173	1,003	**1,276**	1,173	1,003
Aggregate of amounts transferred to reserves	29	**47**	125	136	**1**	–	2
Retained profits at the end of the financial year		**5,621**	3,625	2,870	**3,117**	1,972	1,759
Earnings per ordinary share (cents)[1]	6	**144.8**	141.0	127.3			
Dividends per ordinary share (cents)	5						
– Interim		**43**	40	35			
– Final		**44**	43	39			

[1] *Diluted earnings per share is not materially different from basic earnings per share.*

The Statement of Profit and Loss is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 75 to 143.

Balance Sheet

As at September 30 Dollars in Millions	Note	Consolidated 1996	1995	1994	The Company 1996	1995	1994
Assets							
Cash and short-term liquid assets	7	**4,899**	4,751	4,637	**1,564**	704	1,242
Due from other banks	8	**9,392**	9,353	9,138	**6,215**	6,138	5,772
Due from customers on acceptances	9	**17,283**	16,657	16,031	**16,382**	15,659	14,948
Trading securities	10	**8,406**	7,910	6,361	**6,748**	6,276	4,939
Available for sale securities	11	**364**	333	585	**–**	–	157
Investment securities	12	**6,672**	4,634	4,270	**2,990**	3,051	2,463
Loans and other receivables	13	**111,468**	92,013	79,168	**61,254**	53,520	46,648
Due from controlled entities		**–**	–	–	**13,941**	11,097	7,524
Shares in entities and other securities	16	**175**	167	142	**3,201**	3,194	2,912
Regulatory deposits with central banks	17	**905**	769	700	**736**	653	587
Fixed assets	18	**2,991**	2,772	2,495	**606**	597	503
Goodwill	19	**2,218**	1,385	1,477	**–**	–	–
Other assets	20	**8,937**	7,379	5,432	**6,442**	5,503	4,094
Total Assets		**173,710**	148,123	130,436	**120,079**	106,392	91,789
Liabilities							
Due to other banks	21	**11,032**	12,501	11,131	**9,572**	10,193	9,279
Liability on acceptances	9	**17,283**	16,657	16,031	**16,382**	15,659	14,948
Deposits and other borrowings	22	**110,921**	90,654	79,451	**59,191**	52,241	44,127
Income tax liability	23	**1,638**	1,880	1,898	**956**	1,220	1,268
Provisions	24	**1,324**	1,197	1,155	**944**	952	844
Due to controlled entities		**–**	–	–	**7,665**	6,056	4,209
Bonds, notes and subordinated debt	25	**6,958**	4,067	3,980	**6,844**	3,946	3,857
Other liabilities	26, 27	**11,611**	9,289	6,424	**8,055**	6,307	4,263
Total Liabilities		**160,767**	136,245	120,070	**109,609**	96,574	82,795
Net Assets		**12,943**	11,878	10,366	**10,470**	9,818	8,994
Loan Capital							
Perpetual floating rate notes	28	**424**	459	480	**315**	331	338
Total Loan Capital		**424**	459	480	**315**	331	338
Shareholders' Equity							
Issued and paid-up capital	29	**1,477**	1,429	1,369	**1,477**	1,429	1,369
Reserves	29	**5,421**	6,327	5,613	**5,561**	6,086	5,528
Retained profits		**5,621**	3,625	2,870	**3,117**	1,972	1,759
Shareholders' equity attributable to members of the Company		**12,519**	11,381	9,852	**10,155**	9,487	8,656
Outside equity interests in controlled entities	30	**–**	38	34	**–**	–	–
Total Shareholders' Equity		**12,519**	11,419	9,886	**10,155**	9,487	8,656
Total Shareholders' Equity and Loan Capital		**12,943**	11,878	10,366	**10,470**	9,818	8,994

Contingent liabilities and commitments are excluded from this balance sheet and are listed in Notes 35, 36 and 38 to 41 inclusive.

The Balance Sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 75 to 143.

Statement of Cash Flows

For years ended September 30 Dollars in Millions	Consolidated **1996**	1995	1994	The Company **1996**	1995	1994
Cash inflows (outflows) from operating activities:						
Interest received	**11,325**	10,061	8,184	**6,416**	6,383	4,764
Dividends received	**33**	12	13	**248**	83	573
Fees and other income received	**3,076**	2,257	2,328	**1,647**	1,205	1,250
Interest paid	**(6,315)**	(5,100)	(3,824)	**(3,683)**	(3,465)	(2,203)
Personnel costs paid	**(2,351)**	(1,902)	(1,675)	**(1,159)**	(991)	(868)
Occupancy costs paid	**(332)**	(317)	(323)	**(182)**	(155)	(206)
General expenses paid	**(1,211)**	(1,131)	(1,087)	**(684)**	(658)	(573)
Income taxes paid	**(1,153)**	(867)	(535)	**(711)**	(490)	(339)
Net movement in trading instruments	**(491)**	(1,517)	457	**(465)**	(1,294)	(1,992)
Net cash provided by operating activities	**2,581**	1,496	3,538	**1,427**	618	406
Cash inflows (outflows) from investing activities:						
Net movement in investment securities:						
Purchases	**(8,264)**	(8,564)	(5,054)	**(1,840)**	(2,986)	(2,494)
Proceeds on maturity	**7,870**	8,127	5,510	**1,901**	2,398	2,549
Net movement in available for sale securities:						
Purchases	**(2,648)**	(1,515)	(479)	**(1,299)**	(1,369)	(173)
Proceeds on sale	**578**	689	683	**208**	531	620
Proceeds on maturity	**1,821**	1,074	337	**1,091**	995	233
Net movement in shares in entities and other securities	**(8)**	(77)	109	**(8)**	(281)	433
Acquisition of controlled entity	**(2,089)**	–	–	**–**	–	–
Acquisition of minority interest in controlled entity	**(68)**	–	–	**–**	–	–
Sale of controlled entities	**–**	–	11	**–**	–	11
Net movement in loans and other receivables:						
Represented by banking activities	**(13,534)**	(13,398)	(8,092)	**(8,191)**	(6,919)	(5,879)
Represented by non-banking activities:						
Granting of new loans and receivables	**(1,196)**	(307)	(371)	**–**	–	–
Repayments	**807**	44	1,081	**–**	–	–
Lodgement of regulatory deposits with central banks	**(93)**	(73)	(26)	**(83)**	(67)	(77)
Net amounts due from controlled entities	**–**	–	–	**(1,235)**	(1,728)	(416)
Expenditure on fixed assets	**(877)**	(305)	(263)	**(119)**	(120)	(123)
Proceeds from sale of fixed assets	**356**	36	60	**12**	8	7
Net decrease in other assets	**(508)**	(1,618)	(284)	**(453)**	(1,207)	(680)
Net cash used in investing activities	**(17,853)**	(15,887)	(6,778)	**(10,016)**	(10,745)	(5,989)

As at September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994
Cash inflows (outflows) from financing activities:						
Net movement in bank deposits	**10,802**	11,536	4,708	**6,950**	8,114	4,329
Net movement in other deposits and borrowings represented by non-banking activities:						
Proceeds from new deposits and borrowings	**2,138**	377	239	–	–	–
Repayments	–	–	(1,160)	–	–	–
New share issues:						
Capital	**4**	7	7	**4**	7	7
Premium on shares issued	**40**	57	66	**40**	57	66
Net movement in bonds, notes and subordinated debt:						
Proceeds from issuance of long term debt	**3,906**	750	1,281	**3,906**	723	1,281
Repayments	**(903)**	(634)	(695)	**(903)**	(634)	(634)
Net increase in other liabilities	**1,461**	2,035	1,032	**894**	1,432	1,020
Payments from provisions	**(318)**	(249)	(223)	**(171)**	(137)	(135)
Dividends paid	**(760)**	(535)	(314)	**(740)**	(521)	(304)
Movement in outside equity interests	–	4	(187)	–	–	–
Net cash provided by financing activities	**16,370**	13,348	4,754	**9,980**	9,041	5,630
Net inflow (outflow) in cash and cash equivalents	**1,098**	(1,043)	1,514	**1,391**	(1,086)	47
Cash and cash equivalents at beginning of period	**1,603**	2,644	1,336	**(3,351)**	(2,265)	(2,312)
Effects of exchange rate changes on balance of cash held in foreign currencies	**(196)**	2	(206)	**167**	–	–
Cash and cash equivalents acquired[1]	**754**	–	–	–	–	–
Cash and cash equivalents at end of period[1]	**3,259**	1,603	2,644	**(1,793)**	(3,351)	(2,265)

Details of Reconciliation of Operating Profit and Extraordinary Items After Income Tax to Net Cash Provided by Operating Activities, Reconciliation of Cash, Controlled Entities Acquired and Disposed and Non Cash Financing and Investment Facilities are provided in Note 33. Details of Financing Arrangements are provided in Note 41.

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

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 75 to 143.

For the Year Ended September 30, 1996

1 Principal Accounting Policies

In these accounts National Australia Bank Limited, the 'Parent Entity', is referred to as 'the Company', and the 'Economic Entity' consists of the Company and those controlled entities listed in Note 34. The consolidated accounts comprise the accounts of the Economic Entity.

The accounts of the Company and the consolidated accounts of the Economic Entity are general purpose financial reports prepared in accordance with the requirements of the Banking Act, Corporations Law and all applicable Australian Accounting Standards, Urgent Issues Group Consensus Views, and International Accounting Standards.

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

The preparation of the accounts requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although the Economic Entity has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

Historical Cost

The consolidated accounts are based on historical cost and therefore do not reflect changes in the purchasing power of money or current valuations of non-monetary assets, except where indicated.

Currency of Presentation

All amounts are expressed in Australian currency and all references to '$' are to Australian dollars unless otherwise stated.

Rounding of Amounts

In accordance with Australian Securities Commission Class Order 94/1253, all amounts have been rounded to the nearest million dollars except where indicated.

Principles of Consolidation

All entities which are 'controlled' by the Company are included in the consolidated accounts. Control means the ability or power of the Company to dominate decision making directly or indirectly in relation to the financial and operating policies of another entity, to enable that other entity to operate with it in pursuing its objectives.

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

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

Associates are entities over which the Company exerts significant influence but does not exercise control. Associates are accounted for utilising the cost method with only dividends received or receivable recognised in profit and loss. Equity accounting for associates is not adopted, as its impact on the Economic Entity accounts would not be material.

Foreign Currency Translation

All foreign currency monetary assets and liabilities, including those of overseas operations are revalued at the rates of exchange ruling at balance date. Unrealised gains and losses arising from these revaluations are recognised immediately in the profit and loss account. Foreign currency income and expense amounts are translated at average rates of exchange for the year.

Differences arising on the translation of financial statements of the Economic Entity's overseas operations which are considered to be economically self-sustaining are included in the Foreign Currency Translation Reserve, net of any related hedges, on a pre-tax basis. Differences arising on the translation of financial statements of all other overseas controlled entities and overseas branches are recognised immediately in the profit and loss account.

It is the Economic Entity's policy from a trading risk viewpoint to maintain a substantially matched position in assets and liabilities in foreign currencies and net exposure to exchange risk in this respect is not material.

Derivative Financial Instruments Held or Issued for Trading Purposes

Trading derivatives include swaps, futures, forward, option and other contingent or exchange traded contracts in the interest rate and foreign exchange markets. Trading derivatives are valued at fair value and the resultant gains and losses are recognised immediately in *Other operating income.* Unrealised gains and losses are reported on a gross basis as *Other assets* or *Other liabilities,* as appropriate.

The fair value of a derivative financial instrument represents the present value of future expected cash flows arising from that instrument.

Derivative Financial Instruments Held or Issued for Purposes other than Trading

The principal objective of using derivative financial instruments for purposes other than trading is to maximise the level of net interest income, while maintaining acceptable levels of interest rate and liquidity risk, and to facilitate the funding needs of the Economic Entity. To achieve this objective, a combination of derivatives including swaps, futures, forward, option and other contingent or exchange traded contracts in the interest rate and foreign exchange markets may be used.

Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. Hedging derivatives are accounted for in a manner consistent with the accounting treatment of the hedged items.

The net income or expense on derivatives used to manage interest rate exposures are recorded in Net interest income on an accruals basis. If a derivative that is used to manage an interest rate exposure is terminated early, any resulting gain or loss is deferred within *Other assets* or *Other liabilities* and amortised to *Net interest income* over the remaining period originally covered by the terminated contract. If the underlying interest rate exposure position ceases to exist, any deferred gain or loss is recognised immediately in *Other operating income.*

Gains or losses on derivatives used to hedge exposures arising from anticipated future transactions, are deferred within *Other assets* or *Other liabilities* until such time as the accounting impact of the anticipated transaction is recognised in the financial statements. Such gains or losses only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is recognised immediately in *Other operating income.*

Interest receivables and payables for interest rate swaps with the same counterparty are reported on a net basis as *Other assets* or *Other liabilities* where a legal right of set-off exists.

Margin deposits for exchange traded derivatives are reported as *Other assets.*

Trading Securities

Trading securities are public and other debt securities which are purchased for current resale in day to day trading operations. Trading securities are recorded at fair value and unrealised gains or losses in respect of fair value adjustments are recognised immediately in the profit and loss account.

The fair value of trading securities represents the quoted market value of those securities adjusted for any risk, control or liquidity premium.

Trading securities are recorded on a trade date basis.

Available for Sale Securities

Available for sale securities are public and other debt securities which are purchased with the intent to hold for an indefinite period of time but not necessarily to maturity. Such securities may be sold in response to various factors including significant changes in interest rates, liquidity requirements and regulatory capital considerations.

Available for sale securities are recorded at the lower of aggregate cost or market value. Cost is adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses in respect of market value adjustments and realised gains and losses on sale of available for sale securities are recognised in the profit and loss account. The cost of securities sold is calculated on a specific identification basis.

Available for sale securities are recorded on a trade date basis.

Investment Securities

Investment securities are public and other debt securities which are purchased with the positive intent and ability to hold until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses relating to permanent diminution in the value of investment securities are recognised in the profit and loss account and the recorded values of those securities adjusted accordingly. In those rare instances where investment securities are sold prior to maturity, profits and losses on sale are taken to the profit and loss account when realised.

Investment securities are recorded on a trade date basis.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase are retained within the investment, available for sale or trading portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the profit and loss account over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the profit and loss account over the term of the reverse repurchase agreement.

Acceptances

The Economic Entity's liability under acceptances is reported in the Balance Sheet. The Economic Entity has equal and offsetting claims against its customers which are reported as an asset. The Economic Entity's own acceptances discounted are held as part of either the trading securities or loan portfolio depending on whether, at the time of such discount, the intention was to hold the acceptances for resale or until maturity respectively.

Leasing

(i) Finance Leases

Finance leases, in which the Economic Entity is the lessor, are included in Loans and Other Receivables and are accounted for using the finance method, whereby income determined on an actuarial basis is taken to account over the term of the lease in proportion to the outstanding investment balance. Where the Economic Entity is a lessee, leased assets are capitalised and the corresponding liability is recognised in other liabilities.

(ii) Operating Leases

Lease rentals receivable and payable on operating leases are recognised in the profit and loss account in periodic amounts over the effective lease term.

(iii) Leveraged Leases

Investments in leveraged leases are recorded at an amount equal to the equity participation and are net of long-term debt for which there is no recourse to the lessor in the event of default by the lessee. Income is taken to account on an actuarial basis over the term of each lease. Where a change occurs in estimated lease cash flows during the term of a lease, total lease profit is recalculated and reallocated over the entire lease term. Net of tax income has been grossed up at current rates to reflect the appropriate pre-tax equivalent amount.

Unearned Income

Unearned income on the Economic Entity's consumer instalment lending and leasing is calculated on an actuarial basis. The actuarial basis does not differ significantly from a level yield basis.

Bad and Doubtful Debts

A specific provision is made for all identified doubtful debts. All bad debts are written off against the specific provision in the period in which they are classified as irrecoverable. In addition, a general provision is maintained to cover bad debts which are inherent in the loan portfolio but which are not yet identified.

The level of the general provision is determined having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk factors and without regard to its tax deductibility.

The amount necessary to bring the provisions to their assessed levels, after net-write-offs, is charged to the profit and loss account.

All loans are subject to continuous management surveillance.

Asset Quality

The Economic Entity has disclosed, in Note 15, certain components of its loan portfolio as impaired assets according to the classifications discussed below.

– **Non-accrual loans** which consist of:

- all loans against which a specific provision has been raised;
- loans which are contractually past due 90 days with security insufficient to cover principal and arrears of interest;
- restructured loans where the interest rate charged is lower than the Economic Entity's average cost of funds;
- loans not included above, that are maintained on a cash basis because of a significant deterioration in the financial performance or position of the borrower; and
- impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

– **Restructured loans** are those loans on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Economic Entity's average cost of funds at the date of restructuring.
– **Assets acquired through security enforcement** are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of loans.

Impaired asset classifications for 1992 comparatives in Note 15, comply with the Reserve Bank of Australia's asset quality disclosure guidelines applicable to that year. Significant differences between 1992 classifications, and classifications in later years are summarised as follows:

– Loans on which no interest or principal payments were contractually past due, but where there was some concern as to the ability of the borrower to comply with existing loan terms and a provision was created were classified as 'additional provisioning'. These loans were subsequently classified as non-accrual loans from 1993.
– All loans on which principal or interest payments were contractually past due by 90 days or more and where the market value of security was insufficient to cover repayment of principal and accrued interest were classified as 'accruing loans past due 90 days' if full recovery of principal and interest was expected. These loans were subsequently classified as non-accrual loans from 1993.
– Restructured loans on which interest continued to be accrued at a rate of interest which was lower than the Economic Entity's average cost of funds were classified as restructured loans where recovery of principal and interest subsequent to restructuring was not subject to serious doubt. These loans were subsequently classified as non-accrual loans from 1993.
– Loans for which assets acquired through security enforcement constituted the underlying security were classified as non-accrual loans.

Income Recognition on Non-Accrual Loans

When a loan is classified as non-accrual income ceases to be recognised in the profit and loss account on an accruals basis as reasonable doubt exists as to the collectability of interest and principal.

All cash receipts on non-accrual loans which are contractually past due are applied against the carrying value of the loans and not recognised in the profit and loss account as interest income until the principal has been fully repaid.

Cash receipts on non-accrual loans which are not contractually past due are recognised in the profit and loss account as interest income to the extent that the cash receipt represents unaccrued interest.

Shares in Entities

Shares in entities are stated at original cost less any necessary provision for diminution in value, or at Director's valuation. Unrealised losses relating to diminution in the value of shares in entities are recognised in the profit and loss account.

Fixed Assets

It is the Economic Entity's policy to revalue land and buildings annually to reflect their current market value. The Directors value land and buildings on the basis of open market values, discounted appropriately. Such values assume existing use, being continuing occupation of properties by the Company, tenancies to external parties, or vacancies, as applicable. All land and buildings are subject to an independent valuation at least once every three years.

Increments arising from property revaluations are credited to the Asset Revaluation Reserve. Revaluation decrements, being reversals of increments previously credited to, and included in the balance of the Asset Revaluation Reserve are charged against that reserve.

In revaluing land and buildings, the Directors have not taken into account the potential impact of capital gains tax on the grounds that such assets are an integral part of the Economic Entity's operations and there is no current intention to sell these assets. In addition, a large proportion of the Economic Entity's land and buildings were acquired prior to the introduction of capital gains tax legislation.

All other fixed assets and land and buildings acquired since the last revaluation are carried at the lower of cost, less accumulated depreciation, and recoverable amount.

If the carrying amount of a fixed asset exceeds its recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value unless otherwise stated.

With the exception of land, all fixed assets are depreciated or amortised by the straight line method at the rates appropriate to their estimated useful lives to the Economic Entity.

Profit or loss on the sale of fixed assets, which is determined as the difference between the carrying amount of fixed assets at the time of disposal and the sale proceeds, is treated as operating income or expense. Any Asset Revaluation Reserve realised upon sale is transferred to Retained Profits.

Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets acquired on the date of acquisition of a controlled entity, is recognised as an asset. Goodwill is amortised by systematic charges on a straight-line basis against income over the period in which the benefits are expected to arise, but not exceeding 20 years. The carrying value of goodwill is reviewed at least annually. If the carrying value of goodwill exceeds the value of the expected future benefits, the difference is charged to the profit and loss account.

Life Insurance Business

The Economic Entity conducts life insurance business through its controlled entities National Australia Financial Management Limited, National Australia Life Company Limited and BNZ Life Insurance Limited.

The Economic Entity's interest in the profits of the life insurance statutory funds have been included in the consolidated profit and loss account. The profits have been determined in accordance with the 'Margin on Services' methodology for the valuation of policy liabilities under Professional Standard 201, 'Determination of Life Insurance Policy Liabilities', of the Institute of Actuaries of Australia. These profits are transferred to the General Reserve until available for distribution under the requirements of the Life Insurance Act (1995) and local statutory accounting practices.

Policyholders' interest in the statutory funds are not included in the consolidated accounts as the Economic Entity does not have direct or indirect control of such funds as defined by AASB 1024 'Consolidated Accounts'.

Trustee and Funds Management Activities

The consolidated accounts include the shareholders' interest in trustee companies, which act as the trustee and/or manager of a number of investments and trusts. These funds and trusts are not included in the consolidated accounts as the Economic Entity does not have direct or indirect control of the funds and trusts as defined by AASB 1024 'Consolidated Accounts'. The Trustees hold a right of indemnity against the assets of the applicable funds or trusts for liabilities incurred in their capacity as trustees. As these assets are sufficient to cover the liabilities, the liabilities are not included in the accounts.

Commissions and fees earned in respect of the Economic Entity's trust and funds management activities are included in the profit and loss account.

Recognition of Fee Income, Including Loan Related Fees and Costs

Yield-related front-end application and activation lending fees, if material, are deferred and accreted to income as an adjustment of yield over the period of the loan. Non yield-related application and activation lending fees are recognised as income no later than when the loan is disbursed or the commitment to lend expires. Commitment fees are deferred and accreted to income on a straight-line basis over the term of the commitment. Recurring management fees are taken to the profit and loss account on an accruals basis. Credit card fees are taken to the profit and loss account when charged to the customer.

Associated costs incurred in lending transactions are deferred and netted against yield-related loan fees.

Superannuation

The expense represents the annual funding determined on an actuarial basis to provide for future obligations.

Employee Entitlements

Employee entitlements to long service leave are accrued using an actuarial calculation based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases. This method does not differ significantly from calculating the amount using present value techniques.

The provision for annual leave is accrued based on an employee's total remuneration package.

Income Tax

The Economic Entity adopts tax-effect accounting using the liability method.

The tax-effect of timing differences, which occur where items are claimed for income tax purposes in a period different from when they are recognised in the accounts, is included in the provision for deferred income tax or future income tax benefits, as applicable, at current taxation rates.

The future income tax benefit relating to timing differences, and any future income tax benefit relating to tax losses are not carried forward as an asset unless the benefits are virtually certain of being realised.

The general provision for doubtful debts is raised to recognise bad debts inherent in the loan portfolio, but which have not been specifically identified. Accordingly, the Economic Entity has determined that the timing of the provision's eventual utilisation cannot be predicted. Thus, future income tax benefits associated with the general provision are not recognised. Capital gains tax, if applicable, is provided for in determining period income tax expense when an asset is sold.

Comparative Amounts

Comparative amounts have been reclassified to accord with changes in presentation made in 1996, except where otherwise stated.

Definitions

'The Company' is National Australia Bank Limited. 'Prescribed Corporations' under Section 409 of the Corporations Law are National Australia Bank Limited and National Australia Financial Management Limited.

Amounts booked in branches and controlled entities outside Australia are classified as 'overseas'.

'Due from other banks' consists of cheques and bills of other banks and balances with and due from other banks.

For years ended September 30 Dollars in Millions	Consolidated 1996	1995	1994	The Company 1996	1995	1994

2 Operating profit before income tax expense

Operating profit is determined after including:

Income

	1996	1995	1994	1996	1995	1994
Interest Income						
Other banks	**535**	539	393	**337**	327	193
Marketable debt securities	**971**	805	658	**609**	506	388
Loans to customers	**10,438**	8,736	6,777	**5,918**	5,139	3,969
Controlled entities	–	–	–	**509**	360	256
Other interest (incl regulatory deposits, interest on swaps etc.)	**73**	89	85	**34**	56	60
Total Interest Income	**12,017**	10,169	7,913	**7,407**	6,388	4,866
Other Operating Income						
Dividends received from:						
Controlled entities	–	–	–	**218**	75	563
Other entities	**33**	12	13	**30**	8	10
Profit on sale of fixed assets	**13**	11	17	**2**	6	5
Loan fees from banking	**739**	719	690	**585**	580	571
Money transfer fees	**768**	648	609	**244**	224	212
Trading income:						
Foreign exchange derivatives	**146**	128	134	**80**	83	79
Securities and interest rate derivatives	**76**	35	48	**91**	38	48
Net profit/(loss) on available for sale securities	**(1)**	3	1	–	2	1
Net profit/(loss) on investment securities	–	–	#	–	–	(3)
Foreign exchange income	**73**	64	57	**50**	40	15
Fees and commissions	**573**	467	445	**252**	211	180
Other income	**500**	360	344	**86**	41	148
Total Other Operating Income	**2,920**	2,447	2,358	**1,638**	1,308	1,829

Expenses

	1996	1995	1994	1996	1995	1994
Interest Expense						
Other banks	**628**	599	418	**530**	491	324
Deposits and other borrowings	**5,674**	4,594	2,922	**3,558**	2,864	1,732
Controlled entities	–	–	–	**243**	165	133
Bonds, notes and subordinated debt	**632**	426	353	**426**	296	243
Loan capital	**24**	27	23	**20**	21	14
Total Interest Expense	**6,958**	5,646	3,716	**4,777**	3,837	2,446
Charge to Provide for Doubtful Debts – Note 14						
Specific	**263**	53	134	**114**	37	114
General	**70**	63	45	**55**	43	45
Total Charge to Provide for Doubtful Debts	**333**	116	179	**169**	80	159

 # Denotes amount less than $500,000.

For years ended September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994
Other Operating Expenses						
Personnel						
Salaries	**1,755**	1,569	1,472	**898**	845	777
Related on-costs	**230**	161	137	**150**	99	85
Charge to provide for:						
Annual leave	**4**	7	6	**3**	6	4
Long service leave and retiring allowances	**6**	12	22	**4**	10	21
Performance based compensation	**69**	57	52	**36**	31	36
Restructuring costs	**57**	20	31	**24**	–	26
Depreciation of motor vehicles provided to employees	**4**	4	3	**–**	–	–
Other	**313**	294	223	**149**	154	104
Total Personnel Costs	**2,438**	2,124	1,946	**1,264**	1,145	1,053
Occupancy Costs						
Depreciation of buildings and amortisation of leaseholds	**87**	61	59	**52**	30	30
Rental on operating leases	**154**	174	152	**175**	171	163
Other	**177**	175	164	**77**	86	80
Total Occupancy Costs	**418**	410	375	**304**	287	273
General						
Depreciation and amortisation	**266**	236	201	**39**	35	36
Loss on sale of fixed assets	**6**	3	4	**1**	1	1
Rental on operating leases	**5**	8	4	**–**	6	–
Charge to provide for:						
Non-lending losses/contingencies	**21**	14	58	**8**	(2)	20
Diminution in value of shares in entities	**8**	–	–	**4**	–	–
Fees and commissions	**181**	155	133	**122**	108	88
Communications, postage and stationery	**287**	255	226	**136**	125	109
Computer equipment and software	**212**	199	170	**137**	118	100
Other expenses	**608**	512	548	**255**	195	235
Total General Expenses	**1,594**	1,382	1,344	**702**	586	589
Amortisation of Goodwill						
United Kingdom and Irish Banks	**62**	62	62	**–**	–	–
Bank of New Zealand	**31**	30	30	**–**	–	–
Michigan National Corporation	**44**	–	–	**–**	–	–
Total Amortisation of Goodwill	**137**	92	92	**–**	–	–
Total Other Operating Expenses	**4,587**	4,008	3,757	**2,270**	2,018	1,915

3 Abnormal gain

Adjustment to market value and profit on sale of shares and options held in the Australia and New Zealand Banking Group Limited (nil tax applicable)	3	33	50	3	33	50

For years ended September 30 Dollars in Millions	Consolidated 1996	 1995	 1994	The Company 1996	 1995	 1994

4 Income tax expense

Reconciliation of income tax expense shown in the statement of profit and loss, with prima facie tax payable on the pre-tax accounting profit:

	1996	1995	1994	1996	1995	1994
Operating Profit (before income tax)						
Australia	**2,045**	1,995	1,886	**1,810**	1,789	2,204
Overseas	**1,017**	884	783	**22**	5	21
Total Operating Profit (before income tax)	**3,062**	2,879	2,669	**1,832**	1,794	2,225
Prima facie income tax at 36% (1995, 1994: 33%)	**1,102**	950	881	**660**	592	734
Add (or deduct) tax effect of permanent differences:						
Non-allowable depreciation on buildings	**10**	13	9	**1**	1	1
Charge to fund general provision for doubtful debts	**25**	21	15	**19**	14	15
Investment allowance	**(8)**	(8)	(13)	**–**	–	(5)
Rebate of tax on dividends, interest etc.	**(14)**	(5)	3	**(90)**	(29)	(191)
Foreign tax rate differences	**(37)**	1	(6)	**(1)**	1	1
Amortisation of goodwill	**49**	30	30	**–**	–	–
Increase in the value of ANZ shares	**(1)**	(10)	(14)	**(1)**	(10)	(14)
Future income tax benefits no longer recognised	**(8)**	1	1	**(3)**	(6)	1
Restatement of tax timing differences due to change in Australian company income tax rate to 36% applicable from October 1, 1995 (33% in 1994)	**–**	2	–	**–**	(4)	–
Under/(over) provision in prior years	**(124)**	(70)	3	**(120)**	(61)	–
Other	**(35)**	(19)	44	**(10)**	(6)	36
Income tax expense shown in the Statement of Profit and Loss	**959**	906	953	**455**	492	578
Income tax expense shown in the statement of profit and loss consists of the following:						
Current income tax						
Australia	**592**	540	609	**477**	470	558
Overseas	**296**	347	244	**1**	9	4
Total Current Income Tax	**888**	887	853	**478**	479	562
Deferred income tax						
Australia	**(13)**	25	5	**(22)**	21	16
Overseas	**84**	(8)	95	**(1)**	(4)	–
Total Deferred Income Tax	**71**	17	100	**(23)**	17	16
Adjustments for tax rate change						
Provision for deferred income tax	**–**	18	–	**–**	11	–
Future income tax benefit	**–**	(16)	–	**–**	(15)	–
Total Income Tax Expense	**959**	906	953	**455**	492	578

5 Dividends

	1996	1995	1994	1996	1995	1994
Dividends provided for or paid (fully franked)						
43c Interim cash provided (1995: 40c, 1994: 35c)	**626**	559	469	**626**	559	469
44c Final cash payable (1995: 43c, 1994: 39c)	**650**	614	534	**650**	614	534
Total Dividends Provided for or Paid	**1,276**	1,173	1,003	**1,276**	1,173	1,003
Dividend provisions not required						
Bonus share issues	**57**	69	53	**57**	69	53
Dividends paid under U.K. Dividend Plan	**(19)**	(17)	(10)	**–**	–	–
Dividend over provided	**17**	15	10	**17**	15	10
Total Dividend Provisions not required	**55**	67	53	**74**	84	63

Dividend Imputation

The franking credits available to the Economic Entity at September 30, 1996 after allowing for tax payable in respect of the current year's profits and the payment of the final dividend total an estimated $488 million (1995: $506 million). These franking credits are Class 'C' credits, (converted from Class 'B' credits) representing tax paid at the 36% corporate tax rate.

In determining the dividends to be paid, the Economic Entity pursues a balance between achieving an increase in shareholder wealth through the payment of dividends, and retaining sufficient earnings to augment its capital resources to allow for growth in its business base, taking into account prudential and liquidity requirements.

There are presently no restrictions on the payment of dividends from controlled entities to the Company and no restrictions on payment of dividends by the Company other than:

- the Share Premium Reserve is not available for distribution other than in the form of bonus issues (stock dividends), and
- reductions of Shareholders' Equity through payment of cash dividends is monitored by management having regard to the regulatory requirements to maintain a specified capital adequacy ratio.

6 Earnings per share

	Consolidated		
	1996	1995	1994
Basic earnings per share – after abnormal item (cents)	**144.8**	141.0	127.3
Weighted average number of ordinary shares used in the calculation of basic earnings per share (000's)	**1,451,744**	1,396,240	1,342,250

There has been no:

(a) conversion to, calls of, or subscriptions for ordinary shares, or
(b) issues of potential ordinary shares since September 30, 1996 and before the completion of these accounts.

The difference between basic earnings per share and diluted earnings per share is immaterial.

7 Cash and short-term liquid assets

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	**1996**	1995	1994	**1996**	1995	1994
Australia						
Coins, notes and cash at bank	**870**	250	244	**870**	249	229
Money at short call	**28**	549	137	**28**	359	31
Other (including bills receivable and remittances in transit)	**780**	79	885	**765**	71	900
	1,678	878	1,266	**1,663**	679	1,160
Overseas						
Coins, notes and cash at bank	**854**	1,344	1,239	**1**	1	–
Money at short call	**1,096**	1,212	1,191	**27**	133	171
Other (including bills receivable and remittances in transit)	**1,271**	1,317	941	**(127)**	(109)	(89)
	3,221	3,873	3,371	**(99)**	25	82
Total Cash and Short-Term Liquid Assets	**4,899**	4,751	4,637	**1,564**	704	1,242

8 Due from other banks

Australia	**635**	2,598	2,127	**121**	2,272	1,502
Overseas	**8,757**	6,755	7,011	**6,094**	3,866	4,270
Total Due From Other Banks	**9,392**	9,353	9,138	**6,215**	6,138	5,772

As at September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994

9 Due from customers on acceptances

Australia						
Government and public authorities	**113**	139	154	**113**	139	154
Agriculture, forestry and fishing	**874**	1,013	908	**862**	995	901
Financial, investment and insurance	**3,230**	3,032	2,967	**3,209**	3,014	2,955
Real estate – construction	**601**	563	732	**592**	563	732
Manufacturing[(1)]	**3,207**	3,193	–	**3,168**	3,134	–
Instalment loans to individuals and other personal lending (including credit cards)	**562**	1,008	1,257	**548**	994	1,246
Other commercial and industrial	**7,771**	6,863	8,987	**7,684**	6,780	8,884
	16,358	15,811	15,005	**16,176**	15,619	14,872
Overseas						
Government and public authorities	**–**	–	17	**–**	–	–
Agriculture, forestry and fishing	**1**	1	3	**–**	–	–
Financial, investment and insurance	**739**	634	570	**178**	11	11
Real estate – construction	**16**	21	11	**–**	–	–
Manufacturing[(1)]	**98**	133		**6**	5	
Instalment loans to individuals and other personal lending (including credit cards)	**–**	–	24	**–**	–	–
Lease financing	**1**	–	38	**1**	–	–
Other commercial and industrial	**70**	57	363	**21**	24	65
	925	846	1,026	**206**	40	76
Total Due from Customers on Acceptances	**17,283**	16,657	16,031	**16,382**	15,659	14,948

[(1)] *Comparatives are not available for years prior to 1995.*

10 Trading securities

Australia						
Listed:						
Australian government bonds and securities	**1,096**	607	1,440	**1,096**	607	1,440
Securities of Australian local and semi-government authorities	**317**	409	169	**317**	409	169
	1,413	1,016	1,609	**1,413**	1,016	1,609
Unlisted:						
Australian government treasury notes	**2,951**	3,958	2,620	**2,926**	3,958	2,610
Other securities	**2,212**	1,383	869	**2,090**	1,302	689
	5,163	5,341	3,489	**5,016**	5,260	3,299
Overseas						
Listed:						
Securities of or guaranteed by UK/Irish governments	**30**	–	–	**30**	–	–
Securities of or guaranteed by New Zealand government	**–**	–	31	**–**	–	31
Other securities	**289**	–	–	**289**	–	–
	319	–	31	**319**	–	31
Unlisted:						
Securities of or guaranteed by New Zealand government	**769**	810	479	**–**	–	–
US and Political Sub-divisions	**3**	–	–	**–**	–	–
Private corporations/Other banks' CD's/bills	**509**	515	602	**–**	–	–
Other securities	**230**	228	151	**–**	–	–
	1,511	1,553	1,232	**–**	–	–
Total Trading Securities at Market Value	**8,406**	7,910	6,361	**6,748**	6,276	4,939

11 Available for sale securities

As at September 30 Dollars in Millions	*Consolidated* **1996**	*1995*	*1994*	*The Company* **1996**	*1995*	*1994*
Australia						
Listed:						
Australian government bonds and securities	–	–	156	–	–	156
Securities of Australian local and semi-government authorities	**2**	4	1	–	–	1
Other securities	**6**	5	2	–	–	–
	8	9	159	–	–	157
Unlisted:						
Other securities	**1**	1	–	–	–	–
	1	1	–	–	–	–
Overseas						
Listed:						
Securities of or guaranteed by UK/Irish governments	**102**	150	231	–	–	–
Other securities	**49**	52	53	–	–	–
	151	202	284	–	–	–
Unlisted:						
Securities of or guaranteed by UK/Irish governments	–	–	122	–	–	–
Securities of or guaranteed by New Zealand government	**8**	8	9	–	–	–
Private corporations/Other banks' CD's/bills	**105**	113	11	–	–	–
Other securities	**91**	–	–	–	–	–
	204	121	142	–	–	–
Total Available for Sale Securities	**364**	333	585	–	–	157

Market Value

	1996	1995	1994	**1996**	1995	1994
Australia						
Listed:						
Australian government bonds and securities	–	–	156	–	–	156
Securities of Australian local and semi-government authorities	**2**	4	1	–	–	1
Other securities	**6**	5	2	–	–	–
	8	9	159	–	–	157
Unlisted:						
Other securities	**1**	1	–	–	–	–
	1	1	–	–	–	–
Overseas						
Listed:						
Securities of or guaranteed by UK/Irish governments	**102**	151	231	–	–	–
Other securities	**50**	52	53	–	–	–
	152	203	284	–	–	–
Unlisted:						
Securities of or guaranteed by UK/Irish governments	–	–	122	–	–	–
Securities of or guaranteed by New Zealand government	**8**	8	9	–	–	–
Private corporations/Other banks' CD's/bills	**105**	113	11	–		
Other securities	**91**	–	–	–	–	–
	204	121	142	–	–	–
Total Available for Sale Securities at Market Value	**365**	334	585	–	–	157

The following table reconciles gross unrealised gains and losses of the Economic Entity's holdings of available for sale securities at September 30, 1996.

Dollars in Millions	*Historic cost*	*Gross Unrealised Losses*	*Book Value*	*Gross Unrealised Gains*	*Market Value*
Securities of Australian local and semi-government authorities	2	–	2	–	2
Securities of or guaranteed by UK/Irish governments	102	–	102	–	102
Securities of or guaranteed by New Zealand government	8	–	8	–	8
Private corporations/Other banks' CD's/bills	105	–	105	–	105
Other	147	–	147	1	148
Total	364	–	364	1	365

The following table analyses the maturities and weighted average yields of the Economic Entity's holdings of available for sale securities at September 30, 1996.

	Maturing 1 Year or less		*Maturing 1 year through 5 years*		*Maturing 5 years through 10 years*		*Maturing after 10 years*	
Dollars in Millions	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
Securities of Australian local and semi-government authorities	2	6.5%	–	–	–	–	–	–
Securities of or guaranteed by UK/Irish governments	42	8.3%	60	7.8%	–	–	–	–
Securities of or guaranteed by New Zealand government	3	9.3%	1	8.0%	3	8.1%	1	5.7%
Private corporations/Other banks' CD's/bills	105	9.9%	–	–	–	–	–	–
Other	9	4.6%	49	6.2%	–	–	89	6.4%
Total	161		110		3		90	
Maturities at market value	161		111		3		90	

Proceeds from maturities of available for sale securities during 1996 were $1,821 million (1995: $1,074 million, 1994: $337 million). Proceeds from sales of available for sale securities during 1996 were $578 million (1995: $689 million, 1994: $683 million). Gross gains of $1 million (1995: $1 million, 1994: $4 million) and gross losses of $2 million (1995 and 1994 nil) were realised on sales.

As at September 30 Dollars in Millions	Consolidated 1996	 1995	 1994	The Company 1996	 1995	 1994

12 Investment securities

Australia

Listed:						
Australian government bonds and securities	**23**	23	23	**23**	23	23
Securities of Australian local and semi-government authorities	**182**	180	203	**182**	180	203
	205	203	226	**205**	203	226
Unlisted:						
Australian government treasury notes	**–**	20	–	**–**	20	–
Private corporations/Other banks' CD's/bills	**137**	–	–	**–**	–	–
Other securities	**2**	494	10	**–**	491	10
	139	514	10	**–**	511	10

Overseas

Listed:						
Securities of Australian local and semi-government authorities	**11**	–	1	**11**	–	1
Securities of or guaranteed by UK/Irish governments	**534**	332	325	**–**	–	–
Securities of or guaranteed by New Zealand government	**9**	5	51	**9**	5	51
US Treasury and other US government agencies	**120**	92	92	**120**	92	92
US and Political Sub-divisions	**–**	–	11	**–**	–	11
Private corporations – Eurobonds	**101**	89	76	**101**	89	76
Private corporations/Other banks' CD's/bills	**883**	600	458	**883**	600	458
Other securities	**386**	240	302	**170**	114	78
	2,044	1,358	1,316	**1,294**	900	767

Overseas

Unlisted:						
Australian government treasury notes	**–**	309	111	**–**	309	111
Australian government bonds and securities	**–**	20	99	**–**	20	99
Securities of Australian local and semi-government authorities	**143**	66	–	**143**	66	–
Securities of or guaranteed by UK/Irish governments	**98**	108	127	**–**	–	–
Securities of or guaranteed by New Zealand government	**130**	257	450	**126**	238	252
US Treasury and other US government agencies	**1,488**	–	–	**–**	–	–
US and Political Sub-divisions	**28**	–	–	**–**	–	–
Private corporations – Eurobonds	**–**	–	41	**–**	–	–
Private corporations/Other banks' CD's/bills	**2,090**	1,656	1,702	**956**	683	825
Other securities	**307**	143	188	**266**	121	173
	4,284	2,559	2,718	**1,491**	1,437	1,460
Total Investment Securities	**6,672**	4,634	4,270	**2,990**	3,051	2,463

As at September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994
Market Value						
Australia						
Listed:						
Australian government bonds and securities	**26**	26	25	**26**	26	25
Securities of Australian local and semi-government authorities	**208**	207	220	**208**	207	220
	234	233	245	**234**	233	245
Unlisted:						
Australian government treasury notes	**–**	20	–	**–**	20	–
Private corporations/Other banks' CD's/bills	**137**	–	–	**–**	–	–
Other securities	**2**	494	10	**–**	491	10
	139	514	10	**–**	511	10
Overseas						
Listed:						
Securities of Australian local and semi-government authorities	**9**	–	#	**9**	–	#
Securities of or guaranteed by UK/Irish governments	**540**	335	325	**–**	–	–
Securities of or guaranteed by New Zealand government	**9**	5	51	**9**	5	51
US Treasury and other US government agencies	**120**	92	92	**120**	92	92
US and Political Sub-divisions	**–**	–	12	**–**	–	12
Private corporations – Eurobonds	**101**	89	77	**101**	89	77
Private corporations/Other banks' CD's/bills	**883**	600	458	**883**	600	458
Other securities	**385**	240	314	**171**	115	80
	2,047	1,361	1,329	**1,293**	901	770
Overseas						
Unlisted:						
Australian government treasury notes	**–**	309	111	**–**	309	111
Australian government bonds and securities	**–**	20	99	**–**	20	99
Securities of Australian local and semi-government authorities	**143**	66	–	**143**	66	–
Securities of or guaranteed by UK/Irish governments	**98**	108	127	**–**	–	–
Securities of or guaranteed by New Zealand government	**130**	257	449	**126**	238	252
US Treasury and other US government agencies	**1,491**	–	–	**–**	–	–
US and Political Sub-divisions	**28**	–	–	**–**	–	–
Private corporations – Eurobonds	**–**	–	41	**–**	–	–
Private corporations/Other banks' CD's/bills	**2,092**	1,660	1,713	**953**	683	825
Other securities	**313**	143	188	**272**	121	171
	4,295	2,563	2,728	**1,494**	1,437	1,458
Total Investment Securities at Market Value	**6,715**	4,671	4,312	**3,021**	3,082	2,483

 # Denotes amount less than $500,000.

The following table reconciles gross unrealised gains and losses of the Economic Entity's holdings of investment securities at September 30, 1996.

Dollars in Millions	*Book Value*	*Gross Unrealised Gains*	*Gross Unrealised Losses*	*Market Value*
Australian government bonds and securities	23	3	–	26
Securities of Australian local and semi-government authorities	336	25	1	360
Securities of or guaranteed by UK/Irish governments	632	6	–	638
Securities of or guaranteed by New Zealand government	139	–	–	139
US Treasury and other US government agencies	1,608	6	3	1,611
US and Political Sub-divisions	28	–	–	28
Private corporations – Eurobonds	101	–	–	101
Private corporations/Other banks' CD's/bills	3,110	10	8	3,112
Other securities	695	8	3	700
Total	6,672	58	15	6,715

The following table analyses the maturities and weighted average yields of the Economic Entity's holdings of investment securities at September 30, 1996.

	Maturing 1 Year or less		*Maturing 1 year through 5 years*		*Maturing 5 years through 10 years*		*Maturing after 10 years*	
Dollars in Millions	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
Australian government bonds	–	–	23	12.6%	–	–	–	–
Securities of Australian local and semi-government authorities	147	11.0%	189	13.7%	–	–	–	–
Securities of or guaranteed by UK/Irish governments	244	7.4%	388	6.7%	–	–	–	–
Securities of or guaranteed by New Zealand government	137	11.5%	2	8.0%	–	–	–	–
US Treasury and other US government agencies and entities	472	5.4%	1,136	6.4%	–	–	–	–
US and Political Sub-divisions	7	7.3%	12	6.1%	6	7.0%	3	7.6%
Private corporations – Eurobonds	86	5.9%	15	6.0%	–	–	–	–
Private corporations/Other banks' CD's/bills	3,110	5.3%	–	–	–	–	–	–
Other securities	431	6.5%	192	6.3%	72	6.5%	–	–
Total	4,634		1,957		78		3	
Maturities at market value	4,631		1,998		83		3	

Proceeds from maturities of investment securities during 1996 were $7,865 million (1995: $8,127 million, 1994: $5,510 million). The majority of these relate to the maturity of short-dated investment securities. Proceeds from sales of investment securities during 1996 were $5 million. These investment securities were sold as a result of the initial adoption of the FASB implementation guide to Statement 115. There were no proceeds from sales during 1995 and 1994. There were no gross gains or gross losses realised during 1996 or the preceding two years.

13 Loans and other receivables

As at September 30 Dollars in Millions	Consolidated 1996	Consolidated 1995	Consolidated 1994	The Company 1996	The Company 1995	The Company 1994
Australia						
Overdrafts	**3,360**	3,705	3,238	**3,271**	3,313	3,122
Credit card outstandings	**1,624**	1,374	1,135	**1,624**	1,374	1,135
Market rate advances	**140**	100	192	**140**	100	192
Bills discounted	**55**	69	50	**–**	–	–
Lease finance	**3,823**	3,247	2,339	**3,723**	2,961	2,140
Housing loans	**28,111**	23,692	19,619	**27,457**	23,472	19,441
Other term lending	**21,568**	19,581	18,590	**21,003**	18,843	17,944
Equity participation in leveraged leases	**597**	686	577	**596**	683	573
Redeemable preference share finance	**146**	21	136	**146**	21	136
Other lending	**2,711**	2,251	1,453	**2,641**	2,239	1,415
	62,135	54,726	47,329	**60,601**	53,006	46,098
Overseas						
Overdrafts	**7,011**	6,770	6,261	**3**	4	10
Credit card outstandings	**1,214**	1,116	1,027	**–**	–	–
Market rate advances	**582**	513	419	**–**	–	–
Bills discounted	**163**	223	431	**91**	40	50
Lease finance	**2,060**	1,258	1,049	**–**	–	1
Housing loans	**13,400**	11,808	9,707	**36**	29	26
Other term lending	**23,122**	16,265	13,704	**1,018**	933	771
Equity participation in leveraged leases	**4**	4	9	**–**	–	–
Redeemable preference share finance	**1**	2	4	**–**	–	–
Other lending	**4,180**	1,532	1,433	**883**	745	810
	51,737	39,491	34,044	**2,031**	1,751	1,668
Total Loans and Other Receivables (Gross)	**113,872**	94,217	81,373	**62,632**	54,757	47,766
Deduct: Unearned income	**(1,118)**	(1,173)	(963)	**(730)**	(666)	(485)
Provision for doubtful debts – Note 14	**(1,286)**	(1,031)	(1,242)	**(648)**	(571)	(633)
Total Loans and Other Receivables (Net)	**111,468**	92,013	79,168	**61,254**	53,520	46,648
Leasing receivables included in lease finance net of unearned income:						
Current	**1,734**	1,715	1,538	**1,010**	1,170	1,150
Non-Current	**4,108**	2,810	2,028	**2,770**	2,029	1,299
	5,842	4,525	3,566	**3,780**	3,199	2,449

The diversification and size of the Economic Entity is such that its lending is widely spread both geographically and in terms of the types of industries served. In accordance with SEC guidelines, the following table shows comparative period-end detail of the loan portfolio for each of the Five Years Ended September 30.

	Consolidated				
As at September 30 Dollars in Millions	***1996***	*1995*	*1994*	*1993*	*1992*
Australia					
Government and public authorities	**1,083**	1,158	1,268	1,208	1,004
Agriculture, forestry and fishing	**4,365**	3,723	3,059	2,713	2,489
Financial, investment and insurance	**3,945**	3,056	2,891	2,724	3,067
Real estate – construction	**1,191**	1,157	1,140	1,025	1,268
Manufacturing[(1)]	**2,515**	3,194			
Real estate – mortgage	**24,449**	21,075	17,579	13,945	11,663
Instalment loans to individuals and other personal lending (including credit cards)	**8,372**	8,144	7,956	7,536	7,654
Lease financing	**4,420**	3,933	2,916	2,801	2,464
Other commercial and industrial[(2)]	**11,795**	9,286	10,520	10,557	9,140
	62,135	54,726	47,329	42,509	38,749
Overseas					
Government and public authorities	**617**	410	269	339	236
Agriculture, forestry and fishing	**3,526**	2,862	2,637	2,344	1,607
Financial, investment and insurance	**2,271**	1,924	1,679	2,028	2,048
Real estate – construction	**1,342**	1,292	1,199	1,522	1,510
Manufacturing[(1)]	**4,139**	3,127			
Real estate – mortgage	**13,942**	12,810	10,571	9,141	6,022
Instalment loans to individuals and other personal lending (including credit cards)	**8,319**	6,223	5,729	5,761	5,350
Lease financing	**2,064**	1,262	1,058	1,121	1,428
Other commercial and industrial[(2)]	**15,517**	9,581	10,902	11,444	11,099
	51,737	39,491	34,044	33,700	29,300
Total Loans and Other Receivables (Gross)	**113,872**	94,217	81,373	76,209	68,049
Deduct: Unearned income	**(1,118)**	(1,173)	(963)	(1,021)	(1,423)
Provisions for doubtful debts – Note 14	**(1,286)**	(1,031)	(1,242)	(1,783)	(1,588)
Total Loans and Other Receivables (Net)	**111,468**	92,013	79,168	73,405	65,038

Notes

(1) Comparatives prior to 1995 are not available.

(2) At September 30, 1996 there were no concentrations of other commercial and industrial loans exceeding 10% of total loans.

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

As at September 30, 1996 *Dollars in Millions*	*Due in 1 Year or less*[1]	*Due after 1 Year through 5 Years*	*Due after 5 Years*	*Total*
Australia				
Government and public authorities	323	246	514	1,083
Agriculture, forestry and fishing	3,454	593	318	4,365
Financial, investment and insurance	3,339	439	167	3,945
Real estate – construction	753	273	165	1,191
Manufacturing	1,693	547	275	2,515
Real estate – mortgage	56	330	24,063	24,449
Instalment loans to individuals and other personal lending (including credit cards)	4,717	2,102	1,553	8,372
Lease financing	1,585	2,628	207	4,420
Other commercial and industrial	8,548	1,431	1,816	11,795
	24,468	8,589	29,078	62,135
Overseas				
Government and public authorities	493	66	58	617
Agriculture, forestry and fishing	2,040	591	895	3,526
Financial, investment and insurance	1,698	505	68	2,271
Real estate – construction	744	465	133	1,342
Manufacturing	2,491	1,135	513	4,139
Real estate – mortgage	1,389	1,421	11,132	13,942
Instalment loans to individuals and other personal lending (including credit cards)	3,720	2,504	2,095	8,319
Lease financing	730	1,054	280	2,064
Other commercial and industrial	6,824	5,581	3,112	15,517
	20,129	13,322	18,286	51,737
Gross Loans and Other Receivables	44,597	21,911	47,364	113,872
Interest Rate Sensitivity of Lending				
Variable interest rates[2][3]				
Australia	19,611	4,237	27,974	51,822
Overseas	13,820	8,395	12,879	35,094
Fixed interest rates				
Australia	4,857	4,352	1,104	10,313
Overseas	6,309	4,927	5,407	16,643
Total	44,597	21,911	47,364	113,872

Notes:

(1) Overdrafts are not subject to a repayment schedule. Due to their characteristics, overdrafts are categorised as due within one year.

(2) Included in 1995 was $175 million (1994: $274 million) of housing loans drawn before April 1, 1986, such loans being subject to a fixed interest rate ceiling of 13.5% set by the Reserve Bank of Australia. In 1996, the amounts are no longer material and interest rates are well under the 13.5% ceiling at September 30, 1996.

(3) Under the Consumer Credit Acts of the States of Victoria, New South Wales, South Australia and Western Australia, and the Australian Capital Territory, the Company must give notice to credit card holders when an increase in interest rates is sought. The legislation stipulates the notice period as two billing cycles plus 21 days which, in effect, means approximately 90 days' notice must be given. Such credit card outstandings have been included in the variable category.

As at September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994

14 Provisions for doubtful debts

Specific Provision						
Opening Balance	**535**	813	1,385	**258**	327	394
Provisions acquired	**148**	–	–	**–**	–	–
Provisions no longer required	**–**	–	(71)	**–**	–	–
Bad debts recovered	**215**	131	142	**64**	47	69
Bad debts written off	**(492)**	(455)	(717)	**(179)**	(155)	(234)
Charge to profit and loss	**263**	53	134	**114**	37	114
Foreign currency translation and consolidation adjustments	**(21)**	(7)	(60)	**(1)**	2	(16)
Closing Balance	**648**	535	813	**256**	258	327
General Provision						
Opening balance	**551**	489	464	**364**	324	285
Provisions acquired	**55**	–	–	**–**	–	–
Charge to profit and loss	**70**	63	45	**55**	43	45
Foreign currency translation adjustments	**(12)**	(1)	(20)	**(3)**	(3)	(6)
Closing Balance	**664**	551	489	**416**	364	324
Total Provisions	**1,312**	1,086	1,302	**672**	622	651

Total Specific Provision for Doubtful Debts

The total specific provision for doubtful debts of the Economic Entity is comprised as follows. For further information refer to Note 15 of the Financial Statements, Asset Quality Disclosures.

On balance sheet exposures	**622**	480	753	**232**	207	309
Off balance sheet credit related commitments[(1)]	**26**	55	60	**24**	51	18
Total Specific Provision for Doubtful Debts (as per above)	**648**	535	813	**256**	258	327

[(1)] The specific provision for off balance sheet credit related commitments is shown as a liability in the financial statements. (Refer to Note 24).

As a percentage of Risk Weighted Assets

On balance sheet exposures – specific provision	0.47%	0.44%	0.78%
Off balance sheet credit related commitments – specific provision	0.02%	0.05%	0.06%
Total Specific Provision for Doubtful Debts	0.49%	0.49%	0.84%

Specific Provision for Doubtful Debts by Industry Category

The following table provides an analysis of the Economic Entity's total specific provision for doubtful debts including off balance sheet exposures by industry category.

			Consolidated		
As at September 30 *Dollars in Millions*	***1996***	*1995*	*1994*	*1993*	*1992*
Australia					
Agriculture, forestry and fishing	**13**	7	25	11	25
Financial, investment and insurance	**46**	39	113	84	60
Real estate – construction	**12**	49	27	43	63
Manufacturing[(1)]	**58**	79			
Instalment loans to individuals and other personal lending (including credit cards)	**18**	16	35	46	53
Lease financing	**2**	–	–	1	7
Other commercial and industrial	**93**	99	198	364	268
	242	289	398	549	476
Overseas					
Agriculture, forestry and fishing	**13**	14	21	67	52
Financial, investment and insurance	**12**	11	22	53	21
Real estate – construction	**28**	19	23	77	69
Manufacturing[(1)]	**55**	45			
Real estate – mortgage	**15**	7	26	9	15
Instalment loans to individuals and other personal lending (including credit cards)	**71**	38	56	81	104
Lease financing	**2**	3	15	26	27
Other commercial and industrial	**210**	109	252	523	420
	406	246	415	836	708
Total Specific Provision for Doubtful Debts	**648**	535	813	1,385	1,184

(1) Comparatives prior to 1995 are not available.

Analysis of Movements in Total Provision for Doubtful Debts

The following table provides an analysis of the Economic Entity's total specific provision for doubtful debts including off balance sheet exposures for each of the Five Years Ended September 30. For further information, refer to Note 15 of the Financial Statements, 'Asset Quality Disclosures' on page 94.

Balance at beginning of period	**1,086**	1,302	1,849	1,588	1,318
Provisions at acquisition date of entities acquired	**203**	–	–	719	–
Less Write-offs:					
Australia					
Agriculture, forestry and fishing	**10**	8	9	27	17
Financial, investment and insurance	**7**	23	32	104	31
Real estate – construction	**5**	10	10	46	35
Manufacturing[(1)]	**32**	22			
Real estate – mortgage	**4**	3	2	6	2
Instalment loans to individuals and other personal lending (including credit cards)	**59**	44	7	123	93
Lease financing	**3**	2	2	9	14
Other commercial and industrial	**74**	53	134	320	252
Overseas					
Agriculture, forestry and fishing	**7**	4	19	16	3
Financial, investment and insurance	**3**	2	22	33	14
Real estate – construction	**21**	31	57	49	37
Manufacturing[(1)]	**29**	26			
Real estate – mortgage	**7**	4	36	4	2
Instalment loans to individuals and other personal lending (including credit cards)	**121**	88	73	111	106
Lease financing	**1**	10	8	11	11
Other commercial and industrial	**109**	125	306	284	216
	492	455	717	1,143	833

	Consolidated				
As at September 30 Dollars in Millions	**1996**	1995	1994	1993	1992
Plus Recoveries:					
Australia					
Agriculture, forestry and fishing	**1**	2	2	3	6
Financial, investment and insurance	**17**	10	6	17	5
Real estate – construction	**1**	1	2	2	2
Manufacturing[1]	**2**	4			
Real estate – mortgage	**–**	1	1	1	1
Instalment loans to individuals and other personal lending (including credit cards)	**19**	17	21	17	20
Lease financing	**–**	–	1	3	2
Other commercial and industrial	**15**	16	29	17	15
Overseas					
Agriculture, forestry and fishing	**1**	1	1	–	#
Financial, investment and insurance	**4**	3	21	1	4
Real estate – construction	**23**	5	4	1	2
Manufacturing[1]	**10**	9			
Real estate – mortgage	**2**	–	1	1	–
Instalment loans to individuals and other personal lending (including credit cards)	**32**	24	20	16	10
Lease financing	**1**	1	#	#	#
Other commercial and industrial	**87**	37	33	23	16
	215	131	142	102	83
Net write-offs	**(277)**	(324)	(575)	(1,041)	(750)
Charge to profit and loss	**333**	116	179	604	908
Provisions no longer required	**–**	–	(71)	–	–
Foreign currency translation adjustments	**(33)**	(8)	(80)	(21)	112
Balance at end of period	**1,312**	1,086	1,302	1,849	1,588
Ratio of net write-offs during the period to average loans and other receivables outstanding during the period (Refer average balance sheet)	**0.26%**	0.37%	0.76%	1.47%	1.19%
Ratio of balance at end of period to risk weighted assets	**0.98%**	1.00%	1.35%	2.02%	1.95%

[1] Comparatives prior to 1995 are not available.
 # Denotes amount less than $500,000.

15 Asset quality disclosures

The Economic Entity provides for doubtful debts as discussed in Note 1. Accordingly, when management determines that a loan recovery is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value. Interest and charges are no longer taken to profit when their payment is considered to be unlikely.

The Economic Entity amended its asset quality disclosure classifications to conform with the new Reserve Bank of Australia (RBA) asset quality disclosure guidelines which became applicable in 1994.

In accordance with SEC guidelines, disclosures relating to asset quality for each of the five years to September 1996 have been provided. Two separate groups of tables are presented below. The first provides September 30, 1996 and the preceding three years' amounts classified in accordance with the RBA asset quality disclosure guidelines which became applicable in 1994. The second table presents September 30, 1992 amounts classified in accordance with RBA guidelines applicable to that year.

Gross amounts in both tables have been prepared without regard to security available for such loans. The inclusion of past due loans and restructured loans in both tables does not necessarily indicate that such loans are doubtful.

As at September 30 Dollars in Millions	Consolidated 1996 Gross	Specific Provisions	Net	1995 Gross	Specific Provisions	Net	1994 Gross	Specific Provisions	Net	1993 Gross	Specific Provisions	Net
Non-Accrual Loans[1][2]												
Australia	**579**	**228**	**351**	818	284	534	1,057	395	662	1,656	532	1,124
Overseas[3]	**865**	**413**	**452**	807	246	561	1,181	413	768	2,052	853	1,199
	1,444	**641**	**803**	1,625	530	1,095	2,238	808	1,430	3,708	1,385	2,323
Restructured Loans												
Australia	**57**	**–**	**57**	241	–	241	247	–	247	319	–	319
Overseas	**6**	**–**	**6**	–	–	–	2	–	2	35	–	35
	63	**–**	**63**	241	–	241	249	–	249	354	–	354
Assets Acquired through Security Enforcement[4]												
Australia	**–**	**–**	**–**	–	–	–	–	–	–			
Overseas	**10**	**–**	**10**	3	–	3	1	–	1			
	10	**–**	**10**	3	–	3	1	–	1			
Total Impaired Assets												
Australia	**636**	**228**	**408**	1,059	284	775	1,304	395	909	1,975	532	1,443
Overseas[3]	**881**	**413**	**468**	810	246	564	1,184	413	771	2,087	853	1,234
	1,517	**641**	**876**	1,869	530	1,339	2,488	808	1,680	4,062	1,385	2,677
Memorandum Disclosures:												
Accruing loans past due 90 days or more with adequate security												
Australia	**8**	**–**	**8**	7	–	7	10	–	10	51	–	51
Overseas	**91**	**–**	**91**	96	–	96	159	–	159	148	–	148
	99	**–**	**99**	103	–	103	169	–	169	199	–	199
Accruing portfolio facilities past due 90 to 180 days[4]												
Australia	**22**	**4**	**18**	14	4	10	5	3	2			
Overseas	**36**	**3**	**33**	7	1	6	19	2	17			
	58	**7**	**51**	21	5	16	24	5	19			

(1) *Includes loans amounting to $220 million gross ($134 million net) (1995: $296 million gross and $188 million net, 1994: $366 million gross and $200 million net, 1993: $362 million gross and $225 million net) where some concerns exist as to the ongoing ability of the borrowers to comply with existing loan terms, but on which no principal or interest payments are contractually past due. Such loans were previously classified as 'additional provisioning'.*

(2) *Includes specific provision for off-balance sheet credit exposures.*

(3) *Michigan National Corporation (MNC) adopts a provisioning methodology under which a portion of its specific provision is determined against segments of its loan portfolio based on historical loan loss experience and current trends evident in those segments of its loan portfolio. As at September 30, 1996, this portion of MNC's specific provision amounted to $135 million. This amount is included in the specific provision figure quoted in the above table. Due to the nature of MNC's provisioning methodology, the above table does not include gross loan amounts to which this portion of the specific provision relates.*

(4) *1993 comparatives are not available.*

Interest Income Foregone

As to the non-accrual and restructured loans referred to above, the gross interest income that would have been recorded during 1996 had interest on such loans been included in income, amounted to $75 million (1995: $68 million, 1994: $94 million, 1993: $213 million) for Australian loans and $62 million (1995: $85 million, 1994: $101 million, 1993: $104 million) for overseas loans. Actual interest income received for the year ended September 30, 1996 subsequent to these balances becoming non-accrual or restructured was $20 million (1995: $31 million, 1994: $37 million) for Australian loans and $7 million (1995: $16 million, 1994: $27 million) for overseas loans. Details of actual interest income received for the year ended September 30, 1993 are not available.

For years ended September 30 Dollars in Millions	Consolidated Gross 1996	Gross 1995	Gross 1994	Specific Provisions 1996	Specific Provisions 1995	Specific Provisions 1994	Net 1996	Net 1995	Net 1994	Interest Income Received 1996	Interest Income Received 1995	Interest Income Received 1994	Interest Income Foregone 1996	Interest Income Foregone 1995	Interest Income Foregone 1994
Interest Income Received and Foregone on Non-Accrual Loans with Provisions and															
No performance															
Australia	**256**	414	856	**206**	224	306	**50**	190	550	–	–	–	**31**	36	93
Overseas	**372**	398	559	**174**	198	321	**198**	200	238	–	–	–	**36**	53	59
	628	812	1,415	**380**	422	627	**248**	390	788	–	–	–	**67**	89	152
Partial performance															
Australia	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Overseas	**12**	–	–	**2**	–	–	**10**	–	–	–	–	–	**2**	–	–
	12	–	–	**2**	–	–	**10**	–	–	–	–	–	**2**	–	–
Full performance															
Australia	**60**	168	178	**22**	60	88	**38**	108	90	**4**	11	9	–	–	–
Overseas	**277**	131	233	**237**	48	93	**40**	83	140	**5**	14	24	–	–	–
	337	299	411	**259**	108	181	**78**	191	230	**9**	25	33	–	–	–
Without Provisions and															
No performance															
Australia	**260**	233	11	–	–	–	**260**	233	11	–	–	–	**27**	32	1
Overseas	**193**	262	371	–	–	–	**193**	262	371	–	–	–	**24**	32	42
	453	495	382	–	–	–	**453**	495	382	–	–	–	**51**	64	43
Full performance															
Australia	**2**	4	12	–	–	–	**2**	4	12	–	1	2	–	–	–
Overseas	**12**	15	18	–	–	–	**12**	15	18	**2**	2	3	–	–	–
	14	19	30	–	–	–	**14**	19	30	**2**	3	5	–	–	–
Total	**1,444**	1,625	2,238	**641**	530	808	**803**	1,095	1,430	**11**	28	38	**120**	153	195
Restructured Loans															
Australia	**57**	241	247	–	–	–	**57**	241	247	**16**	19	26	**17**	–	–
Overseas	**6**	–	2	–	–	–	**6**	–	2	–	–	#	–	–	–
	63	241	249	–	–	–	**63**	241	249	**16**	19	26	**17**	–	–
Assets Acquired through Security Enforcement															
Real Estate															
Australia	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Overseas	**6**	–	–	–	–	–	**6**	–	–	–	–	–	–	–	–
	6	–	–	–	–	–	**6**	–	–	–	–	–	–	–	–
Other Assets															
Australia	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Overseas	**4**	3	1	–	–	–	**4**	3	1	**1**	–	–	–	–	–
	4	3	1	–	–	–	**4**	3	1	**1**	–	–	–	–	–

 # Denotes amount less than $500,000.

As at September 30 Dollars in Millions	Consolidated Gross 1996	 1995	 1994
Additional Information in respect of Impaired Assets			
Fair Value of Security[(1)]			
Non-Accrual Loans			
Australia	**378**	482	699
Overseas	**541**	539	791
	919	1,021	1,490
Restructured Loans			
Australia	**–**	–	–
Overseas	**6**	–	1
	6	–	1
Loans newly classified into impaired assets categories during the period:			
Australia	**188**	155	294
Overseas	**164**	75	283
	352	230	577

(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 is not included in this table.

As at September 30 Dollars in Millions	Consolidated 1992
Prior Year Asset Quality Disclosures in accordance with pre-September 1994 guidelines	
(a) Non-Performing Loans	
Non-accrual loans	
Australia	1,913
Overseas	1,444
Deduct: Specific provision for doubtful debts	(986)
	2,371
Accruing loans past due 90 days	
Australia	100
Overseas	109
Restructured loans	
Australia	340
Overseas	1

Note: Overdraft lending generally has no fixed repayment schedule and consequently is not included in 'Accruing loans past due 90 days'.

(b) Additional Provisioning

The Economic Entity also has loans which are not presently classified as non-accrual, past due 90 days or restructured, and on which no principal or interest payments are contractually past due, but where there is some concern as to the ability of the borrower to comply with existing loan terms. In view of this uncertainty, it is considered prudent to set aside additional provisions against these loans as follows:

As at September 30 Dollars in Millions	Consolidated 1992
Australia	184
Overseas	425
Deduct: Specific provision for doubtful debts	(198)
	411

(c) Interest Income Foregone

As to the non-accrual and restructured loans referred to above, the gross interest income that would have been recorded during the year ended September 30, 1992 had interest on such loans been included in income, amounted to $240 million for Australian loans and $157 million for overseas loans. Details of actual interest income received for the year ended September 30, 1992 are not available.

As at September 30 Dollars in Millions	Consolidated 1996	1995	1994	The Company 1996	1995	1994

16 Shares in entities and other securities

Carrying value

***Listed*:**						
Shares in other entities (at market value)[(1)]	**–**	92	79	**–**	92	79
Shares in other entities (at cost)	**134**	25	–	**132**	25	–
Deduct: Provision for diminution in value	**(4)**	#	–	**(4)**	–	–
	130	117	79	**128**	117	79
***Unlisted*:**						
Shares in controlled entities						
At cost	**–**	–	–	**2,873**	2,870	2,614
At Directors' valuation 1987	**–**	–	–	**185**	185	185
	–	–	–	**3,058**	3,055	2,799
Deduct: Provision for diminution in value	**–**	–	–	**–**	(2)	(20)
	–	–	–	**3,058**	3,053	2,779
Shares in other entities (at cost)	**50**	30	42	**17**	4	34
Deduct: Provision for diminution in value	**(8)**	(6)	(1)	**(2)**	(2)	(2)
	42	24	41	**15**	2	32
Units in unlisted trust (at cost)	**3**	4	#	**–**	–	–
Debentures of other entities (at cost)	**–**	22	22	**–**	22	22
Total carrying value of Shares in Entities and Other Securities	**175**	167	142	**3,201**	3,194	2,912

Market value

***Listed*:**						
Shares in other entities	**156**	141	89	**155**	124	79
***Unlisted*:**						
Shares in other entities	**45**	43	51	**16**	12	39
Units in unlisted trust	**4**	5	1	**–**	–	–
Debentures of other entities	**–**	22	22	**–**	22	22
	49	70	74	**16**	34	61
Total market value of Shares in Entities and Other Securities	**205**	211	163	**171**	158	140

[(1)] Included in listed shares in other entities in periods 1995 and prior is an investment in the Australian and New Zealand Banking Group Limited which was carried at market value net of the valuation of any associated options.

 # Denotes amount less than $500,000.

17 Regulatory deposits with Central Banks

Reserve Bank of Australia	**746**	662	593	**733**	650	583
Central Banks Overseas	**159**	107	107	**3**	3	4
Total Regulatory Deposits with Central Banks	**905**	769	700	**736**	653	587

As at September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994

18 Fixed assets

Land and buildings						
Freehold						
At cost (acquired subsequent to previous valuation date)	**57**	130	74	**43**	101	60
At Directors' valuation 1996	**1,318**	–	–	**225**	–	–
At Directors' valuation 1995	–	1,330	–	–	230	–
At Directors' valuation 1994	–	–	1,259	–	–	208
Leasehold						
At cost (acquired subsequent to previous valuation date)	**2**	3	2	–	–	–
At Directors' valuation 1996	**65**	–	–	–	–	–
At Directors' valuation 1995	–	74	–	–	–	–
At Directors' valuation 1994	–	–	88	–	–	–
Less: Accumulated depreciation and amortisation on buildings	**(5)**	(8)	(8)	**(1)**	(1)	(1)
	1,437	1,529	1,415	**267**	330	267
Leasehold improvements						
At cost	**388**	331	286	**298**	268	239
Less: Accumulated amortisation	**(171)**	(173)	(145)	**(125)**	(148)	(127)
	217	158	141	**173**	120	112
Furniture, fixtures and fittings and other equipment						
At cost	**1,570**	1,307	1,189	**105**	142	136
Under finance lease	**1**	#	–	–	–	–
Less: Accumulated depreciation and amortisation	**(542)**	(516)	(500)	**(56)**	(94)	(91)
	1,029	791	689	**49**	48	45
Data processing equipment:						
At cost	**1,038**	973	880	**441**	420	379
Under finance lease	**17**	17	33	**10**	9	23
Less: Accumulated depreciation and amortisation	**(747)**	(696)	(663)	**(334)**	(330)	(323)
	308	294	250	**117**	99	79
Total Fixed Assets	**2,991**	2,772	2,495	**606**	597	503

 # Denotes amount less than $500,000.

General Information

The Economic Entity is a substantial property owner in its own right due to the scale and nature of its operations. The majority of properties are in Australia with the largest proportion of the remainder being in the United Kingdom.

The Economic Entity's Australian operations are conducted through a network of approximately 1,233 branches and other outlets. Operations outside of Australia are conducted through approximately 1,280 branches and other offices, principally in the United Kingdom, United States, Ireland and New Zealand. Included in the Australian properties is the computer centre in Knoxfield, Melbourne which provides the Economic Entity with facilities for data processing operations.

A wholly owned entity, NBA Properties Limited together with its controlled entities, owns, operates and maintains the Economic Entity's properties in Australia. These entities do not invest in properties other than in conjunction with the Economic Entity's normal business operations. The leases, entered into between the property entities and other Economic Entity members, are on terms, including rentals, comparable to those that could be obtained from unrelated third parties.

19 Goodwill

At cost	**2,817**	1,847	1,847	–	–	–
Less: Accumulated amortisation	**(599)**	(462)	(370)	–	–	–
Total Goodwill	**2,218**	1,385	1,477	–	–	–

	Consolidated			The Company		
As at September 30 *Dollars in Millions*	***1996***	*1995*	*1994*	***1996***	*1995*	*1994*

20 Other assets

Development land acquired and held for resale:						
Cost of acquisition	**11**	10	9	**–**	–	–
Future income tax benefits[1]	**470**	324	376	**182**	190	239
Accrued interest receivable	**2,114**	1,532	1,143	**1,662**	1,132	916
Prepayments	**53**	29	35	**10**	7	2
Receivables under contracts of sale	**9**	6	1	**–**	–	–
Unrealised gains on trading derivative financial instruments	**3,708**	3,684	2,087	**3,466**	3,536	2,002
Receivables from liquidator[2]	**39**	102	332	**39**	102	332
Other assets[3]	**2,533**	1,692	1,449	**1,083**	536	603
Total Other Assets	**8,937**	7,379	5,432	**6,442**	5,503	4,094
[1] Future income tax benefits comprise:						
Specific provision for doubtful debts	**142**	99	150	**84**	73	91
Other provisions	**149**	98	87	**81**	77	79
Tax losses	**39**	45	18	**–**	–	–
Other	**140**	82	121	**17**	40	69
Total Future Income Tax Benefits	**470**	324	376	**182**	190	239
Potential future income tax benefits not carried forward for the reasons outlined in Note 1 relating to the general provision for doubtful debts	**221**	198	162	**150**	131	107

[2] *Represents the liquidators' estimation of the net return to the Company from entities placed in voluntary liquidation (refer Note 34). Movements in the estimated net return other than liquidators' distributions are recognised in profit and loss.*
[3] *Includes prepaid pension costs, securities sold but not yet settled and accrued fees receivable.*

21 Due to other banks

Australia	**3,992**	3,978	3,637	**3,836**	3,146	3,361
Overseas	**7,040**	8,523	7,494	**5,736**	7,047	5,918
Total Due to Other Banks	**11,032**	12,501	11,131	**9,572**	10,193	9,279

As at September 30 Dollars in Millions	Consolidated 1996	 1995	 1994	The Company 1996	 1995	 1994

22 Deposits and other borrowings

Australia						
Deposits not bearing interest	**1,888**	2,305	2,798	**1,875**	2,306	2,798
On demand and short-term deposits[1]	**24,831**	20,934	19,463	**24,234**	20,345	18,824
Certificates of deposit	**3,551**	4,455	2,593	**3,515**	3,953	2,581
Term deposits	**17,480**	17,109	13,667	**17,357**	16,847	13,480
Other debt obligations[2]	**4,042**	3,087	3,611	**4,042**	3,087	3,586
	51,792	47,890	42,132	**51,023**	46,538	41,269
Deduct: Set-Offs	**(1,399)**	(932)	(577)	**(1,399)**	(932)	(577)
Total Australia	**50,393**	46,958	41,555	**49,624**	45,606	40,692
Overseas						
Deposits not bearing interest	**6,501**	4,489	4,530	**9**	10	26
On demand and short-term deposits[1]	**25,434**	20,072	18,123	**76**	86	194
Certificates of deposit	**4,627**	2,995	2,586	**2,287**	1,257	267
Term deposits	**18,941**	12,837	9,512	**7,067**	5,073	2,738
Other debt obligations[2]	**5,045**	3,365	3,203	**128**	209	210
	60,548	43,758	37,954	**9,567**	6,635	3,435
Deduct: Set-Offs	**(20)**	(62)	(58)	**–**	–	–
Total Overseas	**60,528**	43,696	37,896	**9,567**	6,635	3,435
Total Deposits and Other Borrowings	**110,921**	90,654	79,451	**59,191**	52,241	44,127

[1] Deposits available on demand or lodged for periods of less than 30 days.

[2] Included above are unsecured deposit note liabilities, debentures and notes issued by, and deposit liabilities (public borrowings) of Controlled Borrowing Corporations as follows:

Secured by charges over the assets of certain Controlled Borrowing Corporations	–	–	6	–	–	–
Unsecured	–	–	–	–	–	–
Total Debentures and Notes Issued by and Deposit Liabilities (public borrowings) of Controlled Entity Borrowing Corporations	–	–	6	–	–	–
Maturities of these borrowings, are as follows:						
Due within 1 year	–	–	6	–	–	–
Total	–	–	6	–	–	–

Certificates of Deposit and Time Deposits Maturities

The following table shows the maturity profile of the Economic Entity's certificates of deposit and time deposits (which are reported net of set-offs).

As at September 30, 1996 Dollars in Millions	Three months or less	Over three months through six months	Over six months through twelve months	Over twelve months	Total
Australia					
Certificates of deposit	1,293	1,144	1,039	106	3,582
Time deposits	10,104	2,813	3,216	1,289	17,422
Total	11,397	3,957	4,255	1,395	21,004
Overseas					
Certificates of deposit	3,572	660	329	35	4,596
Time deposits	15,769	2,075	1,541	1,489	20,874
Total	19,341	2,735	1,870	1,524	25,470
Total Certificates of Deposit and Time Deposits	30,738	6,692	6,125	2,919	46,474

Short-Term Borrowings

The following table sets forth information concerning the Economic Entity's short-term borrowings for each of the last three years ended September 30.

As at September 30 Dollars in Millions	Consolidated 1996	 1995	 1994
Balance at end of period:			
Commercial paper USA	**4,430**	2,473	2,145
Unsecured notes and deposits	**581**	166	447
Weighted average interest rate at period end:			
Commercial paper USA	**5.6%**	4.8%	3.9%
Unsecured notes and deposits	**5.4%**	6.9%	5.1%
Maximum amount outstanding at any month end during period:			
Commercial paper USA	**4,519**	2,551	2,443
Debenture stock	–	–	65
Other secured borrowings	–	–	1
Unsecured notes and deposits	**1,055**	177	939
Average amount outstanding during period:			
Commercial paper USA	**3,527**	2,072	2,364
Debenture stock	–	–	54
Other secured borrowings	–	–	1
Unsecured notes and deposits	**538**	153	440
Weighted average interest rate during period:			
Commercial paper USA	**5.6%**	5.9%	3.9%
Debenture stock	–	–	9.9%
Other secured borrowings	–	–	5.9%
Unsecured notes and deposits	**5.4%**	7.7%	8.4%

Short-term borrowings of the Economic Entity consist of debenture stock (secured debt securities), unsecured notes and deposits and commercial paper programs of Australian and Overseas 'non-banking' controlled entities and of National Australia Funding (Delaware) Inc.

23 Income tax liability

As at September 30 Dollars in Millions	Consolidated 1996	 1995	 1994	The Company 1996	 1995	 1994
Australia						
Provision for income tax	**515**	625	656	**447**	554	619
Provision for deferred income tax[1]	**511**	672	644	**503**	658	638
	1,026	1,297	1,300	**950**	1,212	1,257
Overseas						
Provision for income tax	**449**	474	454	**6**	8	9
Provision for deferred income tax[1]	**163**	109	144	**#**	–	2
	612	583	598	**6**	8	11
Total Income Tax Liability	**1,638**	1,880	1,898	**956**	1,220	1,268
[1] Provisions for deferred income tax comprise:						
Lease finance	**153**	50	43	**99**	–	6
Leveraged leasing	**340**	364	355	**334**	358	341
Depreciation	**76**	63	81	**–**	4	7
Other	**105**	304	309	**70**	296	286
Total Provision for Deferred Income Tax	**674**	781	788	**503**	658	640

 # Denotes amount less than $500,000.

As at September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994

24 Provisions

Final dividend	**650**	614	534	**650**	614	534
Employee entitlements	**303**	305	294	**241**	249	241
Non-lending losses/contingencies	**117**	110	91	**26**	31	43
Restructuring costs	**31**	23	60	**#**	1	7
Specific provision for off balance sheet credit related commitments	**26**	55	60	**24**	51	18
Other provisions	197	90	116	3	6	1
Total Provisions	1,324	1,197	1,155	944	952	844

 # Denotes amount less than $500,000.

As at September 30 Dollars in Millions		Consolidated 1996	Consolidated 1995	Consolidated 1994	The Company 1996	The Company 1995	The Company 1994

25 Bonds, notes and subordinated debt

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

		Consolidated 1996	Consolidated 1995	Consolidated 1994	The Company 1996	The Company 1995	The Company 1994
1994	14% AUD notes	–	–	60	–	–	60
	CAD Euro medium term notes	–	–	10	–	–	10
	JPY Euro medium term notes	–	–	14	–	–	14
	USD Euro medium term notes	–	–	13	–	–	13
	USD floating rate notes	–	–	136	–	–	136
1995	12% AUD notes	–	–	75	–	–	75
	5.5% JPY notes	–	–	137	–	–	137
	AUD Euro medium term notes	–	–	20	–	–	20
	GBP Euro medium term notes	–	–	8	–	–	8
	JPY Euro medium term notes	–	22	64	–	22	64
	JPY zero coupon notes	–	–	96	–	–	96
	USD Euro medium term notes	–	45	21	–	45	21
	USD medium term notes(1)	–	–	34	–	–	34
1996	USD Euro medium term notes	–	15	15	–	15	15
	USD medium term notes(1)	667	316	198	667	316	198
1997	6% AUD notes	100	100	100	100	100	100
	9.75% AUD notes	100	100	–	100	100	–
	CHF Euro medium term notes	50	–	–	50	–	–
	HKD Euro medium term notes	26	27	–	26	27	–
	JPY Euro medium term notes	76	81	82	76	81	82
	NLG Euro medium term notes	18	21	–	18	21	–
	USD floating rate notes	756	132	135	756	132	135
	USD medium term notes(1)	63	–	–	63	–	–
1998	6.5% AUD notes	100	100	100	100	100	100
	7.75% AUD notes	100	100	100	100	100	100
	8.25% AUD notes	100	–	–	100	–	–
	10.5% AUD notes	200	200	–	200	200	–
	5.7% JPY fixed rate debt	34	41	41	34	41	41
	8.75% NZD notes	88	–	–	88	–	–
	6.25% USD notes	378	–	–	378	–	–
	9.7% USD subordinated notes	441	463	473	441	463	473
	CHF Euro medium term notes	100	–	–	100	–	–
	HKD Euro medium term notes	19	20	–	19	20	–
	JPY Euro medium term notes	204	54	–	204	54	–
	USD floating rate subordinated debt	189	199	203	189	199	203
1999	6.25% AUD notes	250	250	250	250	250	250
	7.75% AUD notes	125	–	–	125	–	–
	8% AUD notes	75	75	75	75	75	75
	8.5% AUD notes	225	–	–	225	–	–
	9.25% AUD notes	100	100	100	100	100	100
	9.5% AUD notes	100	100	–	100	100	–
	12% AUD notes	300	300	300	300	300	300
	3.25% CHF notes	100	–	–	100	–	–
	5.375% USD notes	315	–	–	315	–	–
	JPY subordinated debt(2)	147	264	272	147	264	272
2000	8.5% AUD notes	100	100	–	100	100	–
	8.75% AUD notes	175	–	–	175	–	–
	AUD subordinated floating rate notes(3)	10	10	200	10	10	200
	GBP variable rate notes	295	314	320	295	314	320
2001	8.0% AUD notes	200	–	–	200	–	–
	GBP Euro medium term notes	30	–	–	30	–	–
	GBP variable rate notes	114	121	123	–	–	–
2002	6.875% LUF notes	80	–	–	80	–	–
	AUD subordinated floating rate notes(3)	190	190	–	190	190	–
	USD subordinated floating rate notes	139	146	149	139	146	149
2003	HKD Euro medium term notes	19	20	20	19	20	20
2004	USD Euro medium term notes	42	44	44	42	44	44
Total Bonds, Notes and Subordinated Debt		6,940	4,070	3,988	6,826	3,949	3,865
	Add: Net premiums and deferred gains/(losses) on Eurobonds	18	(3)	(8)	18	(3)	(8)
Net Bonds, Notes and Subordinated Debt		6,958	4,067	3,980	6,844	3,946	3,857

Where proceeds have been employed in currencies other than that of the ultimate repayment liability, swap or other hedge arrangements have been entered into.

(1) The Company has established a medium term deposit note program through its New York branch under which it may issue notes up to an aggregate amount of US$1 billion for terms of 9 months to 30 years. As at September 30, 1996 the Company had US$580 million outstanding on the program (1995: US$239 million, 1994: US$271 million). A further medium term note program was established during 1991 under which the Company may issue notes up to an aggregate amount of US$500 million for terms of 9 months to 30 years.

(2) Consists of JPY subordinated loan (5.8% and 7.4% fixed rate loans on AUD nominal amount) totalling Yen 10 billion, and JPY subordinated loan (7.475% fixed rate loan on AUD nominal amount) totalling Yen 3.08 billion.

(3) Notes had an initial maturity of June 8, 2000 but were extended by two years, 30 days prior to the fifth anniversary of the issue date (June 8, 1990), and may be extended by two years each two years thereafter until 2003.

	Consolidated			*The Company*		
As at September 30 Dollars in Millions	***1996***	*1995*	*1994*	***1996***	*1995*	*1994*

26 Other liabilities

Accrued interest payable	**2,796**	2,189	1,408	**2,320**	1,734	1,147
Unrealised losses on trading derivative financial instruments	**3,949**	3,704	2,089	**3,664**	3,489	1,944
Notes in circulation	**1,142**	1,078	1,037	**–**	–	–
Other liabilities	**3,724**	2,318	1,890	**2,071**	1,084	1,172
Total Other Liabilities	**11,611**	9,289	6,424	**8,055**	6,307	4,263

27 Finance lease commitments

Data processing and other equipment						
Due within 1 year	**4**	2	6	**2**	2	4
Due within 1–2 years	**3**	1	5	**2**	#	4
Due within 2–5 years	**4**	1	1	**2**	–	#
Due after 5 years	**6**	3	–	**4**	3	–
Total commitments under finance leases	**17**	7	12	**10**	5	8
Deduct: Future finance charges (not provided for in the accounts)	**(3)**	#	(1)	**(1)**	–	#
Finance Lease Liabilities (included under other liabilities)	**14**	7	11	**9**	5	8

 # Denotes amount less than $500,000.

28 Loan capital

Perpetual Floating Rate Notes						
Issued by the Company	**315**	331	338	**315**	331	338
Issued by the Bank of New Zealand	**109**	128	142	**–**	–	–
	424	459	480	**315**	331	338

Issued by the Company

US$250 million (A$315 million) Undated Subordinated Floating Rate Notes (the 'Notes') were issued by the Company at par on October 9, 1986. Interest is payable semi-annually in arrears in April and October at a rate of 0.15 per cent per annum above the arithmetic average of the rates offered by the reference banks for six-month US dollar deposits in London.

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

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

(ii) the payment of interest will also be optional if a dividend has not been declared, paid or made in the preceding twelve months; and

(iii) in the event of the winding-up of the Company the rights of the Noteholders will rank in preference only to the rights of preferred and ordinary shareholders and creditors whose claims rank or are expressed to rank after the Noteholders and Couponholders.

The Notes are undated and have no final maturity. All or some of the Notes may be redeemed at the option of the Company at par on any interest payment date falling in or after October 1991. No redemption occurred in October 1995 or April 1996.

Issued by the Bank of New Zealand

US$200-million Floating Rate Subordinated Perpetual Capital Notes were issued by the Bank of New Zealand in 1988. The Notes are subordinated to all other debts of that Bank and have no fixed maturity date. The liability for these Notes was recorded at inception as the net proceeds of the issue. The interest rate is Libor plus 62 basis points and falls to 0.001 of one per cent per annum in May 2003. The net present value of the debt in May 2003 will be less than $1 million, and the surplus arising is being amortised on a yield-to-maturity basis over the period to 2003.

For Years Ended September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994

29 Changes in shareholders' equity

Authorised Capital						
Authorised Capital is made up of:						
3,000,000,000 Ordinary shares of $1.00 each	**3,000**	3,000	3,000	**3,000**	3,000	3,000
Issued and Paid-Up Capital (a)						
Opening balance (ordinary shares of $1.00 each)	**1,429**	1,369	1,315	**1,429**	1,369	1,315
Dividend reinvestment plan (b)	**36**	46	42	**36**	46	42
Bonus share plan (b)	**5**	7	5	**5**	7	5
Staff share scheme (b) – Note 31	**4**	4	4	**4**	4	4
Staff reward scheme (b) – Note 31	**#**	#	#	**#**	#	#
Share top up plan (b)	**3**	3	3	**3**	3	3
Closing balance (c)	**1,477**	1,429	1,369	**1,477**	1,429	1,369
General Reserve						
Opening balance	**955**	834	836	**772**	772	770
Appropriations from profits	**47**	125	11	**1**	–	2
Transfer to retained profits	**(940)**	(4)	(13)	**(769)**	–	–
Closing balance	**62**	955	834	**4**	772	772
Capital Reserve						
Opening balance	**222**	222	150	**202**	202	204
Appropriations from profits	**–**	–	125	**–**	–	–
Transfer from asset revaluation reserve	**–**	6	6	**–**	–	–
Transfer to retained profits	**(222)**	(6)	(59)	**(202)**	–	(2)
Closing balance	**–**	222	222	**–**	202	202
Asset Revaluation Reserve						
Opening balance	**288**	240	305	**265**	241	298
Revaluation of properties	**(31)**	65	(21)	**(8)**	28	3
Revaluation of certain properties to recoverable amounts	**–**	–	(4)	**–**	–	(3)
Transfer to capital reserve	**–**	(6)	(6)	**–**	–	–
Transfer to retained profits	**–**	(7)	(31)	**–**	–	(46)
Other	**(5)**	(4)	(3)	**(2)**	(4)	(11)
Closing balance	**252**	288	240	**255**	265	241
Capital Redemption Reserve						
Opening balance	**–**	–	42	**–**	–	–
Transfer to retained profits	**–**	–	(42)	**–**	–	–
Closing balance	**–**	–	–	**–**	–	–
Share Premium Reserve						
Opening balance	**4,811**	4,319	3,856	**4,811**	4,319	3,856
Premium on issue of shares	**512**	561	516	**512**	561	516
Bonus issue	**(57)**	(69)	(53)	**(57)**	(69)	(53)
Closing balance	**5,266**	4,811	4,319	**5,266**	4,811	4,319
Foreign Currency Translation Reserve						
Opening balance	**51**	(2)	209	**36**	(6)	(2)
Currency translation adjustments	**(210)**	53	(211)	**#**	42	(4)
Closing balance	**(159)**	51	(2)	**36**	36	(6)
Total Reserves	**5,421**	6,327	5,613	**5,561**	6,086	5,528

Details of movements in retained profits are contained in the Statement of Profit and Loss on page 71.
(a) The issues of ordinary shares were for general purposes of the Economic Entity.
 # Denotes amount less than $500,000.

(b) Details of Issued and Paid-up Capital

	The Company					
	1996		1995		1994	
	No. of Shares	Issue Price	No. of Shares	Issue Price	No. of Shares	Issue Price
Dividend Reinvestment	**22,061,526**	**$11.87**	23,351,080	$10.25	25,325,615	$10.18
Plan Issues	**14,130,915**	**$11.32**	22,988,453	$10.83	17,096,426	$10.94
Bonus Share Plan Issues	**2,548,160**	**$11.87**	3,835,267	$10.25	3,186,568	$10.18
	2,413,176	**$11.32**	2,774,085	$10.83	1,848,029	$10.94
National Australia Bank Staff Share Scheme						
Executive Staff Share Scheme Issues	**55,830**	**$4.72**	65,280	$4.72	118,130	$4.72
	68,700	**$4.25**	77,720	$4.25	136,380	$4.25
	79,376	**$5.54**	92,810	$5.54	175,490	$5.54
	109,837	**$5.56**	122,543	$5.56	216,720	$5.56
	129,120	**$6.15**	151,165	$6.15	271,401	$6.15
	122,470	**$9.07**	118,830	$9.07	232,063	$9.07
	108,360	**$10.97**	123,725	$10.97	1,432,428	$10.97
	113,778	**$10.83**	1,126,103	$10.83	1,130,569(i)	$10.97
	1,696,554	**$11.03**	1,120,119(i)	$10.83		
	794,579(i)	**$11.03**				
General Staff Share Scheme Issues	**1,249,357**	**$11.03**	931,729	$10.83	1,254,985	$10.97
	162,036(i)	**$11.03**	236,557(i)	$10.83	171,550(i)	$10.97
National Australia Bank Limited						
Staff Reward Scheme Issues	**191,471**	**$12.16**	199,411	$10.50	112,928	$12.02
Share Top Up Plan Issues	**1,698,154**	**$11.87**	1,442,971	$10.25	1,313,415	$10.18
	1,633,263	**$11.04**	1,536,765	$10.83	1,772,774	$10.94

All shares issued were fully paid ordinary unless otherwise noted (i) partly paid

(c) Details of Closing Balance of Issued and Paid-up Capital

	The Company		
For years ended September 30 Dollars in Millions	*1996*	*1995*	*1994*
Authorised Capital of $1.00 each	**3,000**	3,000	3,000
Ordinary shares of $1.00 each, fully paid	**1,476**	1,428	1,369
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 37 cents as to premium	**–**	–	#
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 35 cents as to premium	**–**	#	–
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 38 cents as to premium	**#**	–	–
Ordinary shares of $1.00 each, paid to 10 cents as to capital and 15 cents as to premium	**1**	1	#
Total Issued and Paid-up Capital	**1,477**	1,429	1,369
Number of Ordinary Shares issued			
Authorised Capital of $1.00 each	**3,000,000,000**	3,000,000,000	3,000,000,000
Ordinary shares of $1.00 each, fully paid	**1,476,540,600**	1,427,894,006	1,368,784,519
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 37 cents as to premium	**–**	–	171,550
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 35 cents as to premium	**–**	236,557	–
Ordinary shares of $1.00 each, paid to $1.00 as to capital and 38 cents as to premium	**162,036**	–	–
Ordinary shares of $1.00 each, paid to 10 cents as to capital and 15 cents as to premium	**5,183,215**	5,176,109	4,808,063
Total Number of Shares Issued	**1,481,885,851**	1,433,306,672	1,373,764,132

 # Denotes amount less than $500,000.

Share Options

For details of share options on the 'National Australia Executive Option Plan' refer to Note 31 on page 108.

30 Outside equity interests

As at September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994
Issued and paid-up capital	–	7	7	–	–	–
Reserves	–	10	10	–	–	–
Retained profits	–	21	17	–	–	–
Total Outside Equity Interests	–	38	34	–	–	–

31 Employee share, bonus and option schemes

(a) National Australia Bank Staff Share Scheme (Staff Share Scheme)

The Staff Share Scheme was approved by shareholders in 1986. Shares issued under the scheme in 1996, 1995 and 1994 are shown in the table below.

Under the terms of the scheme, eligible employees may be offered, on an annual basis, ordinary shares in the Company. The offer is generally open for a period of 4 weeks. Full-time and part-time employees of the Economic Entity are eligible to participate in the scheme if they are at least 18 years of age and have had twelve months' continuous service on the date the offer opens. For executive participants the twelve months' continuous service requirement is waived.

As from January 19, 1995, employees of controlled entities in the United Kingdom and Republic of Ireland are no longer eligible to participate in the Staff Share Scheme. (Refer to (d) below – Employee Share Savings Plan – United Kingdom and Republic of Ireland.)

For the year ended September 30, 1996, a total of 27,671 eligible employees were invited to participate in the scheme, comprising 7,030 executive participants and 20,641 general participants.

Shares are offered to executive participants (management status and above) generally on the basis of 10 shares for each A$1,000 of annual salary or part thereof. General (non-executive) participants are generally offered 200 shares each year.

Executive participants may elect to either fully or partly pay for their entitlement on subscription. If fully paid, the price is the initial market price, being the greater of 97.5% (92.5% for issues prior to September 30, 1994) of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer or the par value of the shares. If partly paid, an up-front payment of A$0.25 per share is required. Partly paid shares are only entitled to pro rata dividends based on the amount subscribed on account of the par value.

Executive participants may elect to pay the balance on partly paid shares during the 28 days following each half-yearly and yearly profit announcement. When a call is made, either at the request of the executive participant or upon retirement, or otherwise leaving the Economic Entity, partly paid shares must be fully paid. To fully pay up their shares, executive participants must pay the lower of the initial market price at the time of the issue, or 97.5% (92.5% for issues prior to September 30, 1994) of the market price immediately before the call is made, less the A$0.25 originally subscribed.

General participants may also elect to either fully or partly pay for their entitlement on subscription. Whether fully or partly paid, the price is the initial market price, being the greater of 97.5% (92.5% for issues prior to September 30, 1994) of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer or the par value of the shares. If partly paid, an up-front payment of 12.5% of the initial market price per share is required. General participants are required to fully pay up their partly paid shares by paying 25 equal fortnightly instalments, less the 12.5% originally subscribed.

Executive and general participants electing to fully pay for their entitlement on subscription, may pay such amount by cash, or by utilising the National Australia Bank Limited Staff Loan Scheme (Staff Loan Scheme) approved by shareholders in 1992 for this purpose. Generally, loans under the Staff Loan Scheme are interest free. As at September 30, 1996, aggregate loans receivable under the Staff Loan Scheme amounted to $57 million.

Executive and general participants domiciled outside Australia and New Zealand may be subject to different acceptance and payment conditions due to local legal requirements. In many cases, payment in full on subscription will be required and the Staff Loan Scheme may not be available. Where the loan is available it is made with the Company in Australian dollars.

The aggregate of partly paid shares on issue under the Staff Share Scheme, and shares where subscription has been funded by a loan under the Staff Loan Scheme, shall not at any time exceed 5.0% of the total number of fully paid ordinary shares of the Company on issue.

(b) National Australia Bank Limited Staff Reward Scheme (Executive Staff Bonus Share Scheme)

The Executive Staff Bonus Share Scheme was approved by shareholders in 1992. Shares issued under the scheme in 1996, 1995 and 1994 are as shown in the table.

Under the terms of the scheme, the Board of Directors (Board) may invite employees of the Economic Entity to participate and resolve to pay a performance based bonus which, after satisfying taxation and legislative requirements, will be applied towards the acquisition of fully paid ordinary shares in the Company. The effect of this scheme is to require senior members of staff who are awarded a performance bonus to use half of the after tax value of the bonus to subscribe for ordinary shares in the Company at the market price on the date of subscription.

For the year ended September 30, 1996 there were 653 employees participating in the scheme.

The subscription price is the greater of the weighted average market price of the Company's shares in the week preceding the dispatch of the offer or the par value of the shares.

At the Board's discretion, the number of shares may be rounded up to the next whole share or rounded down to the last whole share with any remaining balance of the performance based bonus payment being paid to the participant.

The aggregate number of shares issued under the scheme in any financial year shall not exceed 1% of the total number of fully paid ordinary shares of the Company on issue.

(c) National Australia Executive Option Plan (Executive Option Plan)

The Executive Option Plan was approved by shareholders in 1994. Options issued under the plan for 1996, 1995 and 1994 are shown in the table below.

Under the plan, the Board may offer options to executives of the Economic Entity to subscribe for ordinary shares in the Company. The Board determines eligibility and entitlements having regard to each executive's contribution and potential contribution to the Economic Entity and to any other matters which the Board considers relevant.

During the year ended September 30, 1996 share options were issued to 359 executives covering a total of 14,120,000 share options. During the year ended September 30, 1995 share options were issued to 276 executives covering a total of 10,160,000 share options. During the year ended September 30, 1994 share options were issued to 83 executives covering a total of 4,580,000 share options.

The 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 determined by the Board at the date the option is issued. The exercise price per option must be at least equal to the greater of the par value or 95.0% of the market value of the Company's ordinary shares as at the date the option is issued. The market value is the weighted average market price of the Company's ordinary shares in the week preceding the issue of the option.

An option may not be exercised before the third anniversary of its issue, and must be exercised by the fifth anniversary of its issue. If the Board determines and the law permits, an option may be exercised at a date later than the fifth anniversary of its issue. As a precondition of the exercise of any option, the market price of the Company's shares after three years must have increased by at least 20.0% over the exercise price as determined at the date the option is issued, after allowing for share issues in the meantime.

Options will lapse if unexercised on or before their expiry date, or if the Board makes a determination that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any company in the Economic Entity and the option is to be forfeited. The plan's rules do not provide for options to lapse by reason only of the holder's ceasing to be employed by the Economic Entity.

Options may only be exercised within the limitations imposed by the Corporations Law and the Australian Stock Exchange Listing Rules. Under the Australian Stock Exchange Listing Rules, options may not be issued to Company Directors under an employee incentive scheme without specific shareholder approval. Shareholders approved the issue of options (and shares resulting from exercise of those options) to the Managing Director at the annual general meetings.

A loan may be available to executives if and when they wish to exercise their options. The plan's rules provide that the rate of interest applicable to such a loan is generally the standard rate charged by the Company on loans to employees. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

At September 30, 1996, no options had been exercised. There will be no impact on shareholders' equity until options are exercised.

(d) Employee Share Savings Plan – United Kingdom and Republic of Ireland (Employee Share Savings Plan)

The Employee Share Savings Plan was approved by shareholders in 1995. Shares issued under the plan in 1996 are shown in the table below.

Due to delays in receiving approval from the Republic of Ireland Revenue Commissioner it was not possible for employees in the Republic of Ireland to participate in the plan until the Savings Period beginning February 1, 1996.

Full-time and part-time employees of controlled entities in the United Kingdom and Republic of Ireland, who are resident in those countries and have had at least one full year's continuous service at the beginning of the Savings Period are eligible to participate in the plan. The plan allows for savings out of salary (up to a maximum of two percent) by participating employees and the investment of those savings by the acquisition of fully paid ordinary shares of the Company.

At the end of the Savings Period, each relevant controlled entity makes a cash contribution sufficient to purchase an equivalent number of shares as that purchased from the accumulated savings of participating employees. Contributions by controlled entities are accrued over the term of the Savings Period and are included in Provisions until paid.

Savings by participating employees and contributions by controlled entities are paid to Trusts which purchase shares on market as soon as practicable after the close of each Savings Period. The price of the shares is the market price at the date the Trusts acquire the shares. Shares acquired under the plan are required to be held in the Trusts for a minimum of two years. The underlying regulations provide certain taxation concessions to employees where the employer funded shares are retained in the Trusts for a period of three years.

The aggregate market value of shares issued to participating employees in the plan must be within the statutory requirements permitted by the taxation authorities from time to time.

The first Savings Period under the plan began on August 1,1995 and continued for six months, ending on January 31, 1996 for which there were 13,961 eligible participants. The plan has continued to operate with six monthly Savings Periods beginning on February 1, 1996 and August 1, 1996 for which there were 15,096 and 15,466 eligible participants respectively. The Board has established the savings limit for participating employees as one per cent of salary until otherwise determined.

Amounts loaned to participants, where applicable, are included in Loans and Other Receivables and the costs in administering the above schemes and plans are expensed as incurred. Shares issued under the above schemes and plans rank pari passu with existing shares of the Company.

	Ordinary Shares issued	Issue price	Subscription details
National Australia Bank Staff Share Scheme			
Executive participants			
1996	2,491,141	$11.03	807,137 partly paid $0.10 capital and $0.15 premium
			1,684,004 paid in full (1,609,623 under loan scheme)
1995	2,246,222	$10.83	1,122,899 partly paid $0.10 capital and $0.15 premium
			1,123,323 paid in full (1,024,528 under loan scheme)
1994	2,562,997	$10.97	1,231,340 partly paid $0.10 capital and $0.15 premium
			1,331,657 paid in full (1,067,450 under loan scheme)
General participants			
1996	1,411,393	$11.03	166,551 partly paid $1.00 capital and $0.38 premium
			1,244,842 paid in full (1,096,944 under loan scheme)
1995	1,168,286	$10.83	238,094 partly paid $1.00 capital and $0.35 premium
			930,192 paid in full (783,919 under loan scheme)
1994	1,426,535	$10.97	189,910 partly paid $1.00 capital and $0.37 premium
			1,236,625 paid in full (955,232 under loan scheme)
National Australia Bank Limited Staff Reward Scheme			
1996	191,471	$12.16	paid in full
1995	199,411	$10.50	paid in full
1994	112,928	$12.02	paid in full

National Australia Executive Option Plan

Issue Date of Option	*Exercise Period of Option*	*Latest Date for Exercise of Option*	*Exercise Price of Option*	*No. of Options Held at Sep 30, 1996*
Jan 31, 1994	Jan 31, 1997 – Jan 31, 1999	Jan 31, 1999	$11.76	4,580,000
Feb 13, 1995	Feb 13, 1998 – Feb 13, 2000	Feb 13, 2000	$10.55	10,160,000
Jan 2, 1996	Jan 2, 1999 – Jan 2, 2001	Jan 2, 2001	$12.16	13,380,000
Jan 25, 1996	Jan 25, 1999 – Jan 25, 2001	Jan 25, 2001	$12.54	500,000
Jun 27, 1996	Jun 27, 1999 – Jun 27, 2001	Jun 27, 2001	$11.52	240,000
Total				28,860,000

The market price of the Company's shares at September 30, 1996 was $13.30 (1995: $11.72, 1994: $10.36).

Employee Share Savings Plan – United Kingdom and Republic of Ireland

Savings Period	*Ordinary Shares Issued*	*Average Issue Price*	*Subscription Details*
Aug 1, 1995 – Jan 31, 1996	199,700	$12.76	Paid in full
Feb 1, 1996 – Jul 31, 1996	320,724	$12.36	Paid in full
Aug 1, 1996 – Jan 31, 1997	–	–	(1)

(1) No shares have been issued at September 30, 1996 but $2 million has been contributed to the Trust in respect of this Savings Period. Shares will be purchased at the end of this Savings Period.

32 Financial reporting by segments

In accordance with Australian Accounting Standard AASB1005, 'Financial Reporting By Segments', the allocation of assets, income and profit is based on geographical location of the office in which transactions are booked. For example the assets, income and profit attributed to Bank of New Zealand offices situated in Australia are included under 'Australia'. There are no material inter-segment transactions.

Risk weighted assets include off-balance sheet exposures.

	Consolidated					
For years ended September 30 *Dollars in Millions*	*1996*	*%*	*1995*	*%*	*1994*	*%*
Geographical						
Assets						
Australia	**93,998**	**54.1**	86,336	58.3	75,315	57.7
United Kingdom & Europe	**39,748**	**22.9**	36,883	24.9	34,238	26.3
New Zealand	**18,927**	**10.9**	17,087	11.5	13,667	10.5
United States	**14,433**	**8.3**	3,365	2.3	1,732	1.3
Asia	**6,604**	**3.8**	4,452	3.0	5,484	4.2
	173,710	**100.0**	148,123	100.0	130,436	100.0
Risk Weighted Assets						
Australia	**76,767**	**57.6**	66,952	61.4	58,811	61.2
United Kingdom & Europe	**27,750**	**20.8**	26,396	24.2	23,735	24.7
New Zealand	**13,488**	**10.1**	12,203	11.2	10,021	10.4
United States	**12,564**	**9.4**	1,620	1.5	1,360	1.4
Asia	**2,744**	**2.1**	1,814	1.7	2,188	2.3
	133,313	**100.0**	108,985	100.0	96,115	100.0
Gross Income						
Australia	**8,141**	**54.5**	7,134	56.5	5,837	56.8
United Kingdom & Europe	**3,382**	**22.6**	3,308	26.2	2,943	28.7
New Zealand	**1,920**	**12.9**	1,666	13.2	1,089	10.6
United States	**1,117**	**7.5**	197	1.6	106	1.0
Asia	**377**	**2.5**	311	2.5	296	2.9
	14,937	**100.0**	12,616	100.0	10,271	100.0
Operating Profit Before Tax						
Australia	**2,045**	**66.8**	1,995	69.3	1,886	70.6
United Kingdom & Europe	**545**	**17.8**	576	20.0	582	21.8
New Zealand	**234**	**7.6**	275	9.6	152	5.7
United States	**215**	**7.0**	9	0.3	15	0.6
Asia	**23**	**0.8**	24	0.8	34	1.3
	3,062	**100.0**	2,879	100.0	2,669	100.0
Operating Profit After Tax and Outside Equity Interests						
Australia	**1,448**	**68.9**	1,429	72.5	1,256	73.5
United Kingdom & Europe	**341**	**16.2**	358	18.2	364	21.3
New Zealand	**161**	**7.7**	161	8.2	47	2.8
United States	**131**	**6.2**	3	0.2	14	0.8
Asia	**21**	**1.0**	18	0.9	27	1.6
	2,102	**100.0**	1,969	100.0	1,708	100.0
Industry						
Assets						
Banking	**172,611**	**99.4**	147,020	99.3	128,755	98.7
Finance & Life Insurance	**215**	**0.1**	214	0.1	742	0.6
Merchant & Investment Banking	**884**	**0.5**	889	0.6	939	0.7
	173,710	**100.0**	148,123	100.0	130,436	100.0

For years ended September 30 Dollars in Millions	Consolidated 1996	%	1995	%	1994	%
Gross Income						
Banking	**14,699**	**98.4**	12,340	97.8	9,947	96.9
Finance & Life Insurance	**132**	**0.9**	105	0.8	259	2.5
Merchant & Investment Banking	**106**	**0.7**	171	1.4	65	0.6
	14,937	**100.0**	12,616	100.0	10,271	100.0
Operating Profit Before Tax						
Banking	**2,995**	**97.8**	2,836	98.5	2,490	93.3
Finance & Life Insurance	**33**	**1.1**	(2)	(0.1)	150	5.6
Merchant & Investment Banking	**34**	**1.1**	45	1.6	29	1.1
	3,062	**100.0**	2,879	100.0	2,669	100.0
Operating Profit After Tax and Outside Equity Interests						
Banking	**2,050**	**97.5**	1,947	98.9	1,546	90.5
Finance & Life Insurance	**29**	**1.4**	(7)	(0.4)	140	8.2
Merchant & Investment Banking	**23**	**1.1**	29	1.5	22	1.3
	2,102	**100.0**	1,969	100.0	1,708	100.0

33 Notes to the Statement of Cash Flows

For years ended September 30 Dollars in Millions	Consolidated 1996	1995	1994	The Company 1996	1995	1994
(i) Reconciliation of Operating Profit after Income Tax to Net Cash Provided by Operating Activities						
Operating profit after income tax	**2,102**	1,969	1,708	**1,377**	1,302	1,647
Adjustments to reconcile net profit to net cash provided by operating activities:						
Decrease (increase) in interest receivable	**(617)**	(503)	144	**(482)**	(223)	(105)
Increase (decrease) in interest payable	**643**	794	(84)	**585**	587	244
Depreciation and amortisation	**357**	301	263	**91**	65	66
Provision for doubtful debts	**333**	116	179	**169**	80	159
Provision for long service leave and retiring allowances	**6**	12	22	**4**	10	21
Provision for annual leave	**4**	7	6	**3**	6	4
Provision for restructuring	**57**	20	31	**24**	–	26
Amortisation of goodwill	**137**	92	92	**–**	–	–
Other provisions	**61**	240	226	**119**	139	111
Increase (decrease) in provision for income tax	**(135)**	11	482	**(109)**	(51)	220
Net increase (decrease) in provision for deferred tax and future income tax benefit	**(39)**	29	(64)	**(147)**	53	19
Net (increase) decrease in trading instruments	**(491)**	(1,517)	457	**(465)**	(1,294)	(1,992)
Unrealised loss (profit) on revaluation of trading securities	**202**	(40)	116	**258**	(43)	86
Loss (profit) on available for sale and investment securities	**1**	(3)	(1)	**–**	(2)	(1)
Net profit on sale of fixed assets and development property	**(7)**	(8)	(13)	**(1)**	(5)	(4)
Other	**(33)**	(24)	(26)	**1**	(6)	(95)
Total adjustments	**479**	(473)	1,830	**50**	(684)	(1,241)
Net cash provided by operating activities	**2,581**	1,496	3,538	**1,427**	618	406

For years ended September 30 Dollars in Millions	Consolidated **1996**	 1995	 1994	The Company **1996**	 1995	 1994

(ii) Reconciliation of Cash

For the purposes of reporting cash flows, cash and cash equivalents include 'cash and short-term liquid assets', 'due from other banks' and 'due to other banks'.

Cash and cash equivalents as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

	Consolidated 1996	Consolidated 1995	Consolidated 1994	The Company 1996	The Company 1995	The Company 1994
Cash	**1,724**	1,594	1,483	**871**	250	229
Other short-term liquid assets [1]	**3,175**	3,157	3,154	**693**	454	1,013
Due from other banks	**9,392**	9,353	9,138	**6,215**	6,138	5,772
Due to other banks	**(11,032)**	(12,501)	(11,131)	**(9,572)**	(10,193)	(9,279)
	3,259	1,603	2,644	**(1,793)**	(3,351)	(2,265)

[1] *Other short-term liquid assets include remittances in transit which represent funds flows which are in the process of imminent conversion into cash.*

(iii) Non-Cash Financing and Investing Activities

	Consolidated 1996	Consolidated 1995	Consolidated 1994	The Company 1996	The Company 1995	The Company 1994
New Share Issues:						
Dividend reinvestment plan	**421**	488	445	**421**	488	445
Bonus share plan	**57**	69	53	**57**	69	53
Movement in assets under finance lease	**(12)**	(16)	(17)	**2**	(14)	(10)

These amounts are not reflected in the Statement of Cash Flows.

(iv) Financing Arrangements

Refer to Note 41.

(v) Acquisitions

On November 2, 1995 the Company acquired 100% of the share capital of Michigan National Corporation for cash consideration.

The operating results of Michigan National Corporation have been included in consolidated profit and loss from that date.

Details of the acquisition were as follows:

For year ended September 30 *Dollars in Millions*	*Consolidated* ***1996***
Fair Value of Net Assets Acquired	
Cash and short-term liquid assets	**541**
Due from other banks	**358**
Trading securities	**10**
Investment securities	**1,479**
Loans & other receivables	**7,963**
Available for sale securities	**304**
Fixed assets	**127**
Other assets	**535**
Due to other banks	**(145)**
Deposits and other borrowings	**(9,626)**
Other liabilities	**(407)**
Total net assets acquired	**1,139**
Goodwill on acquisition	**950**
Total net assets acquired after goodwill	**2,089**
Cash Consideration Paid	**2,089**

(vi) Disposals

During the year ended September 30, 1994 the Company disposed of part of the business of National Australia Travel Limited.

Details of the disposal were as follows:

	Consolidated
For year ended September 30 Dollars in Millions	*1994*
Fair Value of Net Assets Disposed	
Land, buildings and equipment	2
Other assets	14
Due to related corporations	(4)
Other liabilities	(10)
Total net assets disposed	2
Profit on disposal	9
Cash Consideration Received	11

There were no other material acquisitions or disposals during 1996, 1995 and 1994.

(vii) Voluntary Liquidations

During the year ended September 30, 1996 Custom Lease Pty Limited was placed into members voluntary liquidation. During the year ended September 30, 1995 National Australia Travel Limited, A C Goode & Co, Dillenti Pty Ltd and 500 Bourke Street Limited were placed into members voluntary liquidation. The net assets of these entities were not material from an Economic Entity perspective. During the year ended September 30, 1994 Custom Credit Holdings Limited and certain controlled entities, National Australia Limited and certain controlled entities, First National Limited and First National Finance Limited were placed into members voluntary liquidation. Net assets removed from the consolidated balance sheet and reflected in other assets (receivables from liquidator) in 1994 were as follows:

	Consolidated
For year ended September 30 Dollars in Millions	*1994*
Fair Value of Net Assets Liquidated	
Cash and short-term liquid assets	145
Due from related corporations	132
Loans & other receivables	744
Land, buildings and equipment	12
Other assets	35
Bank deposits	(178)
Due to related corporations	(47)
Other liabilities	(133)
Total net assets liquidated	710
Other assets (receivables from liquidator)	710

34 Particulars in relation to controlled entities

Entity Name Dollars in Millions	*Incorporated in (a)*	*Contribution to Consolidated Operating Profit 1996*	*1995*	*Book Value of Each Parent Entity's Investment 1996 (b)*	*1995*		*Nature of Business*
National Australia Bank Limited	Australia	**1,196**	1,181				Banking
Controlled Entities							
National Equities Limited	Australia	**54**	101	**2,594**	2,496	j	Parent entity
National Australia Financial Management Ltd.	Australia	**24**	14	**10**	10		Life insurance
National Australia Asset Management Limited	Australia	#	#	#	–	c	Investment management
National Australia Financial Planning Limited	Australia	–	1	#	#		Non-trading
National Australia Fund Management Limited	Australia	**1**	3	**4**	1		Fund management
National Australia Management Services Pty. Ltd.	Australia	#	#	**6**	6		Management services
National Australia Superannuation Pty. Ltd.	Australia	–	–	#	#		Trustee for superannuation funds
NAFM Investments Pty. Ltd.	Australia	–	–	#	#		Trustee for property trust
National Australia Group (NZ) Limited*	New Zealand	**(107)**	(106)	**576**	576		Parent entity
National Australia (NZ) Limited*	New Zealand	**56**	57	**165**	136		Non-trading
Bank of New Zealand*	New Zealand	**264**	209	**980**	1,131		Banking
BNZ Finance Limited*	New Zealand	**27**	16	**60**	81	b	Registered bank
BNZ Finance Acceptances Limited	New Zealand	–	–	#	#		Property company
BNZ Finance Nominees Limited	New Zealand	–	–	#	#		Nominee company
Student Loans Management Limited	New Zealand	–	–	#	#		Tertiary loans

Entity Name Dollars in Millions	Incorporated in (a)	Contribution to Consolidated Operating Profit 1996	1995	Book Value of Each Parent Entity's Investment 1996 (b)	1995		Nature of Business
BNZ Funding Limited	New Zealand	5	–	#	#	c	Funding vehicle
BNZ International (Hong Kong) Limited*	Hong Kong	#	2	5	5		Non-trading
BNZ Investments Limited*	New Zealand	(1)	36	441	435		Investment company
BNZ Corporation Limited*	New Zealand	–	–	#	#		Non-trading
BNZ Equipment Limited*	New Zealand	1	#	#	#		Lease finance
BNZ International Australia Limited	Australia	8	3	53	46		Merchant bank
BNZ Norths Limited (In liquidation)	Australia	1	#	–	–		Sharebroker
BNZ Securities Australia Limited	Australia	#	#	#	9		Security dealer
Partown Pty Limited	Australia	3	(3)	50	34		Investment company
BNZ International Limited*	New Zealand	#	#	#	2		Non-trading
Plimmer City Centre Limited	New Zealand	–	–	#	#	b	Non-trading
BNZ Investment Advisory Services Limited*	New Zealand	#	(1)	#	#		Investment advisory
BNZ Investment Management Limited*	New Zealand	1	#	4	4		Investment management
BNZ Life Insurance Limited*	New Zealand	7	6	1	1		Life insurance
BNZ Nominees Limited*	New Zealand	–	–	#	#		Nominee company
BNZ Property Holdings (No 2) Limited*	New Zealand	–	–	#	#		Non-trading
BNZ Property Holdings (No 3) Limited*	New Zealand	#	–	#	#		Non-trading
BNZ Property Investments Limited*	New Zealand	–	–	#	#		Property company
BNZ Branch Properties Limited*	New Zealand	(27)	(5)	#	14		Property company
BNZ Properties (Auckland) Limited*	New Zealand	#	#	#	#		Property company
BNZ Properties Limited*	New Zealand	#	1	#	#		Property company
BNZ Property Services Limited*	New Zealand	(2)	#	#	#		Property company
Flamingo Holdings Incorporated*	United States of America	–	–	#	#		Property company
BNZ Services Limited*	New Zealand	#	–	#	#		Non-trading
Braccleigh Holdings Limited	New Zealand	1	#	#	–	c	Investment company
Commercial Property Trust	New Zealand	2	1	#	#	b	Property trust
Hilden Holdings Limited*	New Zealand	–	–	#	#		Investment company
Maroro Leasing Limited	New Zealand	–	–	#	#		Leasing activities
National Australia Ltd*	New Zealand	–	–	3	3		Non-trading
New Zealand Card Services Limited*	New Zealand	#	(1)	#	#		Non-trading
Quill Financing Limited*	New Zealand	–	–	#	#	b	Non-trading
Peterel Financing Limited*	New Zealand	–	–	#	#		Non-trading
National Australia (1995) Ltd	New Zealand	(10)	–	60	–	c	Investment company
Custom Fleet (NZ) Limited	New Zealand	#	–	1	–	c	Motor vehicle fleet leasing and management
National Australia Group (UK) Limited*	England	(119)	(31)	3,175	2,289		Parent entity
Clydesdale Bank PLC (Group)*	Scotland	136	143	764	676		Banking
CB House Purchase Limited	Scotland	–	–	–	–	f	Nominee entity
CB Nominees Limited	Scotland	–	–	–	–	f	Nominee entity
CB Shelfco No. 1 Limited (In liquidation)	Scotland	#	#	2	–		Non-trading
CB Trustee Nominees Limited	Scotland	–	–	–	–	f	Nominee entity
Clydesdale Bank Custodian Nominees Limited	Scotland	–	–	–	–	f	Nominee entity
Clydesdale Bank Equity Limited*	Scotland	10	6	5	5		Venture/development
Clydesdale Bank Pension Trustee	Scotland	–	–	#	#		Pension scheme trustee
Clyde General Finance Limited*	Scotland	3	5	12	13		Lease finance
CGF No. 3 Limited*	Scotland	1	–	#	#	g	Lease finance
CGF No. 6 Limited*	Scotland	#	–	#	#	g	Lease finance
CGF No. 9 Limited*	Scotland	1	–	#	#		Lease finance
CGF No. 12 Limited*	Scotland	#	–	#	#	g	Lease finance
Clydesdale Bank Insurance Brokers Limited*	Scotland	12	10	2	1		Insurance brokers
Clydesdale Bank (Head Office) Nominees Ltd	Scotland	–	–	–	–	f	Nominee entity
Clydesdale Bank (London) Nominees Limited	Scotland	–	–	–	–	f	Nominee entity

Entity Name *Dollars in Millions*	*Incorporated in (a)*	*Contribution to Consolidated Operating Profit* **1996**	*1995*	*Book Value of Each Parent Entity's Investment* **1996 (b)**	*1995*		*Nature of Business*
Clydesdale Bank (Piccadilly) Nominees Limited	Scotland	–	–	–	–	f	Nominee entity
Clydesdale-Murray Nominees Ltd.	Scotland	–	–	–	–	f	Nominee entity
North of Scotland Bank Limited	Scotland	–	–	–	–	f	Nominee entity
North of Scotland Bank London Nominees Ltd	Scotland	–	–	–	–	f	Nominee entity
Warren Collections Limited	Scotland	–	–	–	–	f	Nominee entity
National Australia Group (UK) Investments Ltd	Scotland	**1**	#	**#**	#	d	Investment entity
National Americas Holdings Ltd	England	**–**	–	**1,724**	#	c	Parent entity
Michigan National Corporation*	United States of America	**37**	–	**1,724**	–	c	Parent entity
Independence One Asset Management Corporation	United States of America	**#**	–	**#**	–	c	Asset management services
Michigan Bank, Federal Savings Bank	United States of America	**6**	–	**61**	–	c	Savings and loan association
Independence One Capital Management Corporation	United States of America	**#**	–	**2**	–	c	Investment advisory services
Independence One Life Insurance Company	United States of America	**#**	–	**2**	–	c	Underwriter of credit life and disability reinsurance
Michigan National Bank	United States of America	**108**	–	**1,756**	–	c	Banking
Detroit Diesel Capital Corporation	United States of America	**#**	–	**1**	–	b, c	Provides credit facilities
Executive Relocation Corporation	United States of America	**1**	–	**7**	–	c	Corporate relocation services
General Audit Systems	United States of America	**–**	–	**#**	–	c	Credit investigations
Independence One Brokerage Services, Inc.	United States of America	**1**	–	**2**	–	c	Discount brokerage services
Independence One Financial Services, Inc.	United States of America	**1**	–	**#**	–	c	Owns and services commercial loan portfolio
Independence One Realty Services Corporation	United States of America	**–**	–	**#**	–	c	Loan servicing
Second National Fund of New Jersey	United States of America	**#**	–	**#**	–	c	Loan servicing
Independence One Mortgage Corporation	United States of America	**#**	–	**9**	–	c	Residential mortgage lender and servicer
Meridian Investments, Inc.	United States of America	**–**	–	**1**	–	c	Asset management
RIMCO VII, Inc.	United States of America	**#**	–	**4**	–	c	Asset management
RIMCO XIV, Inc.	United States of America	**(1)**	–	**5**	–	c	Asset management
Ibis of West Palm Beach, Inc.	United States of America	**5**	–	**#**	–	c	Asset management
Ibis Real Estate Sales Corp.	United States of America	**–**	–	**#**	–	c	Asset management
RIMCO XVII, Inc.	United States of America	**#**	–	**#**	–	c	Asset management
MNC Operations and Services, Inc. (Inactive)	United States of America	**–**	–	**#**	–	c	Data processing and related financial services
National Australia Finance (Commercial Leasing) Limited*	England	**1**	1	**#**	#	g	Lease finance
National Australia Finance (Equipment Leasing) Limited*	England	**(1)**	#	**#**	#		Lease finance
National Australia Finance (Industrial Leasing) Limited*	England	**(1)**	1	**#**	#	g	Lease finance
National Australia Finance (Leasing) Limited*	England	**#**	2	**#**	#	g	Lease finance
National Australia Group CIF Trustee Ltd	England	**–**	–	**#**	#		Pension fund investment trustee
National Australia Group SSP Trustee Ltd	England	**–**	–	**#**	#	c	Trustee for UK Staff share savings plan
National Australia UK Pension Trustee Ltd	England	**–**	–	**#**	#		Pension trustee
National Australia Group (UK) Services Ltd	Scotland	**#**	#	**#**	#		Computer services
National Australia Life Company Ltd	England	**(5)**	#	**69**	#	c	Life insurance
National Australia Life Services Ltd	England	**–**	(38)	**#**	#	c	Management services
National Australia Trust Management Company Ltd	England	**(4)**	3	**18**	#	c	Investment management
National Irish Holdings Ltd	England	**76**	–	**74**	86	c	Parent entity
National Irish Bank Limited*	Republic of Ireland	**25**	25	**74**	119		Banking
Collinstown Property Holding Co Ltd*	Republic of Ireland	**#**	–	**#**	#	k	Property Owner
Forward Trust (Ireland) Ltd*	Republic of Ireland	**#**	–	**4**	4		Non-trading

Entity Name Dollars in Millions	Incorporated in (a)	Contribution to Consolidated Operating Profit 1996	1995	Book Value of Each Parent Entity's Investment 1996 (b)	1995		Nature of Business
Jacglen Ltd*	Republic of Ireland	#	–	#	–	c	Property Owner
National Australia Group SSP (ROI) Trustee Ltd*	Republic of Ireland	#	–	#	–	c	Trustee entity
National Irish Bank Financial Services Ltd*	Republic of Ireland	1	#	#	#		Trustee and financial services
National Irish Bank Leasing Ltd*	Republic of Ireland	#	–	#	#		Non-trading
National Irish Bank Nominees Ltd*	Republic of Ireland	#	–	#	#		Nominee entity
National Irish Bank Pensions Ltd*	Republic of Ireland	#	–	#	#		Trustee entity
National Irish Bank Securities Ltd*	Republic of Ireland	#	–	#	#		Non-trading
National Irish Bank Trust Company Ltd*	Republic of Ireland	#	–	#	#		Non-trading
National Irish Investment Bank Ltd*	Republic of Ireland	1	#	18	19		Banking & related services
National Irish Investment Bank Nominees Ltd*	Republic of Ireland	#	–	#	#		Nominee entity
National Irish Investment Bank Pensions Ltd*	Republic of Ireland	#	–	#	#		Non-trading
Norfin Investments Ltd*	Republic of Ireland	#	–	#	–	b	Investment entity
Northern Bank Ltd. *	Northern Ireland	74	64	195	370		Banking
Belfast Bank Executor & Trustee Co. Ltd*	Northern Ireland	#	–	#	#		Non-trading
Northern Bank Executor & Trustee Co. Ltd*	Northern Ireland	2	2	#	#		Trustee and investment management
Northern Bank Factors Ltd*	Northern Ireland	2	2	1	1		Factoring
Northern Bank Financial Services Ltd*	Northern Ireland	#	–	31	13		Parent entity
Belfast Banking Co. Ltd*	Northern Ireland	#	–	#	–		Non-trading
Northern Bank Development Corporation Ltd*	Northern Ireland	8	1	18	19		Merchant bank
Nordev Properties Ltd*	Northern Ireland	#	#	#	#		Property development
Comm Properties Ltd*	Northern Ireland	2	1	#	#		Property development
Gael Developments Ltd*	Northern Ireland	#	#	#	#		Property development
Camden Hurst Hotel Ltd*	England	#	–	1	1		Non-trading
Project Development (Balmoral) Ltd*	Northern Ireland	#	#	#	#		Property development
Northern Bank (I.O.M.) Ltd*	Isle of Man	1	1	#	1		Banking
Northern Asset Management (I.O.M.) Limited	Isle of Man	#	–	#	#	c	Investment manager
Northern Bank Trust Company (I.O.M.)Limited	Isle of Man	#	–	#	1	c	Trust company
NAM Nominees Limited	Isle of Man	#	–	#	#	c	Nominee company
Northern Bank Leasing Ltd*	Northern Ireland	#	1	13	14		Lease finance
Causeway Credit Ltd*	Northern Ireland	2	2	5	5	g	Instalment finance
Northern Bank Commercial Leasing Ltd*	Northern Ireland	1	1	3	4	g	Lease finance
Northern Bank Equipment Leasing Ltd*	Northern Ireland	1	#	2	2	g	Lease finance
Northern Bank Leasing Industrial Ltd*	Northern Ireland	#	1	2	2	g	Lease finance
Northern Bank Insurance Services Ltd*	Northern Ireland	4	4	#	#		Insurance brokers
Northern Bank Nominees Ltd*	Northern Ireland	#	–	#	#		Nominee entity
Northern Bank Pension Trust Ltd*	Northern Ireland	#	–	#	#		Trust company
Warspite Nominees Limited*	England	–	–	–	#		Nominee company
Yorkshire Bank PLC*	England	138	158	759	1,876		Banking
Allerton House Properties Limited*	England	#	#	#	#		Property owner
North British Finance Group Ltd*	England	–	–	2	2		Parent entity
North British Finance Ltd*	England	–	–	#	#		Non-trading
North British Leasing Ltd*	England	–	–	#	#		Non-trading
North British Motor Finance Ltd*	England	–	–	#	#		Non-trading
Fairhalsen Collections Ltd*	England	–	–	#	#		Non-trading
Yorkshire Bank Retail Services Ltd*	England	2	5	13	14		Finance entity
Storecard Ltd*	England	3	6	9	9		Finance entity
Eden Vehicle Rentals Ltd*	England	5	6	21	22	g,b	Vehicle contract hire
Yorkshire Bank Finance Ltd*	England	–	#	#	#		Non-trading
Yorkshire International Finance B. V. *	Netherlands	#	#	#	#		Funding entity

Entity Name Dollars in Millions	Incorporated in (a)	Contribution to Consolidated Operating Profit 1996	1995	Book Value of Each Parent Entity's Investment 1996 (b)	1995		Nature of Business
Yorkshire Bank Financial Services Ltd*	England	2	1	1	1		Insurance and financial planning services
Northern and General Finance Ltd*	England	#	#	#	#		Lease finance
Yorkshire Bank Equipment Leasing Ltd*	England	#	#	#	#	g	Lease finance
Yorkshire Bank Commercial Leasing Ltd*	England	#	#	#	#	g	Lease finance
YB Lease Ltd*	England	#	#	#	#	g	Lease finance
Yorlease Ltd*	England	#	#	#	#	g	Lease management
Yorkshire Bank Home Loans Ltd*	England	7	6	#	#		Mortgage finance
Yorkshire Bank Investments Ltd*	England	2	8	#	#		Development capital investment
Yorbank Nominees Ltd*	England	–	–	#	#		Non-trading
Yorkshire Bank Nominees Ltd*	England	–	–	#	#		Non-trading
Yorkshire Bank Development Capital Ltd*	England	–	#	#	#		Non-trading
YB Trust Company Ltd*	England	–	–	#	#		Non-trading
Other Controlled Entities							
A.C. Goode & Co. Ltd. (In liquidation)	Australia	–	#	–	–	i	Non-trading
ARDB Limited	Australia	2	3	16	16	j	Resource finance
Australian Banks' Export Re-Finance Corporation Limited	Australia	#	#	4	4	j	Export finance
C.B.C. Investments Limited	Australia	–	#	3	3	j	Investment entity
C.B.C. Investments Services Limited	Australia	–	#	#	#	j	Investment entity
Commercial Nominees Pty. Limited	Australia	–	#	#	#	j	Nominee entity
CSPL Securities Pty Limited	Australia	8	6	15	15	c	Finance provider
DAPR No. 1 Pty Limited	Australia	#	#	1	1	c	Research and development
Groundsel Limited	Australia	#	#	#	#	j,c	Investment entity
Jet Lease Systems	Australia	(1)	–	3	–	e	Leasing entity
Liquid Fuel No. 1 Pty Limited	Australia	(1)	(1)	4	4		Research and development
NAB Finance (Ireland) Ltd	Republic of Ireland	1	–	#	–	c	Parent entity
NAB Investments Limited*	England	#	#	#	#		Established to secure trading operations with Euroclear
National Australia Finance (Asia) Limited*	Hong Kong	5	5	2	2		Money lender
National Australia Group Services Limited	Australia	37	25	#	#		Parent entity
Custom Lease Pty. Limited (In liquidation)	Australia	#	2	–	#	h,j	Lease finance
Custom Service Leasing Limited	Australia	30	34	32	32	j	Serviced lease finance
Canudos Limited	Australia	–	–	#	#	j	Nominee entity
Dinant Limited	Australia	–	–	#	#	j	Nominee entity
Exchange Hiring Limited	Australia	–	–	#	#	j	Nominee entity
Hegira Limited	Australia	#	#	#	#		Property holder
Laura Pty. Limited	Australia	–	–	#	#	j	Nominee entity
Lavallette Pty. Limited	Australia	–	–	#	#	j	Nominee entity
Layang Pty. Limited	Australia	–	–	#	#	j	Nominee entity
Nosciter Limited	Australia	–	–	#	#	j	Nominee entity
NSW Housing No. 1 Pty. Limited	Australia	–	–	#	#	j	Nominee entity
Omnibus Leasing (1978) Limited	Australia	–	–	#	#	j	Nominee entity
Rail Leasing Limited	Australia	–	–	#	#	j	Nominee entity
River Boyne Pty. Limited	Australia	–	–	#	#	j	Nominee entity
River Embley Pty. Limited	Australia	–	–	#	#	j	Nominee entity
Roma Street Limited	Australia	–	–	#	#	j	Nominee entity
Webb Dock No. 5 Container Terminal Limited	Australia	–	–	#	#	j	Trustee for unit trust
Zermatt Limited	Australia	–	–	#	#	j	Nominee entity
National Australia Corporate Advisory Limited	Australia	–	–	#	#		Project and infra-structure advisers
National Australia Corporate Services Limited	Australia	–	#	10	10	j	Non-trading
Nautilus Insurance Pte. Ltd. *	Singapore	8	9	10	10		General insurer under restricted licence

Entity Name Dollars in Millions	Incorporated in (a)	Contribution to Consolidated Operating Profit 1996	1995	Book Value of Each Parent Entity's Investment 1996 (b)	1995		Nature of Business
National Australia Funding (Delaware) Inc. *	United States of America	#	#	#	#		Issuer of commercial paper
National Australia Investment Brokers Limited	Australia	**3**	6	#	#	j	Investment entity
National Australia Investment Capital Limited	Australia	–	–	#	–	c	Equity finance to small business
National Australia Leasing (Qld.) Pty. Limited	Australia	–	–	#	#	j	Nominee entity
National Australia Managers Limited	Australia	–	–	#	#		Manages infra-structure financing
National Australia Merchant Bank (Singapore) Limited*	Singapore	**8**	3	**29**	29		Merchant bank
National Australia Securities Limited*	Australia	#	#	#	#		Domestic corporate bond issues (Non-trading)
National Australia Travel Limited (In liquidation)	Australia	–	#	–	–		Travel agent
National Australia Trustees Limited	Australia	**3**	1	**3**	3		Trustee entity
Bourke Street Nominees Pty. Limited	Australia	–	–	#	#		Trustee and portfolio services
National Australia Underwriters Limited	Australia	#	–	#	#		Underwriters and sub-underwriters
National Infrastructure Investment No. 1 Pty Ltd	Australia	–	–	#	–	c	Infrastructure borrowings
National Infrastructure Investment No.2 Pty Ltd	Australia	–	–	#	–	c	Infrastructure borrowings
National Infrastructure Investment No. 3 Pty Ltd	Australia	–	–	#	–	c	Infrastructure borrowings
National Nominees Limited	Australia	–	–	#	#		Nominee entity
National Nominees (London) Limited	Australia	–	#	#	#	j	Nominee entity
NBA Leasing Pty. Limited	Australia	–	–	#	#	j	Nominee entity
NBA Properties Limited	Australia	**10**	26	**185**	185	j	Property owner
CBC Holdings Limited	Australia	**7**	4	**1**	1	j	Property owner
C.B.C. Properties Limited	Australia	**2**	2	**5**	5	j	Property owner
NBA Properties (Qld.) Limited	Australia	#	#	**3**	3	j	Property owner
NBA Properties (Vic.) Limited	Australia	**2**	3	**8**	8	j	Property owner
NAF Trustee Limited*	England	–	–	#	#		Trustee for UK dividend plan
Relationship Services Pty Limited	Australia	#	(6)	#	#		Partnership participant
VPL Securities Pty Limited	Australia	–	–	#	#	j	Nominee entity
Polymar No. 1 Pty Limited	Australia	#	#	#	#	c	Research and development
Recycle No. 1 Pty Limited	Australia	#	#	**1**	1	c	Research and development
Talking Post No. 1 Pty Limited	Australia	#	#	**2**	2		Research and development
Valenti Pty Limited	Australia	–	–	#	–	c	Holding company
Vilexton Pty Limited	Australia	**6**	2	#	#	c	Finance provider
500 Bourke Street Limited (In liquidation)	Australia	–	1	–	–	j,i	Non-trading
Sub-Total		**2,186**	2,037				
Adjustments on Consolidation		**(87)**	(101)				
Abnormal items		**3**	33				
Operating profit after income tax (excluding outside equity interests)		**2,102**	1,969				

a) National Australia Bank Limited carries on business in various countries throughout the world. Overseas controlled entities carry on business in their countries of incorporation.

b) Beneficial interest in all controlled entities is 100% with the exception of Plimmer City Centre (57%), Norfin Investments Limited (90%), Eden Vehicle Rentals Limited (75%), Commercial Property Trust (98%), Quill Financing Limited (76%) and Detroit Diesel Capital Corporation (80%).

c) These entities were acquired during the financial years ended September 30, 1996 and 1995. Dates of acquisition are as follows;

BNZ Funding Limited	9/12/94	National Australia (1995) Ltd	23/11/95
Braccleigh Holdings Limited	9/12/94	National Australia Life Company Ltd	3/10/94
Custom Fleet (NZ) Limited	26/7/96	National Australia Life Services Ltd	3/10/94
CSPL Securities Pty Limited	7/10/94	National Australia Trust Management Co. Ltd	3/10/94
DAPR No. 1 Pty Limited	28/6/95	National Infrastructure Investment No. 1 Pty Ltd	21/6/96
Groundsel Limited	28/11/94	National Infrastructure Investment No.2 Pty Ltd	21/6/96
Jacglen Ltd	29/9/95	National Infrastructure Investment No. 3 Pty Ltd	21/6/96
Michigan National Corporation and controlled entities	2/11/95	National Irish Holdings Ltd	28/11/94
NAB Finance (Ireland) Ltd	1/12/95	Northern Asset Management (I.O.M.) Limited	16/2/95
NAM Nominees Limited	11/4/95	Northern Bank Trust Company (I.O.M.) Limited	9/3/95
National Americas Holdings Ltd	28/11/94	Polymar No. 1 Pty Limited	26/6/95
National Australia Asset Management	11/5/95	Recycle No. 1 Pty Limited	26/6/95
National Australia Group SSP Trustee Ltd	19/10/94	Valenti Pty Ltd	26/8/96
National Australia Group SSP (ROI) Trustee Ltd	29/1/96	Vilexton Pty Limited	16/8/95
National Australia Investment Capital Limited	13/3/96		

d) Clydesdale Bank Industrial Investments Ltd changed its name to National Australia Group (UK) Investments Ltd and was sold to National Australia Group (UK) Limited on November 30, 1995.

e) Jet Lease Systems is a partnership entered into on March 1, 1996.

f) These controlled entities are limited by guarantee.

g) The Economic Entity has been relieved by an order made by the Commissioner of Corporate Affairs for the State of Victoria from the requirements of the Companies (Victoria) Code, requiring it to coincide the financial years of the nominated controlled entities with that of the Company. This relief has been granted on the condition that accounts are prepared as at September 30 in each year for inclusion in the audited consolidated accounts of the Economic Entity. This class order has ongoing effect pursuant to Section 314 of the Corporations Law.

h) This entity was placed into members' voluntary liquidation on June 27, 1996.

i) These entities were placed into members' voluntary liquidation during the financial year ended September 30, 1995.

j) These controlled entities have entered into a deed of cross guarantee with their direct parent entities pursuant to Australian Securities Commission Class Order 95/1530 dated November 10, 1995. Relief, therefore, was granted to these controlled entities from the Corporations Law requirements for preparation, audit and publication of financial statements.

k) National Irish Bank Finance Limited changed its name to Collinstown Property Holding Company Limited on August 6, 1996.

l) The following entities have been removed from this disclosure. They were not controlled entities at any time during the financial year ended September 30, 1996 and had no comparative information to disclose;

A.C. Goode & Co. Nominees Pty. Limited (In liquidation)	First National Limited (In liquidation)
BNZ North America Incorporated (dissolved)	First National Finance Limited (In liquidation)
Custom Credit Corporation Limited (In liquidation)	First Services Pty. Ltd.
Carrington Confirmers Pty. Limited (In liquidation)	International Trade Management Services Pty. Ltd. (In liquidation)
Carrington Trade Finance (NZ) Ltd. *	J.P. Crosbie Pty. Ltd. (In liquidation)
Custom Credit Holdings Limited (In liquidation)	National Australia Limited (In liquidation)
Dillenti Pty. Ltd (In liquidation)	Perdita Investments Limited (liquidated)

** Denotes controlled entities audited by KPMG associated firms.*

 # Denotes amount less than $500,000.

Relief from the requirement to present the Consolidated accounts in the format required by sub-clauses 7(1), 7(2), 7(3) and Clause 13 of Schedule 5 of the Corporations Law, insofar as those provisions require the disclosures of assets and liabilities in current and non-current format, was granted by Australian Securities Commission Class Order 92/621 dated June 24, 1992 as amended by Class Order 95/719 dated June 28, 1995. Two conditions attach to this relief. First, the disclosure of assets and liabilities is to comply with International Accounting Standard 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'. This standard, recognising that the current/non-current classification is inappropriate in a financial institution, states that a bank should present a balance sheet that groups assets and liabilities by nature and lists them in an order that reflects their relative liquidity. This represents the Company's existing practice. Second, information relating to the total assets and liabilities of controlled entities that are not prescribed corporations is to be shown by way of note. This information, which includes that relating to non-Australian banking corporations, is accordingly presented below. These figures represent an aggregation only, without the elimination adjustments which can only occur on consolidation with the Company.

As at September 30 *Dollars in Millions*	***1996***	*1995*
Total Assets	**78,218**	61,876
Total Liabilities	**72,764**	56,824

Associated Entities

Equity accounting for investments in associated entities has not been adopted as its impact on the Economic Entity accounts would be immaterial.

Entity Name	Incorporated in[(a)]	Book value of investment 1996	1995	Beneficial interest as a percentage	Held by	Nature of Business
As at September 30 Dollars in Millions						
Charge Card Services Limited	Australia	#	#	25.0	National Australia Bank Limited	Freehold property owner
CardLink Limited	Australia	#	#	20.0	National Australia Bank Limited	Credit card services bureau
The Scottish Agricultural Securities Corporation PLC	Scotland	#	#	33.3	Clydesdale Bank PLC	Mainly long-term lending to agriculture and related industries
National Capital Guaranteed Fund Ltd.	Australia	#	#	47.0	National Australia Group Services Limited	Parent entity
				1.0	National Australia Corporate Advisory Limited	
				1.0	National Australia Underwriters Limited	
Property Leasing Limited	Australia	#	#	49.0	National Capital Guaranteed Fund Ltd.	Leasing of property
Interchange & Settlement Ltd	New Zealand	–	–	10.0	Bank of New Zealand	Clearing House
Fleet Systems Pty Ltd	Australia	**9**	9	50.0	National Australia Group Services Limited	Motor vehicle fleet management information and related services
Loyalty Pacific Pty Ltd	Australia	#	#	33.3	National Australia Bank Limited	Customer Loyalty Program
Loyalty Pacific (Hong Kong) Limited	Hong Kong	#	#	33.3	Relationship Services Pty Ltd	Customer Loyalty Program
FBP Awards Fund Pty Ltd	Australia	#	#	33.3	National Australia Bank Limited	Customer Loyalty Program

a) Business is carried out in country of incorporation, unless otherwise stated.
 # Denotes amount less than $500,000.

35 Contingent liabilities and credit commitments

	Consolidated Notional Amount		Consolidated Credit Equivalent[(1)]		The Company Notional Amount		The Company Credit Equivalent[(1)]	
As at September 30 Dollars in Millions	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	1995
Contingent Liabilities (a)								
Guarantees	**1,998**	1,891	**1,998**	1,891	**3,808**	4,127	**3,808**	4,127
Standby letters of credit	**1,185**	694	**1,185**	694	**847**	633	**847**	633
Bill endorsements	**11**	20	**11**	20	**10**	16	**10**	16
Documentary letters of credit	**424**	610	**18**	135	**296**	419	**29**	95
Performance related contingencies	**1,365**	1,049	**683**	525	**493**	411	**246**	206
Other	**303**	462	**303**	462	**166**	109	**166**	109
Total Contingent Liabilities	**5,286**	4,726	**4,198**	3,727	**5,620**	5,715	**5,106**	5,186

The Economic Entity has shared its exposure on letters of credit with other banks to the extent of $11 million credit equivalent (1995: $11 million). This amount is not included in the above figures. The Economic Entity has recourse arrangements with customers and others in respect of the major portion of the remaining contingent liabilities.

	Consolidated Notional Amount		Consolidated Credit Equivalent[(1)]		The Company Notional Amount		The Company Credit Equivalent[(1)]	
Credit Related Commitments (b)								
Outright forward purchases and forward deposits	**3**	9	**3**	9	**–**	1	**–**	1
Underwriting facilities	**309**	522	**154**	261	**299**	378	**149**	189
Other binding credit commitments	**39,923**	35,297	**9,471**	5,928	**29,418**	26,896	**7,698**	5,051
Total Credit Related Commitments	**40,235**	35,828	**9,628**	6,198	**29,717**	27,275	**7,847**	5,241

[(1)] The credit equivalent amount records the estimated maximum or total potential loss if the counterparty were to default, and is determined in accordance with the Reserve Bank of Australia's risk-weighted capital adequacy guidelines. These credit equivalents are then weighted in the same manner as balance sheet assets according to counterparty for capital adequacy purposes. (For additional information refer also to 'Capital Adequacy' on page 47).

In the normal course of business, various types of contracts are entered into that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers, and include commitments to extend credit, letters of credit and financial guarantees. The contracts expose the Economic Entity to various degrees of credit risk.

(a) Contingent Liabilities

The Economic Entity's exposure to potential loss in the event of non-performance by a counterparty to a financial instrument for commitments to extend credit and letters of credit and financial guarantees written, is represented by the contractual notional principal amount of those instruments. The Economic Entity uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets.

Letters of credit and financial guarantees written are conditional commitments issued by the Economic Entity to guarantee the performance of a customer to a third party. Those letters of credit and guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of the Economic Entity as a letter of credit or guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds, ongoing obligations to Government entities, etc.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Economic Entity holds collateral supporting these commitments where it is deemed necessary.

In accordance with the rules governing clearing arrangements contained in the Regulations of the Australian Paper Clearing System and in the Regulations of the Bulk Electronic Clearing System under the Australian Payments Clearing Associated Limited, the Company is subject to a commitment to provide liquidity support to the clearing system in the event of a failure of another clearing financial institution.

There are also contingent liabilities in respect of claims, potential claims and court proceedings against entities in the Economic Entity, the aggregate of potential liability, in respect thereof, cannot be accurately assessed. Where some loss is probable, appropriate provisions have been made.

The Economic Entity is defendant from time to time in legal proceedings arising from the conduct of its business. The Economic Entity does not consider that the outcome of any current proceedings, either individually or in the aggregate, are likely to have a material effect on its operations or financial position.

(b) Credit Related Commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Economic Entity evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Economic Entity upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

– a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
– specific or interlocking guarantees;
– specific charges over defined assets of the counterparty;
– loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

(c) Parent Entity Guarantees and Undertakings

Excluded from the consolidated amounts disclosed above are the following guarantees and undertakings to entities in the Economic Entity:

– Commercial paper issued by National Australia Funding (Delaware) Inc. totalling $4,430 million (1995: $2,473 million) is guaranteed by the Company.
– the Company has agreed to guarantee existing debenture holders secured under Broadbank Corporation Limited's (now National Australia Bank (NZ) Limited) Trust Deed as at December 31, 1987 until maturity. The outstanding liability as at September 30, 1996 was not material.
– Under arrangements with the Bank of England a letter has been issued by the Company to Clydesdale Bank PLC and Northern Bank Limited undertaking to maintain their capital base at regulatory levels in the event that losses are incurred on exposures to individual customers whose facilities exceed 25% of Clydesdale's or Northern's regulatory capital base.
– the Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer.
– the Company has guaranteed the repayment of debenture stock of Custom Credit Corporation Limited (in Liquidation) and payment of interest thereon. Debenture stock outstanding at September 30, 1996 amounted to $0.3 million (1995: $21 million) and is reflected in the carrying amount of the receivable due from the liquidator in Custom Credit Holdings Limited (In Liquidation) at balance date (refer Note 20).
– Pursuant to Australian Securities Commission Class Order 95/1530 dated November 10, 1995 relief was granted to certain controlled entities (refer note 34, footnote j) from the Corporations Law requirements for preparation, audit and publication of accounts. It is a condition of the Class Order that the Company and each of the controlled entities enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the Corporations Law. If a winding up occurs under other provisions of the Law, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. At September 30, 1996, the Company and controlled entities which are a party to the Deed have aggregate assets of $103,788 million (1995: $91,809 million), aggregate liabilities of $96,406 million (1995: $83,962 million), and their contribution to consolidated operating profit after income tax for the year ended September 30, 1996 was $1,307 million (1995: $1,328 million).

It is not envisaged that any material unrecorded loss is likely to arise from transactions described in this note.

36 *Derivative financial instruments*

In recent years there has been a well-publicised growth in the use of derivative financial instruments. This growth is the result of a number of factors. The most significant has been the prevalence, in the past twenty years, of considerable price volatility and uncertainty in financial markets. This has caused a widespread desire among users of these markets to find various ways of limiting their exposure to the associated risks.

However, derivatives should not be regarded entirely as a contemporary phenomenon. Although swaps were first devised in the early 1980's, other derivatives like forwards and options have been employed in commercial ventures for centuries. It is the recent emergence of powerful mathematical tools, coupled with rapid advances in technology and communications, that has brought about the creation of a global market dealing in the many variations of these basic instruments.

Whatever their form, derivatives continue to enable holders of actual or anticipated assets or liabilities – whose value may vary with movements in interest rates, foreign exchange rates or the prices of equities or commodities – to modify or eliminate those risks by transferring them to other entities willing to assume them.

Accounting methodologies have limited capacity to measure or portray the risks associated with derivatives. This can only be done through quantitative disclosure and narrative explanations. The purpose of the following discussion is to inform users of the financial statements of the type of instruments used by the Economic Entity, the reasons for using them, the accompanying risks, and how those risks are managed.

Definition of a Derivative

A derivative financial instrument is a contract or agreement whose value depends on (or derives from) the value of an underlying instrument, reference rate or index. As indicated above, derivatives are usually separated into three generic classes; forwards, options and swaps, although individual products may combine the features of more than one class. The principal features of each of these classes are summarised below.

Forward and Futures Contracts

Forward and futures contracts are contracts for delayed delivery of financial instruments in which the seller agrees to settle at a specified future date at a specified price or yield. A forward rate agreement is a confirmed agreement between two parties to exchange an interest rate differential on a notional principal amount at a given future date.

Options

Options are contracts that allow the holder of the option the right but not the obligation to purchase or sell a financial instrument at a specified price and within a specified period. Interest rate caps and floors are option contracts, and included as such in the disclosures below. They require the seller to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to the notional principal amount.

Swaps

Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying notional principal amount. A cross currency swap takes the form of an agreement to exchange one currency for another and to re-exchange the currencies at the maturity of the swap, using the same exchange rate, with the exchange of interest payments throughout the swap period.

Risk Associated with Derivatives

Derivatives are used primarily as a means to transfer risk. They thus expose the holder to various degrees and types of financial risk themselves of which the most significant concern market, credit and liquidity risk. These are dealt with separately below.

Market Risk

Definition

Market risk of derivative financial instruments held or issued for trading purposes is the risk that the value of derivatives will be adversely affected by changes in the market value of the underlying instrument, reference rate or index. Market risk is relevant to the Economic Entity's trading activities in which it primarily acts as an intermediary to satisfy customer needs. However, not all risks associated with intermediation can be effectively hedged. The residual market exposures together with trading positions are managed within established limits approved by the Board. A unit independent of the trading activities monitors compliance within delegated limits on a daily basis.

Derivative Financial Instruments Held or Issued for Trading Purposes

General Description of Activities

The Economic Entity maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange and interest rate related services. In addition, the Economic Entity takes conservative positions on its own account, and carries an inventory of capital market instruments. It satisfies customer needs and maintains access to market liquidity by quoting bid and offer prices on those instruments and trading with other market makers. All positions held for trading purposes are revalued on a daily basis to reflect market movements, and any revaluation gain or loss is recognised immediately in the profit and loss account.

The amounts disclosed in Table 1 represent the fair value as at September 30, 1996 and September 30, 1995 of all derivative instruments held or issued for trading purposes at that date together with the average fair values that applied during those years. It should be noted that fair value at a particular point in time gives no indication of future gain or loss, or what the dimensions of that gain or loss are likely to be.

Table 1 distinguishes between foreign exchange rate and interest rate related contracts.

Table 1: Fair Value of Assets (Liabilities) Arising from Instruments Held or Issued for Trading Purposes

Consolidated	*Fair Value*		*Average Fair Value*	
Years ended September 30 Dollars in Millions	***1996***	*1995*	***1996***	*1995*
Foreign Exchange Rate Related Contracts				
Spot and forward contracts to purchase foreign exchange				
In a favourable position	**2,916**	2,951	**2,199**	2,287
In an unfavourable position	**(2,649)**	(2,688)	**(2,194)**	(2,087)
Cross currency swaps				
In a favourable position	**29**	23	**3**	44
In an unfavourable position	**(29)**	(40)	**(34)**	(31)
Futures	**#**	#	**#**	-
Options				
Purchased	**41**	37	**20**	46
Written	**(73)**	(72)	**(35)**	(72)
Total Foreign Exchange Rate Related Contracts	**235**	211	**(41)**	187
Interest Rate Related Contracts				
Forward rate agreements				
In a favourable position	**6**	6	**5**	13
In an unfavourable position	**(6)**	(5)	**(6)**	(12)
Swaps				
In a favourable position	**638**	476	**467**	506
In an unfavourable position	**(632)**	(529)	**(495)**	(515)
Futures	**(18)**	(12)	**(7)**	(14)
Options				
Purchased	**38**	28	**30**	51
Written	**(17)**	(34)	**(22)**	(43)
Total Interest Rate Related Contracts	**9**	(70)	**(28)**	(14)
Total	**244**	141	**(69)**	173

 # Denotes amount less than $500,000.

Foreign Exchange Rate Related Contracts

The table shows that the bulk of fair value is concentrated in foreign exchange spot and forward transactions. These contracts are of a standardised form and are usually of a maturity of less than twelve months.

The fair value of foreign exchange rate related contracts amounted to a net unrealised gain at September 30, 1996 of $235 million (1995: $211 million). Total net realised and unrealised gains and losses on foreign exchange rate related contracts during the year totalled $146 million (1995: $128 million, refer to Note 2).

Interest Rate Related Contracts

The fair value of interest rate related contracts amounted to a net unrealised gain at September 30, 1996 of $9 million (1995: loss of $70 million). Total net realised and unrealised gains and losses on both interest rate related contracts and physical securities, during the year totalled $76 million (1995: $35 million, refer to Note 2).

Earnings at Risk

As foreign exchange and interest rate derivatives generally consist of offsetting commitments, they involve only limited net foreign exchange and interest rate risk, which is managed in the Economic Entity under strict trading guidelines. The overall market risk that any business unit can assume is approved by a special committee of the Board, through a combination of intraday trading limits and overnight earnings at risk limits.

Earnings at risk represents an estimate of potential profit impact of a rate movement, and is assessed on an entire trading portfolio basis, including both physical and derivative positions. Earnings at risk is measured as the absolute value of observed changes in the trading portfolio value brought about by daily changes in market rates at a 95% confidence level. For example, an earnings at risk exposure of $1 million means that in 95 cases out of 100, given the historical behaviour of rates, an overnight profit impact on the trading portfolio should not exceed $1 million.

The earnings at risk methodology is one means by which the Economic Entity manages volatility from market risk. Table 2 shows the Economic Entity's earnings at risk for both foreign exchange and interest rate trading portfolios, including both physical and derivative positions. The figures reflect the offsetting potential gains or losses across products and regions in which the Economic Entity operates.

Table 2: Earnings at Risk for physical and derivative positions

Consolidated	*Average Value During Reporting Period*		*Minimum Value During Reporting period*		*Maximum Value During Reporting Period*	
For Years Ended September 30 Dollars in Millions	***1996***	*1995*	***1996***	*1995*	***1996***	*1995*
Earnings at risk at a 95% confidence level						
Foreign exchange risk	**3**	2	**2**	2	**4**	4
Interest rate risk	**4**	4	**3**	3	**7**	7

Derivative Financial Instruments Held or Issued for Purposes Other Than Trading

General Description

The operations of the Economic Entity are subject to risk of interest rate fluctuations, to the extent that there is a difference between the amount of the Economic Entity's interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. Derivative financial instruments are held or issued for the purposes of managing this interest rate risk.

Interest Rate Risk Analysis

The Economic Entity monitors its interest rate risk for derivative activities other than trading by simulating future net interest income resulting from applying a range of possible future interest rate environments to its projected balance sheets.

Anticipated Transactions

The Economic Entity holds or issues derivative financial instruments for the purpose of hedging foreign exchange rate or interest rate exposures arising from anticipated future transactions. The majority of such transactions arise on interest rate repricing mismatches revealed in risk analyses of the type mentioned above. In addition, the Company also uses foreign exchange rate related derivatives, in order to hedge anticipated cash flows such as those relating to dividends emanating from offshore controlled entities.

Net deferred realised gains and losses arising from hedging contracts which were incepted in order to reduce the risk arising from identifiable assets, liabilities, commitments, together with the expected term of deferral is shown in Table 3.

Table 3: Net Deferred Gains and Losses

Consolidated	*Interest Rate Related Contracts*	
As at September 30 Dollars in Millions	***1996***	*1995*
Within 6 Months	–	(1)
Within 6 Months – 1 Year	–	#
Within 1 – 2 Years	–	#
Within 2 – 5 Years	–	#
After 5 Years	–	–
Total	–	(1)

 # Denotes amount less than $500,000.

Net deferred gains and losses from hedging contracts which were incepted in order to reduce the risk arising from anticipated transactions together with the expected term of deferral is shown in Table 4.

Table 4: Net Deferred Gains and Losses Arising From Hedges of Anticipated Transactions

Consolidated	*Foreign Exchange Rate Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 Dollars in Millions	***1996***	*1995*	***1996***	*1995*	***1996***	*1995*
Within 6 Months	–	(33)[(1)]	(2)	#	(2)	(33)[(1)]
Within 6 Months – 1 Year	–	–	(1)	–	(1)	–
Within 1 – 2 Years	–	–	#	–	#	–
Within 2 – 5 Years	–	–	#	–	#	–
After 5 Years	–	–	–	–	–	–
Total	–	(33)	(3)	#	(3)	(33)

[(1)] Related to forward purchase of United States dollars for the acquisition of Michigan National Corporation (MNC). Any change in the value of this amount was compensated by offsetting charges in the Australian dollar equivalent of the United States dollar acquisition price of MNC.

 # Denotes amount less than $500,000.

Credit Risk

Credit risk arises from the possibility that the counterparty to a derivative financial instrument will not adhere to the terms of the contract with the Economic Entity when settlement becomes due.

Notional principal is the amount of a derivative's underlying asset, reference rate or index and is the quantum on which changes in the value of the derivative are measured. It provides an indication of the volume of business transacted by the Economic Entity. Changes in the value of a derivative are usually only a fraction of the notional principal amount, and it is only those changes which are unfavourable to a counterparty's foreign exchange or interest rate position (ie. which have a positive fair value to the Economic Entity) which create a potential for credit risk.

The Economic Entity's credit exposure has been determined in accordance with the Reserve Bank of Australia's capital adequacy guidelines. This 'credit equivalent' is derived by taking into account the residual maturity of each instrument, and then adding the fair value of all contracts in a positive position. Futures and Option contracts which are traded on a recognised exchange and which are subject to margin payments are considered to have no credit exposure. Internal credit assessment applies a conservative methodology to determine potential counterparty exposure.

The fair value amounts disclosed in Table 5 represent the market value at September 30, 1996 and September 30, 1995 of all derivative instruments at those dates. It should be noted that fair value at a particular point in time gives no indication of future gain or loss, or what the dimensions of that gain or loss are likely to be.

This aspect of risk is constantly assessed, measured and managed in strict accordance with the Bank's risk management policies. Member banks of the Economic Entity may take collateral to secure amounts due under treasury transactions. However, collaterisation is assessed specifically at the time facilities are approved on a case-by-case basis.

Table 5: Notional Principal, Estimated Credit Equivalent and Fair Value of all Derivative Financial Instruments

Consolidated	Notional Principal		Credit Equivalent		Fair Value		Average Fair Value[2]	
As at September 30 Dollars in Millions	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	1995
Foreign Exchange Rate Related Contracts								
Spot and forward contracts to purchase foreign exchange[1]								
Trading	**185,302**	176,770	**4,024**	3,900	**267**	263	**5**	200
Other than trading	**23,942**	9,017	**163**	114	**(339)**	(184)		
Total Foreign Exchange	**209,244**	185,787	**4,187**	4,014	**(72)**	79	**5**	200
Cross currency swaps[1]								
Trading	**3,343**	2,736	**148**	143	**#**	(17)	**(31)**	13
Other than trading	**1,244**	915	**153**	93	**104**	50		
Total Cross Currency Swaps	**4,587**	3,651	**301**	236	**104**	33	**(31)**	13
Total Futures Trading	**13**	51	**–**	–	**#**	#	**#**	#
Options								
Trading	**4,892**	5,838	**118**	178	**(32)**	(35)	**(15)**	(26)
Other than trading	**–**	–	**–**	–	**–**	–		
Total Options	**4,892**	5,838	**118**	178	**(32)**	(35)	**(15)**	(26)
Total Foreign Exchange Rate Related Contracts	**218,736**	195,327	**4,606**	4,428	**–**	77	**(41)**	187

 # Denotes amount less than $500,000.

Interest Rate Related Contracts								
Forward rate agreements								
Trading	**16,835**	9,425	**11**	7	**#**	1	**(1)**	1
Other than trading	**519**	73	**–**	#	**#**	#		
Total Forward Rate Agreements	**17,354**	9,498	**11**	7	**#**	1	**(1)**	1
Swaps								
Trading	**46,161**	35,366	**805**	617	**6**	(53)	**(28)**	(9)
Other than trading	**14,794**	8,992	**214**	215	**(54)**	67		
Total Swaps	**60,955**	44,358	**1,019**	832	**(48)**	14	**(28)**	(9)
Futures								
Trading	**53,935**	26,331	**–**	–	**(18)**	(12)	**(7)**	(14)
Other than trading	**2,815**	2,511	**–**	–	**(1)**	#		
Total Futures	**56,750**	28,842	**–**	–	**(19)**	(12)	**(7)**	(14)
Options								
Trading	**29,878**	22,912	**49**	34	**21**	(6)	**8**	8
Other than trading	**92**	2,009	**3**	3	**(3)**	1		
Total Options	**29,970**	24,921	**52**	37	**18**	(5)	**8**	8
Total Interest Rate Related Contracts	**165,029**	107,619	**1,082**	876	**(49)**	(2)	**(28)**	(14)
Other Index Related Contracts								
Swaps								
Other than trading	**12**	16	**–**	–	**–**	#		
Total	**383,777**	302,962	**5,688**	5,304	**(49)**	75	**(69)**	173

[1] In accordance with industry practice, notional principal amounts disclosed for spot and forward foreign exchange contracts represent the buy leg only and for cross currency swaps represent the receivable leg only.

[2] Average fair values of other than trading contracts are not captured.

 # Denotes amount less than $500,000.

Credit Equivalent by Maturity

As mentioned above, the credit equivalent amount includes an adjustment which takes account of the residual maturity of contracts. This is because credit risk is partly a function of the time over which the exposure will be held. Table 6 provides a maturity profile of total counterparty exposure by credit equivalent amounts. It shows that 75% (1995: 76%) of the exposure is confined to maturities of one year or less and 97% (1995: 96%) matures within five years.

Table 6: Maturity Profile of Total Derivative Financial Instruments Counterparty Exposure by Credit Equivalent Amounts

Consolidated	*Foreign Exchange Rate Related Contracts*		*Interest Rate Related Contracts*		*Total*	
As at September 30 *Dollars in Millions*	***1996***	*1995*	***1996***	*1995*	***1996***	*1995*
Within 6 Months	**3,457**	3,207	**105**	28	**3,562**	3,235
Within 6 Months – 1 Year	**605**	737	**82**	37	**687**	774
Within 1 – 2 Years	**224**	232	**207**	135	**431**	367
Within 2 – 5 Years	**292**	239	**522**	473	**814**	712
After 5 Years	**28**	13	**166**	203	**194**	216
Total	**4,606**	4,428	**1,082**	876	**5,688**	5,304

Credit Equivalent by Concentration

Depending on the risks associated with an individual counterparty or groups of counterparties, a concentration of credit risk can be perceived as indicative of more or less credit risk. In general, the Economic Entity's dealings in derivatives involve counterparties in the Banking and Financial Services area, together with government and semi-government authorities and major corporates.

Table 7 shows the credit equivalent of derivatives allocated to broad sector and geographic locations. It shows that 77% (1995: 73%) of credit exposure is to government authorities and other banks.

Table 7: Credit Equivalent of Derivative Financial Instruments Allocated to the Sectors and Geographic Locations of the Ultimate Obligors

Consolidated	*Governments*	*Banks*	*Non Bank Financial Institutions*	*Corporate and All Other Sectors*	*Total*
As at September 30, 1996 *Dollars in Millions*					
Australia	177	1,776	247	812	3,012
United Kingdom & Europe	–	485	4	34	523
New Zealand	16	138	3	98	255
United States of America	–	562	37	1	600
Rest of the World	–	1,224	–	74	1,298
Total	193	4,185	291	1,019	5,688

In excess of 94% (1995: 98%) of the Economic Entity's derivative financial instrument outstandings in terms of the credit equivalent are to customers with a credit rating of investment grade or above under the Economic Entity's loan grading system.

Liquidity Risk

Liquidity risk arises from the possibility that, because of market conditions prevailing at some point in the future, the Economic Entity will either be forced to sell derivative positions at a value which is far below their underlying worth, or may simply be unable to exit from the positions at all.

The liquidity of a derivative, or an entire market, can be reduced substantially as a result of some market event or change in market psychology, or the actions of individual participants.

In order to counter such risk, the Economic Entity concentrates its derivative activity in highly liquid markets. Table 5, for example, shows that approximately 69% (1995: 71%) of notional principal outstanding was represented by standard foreign exchange and interest rate futures contracts.

Special considerations apply in the case of interest rate and cross currency swaps. These are often specially tailored instruments whose cash flows are structured to suit the particular needs of individual clients. Such instruments have the appearance of illiquidity because hedging the position with another counterparty with exactly offsetting requirements would be an unlikely occurrence.

However, the Economic Entity hedges the risks of customised swap structures by using a combination of other instruments. Swaps, forward rate agreements, futures contracts, physical securities or even loans and deposits can be employed for this purpose. In other words, such swaps may appear illiquid, but their component risks are not. Furthermore, other market participants will always be willing to provide liquidity to an instrument they are able to hedge.

In addition, earnings at risk utilisations (see Table 2) ensure that open positions are maintained at a very small level relative to total volume. Such levels ensure that, at a time of market stress, the Economic Entity would not be forced to compete for ever diminishing liquidity in order to dispose of, or hedge, its existing positions.

37 Fair value of financial instruments

Disclosed below is the estimated fair value of the Economic Entity's financial instruments presented in accordance with the requirements of Statement of Financial Accounting Standards No. 107 (SFAS 107), issued by the Financial Accounting Standards Board of the United States of America.

A financial instrument is defined by SFAS 107 as cash, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver to or receive cash or another financial instrument from a second entity on potentially favourable or unfavourable terms.

The following disclosures include all financial instruments other than items exempted from the provisions of the standard such as leases, controlled and associated entity investments and pension fund obligations. The disclosures also exclude the effect of any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax consequences, estimated transaction costs that may result from bulk sales or the relationships that may exist between various financial instruments.

There are various limitations inherent in this disclosure. First, it excludes a wide range of intangible, franchise and relationship benefits which are integral to a full assessment of the Economic Entity's financial position and the value of its net assets. Of prime significance among these exclusions, is the inability to assign a premium to non-interest bearing and call (ie. current account) deposits, notwithstanding that such deposits represent a stable source of long-term funding to the Economic Entity. The value of that premium is positively correlated with interest rates – it increases as interest rates rise. However, an interest rate rise will adversely affect the valuation of those longer term fixed rate financial assets which are, in part, funded by those deposits. Therefore, in the absence of any recorded increase in the premium value of such deposits, SFAS 107 disclosures will tend to indicate an interest rate sensitivity within the Economic Entity which in reality may not exist.

Additionally, some items are excluded from the SFAS 107 requirements even where they may be bought and sold in the market. For example, the intangible value of credit card relationships represent the value attributable to a credit card customer base, and are based on the expected duration of customer relationships. Recorded sales of credit card receivables in other entities indicate that this intangible carries significant premium market value. This market value has not been recognised in the disclosure below.

Furthermore, the valuation of other loans and deposits which, as explained below, generally involved the use of discounted cash flow techniques takes no account of the value to the Economic Entity of the customer relationships so formed and on which the Economic Entity's continued financial health depends.

Finally, although management has employed its best judgment in the estimation of fair values, there is inevitably a significant element of subjectivity involved in the calculations. This is particularly so in the case of those financial instruments which are non performing or which, like the majority of the Economic Entity's financial assets and liabilities, have a thin or non-existent market. Therefore, the fair value estimates presented below are not necessarily indicative of the amounts the Economic Entity could have realised in a sales transaction at September 30.

Methodologies

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

Liquid assets

The carrying values of certain on-balance sheet financial instruments approximate fair values. These include cash and short-term liquid assets, due to and from other banks, acceptances outstanding and customers' acceptance liability, and accrued interest receivable and payable. These financial instruments are short-term in nature and the related amounts approximate fair value or are receivable or payable on demand.

Debt securities

The fair values of Trading, Investment, and Available for Sale securities, together with any related hedge contracts where applicable, are based on quoted market prices at September 30.

Loans and other receivables

The fair value of loans and receivables that reprice within six months of balance date is assumed to equate to carrying value. The fair value of all other loans and receivables were calculated using discounted cash flow models based on the maturity of the loans. The discount rates applied in this exercise were based on the current interest rates of similar types of loans, if the loans were performing at reporting date.

The fair value of non-performing loans was derived from the results of a statistical sample of such loans in all banking entities in the Economic Entity. The purpose of the sample was to compare the carrying value, net of any related provisions, with the discounted present value of such loans based on estimates of future cash flows. As policies and procedures are in place to ensure that provisioning practices are uniformly applied across the Economic Entity, the results of that statistical sample have been utilised in arriving at a valuation of all non-performing loans within the Economic Entity. As noted above, leasing assets have been excluded from the calculation of fair value.

Shares in entities and other securities

The fair value of shares in entities and other securities was based on quoted market prices where available. Where quoted market prices did not exist, the fair values were estimated after taking into account the underlying financial position of the investee or quoted market prices for similar instruments.

Regulatory deposits with central banks

The Economic Entity is required by law, in several of the countries in which it operates, to lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. As the obligation between the parties is not based on contract but on regulatory requirements, such deposits do not constitute a financial instrument within the definition contained in SFAS 107 and consequently no fair value was attributed to them.

Deposits and other borrowings

As noted above, the fair value of non-interest bearing, call and variable rate deposits and fixed rate deposits repricing within six months was the carrying value at September 30. The fair value of other term deposits was calculated using discounted cash flow models, based on the deposit type and its related maturity.

Bonds, notes and subordinated debt/perpetual floating rate notes

The fair value of bonds, notes and subordinated debt was calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument was used.

The fair value of off-balance sheet financial instruments that qualify as accounting hedges for the Economic Entity's long-term debt was included in the fair value amount of the hedged debt.

Commitments to extend credit, letters of credit and guarantees, warranties and indemnities issued

These financial instruments are generally not sold nor traded and estimated fair values are not readily ascertainable. Fair value of these items was not calculated for the following reasons. First, very few of the commitments extending beyond six months would commit the Economic Entity to a predetermined rate of interest. Secondly, the fees attaching to these commitments are the same as those currently charged to enter into similar arrangements. Finally, the quantum of fees collected under these arrangements, upon which a fair value calculation would be based, is not material.

Other off-balance sheet financial instruments

The fair values of foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

The fair values of these instruments are disclosed in Note 36, 'Derivative Financial Instruments' on pages 123 to 128.

Summary

The following table provides comparison of carrying and fair values for each item discussed above, where applicable.

	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
As at September 30	***1996***		*1995*	
Dollars in Millions				
Financial Assets				
Liquid assets	**4,899**	**4,899**	4,751	4,751
Due from other banks	**9,392**	**9,392**	9,353	9,353
Due from customers on acceptances	**17,283**	**17,283**	16,657	16,657
Debt securities	**15,442**	**15,486**	12,877	12,915
Loans & other receivables	**106,106**	**107,030**	88,014	88,789
Shares in entities and other securities	**175**	**205**	167	244
Total Financial Assets	**153,297**	**154,295**	131,819	132,709
Financial Liabilities				
Due to other banks	**11,032**	**11,032**	12,501	12,501
Liability on acceptances	**17,283**	**17,283**	16,657	16,657
Deposits and other borrowings	**110,921**	**111,016**	90,654	90,714
Bonds, notes and subordinated debt	**6,958**	**6,989**	4,067	4,112
Perpetual floating rate notes	**424**	**388**	459	459
Total Financial Liabilities	**146,618**	**146,708**	124,338	124,443

38 Superannuation commitments

The Economic Entity sponsors a range of superannuation funds for employees. There are principally 2 types of benefits offered by these superannuation funds:

a) Defined benefits which provide a pension with the option of commutation of part of the pension on retirement; and
b) Accumulation benefits which provide a lump sum benefit on retirement or withdrawal.

Defined benefits are based on years of service and compensation levels during the latter years of service. For defined benefit funds, the Economic Entity's policy has been to contribute to the plans annually in amounts required to maintain sufficient plan assets to provide for accrued benefits.

Accumulation benefits are based on accumulated contributions and interest earnings thereon. Entities in the Economic Entity are obliged to contribute sufficiently to cover specified minimum benefit levels. These obligations are legally enforceable. The relevant trust deed allows for the permanent cessation of these contributions. Member and employer contributions are calculated as percentages of members salaries or wages. In the case of some funds, member contributions are not required.

The Economic Entity contributed $124 million in respect of all superannuation funds for the year ended September 30, 1996 (1995: $60 million).

All Trustees of the respective funds are of the opinion, based on the advice of the actuaries as at the last valuation date, that on termination of the funds or the voluntary or compulsory termination of each employee, all vested benefits are covered by the available assets of the respective funds.

Listed below are details of the major funds with total assets in excess of $10 million. The accrued benefits, plan assets at net market value, net surplus and vested benefits of these funds (converted as at September 30, 1996 exchange rates) were:

Name of Fund *Dollars in Millions*		1996				1995			
Defined Benefit Funds	*Last Assessment Date and Actuary Name*	*Accrued Benefits*	*Plan Assets*	*Net Surplus*	*Vested Benefits*	*Accrued Benefits*	*Plan Assets*	*Net Surplus*	*Vested Benefits*
National Australia Bank Group Superannuation Fund A[(1)]	September 30, 1994 Mr. SJ Schubert FIA, FIAA	**1,124**	**1,433**	**309**	**1,056**	1,124	1,352	228	966
Clydesdale Bank Pension Scheme[(2)]	June 30, 1996 Watson Wyatt Partners Consulting Actuaries	**722**	**868**	**146**	**624**	733	815	82	626
Northern Bank Pension Scheme[(2)]	June 30, 1996 Watson Wyatt Partners Consulting Actuaries	**488**	**710**	**222**	**397**	586	617	31	459
National Irish Bank Pension Scheme[(2)]	June 30, 1996 Watson Wyatt Partners Consulting Actuaries	**161**	**189**	**28**	**131**	123	167	44	100
National Australia Bank UK Retirement Benefits Plan[(2)(3)]	June 30, 1996 Sedgwick Noble Lowndes Actuarial Services Ltd	**26**	**35**	**9**	**24**	27	32	5	25
Yorkshire Bank Pension Scheme[(2)]	June 30, 1996 Watson Wyatt Partners Consulting Actuaries	**573**	**880**	**307**	**478**	528	817	289	433
Bank of New Zealand Officers Provident Association[(4)]	October 31, 1995 William M Mercer Ltd Consulting Actuaries	**208**	**319**	**111**	**202**	220	345	125	211
Bank of New Zealand Officers Provident Association (London) Pension Scheme[(2)]	June 30, 1996 Watson Wyatt Partners Consulting Actuaries	**15**	**22**	**7**	**16**	16	22	6	16
Michigan National Corporation Pension Scheme[(5)]	September 30, 1996 William M Mercer Ltd Consulting Actuaries	**101**	**112**	**11**	**78**				
Total Defined Benefit Funds		**3,418**	**4,568**	**1,150**	**3,006**	3,357	4,167	810	2,836

Notes:

(1) National Australia Bank Group Superannuation Fund A is technically a defined benefit fund although the vast majority of members have accumulation benefits. Accrued Benefits are at the date of the last actuarial assessment, which was September 30, 1994. Plan Assets and Vested Benefits are as at September 30, 1996.

(2) Accrued Benefits, Plan Assets and Vested Benefits are at the date of the last actuarial assessment, which was June 30, 1996. Comparative amounts are as the actuarial assessment of June 30, 1995, except National Irish Bank where the assessment date was September 30, 1993.

(3) National Australia Bank and National Australia Group employees working in the Group's UK and Irish Banks are covered under the National Australia Bank Limited UK Retirement Benefits Plan.

(4) Amounts for Division 1 and 2 of the Bank of New Zealand Officers Provident Association have been combined. In the prior period, Division 2 of the fund was shown separately as a Defined Contribution Fund.

(5) Accrued Benefits, Plan Assets and Vested Benefits for the Plan are as at the date of the last actuarial assessment, being September 30, 1996.

As at September 30 Dollars in Millions	Consolidated 1996	1995	The Company 1996	1995

39 Operating lease commitments

Estimated minimum lease commitments:				
Due within 1 year	**244**	279	**175**	222
Due within 1–2 years	**174**	173	**110**	117
Due within 2–3 years	**139**	139	**83**	86
Due within 3–4 years	**104**	116	**52**	67
Due within 4–5 years	**83**	97	**37**	52
Due after 5 years	**849**	929	**145**	219
Total Operating Lease Commitments[(1)(2)]	**1,593**	1,733	**602**	763
Commitments by type:				
Commercial and residential buildings	**1,493**	1,539	**503**	570
Data processing and other equipment	**100**	194	**99**	193
	1,593	1,733	**602**	763

[(1)] *Figures include liabilities taken up for surplus leased space and lease incentives.*
[(2)] *Includes non-cancellable operating lease commitments consisting of:*

Due within 1 year	**65**	53	**–**	–
Due within 1–2 years	**60**	51	**–**	–
Due within 2–3 years	**53**	50	**–**	–
Due within 3–4 years	**48**	47	**–**	–
Due within 4–5 years	**43**	42	**–**	–
Due after 5 years	**639**	650	**–**	–
Total Non-Cancellable Operating Lease Commitments	**908**	893	**–**	–

40 Capital expenditure commitments

Land and buildings				
Due within 1 year	**24**	21	**15**	10
Due within 2–5 years	**1**	–	**–**	–
Data processing and other equipment				
Due within 1 year	**27**	20	**23**	10
Due within 1–2 years	**1**	–	**–**	–
Due within 2–5 years	**1**	–	**–**	–
Total Capital Expenditure Commitments	**54**	41	**38**	20

	Amount Accessible	Amount Unused	Amount Accessible	Amount Unused
	1996		1995	

41 Financing arrangements

The Company and other controlled entities have access to the following financing arrangements:				
Standby lines of credit	**291**	291	**291**	291
Bill facility	**–**	–	**183**	89
	291	291	**474**	380

The standby lines of credit facilities are subject to a range of expiry dates from September 20, 1998 to December 6, 2001.

42 Related party disclosures

During the year there have been dealings between the Company and its controlled entities and other related parties. The Company provides a range of services including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, the provision of finance, forward exchange and interest rate cover. These transactions are normally subject to commercial terms and conditions.

Other transactions with controlled entities may involve leases of properties, plant and equipment, the provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are made on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Economic Entity, which may include accounting, secretarial and legal. Fees may be charged for these services.

The aggregate of material amounts receivable from or payable to controlled entities, at balance date are as disclosed in the balance sheet of the Company.

Directors of the Company who have held office during this period:

WRM Irvine, Chairman	DCK Allen	The Lord Nickson	A Turnbull
DK Macfarlane, Vice-Chairman	PJW Cottrell	T P Park	CM Walter
BT Loton, Vice-Chairman	CM Deeley	M R Rayner	Sir Bruce Watson
DR Argus, Managing Director	DAT Dickins	JC Trethowan	

Details of remuneration paid or payable to these Directors and Directors of related entities, are set out in Note 43. Australian banks and the Australian parent entities of Australian banks have been exempted under Australian Securities Commission Class Order 93/837 dated August 6, 1993 as amended by Class Order 95/719 dated June 28, 1995, from providing details of certain loans or financial instrument transactions made by banks to related parties (other than Directors) in the ordinary course of banking business and on an arm's length basis or with the approval of shareholders of the relevant entity and its ultimate parent entity if any.

The Company is required under the terms of the Class Order to lodge a statutory declaration, signed by two Directors, with the Australian Securities Commission. The declaration must provide confirmation that the Company has instigated systems of internal control and procedures, which provide assurance that any loans or other financial instrument transactions of a bank which are not entered into on normal terms and conditions are drawn to the attention of the Directors so that they may be disclosed in the accounts.

The Company will lodge such a declaration with its annual return to the Australian Securities Commission for the year ended September 30, 1996.

Loans to Directors

Loans made to Non-Executive Directors of the Company and controlled entities are made in the ordinary course of business on commercial terms and conditions. Loans to Executive Directors of the Company and controlled entities are made on similar terms and conditions to other employees within the Economic Entity.

Under the Class Order referred to above, disclosure is limited to the aggregate amount of loans made or guaranteed by:
(i) the Company and its controlled entities to Directors of all entities within the Economic Entity, and
(ii) controlled non-banking entities to the related parties of Directors of all entities within the Economic Entity.

The aggregate amounts of such loans made, repayments received and amounts outstanding were:

	Consolidated		*The Company*	
Dollars in Thousands	***1996***	*1995*	***1996***	*1995*
Balance outstanding at September 30	**21,540**	20,241	**–**	2
Loans made during the year				
– Normal terms and conditions	**1,154**	993	**–**	2
– Employee terms and conditions	**2,981**	8,785	**–**	–
Repayments received during the year				
– Normal terms and conditions	**1,631**	349	**2**	–
– Employee terms and conditions	**2,283**	2,013	**–**	–

	Consolidated			*Consolidated*			*Consolidated*	
	1996	*1995*		*1996*	*1995*		*1996*	*1995*
The Duke of Abercorn	2,3	1,2,3	A Frankenburg	1,2,3,4	–	MJ Moorhouse	4	1,4
JO Anderson	1,2,4	2,4	DT Gallagher	4	1,2,4	RI Montgomery	2,4	4
G Armbruster	1,2,3,4	1,2,4	M Gilligan	–	4	AL Morgan	2,4	2,4
AMR Aynsley	1,4	1,4	P Gilligan	–	4	AF Morrison	1,3	–
DA Baillie	1,2,4	–	IH Gill	4	2,4	EL Mosley	3	1,2,4
DW Bain	–	1,2,4	WA Gloyne	–	2,4	D Muall	2,4	–
BA Baker	1,2,4	1,2,4	PR Goldsbrough	1,2,3,4	–	GF Nolan	1,2,4	2,4
GLL Barnes	4	–	DA Grubb	1,2,3,4	2,4	H North	2	1,2,3
J F Bath	1,2,3,4	1,2,4	AG Haintz	4	4	S O'Conner	3	3
LC Bayliss	–	1,2	G Haldenby	–	2,4	AJ O'Grady	2,4	–
NC Beattie	–	2,4	P Halpin	3,4	–	P O'Sullivan	4	–
SD Bedford	1,2,4	–	GR Hamilton	4	4	M Oliver	4	2,4
JK Berry	2,4	–	TK Harley	4	4	GR Pellett	2,3,4	2,4
NR Berryman	1,2,3,4	1,2,4	P Harty	1,2,4	–	NP Peters	1,2,3,4	–
TG Blake	2,4	1,2,4	A Haslem	4	1,2,4	RE Pinney	1,2,3,4	–
RC Bowden	2,4	–	GCM Hendry	2	2,4	RH Polkinghorne	2,3,4	–
RK Boyce	3	–	RM Heron	4	1,4	I Porter	1,2,4	1,2,4
P Boyle	2,4	–	EM Hetherington	2,3,4	–	MT Pratt	–	1,2,4
CW Breeze	2,3	1,4	RI Hey	–	2,4	RMC Prowse	1,2,3,4	1,2,4
JF Brennan	2,4	2,4	G Hunt	3,4	2,4	JE Queen	1,2,4	–
RW Brice	–	1,2,4	P Hurley	2,3	1,2,4	BJG Roberts	–	4
MM Brown	2,4	2,4	JJ Inglis	1,2,3	1,2,4	MS Robinson	–	1,4
LC Brooke	1,2,4	1,4	PA Jefferies	1,2,3	3	NJ Roden	1,2,4	2,4
PM Buckton	2,4	2,4	MF Johnstone	1,4	–	BT Rose	1,2,4	1,4
RJ Caldwell	1,2,4	1,2,4	B Jones	–	2,4	CA Russell	2,4	1,2,4
B Callaghan	–	1,2,4	DC Jones	1,2,4	–	LR Ryan	2,4	1,4
WJE Canning	2,4	2,4	MJ Keane	1,2,3,4	2,4	RH Samphier	1,2,4	1,2,4
C Carman	–	4	BM Kelly	2,3	2,3	PJ Senior	1,2,4	–
AJ Casey	1,2,4	1,2,4	RG Kitley	–	2	G Shaw	–	4
MA Cassino	4	1,2,4	IS Knowles	–	1,2,4	MD Soden	1,4	–
FJ Cicutto	–	1,2,4	PAK Laband	1,2,4	1,4	AJ Spain	1,3	–
PJ Coleman	–	1,2,4	J Lacey	–	3	JS Spence	–	1,4
PM Conacher	4	2,4	MT Laing	1,2,3	1,2,4	GR Spicer	1,2,3,4	1,2,4
MW Cooper	–	1,2,4	KJ Lawford	2,4	2,4	WJ Stafford	–	1,2,4
JF Copeland	2,4	2,4	SP Littlebury	1,2,4	–	JA Stainer	1,2,4	4
IL Coulson	1,2,3,4	2,4	D Loftus	2,4	2,4	EG Steel	–	1,2,4
TL Cox	–	1,4	TD Lorimer	3	–	JE Stevenson	2,4	–
ER Coyle	–	2,4	NV Lucas	2,4	–	AA Stewart	2,4	–
PA Cross	–	4	AD MacDonald	1,2,4	–	J Stones	2	2,4
GG Cullen	1,2,4	1,2,4	KW MacIntosh	2,4	2,4	D Taylor	3,4	2,4
FJ Davis	–	1,4	JT Macken	1,2,4	–	PL Thodey	1,2,4	–
CM Deeley	2	1,3	AW Marsh	–	2,4	H Thomson	1,2,3,4	–
RJ Diack	2,3	2,4	DJ Mann	2,4	–	NJ Thompson	–	1,2,4
AW Diplock	–	4	IG Mattiske	2,3,4	1,4	J Treloar	4	4
RR Dobbins	2,3	–	TJ Matthews	1,2,4	–	DJ Tuck	1,2,3	2,4
WK Doonan	2,4	2,4	WJ McClelland	–	2,4	RP Tuckey	2,4	2
BG Donhardt	–	1,2	BS McComish	2,3	1,4	SA Van Andel	2,3	–
J Donlon	1,3	–	M McCormick	1,2,3,4	2,4	JJ Van Helten	–	1,2,4
AJ Douglas	2,4	2,4	RP McCracken	4	4	JD Walmsley	2,4	1,2,4
CW Duncan	2,3,4	2,4	TD McKee	2,4	2,4	AW Webster	1,2,4	1,2,4
DE Ebert	2,3	–	RE McKinnon	2,4	–	KB Williamson	–	1,2,4
MM Elliott	1,2,3	1,2,3	DC Mead	1,2,4	–	GD Willis	1,2,4	2,4
BG Everitt	4	1,2,4	JB Meyer	2,3	–	JR Wright	2,4	1,2,4
JDC Faulkner	2	1,2,3	BL Miller	–	1,2,4	SM Wright	–	2,4
J Foley	3,4	–	RB Miller	1,2,4	1,2,4			

(1) Loan made to this person during the year. Refer to page 133 for aggregate amounts
(2) Repayment made by this person during the year. Refer to page 133 for aggregate amounts
(3) Loan in ordinary course of business on commercial terms and conditions. Refer to page 133 for aggregate amounts
(4) Loan on employee terms and conditions. Refer to page 133 for aggregate amounts.

Loans made by the Economic Entity in 1996 and 1995 to Directors, or to any associate of such persons, as defined by the Securities & Exchange Commission of the United States of America, at no time exceeded 5% of shareholders' equity.

Other transactions

The aggregate number of shares and share options issued during the years ended September 30, 1996 and September 30, 1995 by the Company, including shares issued under the Dividend Reinvestment Plan, the Bonus Share Plan, the UK Dividend Plan and, where applicable, the Employee Share Scheme and Executive Option Plan, to Directors of the Company and to parties related to them were as follows:

	The Company	
	1996 No.	*1995 No.*
Ordinary shares of $1.00 each, fully paid	**24,198**	29,270
Share options over ordinary shares of $1.00 each	**500,000**	400,000

Shares disposed of by Directors of the Company and by parties related to them during the year ended September 30, 1996 totalled 93 (1995: 6,200 shares).

The aggregate number of shares and share options held directly, indirectly or beneficially by Directors of the Company and by parties related to them at September 30, 1996 and September 30, 1995 were as follows:

	The Company	
	1996 No.	*1995 No.*
Ordinary shares of $1.00 each, fully paid	**493,528**	442,586
Share options over ordinary shares of $1.00 each	**1,200,000**	700,000

All these transactions were conducted on the same terms and conditions applicable to all ordinary shareholders or, where applicable, to all employees of the Company under the Employee Share Scheme.

Non-banking transactions with Director related parties

Directors have made personal investments, including contributions to superannuation products, with controlled entities during the year. Such investments are within normal customer relationships on terms and conditions no more favourable than those available to other customers.

1. A Director of Eden Vehicle Rentals Ltd (EVR), Mr P Gilligan is a Director in the County Garage Group of Companies (CG) who are motor vehicle traders. CG owns 25% of the issued capital of EVR. During the year CG entered into transactions with EVR involving the supply of new cars (total amount paid: $12,011,488; 1995: $9,553,599), disposal of used cars (total amount received $12,217,562, commission paid of $1,045,802)(1995: $7,222,475 and $1,684,528 respectively), rental of property (total amount paid $20,908) and service and repair work (total amount paid : $233,826) (1995: $232,018). All transactions with CG were in the ordinary course of business and were on normal terms and conditions.
2. A Director of Michigan National Corporation (MNC), Mr S Forbes is a Partner in FCN Associates, a general partnership. FCN Associates has a majority ownership interest in an office building in which subsidiary of MNC was a tenant. During the year the total rental paid for this tenancy was $2,002,619. Additionally, MNC entered into an agreement to terminate the tenancy and paid $759,938 to FCN Associates. All transactions with FCN Associates were in the ordinary course of business and on normal terms and conditions.
3. A Director of MNC, Mr R Dobbins is a Director in OmniCare Health Plan. Health insurance premiums paid to OmniCare Health Plan by MNC during the year were $279,564. All transactions with OmniCare Health Plan were in the ordinary course of business and on normal terms and conditions.

Controlled entities and associated entities

Refer to Note 16 for details of the Company's investment in controlled entities. Refer to Note 34 for details of controlled and associated entities.

Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in Note 2.

In the context of the Economic Entity operations, the Directors do not consider it practicable to collate details of dealings with related parties by transaction type, except to the extent that they have been collated and disclosed in respect of the specific transaction types referred to in the preceding paragraphs.

The Company has certain guarantees and undertakings with entities in the Economic Entity. These are set out in Note 35.

For years ended September 30 Dollars in Thousands	Consolidated 1996	 1995	The Company 1996	 1995

43 Remuneration of Directors

Directors' remuneration received or due and receivable, directly or indirectly by Directors of the Company and controlled entities from the Company and related bodies corporate consists of the following:

Salary package	**6,042**	5,114	**2,473**	2,236
Performance based bonuses[1]	**1,110**	516	**400**	200
Other benefits	**26,190**[2]	1,505	**1,288**	217
Total Remuneration	**33,342**	7,135	**4,161**	2,653

[1] Represents bonuses paid in respect of prior year performance.
[2] Directors' Remuneration includes $A23.9 million relating to the settlement of vested but unexercised stock options and contractual payments related to the change in control of Michigan National Corporation.

Options issued during the year to executive directors under the Executive Option Plan have an exercise price equivalent to the market value of the Company's ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be nil. Refer to Note 31 for details of all options issued under the Executive Option Plan.

The table which follows shows the number of Directors of the Company receiving gross remuneration in each of the ranges stated from the Company and related bodies corporate:

Remuneration (Dollars)	*The Company* ***1996***	*1995*		*The Company* ***1996***	*1995*
0 – 10,000	**1**	1	140,001 – 150,000	**1**	–
50,001 – 60,000	**–**	3	270,001 – 280,000	**–**	1
60,001 – 70,000	**2**	3	290,001 – 300,000	**–**	1
70,001 – 80,000	**4**	1	320,001 – 330,000	**1**	–
80,001 – 90,000	**1**	1	460,001 – 470,000	***1**	–
90,001 – 100,000	**1**	–	800,001 – 810,000	***1**	–
100,001 – 110,000	**1**	–	1,320,001 – 1,330,000	**–**	1
110,001 – 120,000	**–**	1	1,700,001 – 1,710,000	**1**	–
120,001 – 130,000	**–**	1			
Total number of Directors				**15**	14

** Includes retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

The Directors of the Company in office at any time during the period were:

WRM Irvine (Chairman)	PJW Cottrell	MR Rayner
DK Macfarlane (Vice-Chairman)	CM Deeley	JC Trethowan
BT Loton (Vice-Chairman)	DAT Dickins	A Turnbull
DR Argus (Managing Director)	The Lord Nickson	CM Walter
DCK Allen	TP Park	Sir Bruce Watson

The above amounts (including the comparatives) are disclosed in accordance with Australian Securities Commission Class Order 96/1171 dated July 25, 1996. As a result, company contributions to superannuation funds on behalf of Directors and payments made to Directors on their retirement which were not subject to prior approval by shareholders at a general meeting, have been included above as remuneration.

Agreements between the Company and Non-Executive Directors provide that, upon and in consequence of each of these Directors ceasing to be a Director by reason of retirement or death, the Company shall pay a lump sum retiring allowance in accordance with the following table:

Period of Service	*Amount of Retirement Benefit*
Less than 15 years	One third of the average yearly emoluments paid by the Company to the Director: (a) during the last 3 years of service; or (b) when the period of such service is less than 3 years, during that period; for each completed year of service and proportionately for part of a year, as a non-executive Director of the Company.
15 or more years	Five times the average yearly emoluments paid by the Company to the Director during the last 3 years of service as a non-executive Director.

In calculating the lump sum retiring allowance of Directors of the former The Commercial Banking Company of Sydney Limited ('CBC'), such Directors shall include, in calculating their years of service as Directors, the date of their appointments as Directors of CBC.

The Company's Articles of Association provide that the non-executive Directors shall be paid out of the funds of the Company an aggregate sum to be fixed by the Company in general meetings from time to time. At the Annual General Meeting held on January 25, 1996 this sum was set by shareholders at $1,750,000, such sum being divided among the Directors as they may agree.

For years ended September 30 Dollars in Thousands	Consolidated 1996	Consolidated 1995	The Company 1996	The Company 1995

44 Remuneration of Executives

Executives' remuneration received or due and receivable, directly or indirectly, by Executives of the Company and controlled entities from the Company and related bodies corporate consists of the following:

	Consolidated 1996	Consolidated 1995	The Company 1996	The Company 1995
Salary package	**14,810**	12,697	13,816	11,749
Performance based bonuses[1]	**2,534**	2,171	2,343	2,132
Other benefits	**4,125**	1,122	4,068	1,068
Total Remuneration	**21,469**	15,990	20,227	14,949

[1] Represents bonuses paid in respect of prior year performance.

Options issued during the year to executives under the Executive Option Plan have an exercise price equivalent to the market value of the Company's ordinary shares as at the date of issue. Accordingly, the remuneration value is deemed to be nil. Refer to Note 31 for details of all options issued under the Executive Option Plan.

The table which follows shows the number of executives of the Company and controlled entities who work wholly or mainly within Australia receiving gross remuneration in each of the ranges stated from the Company and related bodies corporate:

Remuneration (Dollars)	*Consolidated* **1996**	*Consolidated* 1995	*The Company* **1996**	*The Company* 1995	*Remuneration (Dollars)*	*Consolidated* **1996**	*Consolidated* 1995	*The Company* **1996**	*The Company* 1995
120,001 – 130,000	–	1	–	1	390,001 – 400,000	–	*3	–	*3
130,001 – 140,000	1	–	1	–	400,001 – 410,000	1	–	1	–
140,001 – 150,000	1	1	1	1	410,001 – 420,000	1	–	1	–
150,001 – 160,000	1	1	1	1	420,001 – 430,000	1	–	1	–
160,001 – 170,000	–	2	–	1	430,001 – 440,000	–	1	–	1
170,001 – 180,000	2	3	2	3	440,001 – 450,000	1	–	1	–
180,001 – 190,000	–	3	–	3	450,001 – 460,000	–	1	–	1
190,001 – 200,000	3	2	3	2	460,001 – 470,000	2	1	2	1
200,001 – 210,000	2	3	2	2	470,001 – 480,000	1	–	1	–
210,001 – 220,000	1	2	–	1	490,001 – 500,000	–	1	–	1
220,001 – 230,000	1	5	1	3	500,001 – 510,000	*1	–	*1	–
230,001 – 240,000	4	–	3	–	530,001 – 540,000	1	–	–	–
240,001 – 250,000	2	3	2	3	540,001 – 550,000	*2	–	*2	–
250,001 – 260,000	2	3	1	3	550,001 – 560,000	–	1	–	1
260,001 – 270,000	1	2	1	2	560,001 – 570,000	–	1	–	1
270,001 – 280,000	*3	3	*3	3	610,001 – 620,000	1	–	1	–
280,001 – 290,000	1	–	1	–	660,001 – 670,000	2	–	2	–
290,001 – 300,000	2	3	2	3	670,001 – 680,000	*1	1	*1	1
300,001 – 310,000	2	1	2	1	680,001 – 690,000	1	–	1	–
310,001 – 320,000	3	1	3	1	790,001 – 800,000	*1	–	*1	–
340,001 – 350,000	2	1	2	1	1,000,001 – 1,010,000	*1	–	*1	–
350,001 – 360,000	2	–	2	–	1,320,001 – 1,330,000	–	1	–	1
370,001 – 380,000	1	1	1	1	1,700,001 – 1,710,000	1	–	1	–
380,001 – 390,000	–	1	–	1					
Total number of Executives						**56**	53	**52**	48

The above amounts (including the comparatives) are disclosed in accordance with ASC Class Order 96/1171 dated July 25, 1996. As a result, company contributions to superannuation funds on behalf of executives and payments made to executives on their retirement have been included above as remuneration.

Arrangements or understandings between Executive Officers, Executive Directors and the Company are covered by a standard memorandum of agreement. Under the agreement, remuneration of Executive Officers and Executive Directors is at such rates and payable at such times as the Company shall from time to time determine.

** Includes retirement, retrenchment and/or resignation benefits paid to one person in each of these bands.*

For years ended September 30 Dollars in Thousands	Consolidated 1996	 1995	 1994	The Company 1996	 1995	 1994

45 Remuneration of Auditors

Total amounts received or due and receivable for audit of the accounts by:						
Auditors of the Company	**3,951**	3,790	4,513	**1,564**	1,566	1,489
	3,951	3,790	4,513	**1,564**	1,566	1,489
Total amounts received or due and receivable for other services by:						
Auditors of the Company	**5,392**	6,356	3,243	**3,173**	3,358	1,170
Other auditors of entities in the Economic Entity	**161**	–	–	**–**	–	–
	5,553	6,356	3,243	**3,173**	3,358	1,170
Total Remuneration of Auditors	**9,504**	10,146	7,756	**4,737**	4,924	2,659

By virtue of Australian Securities Commission Class Order 92/633 dated June 29, 1992, the auditors of National Australia Bank Limited and its controlled entities, KPMG, have been exempted from compliance with Section 324(2) of the Corporations Law. The Class Order exemption applies in that partners and associates of KPMG (other than those partners and associates engaged on the audit of National Australia Bank Limited and/or a controlled entity) may be indebted to National Australia Bank Limited and its controlled entities provided that such indebtedness is on ordinary commercial terms as to the rate of interest, the terms of repayment of principal and payment of interest, the security to be provided and otherwise.

As at September 30, 1996 Dollars in Millions	Due in 1 Year or less	Due after 1 Year through to 5 Years	Due after 5 Years	Total

46 Maturities of monetary assets and liabilities

Assets				
Cash and short-term liquid assets	4,899	–	–	4,899
Due from other banks	9,251	125	16	9,392
Due from customers on acceptances	17,283	–	–	17,283
Trading securities[1]	8,406	–	–	8,406
Available for sale securities	161	110	93	364
Investment securities	4,634	1,957	81	6,672
Loans and other receivables	42,193	21,911	47,364	111,468
All other monetary assets	862	–	–	862
Total Monetary Assets	87,689	24,103	47,554	159,346
Liabilities				
Due to other banks	11,005	27	–	11,032
Liability on acceptances	17,283	–	–	17,283
Deposits and borrowings	108,966	1,813	142	110,921
Bonds, notes and subordinated debt	1,613	4,876	469	6,958
All other monetary liabilities	2,960	27	10	2,997
Total Monetary Liabilities	141,827	6,743	621	149,191
As at September 30, 1995				
Assets				
Cash and short-term liquid assets	4,751	–	–	4,751
Due from other banks	9,042	277	34	9,353
Due from customers on acceptances	16,657	–	–	16,657
Trading securities[1]	7,910	–	–	7,910
Available for sale securities	187	143	3	333
Investment securities	4,063	535	36	4,634
Loans and other receivables	34,804	17,300	39,909	92,013
All other monetary assets	2,787	–	30	2,817
Total Monetary Assets	80,201	18,255	40,012	138,468

As at September 30, 1995 Dollars in Millions	*Due in 1 Year or less*	*Due after 1 Year through to 5 Years*	*Due after 5 Years*	*Total*
Liabilities				
Due to other banks	12,475	26	–	12,501
Liability on acceptances	16,657	–	–	16,657
Deposits and borrowings	76,663	13,967	24	90,654
Bonds, notes and subordinated debt	357	2,666	1,044	4,067
All other monetary liabilities	5,219	28	–	5,247
Total Monetary Liabilities	111,371	16,687	1,068	129,126

[1] *Trading securities, having been purchased without the intention to hold until maturity, are all categorised as due in 1 year or less.*

47 Reconciliation with US GAAP

In this note, National Australia Bank Limited is referred to as 'the Company' and the 'Economic Entity' consists of the Company and those controlled entities listed in Note 34.

The Company files its annual report (Form 20-F) with the Securities and Exchange Commission of the United States of America.

The consolidated financial statements of the Economic Entity are prepared in accordance with Generally Accepted Accounting Principles applicable in Australia ('Australian GAAP') (refer Note 1) which differ in some respects from Generally Accepted Accounting Principles in the United States ('US GAAP').

The following are reconciliations of the accounts, for any significant adjustments, applying to US GAAP instead of Australian GAAP.

	Consolidated		
For years ended September 30 Dollars in Millions	***1996***	*1995*	*1994*
Consolidated Statements of Profit and Loss			
Net profit before abnormal item reported using Australian GAAP	**2,099**	1,936	1,658
Abnormal item reported using Australian GAAP	**3**	33	50
Net profit reported using Australian GAAP	**2,102**	1,969	1,708
Tax effect of increase (decrease) in general provision for doubtful debts[1]	**23**	20	16
Depreciation charged on the difference between revaluation amount and historical cost of buildings[2]	**7**	8	7
Difference in profit or loss on disposal of properties revalued from historical cost[2]	**11**	8	20
Amortisation of goodwill – difference resulting from treatment of loan losses as a purchase adjustment[3]	**4**	4	4
Amortisation of discount (on a five year basis)[4]	**–**	–	2
Amortisation of goodwill[11]	**4**	–	–
Amortisation of core deposit intangible[11]	**(22)**	–	–
Amortisation of deferred tax liability associated with core deposit intangible[11]	**6**	–	–
Pension expense[5]	**12**	4	(9)
Unrealised profit on equity investments[6]	**–**	–	59
Net income according to US GAAP[7]	**2,147**	2,013	1,807
Earnings per share (cents) according to US GAAP[8]	**145.4**	143.0	134.3
Shareholders' Equity[9]			
Shareholders' equity reported using Australian GAAP	**12,519**	11,381	9,852
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end[1]	**214**	182	162
Elimination of revaluation surplus of properties[2]	**(334)**	(381)	(355)
Adjustment of provision for depreciation on buildings revalued[2]	**74**	67	59
Additional provisions relating to purchase adjustments, less amortisation[3]	**(43)**	(47)	(51)
Pension expense (SFAS87)[5]	**(88)**	(100)	(104)
Provision for final cash dividend[10]	**650**	614	534
Unrealised profit on shares in entities and other securities[6]	**30**	44	21
Unrealised profit on available for sale debt securities[6]	**1**	1	1
Amortisation of goodwill, core deposit intangible and associated deferred tax liability[11]	**(12)**	–	–
Shareholders' equity according to US GAAP[7]	**13,011**	11,761	10,119

For years ended September 30 *Dollars in Millions*	*Consolidated* ***1996***	 *1995*	 *1994*
Consolidated Balance Sheets			
Total assets reported using Australian GAAP	**173,710**	148,123	130,436
Reinstatement of the deferred tax asset relating to the general provision for doubtful debts at year end[(1)]	**214**	182	162
Revaluation surplus of properties[(2)]	**(334)**	(381)	(355)
Adjustment of provision for depreciation on buildings revalued[(2)]	**74**	67	59
Additional provisions relating to purchase adjustments, less amortisation[(3)]	**(43)**	(47)	(51)
Unrealised profit on shares in entities and other securities[(6)]	**30**	44	21
Unrealised profit on available for sale debt securities[(6)]	**1**	1	1
Amortisation of goodwill, core deposit intangible and associated deferred tax liability[(11)]	**(12)**	–	–
Total assets according to US GAAP[(12)]	**173,640**	147,989	130,273

The following is a summary of the significant adjustments made to consolidated net profit, shareholders' equity and total assets to reconcile the Australian results with US GAAP.

Income Taxes (1)

The Economic Entity has applied SFAS109 'Accounting for Income Taxes' in preparing its US GAAP information. There is no significant difference between the effect of applying the provisions of SFAS109 and the accounting policy adopted in the Australian Financial Statements except for the tax effecting of the general provision for doubtful debts. Under US GAAP, a deferred tax asset must be taken up in respect of the general provision for doubtful debts. Under Australian GAAP, a deferred tax asset (referred to as future income tax benefits) should only be carried forward where realisation of the asset can be regarded as being assured beyond any reasonable doubt. The timing of the realisation of the deferred tax asset associated with a bank's general provision may be regarded as uncertain and therefore the asset is not recognised. For US GAAP reconciliation purposes, the related deferred tax asset has been reinstated.

Land and Buildings (2)

Certain property has been previously revalued by the Economic Entity at various intervals (refer Note 1). The amount of such revaluation increments and decrements is included in the Economic Entity's reserves (after adjustment for bonus issues) which form part of shareholders' equity. With the exception of land, all revalued fixed assets are depreciated over their estimated useful lives. Under US GAAP, revaluation of fixed assets is not permitted. Accordingly, the depreciation charges included in the statement of income for US GAAP purposes are adjusted back to a historical cost basis. Profits and losses on sale of revalued assets are also adjusted back to a historical cost basis for US GAAP purposes.

Purchase Adjustments (3)

The additional provisions for loan losses booked relating to loans acquired on the acquisition of the controlled entities in January 1990, which were treated as fair value adjustments for Australian GAAP, have been charged against net income for US GAAP. Appropriate adjustments to goodwill amortisation for US GAAP have been made in subsequent years.

Discount on Acquisition of Controlled Entities (4)

Under Australian GAAP a discount on acquisition can be brought to account as a gain in the income statement after reducing to zero the recorded amounts of any non-monetary assets acquired.

To comply with US GAAP this discount has been deferred and is being amortised systematically to income over a period of five years. The amount of this discount is now fully amortised.

Pension Plans (5)

For defined benefit pension plans, Australian GAAP recognises the actuarially-determined contribution payable as the expense for the period.

The disclosure requirements of SFAS87 'Employers' Accounting for Pensions' have been included in these financial statements in respect of the years ended September 30, 1996, 1995 and 1994. Under US GAAP, pension expense for defined benefit plans is a function of service and interest cost, return on fund assets and amortisation of any prior service costs and of any net gains or losses. Furthermore, the accrued pension liability has to be reconciled with the funded status of the pension plan; the funded status being the difference between the projected benefit obligation and the fair value of the plan assets. As a result, under US GAAP, adjustments are required. Refer to 'Details of Pension Expense and Reconciliation to Funded Status of Pension Plans' below.

Investments (6)

The Economic Entity modified its accounting policy in 1994 for the valuation of its shareholding in the Australian and New Zealand Banking Group Limited from original cost less any provision for diminution in value to market value. The accounting policy was changed to reflect the intent to sell the shareholding (previous intent was to hold long-term). Under US GAAP, the change in policy led to the recognition of prior period changes in the market value of the shares in the current period's profit and loss.

In addition, under Australian GAAP 'Shares in entities and other securities' (Note 16), are carried at original cost less any provision for diminution in value. Under US GAAP these securities are deemed to be available for sale securities which are carried at market value with unrealised profits and losses in respect of market value adjustments recognised in Shareholders' Equity. These securities have been restated to market value with unrealised profit recognised in Shareholders' Equity.

Finally, under Australian GAAP, available for sale debt securities are carried at the lower of aggregate cost or market value with unrealised losses in respect of market value adjustments recognised in profit and loss. Under US GAAP, available for sale securities are carried at market value with unrealised profits and losses in respect of market value adjustments recognised in Shareholders' Equity. Under US GAAP, available for sale securities have been restated to market value with unrealised profit recognised in Shareholders' Equity.

Net Income (7)

Under US GAAP the concept of 'operating profit' is not recognised and only a limited number of items can be included under the headings of 'extraordinary items' and 'abnormal items'. Net profit under Australian GAAP is operating profit after income tax, including extraordinary items and excluding outside equity interests. In performing the US GAAP profit reconciliation, the starting point is Net profit reported using Australian GAAP (after goodwill amortisation and extraordinary or abnormal items).

Earnings Per Share (8)

Under Australian GAAP, basic earnings per share is calculated by dividing net profit by the weighted average number of fully paid equivalent ordinary shares outstanding during the period after adjusting for the bonus element of rights and other issues. The fully diluted earnings per share reflects dilution by exercisable options issued under the Executive Option Plan, adjusted for notional interest on uncalled capital associated with partly paid shares and exercisable options.

For the purpose of US GAAP, the options issued are considered common stock equivalents and are therefore included in the calculation of primary earnings per share. Net income has been adjusted for notional interest on uncalled capital associated with partly paid shares and options. The bonus element of rights issues is excluded from US GAAP computations.

General and Capital Reserves (9)

As with Retained Profits, the General Reserve represents a retention of distributable profits available for general use in the business. This may include payment of cash dividends. The Capital Reserve, while also legally distributable as cash dividends, represents a reserve which the Directors have no long-term intention to utilise for distribution.

Provisions (10)

The term 'provisions' is used in Australian GAAP to designate accrued expenses with no definitive payment date. Provisions disclosed in Note 24 comply in all material respects with US GAAP with the exception of the provision for final cash dividend, which is not formally declared until shortly after the balance sheet date. Under US GAAP, dividends are recorded as liabilities only if formally declared prior to balance date. This difference in treatment has been amended in the US GAAP reconciliation of shareholders' equity.

Amortisation of Goodwill, Core Deposit Intangible and Associated Deferred Tax Liability (11)

Under US GAAP, purchase adjustments that arise in the acquisition of a US company are required to be reflected in the acquiree's financial statements.

Following SEC regulations and guidelines, on acquisition Michigan National Corporation (MNC) were required to separately identify and account for the intrinsic value of its retail deposit base. The recognition of the intrinsic value of the retail deposit base, which arose from the premium paid to acquire MNC is considered to be a component of goodwill under Australian GAAP.

For US GAAP purposes, core deposit intangibles are amortised over a period of 10 years, and the remaining goodwill on the acquisition amortised over 20 years. Under Australian GAAP the total goodwill (which includes the core deposit intangible) is amortised over 20 years.

In the calculation of the core deposit intangible a deferred tax liability was created. This tax liability is amortised over a 10 year period. Under Australian GAAP the deferred tax liability is not recognised.

Consolidated Balance Sheets (12)

The following are reconciliations of balance sheet categories, for any significant adjustments, applying to US GAAP instead of Australian GAAP.

	Consolidated		
As at September 30 *Dollars in Millions*	***1996***	*1995*	*1994*
Other Assets using Australian GAAP	**8,937**	7,379	5,432
Deferred tax asset on general provision for doubtful debts[1]	**214**	182	162
According to US GAAP	**9,151**	7,561	5,594
Fixed Assets using Australian GAAP	**2,991**	2,772	2,495
Revaluation surplus of properties[2]	**(334)**	(381)	(355)
Provision for depreciation on buildings revalued[2]	**74**	67	59
According to US GAAP	**2,731**	2,458	2,199
Goodwill using Australian GAAP	**2,218**	1,385	1,477
Additional provisions repurchase adjustments, less amortisation[3]	**(61)**	(47)	(51)
According to US GAAP	**2,157**	1,338	1,426
Shares in entities and other securities using Australian GAAP	**175**	167	142
Unrealised profit/loss on shares in entities and other securities[6]	**30**	44	21
According to US GAAP	**205**	211	163

As at September 30 Dollars in Millions	Consolidated 1996	1995	1994
Available for sale debt securities using Australian GAAP	**364**	333	585
Unrealised profit on available for sale debt securities[6]	**1**	1	1
According to US GAAP	**365**	334	586
Income Tax Liability using Australian GAAP	**1,638**	–	–
Deferred tax liability associated with core deposit intangible[11]	**6**	–	–
According to US GAAP	**1,644**	–	–

Life Insurance Controlled Entities

For Australian GAAP the assets of the statutory funds and the liabilities of these funds to their policyholders are excluded from the consolidated balance sheet. No adjustment has been made in the reconciliation to US GAAP. The gross assets of the funds, representing the liability to members of approximately the same amount, are $4,984 million at September 30, 1996 (1995: $1,870 million, 1994: $1,996 million) which is not material to the Economic Entity's total assets of $173,710 million (1995: $148,123 million, 1994: $130,436 million).

Details of Pension Expense and Reconciliation to Funded Status of Pension Plans

The Company and its controlled entities provide substantially all employees with pension benefits. Effective October 1, 1989, the Economic Entity adopted the disclosure requirements of SFAS87 'Employers' Accounting for Pensions' for its significant pension plans.

The following table sets out the funded status at the measurement dates June 30, 1996, 1995 and 1994. The 1995 prepaid pension cost, and prior years where appropriate, have now been adjusted to include the cost of contribution taxes.

Dollars in Millions	UK and NZ Plan Assets' Excess over Accumulated Benefits 1996	1995	1994
Actuarial present value of benefit obligations:			
Vested	**(1,933)**	(1,728)	(1,625)
Non-Vested	**(30)**	(9)	(16)
Accumulated benefit obligation	**(1,963)**	(1,737)	(1,641)
Effect of projected wage increases	**(342)**	(329)	(356)
Projected benefit obligation	**(2,305)**	(2,066)	(1,997)
Plan assets at fair value	**3,155**	2,659	2,507
Plan assets in excess of projected benefit obligation	**850**	593	510
Unrecognised gain net of amortisation	**(606)**	(413)	(378)
Unrecognised asset at transition, net of amortisation	**98**	165	187
Income taxes	**58**	69	63
Prepaid pension cost	**400**	414	382

Bank of New Zealand and Yorkshire Bank PLC were acquired on November 9, 1992 and January 18, 1990 respectively as business combinations and were accounted for by the purchase method. The assignment of the purchase price in the determination of goodwill resulted in the recognition of an on-balance sheet pension asset, which in turn eliminated any previously unrecognised amounts.

The expected long-term rate of return on plan assets was 7.5% to 9.5% for the year to June 30, 1996 (1995: 7.5% to 9.5%, 1994: 7.5 % to 9.5%). The rate of increase in future compensation levels ranged from 5.0% to 6.5% (1995: 5.0% to 6.5%, 1994: 5.0% to 5.5%). The discount rate used ranged from 7.0% to 8.5% (1995: 7.0% to 8.5%, 1994: 7.0% to 8.5%). The rate of increase of pensions ranged from 2.7% to 5.5% (1995: 4.0% to 5.5%, 1994: 3.0% to 5.5%). These assumptions are as at June 30, 1996.

The Economic Entity also sponsors defined accumulation plans covering Australian and New Zealand employees (Refer Note 38). The Economic Entity's contributions are based on salary and amounted to $86 million in the year ended September 30, 1996 (1995: $29 million, 1994: $22 million).

For plans reporting under the provisions of SFAS87, the elements of the net pension expense are shown below:

Dollars in Millions	UK and NZ Plans 1996	1995	1994
Service Cost-Benefits Earned during period	**73**	78	77
Interest Cost on Projected Benefit Obligation	**180**	179	170
Actual Return on Plan Assets	**(257)**	(245)	(229)
Net Amortisation and Deferral	**3**	2	4
Net Pension Expense	**(1)**	14	22

Post-Retirement Benefits

Michigan National Corporation (MNC) provides health care and life insurance benefits to retired employees who are eligible for a benefit under the pension plan, are at least 55 years old and have at least 15 years of service.
The following table reconciles the actuarial present value of the accumulated post-retirement benefit obligation (APBO) relating to health care and life insurance to the amount recorded in the Consolidated Balance Sheet for 1996.

Dollars in Millions	*1996*
Actuarial present value of APBO:	
Retirees	33,163
Fully eligible active plan participants	3,664
Other active plan participants	875
Total	37,702
Unrecognised net gain	2,662
Unrecognised transition obligation	–
Accrued post retirement benefit liability	40,364

The following table sets out the elements of the net periodic post-retirement benefit expense for 1996.

Dollars in Millions	*1996*
Service cost	122
Interest cost	2,561
Total	2,683

MNC has not funded its post-retirement obligation.

The 'projected unit credit' method is used in the determination of the accumulated post-retirement benefit obligation and periodic post-retirement cost. At September 30, 1996 the assumed discount rate used in determining the actuarial present value of the accumulated benefit obligation was 7.8% and the assumed annual rate of increase in the per capita cost of covered benefits (i.e. health care cost trend rate) was 7.3% declining linearly over the next 11 years to 5.5%. A 1% increase in the assumed health care cost trend rate for each year would increase the accumulated post-retirement benefit obligation as of September 30, 1996 by an estimated $3.9 million and the annual net periodic post-retirement health care cost by an estimated $0.3 million.

Post-retirement cost for the eleven months ended September 30, 1996 was determined using assumptions employed in the measurement of the projected benefit obligation at acquisition date. The assumed discount rate used was 7% and the assumed health care cost trend rate was 11% declining linearly over 12 years to 5.5%.

48 Proforma consolidated information

The following table presents proforma financial data in respect of the acquisition of Michigan National Corporation (MNC). The proforma effects on the Economic Entity's consolidated results assuming the acquisition of MNC occurred on October 1, 1995 (the beginning of the 1996 fiscal year) would be as follows:

	As reported for		*Pro-forma and consolidated*	
	Australian GAAP	*US GAAP*	*Australian GAAP*	*US GAAP*
Year ended September 30, 1996 *Dollars in Millions*				
Net Profit ($ millions)	2,102	2,147	2,108	2,153
Earnings per Share (cents)	144.8	145.4	145.2	148.2

49 Events subsequent to balance date

On November 21, 1996 the Company announced that it would implement an on market buy back of ordinary shares equivalent to the amount expected to be issued under the January 1997 dividend reinvestment, bonus share and share top up plans.

On November 29, 1996 it was announced that the Bank would implement an on market buy back of up to 74 million ordinary shares, subject to satisfactory market conditions over the next 12 months.

The total reduction of issued capital resulting from the announced ordinary share buy backs is expected to be approximately 6%.

It was also announced on November 29, that the Company would issue a capital instrument in the form of Upper Tier 2 capital on issue and exchangeable at the Company's option into Tier 1 capital. The instrument is also convertible at the investor's option into ordinary shares at a conversion premium. The issue is expected to raise up to US$750 million. Offers and sales will only be made in the US by means of a prospectus registered under the US Securities Act of 1933.

The structure for the issue will require certain shareholder approvals at the Annual General Meeting to be held on January 23, 1997.
In addition, documentation, legal and registration requirements are yet to be finalised.

Statement by the Directors

In the opinion of the Directors of National Australia Bank Limited:

1. (a) the financial statements set out on pages 71 to 143 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended September 30, 1996, and the state of affairs at September 30, 1996, of the Company and the Economic Entity;
   (b) the consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law; and
   (c) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.
2. The financial statements have been made out in accordance with applicable Accounting Standards and Urgent Issues Group Consensus Views.
3. There are reasonable grounds to believe that the Company and certain controlled entities will, as an Economic Entity, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to Australian Securities Commission Class Order 95/1530 dated November 10, 1995 (refer to Notes 34 and 35 to the financial statements for further details).

Dated at Melbourne this 2nd day of December, 1996 and signed in accordance with a resolution of the Board of Directors.

WRM Irvine

DR Argus

Auditors' Report

Scope

We have audited the financial statements of National Australia Bank Limited for the financial year ended September 30, 1996, consisting of the profit and loss accounts, balance sheets, statements of cash flows, accompanying notes, and the statement by the directors set out on pages 71 to 144. The financial statements comprise the accounts of the Company and the consolidated accounts of the Economic Entity, being the Company and its controlled entities. The Company's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards (which are substantially the same as auditing standards generally accepted in the United States of America) to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the Economic Entity's financial position, the results of their operations and their cash flows.

The names of the controlled entities audited by overseas KPMG member firms are set out in Note 34. We have received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated accounts.

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

Audit Opinion

In our opinion, the financial statements of National Australia Bank Limited are properly drawn up:

(a) so as to give a true and fair view of:
   (i) the state of affairs of the Company and the Economic Entity at September 30, 1996, 1995 and 1994, and the results and cash flows of the Company and the Economic Entity for the financial years in the three year period ended on September 30, 1996; and
   (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Australian Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Australian Corporations Law; and

(c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States of America. An explanation of the major differences between the two sets of principles is presented in Note 47 to the financial statements. The application of the United States principles would have affected the determination of consolidated net profit for each of the three years in the period ended September 30, 1996 and the determination of the consolidated financial position as of September 30, 1996, 1995 and 1994 to the extent summarised in Note 47 to the financial statements.

Signed at Melbourne this 2nd day of December, 1996.

KPMG
Chartered Accountants
NW Smart, Partner

Form 20-F Cross Reference Index

Notes:
(1) Not required in this annual report
(2) (a) (b) None
(3) (a) (b) None
(c) Not applicable
(d) No changes
(4) Not applicable as Item 18 complied with
(5) As listed under Item 19

Control of Registrant

The Company is not directly or indirectly controlled by another entity or any foreign government. As at November 8, 1996, there is no person(s) or Group known to the Company to be the owner of more than 10% of the Ordinary Shares on issue at that date. Shareholdings of Directors and Executive Officers of the Company at that date are as follows:

Title of Class	*Identity of Person or Group*	*Amount of Shares Owned* [1]	*% of Class*
Ordinary Shares	Directors and Executive Officers (26 persons)	594,600	0.04

[1] Includes 43,488 Ordinary Shares held by Executive Directors and Officers under the Company's Staff Share Scheme.

Directors and Officers

The Directors and Executive Officers of National Australia Bank Limited at September 30, 1996 were:

Position	*Name*	*Position Held Since*	*Directorship Held Since*
Chairman	William Robert Mitchel Irvine	1992	1979
Vice-Chairman	Brian Thorley Loton AC	1992	1988
Vice-Chairman	David Kennedy Macfarlane	1992	1985
Managing Director	Donald Robert Argus	1990	1989
Other Directors	David Charles Keith Allen AO		1992
	Peter John Waraker Cottrell AO OBE		1985
	Dr Christopher Michael Deeley		1992
	David Alexander Tange Dickins[2]		1981
	Thomas Pearson Park[3]		1996
	Mark Richard Rayner		1985
	Andrew Turnbull		1992
	Catherine Mary Walter		1995
	Sir Bruce Dunstan Watson		1992

		Position Held Since	*Year Joined Group*
Chief General Managers	Frank Cicutto[4] *(Australian Financial Services)*	1996	1967
	Gordon John Wheaton[4] *(Managing Director, Bank of New Zealand)*	1996	1986
	Glenn Lawrence Lord Barnes *(Managing Director, UK & Europe)*	1995	1990
	Bruce Sinclair McComish *(Chief Financial Officer)*	1994	1994
Group General Managers	Clifford William Breeze[4] *(Corporate Centre)*	1996	1954
	Michael Coomer[4] *(Information and Technology)*	1996	1995
	Robert Ian Fyfe *(Business Re-engineering)*	1996	1996
	Robert Malcolm Charles Prowse[4] *(USA & Asia)*	1996	1966
	David Stanford Kelly *(Group Marketing, Distribution & Electronic Banking)*	1995	1993
	Roland Frank Matrenza *(Group Strategic Development)*	1994	1967
	Leslie Raymond Ryan *(Group Risk Management)*	1994	1957
	Edwin Grant Steel[4] *(Group Human Resources)*	1996	1993
Company Secretary	Garry Francis Nolan	1992	1970

[1] Mr J C Trethowan retired as a Director of National Australia Bank Limited effective January 25, 1996. The Lord Nickson retired as a Director of National Australia Bank Limited on March 28, 1996; he remains as Chairman of Clydesdale Bank PLC.

[2] Mr DAT Dickins retired as a Director of National Australia Bank Limited effective October 31, 1996.

[3] Mr TP Park was appointed as a Director of National Australia Bank Limited effective August 22, 1996.

[4] The following changes took place during the 1995/96 financial year:

- *Allan William Diplock was replaced by Frank Cicutto as Chief General Manager Australian Financial Services effective March 1996.*
- *effective January 1996, Robert Malcolm Charles Prowse took up the position of Group General Manager USA and Asia. The position of Managing Director, Bank of New Zealand, vacated by Robert Prowse was filled by Gordon John Wheaton. Edwin Grant Steel was appointed Group General Manager, Group Human Resources. Clifford William Breeze was appointed Group General Manager, Corporate Centre and the position of Group General Manager, Technology & Financial Services was filled by Michael Coomer.*

The Directors of the Company are classified as either Executive or Non-Executive, with the former being those Directors engaged in the full-time employment of the Company. Mr Donald Argus is the only Executive Director.

The aggregate remuneration paid by the Company and its subsidiaries during the year ended September 30, 1996 to all Directors and Executive Officers listed above as a group (26 persons in 1996 and 25 persons in 1995) was $10 million (1995: $8 million).

During the year ended September 30, 1996, Share Options were issued to 359 executives covering a total of 14,120,000 share options as per the Bank's Share Option register. A total of 5,640,000 options were issued to the 26 Directors and Officers listed above as a group.

Nature of Trading Market

Ordinary Shares

The Ordinary Shares are listed for trading on the Australian Stock Exchange Limited, a self-regulatory organisation which governs the open market quotation, purchase and sale of the Ordinary Shares in Australia. The Australian Stock Exchange Limited is the principal market for the Ordinary Shares, and operates in the following cities in Australia: Melbourne, Sydney, Brisbane, Perth, Adelaide and Hobart. The Ordinary Shares are also listed for quotation on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited; the London Stock Exchange Automated Quotation System; the Stock Exchange, New Zealand; and the Tokyo Stock Exchange. American Depository Shares ('ADSs') are listed on the New York Stock Exchange (refer below). The following table sets forth, for the calendar quarters indicated, the high and low sale prices of the Ordinary Shares as reported by the Australian Stock Exchange Limited.

	1996		1995		1994		1993	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	**$13.04**	**$11.40**	$11.56	$10.16	$13.06	$11.36	$8.97	$7.35
June Quarter	**12.10**	**10.98**	12.54	10.98	12.34	10.42	10.14	8.60
September Quarter	**13.30**	**11.17**	12.00	10.84	11.50	9.97	12.10	9.90
December Quarter(1)	**13.96**	**13.15**	11.80	11.12	10.70	10.10	12.90	11.95

(1) The 1996 December quarter represents the period from October 1 to November 8.

On November 8, 1996 the closing price on the Australian Stock Exchange Limited was $13.77 per Ordinary Share, with 1,476,592,036 Ordinary Shares (excluding partly-paid shares) outstanding and such shares were held by 235,429 holders.

American Depositary Shares ('ADSs')

The Ordinary Shares are traded in the United States in the form of ADSs evidenced by American Depositary Receipts ('ADRs') issued by Morgan Guaranty Trust Company of New York, as Depositary (the 'Depositary'), pursuant to a Deposit Agreement dated January 16, 1987, as amended as of June 24, 1988 (the 'Deposit Agreement'). Each ADS represents five Ordinary Shares. The ADSs are listed on the New York Stock Exchange (the 'NYSE'), which is the principal market in the United States for the trading of the ADSs. The ADSs trade on the NYSE under the symbol 'NAB'. At November 8, 1996 3,277,392 ADSs representing 16,386,960 Ordinary Shares, or approximately 1.1% of the Ordinary Shares outstanding on such date, were held by 214 holders with registered addresses in the United States. The following table sets forth, for the calendar quarters indicated, the high and low sale prices per ADS as reported on the NYSE composite tape.

	1996		1995		1994		1993	
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
March Quarter	**US$49.25**	**US$44.75**	US$42.000	US$38.500	US$46.625	US$39.500	US$31.625	US$25.125
June Quarter	**48.25**	**43.25**	46.375	40.000	45.500	38.000	34.875	30.000
September Quarter	**53.00**	**44.25**	45.500	39.625	42.750	37.125	39.125	33.125
December Quarter(1)	**56.00**	**54.75**	44.875	42.250	40.250	37.250	42.375	38.750

(1) The 1996 December quarter represents the period from October 1 to November 8.

On November 8, 1996 the closing price per ADS as reported on the NYSE composite tape was US$53.875.

Exchange Controls and Other Limitations Affecting Security Holders

There are no limitations under the Company's Memorandum and Articles of Association restricting the rights of non-resident or foreign owners of Ordinary Shares to have an interest in or vote on their securities. However, under the Banks (Shareholdings) Act 1972 as currently in force, a person or corporation is not permitted to have an interest in 10% or more of the nominal value of the voting shares of any bank in Australia, unless an exemption has been granted by the Treasurer of the Commonwealth of Australia ('The Treasurer') to have an interest in up to 15% of the nominal value of such voting shares. The Treasurer may only refuse the exemption if it is deemed to be in the national interest to do so.

The Act also provides that the Governor General, after application to the Treasurer, may fix a percentage higher than 15% for any person or corporation. The Governor General may only grant such approval if it would be in the national interest to do so.

Changes in interests in Australian companies held by foreign persons may be subject to review and approval by the Treasurer of the Commonwealth of Australia under the Foreign Takeovers Act 1975. That statute requires prior notification of any acquisition of interests in 15% or more of the outstanding shares of an Australian company, or any acquisition which would result in one foreign person or group of associated foreign persons controlling 15% or more of total voting power. In addition, the statute requires prior notification of any acquisition by non-associated foreign persons resulting in foreign persons controlling, in the aggregate, 40% or more of total voting power or ownership.

Taxation

The taxation discussion set forth below is intended only as a descriptive summary, and does not purport to be a complete technical analysis or listing of all potential Australian tax effects to US persons who are ADR holders or holders of Shares ('US Holders'), and US Holders are advised to satisfy themselves as to the overall tax effects, including state and local tax effects, by consulting their own tax advisers. This summary is based in part on representations of the Depositary, and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any related agreement will be performed in accordance with its terms. Except as otherwise noted, the statements of Australian tax laws set out below are based on the laws in force as of the date of this annual report, and are subject to any changes in Australian law, and in any double taxation convention between the US and Australia, occurring after that date.

Australian Taxation

Under Australian revenue law, non-residents may be subject to withholding tax in respect of dividends received from shares in Australian companies depending upon the extent to which the dividends are franked. Also, in limited circumstances, such non-resident shareholders may be subject to Australian income tax in respect of gains made on the disposal of shares in Australian companies. In accordance with the provisions of the Australian/United States double tax agreement, withholding tax on dividend income derived by a non-resident of Australia, who is a resident of the United States, is limited to 15% of the gross amount of the dividend.

The Australian Government introduced a dividend imputation system effective from July 1, 1987. Under this system, to the extent that dividends are paid out of income on which Australian income tax has been levied, such dividends are considered as 'franked' dividends to that same extent. Where an Australian resident shareholder receives a franked dividend, he receives a tax credit which can be offset against the Australian income tax payable by the shareholder. The amount of the credit is dependent upon the extent to which the dividend paid is a franked dividend. Non-resident shareholders, rather than receiving a credit, are exempt from dividend withholding tax in respect of franked dividends received.

The company paid a fully franked interim dividend out of profits for the half-year ended March 31, 1996 and has declared a fully franked final dividend payable out of profits for the year ended September 30, 1996.

Subject to two exceptions, a non-resident disposing of shares in Australian public companies will be free from tax in Australia. The exceptions are as follows:

– Shares held as part of a trade or business conducted through a permanent establishment in Australia. In such a case, any profit on disposal would be assessable to ordinary income tax. Losses would constitute allowable deductions.

– Shares held in public companies where such shares represent a holding of 10% or more in the issued share capital of the company. In such a case, capital gains tax would apply, but not otherwise.

Capital gains tax in Australia is payable on real gains over the period in which the shares have been held, ie the difference between the disposal price and the original cost indexed for inflation over that period. Indexing does not apply where the shares are disposed of within 12 months of acquisition. Normal rates of income tax would apply to real gains so calculated. Capital losses are not subject to indexing; they are available as deductions, but only in the form of offset against other capital gains.

United Kingdom Dividend Plan

The United Kingdom Dividend Plan ('UKDP') enables a shareholder who elects to participate, to receive dividends from a United Kingdom subsidiary of the Company, as an alternative to the cash component of dividends paid on Ordinary Shares in the Company.

The Company's Australian resident corporate shareholders obtain no UK Advanced Corporation Tax credits or imputation credits on a dividend paid by the United Kingdom controlled entity. Dividends received from the Company on Ordinary Shares which do not participate in the UKDP carry an Australian imputation credit to the extent those dividends are 'franked'.

In addition, participants should not suffer Australian capital gains tax due solely to their participation in, or withdrawal from the UKDP.

Certain US Holders eligible for the benefits of the Income Tax Convention between the United States and the United Kingdom, and participating in the UKDP should on application to the US Internal Revenue Service (in the case of a first application) or the UK Inland Revenue (in the case of subsequent application), receive a refund of a portion of the UK Advance Corporation Tax from the United Kingdom pursuant to the provisions of the Income Tax Convention between the United States and the United Kingdom.

In addition, US Holders may be able to claim a credit for United States Federal income tax purposes for the unrefunded portion of the UK Advanced Corporation Tax. The practice of overissuance may, however, affect a US Holder's ability to claim such credit.

Currency of presentation, exchange rates and certain definitions

All dollar amounts are expressed in Australian dollars unless otherwise stated. Merely for the convenience of the reader, this Annual Report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US$0.7912=A$1.00, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the 'Noon Buying Rate') on September 30, 1996.

Exchange Rates

Fluctuations in the exchange rate between the Australian dollar and the US dollar will affect the US dollar equivalent of the Australian dollar prices of the Ordinary Shares and, as a result, may affect the market price of the American Depository Shares (ADSs) in the United States. Such fluctuations will also affect the US dollar conversion by the Depository of cash dividends paid in Australian dollars on the Ordinary Shares represented by the ADSs (see 'American Depository Shares (ADSs)' on page 147 for a description of the ADSs). For each of the National Australia Bank's fiscal years' high, low, average and year-end Noon Buying Rates, see 'Selected Financial data for Five Years Ended September 30, 1996' on page 37.

Certain Definitions

The National Australia Bank's fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 1996 is referred to as 1996 and other fiscal years are referred to in a corresponding manner.

'Financial Statements' means the National Australia Bank consolidated Financial Statements for the years ended September 30, 1996, September 30, 1995 and September 30, 1994 included herein at pages 66 to 144.

Any discrepancies between total and sums of components in tables contained in this Annual report are due to rounding.

Shareholders of the Bank as at November 22, 1996

	Number of Shares	%
ANZ Nominees Limited	96,692,952	6.6
Westpac Custodian Nominees Limited	85,652,964	5.8
Chase Manhattan Nominees Limited	84,420,879	5.7
National Nominees Limited	81,955,370	5.5
Perpetual Trustee Australian Group	41,828,397	2.8
Permanent Trustees Group	41,321,204	2.8
Australian Mutual Provident Group	40,899,418	2.8
State Authorities Superannuation Board	33,253,970	2.2
Queensland Investment Corporation	28,095,836	1.9
Pendal Nominees Pty Limited	21,788,906	1.5
CBA Nominees Limited	19,110,277	1.3
MLC Life Limited	18,411,540	1.2
National Mutual Life Group	16,043,181	1.1
NRMA Group	14,239,633	1.0
Citicorp Nominees Pty Limited	12,597,041	0.9
Mercantile Mutual Life Group	12,426,971	0.8
Commonwealth Superannuation Board of Trustees	9,678,028	0.7
Prudential Corporation of Australia Limited	9,183,731	0.6
National Mutual Trustees Limited	8,532,139	0.6
Barclays Australia Custodian Limited	8,021,577	0.5
	684,154,014	46.3

The twenty largest shareholders held 684,154,014 shares which is equal to 46.3% of the total issued capital of 1,476,616,796 ordinary shares of $1.00 each fully paid.

As at November 22, 1996 there was no person or corporation with a shareholding in excess of 10 per cent of the nominal capital of National Australia Bank Limited.

Distribution of Shareholdings

	Number of Shareholders	*% of Holders*	*Number of Shares*	*% of Shares*
Range				
1 – 1,000	128,915	54.6	61,686,459	4.1
1,001 – 5,000	82,229	34.9	185,989,898	12.6
5,001 – 10,000	14,252	6.1	101,010,340	6.8
10,001 – 100,000	9,754	4.2	210,598,082	14.3
100,001 and over	574	0.2	917,332,017	62.2
	235,724	**100.0**	**1,476,616,796**	**100.0**
Less than marketable parcel	**3,390**	**1.4**		
Address of Holders				
Australia	226,346	96.0	1,451,755,509	98.3
United Kingdom	2,665	1.1	7,719,623	0.5
New Zealand	5,372	2.3	11,184,243	0.8
United States	277	0.1	317,220	–
Other Overseas	1,064	0.5	5,640,201	0.4
	235,724	**100.0**	**1,476,616,796**	**100.0**

Voting Rights

The Holding Company's Articles provide in summary that every member (and person entitled under Article 39(1), the transmission Article) present in person or by proxy, attorney or representative at a general meeting of shareholders shall have one or more votes as follows:

On a show of hands – one vote.*
On a poll – one vote for each share held.

** Where a member appoints two proxies, neither proxy is entitled to vote on a show of hands.*

National Australia Bank Limited

Mr WRM Irvine, Chairman

Mr DR Argus, FAIBF, FCPA, FAICD
Managing Director and Chief Executive Officer

Mr GF Nolan, MBus (Banking and Finance), FCIS, FAIBF, FAICD ASIA, MCT
Company Secretary

Registered Office Principal Share and Bond Registers and Shareholder Services

Mr MK Clark
Share Registrar,
24th Floor, 500 Bourke Street
Melbourne Victoria 3000
Australia
Postal Address:
GPO Box 2333V
Melbourne Vic 3001
Telephone: (03) 9641 4200
Toll free: 1800 033 408
Fax: (03) 9641 4927
Telephone (outside Australia):
+61 3 9641 4200

Branch Share and Debenture Register

United Kingdom
c/- Australian Shareholder Services
5th Floor, Bowman House
29 Wilson Street
London EC2M 2SJ
United Kingdom

Investor Relations

Mr AA Bowden
29th Floor, 500 Bourke Street
Melbourne Victoria 3000
Australia
Telephone: (03) 9641 3060
Fax: (03) 9641 4937
Telephone (outside Australia):
+61 3 9641 3060

Solicitors

Mallesons Stephen Jaques
525 Collins Street
Melbourne 3000 Australia

Auditors

KPMG Peat Marwick
Chartered Accountants
161 Collins Street
Melbourne 3000 Australia

Official Quotation

The following stock exchanges have granted quotation to shares in National Australia Bank Limited:

The Australian Stock Exchange;
The International Stock Exchange, London;
The Stock Exchange, New Zealand;
Tokyo Stock Exchange;
New York Stock Exchange.

In the United States the Company's ordinary shares are traded in the form of American Depository Shares (ADSs) evidenced by American Depository Receipts (ADRs) issued by Morgan Guaranty Trust Company of New York.

The address of Morgan Guaranty Trust Company is
60 Wall Street,
New York NY 10260-0060.

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has caused this annual report to be signed on its behalf by the undersigned thereunto duly authorised.

National Australia Bank Limited
Registrant

Garry F Nolan
Secretary of the Company

Date: December 2, 1996

Principal Establishments

National Australia Bank Limited
Group Offices and Australian Bank
500 Bourke Street (GPO Box 84A)
Melbourne Vic 3001
Tel: +61 3 9641 3500
Telex: AA30241, AA 30490 NATAUS
Fax: +61 3 9641 4916
Swift: NATAAU33033

National Australia Financial Management Limited
342 Flinders Street (GPO Box 9895)
Melbourne Vic 3001
Tel: +61 3 9612 4111
Toll Free: 13 22 95
Fax: +61 3 9612 4321

National Australia Trustees Limited
271 Collins Street (PO Box 247B)
Melbourne Vic 3001
Tel: +61 3 9659 7522
Fax: +61 3 9659 7511

Michigan National Corporation
27777 Inkster Road (PO Box 9065)
Farmington Hills MI 48333–9065
USA
Tel: +1 810 473 3000
Telex: 4320029
Swift: MICHUS33

National Australia Bank – Americas
34th Floor, 200 Park Avenue
New York NY 10166-0001
Tel: +1 212 916 9500
Telex: 175517
Fax: +1 212 949 6124
Swift: NATAUS33

New York Branch
34th Floor, 200 Park Avenue
New York NY 10166-0001
Tel: +1 212 916 9500
Telex: 3728852
Fax: +1 212 983 1969
Swift: NATAUS33

Asia Regional Office
Level 27
One Pacific Place
88 Queensway
Hong Kong
Tel: +8522 822 9800
Fax: +8522 822 9801

Hong Kong Branch and National Australia Finance (Asia) Limited
Level 27
One Pacific Place
88 Queensway
Hong Kong
Tel: +8522 826 8111
Telex: HX75315
Fax: +8522 845 9251
Swift: NATAHKHH

Seoul Branch
14th Floor, Kyobo Building
1, 1-ka Chong-ro
Chongro-ku
Seoul 110-714 Korea
Tel: +82 2 739 4600
Telex: K28844
Fax: +82 2 733 0738
Swift: NATAKRSE

Singapore Branch and National Australia Merchant Bank (Singapore) Ltd
5 Temasek Boulevard
15-01 Suntec City Tower
Singapore 038985
Tel: +65 338 0038
Telex: RS 21583 NATAUS
Fax: +65 338 0039
Swift: NATASGSG

Taipei Branch
Floor 10,
Union Enterprise Plaza Building
109 Min Sheng East Road
Sec 3
Taipei, Taiwan
Tel: +886 2 719 1031
Telex: 14214 NATATWTP
Fax: +886 2 719 6289
Swift: NATATWTP

Tokyo Branch
Mitsui Nigokan
2-1-1 Nihonbashi Muromachi
Chuo-ku
Tokyo 103 Japan
Tel: +81 3 3241 8781/5
Telex: J22714
Fax: +81 3 3241 5369
Swift: NATAJPJT

Bangkok Representative Office
16th Floor
Sathorn Thani Building
90 North Sathorn Road
Bangkok 10500
Thailand
Tel: +66 2 236 6016/7
Telex: 20424
Fax: +66 2 236 6018

Beijing Representative Office
1904 CITIC Building
19 Jianguomenwai Dajie
Beijing
People's Republic of China
Tel: +86 10 6500 2255 Ext: 1944
Telex: 22524 NATAUCN
Fax: +86 10 6500 3642

Jakarta Representative Office
Bank Bali Tower
9th Floor, Jalan Jend
Sudirman Kav. 27
Jakarta 12920
Indonesia
Tel: +62 21 250 0685/87/5237549
Fax: +62 21 250 0690

Kuala Lumpur Representative Office
6th Floor, Wisma Genting
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia
Tel: +60 3 263 6545/46/48
Fax: +60 3 263 6559

New Delhi Representative Office
1/IV Park Wood Estate
Rao Tula Ram Marg.
New Delhi 110022
India
Tel: +91 11 617 5032
Telex: 031-72287 NABAIN
Fax: +91 11 617 5027

National Australia Group (UK) Limited
91 Gresham Street
London EC2V 7BL
Tel: +44 171 710 2100
Fax: +44 171 796 4278

National Australia Bank (UK) Limited
6-8 Tokenhouse Yard
London EC2R 7AJ
Tel: +44 171 710 2100
Telex: 888912
Fax: +44 171 588 8356
Swift: NATAGB2L

National Australia Life
91 Gresham Street
London EC2V 7BL
Tel: +44 171 710 2100
Fax: +44 171 726 4926

National Australia Group (UK) Services Limited
Guildhall, 57 Queen Street
Glasgow G1 3ER
Scotland
Tel: +44 141 223 3006
Fax: +44 141 223 3114

Clydesdale Bank PLC
30 St Vincent Place
Glasgow G1 2HL
Scotland
Tel: +44 141 248 7070
Telex: 77135
Fax: +44 141 204 0828
Swift: CLYDGB2S

Northern Bank Limited
PO Box 183
Donegall Square West
Belfast BT1 6JS
Northern Ireland
Tel: +44 1232 245 277
Telex: 747674
Fax: +44 1232 893 214
Swift: NORBGB2B

National Irish Bank Limited
7/8 Wilton Terrace
Dublin 2
Republic of Ireland
Tel: +353 1 6785 066
Telex: 93433
Fax: +353 1 6614 165
Swift: NIBKIE2D

Yorkshire Bank PLC
20 Merrion Way
Leeds LS2 8NZ
Yorkshire
Tel: +44 113 247 2000
Telex: 556292
Fax: +44 113 242 0733
Swift: YORKGB2L

Bank of New Zealand
BNZ Centre
1 Willis Street
Wellington, New Zealand
Tel: +64 4 474 6999
Fax: +64 4 474 6400
Swift: BKNZNZ22

Produced by Media Equation Pty Ltd

Photography by John Gollings and Media Equation

Skyline (page 1) and portraits, by Grant Campain

Oberon branch photograph (page 12) by John Crichton

Satellite launch photograph (page 20) courtesy of Arianespace

Digital photographic enhancements and film separations by EGO Electronic Graphic Output

Printed on recycled paper by Canberra Press