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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

HARVARD B. KOLM, On Behalf of Himself And
All Others Similarly Situated,

Plaintiff,

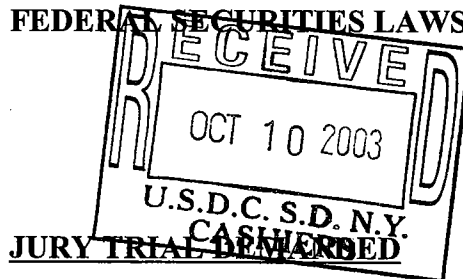
v.

NATIONAL AUSTRALIA BANK LTD.,
HOMESIDE LENDING, INC., FRANK CICUTTO,
HUGH HARRIS, KEVIN RACE, and W. BLAKE
WILSON,

Defendants.

CIVIL ACTION NO.

CLASS ACTION COMPLAINT
FOR VIOLATIONS OF
FEDERAL SECURITIES LAWS



Plaintiff, individually and on behalf of all other persons similarly situated, by his undersigned attorneys, upon personal knowledge as to himself and his own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through his attorneys, which included, among other things, a review of the public documents and announcements made by Defendants, Securities and Exchange Commission (“SEC”) filings, and press releases regarding National Australia Bank, Ltd. (“NAB” or the “Company”), alleges, for his Complaint, as follows:

NATURE OF THE ACTION

1. This is a securities fraud class action brought on behalf of all purchasers of all equity and debt securities of NAB including, but not limited to, its ordinary shares and American Depository Receipts (“ADRs”) between April 1, 1999 and September 3, 2001, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”), 15 U.S.C. §§ 78j(b) and 78t. This action involves the dissemination of

materially false and misleading statements during the Class Period concerning fraud by NAB at its subsidiary, HomeSide Lending, Inc. (“HomeSide”).

2. HomeSide was a mortgage service provider, servicing some two million customers, with a service portfolio exceeding \$180 billion in 2001.

3. As a result of NAB’s conduct in connection with HomeSide’s financial modeling on its \$180 billion mortgage servicing portfolio, NAB’s subsidiary HomeSide knowingly used unreasonably optimistic valuation assumptions or methodologies since at least the beginning of the Class Period. These unreasonably optimistic assumptions or methodologies were revealed on September 3, 2001 when NAB announced that it would write off \$1.75 billion due to problems at HomeSide.

JURISDICTION AND VENUE

4. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. § 240.10b-5].

5. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

6. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. § 1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District and NAB conducts business in this District.

7. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not

limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

THE PARTIES

8. Plaintiff purchased NAB securities at artificially inflated prices during the Class Period, as detailed in the attached certification, and was damaged thereby.

9. Defendant NAB is a corporate entity organized under the laws of Australia. NAB is headquartered in Melbourne, Australia. NAB is Australia's largest bank. Its ordinary shares trade in efficient markets on the Australian securities exchanges and its ADRs trade on the New York Stock Exchange ("NYSE"). During the Class Period, NAB owned HomeSide and had extensive operations in the United States, including, operations in New York, Michigan, and Florida.

10. Defendant HomeSide was at all relevant times a corporation headquartered in Jacksonville, Florida. During the Class Period, HomeSide was a mortgage service provider servicing in excess of two million loans. NAB has since sold HomeSide to Washington Mutual, Inc. during 2002.

11. Defendant Frank Cicutto ("Cicutto") was, at all relevant times, NAB'S Chief Executive Officer. Commenting on the losses sustained by HomeSide, Defendant Cicutto admitted they were "a disaster" and that "there have to be lessons and accountability from this."

12. Hugh Harris ("Harris") was, at all relevant times, HomeSide's Chief Executive Officer, until his "resignation" on September 4, 2001.

13. Kevin Race ("Race") was, at all relevant times, HomeSide's Chief Operating Officer, until his "resignation" on September 4, 2001.

14. Blake Wilson (“Wilson”) was, at all relevant times, HomeSide's Chief Financial Officer, until his “resignation” on September 4, 2001.

15. Cicutto, Harris, Race, and Wilson are collectively referred to as the “Individual Defendants.”

16. Because of the Individual Defendants' position with NAB and/or HomeSide, they had access to the adverse undisclosed information about HomeSide's financial condition, modeling methodologies, and computer systems.

17. The Individual Defendants also controlled the content of NAB’s and/or HomeSide’s press releases, corporate reports, SEC filings and communications with analysts. By concealing HomeSide’s adverse financial performance, the Individual Defendants were able to meet earnings targets and thereby reap significant bonus compensation during the Class Period.

18. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company’s public filings, press releases and other publications as alleged herein are the collective actions of the Individual Defendants.

19. As an officer and controlling person of a publicly held company whose ordinary shares are traded on the Sydney and London Stock Exchanges, among others, and whose ADRs were, and are, registered with the SEC pursuant to the Exchange Act, traded on the NYSE, and governed by the provisions of the federal securities laws, Defendants had a duty to disseminate prompt, accurate and truthful information with respect to the Company’s business, markets, growth, and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of the Company’s

ordinary shares and ADRs would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

20. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public, shareholder, and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their executive and managerial positions with NAB and HomeSide, respectively, each of the Individual Defendants had access to the undisclosed information about HomeSide's true grave financial condition and performance as particularized herein, and knew (or recklessly disregarded) that adverse facts rendered the positive representations made by or about HomeSide and its business issued or adopted by NAB materially false and misleading.

21. The Individual Defendants, because of their positions of control and authority as officers of NAB and HomeSide, respectively, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the NAB during the Class Period. The Individual Defendants were provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, the Individual Defendants are responsible for the accuracy of the public reports and releases detailed herein and are therefore primarily liable for the representations contained therein.

22. Each of the Defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of NAB ordinary shares and ADRs by disseminating materially false and misleading statements.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

23. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of all those who purchased the securities of NAB during the Class Period and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company during the Class Period, members of their immediate families and their legal representatives, heirs, successors or assigns, and any entity in which Defendants have or had a controlling interest.

24. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, NAB securities were actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by NAB or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

25. Plaintiff's claims are typical of the claims of the Class, as all Class members are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

26. Plaintiff will fairly and adequately protect the interests of the Class and has retained counsel competent and experienced in class and securities litigation.

27. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- A. whether the federal securities laws were violated by Defendants' acts as alleged herein;
- B. whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business and operations of NAB; and
- C. to what extent the members of the Class have sustained damages and the proper measure of damages.

28. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

FACTUAL ALLEGATIONS

NAB Needs Foreign Expansion to Grow

29. NAB, Australia's largest bank, has 50,000 employees globally and more than 12 million customers around the world.

30. As of December 2000, NAB was the largest custodian of accounts in Australia with total assets of \$180 billion Australian dollars. However, as Australia has a population of only around 20 million people, “The size of our domestic [Australian] market effectively set limits on the ability of companies to grow within Australia.”

31. In order to grow as a global financial institution, NAB was compelled to expand outside of its domestic market. Indeed, by the year 2000, NAB stated that more than 45% of NAB’s assets and revenues were outside Australia, and that based on profitability, NAB was one of the 25 largest banks in the world.

32. Defendant Rayner reinforced the growth philosophy when he stated on December 14, 2000 at NAB’s annual general meeting that: “The bottom line is that only companies of adequate size will attract core capital of the major long term investors. So growth is important.”

33. NAB also touted the rapid growth in income from non-interest services such as mortgage servicing. Indeed, Defendant Cicutto boasted that in 2000 more than 50% of NAB’s revenues came from non-interest sources, compared to 35% five years earlier, and that 40% of these non-interest income sources did not exist five years ago. This represented a “marked transformation of NAB” according to Cicutto.

34. NAB could hardly hope to realize its ambition to be an international financial services company without an active and expanding presence in the United States.

35. Indeed, HomeSide was critical to NAB’s presence in the United States, or at least the perception of that commitment, particularly after NAB announced the sale of its other significant U.S. business, Michigan National Corporation, for approximately \$5.3 billion Australian dollars in November 2000.

36. In addition to growing internationally, at its December 14, 2000 annual general meeting, Defendant Cicutto touted its e-business strategy as another NAB core strategy. This e-business strategy was designed “to improve the efficiency of [it’s] manufacturing, processing and administration.”

37. Thus, HomeSide was critical to NAB for at least four reasons. First, it bolstered NAB’s United States presence (particularly after the sale of Michigan National). Second, it was an important step in NAB’s international growth strategy. Third, it would purport to be a showcase for NAB’s e-business strategy based upon the processing and administrative efficiency created by online commerce and systems. Fourth, it at least initially appeared to support Defendant Cicutto’s boast of the growth of non-interest sources of income for NAB.

38. Unfortunately for NAB’s security holders, NAB directed and touted HomeSide’s operation to fulfill the perception of NAB’s growth, even though NAB knew, or was severely reckless in not knowing that HomeSide’s success under NAB was an illusion.

HomeSide’s Business

39. NAB acquired HomeSide on February 11, 1998, for \$1.22 billion from the Thomas H. Lee Company, Madison Dearborn Partners and strategic partners BankBoston Corporation and Barnett Bank.

40. HomeSide was a mortgage service provider, servicing in 2001 in excess of two million loans, in return for fees. These fees represented a source of future income for HomeSide (and NAB), the present value of which was calculated using valuation models and then booked by NAB as an asset on the balance sheet known as Mortgage Servicing Rights (“MSR”). The MSR asset was amortized over its expected life.

41. The drivers for increasing profitability in the mortgage servicing business are increasing originations, the number of loans serviced and doing so with administrative efficiency. NAB, anxious to portray itself as a growing international integrated financial company, drastically increased HomeSide's mortgage servicing portfolio by acquiring portfolios from other mortgage servicing companies.

42. Based on NAB's strategy of growing HomeSide by acquisitions, by March 2000 HomeSide's mortgage servicing portfolio had grown to approximately \$188 billion, making HomeSide the sixth largest mortgage servicer in the United States.

43. Early repayments on mortgages affect the value of MSR because it shortens the life over which the mortgage servicer receives fees on loans which it services. Accordingly, HomeSide, like other mortgage servicers, hedged against the risk of early repayment.

44. To analyze the real effect of early repayment, its likelihood and the impact upon MSR, it utilized the services of Mortgage Industry Advisory Company ("MIAC") based in New York City.

45. As alleged below, by manipulating its financial model, NAB and HomeSide were able to falsely portray HomeSide as successful based on inflated MSR values.

FALSE AND MISLEADING STATEMENTS

46. On April 2, 1999, Mortgage Banking published an article concerning HomeSide's lending practices in connection with its mortgage business in the United States (the "Mortgage Banking Article"). The Mortgage Banking Article reported the following false and misleading information:

In the third quarter of 1998, HomeSide Lending, Inc., Jacksonville, Florida, made some changes in the hedges covering its \$120 billion servicing portfolio that positioned it well for the liquidity crisis in the third quarter, according to Kevin Race, chief financial officer

HomeSide, like other servicers that hedge, found its hedges outperformed expectations, while asset values for the mortgage servicing rights did not go down as fast because mortgage rates did not fall as far and fast as Treasuries. In fact, Race says, HomeSide's hedge outpaced the decline in servicing rights by 10 percent.

Race has found that the fourth quarter of 1998 and early 1999 have presented HomeSide and other mortgage bankers with "a challenging environment" for hedging. "A lot of people are struggling. As asset values [of MSR] are going up, hedges are going down faster."

HomeSide has also seen "a slight underperformance" of its hedge program, as the mortgage-treasury spread has tightened, Race says. "We believed that mortgage spreads were wide and would tighten. We didn't anticipate how they would bounce around, particularly [in January]," he says.

Most servicers now are balancing the need to protect the servicing asset with the need to keep down the cost of managing the hedge, Race says. The big question now, he says, is: "How do I create a sufficient level of protection at the lowest implied cost?"

47. On April 15, 1999, The Florida Times Union reported on promotions at HomeSide (the "Florida Times Union Article"). The Florida Times Union Article reported Defendant Harris, a longtime friend of HomeSide's Chairman Joe Pickett, had been promoted to Chief Executive Officer of HomeSide and Defendant Race had moved into Harris' old job of President and Chief Operating Officer. The Florida Times Union Article also reported Defendant Blake would be promoted to Chief Financial Officer. The Florida Times Union Article reported Pickett as saying the "appointments of Hugh, Kevin and Blake position HomeSide to move forward with its strategy for domestic growth and global expansion."

48. On May 20, 1999, American Banker published an article concerning rising interest rates in the United States and the resulting toll on the mortgage business (the “American Banker Article”). The American Banker Article reported a dramatic decline in housing starts in April 1999 and a sharp drop in mortgage applications the previous week. According to the American Banker Article, economists had stated the market was “bound to cool off at least somewhat from 1998’s unusually robust level as [interest] rates rose.”

49. The American Banker Article quoted Defendant Race as saying that HomeSide, was “insulated from a downturn because it does not have retail branches and gets most of its mortgages from brokers, correspondents, and banks that agree to sell HomeSide all their loans.”

Defendant Race was also quoted in the American Banker Article as saying:

That’s the trade-off we made. We did not see some of the boom in terms of origination volumes that some of the retail-oriented players did the last year-and-a-half. By the same token, we are not going to have the issues to deal with in terms of layoffs and fixed-cost structure going into this part of the cycle.

If we had spent a lot of money on bricks and mortar and had radically expanded the staff for the last couple of years, we would probably be pretty nervous right now. You will start to see some announced layoffs in the next 60 to 90 days that are substantial in some retail shops.

50. On June 16, 1999, The Wall Street Journal reported that HomeSide had agreed to acquire as much as \$7 billion of servicing assets annually during a five-year period from Cendant Corporation’s mortgage unit (the “Cendant Purchase”). The Wall Street Journal reported HomeSide purchased and would service \$7 billion of Cendant Mortgage’s portfolio, which represented about 60,000 loans.

51. On June 21, 1999, Mortgage Marketplace reported on HomeSide's Cendant Purchase. Defendant Harris, CEO of HomeSide said of the Cendant Purchase, "Our real strategy for the last few years is to continue growing our servicing portfolio. With our preferred partner, we're not only getting a servicing portfolio, but we're getting a flow production for a period of time."

52. On June 29, 1999, NAB issued over \$1 billion in National Income Securities ("NIS") securities made up of one fully paid note issued by NAB through its New York branch and one unpaid Preference Share also issued by NAB.

53. On July 22, 1999, NAB reported that HomeSide had contributed \$37 million to NAB's profit for the period ended June 30, 1999. Additionally, the release stated:

Mr. Cicutto said the pleasing features of the latest results included the strong growth in lending and the continued increase in non interest income. Defendant Cicutto also noted the progress of the Group's global wholesale financial services business and the rapid development of its product specialists such as HomeSide and other financial services.

In fact, the above statement was false and misleading at the time it was made because HomeSide would not have been a contributor to the Group's profits had its portfolio not been knowingly manipulated to generate unrealistically positive numbers. NAB and the Individual Defendants knew of the problems or were severely reckless in not knowing of these problems at the time this statement was made. Far from rapid development, HomeSide was heading out of control.

54. On or about November 4, 1999, the Australian Associated Press reported that Defendant Cicutto was pleased with the past year's results. In touting NAB's success, particularly with regard to HomeSide, Defendant Cicutto stated:

[w]e made considerable progress with a number of key strategic initiatives such as the implementation of our global business model, the integration of HomeSide and the acceleration of our e-commerce program . . . [E]ach of these individual successes are indicative of the confidence with which the Group has pursued its Australian and global ambitions.

55. The November 4, 1999 statement was false and misleading at the time it was made because far from becoming integrated, NAB knew at the time or was reckless in not knowing that the value of HomeSide's portfolio falling due to problems in its portfolio monitoring, which were assuredly going to generate unrealistically positive numbers for HomeSide.

56. On November 17, 1999, in its annual report for the fiscal year ended September 30, 1999, NAB stated:

as interest rates and yield curves change over time the bank may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group Balance Sheet Management policy and guidelines. In managing the structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximize [sic] shareholder wealth.

57. On May 22, 2000, Australian Financial Review published an article concerning the impact of HomeSide's earnings on NAB (the "May 2000 Australian Financial Review

Article”). The May 2000 Australian Financial Review Article reported that although HomeSide continued to fall short of earnings expectations, it remained a potential driver of long-term growth within NAB. The article also reported that in 1998 and 1999, HomeSide contributed A\$153 million to the NAB’s A\$2.82 billion profit.

58. On July 27, 2000, NAB issued a press release concerning its results for its third fiscal quarter ended June 30, 2000 (the “July 27, 2000 Press Release”). In commenting on the results Defendant Cicutto stated that the result was a solid performance particularly given it was achieved against a backdrop of difficult trading conditions for HomeSide in the United States.

He also stated:

the Group has once again demonstrated its fundamental strength and its capacity to generate sound performance, whilst moving forward on several strategic fronts. . . . HomeSide has announced a strategic alliance with Fannie Mae that will reshape the market for on-line mortgage origination in the United States We continued to gain benefits from our geographic diversity. . . .

59. The above statements were false and misleading when made as Defendants attempted to portray HomeSide (and the geographic diversity it represented for NAB) as thriving and growing when in fact at the time, its portfolio problems were known to defendants or they were severely reckless in not knowing about the problems.

60. On or about November 17, 2000, NAB filed its Form 6-K for the month ended November 2000. In that filing NAB stated that “HomeSide’s after-tax profit was adversely affected by the impact of lower mortgage production volumes, higher interest rates and pricing competition.” The description of HomeSide’s activities during this period was false and

misleading as a result of the material omission of any mention of its manipulated portfolio modeling and the attendant consequences of that problem.

61. On November 2, 2000, NAB announced its results for the fiscal year ended September 30, 2000. For that period NAB announced a “record” profit, of which 47.3% was generated outside Australia. In the press release, NAB stated that the highlights of the results included, among other things, that “HomeSide continued to expand its operations in the United States and announced a strategic alliance with Fannie for the on-line origination of mortgages throughout the United States.” This statement was false and misleading for the same reasons as the similar statement in the July 27, 2000 Press Release.

62. Further, in a November 2, 2000 press release, Defendant Cicutto stated, “A priority during the year ahead will be to fully leverage the strengths and potential of our Northern Hemisphere assets.” This statement was false and misleading at the time it was made as applied to HomeSide. Instead of leveraging HomeSide, Defendants knew or were reckless in knowing that remedial measures should have been undertaken to correct the manipulated modeling assumptions governing its then approximately \$173 billion mortgage servicing portfolio.

63. On January 5, 2001, Australian Business Intelligence reported that NAB was to issue \$1.1 billion in mortgage-backed securities. The securities were to be registered in the United States and sold to European and United States investors in a move by NAB to diversify its funding sources. On January 5, 2001, NAB’s head of group capital management, Chris Matten, said the move would increase available capital by A\$70 million.

64. On January 22, 2001, the Australian Financial Review published an article concerning HomeSide’s impact on NAB’s finances. The Australian Financial Review reported:

National Australia Bank profits are expected to receive a fillip this year from its struggling US mortgage business HomeSide. A spike in refinancing activity prompted by recent US interest rate cuts is expected to revitalize HomeSide's origination business, which suffered a 55 per cent fall in revenue last year. The division is expected to deliver at least a further [A]\$50 million in profits on top of the 5.5 per cent HomeSide contributed to NAB's consolidated profit last year. Credit Suisse First Boston has upgraded its earnings outlook for NAB, arguing that HomeSide is well leveraged to exploit a fresh wave of refinancing in the US mortgage market. The broker now expects NAB to post a net profit of more than [A]\$3.8 billion this year, which would represent a 12.8 per cent improvement on the 2000 result of [A]\$3.37 billion.

65. On March 16, 2001, the Mortgage Servicing News reported that HomeSide and NAB had completed their first global mortgage securitization. The Mortgage Servicing News article reported the following:

Jacksonville, FL -- HomeSide International and National Australia Bank have reported that they have priced and completed their first global mortgage-backed securitization, which company officials say was met with "substantial investor interest."

Class "A" notes totaling \$1.059 billion were priced at the three-month London interbank offered rate plus 19 basis points and sold to investors in the United States, Europe and Asia through lead managers National Australia Bank (London branch), Deutsche Bank and J.P. Morgan.

Class "B" notes totaling 20 million Australian dollars (about \$10.9 million) were offered to Australian investors and priced at the three month bank bill swap rate plus 52 basis points though National Australia Securities Ltd. as the sole dealer for the issue.

66. On May 14, 2001, the National Mortgage News listed HomeSide in the top ten of mortgage servicers in the United States when measured by number of dollars serviced.

67. On May 14, 2001, the Regulatory News Service reported NAB's interim financial results for 2001 (the "May 2001 Regulatory News Service"). The May 2001 Regulatory News Service reported (in pertinent part):

HomeSide's contribution fell to \$71 million after tax from \$84 million, however this represents an improvement on the September 2000 half contribution of \$48 million. The improvement is due to a 9.7% increase in profit from the US operations, which reflects the recent recovery of production volumes in the US due to falling mortgage interest rates, the development of the Australian business, and the impact of the weaker Australian dollar.

Our internet-based home loan business, HomeSide Solutions, has written US\$500 million of new business since last November.

HomeSide's on-line mortgage origination arm, 'HomeSide Solutions' is exceeding expectations and has originated in excess of US\$500 million of mortgages in the first half, at margins significantly in excess of more traditional channels.

68. On June 4, 2001, the Australian Financial Review published an article reporting on NAB's lending business (the "June 2001 Australian Financial Review Article"). The June 2001 Australian Financial Review Article quoted Andrew Linklater, an NAB executive, as saying: "NAB's HomeSide-braided mortgages, which were sold via mortgage brokers, had delivered 100 per cent growth per annum over the past two years."

69. On July 5, 2001, NAB announced that it would book a charge of A\$450 million with the fiscal year writedown of the balance sheet value of the MSR held by HomeSide (the "July writedown"). In reaction to the revelation of the July writedown news, NAB's ordinary shares fell A\$1.80 or more than 5%. The ADRs fell from 586.05 to \$81.15, or 5.6%, on the news.

70. The July writedown represented approximately 10% of the then current book value of HomeSide's MSR.

71. In commenting on the July writedown in a NAB press release, dated July 5, 2001, Defendant Cicutto stated: "Our underlying business is strong and performing well." Cicutto further stated that the "provision reflects the fact that we are a prudent bank with a disciplined approach for managing risk. That is why we have responded decisively and expeditiously to deal with this."

72. The statements by Defendant Cicutto in the July 5, 2001 press release were false and misleading as they portrayed a false sense of closure and resolution to the HomeSide problem, when in fact, less than two months later, NAB would shock the market with the revelation of a massive US\$1.75 billion writedown.

73. At Credit Suisse First Boston's Sydney Invasion Lunch on August 21, 2001, NAB made a presentation wherein, among other things, it represented that it was a target for earnings per share growth of greater than 10%, notwithstanding the July writedown at HomeSide. This statement was false and misleading at the time it was made. In fact, NAB knew or was severely reckless in not knowing that less than two weeks later it would reveal a massive US\$1.75 billion writedown at its HomeSide unit, which in fact caused its earnings per share to decline, not grow.

74. At the August 21, 2001 Sydney Invasion Lunch, NAB also represented that in response to HomeSide's July 2000 writedown, it now had taken remedial action to correct the situation by recording assets "at a sustainable realistic value" and by changes to "systems and procedures." These statements were also false and misleading at the time they were made, because, among other reasons, they falsely portrayed the situation at HomeSide, and its impact on

NAB as being fixed, when, in fact, just two weeks later NAB would announce the \$1.75 billion HomeSide writedown on the market.

75. Likewise, NAB's other representations with respect to HomeSide on August 21, 2001 such as "HomeSide's competitive situation remains strong" were false and misleading for the same reasons.

THE TRUTH IS REVEALED

76. On Monday, September 3, 2001, Labor Day in the United States, NAB announced that it would incur a US\$1.75 billion writedown to HomeSide's operations. The US\$1.75 billion writedown consisted of the following items:

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

NAB explained:

A decision was taken by the Board to pursue the sale of HomeSide and the goodwill associated with the investment amounting to US\$590 million (A\$58 million) was written off at this time.

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

77. In reaction to the news, NAB's ordinary shares fell A\$4.30 to A\$28.90 on the Sydney stock exchange on Monday, September 3, 2001. When trading resumed on September 4, 2001 after the Labor Day holiday, NAB's ADRs fell to \$78.40 from \$ 88.64.

78. On September 4, 2001 HomeSide's Harris, Race, and Wilson resigned.

79. On September 4, 2001, in commenting on the \$1.75 billion writedown, Charles Allen, who was appointed Chairman at an emergency NAB board meeting on Sunday, September 2, 2001, stated:

In the end of the day, it is a disaster for the organization. I think no other National Bank chief executive has stood before you to announce a provision of this size. So it hasn't been a pleasant experience for me. I sincerely regret that taking such a decision proved necessary and can assure shareholders the National will carefully review the situation and learn from it.

NAB Tries To "Spin" The HomeSide Debacle As An Inadvertent Error.

80. In its Form 6-K for the full year 2001, filed in November 2001, NAB indicated that the problem was "discovered" to be an "incorrect interest assumption." Specifically the Form 6-K stated:

In September, an incorrect interest rate assumption in the MSR valuation model was discovered, which had caused the model to understate HomeSide's sensitivity to interest rate movements, and overstate the value of its servicing rights, leaving the Group under hedged.

The HomeSide Debacle

81. Far from an innocent error, and contrary to NAB's explanation that the HomeSide debacle was the result of essentially a few errant keystrokes, the Australian Financial Review ("AFR") reported that "some of the blame must lie with Cicutto and his team."

82. According to a September 8, 2001 article by AFR:

The investigation reveals that HomeSide's hedging difficulties - which are one of the most important parts of the story - were apparent as far back as 1999. The AFR has been told that there had been warnings about failures in the hedging book, yet the problem continued to grow, finally spiraling out of control.

NAB maintains that HomeSide's shock writedown-which totals almost \$4 [Australian] billion - came out of the blue. But could the bank have done something about it earlier?

Several former NAB executives interviewed by the AFR believe that the hedging problems should have been avoided.. The executives were part of the bank's balance sheet and capital management teams based in Bourke Street.

Since the bank bought HomeSide in 1997, they had watched as traders in New York struggled to hedge the subsidiary's growing mortgage book. As HomeSide continued to expand, efforts to balance out the effects of interest rate movements began to fall miserably.

In 1998, HomeSide recorded net hedging gains of \$657 million. But in 1999, hedging losses totaled a staggering \$1.4 billion and in 2000 another \$480 million was lost.

To put this into perspective, NAB's total profit in 1999 was \$2.8 billion, HomeSide's profit that year was \$153 million.

* * *

What worried the team in Melbourne was that things appeared to be out of control.

"The hedge numbers -the profit and loss - were all over the place and the volume was very high," one former executive says, speaking anonymously. "A huge amount of money was just swinging backwards and forwards, easily a couple of hundred million at any one time.

"A lot of people were very concerned and it came to me and I asked them to look into it, but it was ignored."

This executive, like many others, left NAB's balance sheet and capital management division during this period.

By early this year, HomeSide's mortgage book had grown to \$US 187 billion (\$358 billion). This made the bank's New York-based dealers among the biggest options traders in the world. On some

days, they would have to nearly corner the market in interest rate derivatives just to cover its massive exposures.

Things soon got out of hand. Falling interest rates are bad for mortgage servicers, so they try to hedge against rate movements. HomeSide struggled with this in the late '90s, and the situation deteriorated when the US Federal Reserve began slashing official rates earlier this year. It has now cut interest rates seven times in eight months.

The rate cuts, combined with a US accounting rule change which meant the hedging losses had to be booked, resulted in HomeSide's first writedown, of \$870 million, announced in July.

The new accounting rule, known as FAS 133, changed the mortgage-servicing business overnight. The industry suddenly became a lot less attractive. But the hedging losses were not to be NAB's biggest problem. Deep in the bowels of HomeSide's Jacksonville, Florida headquarters, **another time bomb was ticking away.**

In the northern autumn of 1999, HomeSide's computers were overhauled. As part of the change, a computer model that worked out the fees the business could expect was replaced. The model was vital to working out how much the HomeSide business was worth. It did this by estimating future interest rates and how quickly clients would pay off their home loans. It used a gross interest rate figure.

The new model used a net interest figure. **HomeSide executives made a very simple and stupid mistake: they accidentally plugged the gross interest figure into the new model.** The blunder-which was uncovered only during the past week - meant that since 1999, HomeSide's future revenue had been grossly over-estimated.

The mistake with the model cost: NAB \$US400 million (\$766 million). But there was worse to come. **Other assumptions in the model had to be changed. This cost \$1.4 billion.** An \$858 million writedown of goodwill made up the remainder of the shock loss, and took the total to almost \$4 billion.

The question remains: How did the bank which had first expanded overseas in 1987 suddenly find itself in so much difficulty?

The answer, according to the former NAB executives, is that HomeSide had too much independence. There was not enough hands-on control from Melbourne.

* * *

So where does the blame lie? HomeSide's long-serving boss, Joe Pickett, left in June - one month before the first writedown. Another three of HomeSide's most senior executives resigned this week. But, so far, no one is accepting any of the blame at the bank's Bourke Street headquarters. [Emphasis added.]

83. In addition, or alternatively to the "very simple and stupid mistake" reported by AFR, there was a more insidious basis for the debacle: purposeful manipulation of the valuation methodologies that made HomeSide's financial situation appear significantly better than in fact it was.

84. The reason the value of the portfolio had to be written down was that HomeSide executives had deliberately and regularly overvalued its portfolio by hundreds of millions of dollars by modifying assumptions in the computer model used to produce the valuations.

85. During the Class Period, HomeSide arbitrarily changed assumptions in a valuation model called the MIAC model that increased the valuation of HomeSide's MSR portfolio by hundreds of millions of dollars more than a market-based valuation.

86. The way the process worked was that each month HomeSide downloaded a file from MIAG using its proprietary software called MIAC Analytics, which incorporated relevant market-based assumptions as reported on Bloomberg and plugged them into an MIAC model. These assumptions included the Bloomberg Median Prepayment Speed figure, discount rate

assumptions and cost assumptions. MIAC used market-based assumptions from Bloomberg Media Interactive.

87. HomeSide then ran the model using changed assumptions for each tranche of HomeSide's mortgages that deviated from the MIAC market-based data, with the intention and result that this manipulation made HomeSide's financial situation appear far more attractive than reality. A tranche is a group of mortgages with the same maturity, interest rate and risk characteristics. For example, one tranche might be comprised of Ginnie Mae 15 year 8% mortgages, another of Ginnie Mae 30 year 8% mortgages.

88. In short, HomeSide manipulated prepayment and discount rate assumptions to achieve the desired effect.

89. Another aspect of inappropriate manipulation concerned the valuation methodology applied to new pools of mortgages HomeSide had acquired. HomeSide would use the MIAC software to value the pools to be acquired, but once acquired, HomeSide would enter the value of the pools on the books at a value higher than the acquisition price.

90. HomeSide also violated impairment rules by moving loans from pool to pool to make "bad" pools "better" so it would not have to declare the pools "impaired" and write them off.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

91. The market for NAB's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, NAB's common stock traded at artificially inflated prices during the Class Period. Plaintiff and the other members of the Class purchased or otherwise acquired NAB securities

relying upon the integrity of the market price of NAB's securities and market information relating to NAB, and have been damaged thereby.

92. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of NAB's common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

93. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and the other members of the Class. As described herein, during the Class Period Defendant made or caused to be made a series of materially false or misleading statements about NAB's business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of NAB and its business, prospects and operations, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and the other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

ADDITIONAL SCIENTER

94. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were

materially false and misleading; knew that such statements or documents would be issued or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding NAB, their control over, and/or receipt of information of NAB's allegedly materially misleading misstatements and/or their associations with the Company that made them privy to confidential proprietary information concerning NAB, and participated in the fraudulent scheme alleged.

95. Scierer is established not only by the actual knowledge or severe recklessness of Defendants' conduct, but also by two secondary offerings at inflated values, collectively raising more than \$2 billion, one in June 1999 and the other in January 2001, which were based on the performance of HomeSide.

96. Scierer is further established by NAB's January 5, 2001 issuance of \$1.1 billion or residential mortgage-backed securities through its HomeSide Mortgage Securities Trust Program. The securities were registered in the United States and sold to investors in the United States and globally. During the Class Period, Defendants knew, or recklessly disregarded HomeSide's lack of financial controls and its resulting grave financial condition, contrary to what was being reported to the public.

97. Additionally, around the time of the January 5, 2001 offering, HomeSide established partnerships with various United States corporations to provide on-line mortgage services, including, on December 11, 2000, with Byowner.com, on December 12, 2000 with The Bekins Company, on December 14, 2000 with NewHomes.com, and on January 3, 2000, and with Suddah Relocation Services on January 8, 2001. The establishment of such partnership in

close proximity to the January 5, 2001, offering served to further bolster the illusion of HomeSide's success, and NAB's a "secure" presence in the United States.

**Applicability Of Presumption Of Reliance:
Fraud-On-The-Market Doctrine**

98. At all relevant times, the market for NAB's securities was an efficient market for the following reasons, among others:

- A. NAB's ADRs met the requirements for listing, and were listed and actively traded on the NYSE, a highly efficient and automated market;
- B. As a regulated issuer, NAB filed periodic public reports with the SEC; and
- C. NAB regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services.

99. As a result of the foregoing, the market for NAB's securities promptly digested current information regarding NAB from all publicly available sources and reflected such information in NAB's stock price. Under these circumstances, all purchasers of NAB's securities during the Class Period suffered similar injury through their purchase of NAB's securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

100. The statutory safe harbor provision for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint.

Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of NAB who knew that those statements were false when made.

COUNT I

Violation Of Section 10(b) Of The Exchange Act Against And Rule 10b-5 Promulgated Thereunder Against All Defendants

101. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

102. Throughout the Class Period, NAB and the Individual Defendants, carried out a plan, scheme, and course of conduct that was intended to and did: (i) deceive the investing public, including Plaintiff and the other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of NAB’s securities; and (iii) cause Plaintiff and the other members of the Class to purchase NAB’s securities at artificially inflated prices. In furtherance of this unlawful scheme and course of conduct, Defendants took the actions set forth herein.

103. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the

statements not misleading; and (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for NAB's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

104. In addition to the duties of full disclosure imposed on Defendants as a result of their making of affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, Defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. §§ 210.01 et seq.) and Regulation S-K (17 C.F.R. §§ 229.10 et seq.) and other SEC regulations, including accurate and truthful information with respect to the Company's operations, financial condition, and earnings so that the market price of the Company's securities would be based on truthful, complete, and accurate information.

105. NAB and the Individual Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations, and future prospects of NAB as specified herein.

106. Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of NAB's value and performance and continued substantial growth, which included the making of, or the

participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about NAB and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business that operated as a fraud and deceit upon the purchasers of NAB's securities during the Class Period.

107. The Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period; (ii) the Individual Defendants were privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; and (iii) the Individual Defendants were aware of the Company's dissemination of information to the investing public that they knew or recklessly disregarded was materially false and misleading.

108. Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing NAB's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain

such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

109. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of NAB's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of NAB's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired NAB securities during the Class Period at artificially high prices and were damaged thereby.

110. At the time of said misrepresentations and omissions, Plaintiff and the other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known of the true financial condition and business prospects of NAB, which were not disclosed by Defendants, Plaintiff and the other members of the Class would not have purchased or otherwise acquired their NAB securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices that they paid.

111. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

112. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

COUNT II

Violation Of Section 20(a) Of The Exchange Act Against the Individual Defendants

113. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

114. The Individual Defendants acted as controlling persons of NAB within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

115. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to

control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

116. As set forth above, NAB and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions, as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of NAB's and the Individual Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

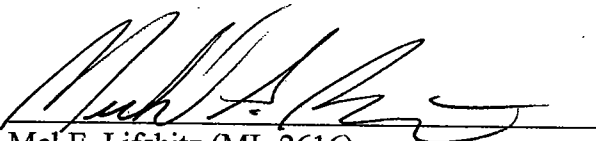
- A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;
- B. Awarding compensatory damages in favor of Plaintiff and the other members of the Class against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- D. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: October 10, 2003

BERNSTEIN LIEBHARD & LIFSHITZ, LLP

By: 

Mel E. Lifshitz (ML-2616)

Michael S. Bigin (MB-0037)

10 East 40th Street

New York, NY 10016

Tel: (212) 779-1414

Attorneys for Plaintiff

**CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS**

I, HARVARD B. KOLM ("Plaintiff"), declare the following as to the claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed the complaint filed in this matter and has authorized the filing of a complaint based on similar allegations in a related or amended complaint. Plaintiff retains Bernstein Liebhard & Lifshitz, LLP and such co-counsel it deems appropriate to associate with to pursue such action on a contingent fee basis.

2. Plaintiff did not purchase the security that is the subject of this action at the direction of Plaintiff's counsel or in order to participate in this private action.

3. Plaintiff is willing to serve as a lead plaintiff either individually or as part of a group. A lead plaintiff is a representative party who acts on behalf of other class members in directing the action, and whose duties may include testifying at deposition and trial. I understand that the litigation is not settled, this is not a claim form, and sharing in any recovery is not dependent upon execution of this Certification

4. Plaintiff's transaction(s) in the NATIONAL AUSTRALIA BANK LTD. security that is the subject of this action during the period of 4/1/99 through and including 9/3/01 are as follows:

<u>No. of Shares</u>	<u>Stock Symbol</u>	<u>Buy/Sell</u>	<u>Date</u>	<u>Price Per Share</u>
<u>100</u>	<u>NAB</u>	<u>Buy</u>	<u>6/20/00</u>	<u>76 15/16</u>

Please list other transactions on a separate sheet of paper, if necessary.

5. During the three years prior to the date of this Certification, Plaintiff has not sought to serve or served as a representative party for the class in any action filed under the federal securities laws except as indicated here:

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery, or as ordered or approved by the court, including any award for reasonable costs and expenses (including lost wages) directly relating to the representation of the class.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 2nd day of October 2003.

Harvard B. Kolm
Signature

HARVARD B. KOLM
Print Name