

TALON INTERNATIONAL, INC.  
 Form 3  
 May 14, 2015

**FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0104  
 Expires: January 31, 2015  
 Estimated average burden hours per response... 0.5

**INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,  
 Section 17(a) of the Public Utility Holding Company Act of 1935 or Section  
 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

|                                                                                                                                                                                                                            |                                                                        |                                                                                 |                                                                                                                                                                                                                                                                                                           |                                                      |                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Name and Address of Reporting Person *<br>Vaz Peter<br>(Last) (First) (Middle)<br><br>C/O TALON INTERNATIONAL, INC., 21900 BURBANK BLVD., SUITE 270<br>(Street)<br><br>WOODLAND HILLS, CA 91367<br>(City) (State) (Zip) | 2. Date of Event Requiring Statement<br>(Month/Day/Year)<br>05/04/2015 | 3. Issuer Name and Ticker or Trading Symbol<br>TALON INTERNATIONAL, INC. [TALN] | 4. Relationship of Reporting Person(s) to Issuer<br><br>(Check all applicable)<br><input type="checkbox"/> Director <input type="checkbox"/> 10% Owner<br><input checked="" type="checkbox"/> Officer <input type="checkbox"/> Other<br>(give title below) (specify below)<br>Exec. VP of Asia Operations | 5. If Amendment, Date Original Filed(Month/Day/Year) | 6. Individual or Joint/Group Filing(Check Applicable Line)<br><input checked="" type="checkbox"/> Form filed by One Reporting Person<br><input type="checkbox"/> Form filed by More than One Reporting Person |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Table I - Non-Derivative Securities Beneficially Owned**

| 1. Title of Security<br>(Instr. 4) | 2. Amount of Securities Beneficially Owned<br>(Instr. 4) | 3. Ownership Form:<br>Direct (D)<br>or Indirect (I)<br>(Instr. 5) | 4. Nature of Indirect Beneficial Ownership<br>(Instr. 5) |
|------------------------------------|----------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------|
| Common Stock                       | 34,000                                                   | D                                                                 | ^                                                        |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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**Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security<br>(Instr. 4) | 2. Date Exercisable and Expiration Date<br>(Month/Day/Year) | 3. Title and Amount of Securities Underlying Derivative Security | 4. Conversion or Exercise | 5. Ownership Form of | 6. Nature of Indirect Beneficial Ownership |
|-----------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------|---------------------------|----------------------|--------------------------------------------|
|-----------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------|---------------------------|----------------------|--------------------------------------------|

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|                             | Date Exercisable | Expiration Date | (Instr. 4)<br>Title | Amount or Number of Shares | Price of Derivative Security | Derivative Security: Direct (D) or Indirect (I) (Instr. 5) | (Instr. 5) |
|-----------------------------|------------------|-----------------|---------------------|----------------------------|------------------------------|------------------------------------------------------------|------------|
| Stock Option (Right to Buy) | 11/30/2010       | 11/27/2016      | Common Stock        | 10,000                     | \$ 1.27                      | D                                                          | Â          |
| Stock Option (Right to Buy) | 12/31/2010       | 06/25/2018      | Common Stock        | 210,000                    | \$ 0.2                       | D                                                          | Â          |
| Stock Option (Right to Buy) | 12/31/2010       | 08/12/2018      | Common Stock        | 40,000                     | \$ 0.18                      | D                                                          | Â          |
| Stock Option (Right to Buy) | 08/06/2009       | 08/06/2019      | Common Stock        | 245,000                    | \$ 0.09                      | D                                                          | Â          |
| Stock Option (Right to Buy) | 01/31/2015       | 01/13/2021      | Common Stock        | 55,000                     | \$ 0.1                       | D                                                          | Â          |
| Stock Option (Right to Buy) | Â <sup>(1)</sup> | 08/14/2024      | Common Stock        | 150,000                    | \$ 0.21                      | D                                                          | Â          |

## Reporting Owners

| Reporting Owner Name / Address                                                                           | Relationships |           |                               |       |
|----------------------------------------------------------------------------------------------------------|---------------|-----------|-------------------------------|-------|
|                                                                                                          | Director      | 10% Owner | Officer                       | Other |
| Vaz Peter<br>C/O TALON INTERNATIONAL, INC.<br>21900 BURBANK BLVD., SUITE 270<br>WOODLAND HILLS, CA 91367 | Â             | Â         | Â Exec. VP of Asia Operations | Â     |

## Signatures

/s/ Peter Vaz                      05/14/2015  
 \*\*Signature of                      Date  
 Reporting Person

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 5(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

The option shall become exercisable with respect to 25% of the total option shares at the end of one year from the date of the grant and (1) the remaining shares shall become exercisable in 36 monthly installments equal to 1/48th of the option shares on the last day of each calendar month thereafter until fully exercisable.

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### Interim dividend:

Current year

|               |     |
|---------------|-----|
|               | 80  |
|               | 100 |
| %             |     |
|               | 0   |
| %             |     |
| 15.7          |     |
|               |     |
| Previous year |     |
|               | 72  |
|               | 100 |
| %             |     |
|               | 0   |
| %             |     |

**Half yearly report - interim dividend (distribution) on all securities**

|       |                          | Current<br>period - \$m | Previous<br>corresponding<br>period - \$m |
|-------|--------------------------|-------------------------|-------------------------------------------|
| 15.10 | Ordinary securities      | 1,205                   | 1,115                                     |
| 15.11 | Preference securities    | 94                      | 95                                        |
| 15.12 | Other equity instruments |                         |                                           |
| 15.13 | <b>Total</b>             | 1,299                   | 1,210                                     |

The dividend or distribution plans shown below are in operation.

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The dividend is paid in cash or part of a dividend plan. Cash dividends are paid by way of:

- a) Cash or
- b) Direct credit

Dividend plans on offer are:

- a) Dividend Reinvestment Plan;
- b) Bonus Share Plan; and
- c) United Kingdom Dividend Plan (this enables a UK domiciled shareholder to receive either a dividend in GB Pounds or shares via the UK Dividend Plan).

The last date for receipt of election notices for the dividend or distribution plans:

13 June 2003

5pm (Melbourne time)

**Details of aggregate share of profits (losses) of associates**

Lines 16.1 to 16.7

Associates are accounted for utilising the cost method with only dividends received or receivable recognised in profit and loss. The financial impact of this method does not differ significantly from accounting for Associates under the equity method for the Group.

**Material interests in entities which are not controlled entities**

Lines 17.1 to 17.4

There are no material interests in entities which are not controlled entities.

**Issued and quoted securities at end of current period**

Lines 18.1 to 18.12

| Category of securities | Total Number                                                                                 | Number Quoted | Issue Price per security (dollars) | Amount paid up per security (dollars) |
|------------------------|----------------------------------------------------------------------------------------------|---------------|------------------------------------|---------------------------------------|
| <b>18.1</b>            | <b>Preference Shares</b>                                                                     |               |                                    |                                       |
|                        | Trust Units Exchangeable for Preferred Shares (TrUEPrS <sup>SM</sup> ) preference shares (1) |               |                                    |                                       |
|                        | 36,008,000                                                                                   |               | not required                       | not required                          |
|                        | National Income Securities stapled debt/preference shares (2)                                |               |                                    |                                       |
|                        | 20,000,000                                                                                   | 20,000,000    | not required                       | not required                          |
| <b>18.2</b>            | <b>Preference shares issued during the current period</b>                                    |               |                                    |                                       |
| <b>18.3</b>            | <b>Ordinary Shares</b>                                                                       |               |                                    |                                       |
|                        | Fully paid                                                                                   | 1,509,591,211 | 1,509,591,211                      | not required not required             |
|                        | Partly paid                                                                                  | 15,730        | \$ 4.72                            | \$ 0.25                               |
|                        | Partly paid                                                                                  | 21,180        | \$ 4.25                            | \$ 0.25                               |
|                        | Partly paid                                                                                  | 30,500        | \$ 5.54                            | \$ 0.25                               |
|                        | Partly paid                                                                                  | 49,920        | \$ 5.56                            | \$ 0.25                               |
|                        | Partly paid                                                                                  | 76,744        | \$ 6.15                            | \$ 0.25                               |
|                        | Partly paid                                                                                  | 112,385       | \$ 9.07                            | \$ 0.25                               |
|                        | Partly paid                                                                                  | 145,080       | \$ 10.97                           | \$ 0.25                               |
|                        | Partly paid                                                                                  | 186,180       | \$ 10.83                           | \$ 0.25                               |

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|                                                             |           |           |    |       |    |       |
|-------------------------------------------------------------|-----------|-----------|----|-------|----|-------|
| Partly paid                                                 | 147,059   |           | \$ | 11.03 | \$ | 0.25  |
| Total Partly paid                                           | 784,778   |           |    |       |    |       |
| <b>18.4 Changes during current period</b>                   |           |           |    |       |    |       |
| Fully paid ordinary shares issued during the current period |           |           |    |       |    |       |
| Executive Share Option Plan no. 2                           | 819,500   | 819,500   | \$ | 19.90 | \$ | 19.90 |
| Executive Share Option Plan no. 2                           | 75,000    | 75,000    | \$ | 23.34 | \$ | 23.34 |
| Dividend Reinvestment Plan                                  | 2,547,522 | 2,547,522 | \$ | 32.42 | \$ | 32.42 |
| UK Dividend Plan                                            | 20,099    | 20,099    | \$ | 32.42 | \$ | 32.42 |
| Bonus Share Plan                                            | 1,742,343 | 1,742,343 | \$ | 32.42 | \$ | 32.42 |
| Share Purchase Plan                                         | 1,315,630 | 1,315,630 | \$ | 32.42 | \$ | 32.42 |
| Staff Share Allocation Plan                                 | 1,064,790 | 1,064,790 | \$ | 31.89 | \$ | 31.89 |
| Staff Share Ownership Plan                                  | 7,457     | 7,457     | \$ | 29.23 | \$ | 29.23 |
| Staff Share Ownership Plan                                  | 20,628    | 20,628    | \$ | 31.89 | \$ | 31.89 |
| Staff Share Ownership Plan                                  | 92,015    | 92,015    | \$ | 32.37 | \$ | 32.37 |
| Staff Share Ownership Plan                                  | 279,799   | 279,799   | \$ | 33.13 | \$ | 33.13 |
|                                                             | 7,984,783 | 7,984,783 |    |       |    |       |

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|                                          | <b>Total<br/>Number</b> | <b>Number<br/>Quoted</b> | <b>Issue Price<br/>per security<br/>(dollars)</b> | <b>Amount paid<br/>up per security<br/>(dollars)</b> |
|------------------------------------------|-------------------------|--------------------------|---------------------------------------------------|------------------------------------------------------|
| Paying up of partly paid ordinary shares | 3,800                   | 3,800                    | \$ 4.72                                           | \$ 4.72                                              |
|                                          | 4,980                   | 4,980                    | \$ 4.25                                           | \$ 4.25                                              |
|                                          | 8,600                   | 8,600                    | \$ 5.54                                           | \$ 5.54                                              |
|                                          | 9,920                   | 9,920                    | \$ 5.56                                           | \$ 5.56                                              |
|                                          | 13,585                  | 13,585                   | \$ 6.15                                           | \$ 6.15                                              |
|                                          | 18,310                  | 18,310                   | \$ 9.07                                           | \$ 9.07                                              |
|                                          | 25,707                  | 25,707                   | \$ 10.97                                          | \$ 10.97                                             |
|                                          | 26,317                  | 26,317                   | \$ 10.83                                          | \$ 10.83                                             |
|                                          | 23,509                  | 23,509                   | \$ 11.03                                          | \$ 11.03                                             |
|                                          | 134,728                 | 134,728                  |                                                   |                                                      |

Fully paid ordinary shares bought back on-market during the current period

| <b>Total<br/>Number</b> | <b>Purchase<br/>Price (*)</b> | <b>Total<br/>Number</b> | <b>Purchase<br/>Price (1)</b> |
|-------------------------|-------------------------------|-------------------------|-------------------------------|
| (1,111,000)             | \$ 32.56                      | (300,000)               | \$ 32.38                      |
| (1,000,000)             | \$ 32.79                      | (650,000)               | \$ 32.05                      |
| (1,225,500)             | \$ 33.13                      | (650,000)               | \$ 31.96                      |
| (1,040,600)             | \$ 32.58                      | (500,000)               | \$ 31.76                      |
| (630,000)               | \$ 33.13                      | (650,000)               | \$ 31.48                      |
| (700,000)               | \$ 33.44                      | (400,000)               | \$ 31.64                      |
| (860,000)               | \$ 32.96                      | (300,000)               | \$ 31.69                      |
| (700,000)               | \$ 33.26                      | (550,000)               | \$ 31.30                      |
| (1,120,000)             | \$ 32.76                      | (350,000)               | \$ 31.11                      |
| (568,636)               | \$ 32.97                      | (700,000)               | \$ 30.45                      |
| (415,000)               | \$ 33.05                      | (565,000)               | \$ 30.30                      |
| (609,263)               | \$ 33.03                      | (350,000)               | \$ 30.33                      |
| (360,000)               | \$ 33.30                      | (300,000)               | \$ 30.21                      |
| (700,000)               | \$ 33.06                      | (550,000)               | \$ 29.71                      |
| (550,000)               | \$ 33.19                      | (600,000)               | \$ 29.13                      |
| (800,000)               | \$ 32.51                      | (300,000)               | \$ 29.09                      |
| (890,000)               | \$ 31.94                      | (350,000)               | \$ 29.52                      |
| (580,000)               | \$ 31.87                      | (262,000)               | \$ 29.22                      |
| (534,484)               | \$ 31.65                      | (500,000)               | \$ 29.10                      |
| (380,000)               | \$ 31.16                      | (300,000)               | \$ 28.71                      |
| (300,000)               | \$ 31.47                      | (200,000)               | \$ 29.61                      |
| (205,000)               | \$ 31.98                      | (450,000)               | \$ 29.21                      |
| (237,850)               | \$ 32.41                      | (147,682)               | \$ 29.12                      |
| (70,000)                | \$ 32.47                      | (315,000)               | \$ 29.21                      |
| (300,000)               | \$ 32.75                      | (320,000)               | \$ 29.38                      |
| (230,000)               | \$ 32.60                      | (225,000)               | \$ 29.22                      |

Explanation of Responses:

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|           |    |       |              |    |       |
|-----------|----|-------|--------------|----|-------|
| (142,669) | \$ | 32.39 | (300,000)    | \$ | 29.18 |
| (487,000) | \$ | 32.23 | (465,000)    | \$ | 28.83 |
| (270,000) | \$ | 32.15 | (159,773)    | \$ | 29.15 |
| (30,000)  | \$ | 32.12 | (335,000)    | \$ | 28.95 |
| (540,000) | \$ | 32.15 | (463,867)    | \$ | 28.52 |
| (150,000) | \$ | 32.23 | (490,000)    | \$ | 28.56 |
| (300,000) | \$ | 32.49 | (261,473)    | \$ | 28.74 |
| (550,000) | \$ | 32.22 | (265,000)    | \$ | 30.94 |
| (86,881)  | \$ | 32.40 | (250,000)    | \$ | 30.81 |
|           |    |       | (32,448,678) |    |       |

(\*) The purchase price is the daily weighted average of the Company's ordinary shares that were purchased. The highest price paid was \$33.70 and the lowest price paid was \$28.40.

**18.5 Convertible Debt Securities** Nil

**18.6 Changes during current period** Nil



| Category of securities                                                                    | Total Number | Number Quoted | Exercise Price | Expiry Date |
|-------------------------------------------------------------------------------------------|--------------|---------------|----------------|-------------|
| <b>Options</b>                                                                            |              |               |                |             |
| <b>Held under National Australia Bank Executive Share Option Plan No.2 ( ESOP No. 2 )</b> |              |               |                |             |
| (refer pages 128 and 130 of the 2002 annual financial report)                             |              |               |                |             |
| <b>18.7 Unexercised options at the beginning of the current period</b>                    |              |               |                |             |
|                                                                                           | 839,500      |               | \$ 19.90       | 25-Feb-2003 |
|                                                                                           | 12,295,000   |               | \$ 28.23       | 18-Mar-2004 |
|                                                                                           | 120,000      |               | \$ 23.34       | 5-Aug-2004  |
|                                                                                           | 9,978,500    |               | \$ 21.29       | 24-Mar-2008 |
|                                                                                           | 777,500      |               | \$ 24.89       | 27-Sep-2008 |
|                                                                                           | 11,383,500   |               | \$ 27.85       | 22-Mar-2009 |
|                                                                                           | 1,162,500    |               | \$ 28.87       | 13-Sep-2009 |
|                                                                                           | 11,261,000   |               | \$ 36.14       | 13-Jun-2010 |
| <b>18.8 Issued during the current period</b>                                              |              |               |                |             |
| ESOP No. 2                                                                                | 5,978,750    |               | \$ 30.46       | 20-Mar-2011 |
| Performance Rights*                                                                       | 1,519,832    |               | Refer note**   | 20-Mar-2011 |
| <b>18.9 Exercised during the current period</b>                                           |              |               |                |             |
|                                                                                           | (819,500)    |               | \$ 19.90       | 25-Feb-2003 |
|                                                                                           | (75,000)     |               | \$ 23.34       | 5-Aug-2004  |
| <b>18.10 Options expired during the current period</b>                                    |              |               |                |             |
|                                                                                           | (20,000)     |               | \$ 19.90       | 25-Feb-2003 |
|                                                                                           | (22,500)     |               | \$ 21.29       | 24-Mar-2008 |
|                                                                                           | (10,000)     |               | \$ 24.89       | 27-Sep-2008 |
|                                                                                           | (28,500)     |               | \$ 27.85       | 22-Mar-2009 |
|                                                                                           | (1,500)      |               | \$ 28.87       | 13-Sep-2009 |
|                                                                                           | (79,500)     |               | \$ 36.14       | 13-Jun-2010 |
| <b>Unexercised options at the end of the period</b>                                       |              |               |                |             |
| ESOP No. 2                                                                                | 52,739,750   |               |                |             |
| Performance Rights*                                                                       | 1,519,832    |               |                |             |
| <b>18.11 Debentures</b>                                                                   |              |               |                |             |
| <b>18.12 Unsecured notes</b>                                                              |              |               |                |             |
|                                                                                           | \$           | m             |                |             |
| <b>Bonds, notes and subordinated debt</b>                                                 |              |               |                |             |
| Company                                                                                   | 18,279       |               |                |             |
| Group                                                                                     | 18,933       |               |                |             |
| <b>Exchangeable capital units (3)</b>                                                     |              |               |                |             |
| Group                                                                                     | 1,262        |               |                |             |

**Other debt issues**

|         |     |
|---------|-----|
| Company | 414 |
| Group   | 546 |

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\* *Performance rights are issued under the Performance Rights Plan approved at the Company's annual general meeting held on 19 December 2002. Terms of the Plan are explained in the notice of that meeting.*

\*\* *The total exercise price payable on the exercise of any performance rights by a holder on a particular day will be \$1.00, irrespective of the number of rights exercised on that day.*

(1) On 30 September 1998, a total of 32,008,000 fully paid non-converting non-cumulative preference shares of the Company with a liquidation preference of US\$12.50 per share (TrUEPrS<sup>SM</sup> preference shares) were issued to a depositary in connection with an issue of 16,004,000 Trust Units Exchangeable for Preferred Shares<sup>TM</sup> (TrUEPrS) by the NAB Exchangeable Preferred Trust, a Delaware business trust that is not controlled by the Company. The underwriters with respect to the TrUEPrS issue subsequently exercised an option resulting in a further issuance of 2,000,000 TrUEPrS (and accordingly, in the issue of a further 4,000,000 TrUEPrS preference shares).

The holders of TrUEPrS receive distributions quarterly in arrears at the rate of 8% per annum on a non-cumulative basis. On 31 December 2047, or the earlier occurrence of certain other exchange events, the holders of TrUEPrS can be required to exchange their TrUEPrS for American depositary shares representing TrUEPrS preference shares, or for cash in some limited circumstances. Until that time, the TrUEPrS preference shares do not pay dividends. After such an exchange event occurs, the TrUEPrS preference shares will automatically convert into non-cumulative preference shares of the company paying a dividend of 8% per annum, if declared.

If a dividend is not paid on the TrUEPrS preference shares, the Company cannot, in certain circumstances, pay distributions, redeem, buy back or reduce capital on any other shares of the Company that rank equally with or junior to the TrUEPrS preference shares.

Holders of the TrUEPrS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per TrUEPrS preference share on a limited number of matters including any proposal to wind-up the Company or any proposal to affect the rights attaching to the TrUEPrS preference shares.

The TrUEPrS preference shares are redeemable, in certain limited circumstances, prior to the fifth anniversary of their issue date, and after the fifth anniversary of the issue date, at the Company's election at a redemption price of US\$12.50 plus accrued dividends, if any. The terms of the TrUEPrS preference shares also provide, subject to certain conditions, for a reduction of the share capital of the TrUEPrS preference shares of US\$12.49, followed by a redemption of the outstanding share capital attributed to those shares of US\$0.01, and for holders to accept a buy-back offer, if made by the Company at a price of US\$12.50 plus accrued dividends, if any, for each TrUEPrS preference share.

In a winding-up of the Company, holders of TrUEPrS preference shares will generally rank equally with the holders of other preference shares and will rank for return of capital on the TrUEPrS preference shares in priority to ordinary shareholders. After certain exchange events occur (as referred to above), TrUEPrS preference shares will rank in priority to ordinary shares and equally with other preference shares as to dividends. Presently, the Company's other preference shares consist of the preference shares issued in connection with National Income Securities, which are described below. Preference shares may also be issued by the Company in connection with its exchangeable capital units.

TrUEPrS<sup>SM</sup> is a service mark of Merrill Lynch & Co., Inc.

(2) On 29 June 1999, the Company issued 20 million National Income Securities (NIS) at A\$100 each. These securities are stapled securities, comprising one fully paid note of A\$100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on an NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. If the amount unpaid on an NIS preference share becomes due, the holder can, and must, transfer to the Company the note stapled to that NIS preference share. The transfer of the note to the Company will satisfy the holder's obligation to pay up the amount on the

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NIS preference share. The holder will then hold a fully paid NIS preference share.

Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears commencing on 15 August 1999. A minimum interest rate of at least 6% per annum was payable until 15 May 2000. Holders of NIS preference shares are not entitled to dividends until the NIS preference shares become fully paid. If the NIS preference shares become fully paid, holders will receive, if declared, a dividend calculated at the same rate and payable on the same basis as for the NIS.

If a dividend is not paid on the NIS preference shares, the Company cannot, in certain circumstances, pay distributions, redeem, buy back or reduce capital on any other shares of the Company that rank equally with or junior to the NIS preference shares.

Holders of the NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind-up the Company or any proposal to affect the rights attaching to the NIS preference shares.

With the prior consent of the Australian Prudential Regulation Authority, the Company may redeem each note for A\$100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. This may take place at any time after the fifth anniversary of the issue date of the NIS or earlier in certain limited circumstances.

NIS have no maturity date, are quoted on the stock market of Australian Stock Exchange Limited and on winding-up of the Company will rank for a return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders. In a winding-up of the Company, the holders of fully paid NIS preference shares issued in connection with the NIS will generally rank equally with the holders of other preference shares of the Company with the same number with respect to priority on payment in a winding-up (as specified in accordance with the Company's constitution), and will rank for a return of capital on the NIS preference shares in priority to the holders of ordinary shares. Presently, the only other class of preference shares on issue are the preference shares issued in connection with the TrUEPrS, which are described above, and which rank equally with the NIS preference shares with respect to priority on payment in a winding-up. Preference shares may also be issued by the Company in connection with the exchangeable capital units.

(3) On 19 March 1997, National Australia Capital Securities (UK) PLC, a controlled entity, received funds following the issue of 40 million exchangeable capital units at US\$25 each with a cumulative return of 7 7/8% per annum. Under the terms of the exchangeable capital units, the Company has the option to require the exchange of all, but not part, of the exchangeable capital units at any time for 7 7/8% convertible non-cumulative preference shares of the Company. Holders of the exchangeable capital units or the convertible non-cumulative preference shares have the option at any time to exchange their holdings for ordinary shares of the Company initially at the rate of 1.6365 ordinary shares per exchangeable capital unit or convertible non-cumulative preference share, subject to anti-dilution provisions.

As a result of a holder of exchangeable capital units exercising the option to exchange their holdings for ordinary shares of the Company, the number of exchangeable capital units at 31 March 2003 is 39,999,800.

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The Company has the right to redeem all or part of the exchangeable capital units or redeem all or part of the convertible non-cumulative preference shares under a special offer at any time after 19 March 2007, with the prior consent of APRA.

## Segment information

The following segment information is disclosed in accordance with Australian Accounting Standards AASB 1005 Segment Reporting (AASB 1005), AASB 1029 Interim Financial Reporting (AASB 1029) and US accounting standard, Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information (SFAS 131). For the purposes of this note, a business/operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in assessing performance. The Group results are based on the business segments as reviewed separately by the chief operating decision maker, the Managing Director and Chief Executive Officer, as well as other members of senior management.

The Group's business is organised into five major operating segments: Financial Services Australia, Financial Services Europe, Financial Services New Zealand, Corporate & Institutional Banking (formerly known as Wholesale Financial Services), and Wealth Management. Financial Services Australia, Europe and New Zealand are the retailing arms of the Group and provide a full range of financial services to customers. These Financial Services businesses are managed on a regional basis across Australia, Europe, and New Zealand. Corporate & Institutional Banking is responsible for the Group's relationships with large corporations, institutions, supranationals and government bodies worldwide. It comprises Corporate Banking, Markets, Specialised Finance, Financial Institutions Group, Custodian Services and a Support Services unit. Wealth Management manages a diverse portfolio of financial services businesses, comprising Investments, Insurance and Other (Private Bank & Distribution). The Group's Other business segment includes Finance, Technology, Group Funding, People and Culture, Risk Management, Corporate Development and Office of the CEO, and are not considered to be separate reportable operating segments under SFAS 131.

Revenues and expenses directly associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between segments operating within the same country and are at arm's length between segments operating in different countries.

Comparatives for the previous corresponding period have been restated to reflect the current basis of business segmentation.

The following changes to business segments were made in the 2003 half-year:

(a) The New Zealand and European capital management units were previously reported in Financial Services New Zealand and Financial Services Europe business units respectively. In the 2003 half-year, these units were transferred to Group Funding (part of Other) to ensure consistency of capital allocation methodology across business units.

(b) European asset and liability management activities were previously managed as part of Corporate & Institutional Banking and have now been transferred to Financial Services Europe.

(c) An update of the cost allocation model was undertaken as part of the Group's 2003 planning process. This resulted in refinement of cost allocations between Other and Financial Services Australia.

The 2002 half-year business segment results and total assets have been restated to reflect these changes.

**Business segments**

| <b>Current period</b>                             | <b>Financial Services Australia<br/>\$m</b> | <b>Financial Services Europe (1)<br/>\$m</b> | <b>Financial Services New Zealand<br/>\$m</b> | <b>Corporate &amp; Institutional Banking<br/>\$m</b> | <b>Wealth Management<br/>\$m</b> | <b>Other<br/>\$m</b> | <b>Inter-segment eliminations<br/>\$m</b> | <b>Total Group<br/>\$m</b> |
|---------------------------------------------------|---------------------------------------------|----------------------------------------------|-----------------------------------------------|------------------------------------------------------|----------------------------------|----------------------|-------------------------------------------|----------------------------|
| Net interest income                               | 1,710                                       | 1,239                                        | 328                                           | 434                                                  | 54                               | (19)                 |                                           | 3,746                      |
| Non-interest income                               | 919                                         | 431                                          | 161                                           | 511                                                  | 854                              | 44                   |                                           | 2,920                      |
| Inter-segment revenue                             | 31                                          | 72                                           | 6                                             | (6)                                                  |                                  | 12                   | (115)                                     |                            |
| Total revenue                                     | 2,660                                       | 1,742                                        | 495                                           | 939                                                  | 908                              | 37                   | (115)                                     | 6,666                      |
| Other expenses                                    | 1,378                                       | 1,025                                        | 251                                           | 328                                                  | 976                              | 145                  |                                           | 4,103                      |
| Inter-segment expenses                            | (7)                                         | 14                                           | 9                                             | 69                                                   | 65                               | (35)                 | (115)                                     |                            |
| Total expenses                                    | 1,371                                       | 1,039                                        | 260                                           | 397                                                  | 1,041                            | 110                  | (115)                                     | 4,103                      |
| Profit from ordinary activities before tax        | 1,289                                       | 703                                          | 235                                           | 542                                                  | (133)                            | (73)                 |                                           | 2,563                      |
| Income tax expense                                | 386                                         | 226                                          | 77                                            | 126                                                  | (95)                             | (34)                 |                                           | 686                        |
| Net profit                                        | 903                                         | 477                                          | 158                                           | 416                                                  | (38)                             | (39)                 |                                           | 1,877                      |
| Outside equity interest                           |                                             |                                              |                                               | 4                                                    | 6                                |                      |                                           | 10                         |
| Net profit attributable to members of the Company | 903                                         | 477                                          | 158                                           | 412                                                  | (44)                             | (39)                 |                                           | 1,867                      |
| Total assets                                      | 133,617                                     | 65,916                                       | 24,916                                        | 156,479                                              | 44,370                           | 31,936               | (63,038)                                  | 394,196                    |

| Previous corresponding period                     | Financial Services Australia<br>\$m | Financial Services Europe (1)<br>\$m | Financial Services New Zealand<br>\$m | Corporate & Institutional Banking<br>\$m | Wealth Management<br>\$m | Other (2)<br>\$m | Inter-segment eliminations<br>\$m | Total Group<br>\$m |
|---------------------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|------------------------------------------|--------------------------|------------------|-----------------------------------|--------------------|
| Net interest income                               | 1,630                               | 1,232                                | 257                                   | 546                                      | 56                       | (118)            |                                   | 3,603              |
| Non-interest income                               | 825                                 | 442                                  | 135                                   | 437                                      | 3,419                    | 2,634            |                                   | 7,892              |
| Inter-segment revenue                             | 35                                  | 83                                   | 2                                     | (9)                                      | 2                        | 11               | (124)                             |                    |
| Total revenue                                     | 2,490                               | 1,757                                | 394                                   | 974                                      | 3,477                    | 2,527            | (124)                             | 11,495             |
| Significant expenses (3)                          | 3                                   |                                      |                                       | 9                                        | 5                        | 7                |                                   | 24                 |
| Other expenses                                    | 1,280                               | 1,043                                | 209                                   | 439                                      | 2,709                    | 2,670            |                                   | 8,350              |
| Inter-segment expenses                            | (16)                                | 16                                   | 10                                    | 75                                       | 46                       | (7)              | (124)                             |                    |
| Total expenses                                    | 1,267                               | 1,059                                | 219                                   | 523                                      | 2,760                    | 2,670            | (124)                             | 8,374              |
| Profit from ordinary activities before tax        | 1,223                               | 698                                  | 175                                   | 451                                      | 717                      | (143)            |                                   | 3,121              |
| Income tax expense                                | 355                                 | 228                                  | 59                                    | 81                                       | 265                      | (130)            |                                   | 858                |
| Net profit                                        | 868                                 | 470                                  | 116                                   | 370                                      | 452                      | (13)             |                                   | 2,263              |
| Outside equity interest                           |                                     |                                      |                                       |                                          | 7                        |                  |                                   | 7                  |
| Net profit attributable to members of the company | 868                                 | 470                                  | 116                                   | 370                                      | 445                      | (13)             |                                   | 2,256              |
| Total assets                                      | 115,436                             | 65,467                               | 21,620                                | 142,043                                  | 46,268                   | 23,528           | (52,725)                          | 361,637            |

(1) Includes the results of Vivid for the half-years ended 31 March 2003 and 2002.

(2) Includes the net profit of HomeSide for the half-year ended 31 March 2002, of \$107 million and total assets of \$7,346 million.

(3) Restructuring costs relating to termination benefits of \$16m and other restructuring costs of \$8m have been reclassified as significant items in the 2002 half-year comparatives to accord with the classification made in the 2002 annual financial report and Appendix 4B Preliminary Financial Report for the financial year ended 30 September 2002. These amounts were previously classified as other expenses for the purposes of the segment note for the half-year ended 31 March 2002.



**Comments by directors**

Comments on the following matters are required by ASX or, in relation to the half-yearly report, by AASB 1029 Interim Financial Reporting . The comments do not take the place of the directors report and statement (as required by the Corporations Act) and may be incorporated into the directors report and statement. For both half-yearly and preliminary final reports, if there are no comments in a section, state NIL. If there is insufficient space to comment, attach notes to this report.

**19.1 Basis of financial report preparation**

This report is a general purpose financial report prepared in accordance with the listing rules and AASB 1029 Interim Financial Reporting . It should be read in conjunction with the last annual report and any announcements to the market made by the Company during the period.

This report is National Australia Bank Limited s half-year financial report for the purpose of complying with Australian Accounting Standard AASB 1029 Interim Financial Reporting . The half-year financial report does not include all notes of the type normally included within the annual report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and investing activities of the economic entity as the full financial report. The half-year financial report should be read in conjunction with the annual report as at 30 September 2002.

The half-year financial report has been prepared in accordance with the requirements of the Corporations Act 2001, the recognition and measurement requirements of applicable accounting standards and Urgent Issues Group Consensus Views.

The accounting policies adopted in this report are consistent with those applied in the annual financial report as at 30 September 2002, except for the change in accounting policy as disclosed at item 19.5.

**19.2 Material factors affecting the revenues and expenses of the economic entity for the current period.**

Nil

**19.3 A description of each event since the end of the current period which has had a material effect and is not related to matters already reported elsewhere in this Appendix or in attachments, with financial effect quantified (if possible).**

Nil

**19.4 Franking credits available and prospects for paying fully or partly franked dividends for at least the next year.**

With effect from 1 July 2002, Australian tax law requires companies to maintain franking accounts on a tax paid basis.

The franking credits available to the Group at 31 March 2003, after allowing for tax payable in respect of the current reporting period's profits that will be subject to Australian income tax, the payment of the interim dividend, and the receipt of dividends recognised as receivable at balance date, are estimated to be \$nil (2002: \$nil). The interim dividend for the year ending 30 September 2003 will be fully franked based on franking credits expected to arise in the tax year ending 30 June 2004.

The extent to which future dividends will be franked will depend on a number of factors including the level of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system (including the dividend imputation system) as a result of the Federal Government's tax reform initiatives.

**19.5 Unless disclosed below, the accounting policies, estimation methods and measurement bases used in this report are the same as those used in the last annual report. Any changes in accounting policies, estimation methods and measurement bases since the last annual report are disclosed as follows. (Disclose changes and differences in the half yearly report in accordance with AASB 1029: Interim Financial Reporting. Disclose changes in accounting policies in the preliminary final report in accordance with AASB 1001: Accounting Policies - Disclosure).**

The Group has adopted the new accounting standard AASB 1044 Provisions, Contingent Liabilities and Contingent Assets for the first time from 1 October 2002. Provisions for dividends are now recognised at the time the dividends are declared, determined or publicly recommended. Previously, the Group recognised a provision for dividend in the reporting period to which the dividend related, even though the dividend was declared or announced after the end of that reporting period.

The effect of this change in accounting policy has been to increase opening retained profits and decrease provision for dividends by \$1,151 million.

There was no impact on net profit or basic and diluted earnings per share for the half-year ended 31 March 2003.

**19.6 Revisions in estimates of amounts reported in previous interim periods. For half yearly reports the nature and amount of revisions in estimates of amounts reported in previous annual reports if those revisions have a material effect in this half year.**

Nil

**19.7 Changes in contingent liabilities or assets. For half yearly reports, changes in contingent liabilities and contingent assets since the last annual report.**

There have been no material changes in contingent liabilities or assets since those disclosed in the 2002 annual financial report.

**Compliance statement**

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views.

This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on accounts to which one of the following applies.

(Tick one)

- The accounts have been audited.
- The accounts are in the process of being audited or subject to review.
- The accounts have been subject to review.
- The accounts have not yet been audited or reviewed.

If the audit report or review by the auditor is not attached, details of any qualifications are attached.

The entity has a formally constituted audit committee.

Sign here:  
(Company Secretary)

Date: 14 May 2003

Print name: Garry F. Nolan



**Directors Declaration**

The Directors of National Australia Bank Limited declare that:

a) **the financial statements, and the notes thereto, as set out on pages 1 to 18, comply with accounting standards and the Corporations Act 2001;**

b) the financial statements and notes thereto give a true and fair view of the financial position as at 31 March 2003, and of the performance of the Group for the half year ended 31 March 2003; and

c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 14th day of May 2003 and signed in accordance with a resolution of the Board of Directors.

DCK Allen  
Chairman

FJ Cicutto  
Managing Director

**Independent review report to the members of National Australia Bank Limited**

We have reviewed the financial report of National Australia Bank Limited for the half year ended 31 March 2003, in the form of the half -yearly report pursuant to rule 4.1 of the Australian Stock Exchange Listing Rules, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes set out on pages 1 to 18, and the directors declaration.

The financial report includes the consolidated financial statements of the Group comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company s directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB1029

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Interim Financial Reporting and other mandatory professional reporting requirements and statutory requirements, so as to present a view which is consistent with our understanding of the Group's financial position and performance as represented by the results of its operations and its cash flows, and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of National Australia Bank Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - i) giving a true and fair view of the Group's financial position as at 31 March 2003, and of its performance for the half-year ended on that date; and
  - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

**KPMG**

Melbourne

PJ Matthey, Partner  
14<sup>th</sup> May 2003

## Report of the directors

The directors of National Australia Bank Limited (hereinafter referred to as the Company ) present their report of the Group, being the Company and its controlled entities, for the half-year ended 31 March 2003 and the independent auditors' review report thereon.

## Directors

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

### Directors in office at the date of this report are:

|                      |              |
|----------------------|--------------|
| DCK Allen (Chairman) | KJ Moss      |
| FJ Cicutto           | GA Tomlinson |
| JB Clark             | ED Tweddell  |
| PJB Duncan           | CM Walter    |
| GJ Kraehe            |              |

## Dividends

The Directors have declared an interim dividend of 80 cents per ordinary share, fully franked, payable on 2 July 2003.

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

## Rounding of amounts

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



## Group s results

The net profit attributable to members of the Company for the Group for the half-year ended 31 March 2003 was \$1,867 million, 17% lower than the March 2002 half year.

## Review of operations

The previous corresponding period includes a contribution from SR Investment, Inc. and its wholly owned subsidiary HomeSide Lending, Inc (HomeSide), which was sold effective 1 October 2002.

The reduction in net profit attributable to members to \$1,867 million, has been impacted by the sale of HomeSide (\$107 million) and the adverse movement in the revaluation profit/(loss) (the excess of net market value over net assets of life insurance controlled entities) of \$609 million (\$442 million after tax).

Excluding the impact of these, net profit attributable to members has increased from the prior corresponding period.

The reduction in revenues from ordinary activities reflects the matters above, together with lower life insurance income and the inclusion of proceeds from the sale of the operating assets of HomeSide in the prior corresponding period.

Net interest income (interest income less interest expense) increased 4% to \$3,746 million. This was impacted by strong volume growth, particularly in Australia and New Zealand, partially offset by a fall in the net interest margin.

The reduction in expenses from ordinary activities reflects lower life insurance expenses, lower expenses due to the sale of HomeSide and the inclusion of the carrying value of the HomeSide operating assets sold in the prior corresponding period.

The reduction in expenses has also been impacted by a fall in the charge to provide for doubtful debts. The charge in the prior corresponding period was impacted by a number of large corporate exposures.

The interim dividend per share has increased 8 cents to 80 cents, fully-franked.

Total assets have grown 4.5% from 30 September 2002 to \$394,196 million at 31 March 2003. This was primarily driven by a 4.9% increase in loans and advances, as a result of volume growth particularly in relation to housing growth in the Australian and New Zealand retail banking operations. Net assets have increased 2.4% to \$23,815 million.

Signed in accordance with a resolution of the directors.

**DCK Allen**

Chairman

**FJ Cicutto**

Managing Director

14 May, 2003

**SIGNATURE PAGE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

**NATIONAL AUSTRALIA BANK LIMITED**

**Susan E Crook**

Date: 14 May 2003

Title: Associate Company Secretary

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