

NATIONAL AUSTRALIA BANK LTD
Form 6-K
November 12, 2003

FILE NO 1-9945

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON DC 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of November 2003

National Australia Bank Limited

ACN 004 044 937
(Registrant's Name)

Level 24
500 Bourke Street
MELBOURNE VICTORIA 3000
AUSTRALIA

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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Yes

No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 -

This Report on Form 6-K shall be deemed to be incorporated by reference in the prospectus included in the Registration Statement on Form F-3 (No. 333-6632) of National Australia Bank Limited and to be part thereof from the date on which this Report, is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

National Australia Bank Limited

Full Year Results 2003

12 Months Ended 30 September 2003

[NATIONAL LOGO]

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Media Release
11 November 2003

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RECORD RESULT LIFTS NATIONAL S DIVIDEND 11%

FINANCIAL HIGHLIGHTS

Achieved full year forecast:

cash earnings per share up 8.2%

cash earnings of \$4.07 billion a record full year result

Net profit after significant items up 16.8% to \$3.95 billion

Final dividend of 83 cents cents (fully franked). Full year dividend up 10.9% to 163 cents (fully franked).

Retail banking cash earnings:

Australia - up 6.5%

New Zealand - up 21.0% (up 12.7% in local currency)

Europe - down 3.9% (up 0.9% in local currency)

Corporate & Institutional Banking cash earnings up 3.4% to \$846 million (up 6.2% excluding currency impacts)

Wealth Management operating profit after tax up 28.1% to \$374 million

Asset quality sound: gross non-accrual loans to total loans improved from 0.62% to 0.51%

Return on equity up from 17.0% to 18.3%.

Economic Value Added (EVA[®]) up 29.9% to \$1,668 million*.

Strong capital position Total capital at 9.70%, Tier 1 at 7.82% and Adjusted Common Equity ratio of 4.95% after the buy back of 48.9 million shares.

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

MANAGING DIRECTOR S REVIEW

The Managing Director and Chief Executive Officer, Frank Cicutto, said record cash earnings of \$4.07 billion, a higher fully franked dividend and continued EVA[®] growth was a good result for shareholders.

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The National generated cash earnings per share growth of 8.2 per cent in line with its full year forecast after absorbing significantly higher European pension costs and adverse exchange rate movements, Mr Cicutto said.

Mr Cicutto said this solid result enabled the National to pay shareholders a higher fully franked dividend of 163 cents per share continuing 11 consecutive years of dividend growth.

The National's return on equity increased from 17.0 to 18.3 per cent.

Building and managing our portfolio of businesses for strong and sustainable total shareholder return is a key objective of our strategy, he said.

DIVISIONAL PERFORMANCE

Financial Services Australia produced another solid result with 12.5 per cent underlying profit growth. Cash earnings were up 6.5 per cent.

Our market position remains strong. Deposits were up 11 per cent, business loans were up 9 per cent and housing loans were up 20 per cent.

We also improved credit quality across the lending portfolio, with gross non-accrual loans as a percentage of total loans falling from 0.52 to 0.35 per cent.

The cost to income ratio was 45.7 per cent down from 48.2 per cent last year.

Financial Services Europe increased cash earnings by 6 per cent in local currency before the impact of higher pension charges.

Mortgage lending was up 9 per cent year on year and business lending increased 5 per cent. Asset quality improved with non-accrual loans falling 35 per cent.

We will complete the legal entity merger of Clydesdale and Yorkshire Banks. This is an important milestone in the transformation of our European businesses.

Financial Services New Zealand had a good year. Cash earnings in local currency increased 12.7 per cent after strong growth in lending to an expanding housing market as well as healthy deposit growth. Housing market share increased from 15.1 per cent to 15.6 per cent.

Other highlights of the New Zealand performance included a substantial cost to income ratio improvement from 53.3 per cent to 50.3 per cent and stable interest margins and credit quality.

Corporate & Institutional Banking increased cash earnings by 3.4 per cent (6.2 per cent excluding currency impacts). A renewed focus on enhancing the quality of Corporate & Institutional Banking revenue saw customer related income increase by 10.7 per cent. Asset quality remains sound.

Wealth Management operating profit after tax increased by 28.1 per cent reflecting continued strong growth in the insurance business and a recovery in investment earnings.

Total funds under management and administration increased from \$65.6 billion to \$73.1 billion and the Group maintained its leading share of the master fund and wrap market in Australia.

BALANCED STAKEHOLDER APPROACH

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The National's new purpose statement "Growth through Excellent Relationships" represents a more focused approach to corporate social responsibility. This has resulted in the inclusion of the National in the Dow Jones Sustainability Index that tracks the sustainability performance of global companies.

The National also participates in the FTSE4Good Index, which measures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights.

As part of our commitment to greater transparency and accountability, this year the National will commence reporting on social and environmental impacts, in addition to traditional financial measures.

Using global key performance indicators for the finance sector, our 2003 concise annual report will give a snap shot of our commitment to building trusted relationships with our stakeholders, ranging from customers, employees, shareholders and the communities in which we operate.

For example, in Australia we have installed over 60 audio-enabled ATMs for the visually impaired and plan to enable 50 per cent of ATMs by the middle of next year.

We also upgraded 44 branches, opened 20 new integrated financial services centres and two new branches in metropolitan and regional areas in the last 12 months.

The National is a signatory to the United National Environment Program Financial Initiative (UNEP Fi) and is committed to working with other global financial institutions on environmental initiatives.

The National's Stakeholder Scorecard will be incorporated in the 2003 concise annual report, which will be issued in late November. A full copy of the Stakeholder Scorecard will subsequently be published on the Group's web site www.nabgroup.com.

OUTLOOK

The outlook for the Australian and New Zealand economies remains healthy and there are signs of improving global economic activity.

In Australia, our business surveys show continued strength in housing, transport and business and financial services sectors. Manufacturing, agribusiness and tourism are also improving. In New Zealand, domestic activity remains comparatively strong.

UK activity has gathered pace in 2003, Ireland is recovering modestly, and in the near term, very strong US economic growth looks set to continue.

The combination of strong domestic activity and better global economic news mean that interest rates are likely to rise in all of the major economies in which we operate.

The global recovery and increased commodity prices are also likely to mean a higher Australian dollar against both the US dollar and Sterling.

In this economic and business environment, our growth strategies will continue to generate solid shareholder returns.

We remain confident in the underlying resilience of our banking and wealth management businesses.

We expect all of our businesses, except Financial Services Europe, to produce solid cash earnings growth in the next 12 months.

We expect Financial Services Europe earnings to be flat in local currency terms before absorbing increased pension costs.

Given the impact of UK earnings on the Group result this financial year, we expect to temporarily increase the dividend payout ratio to maintain our track record of strong and sustainable franked dividend growth for shareholders.

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RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2003

FINANCIAL SUMMARY

REPORTING FORMAT

Reporting Structure

To assist with the interpretation of the Group's results, earnings have been reported under the following structure:

Ongoing operations

Retail Banking, which comprises:

Financial Services Australia (FSA)

Financial Services Europe (FSE)

Financial Services New Zealand (FSNZ);

Corporate & Institutional Banking (CIB);

Other (including Excess Capital, Group Funding & Corporate Centre); and

Wealth Management (WM).

Disposed operations

HomeSide reflecting the Board's decision to sell SR Investment, Inc., the parent company of HomeSide Lending, Inc. effective 1 October 2002 and the sale of HomeSide Lending, Inc.'s operating platform and operating assets as at 1 March 2002.

Cash Earnings

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Cash earnings is a key performance measure and financial target used by the Group. Dividends paid by the Group are based on after-tax cash earnings (adjusted for significant items). Cash earnings is a key performance measure used by the investment community, as well as by those Australian peers of the Group with a similar business portfolio.

A reconciliation of cash earnings to net profit appears on page 8. Cash earnings is also explained in detail in the Non-GAAP financial measures section. Refer page 82 for further details.

Wealth Management Registered Schemes

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During the September 2003 half, National Australia Financial Management (NAFiM), MLC and MLC Lifetime statutory funds reorganised their business operational model such that the funds increased the level of investments held through units in registered schemes, rather than directly held investments in debt and equity securities. The registered schemes are operated by several related entities within the Wealth Management (WM) Group of companies. NAFiM, MLC and MLC Lifetime invest in these units to support policy liabilities.

As the statutory funds are considered to have the capacity to control certain of these registered schemes, they have been consolidated by the Group as at 30 September 2003 (as required under Australian Accounting Standard AASB 1024 - Consolidated Accounts). The capacity to control means that registered schemes must be consolidated where the Group holds more than 75% of the units on issue in the scheme. Where the companies hold between 50% and 75%, the consolidation of these schemes is considered on a case by case basis.

This is the first time these registered schemes have been consolidated. Where investments had previously been directly held by the funds, there was no capacity to control the entities who had issued the securities.

This is a change in the form of investment holdings rather than a change in the underlying substance of the investments.

All divisional results are shown after outside equity interests on the Divisional Performance Summary. This change will have no impact on Group cash earnings or net profit attributable to members.

Controlled registered schemes have been brought onto the balance sheet of the Group through the consolidation (grossing up) of the investment assets of the trusts, with a corresponding increase in outside equity interest in total equity.

At 30 September 2003, this has had the impact of increasing Group total assets and total equity by \$2.5 billion. It has not impacted the parent entity interest in equity but only increased the outside equity interest in total equity.

From a Divisional Performance Summary perspective, this has resulted in grossing up the WM operating profit after tax (and before outside equity interest), with a corresponding increase in net profit attributable to outside equity interest.

In relation to the 30 September 2003 year, because the investment earnings of these trusts were actually a loss, this has had the impact of reducing WM operating profit after tax before outside equity interest, by \$28 million, all of which impacts the September 2003 half.

DIVISIONAL PERFORMANCE SUMMARY

| | Note | Half Year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|--|------|--------------|--------|------------------------------|---------|--------|------------------------------|
| | | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | | \$m | \$m | % | \$m | \$m | % |
| Cash earnings (1) | | | | | | | |
| Retail Banking | | | | | | | |
| Financial Services Australia | 1 | 967 | 904 | 7.0 | 1,871 | 1,757 | 6.5 |
| Financial Services Europe | 1 | 420 | 508 | (17.3) | 928 | 966 | (3.9) |
| Financial Services New Zealand | 1 | 152 | 159 | (4.4) | 311 | 257 | 21.0 |
| Retail Banking | | 1,539 | 1,571 | (2.0) | 3,110 | 2,980 | 4.4 |
| Corporate & Institutional Banking (2) | 1 | 434 | 412 | 5.3 | 846 | 818 | 3.4 |
| Other (incl. Excess Capital, Group Funding and Corporate Centre) (2) | 1 | (54) | (23) | large | (77) | (156) | 50.6 |
| Total Banking | | 1,919 | 1,960 | (2.1) | 3,879 | 3,642 | 6.5 |
| Wealth Management operating profit (2) (3) | 1 | 213 | 161 | 32.3 | 374 | 292 | 28.1 |
| Cash earnings from ongoing operations before significant items | | 2,132 | 2,121 | 0.5 | 4,253 | 3,934 | 8.1 |
| Cash earnings from disposed operations (4) | 1 | | | | | 98 | large |
| Distributions | | (89) | (94) | 5.3 | (183) | (187) | 2.1 |
| Cash earnings before significant items | | 2,043 | 2,027 | 0.8 | 4,070 | 3,845 | 5.9 |
| Weighted av no. of ordinary shares (million) | 16 | 1,508 | 1,524 | 1.0 | 1,516 | 1,549 | 2.1 |
| Cash earnings per share before significant items (cents) (5) | | 135.5 | 133.0 | 1.9 | 268.5 | 248.2 | 8.2 |
| Reconciliation to net profit | | | | | | | |
| Cash earnings before significant items | | 2,043 | 2,027 | 0.8 | 4,070 | 3,845 | 5.9 |
| Adjusted for: | | | | | | | |
| Net profit/(loss) attributable to outside equity interest | | (18) | 10 | large | (8) | 6 | large |
| Distributions | | 89 | 94 | 5.3 | 183 | 187 | 2.1 |
| Wealth Management revaluation profit/(loss) | 1 | 5 | (205) | large | (200) | (152) | (31.6) |
| Goodwill amortisation | | (49) | (49) | | (98) | (101) | 3.0 |
| Net profit before significant items | | 2,070 | 1,877 | 10.3 | 3,947 | 3,785 | 4.3 |
| Significant items | 13 | | | | | (406) | large |
| Net profit | | 2,070 | 1,877 | 10.3 | 3,947 | 3,379 | 16.8 |
| Net (profit)/loss attributable to outside equity interest | | 18 | (10) | large | 8 | (6) | large |
| | | 2,088 | 1,867 | 11.8 | 3,955 | 3,373 | 17.3 |

**Net profit attributable to members
of the Company**

| | | | | | | |
|---|-------|-------|------|--------------|-------|------|
| Distributions | (89) | (94) | 5.3 | (183) | (187) | 2.1 |
| Earnings attributable to ordinary shareholders | 1,999 | 1,773 | 12.7 | 3,772 | 3,186 | 18.4 |

(1) *Cash earnings is a performance measure used by the management of the Group. Refer to Non-GAAP financial measures on page 82 for a complete discussion of cash earnings.*

(2) *Cash earnings after outside equity interest. Corporate & Institutional Banking and Wealth Management cash earnings were disclosed before outside equity interest in the March 2003 and September 2002 Results Announcements.*

(3) *Refers to net profit generated through the Wealth Management operations. It excludes revaluation profit/(loss) after tax.*

(4) *Includes an \$89 million once-off taxation benefit from HomeSide in the September 2002 year.*

(5) *This is calculated on a cash earnings per ordinary share basis. Refer to note 16 for information on cash earnings per diluted share.*

GROUP PERFORMANCE SUMMARY

| | Note | Half Year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|---|------|--------------|---------|------------------------------|---------|---------|------------------------------|
| | | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | | \$m | \$m | % | \$m | \$m | % |
| Banking (1) | | | | | | | |
| Net interest income | 2 | 3,610 | 3,692 | (2.2) | 7,302 | 7,101 | 2.8 |
| Other operating income (1) (2) | 7 | 2,211 | 2,066 | 7.0 | 4,277 | 3,849 | 11.1 |
| Banking net operating income (1) | | 5,821 | 5,758 | 1.1 | 11,579 | 10,950 | 5.7 |
| Wealth Management | | | | | | | |
| Net interest income | 2 | 63 | 54 | 16.7 | 117 | 101 | 15.8 |
| Net life insurance income (3) | 6 | 363 | 81 | large | 444 | (10) | large |
| Other operating income (2) | 7 | 367 | 366 | 0.3 | 733 | 799 | (8.3) |
| Net operating income | | 6,614 | 6,259 | 5.7 | 12,873 | 11,840 | 8.7 |
| Banking operating expenses (1) | 8 | (2,856) | (2,692) | (6.1) | (5,548) | (5,200) | (6.7) |
| Wealth Management operating expenses (4) | 8 | (412) | (394) | (4.6) | (806) | (813) | 0.9 |
| Charge to provide for doubtful debts | 10 | (311) | (322) | 3.4 | (633) | (647) | 2.2 |
| Cash earnings before tax | | 3,035 | 2,851 | 6.5 | 5,886 | 5,180 | 13.6 |
| Banking income tax expense (1) | 12 | (731) | (781) | 6.4 | (1,512) | (1,460) | (3.6) |
| Wealth Management income tax benefit/ (expense) | 12 | (190) | 61 | large | (129) | 220 | large |
| Cash earnings from ongoing operations before significant item, distributions and outside equity interest | | 2,114 | 2,131 | (0.8) | 4,245 | 3,940 | 7.7 |
| Wealth Management revaluation profit/(loss) after tax | 1 | 5 | (205) | large | (200) | (152) | (31.6) |
| Goodwill amortisation | | (49) | (49) | | (98) | (101) | 3.0 |
| Net profit from ongoing operations | | 2,070 | 1,877 | 10.3 | 3,947 | 3,687 | 7.1 |
| Net profit from disposed operations | | | | | | 98 | large |
| Net profit before significant items | | 2,070 | 1,877 | 10.3 | 3,947 | 3,785 | 4.3 |
| Significant items after tax | 13 | | | | | (406) | large |
| Net profit | | 2,070 | 1,877 | 10.3 | 3,947 | 3,379 | 16.8 |
| Net (profit)/loss attributable to outside equity interest | | | | | | | |
| Wealth Management (5) | | 22 | (6) | large | 16 | (6) | large |
| Corporate & Institutional Banking | | (5) | (4) | (25.0) | (9) | | large |
| Other | | 1 | | large | 1 | | large |
| Net profit attributable to members of the Company | | 2,088 | 1,867 | 11.8 | 3,955 | 3,373 | 17.3 |
| Distributions | | (89) | (94) | 5.3 | (183) | (187) | 2.1 |
| Earnings attributable to ordinary shareholders | | 1,999 | 1,773 | 12.7 | 3,772 | 3,186 | 18.4 |

- (1) *Banking refers to Total Banking adjusted for eliminations. Refer to note 1 for further details.*
- (2) *Other operating income excludes net interest income, net life insurance income and revaluation profit/(loss).*
- (3) *Net life insurance income is the profit before tax excluding net interest income of the statutory funds of the life insurance companies of the Group.*
- (4) *Other operating expenses excludes life insurance expenses incorporated within net life insurance income.*
- (5) *The net (profit)/loss attributable to outside equity interest represents the Wealth Management registered schemes consolidated for the first time at 30 September 2003 (\$28 million loss) and Wealth Management Asia (\$12 million profit).*

REGIONAL PERFORMANCE SUMMARY

| | Half Year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|---|--------------|--------------|------------------------------|--------------|--------------|------------------------------|
| | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | \$m | \$m | % | \$m | \$m | % |
| Cash earnings | | | | | | |
| Australia | | | | | | |
| Retail Banking (1) | 959 | 895 | 7.2 | 1,854 | 1,760 | 5.3 |
| Corporate & Institutional Banking | 188 | 202 | (6.9) | 390 | 414 | (5.8) |
| Wealth Management | 190 | 137 | 38.7 | 327 | 236 | 38.6 |
| Other (incl. Excess Capital, Group Funding & Corporate Centre) (2) | | | | | | |
| (3) | (82) | (64) | (28.1) | (146) | (124) | (17.7) |
| Total Australia | 1,255 | 1,170 | 7.3 | 2,425 | 2,286 | 6.1 |
| Europe | | | | | | |
| Retail Banking (1) | 421 | 509 | (17.3) | 930 | 960 | (3.1) |
| Corporate & Institutional Banking | 136 | 86 | 58.1 | 222 | 189 | 17.5 |
| Wealth Management | 14 | 12 | 16.7 | 26 | 44 | (40.9) |
| Other (incl. Group Funding & Corporate Centre) (2) | (58) | (46) | (26.1) | (104) | (59) | (76.3) |
| Total Europe | 513 | 561 | (8.6) | 1,074 | 1,134 | (5.3) |
| New Zealand | | | | | | |
| Retail Banking (1) | 159 | 167 | (4.8) | 326 | 260 | 25.4 |
| Corporate & Institutional Banking | 68 | 74 | (8.1) | 142 | 159 | (10.7) |
| Wealth Management | (4) | 6 | large | 2 | 7 | (71.4) |
| Other (incl. Group Funding & Corporate Centre) (2) | (3) | (8) | 62.5 | (11) | (11) | |
| Total New Zealand | 220 | 239 | (7.9) | 459 | 415 | 10.6 |
| United States | | | | | | |
| Corporate & Institutional Banking | 22 | 26 | (15.4) | 48 | 1 | large |
| Other (incl. Group Funding & Corporate Centre) (4) | 76 | 89 | (14.6) | 165 | 33 | large |
| Total United States | 98 | 115 | (14.8) | 213 | 34 | large |
| Asia | | | | | | |
| Corporate & Institutional Banking | 20 | 24 | (16.7) | 44 | 55 | (20.0) |
| Wealth Management | 13 | 6 | large | 19 | 5 | large |
| Other (incl. Group Funding & Corporate Centre) | 13 | 6 | large | 19 | 5 | large |
| Total Asia | 46 | 36 | 27.8 | 82 | 65 | 26.2 |
| Cash earnings from ongoing operations before significant items | 2,132 | 2,121 | 0.5 | 4,253 | 3,934 | 8.1 |

- (1) *Regional Retail Banking results differ from Financial Services Australia, Europe and New Zealand primarily due to the inclusion of the global fleet management business units within Financial Services Australia.*
- (2) *Other has been restated in the 2002 year to reflect the reclassification of funding costs from Australia to Europe and New Zealand.*
- (3) *Earnings on excess capital is wholly attributed to Australia.*
- (4) *The increased contribution in the September 2003 year is due to the cessation of redeemable preference share dividend payments following the sale of SR Investment, Inc.*

Refer to the Group Performance Summary on page 9 for a reconciliation of cash earnings from ongoing operations before significant items to net profit.

SUMMARY OF FINANCIAL POSITION

| | Note | Sep 03 \$m | As at Mar 03 \$m | Sep 02 \$m | Mar 03 % | Change on Sep 02 % |
|--|------|----------------|------------------------|----------------|-------------|--------------------------|
| Assets | | | | | | |
| Cash assets | | 5,032 | 6,060 | 6,294 | (17.0) | (20.1) |
| Due from other financial institutions | | 10,383 | 13,760 | 15,876 | (24.5) | (34.6) |
| Due from customers on acceptances | | 19,562 | 20,677 | 19,474 | (5.4) | 0.5 |
| Trading securities | | 23,724 | 21,414 | 19,590 | 10.8 | 21.1 |
| Trading derivatives (1) | | 23,644 | 25,228 | 12,128 | (6.3) | 95.0 |
| Available for sale securities | | 6,513 | 5,005 | 6,192 | 30.1 | 5.2 |
| Investment securities | | 8,647 | 10,925 | 13,541 | (20.9) | (36.1) |
| Investments relating to life ins. business | | 35,846 | 30,278 | 31,012 | 18.4 | 15.6 |
| Loans and advances | | 247,959 | 242,612 | 231,300 | 2.2 | 7.2 |
| Mortgage servicing rights | | | | 1,794 | | large |
| Shares in entities and other securities | | 1,445 | 1,186 | 1,199 | 21.8 | 20.5 |
| Regulatory deposits | | 225 | 180 | 129 | 25.0 | 74.4 |
| Property, plant and equipment | | 2,498 | 2,493 | 2,640 | 0.2 | (5.4) |
| Income tax assets | | 1,203 | 1,213 | 1,292 | (0.8) | (6.9) |
| Goodwill | | 740 | 787 | 775 | (6.0) | (4.5) |
| Other assets | | 10,050 | 12,378 | 14,151 | (18.8) | (29.0) |
| Total assets | | 397,471 | 394,196 | 377,387 | 0.8 | 5.3 |
| Liabilities | | | | | | |
| Due to other financial institutions | | 45,128 | 49,722 | 43,279 | (9.2) | 4.3 |
| Liability on acceptances | | 19,562 | 20,677 | 19,474 | (5.4) | 0.5 |
| Life insurance policy liabilities | | 32,457 | 30,206 | 30,425 | 7.5 | 6.7 |
| Trading derivatives (1) | | 21,479 | 24,821 | 12,000 | (13.5) | 79.0 |
| Deposits and other borrowings | | 210,146 | 207,040 | 206,864 | 1.5 | 1.6 |
| Income tax liabilities | | 1,537 | 1,255 | 1,609 | 22.5 | (4.5) |
| Provisions | | 1,262 | 1,251 | 2,809 | 0.9 | (55.1) |
| Bonds, notes and subordinated debt | | 22,707 | 18,933 | 22,192 | 19.9 | 2.3 |
| Other debt issues | | 1,743 | 1,808 | 1,866 | (3.6) | (6.6) |
| Other liabilities | | 14,239 | 14,668 | 13,618 | (2.9) | 4.6 |
| Net assets | | 27,211 | 23,815 | 23,251 | 14.3 | 17.0 |
| Equity | | | | | | |
| Contributed equity | 15 | 9,728 | 9,052 | 9,931 | 7.5 | (2.0) |
| Reserves | 15 | 893 | 1,254 | 2,105 | (28.8) | (57.6) |
| Retained profits | 15 | 13,786 | 13,224 | 11,148 | 4.2 | 23.7 |
| Total parent entity interest | | 24,407 | 23,530 | 23,184 | 3.7 | 5.3 |

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| | | | | | |
|--|---------------|--------|--------|--------|-------|
| Outside equity interest in controlled entities | 15 | | | | |
| Wealth Management (2) | 2,614 | 70 | 67 | large | large |
| Corporate & Institutional Banking | 190 | 215 | | (11.6) | large |
| Total equity | 27,211 | 23,815 | 23,251 | 14.3 | 17.0 |

(1) *The change in the fair value of trading derivatives asset and liability balances from September 2002 to March 2003 primarily reflects a reclassification omission which equally understated both trading derivative asset and liability balances and is not material in the context of the Group's balance sheet. The net trading derivative position at September 2002 is unchanged.*

(2) *Increase primarily relates to consolidation of Wealth Management registered schemes. Refer page 6 for further details.*

Group Key Performance Measures

GROUP KEY PERFORMANCE MEASURES

| | Note | Half Year to | | Year to | |
|--|-----------|--------------|--------|--------------|--------|
| | | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| Shareholder measures | | | | | |
| EVA [®] (\$million) (1) | | 832 | 836 | 1,668 | 1,284 |
| Per ordinary share (cents) | | | | | |
| Cash earnings before significant items (2) | 16 | 135.5 | 133.0 | 268.5 | 248.2 |
| Cash earnings after significant items (2) | | 135.5 | 133.0 | 268.5 | 222.0 |
| Earnings before significant items | | 132.6 | 116.3 | 248.8 | 231.9 |
| Earnings after significant items | | 132.6 | 116.3 | 248.8 | 205.7 |
| Per diluted share (cents) (3) | | | | | |
| Cash earnings before significant items | 16 | 132.2 | 130.1 | 262.3 | 243.0 |
| Earnings after significant items | | 129.4 | 114.2 | 243.6 | 202.5 |
| Weighted average ordinary shares (no. million) | | 1,508 | 1,524 | 1,516 | 1,549 |
| Weighted average diluted shares (no. million) (3) | | 1,577 | 1,595 | 1,586 | 1,624 |
| Dividends per share (cents) | | 83 | 80 | 163 | 147 |
| Performance (after non-cash items) (4) | | | | | |
| Return on average equity (parent entity interest) before sig. item (5) | | 19.8% | 16.8% | 18.3% | 17.0% |
| Return on average equity (parent entity interest) after sig. item (5) | | 19.8% | 16.8% | 18.3% | 15.1% |
| Return on average assets before significant items | | 1.03% | 0.94% | 0.98% | 1.00% |
| Net interest income | | | | | |
| Net interest spread | 3 | 2.16% | 2.22% | 2.18% | 2.39% |
| Net interest margin | 3 | 2.50% | 2.56% | 2.53% | 2.67% |
| Profitability (before significant items) | | | | | |
| Banking cost to income ratio (6) | | 49.6% | 47.3% | 48.4% | 48.1% |
| Banking cost to income ratio excluding FSE pensions | | 48.7% | 46.6% | 47.6% | 47.9% |
| Cash earnings per average FTE (\$ 000) | | 95 | 95 | 95 | 85 |

| | Note | As at | | |
|------------------------------|-----------|----------------|---------|---------|
| | | Sep 03 | Mar 03 | Sep 02 |
| Capital | | | | |
| Tier 1 ratio | 15 | 7.82% | 7.47% | 7.76% |
| Tier 2 ratio | 15 | 3.30% | 3.02% | 3.76% |
| Deductions | 15 | (1.42)% | (1.33)% | (1.31)% |
| Total capital ratio | 15 | 9.70% | 9.16% | 10.21% |
| Adjusted common equity ratio | 15 | 4.95% | 5.09% | 5.37% |

| Balance sheet assets (\$ bn) | | | | |
|--|-----------|---------------|--------|--------|
| Gross loans and acceptances | | 272 | 267 | 255 |
| Risk-weighted assets | 15 | 252 | 254 | 248 |
| Off-balance sheet assets (\$ bn) | | | | |
| Funds under management and administration | | 73 | 65 | 66 |
| Assets under custody and administration | | 311 | 343 | 365 |
| Asset quality | | | | |
| Gross non-accrual loans to gross loans and acceptances | 11 | 0.51% | 0.59% | 0.62% |
| Net impaired assets to total equity (parent entity interest) | 11 | 3.9% | 4.5% | 4.7% |
| General provision to risk-weighted assets | 11 | 0.71% | 0.75% | 0.82% |
| Specific provision to gross impaired assets | 11 | 33.5% | 36.1% | 34.6% |
| General and specific provisions to gross impaired assets | 11 | 163.4% | 155.7% | 161.0% |
| Other information | | | | |
| Full-time equivalent employees (no.) | 9 | 42,540 | 43,002 | 43,202 |

(1) *Economic Value Added (EVA[®]) is a registered trademark of Stern Stewart & Co. Refer pages 27 and 83 for further details.*

(2) *Cash earnings attributable to ordinary shareholders excludes revaluation profits/(losses) after tax and goodwill amortisation.*

(3) *Refer to note 16 for the components.*

(4) *Includes non-cash items, ie. revaluation profits/(losses) after tax and goodwill amortisation.*

(5) *For the half year to 31 March 2003 previously shown as 17.1%, but adjusted to reflect the adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets effective 1 October 2002.*

(6) *Total Banking cost to income ratio is gross of eliminations note 1. Costs include total expenses adjusted for significant items goodwill amortisation, the charge to provide for doubtful debts and interest expense. Income includes total revenue adjusted for significant items and net of interest expense. Refer to Non-GAAP financial measures for a complete discussion of the cost to income ratio.*

RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2003

MANAGEMENT DISCUSSION & ANALYSIS

Management Discussion & Analysis Overview

OVERVIEW (1)

Cash earnings of \$4,070 million for the year is a record result and was 5.9% higher than the 2002 year. This is a strong result given that it includes the impact of an appreciating Australian dollar and the absorption of additional pension costs in Europe.

Cash earnings per share (EPS) increased 20.3 cents (8.2%) to 268.5 cents, reflecting both growth in the earnings of the underlying core business and active capital management initiatives.

Cash earnings from ongoing operations increased 8.1%. A key feature of the result was the strong underlying growth in both the Australian and New Zealand retail banking operations, while difficult conditions have been experienced in Europe. Strong housing growth and sound asset quality continued across the Group.

Cash earnings from ongoing operations increased 0.5% from the March 2003 half year. This result largely reflects the impact of a strengthening Australian dollar and additional costs in relation to European defined pension schemes. Prior to the impact of these items, cash earnings from ongoing operations increased 4.7% in the second half.

Cash earnings per share growth (in cents)

The September 2002 year included a \$98 million contribution (including an \$89 million once-off taxation benefit) from HomeSide. This impact has been partly mitigated by the reduction in the Group's funding cost as a result of the sale.

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The final dividend has increased by 8 cents to 83 cents per share compared with the prior corresponding period and will be 100% franked. This brings the full year dividend to 163.0 cents 100% franked, which represents an increase of 10.9% compared with the prior year dividend of 147 cents, which was 95% franked. The Group anticipates a 100% franking level for the 2004 financial year.

(1) The discussion on the following two pages relates to results before significant items. For a reconciliation to net profit refer page 8.

Management Discussion & Analysis Overview

Banking

Total Banking includes Retail Banking, Corporate & Institutional Banking and Other (including Excess Capital, Group Funding & Corporate Centre). It excludes Wealth Management.

| | Year to | | Fav/(unfav) change on | |
|---|---------------|---------------|--------------------------|---------------|
| | Sep 03 \$m | Sep 02 \$m | Sep 02 % | Ex FX(1) % |
| Net interest income | 7,302 | 7,101 | 2.8 | 4.5 |
| Other operating income | 4,394 | 3,981 | 10.4 | 11.7 |
| Total income | 11,696 | 11,082 | 5.5 | 7.1 |
| FSE pension fund expense | (93) | (28) | large | large |
| Other operating expenses | (5,572) | (5,304) | (5.1) | (6.5) |
| Underlying profit | 6,031 | 5,750 | 4.9 | 6.4 |
| Charge to provide for doubtful debts | (632) | (648) | 2.5 | (0.2) |
| Cash earnings before tax | 5,399 | 5,102 | 5.8 | 7.2 |
| Income tax expense | (1,512) | (1,460) | (3.6) | (4.2) |
| Cash earnings before significant items | 3,887 | 3,642 | 6.7 | 8.4 |
| Net profit attributable to outside equity interest | (8) | | large | large |
| Cash earnings before significant items after outside equity interest | 3,879 | 3,642 | 6.5 | 8.2 |

Banking operations generated \$3,879 million of total Group cash earnings, an increase of 6.5% on the prior year. The retail banking operations produced \$3,110 million, a growth rate of 4.4%, with the results underpinned by strong volume growth, cost containment and a sound asset quality profile across all regions. Corporate & Institutional Banking had a 3.4% increase in cash earnings built on growth in client-related income.

At an underlying profit level, Total Banking increased 4.9% and Retail Banking increased 5.1% from the 2002 year. Excluding movements in foreign exchange the increase in Total Banking was 6.4% and Retail Banking 5.9%.

| Underlying profit | Year to | | Fav/ (unfav) change on Sep 02 | |
|--------------------------------|---------------|---------------|----------------------------------|---------------|
| | Sep 03 \$m | Sep 02 \$m | % | Ex FX(1) % |
| Financial Services Australia | 2,967 | 2,637 | 12.5 | 12.5 |
| Financial Services Europe | 1,598 | 1,784 | (10.4) | (6.0) |
| Financial Services New Zealand | 487 | 388 | 25.5 | 16.7 |

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| | | | | |
|-----------------------------------|--------------|--------------|------------|------------|
| Retail Banking | 5,052 | 4,809 | 5.1 | 5.9 |
| Corporate & Institutional Banking | 1,143 | 1,179 | (3.1) | (0.3) |
| Other | (164) | (238) | 31.1 | 45.8 |
| Total Banking | 6,031 | 5,750 | 4.9 | 6.4 |

(1) *Change expressed at constant foreign exchange rates.*

Sound progress was made towards 2004 efficiency targets established under Positioning for Growth. However, Financial Services Europe has been negatively impacted by additional pension costs and the investment in core infrastructure.

| Cost to income ratio by banking division | 2004 | Sep 03 | Half year to | Sep 02 |
|---|--------|-------------|--------------|-------------|
| | Target | | Mar 03 | |
| | | % | % | % |
| Financial Services Australia | 46.0 | 45.8 | 45.6 | 47.4 |
| Financial Services Europe (excluding pension costs) | 48.0 | 50.5 | 47.7 | 48.7 |
| Financial Services New Zealand | 48.0 | 49.7 | 50.8 | 53.4 |
| Corporate & Institutional Banking | 36.0 | 39.7 | 39.8 | 40.6 |
| Total Banking (excluding FSE pension costs) | | 48.7 | 46.6 | 48.1 |

Management Discussion & Analysis Overview**Wealth Management**

Wealth Management operating profit of \$374 million grew 28.1% from the prior year. Funds under management and administration (FUMA) grew \$7.5 billion over the year reflecting improved investment returns in the second half. In addition, the improved equity market performance contributed to higher earnings on shareholders retained profits and capital.

The Group continues to invest for future growth, with \$28 million after tax of strategic investment expenditure included within the Wealth Management result.

| Wealth Management efficiency targets | 2004 | Year to | |
|---|--------|-------------|--------|
| | Target | Sep 03 | Sep 02 |
| | % | % | % |
| Cost to premium income ratio (%) | 21.0 | 20.0 | 22.0 |
| Cost to funds under management (basis points) (1) | 65 | 60 | 67 |

(1) Excludes the NAFiM Investor compensation and associated costs.

Restructuring Progress

During 2002 the Group recognised restructuring costs of \$580 million (\$412 million after tax) resulting from its Positioning for Growth (PfG) program and related restructuring activities. The initiative comprised a fundamental reorganisation of the structure of the Group as well as a series of revenue enhancement and cost containment initiatives. Restructuring expenses primarily related to redundancies of \$327 million, surplus leased space of \$68 million and other restructuring costs of \$185 million including technology write-downs of \$132 million.

The restructuring expenses were incurred to deliver a significant portion of the announced cost reduction target of \$370 million per annum by September 2004. Of these savings, 80% relate to personnel costs. Redundancy payments will have a payback period of approximately one year.

Based primarily on redundancies made to date, annual cost savings of \$315 million have been achieved against targeted annualised savings of \$370 million per annum by September 2004. The Group is on track to achieve the target.

Restructuring expenses

| | Redundancies \$m | Occupancy \$m | Other \$m | Total \$m |
|--|---------------------|------------------|--------------|--------------|
| Total 2002 expenditure/provision | 327 | 68 | 185 | 580 |
| Expenditure in 2002 year | (101) | (20) | (177) | (298) |
| Provision balance as at 30 September 2002 | 226 | 48 | 8 | 282 |
| Foreign exchange impact | (10) | (2) | | (12) |
| Expenditure in March 2003 half year | (64) | (2) | | (66) |
| Provision balance as at 31 March 2003 | 152 | 44 | 8 | 204 |
| Foreign exchange impact | (6) | (1) | (1) | (8) |
| Expenditure in September 2003 half year | (67) | (16) | (3) | (86) |
| Provision balance as at 30 September 2003 | 79 | 27 | 4 | 110 |
| Balance remaining of total restructuring | 24% | 40% | 2% | 19% |

In the year to September 2003 \$152 million of the provision for restructuring costs was utilised primarily in relation to 1,317 redundancies. Staff reductions have resulted from changes to head office, back office, IT, operations and front office areas and the re-engineering of the lending, distribution and transaction processing functions.

Management Discussion & Analysis Overview*Staffing levels ongoing operations*

| Increase/(Decrease) | Total FTEs | Year to Sep 03 FTEs | Year to Sep 02 FTEs |
|--|---------------|---------------------------|---------------------------|
| Opening balance | | 43,162 | 44,231 |
| Acquisitions (1) | | 357 | |
| Global projects (2) | | 169 | |
| Adjustment to 2002 to exclude joint ventures | | | (184) |
| Net PfG reductions (Target: 2,040) | (2,033) | (1,148) | (885) |
| Closing balance | | 42,540 | 43,162 |

(1) *Custom Service Leasing (New Zealand) Limited, formerly Hertz Fleetlease Limited (166), Commonwealth Custodial Services Limited (19), Plum Financial Services Limited (152) and an increased interest in Advance MLC Assurance Co. Limited (Thailand) (20).*

(2) *Staff increases relating to ISI, Basel II & IFRS global projects.*

The Group has achieved its PfG target of a net reduction in full time equivalent employees (FTEs) of 2,040. During the year to September 2003 FTE reductions of 1,148 were achieved (excluding the impact of acquisitions and global projects). This increases the net reduction over the two years since September 2001 to 2,033.

Management Discussion & Analysis Overview

Asset Quality

Asset quality remained strong. Influencing factors over the year were:

falling non-accrual loans (NALs);

ongoing changes in asset composition as evidenced by an increase in housing's share of the portfolio;

favourable movement in credit ratings across the business portfolio; and

improving collateral / security coverage across the business portfolio.

Gross non-accrual loans fell to \$1,379 million at September 2003 compared with \$1,590 million at September 2002. As a percentage of gross loans and acceptances, NALs fell significantly over the year from 0.62% to 0.51%. This falling trend is also evident for the non-housing portfolio.

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The Group is proactive in terms of credit risk management and aims to stay ahead of the credit cycle. Policies and processes at both the transactional and portfolio levels include:

single large exposure policy - ensures that the Group is not excessively exposed to any single borrower (or group of borrowers);

effective early identification and management of problem loans for exposures exhibiting signs of weakening credit quality; and

undertaking targeted credit reviews at both industry and account level. Specific reviews undertaken during the year include:

housing - including inner city apartments. Over 9,000 files were individually reviewed;

unsecured portfolio - including personal loans;

business lending - particularly large exposures over \$10 million in Australia; and

industry exposures (eg. automotive, utilities, airlines and tourism)

At the portfolio level, the alignment of risk and return objectives together with EVA[®] performance measures have resulted in an ongoing improvement in credit ratings and security levels. Further, portfolio based limits (industry and country) along with selective stress testing have contributed to those favourable trends.

Management Discussion & Analysis Overview

Asset Composition

Business Portfolio

There have been favourable movements in the credit rating for the Business lending portfolio over the past year.

In addition, the security coverage across the Group's business portfolio improved with fully secured lending comprising 62% of the portfolio, up from 55% at September 2002.

Level of Security Business Customers (1)

(1) *Business lending categories:*

Category A - Bank security > 142% of the facility

Category B - Bank security between 100% to 142% of the facility

Category C - Bank security between 50% to 100% of the facility

Category D - Bank security of < 50% of the facility

Management Discussion & Analysis Overview

Select Industry Exposures

| | | As at September 03 | | |
|--------------------|-----------|----------------------------------|------------------|-------------|
| | Exposures | % of total Group exposures | Investment Grade | Non-accrual |
| | \$bn | | \$bn | \$bn |
| Airlines | 3.06 | 0.74 | 1.83 | 0.03 |
| Energy | 11.36 | 2.75 | 9.09 | 0.18 |
| Technology | 0.90 | 0.22 | 0.69 | 0.01 |
| Telecommunications | 2.78 | 0.67 | 2.21 | 0.07 |

Retail Portfolio

Asset quality within the personal lending portfolio is satisfactory. Write-offs expressed as a percentage of outstandings fell during the year. Ninety-plus days delinquency also improved.

Provisioning Coverage

Against the above broad trends in asset quality, the level of provisions for the Group is considered appropriate. The specific provision coverage ratio fell slightly from 34.6% to 33.5% over the year.

The total coverage ratio of gross impaired assets improved from 161% to 164% in September 2003. Excluding housing, it improved from 171% to 173%.

Management Discussion & Analysis Overview

European Defined Benefit Pension Schemes

As advised earlier this year, the Group commissioned an unscheduled interim actuarial review of its European defined benefit schemes as at 30 June 2003 in response to worldwide equity market falls and reductions in interest rates to historically low levels.

Based on this partial interim review, the actuaries have confirmed that each fund exceeds the minimum funding requirements test set by legislation in the United Kingdom. In addition, the actuaries have advised that based on their best estimate assumptions in relation to investment earnings and discount rates, the funds have an aggregate surplus position of approximately £0.3 billion. This provides comfort that in the long-term the funds are expected to meet their obligations.

Under the relevant accounting standards certain actuarial assumptions are prescribed. The principal difference relates to the use of the yield on high quality corporate bonds as the discount factor for the future liabilities of the fund (notwithstanding that a majority of the funds are invested in equities). Using these conservative assumptions shows an accounting deficit position of approximately £0.5 billion for the funds at 30 June 2003.

From a profit and loss perspective, actuarial gains and losses are taken into account over the average remaining employment period of fund members, generally between 10 and 15 years. A full year pension charge (pre-tax) of £42 million was incurred in 2003 (prior year £16 million), of which £36 million relates to Financial Services Europe and the balance to other businesses. This includes an increase in pension expense in the final quarter of the 2003 financial year reflecting the 30 June review.

As part of the review of pension arrangements these defined benefit pension funds have been closed to new members and new defined contribution schemes have been opened.

Software Capitalisation

The Group has capitalised the development and purchase of software in accordance with US pronouncements. Total capitalised software as at 30 September 2003 was \$955 million (\$920 million at 31 March 2003; \$884 million at 30 September 2002).

The level of software capitalisation at 30 September 2003 equates to 0.2% of total assets or 2.7% of total equity.

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Software is amortised over a period of 3-10 years commencing from date of implementation. The only assets amortised over a period of 10 years are the Integrated Systems Implementation (ISI) program and the Global Data Warehouse. The amortisation period aligns to the expected useful life. The software amortisation charge for the year to 30 September 2003 was \$152 million (30 September 2002: \$106 million).

The Group has recognised an asset on the balance sheet for costs capitalised in relation to the ISI program. The carrying value of this asset at 30 September 2003 is \$315 million (30 September 2002: \$294 million), of which \$301 million relates to capitalised software.

Management Discussion & Analysis Profitability

PROFITABILITY (1)

Net Operating Income

| | Year to | | Fav/ (unfav) change on Sep 02 | |
|---|---------------|---------------|----------------------------------|-------------|
| | Sep 03 \$m | Sep 02 \$m | % | Ex FX % |
| Financial Services Australia | 5,469 | 5,087 | 7.5 | 7.5 |
| Financial Services Europe | 3,318 | 3,461 | (4.1) | 0.6 |
| Financial Services New Zealand | 980 | 832 | 17.8 | 9.6 |
| Retail Banking | 9,767 | 9,380 | 4.1 | 5.1 |
| Corporate & Institutional Banking | 1,897 | 1,938 | (2.1) | 1.0 |
| Other | 32 | (236) | large | large |
| Total Banking | 11,696 | 11,082 | 5.5 | 7.1 |
| Wealth Management | 1,294 | 890 | 45.4 | 46.9 |
| Eliminations | (117) | (132) | 11.4 | 11.4 |
| Total Group (ongoing operations) | 12,873 | 11,840 | 8.7 | 10.3 |

Group net operating income increased 8.7% from the prior year, with a 5.7% increase in the September 2003 half compared to the March 2003 half. Banking other operating income (primarily fee income) growth of 10.4% (6.9% in the second half) was strong, benefiting from housing lending growth and the pick up in investment markets.

Fee income growth offset subdued growth in Banking net interest income. The latter rose 2.8% from the prior year reflecting loan growth, a 34% fall in Corporate & Institutional Banking's Markets division net interest income and 1.7 % points adverse currency effect from offshore operations.

Net interest income grew strongly within the Australian and New Zealand retail banking operations, with net interest income growth of 6.4% (5.8% in the second half) in Australia and 10.4% (0.8% in the second half) in New Zealand in local currency terms.

Net Interest Income

| Year to | Fav/ (unfav) change on Sep 02 |
|---------|----------------------------------|
|---------|----------------------------------|

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| | Sep 03 | Sep 02 | | Ex FX |
|---|--------------|--------------|------------|------------|
| | \$m | \$m | % | % |
| Financial Services Australia | 3,519 | 3,307 | 6.4 | 6.4 |
| Financial Services Europe | 2,368 | 2,433 | (2.7) | 2.0 |
| Financial Services New Zealand | 651 | 549 | 18.6 | 10.4 |
| Retail Banking | 6,538 | 6,289 | 4.0 | 5.0 |
| Corporate & Institutional Banking | 807 | 1,051 | (23.2) | (20.3) |
| Other | (43) | (239) | 82.0 | 91.6 |
| Total Banking | 7,302 | 7,101 | 2.8 | 4.5 |
| Wealth Management | 117 | 101 | 15.8 | 15.8 |
| Total Group (ongoing operations) | 7,419 | 7,202 | 3.0 | 4.7 |

(1) *References in this section to the Group only refer to the ongoing operations of the Group.*

Management Discussion & Analysis Profitability*Volumes by Division*

| Average interest-earning assets (1) | Year to | | Fav/(unfav) change on Sep 02 | |
|--|-----------------|-----------------|---------------------------------|-------------|
| | Sep 03 \$ bn | Sep 02 \$ bn | % | Ex FX % |
| Financial Services Australia | 110.9 | 95.6 | 16.0 | 16.0 |
| Financial Services Europe | 51.4 | 51.7 | (0.6) | 4.0 |
| Financial Services New Zealand | 20.7 | 17.5 | 18.3 | 9.8 |
| Retail Banking | 183.0 | 164.8 | 11.0 | 11.6 |
| Corporate & Institutional Banking | 104.6 | 98.7 | 6.0 | 9.8 |
| Other | 5.7 | 7.0 | (18.6) | (5.7) |
| Group average interest-earning assets | 293.3 | 270.5 | 8.4 | 10.5 |

(1) *Interest-earning assets exclude intercompany balances.*

Net interest margin

Sep 02 year

Sep 03 year

Group net interest margin declined 14 basis points during the year from 2.67% to 2.53%, with 11 basis points of the reduction occurring in the first half.

Margin decline in:

Retail Banking is primarily due to the mix effect of strong growth in mortgages; and

Corporate & Institutional Banking is primarily due to the impact of lower trading income and an increase in a structured lending product called reverse repo loans. These are low risk short-term loans to high quality counterparties fully secured against government, semi-government or prime corporate security. These loans attract the risk weighting of the security and are priced to reflect their low risk nature. Margin on core lending remained stable over the period.

At the Group level, the funding benefit from the proceeds of the sale of HomeSide and the lower cost of debt added 5 basis points.

Within Retail Banking the 8 basis point decline in contribution to the Group margin is due to a decline in margin for Australia and Europe, partly offset by an increase in New Zealand.

The decline in Financial Services Australia's margin of 31 basis points is due to the:

Change in asset portfolio with strong growth in home loans and subdued business lending;

Better asset quality in the business loan book; and

Reduced contribution from free funds, due to lower longer term interest rates.

Management Discussion & Analysis Profitability

The impact of high growth in housing lending relative to higher margin non-housing lending is illustrated in the chart below.

**Financial Services Australia - Net interest margin impacted by
changing portfolio**

Financial Services New Zealand's margin improved 10 basis points resulting from an increased contribution from retail deposits. Financial Services Europe's margin decreased slightly on the prior year.

Net Life Insurance Income

The Group reports its results in accordance with Australian Accounting Standard AASB 1038 - Life Insurance Business (AASB 1038). AASB 1038 requires that the interests of policyholders in the statutory funds of the life insurance business be reported in the consolidated results.

Net life insurance income is the profit before tax excluding net interest income of the statutory funds of the life insurance companies of the Group. As the tax expense/benefit is attributable primarily to the policyholders, the movement in net life insurance income should be viewed on an after tax basis. The statutory funds of the life insurance companies conduct superannuation, investment and insurance-related businesses (ie.

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Protection business including Term & Accident, Critical Illness and Disability insurance and Traditional Whole of Life and Endowment).

| | Half year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|--|--------------|--------|------------------------------|--------------|--------|------------------------------|
| | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | \$m | \$m | % | \$m | \$m | % |
| Net life insurance income/(loss) | 363 | 81 | large | 444 | (10) | large |
| Income tax (expense)/ benefit | (196) | 70 | large | (126) | 248 | large |
| Net life insurance income after tax | 167 | 151 | 10.6 | 318 | 238 | 33.6 |

Net life insurance income after tax has improved 33.6% on the September 2002 year. This is primarily due to increased investment revenue, partially offset by an increase in change in policy liabilities reflecting the performance of global equity markets as compared to the September 2002 year.

For detailed discussion on the results of Wealth Management, including the results of the life businesses (above), as well as the results from non-life businesses, refer pages 40 - 44.

Management Discussion & Analysis Profitability

Other Operating Income

| | Year to | | Fav/ (unfav) change on Sep 02 | |
|---|--------------|--------------|----------------------------------|-------------|
| | Sep 03 | Sep 02 | | Ex FX |
| | \$m | \$m | % | % |
| Financial Services Australia | 1,950 | 1,780 | 9.6 | 9.6 |
| Financial Services Europe | 950 | 1,028 | (7.6) | (2.7) |
| Financial Services New Zealand | 329 | 283 | 16.3 | 8.1 |
| Retail Banking | 3,229 | 3,091 | 4.5 | 5.2 |
| Corporate & Institutional Banking | 1,090 | 887 | 22.9 | 26.3 |
| Other | 75 | 3 | large | large |
| Total Banking | 4,394 | 3,981 | 10.4 | 11.7 |
| Wealth Management | 733 | 799 | (8.3) | (6.6) |
| Eliminations | (117) | (132) | 11.4 | 11.4 |
| Total Group (ongoing operations) | 5,010 | 4,648 | 7.8 | 9.2 |

Total Banking other operating income increased by 10.4% from the prior year to \$4,394 million.

Retail Banking contributed solidly to the result, with other operating income increasing 4.5% driven by growth in housing loans and higher transaction volumes in Australia and New Zealand, offset by lower income in Europe due to reductions in creditor insurance income as a result of limited growth in personal loans, lower account fee income and an appreciation of the Australian dollar.

Growth of 22.9% within Corporate & Institutional Banking was largely from improved customer-related activity, including strong deal flows in structured transactions.

Other includes a one-off benefit on the restructure of the hedging swaps on the TrUEPrSSM preference shares.

Wealth Management other operating income decreased by 8.3% from the prior year, resulting from uncertain investor sentiment, with weaker equity markets reducing fee income in the investments business.

TrUEPrSSM is a service mark of Merrill Lynch & Co., Inc.

Operating Expenses

| | Year to | | Fav/ (unfav) change on Sep 02 | |
|--|--------------|--------------|----------------------------------|--------------|
| | Sep 03 | Sep 02 | | Ex FX |
| | \$m | \$m | % | % |
| Financial Services Australia | 2,502 | 2,450 | (2.1) | (2.1) |
| Financial Services Europe (excluding FSE pension fund) | 1,627 | 1,649 | 1.3 | (3.5) |
| Financial Services New Zealand | 493 | 444 | (11.0) | (3.4) |
| Retail Banking | 4,622 | 4,543 | (1.7) | (2.7) |
| Corporate & Institutional Banking | 754 | 759 | 0.7 | (3.0) |
| Other | 196 | 2 | large | large |
| Total Banking (excluding FSE pension fund) | 5,572 | 5,304 | (5.1) | (6.5) |
| FSE pension fund expense | 93 | 28 | large | large |
| Total Banking | 5,665 | 5,332 | (6.2) | (7.8) |
| Wealth Management | 806 | 813 | 0.9 | (0.3) |
| Eliminations | (117) | (132) | (11.4) | (11.4) |
| Total Group (ongoing operations) | 6,354 | 6,013 | (5.7) | (7.2) |

Total Banking expenses (excluding the FSE pension fund expense) increased 5.1% from the prior year to \$5,572 million.

Retail Banking expenses (excluding the FSE pension fund expense) rose 1.7%, due to:

Personnel expenses due to salary increases, offset by a 1,177 reduction in staff (net of acquisitions);

Higher occupancy costs partly due to the sale and lease back of properties in Australia and New Zealand; and

Higher costs associated with continued significant investment, eg. Customer Relationship Management system capability in Australia.

Management Discussion & Analysis Profitability

Corporate & Institutional Banking expenses are in line with the prior year.

Other (including Corporate Centre) includes expenses associated with four key areas:

an ongoing major review of regulatory compliance and associated quality improvements;

operating costs (including amortisation) of the Integrated Systems Implementation (ISI) program, which is the Group's strategic infrastructure program;

impact of Basel II and IFRS on the ISI program; and

expenses associated with corporate structure, funding and acquisition-related strategic initiatives.

Wealth Management operating expenses decreased 0.9% from the prior year to \$806 million, after absorbing increased investment costs.

Major global regulatory and compliance projects

The Group's strategy around integrated financial services, customer service and distribution leads to a strong focus on compliance and quality.

Regulatory issues include:

Basel II Capital Accord;

Financial Services Reform Act;

International Financial Reporting Standards;

Sarbanes-Oxley Act;

Code of Banking Practice; and

Mortgage selling regulations in the United Kingdom.

Income Tax **Expense**

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Total Banking's effective tax rate has decreased from 28.6% in prior year to 28.0%. This is impacted by structured finance transactions, to which a wide range of tax rates are applied.

The September 2002 year included an \$89 million tax benefit in relation to HomeSide.

A reconciliation of the total Group income tax expense is incorporated in note 12.

Management Discussion & Analysis Capital & Performance Measures

CAPITAL & PERFORMANCE MEASURES

Performance Measures

Economic Value Added (EVA[®])

| | Half year to | | Fav/ (unfav) change on Mar 03 | Year to | | Fav/ (unfav) change on Sep 02 |
|---|--------------|---------|--|----------------|---------|--|
| | \$'03 | \$'03 | % | \$'03 | \$'02 | % |
| EVA [®] net operating profit after tax | 2,264 | 2,260 | 0.2 | 4,524 | 4,157 | 8.8 |
| Capital charge | (1,432) | (1,424) | (0.6) | (2,856) | (2,873) | (0.6) |
| EVA [®] | 832 | 836 | (0.5) | 1,668 | 1,284 | 29.9 |
| EVA [®] growth over prior year | | | | 384 | 155 | |

EVA[®] is a measure designed to recognise the shareholder requirement to generate a satisfactory return on the economic capital invested in the business. If the business produces profit in excess of its cost of capital then value is being created for shareholders. To align management's interests with those of shareholders, senior management is required to place a significant percentage of their total remuneration at risk, dependent upon performance against EVA[®] annual growth targets.

In order to encourage longer term management decision making and sustained value creation, the Group sets EVA[®] growth targets for 3 year periods. The Group's EVA[®] target of 5% compound growth per annum was set in 2000, for the 3 years ending September 2003.

EVA[®]'s Net Operating Profit After Tax (NOPAT) is based on pre-tax profit, and includes the calculated benefit of imputation credits earned by paying Australian tax. EVA[®]'s capital charge is based on an 11.5% cost of capital, applied to a calculation of economic capital that is based on shareholders equity.

EVA[®]'s NOPAT grew by 8.8% and the capital charge was flat compared to the 2002 year. The growth in EVA[®] over the year was \$384 million or 30%.

The first 3 year EVA[®] cycle concluded in September 2003. Following a review by Stern Stewart it is proposed to simplify the EVA[®] framework effective 1 October 2003, with adjustments to both NOPAT and capital calculations.

Applying the revised EVA[®] methodology, the relevant comparatives that will be used for future reporting are as follows:

| | Half year to | | Fav/ (unfav) change on Mar 03 | Year to | | Fav/ (unfav) change on Sep 02 |
|---|--------------|-------|--|--------------|-------|--|
| | \$'03 | \$'03 | % | \$'03 | \$'02 | % |
| EVA [®] net operating profit after tax | 2,407 | 2,389 | 0.7 | 4,796 | 4,401 | 9.0 |

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| | | | | | | |
|---|---------|---------|-------|----------------|---------|-------|
| Capital charge | (1,315) | (1,298) | (1.3) | (2,613) | (2,607) | (0.3) |
| EVA [®] | 1,092 | 1,091 | 0.1 | 2,183 | 1,794 | 21.7 |
| EVA [®] growth over prior year | | | | 389 | 178 | |

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

Management Discussion & Analysis Capital & Performance Measures

Capital Position

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The Group's capital ratios are strong. Regulatory capital ratios are set out below.

| | Target ratio | Sep 03 | As at | Sep 02 |
|---------------------------------------|-------------------------|---------------|--------------|---------------|
| | % | % | | % |
| Core Tier 1 (excluding hybrid equity) | 6.0 - 6.5 | 6.38 | | 6.68 |
| Tier 1 | 7.0 - 7.5 | 7.82 | | 7.76 |
| Total Capital | 9.0 - 9.5 | 9.70 | | 10.21 |

In addition to regulatory capital ratios, the National uses the ratio of adjusted common equity to risk-weighted assets (the ACE ratio) as a key capital target. It measures the capital available to support the banking operations, after deducting the Group's investment in wealth management operations. The Group's target range for the ACE ratio is 4.75% to 5.25%. As at 30 September 2003 the ACE ratio was 4.95%, a reduction from 5.37% as at September 2002. Refer to note 15 regarding the components of the ACE ratio.

Capital has been managed within a framework of:

- maintaining a AA rating with external rating agencies;
- actively managing capital through share buy-backs; and
- opportune issuing of subordinated debt and hybrid securities.

Trust Preferred Securities

On September 29, 2003, the Group raised GBP400 million (A\$975 million net of issue costs) through the issue of 400,000 Trust Preferred Securities at GBP1,000 each. Each Trust Preferred Security pays a semi-annual non-cumulative distribution, in arrears equal to 5.62% per annum until 17 December 2018. Each five year period after that date, a non-cumulative distribution will be payable semi-annually in arrears at a rate equal to the five-year benchmark gilt rate at the start of that period plus 1.93%.

Share Buy-back Program

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Since November 2001, the National has adopted an ongoing policy of buying back all new shares issued under the National's dividend package plans and staff share and option plans. Additionally for the period up to 30 September 2003, the National announced an intention to purchase a further number of shares to the value of \$1.75 billion. All buy-backs are subject to appropriate pricing, volume and other parameters, and an assessment of the circumstances facing the Group at the relevant time.

During the year, the National bought back 48.9 million shares at an average price of \$31.98, thereby reducing ordinary equity by \$1,565 million. The highest price paid was \$34.35 and the lowest price paid was \$28.40.

| Share buy-back activity | Half year to | | Year to | |
|--|--------------|----------|----------|----------|
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| Number of days traded | 65 days | 70 days | 135 days | 88 days |
| Number of shares bought (in millions) | 16.5 | 32.4 | 48.9 | 36.2 |
| Average price of buy-back | \$ 32.75 | \$ 31.59 | \$ 31.98 | \$ 34.52 |
| Percentage of market turnover on days traded | 5.5% | 9.9% | 7.8% | 8.9% |
| Percentage of market turnover on all days | 3.2% | 5.6% | 4.5% | 3.9% |
| Volume weighted average share price on days traded | | | | |
| all shares traded | \$ 32.34 | \$ 31.27 | \$ 31.78 | \$ 34.61 |
| shares traded excluding buy-back | \$ 32.31 | \$ 31.24 | \$ 31.77 | \$ 34.62 |

A comparison of the National's buy-back activities relative to the total market in the National's shares, highlights that the National continues to execute the buy-back program in modest volumes, avoiding any market disruptions.

In October 2003 the Group announced its intention to repurchase approximately 25.5 million shares over the year to 30 September 2004. This includes 6.5 million shares carried over from the previous buy-back and an estimate of 19 million shares to be issued under the Group's dividend package plans and staff and option plans.

Management Discussion & Analysis Banking

TOTAL BANKING

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Total Banking includes Retail Banking, Corporate & Institutional Banking and Other (including Excess Capital, Group Funding & Corporate Centre). It excludes Wealth Management.

Performance Summary

| | Year to | | Fav/ (unfav) change on Sep 02 | |
|---|---------------|---------------|----------------------------------|------------|
| | Sep 03 | Sep 02 | Ex FX (1) | |
| | \$m | \$m | % | % |
| Net interest income | 7,302 | 7,101 | 2.8 | 4.5 |
| Other operating income (2) | 4,394 | 3,981 | 10.4 | 11.7 |
| Total income | 11,696 | 11,082 | 5.5 | 7.1 |
| FSE pension fund expense | (93) | (28) | large | large |
| Other operating expenses (2) | (5,572) | (5,304) | (5.1) | (6.5) |
| Underlying profit | 6,031 | 5,750 | 4.9 | 6.4 |
| Charge to provide for doubtful debts | (632) | (648) | 2.5 | (0.2) |
| Cash earnings before tax | 5,399 | 5,102 | 5.8 | 7.2 |
| Income tax expense | (1,512) | (1,460) | (3.6) | (4.2) |
| Cash earnings before significant items | 3,887 | 3,642 | 6.7 | 8.4 |
| Net profit attributable to outside equity interest | (8) | | large | large |
| Cash earnings before significant items after outside equity interest | 3,879 | 3,642 | 6.5 | 8.2 |

| | Half year to | | Fav/ (unfav) change on Mar 03 | |
|---|--------------|--------------|----------------------------------|------------|
| | Sep 03 | Mar 03 | Ex FX (1) | |
| | \$m | \$m | % | % |
| Net interest income | 3,610 | 3,692 | (2.2) | 1.9 |
| Other operating income (2) | 2,270 | 2,124 | 6.9 | 10.6 |
| Total income | 5,880 | 5,816 | 1.1 | 5.1 |
| FSE pension fund expense | (53) | (40) | (32.5) | (45.0) |
| Other operating expenses (2) | (2,862) | (2,710) | (5.6) | (10.0) |
| Underlying profit | 2,965 | 3,066 | (3.3) | 0.3 |
| Charge to provide for doubtful debts | (311) | (321) | 3.1 | (2.2) |
| Cash earnings before tax | 2,654 | 2,745 | (3.3) | |
| Income tax expense | (731) | (781) | 6.4 | 3.7 |
| Cash earnings before significant items | 1,923 | 1,964 | (2.1) | 1.5 |
| Net profit attributable to outside equity interest | (4) | (4) | | |
| Cash earnings before significant items after outside equity interest | 1,919 | 1,960 | (2.1) | 1.5 |

| | Half year to | | Year to | |
|--|--------------|--------|--------------|--------|
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| | \$m | \$m | \$m | \$m |
| Performance & profitability | | | | |
| Cost to income ratio | 49.6% | 47.3% | 48.4% | 48.1% |
| Cost to income ratio (excl. FSE pension expense) | 48.7% | 46.6% | 47.6% | 47.9% |

(1) *Change expressed at constant foreign exchange rates.*

(2) *Total Banking is gross of inter-divisional eliminations.*

Management Discussion & Analysis Retail Banking

RETAIL BANKING

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The regional Retail Financial Services Divisions include the business, agribusiness and consumer financial services retailers, as well as cards, payments and leasing units together with supporting Customer Service and Operations. These operate in Australia, Europe and New Zealand. They exclude Wealth Management, Corporate & Institutional Banking and Other (including Excess Capital, Group Funding & Corporate Centre). The regional financial services businesses aim to develop long-term relationships with their customers by providing products and services that consistently meet the full financial needs of customers.

Performance Summary

| | Year to | | Fav/(unfav) change on Sep 02 | |
|---|--------------|--------------|---------------------------------|------------|
| | Sep 03 | Sep 02 | % | Ex FX (1) |
| | \$m | \$m | | % |
| Net interest income | 6,538 | 6,289 | 4.0 | 5.0 |
| Other operating income (2) | 3,229 | 3,091 | 4.5 | 5.2 |
| Total income | 9,767 | 9,380 | 4.1 | 5.1 |
| FSE pension fund expense | (93) | (28) | large | large |
| Other operating expenses (2) | (4,622) | (4,543) | (1.7) | (2.7) |
| Underlying profit | 5,052 | 4,809 | 5.1 | 5.9 |
| Charge to provide for doubtful debts | (573) | (519) | (10.4) | (12.9) |
| Cash earnings before tax | 4,479 | 4,290 | 4.4 | 5.1 |
| Income tax expense | (1,369) | (1,310) | (4.5) | (5.3) |
| Cash earnings before significant items | 3,110 | 2,980 | 4.4 | 5.0 |

| | Half year to | | Fav/(unfav) change on Mar 03 | |
|---|--------------|--------------|---------------------------------|------------|
| | Sep 03 | Mar 03 | % | Ex FX (1) |
| | \$m | \$m | | % |
| Net interest income | 3,261 | 3,277 | (0.5) | 3.4 |
| Other operating income (2) | 1,609 | 1,620 | (0.7) | 2.7 |
| Total income | 4,870 | 4,897 | (0.6) | 3.1 |
| FSE pension fund expense | (53) | (40) | (32.5) | (45.0) |
| Other operating expenses (2) | (2,323) | (2,299) | (1.0) | (4.8) |
| Underlying profit | 2,494 | 2,558 | (2.5) | 0.9 |
| Charge to provide for doubtful debts | (275) | (298) | 7.7 | 3.7 |
| Cash earnings before tax | 2,219 | 2,260 | (1.8) | 1.6 |
| Income tax expense | (680) | (689) | 1.3 | (1.9) |
| Cash earnings before significant items | 1,539 | 1,571 | (2.0) | 1.4 |

(1) Change expressed at constant foreign exchange rates.

(2) Retail Banking is the sum of total Financial Services Australia, Financial Services Europe and Financial Services New Zealand, gross of inter-divisional eliminations.

Management Discussion & Analysis Financial Services Australia

FINANCIAL SERVICES AUSTRALIA

Performance Summary

| | Half year to | | Fav/ (unfav) change on Mar 03 | Year to | | Fav/ (unfav) change on Sep 02 |
|---|--------------|--------------|--|----------------|--------------|--|
| | Sep 03 | Mar 03 | % | Sep 03 | Sep 02 | % |
| Net interest income | 1,809 | 1,710 | 5.8 | 3,519 | 3,307 | 6.4 |
| Other operating income | 1,000 | 950 | 5.3 | 1,950 | 1,780 | 9.6 |
| Total income | 2,809 | 2,660 | 5.6 | 5,469 | 5,087 | 7.5 |
| Other operating expenses | (1,288) | (1,214) | (6.1) | (2,502) | (2,450) | (2.1) |
| Underlying profit | 1,521 | 1,446 | 5.2 | 2,967 | 2,637 | 12.5 |
| Charge to provide for doubtful debts | (142) | (156) | 9.0 | (298) | (146) | large |
| Cash earnings before tax | 1,379 | 1,290 | 6.9 | 2,669 | 2,491 | 7.1 |
| Income tax expense | (412) | (386) | (6.7) | (798) | (734) | (8.7) |
| Cash earnings before significant items (1) | 967 | 904 | 7.0 | 1,871 | 1,757 | 6.5 |

(1) Refer to Note 1 for a reconciliation of Financial Services Australia's result to Group net profit.

Key Performance Measures

Performance & profitability

| | | | | | | |
|--|-------|-------|------|--------------|-------|-------|
| Return on average assets (annualised) | 1.39% | 1.39% | | 1.39% | 1.51% | |
| Cost to income ratio | 45.8% | 45.6% | | 45.7% | 48.2% | |
| Cash earnings per average FTE (annualised) (\$ '000) | 108 | 100 | | 104 | 96 | |
| Net interest income | | | | | | |
| Net interest margin | 3.11% | 3.18% | | 3.14% | 3.45% | |
| Net interest spread | 2.64% | 2.73% | | 2.68% | 2.95% | |
| Average balance sheet (\$bn) | | | | | | |
| Gross loans and acceptances | 137.1 | 127.7 | 7.4% | 132.4 | 114.8 | 15.3% |
| Interest-earning assets | 115.3 | 107.1 | 7.7% | 111.2 | 94.8 | 17.3% |
| Retail deposits | 61.5 | 59.7 | 3.0% | 60.6 | 54.7 | 10.8% |

| | Sep 03 | As at Mar 03 | Sep 02 |
|--|---------------|-----------------|--------|
| Asset quality | | | |
| Gross non-accrual loans (\$m) | 494 | 685 | 634 |
| Gross loans and acceptances (\$bn) | 140.5 | 131.3 | 122.9 |
| Gross non-accrual loans to gross loans and acceptances | 0.35% | 0.52% | 0.52% |
| Specific provision to gross impaired assets | 27.6% | 31.3% | 25.5% |
| Full-time equivalent employees (FTE)(2) | 17,233 | 18,149 | 17,928 |

(2) *Comparative information in relation to FTEs has been restated to reflect the transfer of technology FTEs in relation to Group-wide projects from Financial Services Australia to Corporate Centre.*

Management Discussion & Analysis Financial Services Australia

Financial performance

Cash earnings increased 6.5% over the prior year, reflecting strong underlying profit growth and a higher charge for doubtful debts largely related to a single exposure.

Underlying profit increased 12.5%, with the September 2003 half increasing 5.2% compared with the March 2003 half. The cost to income ratio for the year was 45.7% compared to the previous year of 48.2% and is favourable to the target for 2004 of 46.0%.

Net interest income reflected strong growth in lending and deposits.

Net interest margin reduced by 7 basis points in the September 2003 half to 3.11%, after a fall of 20 basis points in the first half. This fall is attributable to the continued low interest rate environment impacting return from capital and interest rate insensitive deposits, the higher weighting of housing in the portfolio, and a continued focus on asset quality.

Other operating income increased as a result of the growth in housing lending, strong growth in bill acceptances (up 11.7% since September 2002) and higher transaction revenue.

Operating expenses were contained, growing 2.1% over the year. Increase in second half costs represents expenses associated with investment in the Technology platform (network infrastructure costs associated with the roll out of technology and firewall/security costs) and the timing of performance-related bonus and annual leave provisions. The trend of higher costs in the second half is consistent with prior years.

Asset quality has been impacted by one large well-publicised account for which a receiver/manager was appointed in early April 2003. A charge of \$104 million has been recognised in the results during the year in relation to this account (\$46 million booked in the March 2003 half). The focus on credit quality and capital efficiency continues resulting in gross non-accrual loans as a percentage of gross loans and acceptances of 0.35%, an improvement of 17 basis points on March 2003.

Key achievements

Strong growth in lending and deposits. Housing lending grew 20.3%. Business lending grew 8.9%. Deposits grew 10.6%.

Leveraged customer relationship management capability to generate over one million customer contacts

Invested in 20 new integrated financial service centres to provide convenient customer access and meet all financial needs in one location

Productivity improvement of 25% in lending processes supported by the roll out of electronic consumer and business lending

Committed two days per person to volunteer leave and as at 30 September 2003, 1,933 days contributed to local community activities. Included in \$7.3 million of community donations/sponsorships, \$1,000 was provided to each branch to allocate at the discretion of local staff to an appropriate community charity or activity.

Management Discussion & Analysis Financial Services Europe

FINANCIAL SERVICES EUROPE

Performance Summary

| <i>Australian dollars</i> | Half year to | | | Year to | | |
|--|--------------|--------------|--|----------------|--------------|--|
| | Sep 03 | Mar 03 | Fav/ (unfav) change on Mar 03 | Sep 03 | Sep 02 | Fav/ (unfav) change on Sep 02 |
| | \$m | \$m | % | \$m | \$m | % |
| Net interest income | 1,129 | 1,239 | (8.9) | 2,368 | 2,433 | (2.7) |
| Other operating income | 447 | 503 | (11.1) | 950 | 1,028 | (7.6) |
| Total income | 1,576 | 1,742 | (9.5) | 3,318 | 3,461 | (4.1) |
| Pension fund expense | (53) | (40) | (32.5) | (93) | (28) | large |
| Other operating expenses | (794) | (833) | 4.7 | (1,627) | (1,649) | 1.3 |
| Underlying profit | 729 | 869 | (16.1) | 1,598 | 1,784 | (10.4) |
| Charge to provide for doubtful debts | (119) | (135) | 11.9 | (254) | (378) | 32.8 |
| Cash earnings before tax | 610 | 734 | (16.9) | 1,344 | 1,406 | (4.4) |
| Income tax expense | (190) | (226) | 15.9 | (416) | (440) | 5.5 |
| Cash earnings before significant items (1) | 420 | 508 | (17.3) | 928 | 966 | (3.9) |
| Add: Pension fund expense (after tax) | 37 | 28 | (32.5) | 65 | 20 | large |
| Cash earnings before pension fund expense & significant items | 457 | 536 | (14.7) | 993 | 986 | 0.7 |

(1) Refer to Note 1 for a reconciliation of Financial Services Europe's result to Group net profit.

Pounds sterling

| | £m | £m | % | £m | £m | % |
|---|------------|------------|--------------|--------------|--------------|--------------|
| Net interest income | 454 | 449 | 1.1 | 903 | 880 | 2.6 |
| Other operating income | 180 | 182 | (1.1) | 362 | 371 | (2.4) |
| Total income | 634 | 631 | 0.5 | 1,265 | 1,251 | 1.1 |
| Pension fund expense | (21) | (15) | (40.0) | (36) | (10) | large |
| Other operating expenses | (320) | (301) | (6.3) | (621) | (596) | (4.2) |
| Underlying profit | 293 | 315 | (7.0) | 608 | 645 | (5.7) |
| Charge to provide for doubtful debts | (48) | (49) | 2.0 | (97) | (136) | 28.7 |
| Cash earnings before tax | 245 | 266 | (7.9) | 511 | 509 | 0.4 |
| Income tax expense | (76) | (82) | 7.3 | (158) | (159) | 0.6 |
| Cash earnings before significant items | 169 | 184 | (8.2) | 353 | 350 | 0.9 |
| Add: Pension fund expense (after tax) | 14 | 11 | (40.0) | 25 | 7 | large |

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| | | | | | | |
|--|-----|-----|-------|------------|-----|-------|
| Cash earnings before pension fund expense & significant items | 183 | 195 | (6.2) | 378 | 357 | 5.9 |
| Underlying profit before pension | 314 | 330 | (4.8) | 644 | 655 | (1.7) |

Management Discussion & Analysis Financial Services Europe

| Key Performance Measures | Half year to | | Fav/ (unfav) change on Mar 03 % | Year to | | Fav/ (unfav) change on Sep 02 % |
|--|--------------|--------------|---|--------------|--------------|---|
| | Sep 03 £m | Mar 03 £m | | Sep 03 £m | Sep 02 £m | |
| Performance & profitability | | | | | | |
| Return on average assets (annualised) | 1.27% | 1.43% | | 1.36% | 1.39% | |
| Cost to income ratio | 53.8% | 50.1% | | 51.9% | 48.4% | |
| Cost to income ratio (excl. pension fund expense) | 50.5% | 47.7% | | 49.1% | 47.6% | |
| Cash earnings per average FTE (annualised)(£ 000) | 29 | 32 | | 30 | 29 | |
| Net interest income | | | | | | |
| Net interest margin | 4.13% | 4.18% | | 4.16% | 4.18% | |
| Net interest spread | 3.83% | 3.82% | | 3.82% | 3.73% | |
| Average balance sheet (£bn) | | | | | | |
| Gross loans and acceptances | 20.1 | 19.7 | 2.0% | 19.9 | 19.3 | 3.1% |
| Interest-earning assets | 21.6 | 21.2 | 1.9% | 21.4 | 20.7 | 3.4% |
| Retail deposits (2) | 14.2 | 13.8 | 2.9% | 14.0 | 13.1 | 6.9% |

(2) Retail deposits for September 2002 have been restated for £0.5bn previously classified within wholesale liabilities.

| | Sep 03 | As at Mar 03 | Sep 02 |
|---|---------------|-----------------|--------|
| Asset quality | | | |
| Gross non-accrual loans (£m) | 122 | 162 | 187 |
| Gross loans and acceptances (£bn) | 20.5 | 20.2 | 19.6 |
| Gross non-accrual loans to gross loans and acceptances | 0.59% | 0.80% | 0.96% |
| Specific provision to gross impaired assets | 39.9% | 35.7% | 30.3% |
| Full-time equivalent employees (FTE) | | | |
| | 11,423 | 11,563 | 11,719 |

Financial performance (in local currency)

Cash earnings increased 0.9% on the prior year and decreased 8.2% from the March half. The result has been negatively impacted by higher pension fund expenses. Excluding the impact of pension fund expenses, cash earnings increased 5.9% on the prior year and decreased 6.2% on the March 2003 half.

Excluding pension fund expenses, underlying profit decreased 1.7% on the prior year.

Net interest income reflects growth in mortgage and business lending, and a fall in the net interest margin. Mortgage lending increased 9% on the prior year, (predominantly in the north of England (18%) and Ireland (10%)) and business lending grew 5% on the prior year (predominantly in Ireland (9%) and the north of England (8%)).

The decrease in net interest margin reflects the impact of falling interest rates on retail deposits, together with a change in product mix resulting from housing growth and the focus on selective business lending to enhance the portfolio asset quality. This was mitigated in part by the reduced requirement for wholesale market funding as a result of retail deposit growth of 6.9%.

Other operating income was lower due to a reduction in income from sales of creditor insurance, lower account fee income and the outsourcing of the merchant acquiring business, more than offsetting the impact of lending growth.

Operating expenses, excluding pension expense, increased 4.2% compared with the prior year due to:

Increases in personnel costs as a result of annual salary reviews, mitigated by a reduction in staff numbers, particularly in back office functions;

An increase in customer-facing staff, including additional staff supporting the growth in the south of England.

Increased investment including integration and the front-end teller system;

Management Discussion & Analysis Financial Services Europe

Higher costs associated with compliance activities including FSA mortgage regulation and the EMU write-off;

Most of the investment occurred in the September half, resulting in a growth rate for expenses of 6.3% on the first half.

The charge to provide for doubtful debts decreased 28.7% on the prior year. During the year the quality of the book improved further, with higher security coverage and a lower risk profile. This was complemented by the repayment of the book value of the largest non-accrual loan and recovery of a large previously written off debt in the March 2003 half.

Key achievements

Strengthened senior executive leadership, including the appointment of John Stewart as CEO.

Proceeding to move to the next phase in completing the legal entity merger of Clydesdale and Yorkshire Banks during 2004.

Program to establish new integrated Financial Services Centres commenced with the first four in Liverpool, Bristol, Reading & Southampton and the next four in Oxford, Milton Keynes, Kent and Hertford.

Investment in new information technology systems to improve customer service in the branches and integrate back office support functions.

Management Discussion & Analysis Financial Services New Zealand

FINANCIAL SERVICES NEW ZEALAND

Performance Summary

| <i>Australian dollars</i> | Half year to | | | Fav/ (unfav) change on Mar 03 | Year to | | |
|---|--------------|------------|--------------|--|------------|-------------|--|
| | Sep 03 | Mar 03 | | | Sep 03 | Sep 02 | Fav/ (unfav) change on Sep 02 |
| | \$m | \$m | % | \$m | \$m | % | |
| Net interest income | 323 | 328 | (1.5) | 651 | 549 | 18.6 | |
| Other operating income | 162 | 167 | (3.0) | 329 | 283 | 16.3 | |
| Total income | 485 | 495 | (2.0) | 980 | 832 | 17.8 | |
| Other operating expenses | (241) | (252) | 4.4 | (493) | (444) | (11.0) | |
| Underlying profit | 244 | 243 | 0.4 | 487 | 388 | 25.5 | |
| Charge to provide for doubtful debts | (14) | (7) | large | (21) | 5 | large | |
| Cash earnings before tax | 230 | 236 | (2.5) | 466 | 393 | 18.6 | |
| Income tax expense | (78) | (77) | (1.3) | (155) | (136) | (14.0) | |
| Cash earnings before significant items (1) | 152 | 159 | (4.4) | 311 | 257 | 21.0 | |

(1) Refer to Note 1 for a reconciliation of Financial Services New Zealand's result to Group net profit.

New Zealand dollars

| | NZ\$m | NZ\$m | % | NZ\$m | NZ\$m | % |
|---|------------|------------|--------------|--------------|------------|-------------|
| Net interest income | 364 | 361 | 0.8 | 725 | 657 | 10.4 |
| Other operating income | 183 | 184 | (0.5) | 367 | 339 | 8.3 |
| Total income | 547 | 545 | 0.4 | 1,092 | 996 | 9.6 |
| Other operating expenses | (272) | (277) | 1.8 | (549) | (531) | (3.4) |
| Underlying profit | 275 | 268 | 2.6 | 543 | 465 | 16.8 |
| Charge to provide for doubtful debts | (15) | (8) | (87.5) | (23) | 5 | large |
| Cash earnings before tax | 260 | 260 | | 520 | 470 | 10.6 |
| Income tax expense | (88) | (85) | (3.5) | (173) | (162) | (6.8) |
| Cash earnings before significant items | 172 | 175 | (1.7) | 347 | 308 | 12.7 |

*Key Performance Measures***Performance & profitability**

| | | | | |
|---------------------------------------|-------|-------|--------------|-------|
| Return on average assets (annualised) | 1.21% | 1.29% | 1.25% | 1.18% |
| Cost to income ratio | 49.7% | 50.8% | 50.3% | 53.3% |
| | 80 | 83 | 81 | 71 |

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Cash earnings per average FTE
(annualised) (NZ\$ '000)

| Net interest income | | | | | | |
|---------------------------------------|-------|-------|------|--------------|-------|-------|
| Net interest margin | 2.65% | 2.78% | | 2.71% | 2.61% | |
| Net interest spread | 2.89% | 3.09% | | 3.00% | 2.96% | |
| Average balance sheet (NZ\$bn) | | | | | | |
| Gross loans and acceptances | 24.5 | 22.5 | 8.9% | 23.5 | 21.1 | 11.4% |
| Interest-earning assets | 27.3 | 25.9 | 5.4% | 26.6 | 25.0 | 6.4% |
| Retail deposits | 16.1 | 15.6 | 3.2% | 15.9 | 14.7 | 8.2% |

Management Discussion & Analysis Financial Services New Zealand

| | Sep 03 | As at Mar 03 | Sep 02 |
|---|--------------|-----------------|--------|
| Asset quality | | | |
| Gross non-accrual loans (NZ\$m) | 30 | 38 | 31 |
| Gross loans and acceptances (NZ\$bn) | 24.6 | 22.9 | 21.4 |
| Gross non-accrual loans to gross loans and acceptances | 0.12% | 0.17% | 0.14% |
| Specific provision to gross impaired assets | 34.5% | 28.8% | 37.2% |
| Full-time equivalent employees (FTE) | 4,257 | 4,221 | 4,277 |

Financial Performance (in local currency)

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Cash earnings increased 12.7% over the prior year reflecting stronger lending and deposit growth and improving housing market share.

Underlying profit increased 16.8% over the prior year.

Higher net interest income reflects housing and deposit volume growth.

Housing grew 17.9%, reflecting a stronger focus backed by a number of innovative products. BNZ is the only major New Zealand bank that does not lend through mortgage brokers.

The current low interest rate environment combined with heightened competition, especially for housing, put increased pressure on the net interest margin. Downward pressure on retail deposit margins as a result of decreases in the official cash rate impacted margins in the second half of the year.

Other operating income grew as a result of higher volumes and transaction levels. It was flat in the second half reflecting the impact of lower tourism and related businesses, and a trend by customers to use more cost-effective channels.

Other operating expenses have increased from the prior year by 3.4%. However, the cost to income ratio improved from 53.3% to 50.3%.

Personnel expenses grew by 3.5% reflecting annual salary increases.

Non-personal expenses growth remained flat. This is attributable to productivity improvements, offset by increased marketing campaigns supporting the re-launched Brand initiative and increased leasing costs following the sale and lease back of the BNZ Centre.

The charge to provide for doubtful debts has increased by NZ\$28 million on the prior year. Whilst the overall asset quality is stable with gross non-accrual loans as a percentage of gross loans and acceptances at 0.12%, increased statistical provisioning, particularly in Agribusiness, has led to higher charges in the second half.

Key achievements

Over the year Bank of New Zealand achieved growth in the number of personal transaction and youth accounts. It captured over 19.0% of home loans systems growth to August 2003 (improvement in market share from 15.1% in September 2002 to 15.6% in September 2003).

Launch of All Blacks Mastercard and BNZ Amex card in May.

Improvement in customer satisfaction as measured by the University of Auckland Customer Satisfaction Survey for 2003, with a 14% increase in the percentage of satisfied / very satisfied residential customers. This has taken the Bank from 5th place (57%) to 2nd at 71%.

Expansion and leverage of customer relationship capability (TOPS) that analyses customer activity, identifies needs and provides leads to Bankers for proactive customer contact. Over a million leads have been generated since implementation in November 2001.

Management Discussion & Analysis Corporate & Institutional Banking

CORPORATE & INSTITUTIONAL BANKING

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Corporate & Institutional Banking (CIB) is responsible for managing the Group's relationships with large corporate clients and financial institutions worldwide. CIB operates through an international network of offices in Australia, Europe, New Zealand, North America and Asia.

CIB comprises Corporate Banking, Markets, Specialised Finance, Financial Institutions Group, and a Support Services unit. The business also incorporates Custodian Services, which provides custody and related services to institutions within the Australian, NZ and UK markets.

Performance Summary

| | Half year to | | Fav/ (unfav) change on | Year to | | Fav/(unfav) change on | Sep 02 |
|---|--------------|------------|------------------------------|--------------|--------------|--------------------------|--------------|
| | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 | Ex FX |
| | \$m | \$m | % | \$m | \$m | % | % |
| Net interest income | 373 | 434 | (14.1) | 807 | 1,051 | (23.2) | (20.3) |
| Other operating income | 585 | 505 | 15.8 | 1,090 | 887 | 22.9 | 26.3 |
| Total income | 958 | 939 | 2.0 | 1,897 | 1,938 | (2.1) | 1.0 |
| Other operating expenses | (380) | (374) | (1.6) | (754) | (759) | 0.7 | (3.0) |
| Underlying profit | 578 | 565 | 2.3 | 1,143 | 1,179 | (3.1) | (0.3) |
| Charge to provide for doubtful debts | (40) | (23) | (73.9) | (63) | (167) | 62.3 | 59.3 |
| Cash earnings before tax | 538 | 542 | (0.7) | 1,080 | 1,012 | 6.7 | 9.5 |
| Income tax expense | (99) | (126) | 21.4 | (225) | (194) | (16.0) | (18.7) |
| Cash earnings before significant items(1) | 439 | 416 | 5.5 | 855 | 818 | 4.5 | 7.3 |
| Net profit attributable to outside equity interest | (5) | (4) | (25.0) | (9) | | large | large |
| Cash earnings before significant items and after outside equity interest | 434 | 412 | 5.3 | 846 | 818 | 3.4 | 6.2 |

(1) Refer to Note 1 for a reconciliation of Corporate & Institutional Banking's result to Group net profit.

Key Performance Measures

Performance & profitability

| | | | | | | |
|--|-------|-------|--------------|-------------|------|--------|
| Return on average risk-weighted assets (annualised) (%) | 2.8% | 2.8% | 2.8% | 2.8% | | |
| Cost to income ratio | 39.7% | 39.8% | 39.7% | 39.2% | | |
| Cash earnings per average FTE (annualised) (\$ '000) (2) | 338 | 330 | 333 | 315 | | |
| Net interest income | | | | | | |
| Net interest margin | 0.53% | 0.58% | 0.56% | 0.77% | | |
| Average balance sheet (\$bn) | | | | | | |
| Core lending | 35.7 | 37.5 | (4.8)% | 36.6 | 36.2 | 1.1% |
| Core lending and acceptances | 41.4 | 43.3 | (4.4)% | 42.3 | 43.4 | (2.5)% |

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| | | | | | | |
|-----------------------------|-------|-------|--------|--------------|-------|--------|
| Gross loans and acceptances | 59.2 | 60.4 | (2.0)% | 59.8 | 52.1 | 14.8% |
| Interest-earning assets | 141.0 | 148.7 | (5.2)% | 144.8 | 136.3 | 6.2% |
| Risk-weighted assets | 68.4 | 66.2 | 3.3% | 67.3 | 68.3 | (1.5)% |

(2) *Cash earnings before significant items and after outside equity interest*

Management Discussion & Analysis Corporate & Institutional Banking

| | Sep 03 | As at Mar 03 | Sep 02 |
|---|--------------|-----------------|--------|
| Asset quality | | | |
| Gross non-accrual loans (\$m) | 539 | 427 | 370 |
| Gross loans and acceptances (\$bn) | 58.3 | 60.7 | 53.9 |
| Gross non-accrual loans to gross loans and acceptances | 0.92% | 0.70% | 0.69% |
| Specific provision to gross impaired assets | 36.1% | 43.3% | 55.0% |
| Full-time equivalent employees (FTE) | 2,612 | 2,537 | 2,564 |

Financial performance

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Cash earnings of \$846 million increased 3.4% for the year with September 2003 half growth of 5.3% on the March 2003 half year.

Approximately 50% of Corporate & Institutional Banking's cash earnings are generated from offshore markets. Year on year performance has been adversely affected by the strong appreciation in the Australian dollar. At constant exchange rates cash earnings increased by 6.2%.

Total income was marginally lower than 2002, but up 1% at constant exchange rates. However, the focus of building strong relationships with clients over the past 12 months has improved the quality of earnings.

Growth in customer-related banking income of 10.7%, or 14.4% at constant exchange rates, helped mitigate the impact of lower Markets risk and trading income arising from a flat yield curve environment and reduced volatility in foreign exchange markets. The increase in other operating income in the second half was influenced by strong deal flows, particularly in structured finance.

Net interest income decreased 23.2% for the year largely due to a reduction in money markets income. Other operating income continues to show strong growth reflecting improved client fee income streams from a larger customer base. The split of net interest income and other operating income can vary considerably depending on market activity and economic conditions.

The underlying margin on core lending business has stayed relatively stable over the year. However, the overall margin reduced primarily due to product mix, with a reduction in contribution from money markets and growth in securities under reverse repurchase agreements.

Expenses rose marginally at constant exchange rates, reflecting investment in strategies to support the ongoing growth in client revenue. The cost to income ratio remained relatively stable.

Asset quality improved with the level of exposures rated investment grade equivalent or above increasing from 87.6% at September 2002 to 91.4% at September 2003. The charge for doubtful debts reduced considerably from 2002, which included two large provisions. The level of non-accrual loans is distorted by a NZ facility for which restructuring has been finalised since September 2003 and on which settlement is imminent. Excluding this facility, the level of gross non-accrual loans to gross loans and acceptances reduced to 0.58% and the level of provision coverage on impaired assets improved to 51.4%.

Key achievements

Strong growth in customer-related banking income of 10.7%, or 14.4% at constant exchange rates, with 325 new clients joining during the year.

Debt market sales increased 18.4%. Product offerings, particularly in securitisation and commodity derivatives, have been a key enabler of the growth.

Acquisition of custody client contracts from CBA will significantly increase market share in Australia.

Maintained No. 1 status for Corporate Bonds and significantly improved the position in the Securitisation Markets.

Management Discussion & Analysis Wealth Management

WEALTH MANAGEMENT

Wealth Management operates a diverse portfolio of financial services businesses. It provides financial planning, insurance, private banking, superannuation and investment solutions to both retail and corporate customers and portfolio implementation systems and infrastructure services to financial advisers. The businesses operate across four regions, Australia, Europe (Great Britain & Ireland), New Zealand and Asia.

Sources of Operating Profit

| | Half year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|---|--------------|-------------|------------------------------|------------|------------|------------------------------|
| | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | \$m | \$m | % | \$m | \$m | % |
| Life company planned profit margins | 123 | 118 | 4.2 | 241 | 263 | (8.4) |
| Life company experience profit/(loss) | 9 | (4) | large | 5 | (33) | large |
| Capitalised losses | 7 | 3 | large | 10 | (4) | large |
| Life company operating margins (1) | 139 | 117 | 18.8 | 256 | 226 | 13.3 |
| Operating profits from non-life businesses | | | | | | |
| Operating profits (2) | 58 | 49 | 18.4 | 107 | 139 | (23.0) |
| NAFiM investor compensation and associated costs | (11) | (8) | (37.5) | (19) | (45) | 57.7 |
| Strategic investment expenditure | (15) | (13) | (15.4) | (28) | (23) | (21.7) |
| Investment earnings on shareholders retained profits and capital from life businesses | 42 | 16 | large | 58 | (5) | large |
| Operating profit after tax and outside equity interest | 213 | 161 | 32.3 | 374 | 292 | 28.1 |
| Revaluation profit/ (loss) after tax | 5 | (205) | large | (200) | (152) | (31.6) |
| Net profit before significant items and after outside equity interest | 218 | (44) | large | 174 | 140 | 24.3 |

(1) Life Company operating margins are net of outside equity interest.

(2) *Operating profits from non-life businesses includes Private Bank and the shareholders funds of life insurance companies and other businesses.*

Wealth Management produced operating profit after tax and outside equity interests for the year of \$374 million, an increase of 28.1% on September 2002. The result accommodates a significant increase in compliance and regulatory expenditure as the industry went through some of its most significant changes this decade. During the year the business continued to invest for future growth, with \$28 million after tax of investment expenditure included within the above result to fund strategic investment programs in both Australia and the UK.

Revaluation profit for the September half was \$5 million reflecting an improvement in the business outlook.

Life company operating margins

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Life company operating margins increased by \$30 million, an increase of 13.3% on September 2002.

Planned profit margins decreased by \$22 million, reflecting the impact of large withdrawals in the traditional business due to the decline of the secondary market and the incorporation of negative disability experience outcomes from 2002 into 2003 assumptions. Lower sales and funds under management, impacting fee income within the investments business, were offset by anticipated growth in inforce annual insurance premiums.

Experience profits were positively impacted by actively managed business expenditure and favourable investment conditions in the September 2003 half resulting in higher fee income. Within the insurance business, disability claims experience has stabilised and lump sum experience remains favourable.

Capitalised losses of \$10 million were reversed during the year, reflecting favourable experience and latest available data.

Management Discussion & Analysis Wealth Management

Operating profits from non-life businesses

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Operating profit from non-life businesses decreased \$32 million. Whilst the Private Bank continued to record strong growth with a 17% increase in earnings, and the Australian investments businesses recorded stable earnings in difficult operating conditions, the UK non-life businesses were adversely impacted by negative investor sentiment.

The result also includes \$32 million of compliance costs and expenditure on regulatory projects such as FSRA and superannuation legislation changes.

Additional compensation and associated costs of \$19 million have been provided in relation to NAFiM investor compensation announced in August 2002.

Strategic investment spend in both the Australian and UK businesses has continued with a number of key initiatives delivered during the course of the year. The profit impact of this expenditure was \$19 million and \$9 million respectively.

Investment earnings on shareholders retained profits and capital from life businesses

Investment earnings generated on shareholders invested capital in the statutory funds of the life businesses were \$58 million. The improved performance correlates to the movements in the major stockmarket indices in those periods. The result reflects the significant volatility experienced in the half year to March 2003 and steady improvement in equity market returns in the September 2003 half year. Shareholders capital is invested in fixed interest and cash (73%) with the remaining balance in equities, consistent with the investment profile of policyholder assets and regional regulatory requirements.

Operating profit by business segment (1)

| | Year to | | Fav/ (unfav) change on Sep 02 |
|---|------------|------------|--|
| | Sep 03 | Sep 02 | |
| | \$m | \$m | % |
| Investments (2) | 142 | 184 | (22.8) |
| Insurance (3) | 204 | 137 | 48.9 |
| Other (4) | 17 | 44 | (61.4) |
| Profit from operations (after tax) (5) | 363 | 365 | (0.5) |

(1) Reflects operating profit by business type irrespective of the legal entity through which the business is written. This differs from the sources of operating profit disclosure, where all business written through life company statutory funds, irrespective of the business type (investments or life insurance) is included in life company operating margins.

(2) Investments includes funds management, funds administration, asset management and on-line investing.

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

(4) *Other includes the shareholders branches of the life companies, private bank, advice solutions and other businesses.*

(5) *Profit from operations by business segment includes life company operating margins and operating profits from non-life businesses. It excludes NAFiM investor compensation and associated costs, strategic investment expenditure and investment earnings on shareholders retained profits and capital from life businesses.*

The Investments result was impacted by unfavourable market conditions particularly in the first half on the UK and Australian investments business. The Insurance business was positively impacted by growth in in-force annual insurance premiums, stabilising claims experience and favourable lump sum business experience, while Other profits decreased primarily due to increased regulatory and compliance spend.

Management Discussion & Analysis Wealth Management

Key Performance Measures

| | Half year to | | Year to | |
|--|--------------|--------|-------------|--------|
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| Sales (\$bn) (1) | 7.1 | 5.3 | 12.4 | 16.4 |
| | | | | |
| | As at | | | |
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| Total funds under management and administration (\$ bn) (1) | 73.1 | 65.1 | | 65.6 |
| Market share - Australia % | | | | |
| Platforms master funds & wraps (2) (3) | 19.2 | N/a | | N/a |
| Retail funds management (2) | 13.7 | 14.1 | | 14.5 |
| Net annual retail inflows (2) | 11.3 | 16.7 | | 22.5 |
| Wholesale funds management (2) | 6.7 | 6.3 | | 5.7 |
| Net annual wholesale inflows (2) | 30.7 | 29.0 | | 5.8 |
| Retail risk insurance (4) | 14.7 | 14.1 | | 13.7 |
| New retail risk annual premiums (4) | 16.5 | 16.8 | | 14.9 |
| Other (no.) | | | | |
| Financial advisers (5) | 3,215 | 2,972 | | 3,309 |
| Bank channels | 643 | 643 | | 783 |
| Aligned dealerships | 2,572 | 2,329 | | 2,526 |
| Full-time equivalent employees (FTEs) (6) | 6,174 | 5,910 | | 6,105 |

(1) Sales and funds under management and administration have been restated to exclude joint venture interests.

(2) Source: ASSIRT Market Share Reports as at June 2003, December 2002 and June 2002.

(3) At 30 June 2003, National/MLC changed the methodology used to report Platform data to only include assets on the MLC platform. As a result prior period market share data is not comparable. (Market share based on the old methodology: March 2003: 24.3%, September 2002: 26.7%).

(4) Source: DEXX&R Research Reports. Retail risk insurance includes term, trauma and disability insurance at June 2003, September 2002 and March 2002.

(5) *Significant business is also sourced from Independent Financial Advisers (IFAs). There are currently active relationships with over 1,600 IFAs. Financial advisers at September 2003 include 1,403 for the Australian business and 1,812 for the UK and Asian businesses, which compares with 1,463 and 1,509 respectively at March 2003 and 1,501 and 1,808 respectively at September 2002.*

(6) *FTEs at 30 September 2003 include the impact of acquisitions (Plum Financial Services Limited (152) and an increased interest in Advance MLC Assurance Co. Limited (Thailand) (20)). It also reflects the increased number of FTEs engaged in regulatory, compliance and strategic reinvestment projects.*

Funds under management / administration

Strong investment returns and the acquisition of the remaining 50% of Plum Financial Services Limited in the September 2003 half has led to funds under management and administration increasing by 11% on September 2002.

Investments

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With a market share of 19.2% at 30 June 2003, Wealth Management continues to be the number one provider of retail investment platforms, (masterfunds and wraps) in Australia. Market share in retail funds under management is 13.7%, with second position retained. The decrease in net annual retail inflows reflects the impact of lower inflows during the first half of the year. Wholesale funds management market share increased to 6.7%.

Insurance

Wealth Management held the largest share of the Australian retail life insurance market as at 30 June 2003, with a 16.5% share of annual new business sales and a 14.7% share of premiums in force.

Efficiency measures

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Robust cost containment together with growth in the insurance business has resulted in a cost to premium income ratio for the year of 20% compared with 22% for the 2002 year, exceeding the 2004 full year target of 21%.

Management Discussion & Analysis Wealth Management

The cost to funds under management ratio for the investments business achieved 60 basis points* as a result of cost containment and higher closing funds under management. This compares with 67 basis points for the year ended 30 September 2002*, and against a 2004 target of 65 basis points.

**Excluding NAFiM investor compensation and associated costs.*

Valuation and revaluation profit/(loss)

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Valuation of businesses held in the mark to market environment increased by \$158 million from \$6,475 million at September 2002 to \$6,633 million at 30 September 2003. Values shown are directors' market valuations. The valuations are based on Discounted Cash Flow (DCF) valuations prepared by Tillinghast - Towers Perrin (Tillinghast), using, for the Australian and New Zealand entities, risk discount rates specified by the directors.

The components comprising the change in value are summarised below:

NAFiM subsidiaries

Market value summary (\$m)

| | Net assets (1) | Value of inforce business | Embedd -ed value | Value of future new business (2) | Market value |
|---|-------------------|---------------------------------|------------------------|--|-----------------|
| Market value at 30 September 2002 | 1,301 | 2,252 | 3,553 | 2,922 | 6,475 |
| Operating profits after tax of NAFiM subsidiaries (3) | 293 | | 293 | | 293 |
| Capital and other movements (4) | 25 | | 25 | | 25 |
| Increase in shareholders net assets | 318 | | 318 | | 318 |
| Revaluation profit/(loss) components before tax: | | | | | |
| Business assumptions & roll forward | | | | | |
| Roll forward of DCF (5) | | 399 | 399 | | 399 |
| Change in business assumptions & experience | | (235) | (235) | (324) | (559) |
| Revaluation profit/(loss) before tax (6) | | 164 | 164 | (324) | (160) |
| Excess movements (7) | (47) | 47 | | | |
| Market value at 30 September 2003 | 1,572 | 2,463 | 4,035 | 2,598 | 6,633 |

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

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

(3) *Operating profit after income tax is before revaluations and excludes operating profits of entities outside the market value accounting environment; ie. the operating profits after tax from NAFiM's own business, and other entities not owned by NAFiM.*

(4) *Capital and other movements represent movements in value such as the payment of dividends, capital injections and reductions, acquisitions of subsidiaries and foreign exchange movements on intragroup debt related to international subsidiaries.*

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

(6) *The revaluation profit/(loss) before tax does not include revaluation uplift in respect of NAFiM's own business. AASB 1038 requires assets of a life company to be valued at net market value; since NAFiM is the parent life entity, the change in market value of its own life business is not brought to account.*

(7) *Excess movements represent excess on the transfer from associate to subsidiary of Plum Financial Services Limited, increased interest in Advance MLC Assurance Co. Limited (Thailand), foreign exchange impacts on the net assets of international subsidiaries and market value of intragroup debt.*

Revaluation profit/(loss)

The full year revaluation loss of \$160 million before tax comprises second half revaluation profit of \$79 million and first half revaluation loss of \$239 million. The components that contributed to the full year revaluation loss comprised the effect of assumption changes and experience, offset by the anticipated growth in the business above current levels of operating profit (ie. the roll forward of the DCF).

The assumption changes primarily comprised lower retail sales volumes than anticipated at September 2002, resulting in a reduction from 51% to 43% in the ratio of the Australian value of future new business to total Australian market value. Further, weaker operating environments have reduced the values of the international businesses, as has the overall strengthening in the Australian dollar. The impact of these factors has been mitigated to some extent by the active management of expenses.

Management Discussion & Analysis Wealth Management

The adverse impact on value of poor investment returns in the March half has largely been offset by improved investment returns experienced in the second half.

Included within capital and other movements is a net capital injection of \$135 million, which includes a \$140 million injection into the insurance business to support the growth in the risk insurance business. A favourable foreign exchange movement on the intra-group debt related to the international subsidiaries is also included in this category.

Entities held within the mark to market environment include operations in Australia, Europe, New Zealand and Asia. Value by both region and business segment are summarised below:

NAFiM subsidiaries
Market value summary (\$m)

| | At 30 Sep 2003 | | | | | At |
|-------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|
| | Net | Value of | Embedd | Value of | Market | 30 Sep 02 |
| | assets | inforce | -ed | future | value | Market |
| | | business | value | new | | value |
| | | | | business | | |
| By region | | | | | | |
| Australia | 1,221 | 2,062 | 3,283 | 2,492 | 5,775 | 5,430 |
| Europe | 209 | 261 | 470 | 34 | 504 | 616 |
| New Zealand | 20 | 47 | 67 | 10 | 77 | 97 |
| Asia | 122 | 93 | 215 | 62 | 277 | 332 |
| Market value at 30 September | 1,572 | 2,463 | 4,035 | 2,598 | 6,633 | 6,475 |
| By business segment | | | | | | |
| Investments | 768 | 1,189 | 1,957 | 1,750 | 3,707 | 3,847 |
| Insurance | 695 | 1,242 | 1,937 | 848 | 2,785 | 2,444 |
| Other | 109 | 32 | 141 | | 141 | 184 |
| Market value at 30 September | 1,572 | 2,463 | 4,035 | 2,598 | 6,633 | 6,475 |

Actuarial assumptions applied in the determination of market value

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Actuarial assumptions applied in the determination of market values for significant Wealth Management businesses held within the mark to market environment are summarised as follows:

| | | September 2003 | | | September 2002 | | |
|---|-------------|--------------------------------------|-------------------------------|---|--------------------------------------|-------------------------------|---|
| | | New business multiplier (2) | Risk discount rate (3) (%) | Franking credit assumptn (%) (4) | New business multiplier (2) | Risk discount rate (3) (%) | Franking credit assumptn (%) (4) |
| Assumptions applied in the determination of market value (1) | | | | | | | |
| Insurance | Australia | 9.1 | 11.0 | 70 | 10.1 | 11.0 | 70 |
| Investments | Australia | 9.1 | 11.0 - 12.0 | 70 | 8.7 | 11.0 - 12.0 | 70 |
| | New Zealand | 6.8 | 11.25 - 12.50 | 70 | 8.3 | 11.75 - 12.75 | 70 |
| | Hong Kong | 9.0 | 12.5 | | 9.0 | 12.5 | |

(1) *The bulk of the European valuation was performed on an aggregate basis. Where the European business valuations identified separate values of inforce business and future new business, approximate methods were used to derive the value of future business that did not involve new business multipliers. The risk discount rate used in European valuations at 30 September 2003 was 10%.*

(2) *Australian new business multipliers represent the multiple of value arising from the 12 months to 30 September 2002 and the 12 months to 30 September 2003 new business experience respectively that equates to the value of future new business. It reflects the risk discount rate, anticipated new business growth and expected industry growth rates thereafter, together with an allowance for the expected pressure to reduce profit margins in the future. For New Zealand, the new business multiplier applying to the WM valuation of the retail investments business has been disclosed. Whilst this multiplier does not recognise other parts of the Wealth Management New Zealand product range (eg. wholesale investment and life insurance business), the disclosure of this multiplier is considered appropriate to demonstrate the impact of changes in assumptions over the 12 months to 30 September 2003.*

(3) *Risk discount rates are gross of tax and have been derived using the Capital Asset Pricing Model. For the Australian and New Zealand businesses, the rates applied in the directors' market valuations, as shown in the table above, are 0.5% higher than Tillinghast's standard rates for DCF valuations of such businesses.*

(4) *The valuations of Australian and New Zealand entities comprise the present value of estimated future distributable profits after corporate tax, together with the present value of 70% of the attaching imputation credits. The valuations of international entities other than New Zealand comprise the present values of estimated future distributable profits after corporate tax.*

Management Discussion & Analysis Other (incl, Excess Capital, Group Funding & Corp. Centre)

OTHER (INCLUDING EXCESS CAPITAL, **GROUP FUNDING & CORPORATE CENTRE**)

Performance Summary

| <i>By Division</i> | Half year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|--------------------|--------------|--------|------------------------------|-------------|--------|------------------------------|
| | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | \$m | \$m | % | \$m | \$m | % |
| Excess Capital (1) | 16 | 38 | (57.9) | 54 | 137 | (60.6) |
| Group Funding | (34) | (32) | (6.3) | (66) | (265) | 75.1 |
| Corporate Centre | (36) | (29) | (24.1) | (65) | (28) | large |
| Other (2) | (54) | (23) | large | (77) | (156) | 50.6 |

(1) *Net interest income from excess capital (after tax).*

(2) *Refer to Note 1 for a reconciliation of Other (including Excess Capital, Group Funding & Corporate Centre) to Group net profit.*

Excess Capital

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The Group's earnings on excess capital for the 2003 year were \$54 million compared with \$137 million in the prior year reflecting a lower volume of excess capital due to the impact of the share buy-back and a lower average earning rate.

Earnings on excess capital is calculated by applying the average three-year bank bill swap rate of 4.96% (5.49% prior year) to the estimated excess.

When estimating excess capital, benchmarks are chosen having regard to Australian and international peers and the risk profile and asset base of the Group's banking operations. Excess capital does not represent the total amount of surplus capital held by the Group.

Group Funding

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Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations. This minimises the earnings distortion to the operating divisions and enhances the comparability of divisional performance over time.

Group Funding experienced a loss of \$66 million compared to a loss of \$265 million for the prior year. The main factors contributing to the movement include:

the funding benefit on the proceeds from the sale of SR Investment Inc. (HomeSide);

a one-off benefit on the restructure of the hedging swaps on the TrUEPrSSM preference shares;

lower inter-company funding costs with the falling interest rate environment; and

a one-off unfavourable interest accrual adjustment in the March 2002 half.

Corporate Centre

Corporate Centre comprises the following non-operating units - Group and Corporate Finance, Corporate Development, People & Culture, Risk Management, Nautilus Insurance, Technology, Office of the CEO, and Group eliminations.

The Corporate Centre result for the year has primarily been impacted by four key areas:

an ongoing major review of regulatory compliance and associated quality improvements;

operating costs (including amortisation) of the Integrated Systems Implementation (ISI) program, which is the Group's strategic infrastructure program;

impact of Basel II and IFRS on the ISI program; and

expenses associated with corporate structure, funding and acquisition-related strategic initiatives.

RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2003

DETAILED FINANCIAL INFORMATION

The following section does not purport to be a set of financial statements. For the Group's financial statements refer to the Appendix 4E filed with the ASX.

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Detailed Financial Information - Note 1: Performance Summary by Division

1. PERFORMANCE SUMMARY BY DIVISION

| Year to 30 September 2003 | Note | FSA \$m | FSE \$m | FSNZ \$m | CIB \$m | Other(1) \$m | Total Banking \$m | WM \$m | Elimina- tions(2) \$m | Total Group \$m |
|---|------|------------|------------|-------------|------------|-----------------|-------------------------|-----------|-----------------------------|-----------------------|
| Net interest income | 2 | 3,519 | 2,368 | 651 | 807 | (43) | 7,302 | 117 | | 7,419 |
| Net life insurance income (3) | 6 | | | | | | | 444 | | 444 |
| Other operating income (4) | 7 | 1,950 | 950 | 329 | 1,090 | 75 | 4,394 | 733 | (117) | 5,010 |
| Net operating income | | 5,469 | 3,318 | 980 | 1,897 | 32 | 11,696 | 1,294 | (117) | 12,873 |
| Operating expenses (5) (6) | 8 | (2,502) | (1,720) | (493) | (754) | (196) | (5,665) | (806) | 117 | (6,354) |
| Underlying profit | | 2,967 | 1,598 | 487 | 1,143 | (164) | 6,031 | 488 | | 6,519 |
| Charge to provide for doubtful debts | 10 | (298) | (254) | (21) | (63) | 4 | (632) | (1) | | (633) |
| Cash earnings before tax | | 2,669 | 1,344 | 466 | 1,080 | (160) | 5,399 | 487 | | 5,886 |
| Income tax expense - net life insurance income | 6 | | | | | | | (126) | | (126) |
| Income tax expense - other | 12 | (798) | (416) | (155) | (225) | 82 | (1,512) | (3) | | (1,515) |
| Cash earnings before significant items | | 1,871 | 928 | 311 | 855 | (78) | 3,887 | 358 | | 4,245 |
| Wealth Management revaluation loss after tax | | | | | | | | (200) | | (200) |
| Goodwill amortisation | | (3) | (62) | (1) | | (32) | (98) | | | (98) |
| Net profit before significant items | | 1,868 | 866 | 310 | 855 | (110) | 3,789 | 158 | | 3,947 |
| Significant items after tax | 13 | | | | | | | | | |
| Net profit | | 1,868 | 866 | 310 | 855 | (110) | 3,789 | 158 | | 3,947 |
| Net (profit)/loss attributable to outside equity interest | | | | | (9) | 1 | (8) | 16 | | 8 |
| Net profit attributable to members of the Company | | 1,868 | 866 | 310 | 846 | (109) | 3,781 | 174 | | 3,955 |
| Distributions | | | | | | | | | | (183) |
| Earnings attributable to ordinary shareholders | | | | | | | | | | 3,772 |

Detailed Financial Information - Note 1: Performance Summary by Division

| Year ended 30 September 2002 | Note | FSA \$m | FSE \$m | FSNZ \$m | CIB \$m | Other(1) \$m | Total Banking \$m | WM \$m | Elimina- tions(2) \$m | Total Ongoing Operations \$m | Disposed Oper- ations (7) \$m | Total Group \$m |
|--|------|------------|------------|-------------|------------|-----------------|-------------------------|-----------|-----------------------------|---------------------------------------|---|-----------------------|
| Net interest income | 2 | 3,307 | 2,433 | 549 | 1,051 | (239) | 7,101 | 101 | | 7,202 | 20 | 7,222 |
| Net life insurance income (3) | 6 | | | | | | | (10) | | (10) | | (10) |
| Other operating income (4) | 7 | 1,780 | 1,028 | 283 | 887 | 3 | 3,981 | 799 | (132) | 4,648 | 2,736 | 7,384 |
| Net operating income | | 5,087 | 3,461 | 832 | 1,938 | (236) | 11,082 | 890 | (132) | 11,840 | 2,756 | 14,596 |
| Operating expenses (5) (6) | 8 | (2,450) | (1,677) | (444) | (759) | (2) | (5,332) | (813) | 132 | (6,013) | (2,694) | (8,707) |
| Underlying profit | | 2,637 | 1,784 | 388 | 1,179 | (238) | 5,750 | 77 | | 5,827 | 62 | 5,889 |
| Charge to provide for doubtful debts | 10 | (146) | (378) | 5 | (167) | 38 | (648) | 1 | | (647) | (50) | (697) |
| Cash earnings before tax | | 2,491 | 1,406 | 393 | 1,012 | (200) | 5,102 | 78 | | 5,180 | 12 | 5,192 |
| Income tax benefit - net life insurance income | 6 | | | | | | | 248 | | 248 | | 248 |
| Income tax expense - other | 12 | (734) | (440) | (136) | (194) | 44 | (1,460) | (28) | | (1,488) | 86 | (1,402) |
| Cash earnings before significant items | | 1,757 | 966 | 257 | 818 | (156) | 3,642 | 298 | | 3,940 | 98 | 4,038 |
| Wealth Management revaluation loss after tax | | | | | | | | (152) | | (152) | | (152) |
| Goodwill amortisation | | | (62) | (2) | | (37) | (101) | | | (101) | | (101) |
| Net profit before significant items | | 1,757 | 904 | 255 | 818 | (193) | 3,541 | 146 | | 3,687 | 98 | 3,785 |
| Significant items after tax | 13 | (185) | (117) | (13) | (31) | (40) | (386) | (20) | | (406) | | (406) |
| Net profit | | 1,572 | 787 | 242 | 787 | (233) | 3,155 | 126 | | 3,281 | 98 | 3,379 |
| Net profit attributable to outside equity interest | | | | | | | | (6) | | (6) | | (6) |
| Net profit attributable to members of the Company | | 1,572 | 787 | 242 | 787 | (233) | 3,155 | 120 | | 3,275 | 98 | 3,373 |
| Distributions | | | | | | | | | | | | (187) |
| Earnings attributable to ordinary shareholders | | | | | | | | | | | | 3,186 |

Detailed Financial Information - Note 1: Performance Summary by Division

| Half Year ended 30 September 2003 | Note | FSA \$m | FSE \$m | FSNZ \$m | CIB \$m | Other(1) \$m | Total Banking \$m | WM \$m | Elimina- tions(2) \$m | Total Group \$m |
|---|------|------------|------------|-------------|------------|-----------------|-------------------------|-----------|-----------------------------|-----------------------|
| Net interest income | 2 | 1,809 | 1,129 | 323 | 373 | (24) | 3,610 | 63 | | 3,673 |
| Net life insurance income (3) | 6 | | | | | | | 363 | | 363 |
| Other operating income (4) | 7 | 1,000 | 447 | 162 | 585 | 76 | 2,270 | 367 | (59) | 2,578 |
| Net operating income | | 2,809 | 1,576 | 485 | 958 | 52 | 5,880 | 793 | (59) | 6,614 |
| Operating expenses (5) (6) | 8 | (1,288) | (847) | (241) | (380) | (159) | (2,915) | (412) | 59 | (3,268) |
| Underlying profit | | 1,521 | 729 | 244 | 578 | (107) | 2,965 | 381 | | 3,346 |
| Charge to provide for doubtful debts | 10 | (142) | (119) | (14) | (40) | 4 | (311) | | | (311) |
| Cash earnings before tax | | 1,379 | 610 | 230 | 538 | (103) | 2,654 | 381 | | 3,035 |
| Income tax expense - net life insurance income | 6 | | | | | | | (196) | | (196) |
| Income tax expense - other | 12 | (412) | (190) | (78) | (99) | 48 | (731) | 6 | | (725) |
| Cash earnings before significant items | | 967 | 420 | 152 | 439 | (55) | 1,923 | 191 | | 2,114 |
| Wealth Management revaluation profit after tax | | | | | | | | 5 | | 5 |
| Goodwill amortisation | | (2) | (31) | | | (16) | (49) | | | (49) |
| Net profit before significant items | | 965 | 389 | 152 | 439 | (71) | 1,874 | 196 | | 2,070 |
| Significant items after tax | 13 | | | | | | | | | |
| Net profit | | 965 | 389 | 152 | 439 | (71) | 1,874 | 196 | | 2,070 |
| Net (profit)/loss attributable to outside equity interest | | | | | (5) | 1 | (4) | 22 | | 18 |
| Net profit attributable to members of the Company | | 965 | 389 | 152 | 434 | (70) | 1,870 | 218 | | 2,088 |
| Distributions | | | | | | | | | | (89) |
| Earnings attributable to ordinary shareholders | | | | | | | | | | 1,999 |

Detailed Financial Information - Note 1: Performance Summary by Division

| Half Year to 31 March 2003 | Note | FSA \$m | FSE \$m | FSNZ \$m | CIB \$m | Other(1) \$m | Total Banking \$m | WM \$m | Elimina- tions(2) \$m | Total Group \$m |
|--|------|------------|------------|-------------|------------|-----------------|-------------------------|-----------|-----------------------------|-----------------------|
| Net interest income | 2 | 1,710 | 1,239 | 328 | 434 | (19) | 3,692 | 54 | | 3,746 |
| Net life insurance income (3) | 6 | | | | | | | 81 | | 81 |
| Other operating income (4) | 7 | 950 | 503 | 167 | 505 | (1) | 2,124 | 366 | (58) | 2,432 |
| Net operating income | | 2,660 | 1,742 | 495 | 939 | (20) | 5,816 | 501 | (58) | 6,259 |
| Operating expenses (5) (6) | 8 | (1,214) | (873) | (252) | (374) | (37) | (2,750) | (394) | 58 | (3,086) |
| Underlying profit | | 1,446 | 869 | 243 | 565 | (57) | 3,066 | 107 | | 3,173 |
| Charge to provide for doubtful debts | 10 | (156) | (135) | (7) | (23) | | (321) | (1) | | (322) |
| Cash earnings before tax | | 1,290 | 734 | 236 | 542 | (57) | 2,745 | 106 | | 2,851 |
| Income tax benefit - net life insurance income | 6 | | | | | | | 70 | | 70 |
| Income tax (expense)/benefit - other | 12 | (386) | (226) | (77) | (126) | 34 | (781) | (9) | | (790) |
| Cash earnings before significant items | | 904 | 508 | 159 | 416 | (23) | 1,964 | 167 | | 2,131 |
| Wealth Management revaluation loss after tax | | | | | | | | (205) | | (205) |
| Goodwill amortisation | | (1) | (31) | (1) | | (16) | (49) | | | (49) |
| Net profit before significant items | | 903 | 477 | 158 | 416 | (39) | 1,915 | (38) | | 1,877 |
| Significant items after tax | | | | | | | | | | |
| Net profit | | 903 | 477 | 158 | 416 | (39) | 1,915 | (38) | | 1,877 |
| Net profit attributable to outside equity interest | | | | | (4) | | (4) | (6) | | (10) |
| Net profit attributable to members of the Company | | 903 | 477 | 158 | 412 | (39) | 1,911 | (44) | | 1,867 |
| Distributions | | | | | | | | | | (94) |
| Earnings attributable to ordinary shareholders | | | | | | | | | | 1,773 |

(1) Other includes Excess Capital, Group Funding, Corporate Centre and elimination entries within Total Banking.

(2) Elimination of inter-divisional income and expenses (eg. revenue sharing arrangements between divisions).

(3) Net life insurance income is the profit before tax excluding net interest income of the life insurance and investments businesses of the statutory funds of the life insurance companies of the Group. The contribution of net life insurance income after tax is \$318 million for the September 2003 year.

(4) Other operating income excludes the net interest income and net life insurance income and revaluation profit/(loss).

(5) Other operating expenses excludes the life insurance expenses incorporated within net life insurance income (Wealth Management only).

(6) Other operating expenses includes defined pension expense (Financial Services Europe only).

(7) *Disposed Operations includes HomeSide, Vivid and intra-group elimination entries.*

Detailed Financial Information - Note 2: Net Interest Income

2. NET INTEREST INCOME

| | Note | Half Year to | | Fav/ (unfav) change on Mar 03 | Year to | | Fav/ (unfav) change on Sep 02 |
|--|------|---------------|---------------|--|---------------|---------------|--|
| | | Sep 03 \$m | Mar 03 \$m | % | Sep 03 \$m | Sep 02 \$m | % |
| Group | | | | | | | |
| Ongoing operations | | | | | | | |
| Interest income | | | | | | | |
| Loans to customers | | 7,422 | 7,539 | (1.6) | 14,961 | 13,722 | 9.0 |
| Other | | 1,243 | 896 | 38.7 | 2,139 | 2,483 | (13.9) |
| Total interest income | 7 | 8,665 | 8,435 | 2.7 | 17,100 | 16,205 | 5.5 |
| Interest expense | | | | | | | |
| Deposits and other borrowings | | (3,934) | (3,482) | (13.0) | (7,416) | (6,702) | (10.7) |
| Other | | (1,058) | (1,207) | 12.3 | (2,265) | (2,301) | 1.6 |
| Total interest expense | 8 | (4,992) | (4,689) | (6.5) | (9,681) | (9,003) | (7.5) |
| Total ongoing operations | | 3,673 | 3,746 | (1.9) | 7,419 | 7,202 | 3.0 |
| Disposed operations | | | | | | | |
| Interest income | 7 | | | | | 270 | large |
| Interest expense | 8 | | | | | (250) | large |
| Total disposed operations | | | | | | 20 | large |
| Net interest income | | 3,673 | 3,746 | (1.9) | 7,419 | 7,222 | 2.7 |
| By Division | | | | | | | |
| Ongoing operations | | | | | | | |
| Financial Services Australia | | 1,809 | 1,710 | 5.8 | 3,519 | 3,307 | 6.4 |
| Financial Services Europe | | 1,129 | 1,239 | (8.9) | 2,368 | 2,433 | (2.7) |
| Financial Services New Zealand | | 323 | 328 | (1.5) | 651 | 549 | 18.6 |
| Retail Banking | | 3,261 | 3,277 | (0.5) | 6,538 | 6,289 | 4.0 |
| Corporate & Institutional Banking | | 373 | 434 | (14.1) | 807 | 1,051 | (23.2) |
| Other (incl. Excess Capital, Group Funding & Corporate Centre) | | (24) | (19) | (26.3) | (43) | (239) | 82.0 |
| Total Banking | | 3,610 | 3,692 | (2.2) | 7,302 | 7,101 | 2.8 |
| Wealth Management | | 63 | 54 | 16.7 | 117 | 101 | 15.8 |
| Total ongoing operations | | 3,673 | 3,746 | (1.9) | 7,419 | 7,202 | 3.0 |
| Total disposed operations | | | | | | 20 | large |
| Net interest income | | 3,673 | 3,746 | (1.9) | 7,419 | 7,222 | 2.7 |

Detailed Financial Information - Note 3: Net Interest Margins & Spreads

3. NET INTEREST MARGINS & SPREADS

| Group | Half Year to | | Fav/ (unfav) change on Mar 03 basis pts | Year to | | Fav/ (unfav) change on Sep 02 basis pts |
|---|--------------|--------|---|---------------|--------|---|
| | Sep 03 | Mar 03 | | Sep 03 | Sep 02 | |
| | % | % | | % | % | |
| Group | | | | | | |
| Gross interest spread (1) | 2.19 | 2.24 | (0.05) | 2.21 | 2.41 | (0.20) |
| Interest forgone on impaired assets | (0.03) | (0.02) | (0.01) | (0.03) | (0.02) | (0.01) |
| Net interest spread (2) | 2.16 | 2.22 | (0.06) | 2.18 | 2.39 | (0.21) |
| Benefit of net free liabilities, provisions and equity | 0.34 | 0.34 | | 0.35 | 0.28 | 0.07 |
| Net interest margin (3) | 2.50 | 2.56 | (0.06) | 2.53 | 2.67 | (0.14) |
| Net interest margin (excluding earnings on Excess Capital) | 2.49 | 2.52 | (0.03) | 2.50 | 2.60 | (0.10) |
| By Region | | | | | | |
| Australia (4) | | | | | | |
| Gross interest spread (1) | 2.39 | 2.33 | 0.06 | 2.37 | 2.67 | (0.30) |
| Interest forgone on impaired assets | (0.04) | (0.03) | (0.01) | (0.04) | (0.04) | |
| Net interest spread (2) | 2.35 | 2.30 | 0.05 | 2.33 | 2.63 | (0.30) |
| Benefit of net free liabilities, provisions and equity | 0.08 | 0.29 | (0.21) | 0.18 | 0.16 | 0.02 |
| Net interest margin (3) | 2.43 | 2.59 | (0.16) | 2.51 | 2.79 | (0.28) |
| Net interest margin (excluding earnings on Excess Capital) | 2.40 | 2.51 | (0.11) | 2.45 | 2.57 | (0.12) |
| Europe (4) | | | | | | |
| Gross interest spread (1) | 2.03 | 2.10 | (0.07) | 2.07 | 2.51 | (0.44) |
| Interest forgone on impaired assets | (0.02) | (0.02) | | (0.02) | (0.02) | |
| Net interest spread (2) | 2.01 | 2.08 | (0.07) | 2.05 | 2.49 | (0.44) |
| Benefit of net free liabilities, provisions and equity | 0.52 | 0.49 | 0.03 | 0.50 | 0.45 | 0.05 |
| Net interest margin (3) | 2.53 | 2.57 | (0.04) | 2.55 | 2.94 | (0.39) |
| Other International (4) | | | | | | |
| Gross interest spread (1) | 1.36 | 1.61 | (0.25) | 1.55 | 1.31 | 0.24 |
| Interest forgone on impaired assets | (0.03) | (0.02) | (0.01) | (0.02) | (0.02) | |
| Net interest spread (2) | 1.33 | 1.59 | (0.26) | 1.53 | 1.29 | 0.24 |
| Benefit of net free liabilities, provisions and equity | 0.50 | 0.11 | 0.39 | 0.23 | 0.14 | 0.09 |
| Net interest margin (3) | 1.83 | 1.70 | 0.13 | 1.76 | 1.43 | 0.33 |

- (1) *Gross interest spread represents the difference between the average interest rate (inclusive of interest forgone on impaired assets) earned and the average interest rate incurred on funds.*
- (2) *Net Interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.*
- (3) *Net Interest margin is net interest income as a percentage of average interest-earning assets.*
- (4) *Australia, Europe and Other International include intragroup cross border loans/borrowings and associated interest.*

Detailed Financial Information - Note 3: Net Interest Margins & Spreads

| | Half Year to | | Fav/ (unfav) change on Mar 03 basis pts | Year to | | Fav/ (unfav) change on Sep 02 basis pts |
|-----------------------------------|--------------|--------|---|---------|--------|---|
| | Sep 03 | Mar 03 | | Sep 03 | Sep 02 | |
| | % | % | | % | % | |
| By Division | | | | | | |
| Net interest margin | | | | | | |
| Financial Services Australia | 3.11 | 3.18 | (0.07) | 3.14 | 3.45 | (0.31) |
| Financial Services Europe | 4.13 | 4.18 | (0.05) | 4.16 | 4.18 | (0.02) |
| Financial Services New Zealand | 2.65 | 2.78 | (0.13) | 2.71 | 2.61 | 0.10 |
| Corporate & Institutional Banking | 0.53 | 0.58 | (0.05) | 0.56 | 0.77 | (0.21) |
| Net interest spread | | | | | | |
| Financial Services Australia | 2.64 | 2.73 | (0.09) | 2.68 | 2.95 | (0.27) |
| Financial Services Europe | 3.83 | 3.82 | 0.01 | 3.82 | 3.73 | 0.09 |
| Financial Services New Zealand | 2.89 | 3.09 | (0.20) | 3.00 | 2.96 | 0.04 |

Detailed Financial Information - Note 4: Average Balance Sheet & Related Interest

4. AVERAGE BALANCE SHEET & RELATED INTEREST

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

Average assets and interest income

| | Year ended Sep 03 | | | Year ended Sep 02 | | |
|---------------------------------------|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|
| | Average balance \$m | Interest \$m | Average rate % | Average balance \$m | Interest \$m | Average rate % |
| Interest earning assets | | | | | | |
| Due from other financial institutions | | | | | | |
| <i>Australia</i> | 4,243 | 109 | 2.57 | 2,824 | 102 | 3.61 |
| <i>Europe</i> | 6,350 | 226 | 3.56 | 6,796 | 223 | 3.28 |
| <i>Other International</i> | 3,700 | 60 | 1.62 | 5,605 | 114 | 2.03 |
| Regulatory deposits | | | | | | |
| <i>Europe</i> | 140 | 2 | 1.43 | 142 | 3 | 2.11 |
| <i>Other International</i> | 71 | | | 15 | | |
| Marketable debt securities | | | | | | |
| <i>Australia</i> | 16,433 | 881 | 5.36 | 13,910 | 712 | 5.12 |
| <i>Europe</i> | 9,622 | 394 | 4.09 | 11,312 | 476 | 4.21 |
| <i>Other International</i> | 8,444 | 270 | 3.20 | 10,212 | 321 | 3.14 |
| Loans and advances (1) | | | | | | |
| <i>Australia</i> | 130,541 | 8,528 | 6.53 | 112,714 | 7,385 | 6.55 |
| <i>Europe</i> | 77,462 | 4,139 | 5.34 | 69,658 | 4,278 | 6.14 |
| <i>HomeSide</i> | | | | 21 | 94 | n/a |
| <i>Other International</i> | 36,181 | 2,294 | 6.34 | 33,096 | 2,064 | 6.24 |
| Other interest earning assets (2) | | | | | | |
| <i>Australia</i> | 8 | 138 | n/a | 10 | 751 | n/a |
| <i>Europe</i> | 84 | 48 | n/a | 854 | 59 | n/a |
| <i>HomeSide</i> | | | n/a | 3,331 | 170 | n/a |
| <i>Other International</i> | 39 | 11 | n/a | 27 | (277) | n/a |
| Intragroup loans (3) | | | | | | |
| <i>Europe</i> | 8,719 | 374 | 4.29 | 4,026 | 236 | 5.86 |
| <i>Other International</i> | 9,357 | 248 | 2.65 | 9,187 | 219 | 2.38 |

**Average interest earning assets and
interest income incl intragroup loans
by:**

| | | | | | | |
|---|---------|--------|------|---------|--------|------|
| <i>Australia</i> | 151,225 | 9,656 | 6.39 | 129,458 | 8,950 | 6.91 |
| <i>Europe</i> | 102,377 | 5,183 | 5.06 | 92,788 | 5,275 | 5.69 |
| <i>HomeSide</i> | | | | 3,352 | 264 | 7.88 |
| <i>Other International</i> | 57,792 | 2,883 | 4.99 | 58,142 | 2,441 | 4.20 |
| Total average interest earning assets and interest income incl. intragroup loans | 311,394 | 17,722 | 5.69 | 283,740 | 16,930 | 5.97 |

Detailed Financial Information - Note 4: Average Balance Sheet & Related Interest

Average assets and interest income

| | Year ended Sep 03 | | | Year ended Sep 02 | | |
|--|---------------------------|-----------------|----------------------|---------------------------|-----------------|----------------------|
| | Average balance \$m | Interest \$m | Average rate % | Average balance \$m | Interest \$m | Average rate % |
| Intragroup loans eliminations | (18,076) | (622) | 3.44 | (13,213) | (455) | 3.44 |
| Total average interest earning assets by: | | | | | | |
| <i>Australia</i> | 151,225 | 9,656 | 6.39 | 129,458 | 8,950 | 6.91 |
| <i>Europe</i> | 93,658 | 4,809 | 5.13 | 88,762 | 5,039 | 5.68 |
| <i>HomeSide</i> | | | | 3,352 | 264 | 7.88 |
| <i>Other International</i> | 48,435 | 2,635 | 5.44 | 48,955 | 2,222 | 4.54 |
| Total average interest earning assets | 293,318 | 17,100 | 5.83 | 270,527 | 16,475 | 6.09 |
| Non-interest earning assets | | | | | | |
| Investments relating to life insurance business (4) | | | | | | |
| <i>Australia</i> | 31,246 | | | 32,178 | | |
| <i>Europe</i> | 291 | | | 310 | | |
| <i>Other International</i> | 199 | | | 93 | | |
| Acceptances | | | | | | |
| <i>Australia</i> | 21,346 | | | 21,231 | | |
| <i>Europe</i> | 122 | | | 200 | | |
| <i>Other International</i> | 13 | | | 119 | | |
| Property, plant and equipment | | | | | | |
| <i>Australia</i> | 1,362 | | | 1,381 | | |
| <i>Europe</i> | 746 | | | 767 | | |
| <i>HomeSide</i> | | | | 40 | | |
| <i>Other International</i> | 119 | | | 172 | | |
| Other assets | | | | | | |
| <i>Australia</i> | 22,454 | | | 20,972 | | |
| <i>Europe</i> | 8,186 | | | 6,533 | | |
| <i>HomeSide</i> | | | | 6,481 | | |
| <i>Other International</i> | 5,115 | | | 3,617 | | |
| Total average non-interest earning assets by: | | | | | | |
| <i>Australia</i> | 76,408 | | | 75,762 | | |
| <i>Europe</i> | 9,345 | | | 7,810 | | |
| <i>HomeSide</i> | | | | 6,521 | | |
| <i>Other International</i> | 5,446 | | | 4,001 | | |
| Total average non-interest earning assets | 91,199 | | | 94,094 | | |
| Provision for doubtful debts | | | | | | |

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| | | |
|---|----------------|----------------|
| <i>Australia</i> | (1,200) | (1,413) |
| <i>Europe</i> | (767) | (936) |
| <i>HomeSide</i> | | (22) |
| <i>Other International</i> | (289) | (300) |
| Total average assets by: | | |
| <i>Australia</i> | 226,433 | 203,807 |
| <i>Europe</i> | 102,236 | 95,636 |
| <i>HomeSide</i> | | 9,851 |
| <i>Other International</i> | 53,592 | 52,656 |
| Total average assets | 382,261 | 361,950 |
| Percentage of total average assets applicable to international operations | 40.8% | 43.7% |

Detailed Financial Information - Note 4: Average Balance Sheet & Related Interest

Average liabilities and interest expense

| | Year ended Sep 03 | | | Year ended Sep 02 | | |
|--------------------------------------|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|
| | Average balance \$m | Interest \$m | Average rate % | Average balance \$m | Interest \$m | Average rate % |
| Interest bearing liabilities | | | | | | |
| Time deposits | | | | | | |
| <i>Australia</i> | 46,911 | 2,165 | 4.62 | 37,411 | 1,735 | 4.64 |
| <i>Europe</i> | 31,262 | 985 | 3.15 | 32,158 | 1,173 | 3.65 |
| <i>Other International</i> | 26,854 | 955 | 3.56 | 24,367 | 799 | 3.28 |
| Savings deposits | | | | | | |
| <i>Australia</i> | 8,010 | 337 | 4.21 | 6,035 | 255 | 4.23 |
| <i>Europe</i> | 13,439 | 261 | 1.94 | 14,056 | 300 | 2.13 |
| <i>Other International</i> | 3,243 | 107 | 3.30 | 2,702 | 62 | 2.29 |
| Other demand deposits | | | | | | |
| <i>Australia</i> | 36,290 | 1,041 | 2.87 | 35,022 | 872 | 2.49 |
| <i>Europe</i> | 13,824 | 216 | 1.56 | 14,384 | 261 | 1.81 |
| <i>Other International</i> | 2,877 | 59 | 2.05 | 4,459 | 160 | 3.59 |
| Government and Official Institutions | | | | | | |
| <i>Australia</i> | 894 | 36 | 4.03 | 805 | 31 | 3.85 |
| <i>Other International</i> | 1,948 | 23 | 1.18 | 1,706 | 39 | 2.29 |
| Due to other financial institutions | | | | | | |
| <i>Australia</i> | 5,750 | 184 | 3.20 | 4,940 | 180 | 3.64 |
| <i>Europe</i> | 25,471 | 982 | 3.86 | 16,963 | 667 | 3.93 |
| <i>Other International</i> | 14,074 | 283 | 2.01 | 17,435 | 424 | 2.43 |
| Short-term borrowings | | | | | | |
| <i>HomeSide</i> | | | n/a | 448 | 129 | 28.79 |
| <i>Other International</i> | 3,919 | 46 | 1.17 | 4,588 | 81 | 1.77 |
| Long-term borrowings | | | | | | |
| <i>Australia</i> | 19,787 | 654 | 3.31 | 19,633 | 803 | 4.09 |
| <i>HomeSide</i> | | | | 2,848 | 95 | 3.34 |
| <i>Other International</i> | 577 | 151 | 26.17 | 213 | 10 | 4.69 |
| Other interest bearing liabilities | | | | | | |
| <i>Australia</i> | 8,712 | 805 | 9.24 | 7,088 | 977 | 13.78 |
| <i>Europe</i> | 2 | 1 | n/a | 821 | | n/a |
| <i>Other International</i> | 1 | 245 | n/a | | 29 | n/a |
| Loan Capital | | | | | | |
| <i>Australia</i> | 399 | 20 | 5.01 | 626 | 29 | 4.63 |
| <i>Europe</i> | 1,246 | 125 | 10.03 | 1,167 | 142 | 12.17 |
| Intragroup loans | | | | | | |
| <i>Australia</i> | 18,076 | 622 | 3.44 | 13,213 | 455 | 3.44 |

| Average interest bearing liabilities and interest expense incl intragroup loans by: | | | | | | |
|---|---------|--------|------|---------|-------|------|
| <i>Australia</i> | 144,829 | 5,864 | 4.05 | 124,773 | 5,337 | 4.28 |
| <i>Europe</i> | 85,244 | 2,570 | 3.01 | 79,549 | 2,543 | 3.20 |
| <i>HomeSide</i> | | | | 3,296 | 224 | 6.80 |
| <i>Other International</i> | 53,493 | 1,869 | 3.49 | 55,470 | 1,604 | 2.89 |
| Total average interest bearing liabilities and interest expense incl. intragroup loans | 283,566 | 10,303 | 3.63 | 263,088 | 9,708 | 3.69 |

Detailed Financial Information - Note 4: Average Balance Sheet & Related Interest

Average liabilities and interest expense

| | Year ended Sep 03 | | | Year ended Sep 02 | | |
|--|---------------------------|-----------------|----------------------|---------------------------|-----------------|----------------------|
| | Average balance \$m | Interest \$m | Average rate % | Average balance \$m | Interest \$m | Average rate % |
| Intragroup loans eliminations | (18,076) | (622) | 3.44 | (13,213) | (455) | 3.44 |
| Total average interest bearing liabilities and interest expense by: | | | | | | |
| <i>Australia</i> | 126,753 | 5,242 | 4.14 | 111,560 | 4,882 | 4.38 |
| <i>Europe</i> | 85,244 | 2,570 | 3.01 | 79,549 | 2,543 | 3.20 |
| <i>HomeSide</i> | | | | 3,296 | 224 | 6.80 |
| <i>Other International</i> | 53,493 | 1,869 | 3.49 | 55,470 | 1,604 | 2.89 |
| Total average interest bearing liabilities and interest expense | 265,490 | 9,681 | 3.65 | 249,875 | 9,253 | 3.70 |
| Non-interest bearing liabilities | | | | | | |
| Deposits not bearing interest | | | | | | |
| <i>Australia</i> | 5,215 | | | 4,790 | | |
| <i>Europe</i> | 5,776 | | | 5,542 | | |
| <i>Other International</i> | 1,273 | | | 1,191 | | |
| Liability on acceptances | | | | | | |
| <i>Australia</i> | 21,346 | | | 21,231 | | |
| <i>Europe</i> | 122 | | | 200 | | |
| <i>Other International</i> | 13 | | | 119 | | |
| Life insurance policy liabilities (4) | | | | | | |
| <i>Australia</i> | 30,782 | | | 30,760 | | |
| <i>Europe</i> | 220 | | | 258 | | |
| <i>Other International</i> | 310 | | | 61 | | |
| Other liabilities | | | | | | |
| <i>Australia</i> | 16,485 | | | 13,888 | | |
| <i>Europe</i> | 8,126 | | | 6,404 | | |
| <i>HomeSide</i> | | | | 1,372 | | |
| <i>Other International</i> | 2,992 | | | 2,412 | | |
| Total average non-interest bearing liabilities by: | | | | | | |
| <i>Australia</i> | 73,828 | | | 70,669 | | |
| <i>Europe</i> | 14,244 | | | 12,404 | | |
| <i>HomeSide</i> | | | | 1,372 | | |
| <i>Other International</i> | 4,588 | | | 3,783 | | |
| Total average non-interest bearing liabilities | 92,660 | | | 88,228 | | |

Detailed Financial Information - Note 4: Average Balance Sheet & Related Interest**Equity**

| | Year ended Sep 03 | | | Year ended Sep 02 | | |
|--|---------------------------|-----------------|----------------------|---------------------------|-----------------|----------------------|
| | Average balance \$m | Interest \$m | Average rate % | Average balance \$m | Interest \$m | Average rate % |
| Equity | | | | | | |
| Ordinary shares | 6,559 | | | 7,878 | | |
| Preference share capital | 730 | | | 730 | | |
| Trust Preferred Securities | 5 | | | | | |
| National Income Securities | 1,945 | | | 1,945 | | |
| Contributed equity | 9,239 | | | 10,553 | | |
| Reserves | 1,285 | | | 1,811 | | |
| Retained profits | 12,735 | | | 11,415 | | |
| Parent entity interest | 23,259 | | | 23,779 | | |
| Outside equity interest in controlled entities | 852 | | | 68 | | |
| Equity | 24,111 | | | 23,847 | | |
| Total liabilities and equity | 382,261 | | | 361,950 | | |
| Percentage of total average liabilities applicable to international operations | 44.0% | | | 46.1% | | |

(1) *Includes non-accrual loans.*

(2) *Includes interest on derivatives and escrow deposits.*

(3) *The calculations for Australia, Europe, HomeSide and Other International include intragroup cross border loans/borrowings and associated interest.*

(4) *Included within investments relating to life insurance business are interest-earning debt securities. The interest earned from these securities is reported in life insurance income, and has therefore been treated as non-interest earning for the purposes of this note. The assets and liabilities held in the statutory funds of the Group's Australian life insurance business are subject to the restrictions of the Life Insurance Act 1995.*

Detailed Financial Information - Note 5: Gross Loans & Advances

5. GROSS LOANS & ADVANCES

| | Sep 03 | As at Mar 03 | Sep 02 | Change on Mar 03 | Sep 02 |
|---------------------------------------|----------------|-----------------|----------------|---------------------|---------------|
| | \$m | \$m | \$m | % | % |
| By region | | | | | |
| Ongoing operations | | | | | |
| Australia | 141,068 | 130,058 | 120,885 | 8.5 | 16.7 |
| Europe | 76,007 | 80,226 | 77,750 | (5.3) | (2.2) |
| New Zealand | 27,896 | 28,174 | 25,702 | (1.0) | 8.5 |
| United States | 3,645 | 5,031 | 7,230 | (27.5) | (49.6) |
| Asia | 3,516 | 3,327 | 3,936 | 5.7 | (10.7) |
| Total ongoing operations | 252,132 | 246,816 | 235,503 | 2.2 | 7.1 |
| Total disposed operations | | | 181 | | large |
| Total gross loans and advances | 252,132 | 246,816 | 235,684 | 2.2 | 7.0 |
| Securitised loans | 585 | 747 | 929 | (21.7) | (37.0) |
| By product | | | | | |
| Ongoing operations | | | | | |
| Housing | 111,487 | 103,458 | 95,987 | 7.8 | 16.1 |
| Term lending (1)(2) | 74,230 | 72,993 | 73,990 | 1.7 | 0.3 |
| Overdrafts | 17,205 | 18,012 | 18,765 | (4.5) | (8.3) |
| Leasing | 14,977 | 15,772 | 15,882 | (5.0) | (5.7) |
| Credit cards | 6,609 | 6,512 | 6,584 | 1.5 | 0.4 |
| Other (1)(2) | 27,624 | 30,069 | 24,295 | (8.1) | 13.7 |
| Total ongoing operations | 252,132 | 246,816 | 235,503 | 2.2 | 7.1 |
| Total disposed operations | | | 181 | | large |
| Total gross loans and advances | 252,132 | 246,816 | 235,684 | 2.2 | 7.0 |

(1) Information at 30 September 2002 in relation to reverse repurchase agreements has been reclassified from term lending to other, to ensure consistency with 30 September 2003 and 31 March 2003 balances.

(2) Loans in Europe of \$558 million at 31 March 2003 have been reclassified from other to term lending.

| | As at Sep 03 | | | |
|--|--------------|--------|------|-------|
| | Australia | Europe | Asia | Total |

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| | \$m | \$m | New Zealand \$m | United States \$m | \$m | \$m |
|---------------------------------------|----------------|---------------|-----------------------|-------------------------|--------------|----------------|
| By product & region | | | | | | |
| Housing | 83,018 | 16,570 | 11,337 | | 562 | 111,487 |
| Term Lending | 34,556 | 21,544 | 12,357 | 3,367 | 2,406 | 74,230 |
| Overdrafts | 4,810 | 11,298 | 1,097 | | | 17,205 |
| Leasing | 7,596 | 7,323 | 27 | | 31 | 14,977 |
| Credit cards | 3,850 | 1,850 | 909 | | | 6,609 |
| Other | 7,238 | 17,422 | 2,169 | 278 | 517 | 27,624 |
| Total gross loans and advances | 141,068 | 76,007 | 27,896 | 3,645 | 3,516 | 252,132 |

Detailed Financial Information - Note 5: Gross Loans & Advances

| Movement from March 2003 excluding foreign exchange | Increase / (decrease) from Mar 03 | | | | | Total |
|--|-----------------------------------|-------------|---------------------|-----------------------|-------------|------------|
| | Australia % | Europe % | New Zealand % | United States % | Asia % | |
| Housing | 10.1 | 5.8 | 9.6 | | 9.3 | 9.4 |
| Term lending (1) | 8.8 | 2.1 | 3.0 | (5.3) | 19.8 | 5.4 |
| Overdrafts | (0.3) | (0.7) | 5.6 | | | (0.2) |
| Leasing | 1.7 | (5.5) | 3.8 | | (3.1) | (2.0) |
| Credit cards | 5.6 | 2.5 | 0.8 | | | 4.0 |
| Other (1) | 3.6 | (2.0) | (14.6) | (69.3) | 8.2 | (3.7) |
| Total gross loans and advances | 8.5 | 0.7 | 3.9 | (18.3) | 16.0 | 5.1 |

| Movement from September 2002 excluding foreign exchange | Increase / (decrease) from Sep 02 | | | | | Total |
|--|-----------------------------------|-------------|---------------------|-----------------------|------------|-------------|
| | Australia % | Europe % | New Zealand % | United States % | Asia % | |
| Housing | 21.3 | 9.9 | 17.8 | large | 21.9 | 19.1 |
| Term lending (2) | 12.5 | 2.1 | 3.0 | (2.7) | 10.9 | 6.9 |
| Overdrafts | (4.2) | 6.1 | (9.9) | large | | 1.4 |
| Leasing | 6.0 | (1.2) | large | | (11.4) | 2.5 |
| Credit cards | 9.2 | (1.0) | 2.6 | | | 5.3 |
| Other (2) | 20.7 | 61.6 | (3.5) | (87.6) | (5.7) | 26.6 |
| Total gross loans and advances | 16.7 | 13.6 | 7.4 | (36.9) | 9.4 | 13.2 |

(1) Loans in Europe of \$558 million at 31 March 2003 have been reclassified from other to term lending.

(2) Information at 30 September 2002 in relation to reverse repurchase agreements has been reclassified from term lending to other, to ensure consistency with 30 September 2003 balances.

Detailed Financial Information - Note 5: Gross Loans & Advances

| <i>By Division</i> | FSA | FSE | FSNZ | CIB | WM | Other (1) | Total Ongoing Operations | Disposed Operations (2) | Total Group |
|---------------------------------------|----------------|---------------|---------------|---------------|--------------|----------------|--------------------------|-------------------------|----------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| As at 30 September 2003 | | | | | | | | | |
| Housing lending | 79,062 | 16,570 | 11,309 | 590 | 4,541 | (585) | 111,487 | | 111,487 |
| Non-housing lending | 39,277 | 33,618 | 10,178 | 55,965 | 2,000 | (393) | 140,645 | | 140,645 |
| Total gross loans and advances | 118,339 | 50,188 | 21,487 | 56,555 | 6,541 | (978) | 252,132 | | 252,132 |
| As at 31 March 2003 | | | | | | | | | |
| Housing lending | 72,057 | 16,641 | 10,828 | 610 | 4,069 | (747) | 103,458 | | 103,458 |
| Non-housing lending | 38,201 | 36,014 | 10,191 | 58,097 | 1,788 | (933) | 143,358 | | 143,358 |
| Total gross loans and advances | 110,258 | 52,655 | 21,019 | 58,707 | 5,857 | (1,680) | 246,816 | | 246,816 |
| As at 30 September 2002 | | | | | | | | | |
| Housing lending | 65,720 | 17,413 | 9,494 | 618 | 3,671 | (929) | 95,987 | 89 | 96,076 |
| Non-housing lending | 37,204 | 40,401 | 9,360 | 51,787 | 1,660 | (896) | 139,516 | 92 | 139,608 |
| Total gross loans and advances | 102,924 | 57,814 | 18,854 | 52,405 | 5,331 | (1,825) | 235,503 | 181 | 235,684 |

(1) Other includes Excess Capital, Group Funding, Corporate Centre and intra-group elimination entries.

(2) Disposed Operations includes HomeSide, Vivid and intra-group elimination entries.

Detailed Financial Information - Note 6: Net Life Insurance Income

6. NET LIFE INSURANCE INCOME

| | Half Year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|---|--------------|------------|------------------------------|----------------|-------------|------------------------------|
| | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | \$m | \$m | % | \$m | \$m | % |
| Ongoing operations | | | | | | |
| Premium and related revenue | 446 | 503 | (11.3) | 949 | 1,134 | (16.3) |
| Investment revenue | 2,535 | 224 | large | 2,759 | (988) | large |
| Life insurance income | 2,981 | 727 | large | 3,708 | 146 | large |
| Claims expense | (445) | (513) | 13.3 | (958) | (956) | (0.2) |
| Change in policy liabilities | (1,768) | 250 | large | (1,518) | 1,637 | large |
| Policy acquisition and maintenance expense | (369) | (344) | (7.3) | (713) | (751) | 5.1 |
| Investment management fees | (36) | (39) | 7.7 | (75) | (86) | 12.8 |
| Life insurance expenses | (2,618) | (646) | large | (3,264) | (156) | large |
| Net life insurance income | 363 | 81 | large | 444 | (10) | large |
| Interest expense statutory funds | (8) | (12) | 33.3 | (20) | (11) | (81.8) |
| Profit of statutory funds before income tax | 355 | 69 | large | 424 | (21) | large |
| Income tax (expense)/benefit statutory funds | (196) | 70 | large | (126) | 248 | large |
| Net profit of statutory funds before outside equity interest | 159 | 139 | 14.4 | 298 | 227 | 31.3 |
| Net (profit)/ loss attributable to outside equity interest | 22 | (6) | large | 16 | (6) | large |
| Net profit of statutory funds after outside equity interest | 181 | 133 | 36.1 | 314 | 221 | 42.1 |
| Reconciliation of net profit attributable to the sources of operating profit - statutory funds | | | | | | |
| Life company operating margins | 139 | 117 | 18.8 | 256 | 226 | 13.3 |
| Investment earnings on retained earnings | 42 | 16 | large | 58 | (5) | large |
| Net profit of statutory funds after outside equity interest | 181 | 133 | 36.1 | 314 | 221 | 42.1 |

Net life insurance income is the profit before tax excluding net interest income of the life insurance and investments businesses of the statutory funds of the life insurance companies of the Group. Refer to note 57 of the Group's annual financial report 2003 for further details.

Detailed Financial Information - Note 7: Revenue

7. REVENUE

| | Note | Half Year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|--|----------|--------------|--------|------------------------------|---------------|--------|------------------------------|
| | | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | | \$m | \$m | % | \$m | \$m | % |
| Ongoing operations | | | | | | | |
| Interest income | 2 | 8,665 | 8,435 | 2.7 | 17,100 | 16,205 | 5.5 |
| Premium and related revenue | | 446 | 503 | (11.3) | 949 | 1,134 | (16.3) |
| Investment revenue | | 2,535 | 224 | large | 2,759 | (988) | large |
| Life insurance income | 6 | 2,981 | 727 | large | 3,708 | 146 | large |
| Wealth Management other operating income | | 367 | 366 | 0.3 | 733 | 799 | (8.3) |
| Revaluation profit/(loss) | | 79 | (239) | large | (160) | (155) | (3.2) |
| Wealth Management total income (1) | | 446 | 127 | large | 573 | 644 | (11.0) |
| Total Banking other operating income | | | | | | | |
| Dividends received | | 21 | 18 | 16.7 | 39 | 35 | 11.4 |
| Profit on sale of property, plant and equipment and other assets | | 23 | 13 | 76.9 | 36 | 13 | large |
| Loan fees from banking | | 729 | 698 | 4.4 | 1,427 | 1,348 | 5.9 |
| Money transfer fees | | 514 | 509 | 1.0 | 1,023 | 1,012 | 1.1 |
| Trading income | | 307 | 318 | (3.5) | 625 | 563 | 11.0 |
| Foreign exchange income | | 5 | 7 | (28.6) | 12 | 15 | (20.0) |
| Fees and commissions | | 361 | 396 | (8.8) | 757 | 737 | 2.7 |
| Fleet service fees | | 45 | 40 | 12.5 | 85 | 58 | 46.6 |
| Other income | | 265 | 125 | large | 390 | 200 | 95.0 |
| Total Banking other operating income | | 2,270 | 2,124 | 6.9 | 4,394 | 3,981 | 10.4 |
| Eliminations | | (59) | (58) | (1.7) | (117) | (132) | 11.4 |
| Banking other operating income net of eliminations | | 2,211 | 2,066 | 7.0 | 4,277 | 3,849 | 11.1 |
| Total revenue from ongoing operations | | 14,303 | 11,355 | 26.0 | 25,658 | 20,844 | 23.1 |
| Disposed operations | | | | | | | |
| Interest income | | | | | | 270 | large |
| HomeSide | | | | | | 2,314 | large |

| | | | | | | |
|---|--------|--------|------|---------------|--------|-------|
| Proceeds from sale of HomeSide operating assets | | | | | | |
| Other | | | | 423 | | large |
| Other operating income | | | | 2,737 | | large |
| Total revenue from disposed operations | | | | 3,007 | | large |
| Significant revenue | | | | | | |
| Proceeds from sale of SR Investment (HomeSide) | | | | 2,671 | | large |
| Group eliminations | | | | (1) | | large |
| Total revenue from ordinary activities | 14,303 | 11,355 | 26.0 | 25,658 | 26,521 | (3.3) |

(1) Wealth Management total income excludes life insurance income. Refer to note 6 for further detail.

Detailed Financial Information - Note 7: Revenue

Other operating income (before revaluation profit/(loss) and significant income) by Division

| | Half Year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|--|--------------|--------------|------------------------------|--------------|--------------|------------------------------|
| | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Sep 02 |
| | \$m | \$m | % | \$m | \$m | % |
| Ongoing operations | | | | | | |
| Financial Services Australia | 1,000 | 950 | 5.3 | 1,950 | 1,780 | 9.6 |
| Financial Services Europe | 447 | 503 | (11.1) | 950 | 1,028 | (7.6) |
| Financial Services New Zealand | 162 | 167 | (3.0) | 329 | 283 | 16.3 |
| Retail Banking | 1,609 | 1,620 | (0.7) | 3,229 | 3,091 | 4.5 |
| Corporate & Institutional Banking | 585 | 505 | 15.8 | 1,090 | 887 | 22.9 |
| Other (incl. Excess Capital, Group Funding & Corporate Centre) | 76 | (1) | large | 75 | 3 | large |
| Total Banking | 2,270 | 2,124 | 6.9 | 4,394 | 3,981 | 10.4 |
| Wealth Management | 367 | 366 | 0.3 | 733 | 799 | (8.3) |
| Eliminations | (59) | (58) | (1.7) | (117) | (132) | 11.4 |
| Total ongoing operations | 2,578 | 2,432 | 6.0 | 5,010 | 4,648 | 7.8 |
| Disposed operations | | | | | | |
| HomeSide | | | | | 2,737 | large |
| Eliminations | | | | | (1) | large |
| Total disposed operations | | | | | 2,736 | large |
| Other operating income | 2,578 | 2,432 | 6.0 | 5,010 | 7,384 | (32.2) |

Detailed Financial Information - Note 8: Expenses

8. EXPENSES

| | Note | Half Year to | | | Year to | | |
|--|------|--------------|--------|--|---------|---------|--|
| | | Sep 03 | Mar 03 | Fav/ (unfav) change on Mar 03 | Sep 03 | Sep 02 | Fav/ (unfav) change on Sep 02 |
| | | \$m | \$m | % | \$m | \$m | % |
| Ongoing operations | | | | | | | |
| Interest expense | 2 | 4,992 | 4,689 | (6.5) | 9,681 | 9,003 | (7.5) |
| Claims expense | | 445 | 513 | 13.3 | 958 | 956 | (0.2) |
| Change in policy liabilities | | 1,768 | (250) | large | 1,518 | (1,637) | large |
| Policy acquisition and maintenance expense | | 369 | 344 | (7.3) | 713 | 751 | 5.1 |
| Investment management fees | | 36 | 39 | 7.7 | 75 | 86 | 12.8 |
| Life insurance expenses | 6 | 2,618 | 646 | large | 3,264 | 156 | large |
| Wealth Management other operating expenses | | 396 | 383 | (3.4) | 779 | 749 | (4.0) |
| Investor compensation and associated costs | | 16 | 11 | large | 27 | 64 | 57.8 |
| Wealth Management other operating expenses (1) | | 412 | 394 | (4.6) | 806 | 813 | 0.9 |
| Total Banking other operating expenses | | | | | | | |
| Personnel expenses | | | | | | | |
| Salaries and related on costs | | 1,259 | 1,279 | 1.6 | 2,538 | 2,462 | (3.1) |
| Superannuation | | 112 | 95 | (17.9) | 207 | 119 | (73.9) |
| Other | | 129 | 106 | (21.7) | 235 | 256 | 8.2 |
| | | 1,500 | 1,480 | (1.4) | 2,980 | 2,837 | (5.0) |
| Occupancy expenses | | | | | | | |
| Rental on operating leases | | 126 | 131 | 3.8 | 257 | 238 | (8.0) |
| Depreciation and amortisation | | 30 | 35 | 14.3 | 65 | 75 | 13.3 |
| Other | | 104 | 106 | 1.9 | 210 | 210 | |
| | | 260 | 272 | 4.4 | 532 | 523 | (1.7) |
| General expenses | | | | | | | |
| Advertising and marketing | | 77 | 84 | 8.3 | 161 | 161 | |
| Non-lending losses | | 42 | 23 | (82.6) | 65 | 47 | (38.3) |
| Communications, postage and stationery | | 190 | 189 | (0.5) | 379 | 422 | 10.2 |
| Depreciation and amortisation | | 169 | 141 | (19.9) | 310 | 288 | (7.6) |

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| | | | | | | |
|---|--------|-------|--------|---------------|--------|--------|
| Fees and commissions | 45 | 39 | (15.4) | 84 | 89 | 5.6 |
| Computer equipment and software | 168 | 109 | (54.1) | 277 | 214 | (29.4) |
| Rental on operating leases | 33 | 28 | (17.9) | 61 | 51 | (19.6) |
| Professional fees | 166 | 111 | (49.5) | 277 | 215 | (28.8) |
| Travel | 37 | 26 | (42.3) | 63 | 41 | (53.7) |
| Freight and cartage | 33 | 35 | 5.7 | 68 | 59 | (15.3) |
| Operational (bank & bureau) charges | 42 | 46 | 8.7 | 88 | 102 | 13.7 |
| Other expenses | 153 | 167 | 8.4 | 320 | 283 | (13.1) |
| | 1,155 | 998 | (15.7) | 2,153 | 1,972 | (9.2) |
| Total Banking other operating expenses | 2,915 | 2,750 | (6.0) | 5,665 | 5,332 | (6.2) |
| Eliminations | (59) | (58) | 1.7 | (117) | (132) | (11.4) |
| Banking other operating expenses net of eliminations | 2,856 | 2,692 | (6.1) | 5,548 | 5,200 | (6.7) |
| Other operating expenses | 3,268 | 3,086 | (5.9) | 6,354 | 6,013 | (5.7) |
| Total operating expenses from ongoing operations | 10,878 | 8,421 | (29.2) | 19,299 | 15,172 | (27.2) |

Detailed Financial Information - Note 8: Expenses

| | Note | Half Year to | | Fav/ (unfav) change on | Year to | | Fav/ (unfav) change on |
|--|------|--------------|--------|------------------------------|---------|--------|------------------------------|
| | | Sep 03 | Mar 03 | Mar 03 | Sep 03 | Sep 02 | Mar 02 |
| | | \$m | \$m | % | \$m | \$m | % |
| Disposed operations | | | | | | | |
| Interest expense | | | | | | 250 | large |
| HomeSide | | | | | | | |
| Carrying value and expenses attributable to the sale of HomeSide operating assets | | | | | | 2,322 | large |
| Other | | | | | | 371 | large |
| Other disposed operations | | | | | | 2 | large |
| Operating expenses | | | | | | 2,695 | large |
| Total operating expenses from disposed operations | | | | | | 2,945 | large |
| Significant expenses | | | | | | | |
| Restructuring expenses | 13 | | | | | 580 | large |
| Carrying value of SR Investment sold | 13 | | | | | 2,686 | large |
| Significant expenses | | | | | | 3,266 | large |
| Group eliminations | | | | | | (1) | large |
| Total operating expenses before goodwill and charge to provide for doubtful debts | | 10,878 | 8,421 | (29.2) | 19,299 | 21,382 | 9.7 |
| Amortisation of goodwill | | 49 | 49 | | 98 | 101 | 3.0 |
| Charge to provide for doubtful debts | 10 | 311 | 322 | 3.4 | 633 | 697 | 9.2 |
| Total expenses | | 11,238 | 8,792 | (27.8) | 20,030 | 22,180 | 9.7 |

Operating expenses (before goodwill, significant expenses and charge to provide for doubtful debts) by Division

| | | | | | | | |
|--|--|-------|-------|-------|-------|-------|--------|
| Ongoing operations | | | | | | | |
| Financial Services Australia | | 1,288 | 1,214 | (6.1) | 2,502 | 2,450 | (2.1) |
| Financial Services Europe | | 847 | 873 | 3.0 | 1,720 | 1,677 | (2.6) |
| Financial Services New Zealand | | 241 | 252 | 4.4 | 493 | 444 | (11.0) |
| Retail Banking | | 2,376 | 2,339 | (1.6) | 4,715 | 4,571 | (3.2) |
| Corporate & Institutional Banking | | 380 | 374 | (1.6) | 754 | 759 | 0.7 |
| Other (incl. Excess Capital, Group Funding & Corporate | | 159 | 37 | large | 196 | 2 | large |

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| | | | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Centre) | | | | | | |
| Total Banking | 2,915 | 2,750 | (6.0) | 5,665 | 5,332 | (6.2) |
| Wealth Management | 412 | 394 | (4.6) | 806 | 813 | 0.9 |
| Eliminations | (59) | (58) | 1.7 | (117) | (132) | (11.4) |
| Total ongoing operations | 3,268 | 3,086 | (5.9) | 6,354 | 6,013 | (5.7) |
| Disposed operations | | | | | | |
| Vivid | | | | | 2 | large |
| HomeSide | | | | | 2,693 | large |
| Eliminations | | | | | (1) | large |
| Total disposed operations | | | | | 2,694 | large |
| Other operating expenses | 3,268 | 3,086 | (5.9) | 6,354 | 8,707 | 27.0 |

(1) *Wealth Management other operating expenses excludes life insurance expenses. Refer to note 6 for further detail.*

Detailed Financial Information - Note 9: Full Time Equivalent Employees

9. FULL TIME EQUIVALENT EMPLOYEES (1)

| | Sep 03 | As at Mar 03 | Sep 02 | Change on Mar 03 | Sep 02 |
|---|---------------|-----------------|---------------|---------------------|--------------|
| | No. | No. | No. | % | % |
| By Region | | | | | |
| Ongoing operations | | | | | |
| Australia (2) (3) (4) | 23,880 | 24,288 | 24,294 | (1.7) | (1.7) |
| Europe | 13,104 | 13,298 | 13,540 | (1.5) | (3.2) |
| New Zealand (2) | 4,688 | 4,640 | 4,560 | 1.0 | 2.8 |
| United States | 136 | 135 | 127 | 0.7 | 7.1 |
| Asia (4) | 732 | 641 | 641 | 14.2 | 14.2 |
| Total ongoing operations | 42,540 | 43,002 | 43,162 | (1.1) | (1.4) |
| Total disposed operations | | | 40 | large | large |
| Total full time equivalent employees (FTEs) | 42,540 | 43,002 | 43,202 | (1.1) | (1.5) |
| By Division | | | | | |
| Ongoing operations | | | | | |
| Financial Services Australia (2) (5) | 17,233 | 18,149 | 17,928 | (5.0) | (3.9) |
| Financial Services Europe | 11,423 | 11,563 | 11,719 | (1.2) | (2.5) |
| Financial Services New Zealand | 4,257 | 4,221 | 4,277 | 0.9 | (0.5) |
| Retail Banking | 32,913 | 33,933 | 33,924 | (3.0) | (3.0) |
| Corporate & Institutional Banking | 2,612 | 2,537 | 2,564 | 3.0 | 1.9 |
| Other (incl. Excess Capital, Group Funding & Corporate Centre) (3) (5) | 841 | 622 | 569 | 35.2 | 47.8 |
| Total Banking | 36,366 | 37,092 | 37,057 | (2.0) | (1.9) |
| Wealth Management (4) | 6,174 | 5,910 | 6,105 | 4.5 | 1.1 |
| Total ongoing operations | 42,540 | 43,002 | 43,162 | (1.1) | (1.4) |
| Total disposed operations | | | 40 | large | large |
| Total full time equivalent employees (FTEs) | 42,540 | 43,002 | 43,202 | (1.1) | (1.5) |
| Average half year FTEs | 43,064 | 43,016 | 43,682 | 0.1 | (1.4) |

(1) Full-time equivalent staff include part-time staff (pro-rated) and non-payroll FTEs (ie. contractors).

(2) Acquisition of Hertz Fleetlease Ltd on 1 October 2003 increased Financial Services Australia FTEs by 166 (Australia 37, New Zealand 129).

(3) *Includes the impact of growth through global projects (ISI, Basel II and IFRS) of 169.*

(4) *Acquisition of Plum Financial Services Limited and an increased interest in Advance MLC Assurance Co. Limited (Thailand) increased FTEs by 172 as at 30 September 2003 (Australia 152, Asia 20).*

(5) *Comparative information in relation to FTEs has been restated to reflect the transfer of technology FTEs in relation to Group-wide projects from Financial Services Australia to Corporate Centre.*

Detailed Financial Information - Note 10: Doubtful Debts

10. DOUBTFUL DEBTS

| | Half Year to | | Fav/ (unfav) change on Mar 03 % | Year to | | Fav/ (unfav) change on Sep 02 % |
|--|---------------|---------------|---|---------------|---------------|---|
| | Sep 03 \$m | Mar 03 \$m | | Sep 03 \$m | Sep 02 \$m | |
| Total charge for doubtful debts by Region | | | | | | |
| Ongoing operations | | | | | | |
| Australia | 161 | 160 | (0.6) | 321 | 108 | large |
| Europe | 126 | 151 | 16.6 | 277 | 381 | 27.3 |
| New Zealand | 11 | | large | 11 | (12) | large |
| United States | 13 | 21 | 38.1 | 34 | 169 | 79.9 |
| Asia | | (10) | large | (10) | 1 | large |
| Total ongoing operations | 311 | 322 | 3.4 | 633 | 647 | 2.2 |
| Total disposed operations | | | | | 50 | large |
| Total charge to provide for doubtful debts | 311 | 322 | 3.4 | 633 | 697 | 9.2 |
| Total charge for doubtful debts by Division | | | | | | |
| Ongoing operations | | | | | | |
| Financial Services Australia | 142 | 156 | 9.0 | 298 | 146 | large |
| Financial Services Europe | 119 | 135 | 11.9 | 254 | 378 | 32.8 |
| Financial Services New Zealand | 14 | 7 | large | 21 | (5) | large |
| Retail Banking | 275 | 298 | 7.7 | 573 | 519 | (10.4) |
| Corporate & Institutional Banking | 40 | 23 | (73.9) | 63 | 167 | 62.3 |
| Other (incl. Excess Capital, Group Funding & Corporate Centre) (1) | (4) | | large | (4) | (38) | 89.5 |
| Total Banking | 311 | 321 | 3.1 | 632 | 648 | 2.5 |
| Wealth Management | | 1 | large | 1 | (1) | large |
| Total ongoing operations | 311 | 322 | 3.4 | 633 | 647 | 2.2 |
| Total disposed operations | | | large | | 50 | large |
| Total charge to provide for doubtful debts | 311 | 322 | 3.4 | 633 | 697 | 9.2 |

(1) Reallocation of the Group statistical provisioning reserve to the operating divisions in the year to 30 September 2002.

Detailed Financial Information - Note 10: Doubtful Debts**Movement in provisions for doubtful debts**

| | Year to Sep 03 | | | Year to Sep 02 | | |
|--|----------------|---------|---------|----------------|---------|-------|
| | Specific | General | Total | Specific | General | Total |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Opening balance | | | | | | |
| Ongoing operations | 553 | 2,022 | 2,575 | 586 | 2,180 | 2,766 |
| HomeSide | | | | | 27 | 27 |
| Group opening balance | 553 | 2,022 | 2,575 | 586 | 2,207 | 2,793 |
| Movements relating to ongoing operations | | | | | | |
| Transfer to/(from) specific/general provision | 746 | (746) | | 788 | (788) | |
| Bad debts recovered | 217 | | 217 | 171 | | 171 |
| Bad debts written off | (1,015) | | (1,015) | (985) | | (985) |
| Charge to profit and loss | | 633 | 633 | | 647 | 647 |
| Foreign currency translation and consolidation adjustments | (38) | (116) | (154) | (7) | (21) | (28) |
| Movements relating to disposed operations | | | | | | |
| HomeSide | | | | | | |
| Charge to profit and loss | | | | | 46 | 46 |
| Provision no longer required | | | | | (70) | (70) |
| Foreign currency translation and consolidation adjustments | | | | | (3) | (3) |
| Vivid | | | | | | |
| Charge to profit and loss | | | | | 4 | 4 |
| Closing balance | | | | | | |
| Ongoing operations | 463 | 1,793 | 2,256 | 553 | 2,022 | 2,575 |
| Total provisions for doubtful debts | 463 | 1,793 | 2,256 | 553 | 2,022 | 2,575 |

Detailed Financial Information - Note 11: Asset Quality

11. ASSET QUALITY

| | Sep 03 | As at Mar 03 | Sep 02 | Change on Mar 03 | Sep 02 |
|--|--------------|-----------------|--------------|---------------------|---------------|
| | \$m | \$m | \$m | % | % |
| Summary of impaired assets | | | | | |
| Gross non-accrual loans | 1,379 | 1,583 | 1,590 | (12.9) | (13.3) |
| Gross restructured loans | | 1 | 6 | large | large |
| Gross assets acquired through security enforcement | 2 | 2 | 3 | | (33.3) |
| Gross impaired assets | 1,381 | 1,586 | 1,599 | (12.9) | (13.6) |
| Less: Specific provisions - non-accrual loans (1) | (422) | (525) | (500) | (19.6) | (15.6) |
| Net impaired assets | 959 | 1,061 | 1,099 | (9.6) | (12.7) |

(1) Specific provision - non-accrual loans includes \$48 million of specific provision in relation to accrued portfolio facilities past due 90-180 days within credit cards.

| | As at Sep 03 | | As at Mar 03 | | As at Sep 02 | |
|--|--------------|------------|--------------|--------------|--------------|--------------|
| | Gross | Net | Gross | Net | Gross | Net |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Total impaired assets by region | | | | | | |
| Ongoing operations | | | | | | |
| Australia | 658 | 420 | 862 | 556 | 894 | 595 |
| Europe | 375 | 248 | 447 | 302 | 544 | 399 |
| New Zealand | 202 | 187 | 35 | 29 | 27 | 23 |
| United States | 145 | 104 | 241 | 173 | 117 | 66 |
| Asia | 1 | | 1 | 1 | 2 | 1 |
| Total ongoing operations | 1,381 | 959 | 1,586 | 1,061 | 1,584 | 1,084 |
| Total disposed operations | | | | | 15 | 15 |
| Total gross impaired assets | 1,381 | 959 | 1,586 | 1,061 | 1,599 | 1,099 |

| | Australia | Europe | New Zealand | United States | Asia | Total |
|--|-----------|--------|-------------|---------------|------|-------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Movement in gross impaired assets | | | | | | |
| Balance at 31 March 2002 | 917 | 582 | 36 | 220 | 2 | 1,757 |
| New | 440 | 128 | 25 | 9 | | 602 |
| Written off | (195) | (141) | (4) | (101) | | (441) |
| Returned to performing or repaid | (268) | (64) | (31) | (1) | | (364) |

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| | | | | | | |
|---|-------|-------|------|------|-----|-------|
| Foreign currency translation adjustments | | 41 | 1 | 3 | | 45 |
| Balance at 30 September 2002 | 894 | 546 | 27 | 130 | 2 | 1,599 |
| New | 413 | 175 | 29 | 219 | | 836 |
| Written off (2) | (199) | (156) | (2) | (1) | (1) | (359) |
| Returned to performing or repaid (2) | (246) | (76) | (21) | (87) | | (430) |
| Foreign currency translation adjustments | | (42) | 2 | (20) | | (60) |
| Balance at 31 March 2003 | 862 | 447 | 35 | 241 | 1 | 1,586 |
| New | 207 | 131 | 199 | | | 537 |
| Written off | (289) | (156) | (3) | (35) | | (483) |
| Returned to performing or repaid | (122) | (20) | (23) | (41) | | (206) |
| Foreign currency translation adjustments | | (27) | (6) | (20) | | (53) |
| Gross impaired assets at 30 September 2003 | 658 | 375 | 202 | 145 | 1 | 1,381 |

(2) For the half year to March 2003, gross impaired assets written off and gross impaired assets returned to performing or repaid in relation to Australia were restated by an equal and off-setting amount of \$66 million.

Detailed Financial Information - Note 11: Asset Quality

| | Sep 03 | As at Mar 03 | Sep 02 |
|---|-------------|-----------------|--------|
| | % | % | % |
| Gross non-accrual loans to gross loans & acceptances - by region | | | |
| Ongoing operations | | | |
| Australia | 0.41 | 0.57 | 0.63 |
| Europe | 0.49 | 0.55 | 0.70 |
| New Zealand | 0.72 | 0.12 | 0.11 |
| United States | 3.98 | 4.79 | 1.61 |
| Asia | 0.03 | 0.03 | 0.05 |
| Total ongoing operations | 0.51 | 0.59 | 0.62 |
| Total disposed operations | | | 7.74 |
| Total gross non-accrual loans to gross loans & acceptances | 0.51 | 0.59 | 0.62 |
| Group provisioning coverage ratios | | | |
| Net impaired assets to total equity (1) | 3.9 | 4.5 | 4.7 |
| Net impaired assets to total equity plus general provision (1) | 3.7 | 4.1 | 4.3 |
| Specific provision to gross impaired assets | 33.5 | 36.1 | 34.6 |
| General and specific provisions to gross impaired assets | 163.4 | 155.7 | 161.0 |
| General provision to risk-weighted assets | 0.71 | 0.75 | 0.82 |

(1) Total parent entity interest in equity.

The amounts below are not classified as impaired assets and therefore are not included in the summary on the previous page.

| | Sep 03 | As at Mar 03 | Sep 02 | Change on Mar 03 | Sep 02 |
|--|--------|-----------------|--------|---------------------|--------|
| | \$m | \$m | \$m | % | % |
| Memorandum disclosure | | | | | |
| Accruing loans past due 90 days or more with adequate security (net) (2) | 106 | 275 | 283 | (61.5) | (62.5) |
| Accruing portfolio facilities past due 90 to 180 days (net) | 23 | 26 | 30 | (11.5) | (23.3) |
| 90 days past due loans - by region | | | | | |
| Ongoing operations | | | | | |
| Australia | 61 | 43 | 29 | 41.9 | large |

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| | | | | | |
|------------------------------------|------------|-----|-----|--------|--------|
| Europe | 41 | 42 | 45 | (2.4) | (8.9) |
| New Zealand(2) | 4 | 190 | 209 | (97.9) | (98.1) |
| Total 90 day past due loans | 106 | 275 | 283 | (61.5) | (62.5) |

(2) *Balances at 31 March 2003 and 30 September 2002 have been restated to reflect the revised treatment of accruing loans past due 90 days or more with adequate security.*

Detailed Financial Information - Note 12: Income Tax Reconciliation

12. INCOME TAX RECONCILIATION

| | Half Year to | | Year to | |
|---|--------------|--------|--------------|--------|
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| | \$m | \$m | \$m | \$m |
| Group | | | | |
| Operating profit before income tax | | | | |
| Australia | 1,984 | 1,325 | 3,309 | 2,288 |
| Overseas | 1,081 | 1,238 | 2,319 | 2,053 |
| Operating (profit) /loss before tax attributable to the statutory funds of the life insurance business | (355) | (69) | (424) | 21 |
| Total operating profit excluding that attributable to the statutory funds of the life insurance business before income tax | 2,710 | 2,494 | 5,204 | 4,362 |
| Prima facie income tax at 30% | 813 | 748 | 1,561 | 1,309 |
| Add/(deduct) tax effect of permanent differences: | | | | |
| Attributable foreign income | 13 | 13 | 26 | 25 |
| Non-allowable depreciation on buildings | 2 | 4 | 6 | 7 |
| Rebate of tax on dividends, interest etc | (5) | (23) | (28) | 44 |
| Foreign tax rate differences | (1) | (3) | (4) | (6) |
| Amortisation of goodwill | 14 | 15 | 29 | 29 |
| Future income tax benefits no longer required | 2 | | 2 | 2 |
| Non-taxable amounts attributable to HomeSide US operation | | | | (53) |
| Restatement of tax timing differences due to changes in the Australian company income tax rate | | | | 2 |
| Recognition of HomeSide US operation future income tax benefit not previously recognised | | | | (89) |
| Under/(over) provision in prior year | (12) | 6 | (6) | 6 |
| Other | (27) | (4) | (31) | (66) |
| Total income tax expense on operating profit excluding that attributable to the statutory funds of the life insurance business | 799 | 756 | 1,555 | 1,210 |
| Income tax attributable to the statutory funds of the life insurance business | 196 | (70) | 126 | (248) |
| Total income tax expense | 995 | 686 | 1,681 | 962 |
| Effective tax rate excluding statutory funds attributable to the life insurance business | 29.5% | 30.3% | 29.9% | 27.7% |
| By Division | | | | |
| Ongoing operations | | | | |
| Financial Services Australia | 412 | 386 | 798 | 734 |
| Financial Services Europe | 190 | 226 | 416 | 440 |
| Financial Services New Zealand | 78 | 77 | 155 | 136 |
| Retail Banking | 680 | 689 | 1,369 | 1,310 |
| Corporate & Institutional Banking | 99 | 126 | 225 | 194 |
| Other (incl. Excess Capital, Group Funding & Corporate Centre) | (48) | (34) | (82) | (44) |

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| | | | | |
|---------------------------------|-----|------|--------------|-------|
| Total Banking | 731 | 781 | 1,512 | 1,460 |
| Wealth Management | | | | |
| Operating profit | 190 | (61) | 129 | (220) |
| Revaluation profit/(loss) | 74 | (34) | 40 | (3) |
| Total ongoing operations | 995 | 686 | 1,681 | 1,237 |
| Total disposed operations | | | | (86) |
| Significant items | | | | (189) |
| Total income tax expense | 995 | 686 | 1,681 | 962 |

Detailed Financial Information - Note 12: Income Tax Reconciliation

| | Half Year to | | Year to | |
|---|----------------|--------------|--------------|--------------|
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| | \$m | \$m | \$m | \$m |
| Supplementary Income Tax Reconciliation Wealth Management | | | | |
| Operating profit before income tax | | | | |
| Australia | 353 | 73 | 426 | (1) |
| Overseas | 28 | 33 | 61 | 79 |
| Operating (profit)/loss before tax attributable to the statutory funds of the life insurance business | (355) | (69) | (424) | 21 |
| Total operating profit/(loss) excluding that attributable to the statutory funds of the life insurance business before income tax | 26 | 37 | 63 | 99 |
| Prima facie income tax at 30% | 8 | 11 | 19 | 30 |
| Add/(deduct) tax effect of permanent differences: | | | | |
| Foreign tax rate differences | 2 | (1) | 1 | 1 |
| Amortisation of goodwill | | | | (4) |
| Restatement of tax timing differences due to changes in the Australian company income tax rate | | | | 2 |
| Under/(over) provision in prior year | (10) | 7 | (3) | 6 |
| Other | (6) | (8) | (14) | (7) |
| Total income tax expense/(benefit) on operating profit excl. that attributable to the statutory funds of the life insurance business | (6) | 9 | 3 | 28 |
| Income tax attributable to the statutory funds of the life insurance business | 196 | (70) | 126 | (248) |
| Total income tax expense/(benefit) attributable to operating profit (1) | 190 | (61) | 129 | (220) |
| Effective tax rate excluding statutory funds attributable to the life insurance business | (23.1)% | 24.3% | 4.8% | 28.3% |

(1) Wealth Management total income tax expense/(benefit) excludes the tax benefit on significant items.

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Banking operations before goodwill | | | | |
| Cash earnings before income tax | | | | |
| Australia | 1,551 | 1,496 | 3,047 | 2,933 |
| Overseas | 1,103 | 1,249 | 2,352 | 2,169 |
| Total cash earnings | 2,654 | 2,745 | 5,399 | 5,102 |
| Prima facie income tax at 30% | 796 | 824 | 1,620 | 1,531 |
| Add/(deduct) tax effect of permanent differences: | | | | |
| Attributable foreign income | 13 | 13 | 26 | 25 |
| Non-allowable depreciation on buildings | 2 | 4 | 6 | 7 |
| Rebate of tax on dividends, interest etc | (5) | (23) | (28) | 44 |
| Foreign tax rate differences | (3) | (2) | (5) | (7) |

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| | | | | |
|--|--------------|--------------|--------------|--------------|
| Distributions outside the Group | (10) | (8) | (18) | (21) |
| Non-assessable inter-branch income | (16) | (15) | (31) | (24) |
| Future income tax benefits no longer required | 2 | | 2 | (32) |
| Under/(over) provision in prior year | (2) | (1) | (3) | |
| Other | (46) | (11) | (57) | (63) |
| Total income tax expense on cash earnings | 731 | 781 | 1,512 | 1,460 |
| Effective tax rate | 27.5% | 28.5% | 28.0% | 28.6% |

Detailed Financial Information - Note 13: Significant Items

13. SIGNIFICANT ITEMS

| | Half Year to | | Year to | |
|---|--------------|--------|---------|---------|
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 |
| | \$m | \$m | \$m | \$m |
| Ongoing operations | | | | |
| Restructuring expenses | | | | (580) |
| Tax benefit | | | | 168 |
| Net restructuring expenses | | | | (412) |
| Disposal of SR Investment (HomeSide) | | | | |
| Proceeds on the sale of SR Investment | | | | 2,671 |
| Cost of SR Investment sold | | | | (2,686) |
| Loss on sale of SR Investment | | | | (15) |
| Income tax benefit | | | | 21 |
| Net profit on sale of SR Investment | | | | 6 |
| Significant items after tax | | | | (406) |

Restructuring expenses

During 2002, the Group recognised costs of \$412 million after tax resulting from its Positioning for Growth (PFG) program and related activities. The initiative comprised fundamentally of a reorganisation of the Group structure as well as a series of revenue and cost enhancement initiatives. Restructuring expenses primarily related to redundancies of \$230 million, Technology write-downs of \$88 million, surplus lease space of \$54 million, and other restructuring costs of \$40 million. During 2002, payments of \$101 million (before tax) were incurred in relation to 859 redundancies.

Sale of HomeSide

On 1 October 2002, the National sold all of its shares in SR Investment, Inc., the parent company of HomeSide Lending, Inc., to Washington Mutual Bank, FA. Total proceeds were approximately US\$1.5 billion (A\$2.7 billion), comprised of the interim settlement amount of approximately US\$1.3 billion based on an agreed estimated value of the net assets sold as at closing, plus approximately US\$0.2 billion representing amounts receivable in relation to the sale of bulk mortgage servicing rights. This resulted in a profit on sale after tax of US\$3 million (A\$6 million), which was recognised as a significant item for the year ending 30 September 2002.

Detailed Financial Information - Note 14: Exchange Rates

14. EXCHANGE RATES

Exchange rates

| | Statement of Financial Performance | | | | Statement of Financial Position Spot as at | | |
|-----------------------|---------------------------------------|--------|--------------------|--------|--|--------|--------|
| | Average Half Year to | | Average Year to | | Sep 03 | Mar 03 | Sep 02 |
| | Sep 03 | Mar 03 | Sep 03 | Sep 02 | | | |
| British Pounds | 0.4022 | 0.3626 | 0.3824 | 0.3622 | 0.4072 | 0.3828 | 0.3474 |
| Euros | 0.5742 | 0.5554 | 0.5648 | 0.5798 | 0.5850 | 0.5571 | 0.5528 |
| United States Dollars | 0.6494 | 0.5757 | 0.6125 | 0.5324 | 0.6804 | 0.6038 | 0.5440 |
| New Zealand Dollars | 1.1255 | 1.1028 | 1.1142 | 1.1992 | 1.1446 | 1.0908 | 1.1565 |

Impact on Statement of Financial Performance of exchange rate movements on the ongoing operations result

| Year to September 2003 since September 2002 Favourable/(unfavourable) | Europe \$m | New Zealand \$m | United States \$m | Asia \$m | Total \$m |
|---|---------------|-----------------------|-------------------------|-------------|--------------|
| Net interest income | (128) | 54 | (40) | (10) | (124) |
| Other operating income | (60) | 33 | (13) | (4) | (44) |
| Other operating expenses | 92 | (41) | 13 | 8 | 72 |
| Charge to provide for doubtful debts | 16 | (1) | 5 | (1) | 19 |
| Income tax expense | 22 | (12) | 2 | 1 | 13 |
| Cash earnings from ongoing operations | (58) | 33 | (33) | (6) | (64) |
| Half year to September 2003 since March 2003 Favourable/(unfavourable) | Europe \$m | New Zealand \$m | United States \$m | Asia \$m | Total \$m |
| Net interest income | (132) | (8) | (17) | (5) | (162) |

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| | | | | | |
|--|------|-----|------|-----|------|
| Other operating income | (61) | (5) | (5) | (2) | (73) |
| Other operating expenses | 97 | 6 | 6 | 4 | 113 |
| Charge to provide for doubtful debts | 16 | | 2 | (1) | 17 |
| Income tax expense | 22 | 2 | 1 | 1 | 26 |
| Cash earnings from ongoing operations | (58) | (5) | (13) | (3) | (79) |

Detailed Financial Information - Note 14: Exchange Rates

Impact on Statement of Financial Position of exchange rate movements on the September 2003 ongoing operations

| Since September 2002 increase/(decrease) | Europe \$m | New Zealand \$m | United States \$m | Asia \$m | Total \$m |
|---|---------------|-----------------------|-------------------------|-------------|--------------|
| Housing | (2,419) | 99 | (2) | (116) | (2,438) |
| Term Lending | (3,389) | 123 | (868) | (505) | (4,639) |
| Overdrafts | (1,792) | 12 | (18) | | (1,798) |
| Leasing | (1,259) | | | (8) | (1,267) |
| Credit cards | (313) | 9 | | | (304) |
| Other | (1,872) | 24 | (561) | (93) | (2,502) |
| Gross loans and advances | (11,044) | 267 | (1,449) | (722) | (12,948) |
| Other assets | (5,722) | 55 | (3,429) | (821) | (9,917) |
| Total assets | (16,766) | 322 | (4,878) | (1,543) | (22,865) |
| Deposits and other borrowings | (10,415) | 218 | (2,863) | (720) | (13,780) |

| Since March 2003 increase/(decrease) | Europe \$m | New Zealand \$m | United States \$m | Asia \$m | Total \$m |
|---|---------------|-----------------------|-------------------------|-------------|--------------|
| Housing | (976) | (511) | | (65) | (1,552) |
| Term Lending | (1,312) | (591) | (451) | (212) | (2,566) |
| Overdrafts | (720) | (51) | | | (771) |
| Leasing | (492) | (2) | | (4) | (498) |
| Credit cards | (114) | (44) | | | (158) |
| Other | (1,138) | (125) | (116) | (14) | (1,393) |
| Gross loans and advances | (4,752) | (1,324) | (567) | (295) | (6,938) |
| Other assets | (2,782) | (258) | (819) | (531) | (4,390) |
| Total assets | (7,534) | (1,582) | (1,386) | (826) | (11,328) |
| Deposits and other borrowings | (3,730) | (1,045) | (1,570) | (471) | (6,816) |

Detailed Financial Information - Note 15: Capital Adequacy

15. CAPITAL ADEQUACY

Regulatory capital position

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

| Reconciliation to shareholders funds | Sep 03 | As at Mar 03 | Sep 02 |
|---|----------------|-----------------|----------------|
| | \$m | \$m | \$m |
| Contributed equity | 9,728 | 9,052 | 9,931 |
| Reserves | 893 | 1,254 | 2,105 |
| Retained profits (1) | 13,786 | 13,224 | 11,148 |
| Outside equity interest | 2,804 | 285 | 67 |
| Estimated reinvestment under dividend reinvestment plan | 140 | 163 | 127 |
| Less: | | | |
| Goodwill | (740) | (787) | (775) |
| Estimated final dividend (1) | (1,248) | (1,205) | |
| Intangible assets - Wealth Management | (2,448) | (2,448) | (2,448) |
| Fair value adjustment on mortgage servicing rights (10% MSR) | | | (131) |
| Asset revaluation reserve | (16) | (7) | (7) |
| Deconsolidation of Wealth Management profits (net of dividends) (2) | (290) | (125) | (719) |
| FITB (excluding FITB on the general provision for doubtful debts) (3) | (66) | (108) | |
| Non - qualifying outside equity interest | (2,804) | (285) | (67) |
| Tier 1 Capital | 19,739 | 19,013 | 19,231 |
| Asset revaluation reserve | 16 | 7 | 7 |
| General provision for doubtful debts | 1,248 | 1,323 | 1,414 |
| Perpetual floating rate notes | 367 | 414 | 460 |
| Dated subordinated debts | 5,390 | 4,666 | 6,174 |
| Exchangeable capital units | 1,262 | 1,262 | 1,262 |
| Notional revaluation of investment securities to market | 37 | 21 | 12 |
| Tier 2 Capital | 8,320 | 7,693 | 9,329 |
| Other deductions (4) | (3,591) | (3,393) | (3,253) |

| | | | |
|-------------------------------------|----------------|---------|---------|
| Total regulatory capital | 24,468 | 23,313 | 25,307 |
| Risk-weighted assets - credit risk | 248,308 | 250,703 | 244,363 |
| Risk-weighted assets - market risk | 4,057 | 3,666 | 3,475 |
| Total risk-weighted assets | 252,365 | 254,369 | 247,838 |
| Risk adjusted capital ratios | | | |
| Tier 1 | 7.82% | 7.47% | 7.76% |
| Tier 2 | 3.30% | 3.02% | 3.76% |
| Deductions | (1.42)% | (1.33)% | (1.31)% |
| Total capital | 9.70% | 9.16% | 10.21% |

(1) *Effective 1 October 2002, the Group adopted the new Accounting Standard AASB 1044, which has resulted in a change in the accounting for dividend provisions. Under APRA guidelines the estimated dividend must be deducted from Tier 1 Capital.*

(2) *From 31 March 2003, deconsolidation of Wealth Management profits are based on statutory accounts. Prior periods were based on the management accounts.*

(3) *APRA requires any excess FITB (excluding FITB impact on the general provision for doubtful debts) over the provision for deferred income) tax liabilities be deducted from Tier 1 capital.*

(4) *Includes \$2,959 million investment in non-consolidated controlled entities (net of intangible component deducted from Tier 1.)*

Detailed Financial Information - Note 15: Capital Adequacy

| Adjusted common equity ratio reconciliation | Sep 03 | As at Mar 03 | Sep 02 |
|---|----------------|-----------------|---------|
| | \$m | \$m | \$m |
| Tier 1 Capital | 19,739 | 19,013 | 19,231 |
| Adjusted for: | | | |
| National Income Securities | (1,945) | (1,945) | (1,945) |
| Preference shares | (730) | (730) | (730) |
| Trust Preferred Securities | (975) | | |
| Other deductions | (3,591) | (3,393) | (3,253) |
| Adjusted common equity | 12,498 | 12,945 | 13,303 |
| Total risk-weighted assets | 252,365 | 254,369 | 247,838 |
| Adjusted common equity ratio | 4.95% | 5.09% | 5.37% |

Detailed Financial Information - Note 16: Cash Earnings per Share

16. CASH EARNINGS PER SHARE

| | Year to | | | |
|--|--------------|--------------|--------------|--------------|
| | Sep 03 | | Sep 02 | |
| | Basic | Diluted (1) | Basic | Diluted (1) |
| Earnings (\$m) | | | | |
| Cash earnings before significant items (2) | 4,070 | 4,070 | 3,845 | 3,845 |
| Potential dilutive adjustments | | | | |
| Interest expense on exchangeable capital units | | 90 | | 102 |
| Adjusted cash earnings before significant items | 4,070 | 4,160 | 3,845 | 3,947 |
| Weighted average ordinary shares (no. millions) | | | | |
| Weighted average ordinary shares | 1,516 | 1,516 | 1,549 | 1,549 |
| Potential dilutive ordinary shares | | | | |
| Options | | 4 | | 8 |
| Partly paid ordinary shares | | 1 | | 1 |
| Exchangeable capital units | | 65 | | 66 |
| Total weighted average ordinary shares | 1,516 | 1,586 | 1,549 | 1,624 |
| Cash earnings per share (3) (cents) | 268.5 | 262.3 | 248.2 | 243.0 |

| | Half Year to | | | |
|--|--------------|--------------|--------------|--------------|
| | Sep 03 | | Mar 03 | |
| | Basic | Diluted (1) | Basic | Diluted (1) |
| Earnings (\$m) | | | | |
| Cash earnings before significant items (2) | 2,043 | 2,043 | 2,027 | 2,027 |
| Potential dilutive adjustments | | | | |
| Interest expense on exchangeable capital units | | 42 | | 48 |
| Adjusted cash earnings before significant items | 2,043 | 2,085 | 2,027 | 2,075 |
| Weighted average ordinary shares (no. millions) | | | | |
| Weighted average ordinary shares | 1,508 | 1,508 | 1,524 | 1,524 |
| Potential dilutive ordinary shares | | | | |
| Options | | 4 | | 5 |
| Partly paid ordinary shares | | | | 1 |
| Exchangeable capital units | | 65 | | 65 |
| Total weighted average ordinary shares | 1,508 | 1,577 | 1,524 | 1,595 |
| Cash earnings per share (cents) | 135.5 | 132.2 | 133.0 | 130.1 |

(1) The weighted average diluted number of ordinary shares includes the impact of options, performance rights, partly paid ordinary shares and potential conversion of exchangeable capital units.

(2) Refer to page 8 for a reconciliation of cash earnings before significant items to Group net profit.

(3) *Cash earnings per share before significant items.*

Detailed Financial Information - Note 17: Risk Management**17. RISK MANAGEMENT****Market risk**

The management of market risk will be discussed in detail in the Group's annual financial report 2003, at Risk Management and Note 46 Derivative Financial Instruments. Please refer to that report for detailed information regarding the management of risk.

Trading risk

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

| Value at risk at 99% confidence level | Average value Year to | | Minimum value Year to (1) | | Maximum value Year to (1) | |
|---------------------------------------|--------------------------|-----------|------------------------------|-----------|------------------------------|-----------|
| | Sep 03 | Sep 02 | Sep 03 | Sep 02 | Sep 03 | Sep 02 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Foreign exchange risk | 7 | 7 | 2 | 2 | 20 | 26 |
| Interest rate risk | 17 | 15 | 9 | 9 | 25 | 23 |
| Volatility risk | 4 | 4 | 2 | 2 | 7 | 5 |
| Commodities risk | 1 | | | | 1 | 1 |
| Diversification benefit | (7) | (7) | n/a | n/a | n/a | n/a |
| Total | 22 | 19 | 14 | 11 | 35 | 34 |

| Value at risk at 99% confidence level | Average value half year to | | Minimum value half year to (1) | | Maximum value half year to (1) | |
|---------------------------------------|-------------------------------|-----------|-----------------------------------|-----------|-----------------------------------|-----------|
| | Sep 03 | Mar 03 | Sep 03 | Mar 03 | Sep 03 | Mar 03 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Foreign exchange risk | 8 | 7 | 2 | 3 | 20 | 19 |
| Interest rate risk | 14 | 20 | 9 | 16 | 22 | 25 |
| Volatility risk | 4 | 3 | 2 | 2 | 7 | 5 |
| Commodities risk | 1 | | | | 1 | 1 |
| Diversification benefit | (7) | (5) | n/a | n/a | n/a | n/a |
| Total | 20 | 25 | 14 | 20 | 28 | 35 |

(1) Value at risk is measured individually according to foreign exchange risk, interest rate risk, volatility risk and commodities risk. The individual risk categories do not sum up to the total risk number due to portfolio effect. Risk limits are applied in these categories separately, and against the total risk position.

VaR measures the adverse changes in the trading portfolio value brought about by daily changes in market rates at a 99% confidence level for the year to 30 September 2003.

VaR is measured individually according to interest rate risk, foreign exchange risk and volatility risk. The individual risk categories do not sum to the total risk number due to portfolio effect. Risk limits are applied in these categories separately, and against the total risk position.

Detailed Financial Information - Note 17: Risk Management**Balance sheet risk****a) Structural interest rate risk**

This table presents a summary of the aggregated structural earnings at risk relating to non-trading assets and liabilities that are sensitive to changes in interest rates. Based on the structural interest rate risk position at balance date, the table shows the possible impact on net income for the 12 months ending September 30, 2004 under a rising or declining interest rate environment.

| | Forecast effect on net income 2004 (1) | | Forecast effect on net income 2003 | |
|------------------------|---|--------------------|---------------------------------------|--------------------|
| | Rising rates | Declining rates | Rising rates | Declining rates |
| | \$m | \$m | \$m | \$m |
| Australian dollars | 39 | (18) | 67 | (44) |
| Non-Australian dollars | (23) | 12 | 21 | (8) |

(1) Represents the forecast effect on net interest income for the year ending 30 September 2004 and the prior year comparative.

b) Structural foreign exchange rate risk

Refer table below.

c) Liquidity risk

Refer to the Group's annual financial report 2003 at Risk Management for a detailed discussion of the management of these risks.

Operational, credit & country risk

Refer to the Group's annual financial report 2003 at Risk Management for a detailed discussion of the management of these risks.

Derivatives fair values

This table shows the fair value of all derivative instruments held or issued by the Group. It includes trading and other than trading contracts.


| | Notional principal \$m | As at Sep 03 Credit equivalent \$m | Fair value \$m | Notional principal \$m | As at Sep 02 Credit equivalent \$m | Fair value \$m |
|---|------------------------------|---|----------------------|------------------------------|---|----------------------|
| Foreign exchange rate-related contracts | | | | | | |
| Spot and forward contracts | 266,535 | 7,365 | (1,262) | 312,513 | 7,072 | 304 |
| Cross currency swaps | 90,249 | 6,863 | (522) | 64,326 | 4,512 | (31) |
| Futures | 89 | | | 191 | | |
| Options | 253,481 | 4,655 | 127 | 297,306 | 4,002 | 369 |
| | 610,354 | 18,883 | (1,657) | 674,336 | 15,586 | 642 |
| Interest rate-related contracts | | | | | | |
| Forward rate agreements | 86,308 | 39 | 1 | 41,602 | 53 | 38 |
| Swaps | 598,155 | 14,155 | 236 | 504,306 | 7,915 | 959 |
| Futures | 306,649 | | (3) | 101,015 | | (34) |
| Options | 100,193 | 582 | 24 | 56,808 | 680 | 701 |
| | 1,091,305 | 14,776 | 258 | 703,731 | 8,648 | 1,664 |
| Other contracts | 13,385 | 899 | (143) | 6,930 | 464 | 392 |
| Total derivative financial instruments | 1,715,044 | 34,558 | (1,542) | 1,384,997 | 24,698 | 2,698 |
| Deduct : Non consolidated controlled entities | 4,515 | 182 | 234 | 5,114 | 261 | 311 |
| Total derivative financial instruments reported for Capital Adequacy | 1,710,529 | 34,376 | (1,776) | 1,379,883 | 24,437 | 2,387 |

NON-GAAP FINANCIAL MEASURES

Cash earnings

Cash earnings is defined as follows:

Net profit



Less:

Outside equity interest

Distributions

Revaluation profit/(loss) after tax

Add:

Goodwill amortisation

Cash earnings

Cash earnings is a key performance measure and financial target used by the Group. Dividends paid by the Company are based on after-tax cash earnings (adjusted for significant items).

Cash earnings is a key performance measure used by the investment community, as well as by those Australian peers of the Group with a similar business portfolio.

Cash earnings does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a Cash Flow Statement.

Adjustments are made between net profit and cash earnings as follows:

Outside equity interest - this reflects the allocation of profit to minority interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders

Distributions - this reflects payments to holders of National Income Securities, Trust units and Trust Preferred Securities, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders

Revaluation profit/(loss) - relates to the movement in net market value (including the value of intangible assets) of investments in life insurance controlled entities recorded on the balance sheet in accordance with Australian Accounting Standards. As it relates to an intangible asset, management believes it is prudent to isolate this amount from the underlying operating result. It is separately identified and discussed in detail. Management further wish to separate this, as the method for accounting for the value of life insurance controlled entities is not comparable on an international basis.

Goodwill amortisation - relates to the straight-line method of amortising goodwill (an intangible asset recorded on the balance sheet) in accordance with Australian Accounting Standards. Financial statement users generally do not regard goodwill amortisation expense as being useful information in analysing investments. As it relates to an intangible asset, management believes it is prudent to isolate this amount from the underlying operating result.

Cash earnings before significant items (and net profit before significant items)

Under Australian Accounting Standard AASB 1018(5.4) when a revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the entity for the reporting period and its disclosure is not otherwise required by this or another Standard, its nature and amount must be disclosed separately either on the face of the statement of financial performance or in the notes in the financial report .

The Group has identified such items as significant items on its Performance Summaries.

Management believe that the inclusion of these items distorts the underlying operating results of the Group and cause difficulty in identifying underlying performance trends and issues. Through the clear separation and identification of these items the Group ensures that they are identified and discussed in full, as well as ensuring that the underlying performance is highlighted and discussed in full.

Cost to income ratio

The cost to income ratio for the Banking divisions is calculated as total costs (defined in table below) divided by total income (defined in table below):

| |
|---|
| Total expenses |
| Less: |
| Interest expense |
| Life insurance expenses |
| Goodwill amortisation |
| Charge to provide for doubtful debts |
| Significant expenses |
| Total costs for purposes of cost to income ratio |
| Total revenue |
| Less: |
| Interest expense |
| Life insurance income |
| Significant revenue |
| Total income for purposes of cost to income ratio |

The cost to income ratio calculated on this basis is a standard efficiency measure used widely across the Australian banking industry. In the above income calculation, National s does not include net life insurance income and the pre-tax equivalent gross up of certain structured finance transactions.

Economic Value Added (EVA[®])

EVA[®] is a measure designed to recognise the shareholder requirement to generate a satisfactory return on the economic capital invested in the business. If the business produces profit in excess of its cost of capital then value is being created for shareholders.

To align management s interests with those of shareholders, senior management is required to place a significant percentage of their total remuneration at risk, dependent upon performance against EVA[®] annual growth targets.

In order to encourage longer term management decision making and sustained value creation, the Group sets EVA[®] growth targets for 3 year periods. The Group s EVA[®] target of 5% compound growth per annum was set in 2000, for the 3 years ending September 2003.

Sales (Wealth Management)

Includes sales for Retail and Corporate Investment products and Risk products. Investment product sales represent the initial application amount and any additional contributions made. Inflows into cash products and reinvestment of distributions are excluded. Risk sales represent first year annual premiums for new business, CPI increases and one-off increases in the sum insured.

ALPHABETICAL INDEX

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Appendix 4E

Preliminary final consolidated report

National Australia Bank Limited

Financial year ended 30 September 2003

National Australia Bank Limited ABN 12 004 044 937 (the Company)

A reference in this Appendix 4E to the Group is a reference to the Company and its controlled entities.

This preliminary final report is given to Australian Stock Exchange Limited (ASX) under Listing Rule 4.3A.

All currency amounts are expressed in Australian dollars unless otherwise stated.

References in this document to 2003 are references to the National Australia Bank's financial year ended September 30, 2003.

Other financial years are referred to in a corresponding manner.

Results for announcement to the market**Reporting period**

12 months ending on September 30, 2003

Previous corresponding period

12 months ending on September 30, 2002

| | | | | 2003 |
|--|------|--------|----|-------------|
| | | | | \$m |
| Revenue from ordinary activities | down | (3.3)% | to | 25,658 |
| Profit from ordinary activities after tax attributable to members of the Company | up | 17.3% | to | 3,955 |
| Net profit attributable to members of the Company | up | 17.3% | to | 3,955 |

Dividends

| | Amount per share | Franked amount per share |
|--|---------------------------------|---|
| Final dividend | 83 cents | 100% |
| Interim dividend | 80 cents | 100% |
| Record date for determining entitlements to the final dividend | 21 November 2003 | |

Net profit attributable to members of the Company has increased 17.3% to \$3,955 million for the year to September 30, 2003.

A key feature of the result was growth in Wealth Management, Financial Services Australia and Financial Services New Zealand. The latter two were underpinned by strong growth in housing lending and cost saving efficiencies.

Last year's result was adversely affected by the recapitalisation of the wholly owned subsidiary Homeside Lending, Inc., restructuring expenses and the downturn in equity markets.

For further details refer to the Management Discussion and Analysis on page 4.

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Management discussion & analysis**Performance summary**

| | 2003 \$m | 2002 \$m |
|--|--------------|-------------|
| Net profit attributable to members of the Company | 3,955 | 3,373 |
| Net profit attributable to outside equity interest | (8) | 6 |
| Net profit | 3,947 | 3,379 |
| Adjust for significant items: | | |
| Significant revenue | | (2,671) |
| Significant expenses | | 3,266 |
| Attributable income tax expense/(benefit) | | (189) |
| Significant items after tax | | 406 |
| Net profit before significant items | 3,947 | 3,785 |
| Net profit attributable to members of the Company | 3,955 | 3,373 |
| Adjust for: | | |
| Distributions | (183) | (187) |
| Significant revenue | | (2,671) |
| Significant expenses | | 3,266 |
| Movement in the excess of net market value over net assets of life insurance controlled entities | 160 | 155 |
| Attributable income tax expense/(benefit) | 40 | (192) |
| Amortisation of goodwill | 98 | 101 |
| Cash earnings before significant items | 4,070 | 3,845 |

Net profit of \$3,947 million in 2003, increased \$568 million or 16.8% compared with 2002.

Significant items are those individually significant items included in profit from ordinary activities. There were no significant items in 2003.

The 2002 result included the following significant items:

\$412 million (after-tax) of restructuring expenses paid/provided for; and

\$6 million net profit (after-tax) on sale of SR Investment, Inc., including its controlled entity, HomeSide Lending, Inc. (HomeSide US), which conducted the Group's mortgage servicing rights business in the US.

Net profit before significant items of \$3,947 million in 2003, increased \$162 million or 4.3% compared with 2002.

Cash earnings is a key performance measure and financial target used by the Group. Dividends paid by the Company are based on after-tax cash earnings (adjusted for significant items). Cash earnings is a key performance measure used by the investment community, as well as by those Australian peers of the Group with a similar business portfolio. Cash earnings does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a Cash Flow Statement. Cash earnings (before significant items) of \$4,070 million in 2003, increased \$225 million or 5.9% compared with 2002.

Net interest income of \$7,419 million in 2003, was \$197 million or 2.7% higher than 2002. This was driven by asset growth, particularly in relation to housing lending, partly offset by exchange rate movements and a 14 basis point decrease in net interest margin to 2.53%. The fall in margin largely resulted from the impact of strong growth in housing lending within the retail banking business, which has been slightly offset by the funding benefit on the proceeds from the sale of HomeSide US.

Net life insurance income increased by \$454 million to \$444 million in 2003, from a \$10 million loss in 2002. This was driven by an increase in investment earnings resulting from improved performance in major stock markets in the 6 months to September 30, 2003.

Other banking and financial services income of \$5,010 million in 2003, was \$1,996 million or 28.5% lower than 2002. Excluding the proceeds received from the sale of HomeSide US's operating assets and operating platform of \$2,314 million in 2002, other banking and financial services income was up 6.8%. This was driven by higher income resulting from fee growth with higher volumes in housing lending and transaction fees partly offset by exchange rate movements.

Mortgage servicing and origination revenue was \$nil in 2003 compared to \$378 million in 2002. Following the sale of SR Investment, Inc. (the parent entity of HomeSide US) on October 1, 2002, mortgage servicing and origination revenue was no longer derived by the Group.

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of \$160 million in 2003, a slight decline of \$5 million from 2002, impacted by the effect of assumption and experience changes underlying the valuation.

Personnel, occupancy and general expenses (before significant expenses) of \$6,354 million in 2003, were \$2,353 million or 27.0% lower than 2002. Excluding expenses relating to HomeSide US of \$2,693 million in 2002, total expenses increased 5.7%. This outcome reflects salary increases, higher pension fund expense, computer and software expenses, an increase in costs associated with

regulatory reform and compliance, partly offset by a reduction in Group staff numbers and exchange rate movements.

The charge to provide for doubtful debts of \$633 million in 2003, was \$64 million or 9.2% lower than 2002. The charge was favourably impacted by exchange rate movements and the continued focus on credit quality.

As at September 30, 2003 the ratio of gross non accrual loans to gross loans and acceptances was 0.51%, an improvement from 0.62% as at September 30, 2002. The ratio of total general & specific provisions to gross impaired assets as at September 30, 2003 was 163.4% as compared to 161.0% as at September 30, 2002.

Income tax expense relating to ordinary activities of \$1,681 million in 2003, was \$719 million or 74.7% higher than 2002. It has been impacted by the tax accounting regime, which applies to unrealised gains and losses relating to Wealth Management's statutory funds of the life business. The income tax expense in 2003 attributable to this impact was \$126 million expense, compared to an income tax benefit of \$248 million in 2002.

A MORE DETAILED DISCUSSION OF THE RESULTS IS SET OUT IN THE 2003 FULL YEAR RESULTS ANNOUNCEMENT.

Segment information

A DETAILED DISCUSSION OF SEGMENT INFORMATION IS SET OUT IN THE 2003 FULL YEAR RESULTS ANNOUNCEMENT.

Shareholder returns

| | 2003 | 2002 |
|---|-------|-------|
| | Cents | Cents |
| Earnings per share | | |
| Basic | 248.8 | 205.7 |
| Diluted (1) | 243.6 | 202.5 |
| Earnings per share before significant items | | |
| Basic | 248.8 | 231.9 |
| Diluted (1) | 243.6 | 221.7 |
| Cash earnings per share | | |
| Basic | 268.5 | 222.0 |
| Diluted (1) | 262.3 | 218.2 |

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Cash earnings per share before significant items

| | | |
|---------------------|--------------|-------|
| Basic | 268.5 | 248.2 |
| Diluted (1) | 262.3 | 243.0 |
| Dividends per share | 163.0 | 147.0 |

(1) Calculated based on the weighted average diluted number of ordinary shares, which includes the impact of options, partly paid ordinary shares and potential conversion of exchangeable capital units and performance rights.

Basic earnings per share increased 21.0% in 2003 to 248.8 cents, from 205.7 cents in 2002. Excluding the impact of significant items, basic earnings per share increased 7.3% for 2003 to 248.8 cents, from 231.9 cents in 2002.

Basic cash earnings per share increased 20.9% in 2003 to 268.5 cents, from 222.0 cents in 2002. Excluding the impact of significant items, basic cash earnings per share increased 8.2% in 2003 to 268.5 cents, from 248.2 cents in 2002. The increase in basic cash earnings per share before significant items reflects strong growth in profitability before significant items, goodwill amortisation and the movement in the excess of net market value of life insurance controlled entities. It further reflects the active capital management activities of the Group during the year, in particular the impact of the continuation of the Company's ordinary share buy-back program.

An interim dividend of 80 cents per fully-paid ordinary share was paid during the year ended September 30, 2003, compared to an interim dividend of 72 cents per share in 2002. The final dividend declared from the 2003 profit was 83 cents per share, an increase of 8 cents, or 10.7% compared with 2002 at 75 cents. The 2003 final dividend is payable on December 10, 2003.

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

The interim dividend paid was fully franked and the final dividend will be 100% franked. The franked portion of these dividends carry imputation tax credits at a tax rate of 30%, the current Australian company tax rate. For non-resident shareholders of the Company for Australian tax purposes, the dividend will not be subject to Australian withholding tax.

The extent to which future dividends will be franked will depend on a number of factors, including the level of the Group's profits that will be subject to Australian income tax and any future changes to the Australian business tax systems as a result of the Australian Commonwealth Government's tax reform initiatives. The Company has a bonus share plan enabling shareholders (principally those

who do not benefit from dividend imputation) to elect to take all or part of their dividend in the form of unfranked bonus ordinary shares. The Company's dividend reinvestment plan permits reinvestment of cash dividends in new ordinary shares. In addition, the UK dividend plan permits ordinary shareholders to receive dividends paid out of the profits of a UK subsidiary.

A DISCUSSION OF BUY-BACK DETAILS IS SET OUT ON PAGE 7.

Balance sheet

Assets

Year-end total assets increased to \$397.5 billion from \$377.4 billion at September 30, 2002. Following the sale of SR Investment, Inc. (the parent entity of HomeSide US) on October 1, 2002, \$4.1 billion of total assets were removed from the Group's balance sheet. The appreciation of the Australian dollar, primarily against the British pound and the US dollar, decreased total assets by \$24.6 billion in 2003, compared to a \$7.1 billion increase in 2002. Excluding the impact of the sale of SR Investment, Inc. and exchange rate movements, total assets (in Australian dollar terms) grew \$48.3 billion or 13.8% during 2003, primarily reflecting growth in lending.

The growth in assets was primarily driven by the growth in net loans and advances, which increased \$16.7 billion or 7.2% to \$248 billion at September 30, 2003:

In Australia, net loans and advances grew by \$20.1 billion, or 16.9% to \$138.8 billion at September 30, 2003, with strong growth in housing lending and other personal lending. Residential mortgage loans increased by \$14.6 billion, or 21.3% to \$83.0 billion, aided by a low interest rate environment and consumer confidence. Financial, investment and insurance lending grew by \$3.0 billion, or 98.3% during 2003 to \$6.0 billion, primarily in relation to growth in securities under reverse repurchase agreements.

In Europe, net loans and advances decreased by \$1.7 billion, or 2.3% to \$74.3 billion at September 30, 2003; however, excluding the impact of exchange rate movements, net loans and advances grew by 13.1%. Financial, investment and insurance lending increased 42.2%, reflecting growth in Corporate & Institutional Banking lending of securities under reverse repurchase agreements.

In New Zealand, net loans and advances grew by \$2.3 billion, or 8.9% to \$27.8 billion at September 30, 2003; however, excluding the impact of exchange rate movements, net loans and advances grew by 7.5%. Growth was principally in relation to residential mortgages up 19.0%, reflecting the success of products such as GlobalPlus and Fly Buys housing loans, and higher commercial and industrial lending in Corporate & Institutional Banking.

In the United States, net loans and advances decreased by \$3.6 billion, or 50.1% to \$3.6 billion at September 30, 2003; however, excluding the impact of exchange rate movements, net loans and advances decreased by 38.7%, resulting from movements in end of period loan balances in relation to the Corporate & Institutional Banking operations.

In Asia, net loans and advances decreased by \$0.5 billion, or 13.2% to \$3.4 billion at September 30, 2003, resulting from movements in end of period loan balances in relation to the Corporate & Institutional Banking operations.

Total non-accrual loans less specific provision for doubtful debts at September 30, 2003 were \$957 million, a decrease of \$133 million, or 12.2% from the 2002 balance of \$1,090 million. This decrease reflects an improvement in asset quality following a review of loan portfolios, most notably in relation to Corporate & Institutional Banking, with a view to reducing their risk profile. The balance also reflects the impact of a recovery of a large non-accrual loan in Financial Services Europe.

Liabilities

Year-end total liabilities increased to \$370 billion from \$354 billion at September 30, 2002. The growth was primarily driven by the growth in total deposits and other borrowings (net of set-offs), which increased by \$3.2 billion, or 1.5% to \$210.1 billion at September 30, 2003, compared with \$206.9 billion at September 30, 2002. Excluding the effect of exchange rate movements during 2003, deposits and other borrowings increased by 8.8%. The increase was the result of business growth, aided by the general increase in cash deposits with investor sentiment causing investors to seek safe, lower risk investments.

Equity

The Group's capital position remained stable during the year. Year-end total equity in the Group increased from \$23.3 billion at September 30, 2002 to \$27.2 billion during 2003. Total parent entity interest in equity increased \$1.2 billion to \$24.4 billion during 2003. The underlying movement in the total equity included an increase of \$2.6 billion (2002: \$0.8 billion) in retained profits, dividend reinvestment and share issues totalling \$0.4 billion (2002: \$0.5 billion) and the issue of \$1.0 billion Trust Preferred Securities. These factors were offset by share buy-backs of \$1.6 billion (2002: \$1.2 billion) and the impact of negative movements in the foreign currency translation reserve of \$1.5 billion (2002: negative \$0.5 billion).

The Group has a history of internally generating capital through retained profits and has traditionally relied on retained profits to augment its capital resources to allow for real and inflation-induced growth in its asset base. The capital position also increases from the reinvestment of dividends under the Company's dividend reinvestment plan (DRP), bonus share plan (BSP), issue of shares under the share purchase plan (SPP) and share issues pursuant to employee share and option plans.

During the years ended September 30, 2003 and 2002, 10.8 million and 13.8 million fully paid ordinary shares were issued respectively under the DRP, BSP and SPP to shareholders at varying prices. On September 29, 2003 400,000 Trust Preferred Securities were issued.

In November 2001, the Group adopted a continuing policy to buy back fully paid ordinary shares equal to new shares issued under the Group's various share and option plans. In May 2002, the Group announced its intention to extend the buy-back program until September 30, 2003, and to increase the value of shares subject to the buy-back by an additional \$1,000 million. The DRP was

also modified by introducing a cap of 15,000 on the number of shares per shareholder eligible to participate in the DRP. On August 28, 2002, following the announcement of the sale of SR Investment, Inc. (the parent entity of HomeSide US), the Group announced a further increase of \$750 million in the value of shares subject to the ongoing share buy-back.

During the year, the Group bought back 48,949,487 ordinary shares (2002: 36,150,513). The shares were bought back at an average price of \$31.98 per share (2002: \$34.52), thereby reducing ordinary equity by \$1,565 million (2002: \$1,248 million). The highest price paid was \$34.35 per share (2002: \$36.05) and the lowest price paid was \$28.40 per share (2002: \$31.00). All buy-backs are subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time. The Company has announced its intention to buy back approximately 25,500,000 ordinary shares of the Company on market. The period of the buy-back is expected to be from November 11, 2003 until September 30, 2004.

Capital ratios

| | 2003 % | 2002 % |
|---------------|-----------|-----------|
| Tier 1 | 7.8 | 7.8 |
| Tier 2 | 3.3 | 3.7 |
| Deductions | (1.4) | (1.3) |
| Total capital | 9.7 | 10.2 |

The capital ratios at September 30, 2003, include the effect of the on-market share buy-back program, and the issue of the Trust Preferred Securities.

A MORE DETAILED DISCUSSION OF RESULTS IS SET OUT IN THE 2003 FULL YEAR RESULTS ANNOUNCEMENT.

Consolidated statement of financial performance

| For the year ended September 30 | Note | 2003 \$m | 2002 \$m |
|---|------|--------------|--------------|
| Interest income | 2 | 17,100 | 16,475 |
| Interest expense | 3 | (9,681) | (9,253) |
| Net interest income | | 7,419 | 7,222 |
| Premium and related revenue | 2 | 949 | 1,134 |
| Investment revenue | 2 | 2,759 | (988) |
| Claims expense | 3 | (958) | (956) |
| Change in policy liabilities | 3 | (1,518) | 1,637 |
| Policy acquisition and maintenance expense | 3 | (713) | (751) |
| Investment management fees | 3 | (75) | (86) |
| Net life insurance income | | 444 | (10) |
| Other banking and financial services income | 2 | 5,010 | 7,006 |
| Mortgage servicing and origination revenue | 2 | | 378 |
| Movement in the excess of net market value over net assets of life insurance controlled entities | 2 | (160) | (155) |
| Significant revenue | | | |
| Proceeds from the sale of foreign controlled entities | 2 | | 2,671 |
| Personnel expenses | 3 | (3,416) | (3,379) |
| Occupancy expenses | 3 | (556) | (559) |
| General expenses | 3 | (2,382) | (4,769) |
| Amortisation of goodwill | 3 | (98) | (101) |
| Charge to provide for doubtful debts | 3 | (633) | (697) |
| Significant expenses | | | |
| Restructuring costs | 3 | | (580) |
| Cost of foreign controlled entities sold | 3 | | (2,686) |
| Profit from ordinary activities before income tax expense | | 5,628 | 4,341 |
| Income tax expense relating to ordinary activities | | (1,681) | (962) |
| Net profit | | 3,947 | 3,379 |
| Net loss/(profit) attributable to outside equity interest - Life insurance business | | 16 | (6) |
| Net loss/(profit) attributable to outside equity interest - Other | | (8) | |
| Net profit attributable to members of the Company | | 3,955 | 3,373 |
| Other changes in equity other than those resulting from transactions with owners as owners | | | |
| Net credit/(debit) to asset revaluation reserve | | 9 | 9 |
| Net credit/(debit) to foreign currency translation reserve | | (1,251) | (520) |
| Net credit to retained profits on initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets | | 1,151 | |
| Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised directly in equity | | (91) | (511) |

Assets

246

| | | |
|---|--------------|-------|
| Total changes in equity other than those resulting from transactions with owners as owners | 3,864 | 2,862 |
|---|--------------|-------|

ADDITIONAL INFORMATION SUPPORTING THE STATEMENT OF FINANCIAL PERFORMANCE IS CONTAINED IN THE 2003 FULL YEAR RESULTS ANNOUNCEMENT.

Consolidated statement of financial position

| As at September 30 | Note | 2003 \$m | 2002 \$m |
|--|------|----------------|----------------|
| Assets | | | |
| Cash assets | | 5,032 | 6,294 |
| Due from other financial institutions | | 10,383 | 15,876 |
| Due from customers on acceptances | | 19,562 | 19,474 |
| Trading securities | | 23,724 | 19,590 |
| Trading derivatives | | 23,644 | 12,128 |
| Available for sale securities | | 6,513 | 6,192 |
| Investment securities | | 8,647 | 13,541 |
| Investments relating to life insurance business | | 35,846 | 31,012 |
| Loans and advances | | 247,959 | 231,300 |
| Mortgage servicing rights | | | 1,794 |
| Shares in controlled entities, joint venture entities and other securities | | 1,445 | 1,199 |
| Regulatory deposits | | 225 | 129 |
| Property, plant and equipment | | 2,498 | 2,640 |
| Income tax assets | | 1,203 | 1,292 |
| Goodwill | | 740 | 775 |
| Other assets | | 10,050 | 14,151 |
| Total assets | | 397,471 | 377,387 |
| Liabilities | | | |
| Due to other financial institutions | | 45,128 | 43,279 |
| Liability on acceptances | | 19,562 | 19,474 |
| Trading derivatives | | 21,479 | 12,000 |
| Deposits and other borrowings | 8 | 210,146 | 206,864 |
| Life insurance policy liabilities | | 32,457 | 30,425 |
| Income tax liabilities | | 1,537 | 1,609 |
| Provisions | | 1,262 | 2,809 |
| Bonds, notes and subordinated debt | | 22,707 | 22,192 |
| Other debt issues | | 1,743 | 1,866 |
| Other liabilities | | 14,239 | 13,618 |
| Total liabilities | | 370,260 | 354,136 |
| Net assets | | 27,211 | 23,251 |
| Equity | | | |
| Contributed equity | 9 | 9,728 | 9,931 |
| Reserves | | 893 | 2,105 |
| Retained profits | 10 | 13,786 | 11,148 |
| Total parent entity interest | | 24,407 | 23,184 |
| Outside equity interest - Life insurance business | | 2,614 | 67 |
| Outside equity interest - Other | | 190 | |
| Total equity | | 27,211 | 23,251 |

ADDITIONAL INFORMATION SUPPORTING THE STATEMENT OF FINANCIAL POSITION IS CONTAINED IN THE 2003 FULL YEAR RESULTS

Consolidated statement of cash flows

| For the year ended September 30 | Note | 2003 \$m | 2002 \$m |
|---|-------|-------------|-------------|
| Cash flows from operating activities | | | |
| Interest received | | 17,450 | 15,680 |
| Interest paid | | (10,193) | (9,304) |
| Dividends received | | 39 | 35 |
| Fees and other income received | | 3,026 | 6,182 |
| Life insurance | | | |
| Premiums received | | 6,546 | 10,378 |
| Investment and other revenue received | | 1,857 | 2,024 |
| Policy payments | | (5,778) | (8,483) |
| Fees and commissions paid | | 312 | (274) |
| Personnel expenses paid | | (3,327) | (3,637) |
| Occupancy expenses paid | | (489) | (549) |
| General expenses paid | | (3,747) | (3,176) |
| Income tax paid | | (1,830) | (2,131) |
| Goods and services tax paid | | (52) | (68) |
| Net decrease/(increase) in trading securities | | (4,345) | 136 |
| Net decrease/(increase) in mortgage loans held for sale | | 50 | 1,304 |
| Net cash provided by/(used in) operating activities | 11(a) | (481) | 8,117 |
| Cash flows from investing activities | | | |
| Movement in available for sale securities | | | |
| Purchases | | (15,052) | (14,765) |
| Proceeds from sale | | 3 | 90 |
| Proceeds on maturity | | 13,500 | 14,543 |
| Movement in investment securities | | | |
| Purchases | | (15,449) | (40,653) |
| Proceeds on maturity | | 18,578 | 37,434 |
| Net increase in investments relating to life insurance business | | (3,650) | (2,148) |
| Net increase in loans and advances | | (32,248) | (27,415) |
| Net decrease/(increase) in shares in controlled entities, joint venture entities and other securities | | 428 | 212 |
| Payments for mortgage servicing rights | | | (74) |
| Proceeds from sale of mortgage servicing rights | | | 98 |
| Payments for acquisition of controlled entities | | (83) | |
| Proceeds from sale of controlled entities | | 2,671 | |
| Payments for property, plant and equipment | | (534) | (791) |
| Proceeds from sale of operating assets | | | 2,314 |
| Net proceeds from sale of property, plant and equipment | | 166 | 418 |
| Net decrease/(increase) in regulatory deposits | | (113) | (35) |
| Net decrease/(increase) in other assets | | 2,762 | 10,057 |
| Net cash used in investing activities | | (29,021) | (20,715) |
| Cash flows from financing activities | | | |
| Net increase in deposits and other borrowings | | 17,063 | 18,840 |

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| | | | |
|--|-------|-----------------|----------|
| Net proceeds from bonds, notes and subordinated debt | | 10,136 | 6,738 |
| Repayments of bonds, notes and subordinated debt | | (7,017) | (8,314) |
| Payments from provisions | | (340) | (116) |
| Net proceeds from issue of ordinary shares | | 216 | 130 |
| Net proceeds from issue of Trust Preferred Securities | | 975 | |
| Payments made under on-market buy-back of ordinary shares | | (1,565) | (1,248) |
| Dividends paid | | (2,255) | (1,948) |
| Net increase/(decrease) in other liabilities | | (204) | (5,892) |
| Net cash provided by financing activities | | 17,009 | 8,190 |
| Net decrease in cash and cash equivalents | | (12,493) | (4,408) |
| Cash and cash equivalents at beginning of year | | (21,109) | (18,408) |
| Effects of exchange rate changes on balance of cash held in foreign currencies | | 3,889 | 1,707 |
| Cash and cash equivalents at end of year | 11(b) | (29,713) | (21,109) |

Notes to the preliminary final report

1 Principal accounting policies

This preliminary final report is a general purpose financial report prepared in accordance with the ASX listing rules. It should be read in conjunction with any announcements to the market made by the company during the period.

The preliminary final report has been prepared in accordance with the recognition and measurement requirements of applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

The preliminary final report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of an entity as an annual report and is not designed or intended to be a substitute for the annual financial report 2003.

A full description of the accounting policies adopted will be contained in the annual financial report 2003. There have been no changes in accounting policy from those policies applied at 30 September 2002 except as noted below.

Comparative amounts have been reclassified to accord with changes in presentation made in 2003, except where otherwise stated.

All amounts are expressed in Australian dollars unless otherwise stated.

Changes in accounting policy

Provision for dividend

The Group has adopted the new Australian Accounting Standard AASB 1044 Provisions, Contingent Liabilities and Contingent Assets for the first time from October 1, 2002. A provision for dividends is now recognised at the time the dividend is declared, determined or publicly recommended. Previously, the Group recognised a provision for dividends 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 year ended September 30, 2003.

Reclassification of financial information

In order to provide users of the financial report with an enhanced level of understanding of the Group's trading derivatives, the fair values of trading derivative financial instruments have been disclosed as separate asset and liability line items on the statement of financial position. As a result of this change, reclassifications have been made to 2002 comparatives. Previously, the fair values of trading derivative financial instruments were included in other assets and other liabilities. Accordingly, \$12,128 million previously disclosed as other assets and \$12,000 million previously disclosed as other liabilities, have been reclassified to trading derivatives assets and liabilities respectively.

Mortgage loans held for sale have been reclassified to other assets on the statement of financial position. Previously, mortgage loans held for sale were disclosed as a separate line item on the statement of financial position. This reclassification has been made due to the Group's significantly reduced activity in this area following the sale of HomeSide US in 2002.

2 Revenue from ordinary activities

| | 2003 \$m | 2002 \$m |
|---|---------------|---------------|
| Interest income | | |
| Loans to customers | 14,961 | 13,821 |
| Marketable debt securities | 1,545 | 1,509 |
| Other financial institutions | 395 | 439 |
| Other interest | 199 | 706 |
| | 17,100 | 16,475 |
| Life insurance income | | |
| Premium and related revenue | 949 | 1,134 |
| Investment revenue | 2,759 | (988) |
| | 3,708 | 146 |
| Other banking and financial services income | | |
| Dividends received from Other entities | 39 | 35 |
| Profit on sale of property, plant and equipment and other assets | 36 | 13 |
| Loan fees from banking | 1,441 | 1,361 |
| Money transfer fees | 1,026 | 1,014 |
| Trading income | | |
| Foreign exchange derivatives (1) | 442 | 457 |
| Trading securities | 170 | 214 |
| Interest rate derivatives | 13 | (108) |
| Foreign exchange income | 12 | 15 |
| Fees and commissions | 1,158 | 1,118 |
| Fleet management fees | 85 | 56 |
| Proceeds from sale of operating assets (2) | | 2,314 |
| Investment management fees | 303 | 297 |
| Other income | 285 | 220 |
| | 5,010 | 7,006 |
| Mortgage servicing and origination revenue | | |
| Net mortgage servicing fees | | 187 |
| Net mortgage origination revenue | | 191 |
| | | 378 |
| Movement in the excess of net market value over net assets of life insurance controlled entities | (160) | (155) |
| Significant revenue | | |
| Proceeds from the sale of foreign controlled entities | | 2,671 |
| Total revenue from ordinary activities | 25,658 | 26,521 |

(1) Includes trading income from cross currency swaps, which includes an interest rate element.

(2) *The operating assets of HomeSide Lending, Inc. were sold to Washington Mutual Bank, FA. on 1 March 2002. Under the terms of the sale, HomeSide Lending, Inc. received proceeds of \$2,314 million for the operating assets, which consisted primarily of loans held for sale. The carrying value of the assets sold was \$2,322 million.*

3 Expenses

| | 2003 | 2002 |
|--|-------|---------|
| | \$m | \$m |
| Interest expense | | |
| Deposits and other borrowings | 7,416 | 6,867 |
| Other financial institutions | 1,449 | 1,271 |
| Bonds, notes and subordinated debt | 671 | 944 |
| Other debt issues | 145 | 171 |
| Total interest expense | 9,681 | 9,253 |
| Life insurance expenses | | |
| Claims expense | 958 | 956 |
| Change in policy liabilities | 1,518 | (1,637) |
| Policy acquisition and maintenance expense | 713 | 751 |
| Investment management fees | 75 | 86 |
| Total life insurance expenses | 3,264 | 156 |
| Personnel expenses | | |
| Salaries | 2,379 | 2,438 |
| Related personnel expenses | | |
| Superannuation | 243 | 130 |
| Payroll tax | 170 | 158 |
| Fringe benefits tax | 33 | 46 |
| Charge to provide for | | |
| Annual leave | 41 | 27 |
| Long service leave and retiring allowances | 46 | 43 |
| Performance-based compensation | 230 | 221 |
| Restructuring costs | | 4 |
| Other expenses | 274 | 312 |
| | 3,416 | 3,379 |
| Significant restructuring costs | | |
| Termination benefits | | 104 |
| Charge to provide for termination benefits | | 223 |
| Total personnel expenses | 3,416 | 3,706 |
| Occupancy expenses | | |
| Depreciation of buildings and amortisation of leasehold assets | 67 | 79 |
| Operating lease rental expense | 276 | 269 |
| Maintenance and repairs | 78 | 79 |
| Electricity, water and rates | 82 | 88 |
| Other expenses | 53 | 44 |
| | 556 | 559 |
| Significant restructuring costs | | |
| Charge to provide for surplus leased space | | 68 |

Total occupancy expenses

556

627

| | 2003 \$m | 2002 \$m |
|--|--------------|--------------|
| General expenses | | |
| Depreciation and amortisation of plant and equipment | 334 | 340 |
| Loss on sale of property, plant and equipment | 11 | 6 |
| Operating lease rental expense | 61 | 53 |
| Charge to provide for | | |
| Non-lending losses and contingencies | 100 | 112 |
| Diminution in value of shares in entities | | 13 |
| Fees and commissions | 137 | 172 |
| Communications, postage and stationery | 407 | 473 |
| Computer equipment and software | 289 | 222 |
| Advertising | 176 | 192 |
| Professional fees | 349 | 272 |
| Travel | 83 | 50 |
| Bureau charges | 57 | 68 |
| Carrying value of operating assets sold (1) | | 2,322 |
| Motor vehicle expenses | 37 | 29 |
| Insurance | 29 | 14 |
| Other expenses | 312 | 431 |
| | 2,382 | 4,769 |
| Significant restructuring costs | | |
| Write-off of property, plant and equipment | | 132 |
| Other | | 53 |
| Total general expenses | 2,382 | 4,954 |
| Amortisation of goodwill | | |
| Australia | 3 | 8 |
| European banks | 62 | 62 |
| Bank of New Zealand | 33 | 31 |
| Total amortisation of goodwill | 98 | 101 |
| Charge to provide for doubtful debts | | |
| General | 633 | 697 |
| Other significant expenses | | |
| Cost of foreign controlled entities sold | | 2,686 |

(1) The operating assets of HomeSide Lending, Inc. were sold to Washington Mutual Bank, FA on March 1, 2002. Under the terms of the sale, HomeSide Lending, Inc. received proceeds of \$2,314 million for the operating assets, which consisted primarily of loans held for resale. The carrying value of the assets sold was \$2,322 million.

4 Income tax expense

| | 2003 | 2002 |
|---|-------|-------|
| | \$m | \$m |
| Reconciliation of income tax expense shown in the statement of financial performance with prima facie tax payable on the pre-tax accounting profit | | |
| Profit from ordinary activities before income tax expense | | |
| Australia | 3,309 | 2,288 |
| Overseas | 2,319 | 2,053 |
| Add/deduct: (Profit)/loss from ordinary activities before income tax expense attributable to the statutory funds of the life insurance business (1) | (424) | 21 |
| Total profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business, before income tax expense | 5,204 | 4,362 |
| Prima facie income tax at 30% | 1,561 | 1,309 |
| Add/(deduct): Tax effect of permanent differences | | |
| Non-allowable depreciation on buildings | 6 | 7 |
| Rebate of tax on dividends, interest, etc. | (28) | 44 |
| Foreign tax rate differences | (4) | (6) |
| Amortisation of goodwill | 29 | 29 |
| Attributable foreign income | 26 | 25 |
| Non-taxable amounts attributable to HomeSide US operation | | (53) |
| Future income tax benefits no longer recognised | 2 | 2 |
| Restatement of tax timing differences due to change in the Australian company income tax rate | | 2 |
| Under/(over) provision in prior years | (6) | 6 |
| Recognition of HomeSide US operation future income tax benefit not previously recognised | | (89) |
| Other | (31) | (66) |
| Total income tax expense on profit from ordinary activities excluding that attributable to the statutory funds of the life insurance business | 1,555 | 1,210 |
| Income tax expense/(benefit) attributable to the statutory funds of the life insurance business (1) | 126 | (248) |
| Total income tax expense | 1,681 | 962 |

(1) The income tax expense attributable to the life insurance statutory funds and their controlled trusts has been determined after segregating the life insurance business into various classes of business and then applying, when appropriate, different tax treatments to these classes of business.

5 Dividends and distributions

| | Amount per share cents | Franked amount per share % | Foreign source dividend per share % | Total amount \$m |
|---|---------------------------------|--|---|------------------------|
| Dividends on ordinary shares | | | | |
| Final dividend declared in respect of the year ended September 30, 2003 | 83 | 100 | 0 | 1,248 |
| Interim dividend paid in respect of the six months ended March 31, 2003 | 80 | 100 | 0 | 1,104 |
| Total dividends paid or declared in respect of the year ended September 30, 2003 | 163 | 100 | 0 | 2,352 |
| The record date for determining entitlements to the 2003 final dividend is November 21, 2003. | | | | |
| The final dividend has been declared by the directors of the Company and is payable on December 10, 2003. | | | | |
| Final dividend paid in respect of the year ended September 30, 2002 | 75 | 90 | 10 | 1,151 |
| Interim dividend paid in respect of the six months ended March 31, 2002 | 72 | 100 | 0 | 1,115 |
| Total dividends paid or payable in respect of the year ended September 30, 2002 | 147 | 95 | 5 | 2,266 |

| | 2003 | | 2002 | |
|---|------------------------------------|------------------------|------------------------------------|------------------------|
| | Amount per security cents | Total amount \$m | Amount per security cents | Total amount \$m |
| Distributions on other equity instruments | | | | |
| Trust units exchangeable for preference shares | | | | |
| Distributions for the six months ended September 30 | 81 | 29 | 94 | 34 |
| Distributions for the six months ended March 31 | 89 | 32 | 100 | 36 |
| National Income Securities | | | | |
| Distributions for the six months ended September 30 | 300 | 60 | 290 | 58 |
| Distributions for the six months ended March 31 | 310 | 62 | 295 | 59 |

Dividend and distribution plans

The dividend or distribution plans shown below are in operation.

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

- a) cash or cash equivalents

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 British Pounds or shares via the UK Dividend Plan).

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

November 21, 2003, 5pm (Melbourne time)

6 Earnings per share

| | 2003 | | 2002 | |
|---|--------------|--------------|-----------|------------|
| | Basic | Diluted(1) | Basic | Diluted(1) |
| Earnings (\$m) | | | | |
| Net profit attributable to members of the Company | 3,955 | 3,955 | 3,373 | 3,373 |
| Distributions on other equity instruments | (183) | (183) | (187) | (187) |
| Potential dilutive adjustments | | | | |
| Interest expense on exchangeable capital units | | 90 | | 102 |
| Adjusted earnings | 3,772 | 3,862 | 3,186 | 3,288 |
| Weighted average ordinary shares (no. 000) | | | | |
| Weighted average ordinary shares | 1,515,871 | 1,515,871 | 1,549,136 | 1,549,136 |
| Potential dilutive ordinary shares | | | | |
| Options and performance rights | | 3,742 | | 8,335 |
| Partly paid ordinary shares | | 485 | | 670 |
| Exchangeable capital units | | 65,460 | | 65,460 |
| Total weighted average ordinary shares | 1,515,871 | 1,585,558 | 1,549,136 | 1,623,601 |
| Earnings per share (cents) | 248.8 | 243.6 | 205.7 | 202.5 |

(1) The weighted average diluted number of ordinary shares includes the impact of options, partly paid ordinary shares and potential conversion of exchangeable capital units and performance rights.

7 Net tangible assets

| | 2003 | 2002 |
|--|------|------|
| Net tangible asset backing per ordinary security | 9.83 | 9.37 |

8 Deposits and other borrowings

| | 2003 | 2002 |
|---------------------------------------|--------|--------|
| | \$m | \$m |
| Australia | | |
| Deposits | | |
| Deposits not bearing interest | 5,724 | 4,973 |
| On-demand and short-term deposits (1) | 48,428 | 40,378 |

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| | | |
|---------------------------------------|----------------|---------|
| Certificates of deposit | 15,902 | 13,361 |
| Term deposits | 26,653 | 25,870 |
| Borrowings | 17,754 | 10,308 |
| | 114,461 | 94,890 |
| Overseas | | |
| Deposits | | |
| Deposits not bearing interest | 7,329 | 8,699 |
| On-demand and short-term deposits (1) | 38,804 | 45,333 |
| Certificates of deposit | 15,299 | 22,739 |
| Term deposits | 28,764 | 27,442 |
| Borrowings | 5,489 | 7,761 |
| | 95,685 | 111,974 |
| Total deposits and other borrowings | 210,146 | 206,864 |

(1) Deposits available on demand or lodged for periods of less than 30 days.

9 Contributed equity

| | 2003 \$m | 2002 \$m |
|---|--------------|--------------|
| Issued and paid-up share capital | | |
| Ordinary shares, fully paid | 6,078 | 7,256 |
| Preference shares, fully paid | 730 | 730 |
| Other contributed equity | | |
| National Income Securities | 1,945 | 1,945 |
| Trust Preferred Securities (1) | 975 | |
| | 9,728 | 9,931 |

Reconciliations of movements in contributed equity

| | | |
|---------------------------------|--------------|--------------|
| Ordinary share capital | | |
| Balance at beginning of year | 7,256 | 8,050 |
| Shares issued | | |
| Dividend reinvestment plan | 170 | 323 |
| Executive option plan no. 2 | 135 | 81 |
| Share purchase plan | 80 | 47 |
| Paying up of partly paid shares | 2 | 3 |
| Shares bought back | (1,565) | (1,248) |
| Balance at end of year | 6,078 | 7,256 |

(1) On September 29, 2003 400,000 Trust Preferred Securities were issued.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders meetings.

In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

10 Retained profits

| 2003 \$m | 2002 \$m |
|-------------|-------------|
|-------------|-------------|

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| | | |
|--|----------------|---------|
| Balance at beginning of year | 11,148 | 10,337 |
| Net profit attributable to members of the Company | 3,955 | 3,373 |
| Net effect on adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets | 1,151 | |
| Transfers to general reserve | (272) | (207) |
| Transfers from asset revaluation reserve | | 18 |
| Transfer from foreign currency translation reserve on sale of foreign controlled entity | 242 | |
| Dividends paid or provided for | (2,255) | (2,266) |
| Dividend provision not required | | 80 |
| Distributions on other equity instruments | (183) | (187) |
| Balance at end of year | 13,786 | 11,148 |

11 Notes to the statement of cash flows**(a) Reconciliation of net profit attributable to members of the Company to net cash provided by/(used in) operating activities**

| | 2003 \$m | 2002 \$m |
|--|-------------|-------------|
| Net profit attributable to members of the Company | 3,955 | 3,373 |
| Add/(deduct): Non-cash items | | |
| Decrease/(increase) in interest receivable | 460 | (755) |
| Increase/(decrease) in interest payable | (512) | (51) |
| Depreciation and amortisation of plant and equipment | 401 | 419 |
| Loss/(profit) on sale of controlled entities | | 15 |
| Loss on sale of operating assets | | 8 |
| Charge to provide for doubtful debts | 633 | 697 |
| Charge to provide for restructuring costs | | 265 |
| Movement in the excess of net market value over net assets of life insurance controlled entities | 160 | 155 |
| Amortisation of goodwill | 98 | 101 |
| Increase in life insurance policy liabilities | 2,281 | 170 |
| Write-off of property, plant and equipment | | 132 |
| Decrease/(increase) in life insurance investment assets | (1,593) | 2,359 |
| Increase/(decrease) in provision for income tax | (54) | (287) |
| Net increase/(decrease) in provision for deferred tax and future income tax benefits | 19 | (882) |
| Net decrease/(increase) in trading securities | (4,345) | 136 |
| Unrealised (gain)/loss on trading derivatives | (2,010) | 875 |
| Net movement in mortgage loans held for sale | 50 | 1,304 |
| Other provisions and non-cash items | (24) | 83 |
| Net cash provided by/(used in) operating activities | (481) | 8,117 |

(b) Reconciliation of cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash assets, due from other financial institutions and due to other financial institutions.

Cash and cash equivalents at the end of the year as shown in the statement of cash flows is reconciled to the related items on the statement of financial position as follows:

| | | |
|---------------------------------------|-----------------|----------|
| Cash assets | 5,032 | 6,294 |
| Due from other financial institutions | 10,383 | 15,876 |
| Due to other financial institutions | (45,128) | (43,279) |
| Total cash and cash equivalents | (29,713) | (21,109) |

(c) **Non-cash financing and investing activities**

| | | |
|--|-------------|-----|
| New share issues | | |
| Dividend reinvestment plan | 170 | 323 |
| Bonus share plan | 105 | 89 |
| Movement in assets under finance lease | (11) | (2) |

12 Details of associates and joint venture entities**Associates**

The Group holds no material interests in associates.

Interests in joint venture entities

The Group held the following interests in joint venture entities at September 30, 2003:

| Name | Principal activity | Joint venture reporting date | Ownership and voting interest |
|------------------------------------|--------------------|------------------------------|-------------------------------|
| Tokenhouse Partnership | Investment | September 30 | 50% |
| Dark City Partnership | Investment | September 30 | 50% |
| Matrix Film Investment Partnership | Investment | September 30 | 50% |

| | 2003 \$m | 2002 \$m |
|---|-------------|-------------|
| The Group's share of the joint venture entities' results consists of: | | |
| Revenues from ordinary activities | 7 | 6 |
| Expenses from ordinary activities | (4) | (4) |
| Profit from ordinary activities before income tax expense | 3 | 2 |
| Income tax expense relating to ordinary activities | | |
| Net profit - accounted for using the equity method | 3 | 2 |

The Group's share of the joint venture entities' assets and liabilities consists of:

| | | |
|-----------------------|-----|----|
| Investment securities | 619 | |
| Other investments | 51 | 55 |
| Other assets | 5 | 5 |
| Total assets | 675 | 60 |
| Other liabilities | | |
| Total liabilities | | |

The Group's share of the joint venture entities' post-acquisition profits consists of:

| | | |
|--|------|-----|
| Share of the joint venture entities' retained profits at beginning of year | (13) | (9) |
|--|------|-----|

Assets

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| | | |
|---|------|------|
| Share of the joint venture entities net profit | 3 | 2 |
| Distributions from joint venture entities | (7) | (6) |
| Share of the joint venture entities retained profits at end of year | (17) | (13) |

Movements in the Group's carrying amount of the joint venture entities consists of:

| | | |
|--|-----|-----|
| Carrying amount at beginning of year | 60 | 64 |
| Investments in joint venture entities acquired during year | 619 | |
| Share of the joint venture entities net profit | 3 | 2 |
| Distributions from joint venture entities | (7) | (6) |
| Carrying amount at end of year | 675 | 60 |

13 Details of controlled entities gained or lost during the year

Control gained over entities having material effect

During 2003, the Group's life insurance statutory funds reorganised their business operating model to increase the level of investments held through registered schemes rather than directly held investments in debt and equity securities. As the statutory funds are considered to have the capacity to control certain of these registered schemes, the Group has consolidated them. The financial effect of the consolidation of the registered schemes as at September 30, 2003 was to increase cash by \$20 million, debt and equity investments by \$2,525 million and outside equity interest by \$2,545 million in the statement of financial position. The financial effect on the statement of financial performance for the year ended September 30, 2003 was to decrease investment revenue by \$28 million, decrease net profit by \$28 million and increase net profit attributable to outside equity interest by \$28 million. There was no impact on net profit attributable to members of the Company.

The names of the registered schemes for which the Group gained control, are as follows:

MLC (NCIT) Global Share Trust;

MLCI Pool - NAM Cash Trust;

MLCI Pool - Private Equity Trust;

MLCI Pool - Australian Equity Trust;

MLCI Pool - Global Fixed Interest Trust;

MLCI Pool - Australian Fixed Interest Trust;

MLCI Pool - Diversified Debt (All) Trust;

National Asset Management Managed Investor International Trust;

National Diversified Managers Australian Share Fund;

National Short Term Money Market Fund; and

NCIT - Property Securities Trust.

Loss of control of entities having material effect

On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide Lending, Inc.) to Washington Mutual Bank, FA. Controlled entities of SR Investment, Inc. other than HomeSide Lending, Inc. were excluded from the sale. The loss on sale (before tax) of \$15

million was recognised during 2002, being proceeds from sale of assets of \$2,671 million less cost of assets sold of \$2,686 million. The assets and liabilities of SR Investment, Inc. and its controlled entities were included in the Group's financial position up to and including the year ended September 30, 2002.

The contribution of SR Investment, Inc. up until the date of sale on October 1, 2002 to the Group's profit from ordinary activities for the year ended September 30, 2003 was \$nil. The contribution of SR Investment, Inc. and its controlled entities to the Group's profit from ordinary activities for the year ended September 30, 2002 was \$98 million.

14 Other information

Legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business. The Company does not consider that the outcome of any proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. Where appropriate, provisions have been made.

Events subsequent to balance date

At the Company's annual general meeting to be held on December 19, 2003, the Company will seek shareholder approval to buy back the total of 36,008,000 fully paid non-converting non-cumulative preference shares of the Company issued in connection with the issue of 18,004,000 Trust Units Exchangeable for Preference Shares of the Group. The financial effect of the buy back has not been recognised in the financial statements for the year ended September 30, 2003. Subject to shareholder approval, the buy-back will be at a price of US\$12.50 per share, plus certain incidental costs. If the buy-back occurs, contributed equity of the Group would be reduced by \$730 million, with the excess of the acquisition costs and incidental costs of the buy-back directly reducing retained profits of the Group at the date of the buy-back.

Compliance statement

This preliminary final report is a general purpose financial report prepared in accordance with the ASX listing rules. It should be read in conjunction with any announcements to the market made by the entity during the period.

The preliminary final report has been prepared in accordance with the recognition and measurement requirements of applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

The financial statements of the Group are in the process of being audited.

/s/ Garry F. Nolan

November 11, 2003

Garry F. Nolan
Company Secretary

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

| | | | |
|-------|------------------|--------|------------------------------------|
| Date: | 11 November 2003 | /s/ | <i>Susan E Crook</i> |
| | | Title: | <i>Associate Company Secretary</i> |
