NATIONAL AUSTRALIA BANK LTD
Form 6-K
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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 ý Form 40-F o

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.

Yes o No ý

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National Australia Bank Limited and to be part thereof from the date on which this Report, is filed, to the extent not superseded by documents or reports subsequently filed or furnished.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

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.

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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.

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

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

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

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 Sep 03 $m	Half Year to Mar 03 $m	Fav/ (unfav) change on Mar 03 %	Year to Sep 03 $m	Year to Sep 02 $m	Fav/ (unfav) change on Sep 02 %
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 Sep 03 $m	Half Year to Mar 03 $m	Fav/ (unfav) change on Mar 03 %	Year to Sep 03 $m	Year to Sep 02 $m	Fav/ (unfav) change on Sep 02 %
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) R*egional Retail Banking results differ from Financial Services Australia, Europe and New Zealand primarily due to the inclusion* o*f 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) E*arnings on excess capital is wholly attributed to Australia.*

(4) T*he 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	As at Mar 03	Sep 02	Change on Mar 03	Sep 02
		$m	$m	$m	%	%
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

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

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(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

		Half Year to		Year to	
	Note	**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

			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

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(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.

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.

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(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	**Sep 02**	**Sep 02**	**Ex FX(1)**
	$m	**$m**	**%**	**%**
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%.

	Year to		Fav/ (unfav) change on Sep 02	
Underlying profit	**Sep 03**	**Sep 02**		**Ex FX(1)**
	$m	**$m**	**%**	**%**
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

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

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(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 Target**	**Half year to Sep 03**	**Half year to Mar 03**	**Half year to Sep 02**
		%	%	%
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 Target	Year to 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.

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.

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	**Sep 02**		**Ex FX**
	$m	**$m**	**%**	**%**
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

	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

	Year to		Fav/(unfav) change on Sep 02	
Average interest-earning assets (1)	**Sep 03**	**Sep 02**		**Ex FX**
	$ bn	**$ bn**	**%**	**%**
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 occuring 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.

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 TrUEPrS^{SM} 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.

TrUEPrS^{SM} 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**

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.

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
	Sep 03 $m	Mar 03 $m	%	Sep 03 $m	Sep 02 $m	%
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
	Sep 03 $m	Mar 03 $m	%	Sep 03 $m	Sep 02 $m	%
EVA® net operating profit after tax	2,407	2,389	0.7	**4,796**	4,401	9.0

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

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

	Target ratio	As at 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

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.

	Half year to		Year to	
Share buy-back activity	**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

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.*

RETAIL BANKING

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 $m	Mar 03 $m	%	Sep 03 $m	Sep 02 $m	%
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%

	As at		
	Sep 03	**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.

FINANCIAL SERVICES EUROPE

Performance Summary

Australian dollars	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 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

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**	**Year to**		**Fav/ (unfav) change on**
	Sep 03	**Mar 03**	**Mar 03**	**Sep 03**	**Sep 02**	**Sep 02**
	£m	**£m**	**%**	**£m**	**£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.

		As at	
	Sep 03	**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.

FINANCIAL SERVICES NEW ZEALAND

Performance Summary

Australian dollars	Half year to Sep 03	Mar 03	Fav/ (unfav) change on Mar 03	Year to 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	

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

	As at		
	Sep 03	**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)

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.

CORPORATE & INSTITUTIONAL BANKING

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) changeon	Year to		Fav/(unfav) change on	
	Sep 03	**Mar 03**	**Mar 03**	**Sep 03**	**Sep 02**	**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)%

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**

	As at		
	Sep 03	**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

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

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

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 03	**Sep 02**	**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 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

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

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)

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**

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(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 30 Sep 02
	Net assets	**Value of inforce business**	**Embedd -ed value**	**Value of future new business**	**Market value**	**Market value**
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				