NATIONAL AUSTRALIA BANK LTD
Form 20-F
March 26, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 30 September, 2003

Commission file number 1-9945

National Australia Bank Limited

ABN 12 004 044 937

(Exact name of Registrant as specified in its charter)

Victoria, Australia

(Jurisdiction of incorporation)

500 Bourke Street, Melbourne, VICTORIA, 3000 Australia

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares	*New York Stock Exchange*

American Depositary Shares, each representing five Ordinary Shares	**New York Stock Exchange**
Fully paid, Non Cumulative Preference shares, Liquidation Preference of US$12.50 per share	**New York Stock Exchange**
American Depositary shares, each representing two Fully Paid Non Cumulative Preference shares, Liquidation Preference of US$12.50 per share	**New York Stock Exchange**
Exchangeable Capital units consisting of $7^7/8$% Perpetual Capital Securities and Purchase Contracts	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **NONE**

Indicate the number of outstanding shares of each of the registrant s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares	**1,506,425,191**
Staff Share Scheme shares	**611,589 paid to 25 Australian cents**
National Income Securities	**20,000,000**
Trust Preferred Securities	**400,000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

SIGNATURE PAGE

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

NATIONAL AUSTRALIA BANK LIMITED

		Garry F Nolan
Date: 25 March 2004	Title:	*Company Secretary*

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Presentation of information

Basis of presentation

References in this document to this annual financial report refer to the annual report on Form 20-F filed with the Securities and Exchange Commission. This annual financial report is prepared in accordance with Australian GAAP, which differs in some respects from US GAAP *(as set out in note 58 in the financial report)*. Comparative amounts have been reclassified to accord with changes in presentation made in 2003, except where otherwise stated.

Currency of presentation

All currency amounts are expressed in Australian dollars unless otherwise stated. Merely for the convenience of the reader, this annual financial report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US$0.6797 = A$1.00, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (noon buying rate) on September 30, 2003.

Certain definitions and glossary

The Company s fiscal year ends on September 30. As used herein, the fiscal year ended September 30, 2003 is referred to as 2003 and other fiscal years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (ie. billions) of Australian dollars respectively. Financial statements means the Company s consolidated financial statements for the year ended September 30, 2003, September 30, 2002 and September 30, 2001 included herein at pages 85 to 202. Any discrepancies between total and sums of components in tables contained in this annual financial report are due to rounding.

A glossary of some of the key terms used in this annual financial report is contained at page 220. In addition, non-GAAP financial measures have been defined at page 62.

Forward-looking statements

This annual financial report contains certain forward-looking statements within the meaning of section 21E of the United States *Securities Exchange Act of 1934*. The United States *Private Securities Litigation Reform Act of 1995* provides a safe harbour for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation, so long as the information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. The words anticipate, believe, expect, project, estimate, intend, should, could, may, target, goal, objective, plan and other similar expressions are used in connection with forward-looking statements.

In this annual financial report, forward-looking statements may, without limitation, relate to statements regarding:

economic and financial forecasts, including but not limited to statements under the financial review and report on the directors and officers.

anticipated implementation of certain control systems and programs, including, but not limited to those described under the financial review risk management; and

certain plans, strategies and objectives of management.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, that may cause actual results to differ materially from those expressed in the statements contained in this annual financial report. For example:

the economic and financial forecasts contained in this annual financial report will be affected by movements in interest and foreign currency exchange rates, which may vary significantly from current levels, as well as by general economic conditions in each of the Group s major markets. Such variations, if adverse, may materially impact the Group s financial condition and results of operations;

the implementation of control systems and programs will be dependent on such factors as the Group s ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel and the co-operation of customers and third party vendors; and

the plans, strategies and objectives of management will be subject to, among other things, government regulation, which may change at any time and over which the Group has no control. In addition, the Group will continue to be affected by general economic conditions in Australia and worldwide, movements and conditions in capital markets, the competitive environment in each of its markets and political and regulatory policies.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this annual financial report.

Financial highlights *(1)*

Profitability

Net profit attributable to members of the Company increased 17.3% to $3,955 million.

Net profit before significant items*(2)* increased 4.3% to $3,947 million.

The current year s result includes no significant items whilst the 2002 result included the following significant items:

restructuring costs of $412 million (after-tax); and

net profit on sale of SR Investment, Inc. (formerly known as HomeSide International, Inc.) of $6 million.

Shareholder returns

Basic earnings per share*(2)* increased 21.0% to 248.9 cents. Excluding significant items, basic earnings per share increased 7.3% from 231.9 cents.

Basic cash earnings*(2)* per share increased 20.9% to 268.5 cents. Excluding significant items, basic cash earnings per share increased 8.2% from 248.2 cents.

Return on average ordinary shareholders funds*(2)* increased from 15.1% (17.0% excluding the impact of significant items) to 18.3%.

Dividends were 163 cents per share compared with 147 cents per share last year. In 2003, the interim dividend of 80 cents per share was also fully franked and the final dividend of 83 cents per share was also fully franked. In 2002, the interim dividend of 72 cents per share was fully franked and the final dividend of 75 cents was 90% franked.

Economic Value Added (EVA®)*(2)* increased 29.9% to $1,668 million.

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

Growth and diversification

Total assets grew by 12.5% in local currency terms.

Net assets grew by 42.8% in local currency terms.

Movements in exchange rates decreased total assets (in Australian dollar terms) by $24.2 billion.

Gross loans and advances increased 13.4% in local currency terms.

Assets under management and administration grew by 13.2%

(1) Refer to note 59 for developments up to the date of signing this annual financial report.

(2) Refer to glossary on page 220, non-GAAP financial measures on page 62 and reconciliations of non-GAAP financial measures on page 6.

Selected financial data

The information hereunder has been derived from the audited financial report of the Group, or where certain items are not shown in the Group s financial report, it has been prepared for the purpose of this annual financial report. Accordingly, this information should be read in conjunction with and is qualified in its entirety by reference to the financial report. Comparative amounts have been reclassified to accord with changes in presentation made in 2003, except where otherwise stated.

	Group					
	2003	**2003 (1)**	**2002 (2)**	**2001 (3)**	**2000 (4)**	**1999**
	$m	**US$m**	**$m**	**$m**	**$m**	**$m**
Summary statement of financial performance						
Australian GAAP						
Net interest income	**7,419**	**5,043**	7,222	6,960	6,371	6,066
Net life insurance income	**444**	**302**	(10)	128	332	
Other banking and financial services income	**5,010**	**3,405**	7,006	4,749	4,124	4,027
Mortgage servicing and origination revenue			378	810	640	536
Movement in the excess of net market value over net assets of life insurance controlled entities	**(160)**	**(109)**	(155)	510	202	
Significant revenue			2,671	5,314		
Operating expenses	**(6,354)**	**(4,319)**	(8,707)	(6,470)	(5,807)	(5,701)
Amortisation of goodwill	**(98)**	**(67)**	(101)	(167)	(197)	(206)
Charge to provide for doubtful debts	**(633)**	**(430)**	(697)	(989)	(588)	(581)
Significant expenses			(3,266)	(6,866)	(204)	
Profit from ordinary activities before income tax expense	**5,628**	**3,825**	4,341	3,979	4,873	4,141
Income tax expense relating to ordinary activities	**(1,681)**	**(1,143)**	(962)	(1,891)	(1,632)	(1,321)
Net profit	**3,947**	**2,682**	3,379	2,088	3,241	2,820
Net loss/(profit) attributable to outside equity interest - Life insurance business	**16**	**11**	(6)	(5)	(2)	1
Net (profit) attributable to outside equity interest - other	**(8)**	**(5)**				
Net profit attributable to members of the Company	**3,955**	**2,688**	3,373	2,083	3,239	2,821
Dividends paid/payable *(5)*	**2,352**	**1,599**	2,266	2,080	1,858	1,655
Adjusted to accord with US GAAP						
Net income *(6)*	**3,527**	**2,397**	3,455	1,794	3,004	2,702

	Group					
	2003	**2003 (1)**	**2002 (2)**	**2001 (3)**	**2000 (4)**	**1999**

	$m	US$m	$m	$m	$m	$m
Summary statement of financial position						
Australian GAAP						
Investments relating to life insurance business	**35,846**	**24,365**	31,012	31,381	31,103	
Loans and advances (after provisions for doubtful debts)	**247,959**	**168,538**	231,300	207,797	195,492	165,620
Total assets	**397,471**	**270,161**	377,387	374,720	343,677	254,081
Total risk-weighted assets	**252,365**	**171,532**	247,838	257,513	238,589	197,096
Deposits and other borrowings	**210,146**	**142,836**	206,864	190,965	185,097	162,468
Life insurance policy liabilities	**32,457**	**22,061**	30,425	30,257	29,879	
Bonds, notes and subordinated debt	**22,707**	**15,434**	22,192	24,984	21,051	13,437
Perpetual floating rate notes	**367**	**249**	460	507	461	383
Exchangeable capital units *(7)*	**1,262**	**858**	1,262	1,262	1,262	1,262
Net assets	**27,211**	**18,495**	23,251	23,557	21,407	18,520
Contributed equity	**9,728**	**6,612**	9,931	10,725	9,855	9,286
Ordinary shares	**6,078**	**4,131**	7,256	8,050	7,180	6,611
Equity instruments *(8)*	**3,650**	**2,481**	2,675	2,675	2,675	2,675
Total equity (excludes outside equity interest)	**24,407**	**16,589**	23,184	23,489	21,361	18,520
Adjusted to accord with US GAAP						
Total assets	**398,917**	**271,144**	380,280	377,167	344,227	258,791
Total equity	**23,862**	**16,219**	24,005	23,987	21,836	19,226

	Group					
	2003	2003 (1)	2002 (2)	2001 (3)	2000 (4)	1999
	$	US$	$	$	$	$
Shareholder information						
Australian GAAP						
Earnings per share *(9)*						
Basic	**2.49**	**1.69**	2.06	1.22	2.02	1.87
Diluted	**2.44**	**1.66**	2.03	1.23	1.99	1.83
Earnings per share before significant items *(9) (10)*						
Basic	**2.49**	**1.69**	2.32	2.47	2.11	1.87
Diluted	**2.44**	**1.66**	2.27	2.43	2.08	1.83
Cash earnings per share *(10)*						
Basic	**2.69**	**1.83**	2.22	1.11	2.06	2.01
Diluted	**2.62**	**1.78**	2.18	1.12	2.02	1.97
Cash earnings per share before significant items *(10)*						
Basic	**2.69**	**1.83**	2.48	2.37	2.15	2.01
Diluted	**2.62**	**1.78**	2.43	2.33	2.11	1.97
Dividends per share *(5)*	**1.63**	**1.11**	1.47	1.35	1.23	1.12
Total shareholder return (3 year annualised accumulation) (%) *(11)*	**11.1**	**11.1**	19.2	12.8	11.3	24.9
Economic Value Added (EVA®) *(12)*	**1,668**	**1,134**	1,284	1,129	1,379	1,390
Dividends per American Depositary Share (ADS) *(5)*	**8.15**	**5.54**	7.35	6.75	6.15	5.60
Dividend payout ratio (%) *(5)*	**62.35**	**62.35**	71.12	111.23	61.10	60.25
Net assets per share	**18.09**	**12.30**	15.11	15.15	14.12	12.46
Share price at year-end	**30.80**	**20.93**	33.48	25.66	25.51	22.43
Number of shares at year-end (No. 000)	**1,504,635**	**n/a**	1,534,840	1,551,575	1,516,111	1,486,295
Adjusted to accord with US GAAP						
Net income per share *(6)(9)*						
Basic	**2.21**	**1.50**	2.11	1.03	1.87	1.79
Diluted	**2.13**	**1.45**	2.06	1.04	1.81	1.74
Dividends per ADS (US$) *(5) (13)*	**n/a**	**6.03**	4.12	3.51	3.50	3.62
Dividends as percentage of net income (%) *(6)*	**66.69**	**45.33**	65.59	115.94	61.85	61.25

	Group				
	2003	2002	2001	2000	1999
	%	%	%	%	%
Selected financial ratios					
Australian GAAP					
Average equity (ordinary shareholder funds) to average total assets (excluding statutory funds) *(14)*	**6.9**	7.2	7.3	7.3	6.7

(16)					
Return on average assets *(15)*	**1.0**	0.9	0.5	1.1	1.1
Return on equity (average ordinary shareholder funds) *(15) (16)*	**18.3**	15.1	9.0	17.3	17.8
Average net interest spread	**2.2**	2.4	2.3	2.4	2.5
Average net interest margin	**2.5**	2.7	2.7	2.9	3.0
Gross non-accrual loans to gross loans and acceptances	**0.51**	0.62	0.75	0.66	0.82
Net impaired assets to equity (parent entity interest)	**3.9**	4.7	5.2	4.9	6.1
Total provisions for doubtful debts to gross impaired assets	**163.4**	161.0	160.5	182.5	159.5
Capital - risk asset ratios *(17)*					
Tier 1	**7.8**	7.8	7.5	6.6	7.8
Tier 2	**3.3**	3.7	3.9	4.0	2.9
Deductions	**(1.4)**	(1.3)	(1.2)	(1.3)	(0.3)
Total	**9.7**	10.2	10.2	9.3	10.4
Ratio of earnings to fixed charges *(18)*	**1.6**	1.5	1.3	1.4	1.5
Adjusted to accord with US GAAP					
Net income as a percentage of					
Average total assets (excluding statutory funds) *(6) (14)*	**1.0**	1.0	0.5	1.1	1.0
Average equity *(6)*	**14.8**	14.5	7.7	14.6	15.5
Total equity as percentage of total assets (excluding statutory funds) *(14)*	**6.6**	6.9	7.0	7.0	7.4
Ratio of earnings to fixed charges *(6) (18)*	**1.3**	1.4	1.2	1.4	1.5

	Group				
	2003 (1)	2002 (2)	2001(3)	2000 (4)	1999
	$m	$m	$m	$m	$m
Reconciliations of non-GAAP measures *(5)*					
Net profit to cash earnings before significant items reconciliation					
Net profit attributable to members of the Company	**3,955**	3,373	2,083	3,239	2,821
Adjusted for					
Net loss/(profit) attributable to outside equity interest - Life insurance business	**(16)**	6	5	2	(1)
Net (profit) attributable to outside equity interest - other	**8**				
Net profit	**3,947**	3,379	2,088	3,241	2,820
Adjusted for					
Net loss/(profit) attributable to outside equity interest - Life insurance business	**16**	(6)	(5)	(2)	1
Net (profit) attributable to outside equity interest - other	**(8)**				
Distributions on other equity instruments	**(183)**	(187)	(213)	(198)	(74)
Movement in the excess of net market value over net assets of life insurance controlled entities	**160**	155	(510)	(202)	
Income tax expense on movement in the excess of net market value over net assets of life insurance controlled entities	**40**	(3)	177	56	
Amortisation of goodwill	**98**	101	167	197	206
Cash earnings	**4,070**	3,439	1,704	3,092	2,953
Adjusted for					
Significant revenue		(2,671)	(5,314)		
Significant expense		3,266	6,866	204	
Income tax expense/(benefit) on significant items		(189)	384	(68)	
Cash earnings before significant items	**4,070**	3,845	3,640	3,228	2,953
EVA® reconciliation					
Cash earnings before significant items	**4,070**	3,845	3,640	3,228	2,953
Adjusted for					
Imputation credit value earned	**733**	622	695	545	431
Net amortisation of prior period significant items	**(272)**	(243)	(327)	(25)	(25)
Other	**(7)**	(67)	(127)	(68)	(31)
EVA® net operating profit after tax	**4,524**	4,157	3,881	3,680	3,328
Capital charge *(19)*	**(2,856)**	(2,873)	(2,752)	(2,301)	(1,938)
EVA®	**1,668**	1,284	1,129	1,379	1,390
Average economic capital *(20)*	**24,849**	24,985	23,927	20,178	18,457
Cost of capital *(21)*	**11.50%**	11.50%	11.50%	11.40%	10.50%
Average ordinary shareholders funds reconciliation					
Total average equity	**24,111**	23,847	23,427	20,261	17,147
Adjusted for					
National Income Securities (average)	**(1,945)**	(1,945)	(1,945)	(1,945)	(1,945)
Preference Shares (average)	**(730)**	(730)	(730)	(730)	(730)

Trust Preferred Securities (average)	**(5)**				
Outside equity interest (average)	**(852)**	(68)	(67)	(46)	
Average ordinary shareholders funds *(16)*	**20,579**	21,104	20,685	17,540	14,472

	Group				
	2003	**2002**	**2001**	**2000**	**1999**
Other information					
Total staff					
Full-time and part-time	**45,206**	46,642	49,710	51,879	51,566
Full-time equivalent *(22)*	**42,540**	43,202	47,597	49,514	46,837
Exchange rates (average and closing per A$1.00)					
Average					
British pound	**0.3824**	0.3622	0.3626	0.3902	0.3934
Euro	**0.5648**	0.5798	0.5880	0.6310	0.5825
United States dollar	**0.6125**	0.5324	0.5227	0.6102	0.6404
New Zealand dollar	**1.1142**	1.1992	1.2474	1.2648	1.2012

	Group				
	2003	**2002**	**2001**	**2000**	**1999**
Closing					
British pound	**0.4072**	0.3474	0.3354	0.3710	0.3697
Euro	**0.5850**	0.5528	0.5393	0.6166	0.6146
United States dollar	**0.6804**	0.5440	0.4928	0.5427	0.6528
New Zealand dollar	**1.1446**	1.1565	1.2135	1.3351	1.2589

	Group				
	2003	**2002**	**2001**	**2000**	**1999**
(US$ per A$1.00)					
Average *(23)*	**0.6167**	0.5329	0.5181	0.6032	0.6385
September 30	**0.6797**	0.5628	0.4946	0.5415	0.6528

On March 19, 2004 the noon buying rate was US$0.7475 per A$1.00.

	Group 2003					
	February	**January**	**December**	**November**	**October**	**September**
United States dollar (per A$1.00)						
High	0.7979	0.7805	0.7520	0.7238	0.7077	0.6810
Low	0.7566	0.7576	0.7265	0.6986	0.6814	0.6395

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(1) Translated at the noon buying rate on September 30, 2003 of US$0.6797 = A$1.00.

(2) Includes amounts relating to operating assets and operating platform of HomeSide US to February 28, 2002, sold on 1 March 2002, and SR Investment, Inc. (the parent entity of HomeSide US) to September 30, 2002, sold on October 1, 2002.

(3) Includes amounts relating to Michigan National Corporation and its controlled entities to March 31, 2001. The Group sold this entity on April 1, 2001.

(4) Includes amounts relating to the MLC group from July 1, 2000. The Group acquired these entities on June 30, 2000.

(5) Dividend amounts for a year represent the final and interim dividend in respect of that year, irrespective of

when they are declared, determined and publicly recommended and includes issues under the bonus share plan in lieu of cash and the dividend reinvestment plan. Dividends and book value per ordinary share and per American Depositary Share (ADS) calculations are based on year-end fully paid equivalent ordinary shares, adjusted for loans and rights issues as appropriate. Dividend payout ratio is based on the dividend amounts for a year by net profit attributable to members of the Company after deducting distributions on other equity instruments.

(6) Net income according to US GAAP for 2002, 2001, 2000 and 1999 has been restated for the revised interpretation of APB 25 Accounting for Stock Issued to Employees (refer to note 58(g) for additional information). Where net income is used to calculate a financial ratio, comparative information has been restated for 2002, 2001, 2000 and 1999.

(7) The exchangeable capital units of US$1 billion are recorded in this annual financial report at the historical rate of US$0.7922 = A$1.00.

(8) Equity instruments incorporate preference shares, National Income Securities and Trust Preferred Securities.

(9) Refer to notes 8 and 58 in the financial report for an explanation of earnings per share.

(10) Refer to page 62 for explanations of non-GAAP financial measures .

(11) Total shareholder return measures the growth in the value of the investment in shares, assuming reinvestment of dividends. The calculation does not take into account taxation of returns nor franking credits.

(12) EVA ® is a registered trademark of Stern Stewart & Co.

(13) Dividend amounts are translated into US dollars per ADS (representing five fully paid ordinary shares) at the exchange rate on each of the respective payment dates for interim and final dividends.

(14) Statutory funds are excluded given the significant restrictions imposed by life insurance legislation, regulations and the regulators thereunder, on these assets. However, current Australian accounting requirements do not allow for these assets and liabilities to be separated and disclosed separately on the statement of financial position. Refer to note 2 for detailed discussion of the separation of assets from the Group s total assets.

Currency of presentation

(15) Return represents net profit attributable to members of the Company after deducting for distributions on other equity instruments.

(16) Average ordinary shareholders funds represents the average of total equity adjusted to exclude National Income Securities, preference shares, Trust Preferred Securities and outside equity interest.

(17) As defined by Australian Prudential Regulation Authority (refer to capital resources on page 43 and regulation of the financial services system on page 14).

(18) For the purpose of calculating these ratios, fixed charges are comprised of interest on all indebtedness including interest on deposits, and one-third of rental charges (which is used to be representative of an interest factor). Earnings are calculated after all operating and income deductions, except fixed charges, extraordinary items and tax based on profit and are stated before outside equity interest.

(19) Capital charge is the average economic capital multiplied by the cost of capital.

(20) Average economic capital is a measure of the amount of capital invested in the Company by shareholders which is based on average ordinary shareholders' funds adjusted for significant items and those items excluded from the calculation of cash earnings (refer to 'non-GAAP financial measures on page 62 for an explanation of significant items and cash earnings).

(21) Cost of capital is calculated based on the capital asset pricing model.

(22) Full-time equivalent employees (FTEs) includes part-time staff (pro-rated) and non-payroll FTEs (ie contractors).

(23) The daily average of the noon buying rates.

Business overview

Introduction

The Group is an international financial services group that provides a comprehensive and integrated range of financial products and services.

The Company traces its history back to the establishment of The National Bank of Australasia in 1858. National Australia Bank Limited is a public limited company, incorporated on June 23, 1893 in Australia, which is the Company s main domicile. Its registered office is 24th floor, 500 Bourke Street, Melbourne, Victoria 3000, Australia. The Company operates under the requirements of the *Banking Act* 1959 (Cth) and *Corporations Act* 2001 (Cth).

Globally, as at September 30, 2003, the Group had:

- total assets of $397 billion;
- over $73 billion in assets under management and administration;
- $311 billion in funds under custody and investment administration; and
- 7.8 million banking customers and more than 2.8 million wealth management customers.

The Company is the largest financial services institution (by market capitalisation) listed on the stock market of ASX and is within the 30 most profitable financial services organisations in the world (measure: profit; source: Fortune; date: July 2003).

Strategy

The Group s purpose statement is Growth through excellent relationships . This simple yet powerful proposition provides clarity for strategic alignment of the Group. It recognises that growth is important to shareholders and that the Group s ability to successfully deliver growth is best achieved by building and maintaining excellent relationships with all stakeholders.

The Group s vision is that We will be a leading international financial services company which is trusted by you and renowned for getting it right . The vision is an aspirational statement that reaffirms the Group s continued commitment to international growth and reflects an understanding that excellent relationships must be founded on trust and getting things right .

Underpinning the Group s strategic intentions are five core strategies:

Deliver solutions that help meet customers complete financial needs:

- deliver a high quality, consistent customer experience by getting the basics right every time;
- build valued relationships by developing a superior understanding of the customers needs and their relationship preferences; and
- deliver integrated banking and wealth management advice and solutions;

Build and sustain a high performance culture:

- recruit, develop and retain people who have the skills and attitude to build excellent relationships and deliver on customer promises;
- create an environment which values diversity and encourages people to perform to their full potential; and
- measure and reward to drive individual and organisational performance;

Build trusted relationships with all stakeholders:

consider each stakeholder group in a balanced way to inform all decisions and actions;

build trust through consistent behaviour, dialogue, transparency and accountability; and

protect and enhance the reputation of the Group as a responsible corporate citizen;

Build and manage the Group s portfolio of businesses for strong and sustainable total shareholder return:

pursue sources of sustainable revenue growth in selected markets;

base investment and resource allocation decisions on value to the portfolio; and

manage risk and capital to optimise economic profit; and

Create and leverage strategic assets and capabilities for competitive advantage:

build an organisation based on core capabilities defined around providing advice and solutions for customers; and

capture efficiencies and generate revenue growth by leveraging assets and capabilities within, and between, businesses.

Business operating model

The Group s operating model is a combination of global and regionally-oriented businesses. Where managing or transferring core skills or products between geographical markets give the Group a competitive edge, a global management model exists, and where a regional focus is more important to ensure customer alignment, a regional management structure exists.

The Group consists of five lines of business:

- Financial Services Australia;
- Financial Services Europe;
- Financial Services New Zealand;
- Corporate & Institutional Banking (formerly Wholesale Financial Services); and
- Wealth Management.

These business lines are supported by the following global functions - Finance, Technology, People and Culture, Risk Management, Corporate Development and Office of the CEO.

Introduction to Financial Services

The Group s Financial Services businesses, or the retailing arms of the Group, provide a range of financial products and services tailored to the needs of their customers.

The regional structure of these businesses enables broader authority and more control over distribution, products and services. Each region is managed separately with a distinct focus Financial Services Australia, Financial Services Europe and Financial Services New Zealand.

The Financial Services businesses in each region are structured to provide customers with solutions to all their retail financial needs. In each region, the Financial Services businesses have six core business units Business, Personal, Agribusiness, Cards, Payments and Asset Finance and Fleet Management supported by the specialist units of Marketing, Channel and Process Optimisation, and Customer Service and Operations (formerly Shared Services). The operations of each of these business units are outlined below.

Business

Business provides financial solutions to its customers, which range from sole traders to multi-national businesses. Business provides its customers with access to the broad range of products and services of the Group.

Personal

Personal supports both retail, premium and private customers, with a strong focus on financial solutions to meet all its customers personal financial needs.

Agribusiness

Agribusiness is dedicated to serving the agricultural sector and concentrates solely on meeting the needs of primary producers, service providers to agriculture and processors of agricultural produce. With this focus, Agribusiness has a strong understanding of the financial needs of agricultural business.

Cards

Cards manages the business and personal debit and credit card requirements of customers.

Payments

Payments is responsible for the processing and completion of payment transactions and the development of payment processes and systems, particularly in e-commerce.

Asset Finance and Fleet Management

Asset Finance and Fleet Management specialises in plant, equipment and motor vehicle leasing, as well as the broader area of fleet management.

Marketing

Marketing represents the centralisation of marketing and product development functions within the retailing operations in each region.

Channel and Process Optimisation

Channel and Process Optimisation is responsible for all the electronic delivery channels, quality delivery of retail products and services and process efficiencies within the retail operations.

Customer Service and Operations

Customer Service and Operations (formerly Shared Services) enables the Group to more readily take an end-to-end perspective on what it does and to give greater control over the services provided to meet the needs of local customers more effectively. It comprises the following operational services Collections, Corporate Real Estate, Lending Services, Strategic Sourcing and Transaction Business Services and Finance. Within Customer Services and Operations, the Group undertakes a number of specialised business activities through its controlled entities and its business units. These include a property owning company, NBA Properties Limited, which, with its subsidiary companies, is primarily an owner of the business-related properties of the Group.

Financial Services Australia

Financial Services Australia is the Australian retailing arm of the Group that provides financial solutions that meet the financial needs of its 3.4 million customers in Australia.

At September 30, 2003, Financial Services Australia had 17,233 full-time equivalent employees.

The vision for Financial Services Australia is to better serve the financial needs of customers as they change over time and to allow them to meet their life goals. Delivering this vision means working very closely with Wealth Management and Corporate & Institutional Banking to ensure customers needs are identified and met and the right financial solution is provided every time.

Identifying and meeting customers needs is of paramount importance to Financial Services Australia. This is achieved through the physical distribution network, electronic channels and a strong relationship management philosophy, all underpinned by a comprehensive customer relationship management (CRM) system.

Financial Services Australia s customer obsession means time is taken to have quality conversations with customers, build trusted relationships, assist them in identifying their financial needs and provide the right solution.

Financial Services Australia s extensive physical distribution operates to service customers at a location convenient to them. At September 30, 2003 there were 20 integrated financial service centres (catering for all customers financial advice needs), 192 business banking centres, 109 agribusiness locations, 790 branches, and over 3,000 Australia Post outlets.

The array of financial solutions available to customers includes a range of deposit and lending products, financial planning, credit cards, payment facilities, leasing, asset finance and transaction accounts. In addition, Wealth Management and Corporate & Institutional Banking products and services are available such as treasury, equity finance, custodian services, superannuation, insurance and investment solutions.

Financial Services Australia s electronic distribution provides customers with the choice to meet their financial needs when they want via the internet, over the telephone, through one of 1,700 ATMs or through an extensive network of point of sale (EFTPOS) terminals at September 30, 2003. There were also over 900,000 registered internet banking customers. Only 8% of all transactions (by volume) are now carried out through the branch network, reflecting changing customer preferences.

Financial Services Australia s relationship management philosophy is encapsulated in the Group s purpose statement (*refer to strategy on prior page*) and the objective: to be the financial service provider that Australians trust to meet their needs . This supports an integrated financial services model as Business, Personal and Agribusiness bankers work closely with Wealth Management and Corporate & Institutional Banking to identify and meet the life goals of customers.

Financial Services Australia has the largest market share of business lending (excluding agribusiness) (measure: credit outstandings; source: TNS; date: September 2003) which is the result of initiatives over a number of years, centred on the relationship management model.

Initiatives have included the development of Business and Agribusiness banking teams with specialist knowledge and an understanding of the financial needs of customers. For premium personal customers, Financial Services Australia has a relationship management philosophy where each customer has a personal banker to manage their needs. Specialists, such as financial advisers and estate planners, are introduced to meet more complex needs.

A comprehensive CRM system underpins the physical and electronic distribution channels and the relationship management philosophy.

This CRM system has the capability to record and integrate a substantial proportion of customer interactions, which enables better knowledge of customers preferences and future financial needs. Analytical capabilities allow this knowledge to be used to identify customer needs and provide leads and information to bankers and financial planners to pro-actively contact customers to meet those needs.

Refer to page 31 for detailed information of the financial performance of Financial Services Australia.

Financial Services Europe

Financial Services Europe is the European retailing arm of the Group that provides financial solutions to meet the needs of its 3.4 million customers in the UK and Ireland.

At September 30, 2003, Financial Services Europe had 11,423 full-time equivalent employees.

The Group s retailing activities in Europe (UK and Ireland) operate under four brands. The Group s regional banks are Clydesdale Bank in Scotland, Yorkshire Bank in Northern England, Northern Bank in Northern Ireland and National Irish Bank in the Republic of Ireland. Each bank offers a broad range of financial services to both retail and business customers. Supporting these services are the products provided by Wealth Management and Corporate & Institutional Banking, offering customers a further range of financial solutions.

Clydesdale Bank is one of the major banks in Scotland, with a strong business customer franchise, and has been part of the Group since 1987. Yorkshire Bank was acquired in 1990 and is a significant player in its natural marketing area of Yorkshire and the surrounding counties. Yorkshire Bank has a strong consumer franchise, with a growing business segment.

The Group has owned Northern Bank in Northern Ireland and National Irish Bank in the Republic of Ireland since 1987. Each bank offers a broad range of financial services.

Northern Bank is one of the largest banks in Northern Ireland (measure: main current accounts, source: MORI, date: March 2003), and over recent years has expanded its profile in the consumer segment.

National Irish Bank s primary strength is in the consumer segment. It has continued to grow consumer lending despite the slowing economy of the Republic of Ireland.

The focus of Financial Services Europe has been to grow the business and consumer segments by implementing relationship management models, which have been successfully adopted elsewhere in the Group. This is supported by the introduction of innovative products and services (such as Rapid Repay mortgages), and continued investment in alternative channels to assist customers by extending the range of channels with which they can choose to manage their financial affairs. The 2003 year saw the commencement of the heavy investment in tools, resources and people that will help achieve further organic growth in an intensely competitive market. This strategy is based on three complementary objectives:

growth not merely for its own sake, but to enable the provision of a tailored approach to the provision of financial services to more customers, across a wider area and at competitive prices;

efficiency to help deliver the range of financial services rapidly, flexibly and accurately; and quality   to ensure that everything matches or exceeds the standards that customers demand and to ensure that the needs of customers are at the forefront of the operations.

At September 30, 2003, there were 756, outlets including 125 business banking centres and premium outlets. These are supported by two customer contact centres, internet facilities and 1,195 ATMs. This distribution network allows customers full choice in their transaction of business. During 2003, growth in electronic transactions increased threefold compared with over the counter transactions. Customers carried out more than 159 million transactions using the ATM network, 18.0 million using internet banking, 3.8 million using the customer contact centres and 8.6 million using the interactive voice-recognition service.

Investment has been made in four new flagship banking centres in Liverpool, Bristol, Reading and Southampton, providing a single, integrated resource covering the financial aspects of business. Developed primarily for business customers, each centre provides access to a relationship manager who acts as day-to-day contact in a way that aims to create a valued partnership between the bank and the customer.

Investment has also been made in the branch network with a continuing program of upgrades and improvements. To reduce the need to queue at busy times, customers now have a range of in-branch quick service options for withdrawing or depositing cash and cheques. Some branches are open for longer hours, including Saturdays. The 24 hour interactive voice-recognition service enables customers to check their balance, obtain a statement or review recent transactions.

A new front end system is being implemented to provide a more efficient platform for sales and servicing. By capturing all the relevant information at the point of contact with the customer, and having it flow directly through the new back office processing system, more accurate and timely decisions can be made. This enables better service to customers, more efficient processing for the banks, and the opportunity to grow market share.

Refer to page 31 for detailed information of the financial performance of Financial Services Europe.

Financial Services New Zealand

Financial Services New Zealand is the New Zealand retailing arm of the Group that provides financial solutions to meet the needs of its more than 970,000 customers in New Zealand at September 30, 2003.

At September 30, 2003, Financial Services New Zealand had 4,257 full-time equivalent employees.

The Group s retailing activities in New Zealand operate under the Bank of New Zealand (BNZ) brand.

BNZ was acquired by the Group in 1992. BNZ has a strong brand position in the New Zealand market with comprehensive coverage across the country. It offers a range of financial services and is one of the largest financial service providers in New Zealand. BNZ enjoys a strong position in the cards market with innovative solutions including GlobalPlus (measure: outstandings, source: Internal data and Reserve Bank of New Zealand, date: September 2003).

Continued growth is being driven through BNZ s CRM strategy called TOPS. TOPS is a computer-based system that notifies staff of trigger events from customer transactional activity and milestone attainment, resulting in customers being contacted by BNZ at a time when they need it. The system has been developed from the Group s CRM platform.

The ongoing enhancement of the physical distribution network, coupled with improved technology, automation and functionality through electronic and remote channels, continues to be a core strategy. BNZ s vision is to provide customers with tailored financial solutions, which are deliverable through a range of convenient and cost-effective channels.

The distribution network at September 30, 2003 comprised of 178 outlets including 14 business banking centres, 391 ATMs, and shared access to an extensive nationwide EFTPOS network. BNZ also has well-established telephone banking capabilities, in addition to its internet banking service catering for more than 150,000 active users (being users over the last six months of the 2003 year).

BNZ has commenced the introduction of the Integrated Systems Implementation (ISI program). The ISI program is a multi-staged project designed to provide the Group with a common global enterprise resource planning system across all lines of operations. During the year, BNZ had a successful roll-out of the ISI program for the human resources, procurement and financial modules. As a result, this has improved administration processes.

Refer to page 32 for detailed information of the financial performance of Financial Services New Zealand.

Corporate & Institutional Banking

Corporate & Institutional Banking (formerly Wholesale Financial Services) manages the Group s relationships with large corporations, banks, financial institutions, supranationals (such as development banks) and government bodies. With operations in Australia, Europe, New Zealand, New York and Asia (Hong Kong, Singapore, Seoul and Tokyo), Corporate & Institutional Banking has dedicated leadership teams to provide local, accessible senior management for customers.

At September 30, 2003, Corporate & Institutional Banking had 2,612 full-time equivalent employees.

Corporate & Institutional Banking provides debt financing, risk management and investor services and products. It comprises Corporate Banking, Financial Institutions, Markets, Specialised Finance, National Custodian Services, Transactional Solutions and a Services unit.

It embraces the Group s purpose statement of Growth through excellent relationships by devoting considerable resources to understanding the needs of customers, and to deliver first-class solutions that exceed their expectations.

Corporate Banking

Corporate Banking is responsible for the Group s relationships with large corporations and provides corporate lending products and other financing solutions. Customer teams are selected to provide the appropriate blend of relationship management, industry knowledge and product skills.

Customer coverage is structured along industry segment lines to promote specialist knowledge and understanding. There are five major industry segments: consumer goods and services; telecommunications, media and technology; industrials, materials and health care; energy and utilities; and property and construction finance.

Financial Institutions

Financial Institutions manages the Group s relationships with banks, other financial institutions (insurance and fund managers), supranationals and government bodies which includes the Group s correspondent banking relationships.

Markets

Markets focuses on traded products and risk management solutions.

It provides foreign exchange, money market, commodities and derivatives products globally through a dedicated 24 hour dealing capability. These products assist both Corporate & Institutional Banking s customers and the Group s small and medium business customers to manage their diverse financial risks.

Markets is active in the debt capital markets, securitisation and loan syndications markets, helping customers to diversify their financing arrangements and supplying investors with access to a variety of asset classes.

Markets also manages the liquidity portfolio for the Group in each of its major markets. It assists in interest rate risk management and provides short-term funding for the Group.

Specialised Finance

Specialised Finance supplies a range of financial solutions utilised in large-scale, complex transactions such as project finance, structured finance and acquisition finance.

Using its specialised knowledge of the respective legal, commercial, regulatory and financial implications of these transactions, it develops innovative financing structures for customers.

National Custodian Services

National Custodian Services provides custody and related services to foreign institutions, superannuation funds, government bodies, fund managers, insurance companies and other entities within Australia, New Zealand and Great Britain.

The key products offered include sub-custody, global custody, master custody, investment administration outsourcing, trustee services (Great Britain only), securities lending and cash deposit facilities.

The Company, through National Custodian Services, is one of the largest custodian banks in Australia (measure: assets under custody and administration, source: Australian Custodial Services Association, date: June 2003). Globally, National Custodian Services had assets under custody and administration of $302 billion at September 30, 2003.

On June 6, 2003, the Company entered into an agreement to purchase custody contracts of customers of Commonwealth Custodial Services Limited and Commonwealth Bank of Australia by way of novation, subject to the approval of customers. The purchase provides National Custodian Services greater presence in the Australian market.

Transactional Solutions

Transactional Solutions provides a range of products and services including cash management, e-commerce, merchant facilities, liquidity management and international payment services.

Customers have access to a committed team that includes a specialist implementation manager, a transactional manager and a dedicated contact person.

Services

Services are responsible for the management of the operating platform for Corporate & Institutional Banking, including technology, operations and marketing. These key areas have two regional hubs (Australia and Europe) to promote efficiency, optimise future investment and provide common product capability across five geographic regions.

Refer to page 32 for detailed information of the financial performance of Corporate & Institutional Banking.

Wealth Management

Wealth Management works closely with Financial Services and Corporate & Institutional Banking to ensure that customers receive an integrated financial services experience. This involves identifying customer needs as they change over time and providing access to the wide range of services and solutions that the Group offers.

Wealth Management partners with financial advisers to provide quality financial planning services and a range of wealth creation, wealth protection, banking, superannuation and retirement solutions to build and protect customers wealth throughout their lives. It also provides corporate and institutional customers with outsourced investment, superannuation and employee benefit solutions. It comprises four main business activities Investments, Insurance, Advice Solutions and Private Bank.

At September 30, 2003 it manages $73.1 billion on behalf of more than 2.8 million retail and corporate customers in Australia, Europe, Asia and New Zealand. In its core Australian market, as at June 30, 2003, it held the largest share of the total retail life insurance market (excluding re-insurers) with a 14.7% share of in force premiums and a 16.5% share of annual new business premiums (source: DEXX&R; date: June 30, 2003). At the same time, it was ranked as the number one provider of retail investment platforms (master funds and wraps) with a 19.2% market share (measure: market share; source: Assirt; date: June 30, 2003).

As at September 30, 2003 Wealth Management employed 6,174 full-time equivalent employees.

It is the fourth largest manager of managers organisation in the world (measure: assets under management, source: Cerulli, The Global Multimanager and Mutual Fund Subadvisory Markets 2003 report), using the MLC investment process introduced into the Australian marketplace in 1986.

Through its business relationships with financial advisers, it is focused on assisting customers to meet their financial and lifestyle goals. The financial adviser network is large, including more than 3,200 aligned and salaried advisers and relationships with more than 1,600 external advisers at September 30, 2003.

Investment in the business has continued with a number of enhancements to financial planning tools, investment platforms and reporting and service capabilities in the Australian market. This aims to position Wealth Management as the partner of choice for financial advisers and a leading provider of quality advice.

Internationally it is growing its competitive advantage by leveraging core capabilities that the business has developed in Australia into the European and Asian markets. In the UK, a new business initiative (Pivotal) was launched during the year to introduce its manager of managers capability to financial advisers in that market. Its advice capability has also been expanded in Hong Kong, as well as through China with the expected opening of a representative office in late calendar 2003.

Investments

Investments incorporates the following business activities:

investment platforms, covering investments, superannuation and retirement solutions for retail customers. This incorporates investment choices ranging from fully implemented solutions for customers utilising the manager of managers capability to fully discretionary options where the customer and financial adviser direct investments to the offering(s) of their choice. All of these platforms provide reporting and administration services;

investment, superannuation and employee benefit solutions for corporate and institutional customers; and

asset management, providing investment management advisory services including research, selection and monitoring of investment managers under a multi-manager, multi-style approach that underpins Wealth Management s investment offerings.

Insurance

Insurance includes:

life insurance, income protection and other risk insurance cover for retail customers in Australia, New Zealand and Asia;

life insurance services in the UK. Since late September 2003, these services have been provided as life insurance agency services, and the Group sold its UK-incorporated life insurance company, National Australia Life Company Limited, on December 31, 2003;

general insurance agency services (incorporating home and contents, motor vehicle, loan protection, credit card and other general insurance cover) for retail customers in Australia and the UK; and

group life insurance for corporate, club or business customers to enable life insurance policies to be incorporated as part of employee entitlements.

Advice Solutions

Advice Solutions provides the financial planning tools and support services required by financial advisers to assist customers to meet their financial and lifestyle goals, including:

business development and consulting services to assist advisers to operate their financial planning businesses;

marketing, business and customer management tools and processes;

technology, research and technical support to advisers, including paraplanning and quality review services; and recruitment, education and development of advisers and their support staff, including quality advice programs.

Private Bank

Private Bank provides financial services to high net worth individuals, including banking, financial planning, superannuation, and access to taxation, estate planning and special expatriate services through business partners.

Refer to page 32 for detailed information of the financial performance of Wealth Management.

Other

Support functions

The Group s support functions focus on strategic and policy direction for the Group and incorporate the following units: Finance, Technology, People and Culture, Risk Management, Corporate Development and Office of the CEO. While these support functions are organised on a global basis, many of their operations are integrated within the Group s business lines and their contribution to the Group is reported within the results of those businesses.

Sale of HomeSide US

The sale of the operating assets and platform of HomeSide US to Washington Mutual Bank, FA. was completed on March 1, 2002, in accordance with the agreement reached on December 12, 2001. Under the terms of the sale, the Group received cash of $2,299 million (US$1,184 million) for the operating assets, which consisted primarily of $2,081 million (US$1,072 million) in warehouse and pipeline mortgage loans. After allowing for transaction costs and triggered costs, primarily employee liabilities, a loss (after tax) of $19 million (US$10 million) was recorded by the Group.

On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The assets and liabilities of SR Investment, Inc. and its controlled entities were included in the Group s financial position up to and including the year ended September 30, 2002 and their results were included in the Group s financial performance up to and including the year ended September 30, 2002. The Group received proceeds on sale of $2,671 million (US$1,453 million) for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs and income tax. This result was included in the Group s financial performance for the year ended September 30, 2002.

Competition

The Australian financial system is characterised by a large number of traditional and new players and well-developed equity and, more recently, corporate bond markets. There are four major national banks (including the Company) and many other financial conglomerates with national operations offering a complete range of financial services, as well as a number of smaller regional institutions and niche players. Mutual societies have been a force in the Australian financial system, although many have demutualised over the past several years to capture capital-related and other competitive advantages. These institutions have also widened their portfolio of products and services from insurance, investments and superannuation (pensions) to compete in the markets traditionally serviced by banks. Competition also comes from numerous Australian and, in many cases, international non-bank financial intermediaries including investment/merchant banks, specialist retail and wholesale fund managers, building societies, credit unions and finance companies. More recently, product and functional specialists have also emerged as important players in the household and business mortgage, credit card and other payment services markets. The rapid development and acceptance of the internet and other technologies have increased competition in the financial services market and improved choice and convenience for customers.

These forces are evident across all of the Group s businesses in each of its geographic markets. Within the broader financial services industry, increased competition has led to a reduction in operating margins only partly offset by fees and other non-interest income and increased efficiencies. The latter has been largely achieved through greater investment in new technologies for processing, manufacturing and retailing products and services. These trends towards increasingly contestable markets offering improved access, wider choice and lower prices are expected to continue in the future.

In a number of countries, regulatory authorities have reviewed competition issues, including the UK Competition Commission with regard to small business banking, the Reserve Bank of Australia (RBA) and the Australian Competition Commission (ACCC) with regard to the payments system *(refer to payment system reforms in Australia on page 16)*, and the review of the *Trade Practices Act* 1974 (Cth) conducted by an Australian Commonwealth Government appointed committee chaired by Sir Daryl Dawson.

In March 2002, the UK Competition Commission issued its conclusion on its inquiry into the small to medium enterprise banking market. The Commission found that major banks in England, Scotland and Northern Ireland, including Clydesdale Bank and Northern Bank, were acting as part of a complex monopoly. Yorkshire Bank was not named as part of the complex monopoly, due to its relatively small share of the English market.

As a result of the Commission s proposals, the four largest clearing banks operating in England were required to comply with a pricing remedy from January 1, 2003. The four largest clearing banks were singled out as they were not only considered to be acting as part of a complex monopoly, but were considered to be acting against the public interest. This remedy has resulted in these banks offering their small to medium enterprise banking market customers a more competitive proposition. It is still too early to gauge the impact of these changes on the Group s UK operations.

In 2003, the UK Office of Fair Trading also obtained further undertakings from the eight main banking groups, including Clydesdale Bank and Northern Bank, relating to the time it takes for small to medium entreprises to switch their main bank accounts to other lenders. The banks must report their performance against targets effective January 1, 2004.

The committee chaired by Sir Daryl Dawson reviewing the *Trade Practices Act* 1974 (Cth) reported its findings on April 16, 2003. At the time of this report, the Australian Commonwealth Government was yet to introduce enabling legislation.

The recommendations of this review focused on six key areas: mergers and acquisitions, joint ventures, authorisation, third line forcing, ACCC powers and ACCC accountability. The Group supports a number of the committee s recommendations as these will provide greater flexibility and accountability in the merger approval process, provide more certainty in respect of pro-competitive joint ventures and simplify the regulatory process for industry reform.

Regulation of the financial services system

Australia

The Australian Prudential Regulatory Authority (APRA) is the prudential regulator of Australian authorised deposit-taking institutions (referred to as ADIs, which comprise banks, building societies, and credit unions) as well as insurance companies, superannuation funds and friendly societies.

The RBA has overall responsibility for monetary policy, financial system stability and, through a Payments System Board, payment system regulation including the operations of Australia s real-time gross settlement system.

The Australian Securities and Investments Commission (ASIC) and the ACCC have responsibility for certain consumer protection measures. ASIC has primary responsibility for market integrity and disclosure issues.

The *Banking Act* 1959 (Cth) allows APRA to issue prudential standards that, if breached, can trigger legally enforceable directions. While existing prudential standards (see below) require an ADI to inform APRA of breaches of prudential requirements and of any materially adverse events (whether in respect of an ADI in a group or the overall group containing that ADI), recent amendments to the *Banking Act* 1959 (Cth) bring these requirements into law. The proposed amendments also make provision for the application of fit and proper tests for directors and senior management of ADIs.

APRA s prudential framework for ADIs and groups containing ADIs includes prudential standards covering liquidity, credit quality, market risk, capital adequacy, audit and related arrangements, large exposures, associations with related entities and group risk management, outsourcing, funds management and securitisation, and risk management of credit card activities. APRA is reviewing board composition, fit and proper requirements and other issues relating to ADIs. This will involve the issue of draft prudential standards in the future.

APRA carries the responsibility for depositor protection in relation to the ADIs it supervises. To achieve this, it has strong and defined powers to direct the activities of an ADI in the interests of depositors or when an ADI has contravened its prudential framework. These direction powers enable APRA to impose correcting action without assuming control.

APRA requires banks to provide regular reports covering a broad range of information, including financial and statistical data relating to their financial position and prudential matters. APRA gives special attention to capital adequacy *(refer to capital adequacy on page 44 for current details)*, sustainability of earnings, loan loss experience, liquidity, concentration of risks, potential exposures through equity investments, funds management and securitisation activities, and international banking operations.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from banks with selective on-site visits by specialist teams to overview discrete areas of banks operations. These include asset quality, balance sheet interest rate risk management, market risk and operational risk reviews and formal meetings with banks senior management and external auditors.

APRA has also formalised a consultative relationship with each bank s external auditor at the agreement of the banks.

The external auditors provide additional assurance to APRA that prudential standards agreed with the banks are being observed, and that statutory and other banking requirements are being met. External auditors also undertake targeted reviews of specific risk management areas selected at the annual meeting between the bank, its external auditors and APRA. In addition, each bank s chief executive officer attests to the adequacy and operating effectiveness of the bank s management systems to control exposures and limit risks to prudent levels.

There are no formal prohibitions on the diversification by banks through equity involvements or investments in subsidiaries. However, without the consent of the Treasurer of the Commonwealth of Australia, no bank may enter into any agreement or arrangement for the sale or disposal of its business (by amalgamation or otherwise), or for the carrying on of business in partnership with an ADI, or effect a reconstruction.

Wealth Management is regulated by both ASIC and APRA. ASIC administers legislation relating to Wealth Management s key financial services, including managed investments, superannuation, retirement income streams and insurance. Its role is to ensure industry participants comply with legislation, while promoting fair, confident and informed participation in the Australian market by investors and consumers. APRA provides prudential regulation, through the oversight of approved trustees of superannuation funds.

Non-Australian jurisdictions

APRA, under the international Basel framework, assumes the role of home banking supervisor and maintains an active interest in overseeing the operations of the Group, including its offshore branches and subsidiaries.

The Group s branches and banking subsidiaries in Europe (UK and Republic of Ireland) are subject to supervision by the Financial Services Authority (FSA) and the Irish Financial Services Regulatory Authority, respectively. The Group s banking subsidiary in New Zealand is subject to supervision by the Reserve Bank of New Zealand (RBNZ). Branch operations in the US are subject to supervision by the Office of the Comptroller of the Currency.

In the UK and the Republic of Ireland, the local regulatory frameworks are broadly similar to those in force in Australia. Each of the banking regulatory authorities in these countries has introduced risk-based capital adequacy guidelines in accordance with the framework developed by the Basel Committee on Banking Supervision.

The emphasis of RBNZ s regulatory approach is primarily on enhanced disclosure and directors attestations to key matters. Under conditions of registration, banks are required to comply with minimum prudential and capital adequacy requirements. RBNZ monitors banks financial condition and conditions of registration, off-site, principally on the basis of published disclosure statements.

In the UK, Wealth Management is regulated by the FSA, which is responsible for maintaining market confidence, promoting public awareness, protecting customers and reducing financial crime. In other offshore areas of banking and wealth management activity, the Group is subject to the operating requirements of relevant local regulatory authorities.

Changing regulatory environment

Both within the financial services industry and more generally, businesses are working within a changing regulatory environment. There is a heightened emphasis on corporate governance, disclosure, accounting practices and audit oversight.

In addition to these legislative requirements, regulators are taking a more pro-active approach to regulation, monitoring and enforcement.

Other areas are also the subject of substantial regulatory change. In most countries in which the Group operates, measures have been adopted to restrict the financial capacity of terrorists and their organisations, and to combat use of the financial system for money laundering. International standards for determining capital adequacy are changing under the Basel II Capital Accord. The regulation of the Australian financial sector has recently been significantly altered by the *Financial Services Reform Act* 2001 (Cth), and the Australian Bankers Association recently released a revised Code of Banking Practice, which has been adopted by the Group. There has also been a sustained regulatory emphasis within Australia and elsewhere on privacy and the use of customer information.

In response to these and other new legislative and regulatory requirements, the Group has established initiatives to implement compliant business processes with particular focus on improving the customer experience.

The Group continues to develop its business practices and systems for the detection and prevention of payments that may involve prescribed terrorists or money laundering.

In July 2003, the Group formally applied to ASIC for its new Australian financial services licences. The Group s Australian operations are operating under 19 licences representing the wide variety of financial services that it offers. The Group has entered into the new regulatory regime from December 1, 2003, ahead of the conclusion of the industry transition period of March 11, 2004.

In August 2003, the Group s Australian banking operations adopted the revised Code of Banking Practice which brings a series of major benefits for consumers and small business customers that improves service through defined principles of conduct, disclosure and standards of service.

The revised Code builds upon the earlier version (1993) and includes new provisions for small business customers, prospective guarantors, customers experiencing hardship, direct debit cancellation, and credit card charge-backs.

On January 16, 2004 the Australian Commonwealth Government announced major reforms to its anti-money laundering program in line with new international standards. The proposed reforms will significantly impact the Group's Australian banking and financial services operations. An issues paper has been released by the Government and the Group will be providing input to the requirements.

The Group manages its regulatory obligations within a global compliance framework. It intends to maintain standards of compliance within the changing regulatory environment and has mechanisms in place to address the current regulatory developments impacting on the Group.

On October 8, 2003, the Australian Commonwealth Government released its Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill for public consultation. The underlying objective of the draft legislation is to improve the operation of financial markets by promoting transparency, accountability and shareholder rights and improving the overall regulatory framework for external auditors. The legislation, when enacted, is not expected to have a material impact on the financial condition of the Group.

Refer to page 63 for detailed information on the corporate governance regulatory environment.

Basel II Capital Accord

In 1988, the Bank for International Settlements (BIS) developed the Basel Capital Accord that sets out international benchmarks for assessing banks capital adequacy requirements. In response to recent changes in banking practices, BIS reviewed the Basel Capital Accord and released new measures known as the Basel II Capital Accord (Basel II).

APRA has indicated support for Basel II and announced an intention to implement it in Australia. It is expected that Basel II will be operational in 2007, with a parallel run of existing and new standards in the 2006 calendar year.

Basel II proposes changes in the formula used to measure banks minimum capital requirements with various levels of complexity. The three pillars set out by Basel II are:

- minimum capital requirements;
- supervisory review; and
- public disclosure.

The Group periodically reviews its risk management framework and Basel II provides the Group with an opportunity to revisit these frameworks. The Group s approach is to invest in risk management systems where appropriate business improvements can be achieved.

The Group is committed to the implementation of Basel II and has a program underway to evaluate the approach the Group will undertake and assess the areas of impact on the Group. These areas of impact are expected to include

the Group s risk management processes and public disclosure of the Group s risk profile.

APRA is due to release Basel II prudential standards in the first quarter of the 2004 calendar year. The Group continues to monitor these developments and will work with its key regulators in Australia and overseas to ensure that the Group s Basel II program aligns with their regulatory requirements.

International Financial Reporting Standards

In July 2002, the Financial Reporting Council in Australia formally announced that for financial reporting periods beginning on or after January 1, 2005 all entities reporting under the *Corporations Act* 2001 (Cth) will be required to comply with accounting standards equivalent to those set by the International Accounting Standards Board. These standards are referred to as International Financial Reporting Standards (IFRS).

The Group will be required to adopt these standards for the financial year commencing October 1, 2005. The Group is committed to the implementation of IFRS. The Group continues to evaluate the areas most impacted by adoption of IFRS and the associated technology requirements. IFRS frequently require application of fair value measurement techniques. This will potentially introduce greater volatility to the Group s financial performance. Hedge accounting will be a major area of activity affected by the proposed changes, together with life insurance accounting. Several important IFRS, including standards on hedging and life insurance accounting, are not yet finalised and as a consequence it is difficult to assess the full impact of the changes upon the Group s financial performance and financial position as well as the necessary technology requirements at this time.

A full suite of IFRS equivalent standards to be applied by Australian reporting entities for reporting periods beginning on or after January 1, 2005 is expected to be published by AASB around April 2004. The Group continues to monitor these developments.

A project team was assembled to undertake an assessment of overlaps between IFRS and Basel II, as well as the joint impact upon technology. These overlaps have been identified and reported to executive management.

Australian tax consolidation regime

Under income tax legislation that has now been enacted (tax consolidation regime), Australian resident entities of a corporate group may be taxed as a single taxpayer from July 1, 2002. The tax consolidation regime only applies to corporate groups that make an election to consolidate for income tax purposes. The decision by a corporate group to elect to be treated as a single taxpayer for income tax purposes can only be made by the ultimate Australian parent entity of that corporate group.

On such an election, the consolidated group would comprise the ultimate Australian parent entity and all of its wholly-owned Australian resident controlled entities (tax consolidated group). Further, when that election is made, the ultimate Australian parent entity must nominate the date from which the tax consolidated group should be taxed as a single taxpayer. Subject to certain limitations, this date may be retrospective.

At this time, the Company (as the ultimate Australian parent entity of the Group) has not made this election. However, the Company has resolved to make the election to form a tax consolidated group and be taxed as a single taxpayer from October 1, 2002. The election must be made no later than the date on which it is required to lodge its tax return for the year ended September 30, 2003 (currently no later than April 15, 2004).

Refer to the report on directors and officers - events subsequent to balance date on page 74 for further details.

Payment system reforms in Australia

The first stage of the RBA s reforms on the credit card payment system in Australia was introduced this year, providing merchants with the ability to charge an additional fee for credit card transactions. The Group has not noticed any material impact from this change.

The second stage of the credit card reforms, effective October 31, 2003, introduced a new cost-based approach to calculating interchange fees. Interchange fees are wholesale fees that banks pay one another. The cost-based approach has significantly reduced interchange fees; however, the impact on revenues and expenses of the Group should be partly mitigated by a number of strategic decisions undertaken.

The third stage of the credit card reforms has also been introduced and allow s non-banks to issue and acquire credit cards according to the guidelines set by APRA.

Two other payment systems reforms initiated by the RBA relate to EFTPOS and ATM interchange fee arrangements.

The ACCC has authorised a proposal from the EFTPOS industry group comprising banks, building societies and credit unions (of which the Company is a member) to reduce interchange fees on EFTPOS transactions in Australia to zero. While the ACCC has granted approval, a number of parties have lodged objections and the proposal is to be heard by the Australian Competition Tribunal. There has not yet been a decision regarding implementation or timing.

The Group is also part of another industry working group, comprising banks, building societies, credit unions and ATM operators, which intends to lodge an authorisation application outlining proposed reforms to ATM interchange fees and access with the ACCC.

Organisational structure

National Australia Bank Limited is the holding company for the Group, as well as the main operating company. During 2003, the Company had seven wholly-owned main operating subsidiaries: Bank of New Zealand, Clydesdale Bank PLC, MLC Limited, National Australia Financial Management Limited, National Irish Bank Limited, Northern Bank Limited and Yorkshire Bank PLC.

There were no prinicipal acquisitions or divestments from October 1, 2003 to March 25, 2004.

Refer to note 44 in the financial report for details of the principal controlled entities of the Group.

Description of property

The Group operates around 2,092 outlets and offices worldwide, of which 49% are in Australia, with the largest proportion of the remainder being in the UK. Approximately 19% of the 2,092 outlets and offices are owned directly by the Group, with the remainder being held under commercial leases.

The Group s premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for the Group s current and foreseeable future requirements.

Certain legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

On August 29, 2003, a civil class action complaint was filed in the US District Court, Southern District of New York, against the Group and others for alleged violations of the US federal securities law relating primarily to disclosure concerning the valuation of the mortgage servicing rights held by HomeSide US (sold in October 2002). The complaint failed to specify any quantum of damages. The plaintiffs in the complaint filed their consolidated amended class action complaint on March 11, 2004. The court is expected to rule as the motion to dismiss later in the calendar year 2004.

The Group does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

Subsequent to September 30, 2003 the Company has received a voluntary document request from the SEC in the US as part of an investigation into certain Australian registrants and public accounting firms. The document request covers the Company and controlled entities and includes issues relating to auditor independence (refer below). In addition, the Company has provided certain information to the SEC about the accounting and internal controls of the Company and its controlled entities including the foreign currency options trading matter (*refer to the Report on the directors and officers events subsequent to balance date page 74*) and HomeSide US.

For further information on contingent liabilities of the Group, refer to note 45 in the financial report.

Certain services provided by the external auditor matters related to independence

The Company is subject to both Australian and US auditor independence rules. The US rules apply to the Company as it is a registrant and files reports with the US SEC.

From time to time the Company engages major accounting firms to furnish employees to supplement its own staff in performing reviews of loans categorised as requiring management by the Company s credit restructuring unit in Australia. The Company has no centralised method to identify such employees, however since October 2003 it has been identified that, at different times during the years ended September 30, 2001, 2002 and 2003, seven employees of the Company s outside auditor, KPMG Australia (and one of its affiliated overseas firms) (KPMG), from its Corporate Recovery Services group, provided certain non-audit services to the Company s credit restructuring unit. Each of these employees may have performed initial reviews to determine whether a loan file should be categorised as requiring management by the credit restructuring unit (a categorised loan). Six of these employees also provided review services in respect of categorised loans.

These loan review services on categorised loans consisted primarily of reviewing files relating to selected problem loans and approving (either individually or jointly with another colleague of at least the same seniority) credit analyses or credit actions on those loans, including approvals or joint approvals regarding loan loss provisions. These approvals or joint approvals were subsequently overviewed by a more senior person within the organisation. For a period of approximately five weeks in 2002, one of the KPMG employees was undertaking functions that included the overview of approvals made by more junior persons.

On occasions, up to six of the KPMG employees also communicated about these matters, in the name of the Company, with some debtors. In addition, some of the KPMG employees that provided these services were temporarily assigned titles by the Company and, in some instances, were provided business cards. No such services have been provided by KPMG employees from around October 1, 2003.

Information to identify the fact that a KPMG employee worked on any particular loan file is not maintained by the Company in any centralised system. Accordingly, it is not possible to precisely determine the amount of loan files worked on by KPMG employees, nor the associated specific provision for doubtful debts or non-accrual amount in the Group s financial statements. To provide some context for the scale of the activities undertaken by KPMG employees, monthly status reports prepared by the credit restructuring unit have been used to identify loan files allocated to KPMG employees. Because these reports were originally prepared for a different purpose (ie workflow management), they do not identify all relevant files (for example due to informal reassignment of the loan file to another reviewer), and several reports have not been retained. Also, the reports do not identify instances where a KPMG employee acted as a joint approver of loan actions or where a KPMG employee undertook preliminary review work to determine whether a loan file should be considered a categorised loan. The loan files identified in these management reports, and some additional files identified through other means as having been allocated to the KPMG employees, are referred to as the KPMG employee-allocated loans . As noted, these do not include all loan files with which the KPMG employees were involved.

At September 30, 2003, the total amount of KPMG employee-allocated loans was $181 million (representing 0.07% of the Group s total loans and advances), including $33 million of non-accrual loans (or 2.39% of the Group s non-accrual loans). At September 30, 2002 and 2001, the analogous figures were $259 million and $261 million of loans in total (0.11% and 0.12% of the Group s total loans and advances respectively), including $ 45 million and $89 million of non-accrual loans (or 2.82% and 5.12% of the Group s total non-accrual loans). The specific provision for doubtful debts established for the KPMG employee-allocated loans was $11 million, $10 million and $31million at September 30, 2003, 2002 and 2001, respectively. These numbers are sourced from management information systems designed for purposes other than statutory financial reporting and do not include KPMG employee-allocated loans that at balance date were no longer managed by the credit restructuring unit because during the year they had been exited by the Company, fully written-off or returned to the business as performing loans. Such loans do not have a specific provision raised against them at balance date and are not non-accrual at that date.

The seventh KPMG employee providing services to the credit restructuring unit assisted for a short period in 2001 in assessing whether to categorise certain loans as requiring management by the credit restructuring unit. That activity, while inherently involving credit quality, did not involve specific provisioning or decisions regarding non-accrual status of loans. The loans analysed by this KPMG employee are not included in the figures for KPMG employee-allocated loans.

The provision of the loan review services were brought to the attention of the Audit Committee in October 2003 and an internal review of the matter was conducted by management under the supervision of the Audit Committee. The review included a third party review of certain loan files identified by the Company as having been KPMG employee-allocated loans. For each of these loans, the third party identified where a KPMG employee had been involved in any financial decision making on the loan, obtained an understanding of the relevant issues that should have been considered and determined the appropriate loan loss provision, if any, that should have been applied. The third party concluded that, during the relevant period of KPMG employees involvement, the loans were properly classified in accordance with the Company s loan grading guidelines and that the loan loss provisions applied were appropriate. The Company and KPMG consulted with the Australian regulators and the SEC and informed them of the details of this matter and the results of the internal review and conclusions.

During 2003, 2002 and 2001, several KPMG employees also performed other services for the Group, including in the tax and internal audit functions. The Company is investigating these and other non-audit services performed by KPMG.

The Company has received a voluntary document request from the SEC Division of Enforcement as part of an investigation into certain Australian registrants and public accounting firms. The document request covers the Company and its subsidiaries and includes issues relating to auditor independence, including the KPMG employee matter described above and other non-audit services provided by KPMG.

Financial review

Summary

	Group		
	2003	**2002**	**2001**
	$m	**$m**	**$m**
Net profit	**3,947**	3,379	2,088
Adjust for significant items:			
Significant revenue		(2,671)	(5,314)
Significant expenses		3,266	6,866
Attributable income tax expense/(benefit)		(189)	384
Significant expenses after tax		406	1,936
Net profit before significant items	**3,947**	3,785	4,024
Net profit attributable to members of the Company	**3,955**	3,373	2,083
Adjust for:			
Distributions on other equity instruments	**(183)**	(187)	(213)
Significant revenue		(2,671)	(5,314)
Significant expenses		3,266	6,866
Movement in the excess of net market value over net assets of life insurance controlled entities	**160**	155	(510)
Attributable income tax benefit/(expense)	**40**	(192)	561
Amortisation of goodwill	**98**	101	167
Cash earnings before significant items	**4,070**	3,845	3,640

Year ended September 30, 2003 compared with year ended September 30, 2002

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

Significant items are those individually significant items included in net profit. There were no significant items in 2003. The prior year result included the following significant items:

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

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

Net profit before significant items of $3,947 million in 2003, increased $162 million or 4.3% compared with 2002. Cash earnings (before significant items) of $4,070 million in 2003, increased $225 million or 5.9% compared with 2002.

Net interest income of $7,419 million in 2003, was $197 million or 2.7% higher than 2002. This was driven by asset growth, particularly in relation to housing lending, partly offset by exchange rate movements and a 14 basis point decrease in net interest margin to 2.53%. The fall in margin largely arose from the impact of strong growth in housing lending within the retail banking business, which has been slightly offset by the funding benefit on the proceeds from the sale of HomeSide US. *Refer to page 21 for a more detailed discussion of net interest income.*

Net life insurance income increased by $454 million to $444 million in 2003, from a $10 million loss in 2002. This was driven by an increase in investment earnings resulting from improved performance in major stock markets over the six months to September 2003. *Refer to page 23 for a more detailed discussion of net life insurance income.*

Other banking and financial services income of $5,010 million in 2003, was $1,996 million or 28.5% lower than 2002. Excluding the proceeds received from the sale of HomeSide US s operating assets and operating platform of $2,314 million in 2002 *(refer to page 13 for an explanation on the sale of HomeSide US)*, other banking and financial services income was up 6.8%. This was driven by higher income resulting from fee growth with higher volumes in housing lending and transaction fees, partly offset by exchange rate movements. *Refer to page 24 for a detailed discussion of other banking and financial services income.*

Mortgage servicing and origination revenue was $nil in 2003, as compared to $378 million in 2002. Following the sale of SR Investment, Inc. (the parent entity of HomeSide US) on October 1, 2002, mortgage servicing and origination revenue was no longer derived by the Group. *Refer to page 25 for a detailed discussion of mortgage servicing and origination revenue.*

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of $160 million in 2003, a slight decline of $5 million from 2002, impacted by the effect of assumption and experience changes underlying the valuation. *Refer to page 26 for a detailed discussion of the movement in the excess of net market value over net assets of life insurance controlled entities.*

Personnel, occupancy and general expenses of $6,354 million in 2003, were $2,353 million or 27.0% lower than 2002. Excluding the expenses relating to HomeSide US of $2,693 million in 2002, total expenses increased 5.7%. This outcome reflects salary increases, higher pension fund expense, computer and software expenses, an increase in costs associated with regulatory reform and compliance, partly offset by a reduction in the Group s staff numbers and exchange rate movements. *Refer to page 27 for a detailed discussion of operating expenses.*

The charge to provide for doubtful debts of $633 million in 2003 was $64 million or 9.2% lower than 2002. The current year s charge has been favourably impacted by exchange rate movements. *Refer to page 28 for a detailed discussion of the charge to provide for doubtful debts.*

Income tax expense relating to ordinary activities of $1,681 million in 2003, was $719 million or 74.7% higher than 2002. It has been impacted by the accounting regime, which applies to unrealised gains and losses relating to Wealth Management s statutory funds of the life business. The income tax expense in 2003 attributable to this impact was $126 million expense, compared to an income tax benefit of $248 million in 2002. *Refer to page 30 for a detailed discussion of income tax expense.*

Year ended September 30, 2002 compared with year ended September 30, 2001

Net profit of $3,379 million in 2002, increased $1,291 million or 61.8% compared with 2001.

Significant items are those individually significant items included in net profit. The 2002 result included the following significant items:

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

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

The 2001 result included the following significant items:

- $1,681 million net profit on sale of Michigan National Corporation and its controlled entities; and
- $3,617 million (after-tax) write-downs of mortgage servicing rights and goodwill relating to HomeSide US.

Net profit before significant items of $3,785 million in 2002, decreased $239 million or 5.9% compared with 2001. Cash earnings before significant items of $3,845 million in 2002 increased $205 million or 5.6% compared with 2001.

Net interest income of $7,222 million in 2002 was $262 million or 3.8% higher than 2001. This was driven by asset growth, particularly in relation to housing lending and a 4 basis point decrease in net interest margin to 2.67%. The fall in margin largely resulted from the loss of contribution of Michigan National Corporation following its sale and the impact of product mix in Financial Services Australia.

Net life insurance income decreased by $138 million to a $10 million loss in 2002, from $128 million income in 2001. This was driven by a decline in investment revenue resulting from uncertain global equity markets in the second half of the year and an increase in claims more than offsetting higher premium and related revenue.

Other banking and financial services income of $7,006 million in 2002, was $2,257 million or 47.5% higher than 2001. Excluding the proceeds received from the sale of HomeSide US s operating assets and operating platform of $2,314 million, other banking and financial services income was down 1.2%. This was driven by a decline in treasury-related income resulting from subdued foreign exchange and interest rate market volatility, partially offset by fee growth as housing lending and card volumes grew.

Mortgage servicing and origination revenue of $378 million in 2002, was $432 million or 53.3% lower than 2001. Servicing fees declined as a result of higher prepayment activity. Following the sale of HomeSide US s operating assets and operating platform on March 1, 2002, the Group no longer derived origination revenue.

The movement in the excess of net market value over net assets of life insurance controlled entities was a loss of $155 million in 2002, a decrease of $665 million from 2001, impacted by the effect of assumption and experience changes underlying the valuation.

Personnel, occupancy and general expenses of $8,707 million in 2002, were $2,237 million or 34.6% higher than 2001. Excluding the carrying value of HomeSide US s operating assets and operating platform sold and other expenses attributable to the sale of $2,322 million, total expenses were down 1.3%, largely driven by a reduction in employee numbers during 2002.

The charge to provide for doubtful debts of $697 million in 2002, was $292 million or 29.5% lower than 2001. The 2002 year s charge reflected an improvement in credit risk resulting from a review of the loan portfolio.

Income tax expense of $962 million in 2002, was $929 million or 49.1% lower than in 2001. The 2001 income tax expense was impacted by a $292 million amount relating to a non-allowable impairment loss on goodwill, and a $764 million amount relating to the non-recognition of future income tax benefits relating to the HomeSide US s mortgage servicing rights impairment loss incurred in that year.

Adjusted to accord with US GAAP

Prepared in accordance with US GAAP, consolidated net income for the year to September 30, 2003 was $3,527 million compared to $3,455 million in 2002 and $1,794 million in 2001. Net income according to US GAAP for 2002 and 2001 has been restated for the revised interpretation of APB 25 Accounting for Stock Issued to Employees *(refer to note 58 footnote (g)).* Note 58 in the financial report discloses reconciliations of the Group s financial statements for the last three years for any significant adjustments to Australian GAAP, which would be reported in applying US GAAP. There were no individually material adjustments between US GAAP net income and Australian GAAP net profit attributable to members of the Company for the years ended September 30, 2003, 2002 and 2001, other than those disclosed in note 58 in the financial report.

Economic outlook

This section contains forward-looking statements. *Refer to forward-looking statements on page 2.*

Economic conditions improved through 2003, although there were sharp differences between the economies in which the Group operates.

The recovery of the US economy has been uneven and sluggish throughout 2003 due to the effect on growth of the September 11, 2001 attacks, major corporate failures, stock price declines, and the war in Iraq. While output growth slowed markedly at the end of calendar 2002 and early 2003, it has gathered pace as calendar 2003 progressed.

Economic growth in Europe was lacklustre throughout calendar 2002 and remains very weak. Against this backdrop, business conditions in the economies that contain the bulk of the Group s assets namely Australia, New Zealand and the UK have generally fared better during calendar 2003. The magnitude and timing of growth will vary across economies and sectors, with Australia and New Zealand outperforming the UK. At the sectoral level, house prices and consumer spending have continued to grow, albeit at more modest rates, which underpin the ongoing expansion in home mortgage lending and consumer credit. The outlook for business lending has improved.

The Group s main areas of operation face similar economic risks and vulnerabilities for the 2004 calendar year. House prices could soften after their rapid growth in past years. Consumer debt levels have increased as a proportion of net worth. The household sector will be more sensitive to increases in interest rates.

Net interest income

2003	$	7,419	million
2002	$	7,222	million
2001	$	6,960	million

Net interest income is the difference between interest income and interest expense.

Net interest income is derived from diverse business activities, including extending credit to customers, accepting deposits from customers, amounts due to and from other financial institutions, regulatory deposits and managing the Group s other interest sensitive assets and liabilities, especially trading securities, available for sale securities and investment securities.

Net interest income increased by $197 million or 2.7% to $7,419 million in 2003, after increases of 3.8% in 2002 and 9.2% in 2001. During 2003, movements in exchange rates decreased net interest income by $124 million, after increases of $25 million in 2002 and $264 million in 2001. Excluding the impact of exchange rate movements, the increase in 2003 was 4.4%, compared with 3.4% in 2002 and 5.1% in 2001. This increase was the result of strong housing lending growth, modest business lending growth and the lower cost of debt funding, partly offset by lower Corporate & Institutional Banking income and growth in lower yield structured finance products.

Volume and rate analysis

The following table allocates changes in net interest income between changes in volume and changes in rate for the last three years ended September 30. Volume and rate variances have been calculated on the movement in average balances and the change in interest rates on average interest earning assets and average interest bearing liabilities. The variance caused by changes of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total.

	2003 over 2002 Increase/(decrease) due to change in			2002 over 2001 Increase/(decrease) due to change in			2001 over 2000 Increase/(decrease) due to change in		
	Average balance	Average rate	Total	Average balance	Average rate	Total	Average balance	Average rate	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest-earning assets									
Due from other financial institutions									
Australia	**41**	**(34)**	**7**	39	(47)	(8)	27	4	31
Overseas	**(66)**	**15**	**(51)**	(45)	(303)	(348)	153	(80)	73
Marketable debt securities									
Australia	**135**	**34**	**169**	106	(18)	88	(18)	4	(14)
Overseas	**(129)**	**(4)**	**(133)**	(29)	(410)	(439)	448	(39)	409

Loans and advances									
Australia	**1,166**	**(23)**	**1,143**	755	(895)	(140)	797	(69)	728
Overseas	**645**	**(648)**	**(3)**	261	(1,559)	(1,298)	883	(206)	677
Regulatory deposits									
Overseas	**1**	**(2)**	**(1)**						
Other interest-earning assets	**(1,271)**	**765**	**(506)**	(489)	(810)	(1,299)	917	(419)	498
Change in interest income	**522**	**103**	**625**	598	(4,042)	(3,444)	3,207	(805)	2,402

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	2003 over 2002 Increase/(decrease) due to change in Average balance	Average rate	Total	2002 over 2001 Increase/(decrease) due to change in Average balance	Average rate	Total	2001 over 2000 Increase/(decrease) due to change in Average balance	Average rate	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest-bearing liabilities									
Due to other financial institutions									
Australia	**28**	**(24)**	**4**	31	(54)	(23)	42	(9)	33
Overseas	**164**	**10**	**174**	39	(652)	(613)	600	(148)	452
Savings deposits									
Australia	**83**	**(1)**	**82**	25	(60)	(35)	(18)	8	(10)
Overseas	**(2)**	**8**	**6**	(22)	(258)	(280)	(19)	(34)	(53)
Other demand deposits									
Australia	**32**	**137**	**169**	124	(302)	(178)	100	111	211
Overseas	**(45)**	**(101)**	**(146)**	82	(120)	(38)	77	(19)	58
Time deposits									
Australia	**437**	**(7)**	**430**	202	(323)	(121)	20	75	95
Overseas	**54**	**(86)**	**(32)**	(71)	(1,019)	(1,090)	635	(127)	508
Government and official institution deposits									
Australia	**4**	**1**	**5**	3	(8)	(5)	(2)	1	(1)
Overseas	**5**	**(21)**	**(16)**	(20)	(59)	(79)	34	(6)	28
Short-term borrowings									
Overseas	**(39)**	**(125)**	**(164)**	(136)	(177)	(313)	16	7	23
Long-term borrowings									
Australia	**5**	**(154)**	**(149)**	66	(421)	(355)	320	(6)	314
Overseas	**(103)**	**23**	**(80)**	(91)	(55)	(146)	153	(111)	42
Other debt issues									
Australia	**(11)**	**2**	**(9)**	(4)	(9)	(13)	15	(9)	6
Overseas	**9**	**(26)**	**(17)**	(7)	(1)	(8)	(4)	24	20
Other interest-bearing liabilities	**107**	**64**	**171**	830	(1,239)	(409)	(171)	258	87
Change in interest expense	**728**	**(300)**	**428**	1,051	(4,757)	(3,706)	1,798	15	1,813
Change in net interest income	**(206)**	**403**	**197**	(453)	715	262	1,409	(820)	589

Average interest-earning assets for 2003 increased by $22.8 billion or 8.4% to $293.3 billion, from $270.5 billion in 2002 and $256.6 billion in 2001. *(Refer to volumes below for information).* The impact of the increasing volumes on interest income, was an increase of $522 million in 2003, $598 million in 2002 and $3,207 million in 2001. The movement in rates over the same period resulted in an increase in interest income of $103 million in 2003, and falls of $4,042 million in 2002 and $805 million in 2001. This reflected an environment of volume growth in low margin products.

Average interest-bearing liabilities increased by $15.6 billion in 2003, after increases of $10.8 billion in 2002 and $37.8 billion in 2001. The impact of the increasing volumes on interest expense was an increase of $728 million in 2003, $1,051 million in 2002, and $1,798 million in 2001. The movement in rates over the same period resulted in a decline in interest expense of $300 million in 2003, $4,757 million in 2002 and an increase of $15 million in 2001. This has resulted from a changing mix of borrowings, with term deposits increasing as investors seek safe and low risk investments, thus reducing the short-term borrowing requirements, and a fall in interest rates reducing expense.

Interest spreads and margins

	2003	**2002**	**2001**
	$m	**$m**	**$m**
Australia			
Net interest income	**3,792**	3,613	3,374
Average interest-earning assets	**151,225**	129,458	115,747
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.37**	2.67	2.59
Interest foregone on non-accrual and restructured loans (%)	**(0.04)**	(0.04)	(0.03)
Net interest spread (%) *(1)*	**2.33**	2.63	2.56
Benefit of net free liabilities, provisions and equity (%)	**0.18**	0.16	0.35
Net interest margin (%) *(2)*	**2.51**	2.79	2.91

	2003 $m	2002 $m	2001 $m
Overseas			
Net interest income	**3,627**	3,609	3,586
Average interest-earning assets	**160,169**	154,282	151,104
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**1.86**	2.03	2.05
Interest foregone on non-accrual and restructured loans (%)	**(0.02)**	(0.02)	(0.02)
Net interest spread (%) *(1)*	**1.84**	2.01	2.03
Benefit of net free liabilities, provisions and equity (%)	**0.43**	0.33	0.34
Net interest margin (%) *(2)*	**2.27**	2.34	2.37
Group			
Net interest income	**7,419**	7,222	6,960
Average interest-earning assets	**293,318**	270,527	256,603
Interest spread adjusted for interest foregone on non-accrual and restructured loans (%)	**2.21**	2.41	2.37
Interest foregone on non-accrual and restructured loans (%)	**(0.03)**	(0.02)	(0.03)
Net interest spread (%) *(1)*	**2.18**	2.39	2.34
Benefit of net free liabilities, provisions and equity (%)	**0.35**	0.28	0.37
Net interest margin (%) *(2)*	**2.53**	2.67	2.71

(1) Net interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.

(2) Net interest margin is net interest income as a percentage of average interest-earning assets.

Net interest income increased by $197 million to $7,419 million in 2003, driven by 8.4% growth in average interest-earning assets to $293.3 billion, partly offset by a 14 basis point decline in net interest margin to 2.53%. Australian net interest income increased by 5.0% to $3,792 million, with average interest-earning assets growing 16.8% to $151.2 billion and net interest margin declining 28 basis points to 2.51%. Overseas net interest income increased by 0.5% to $3,627 million, with average interest-earning assets growing by 3.8% to $160.2 billion, and the net interest margin falling 7 basis points to 2.27%.

Volumes

Average interest-earning assets for 2003 increased by $22.8 billion or 8.4% to $293.3 billion, from $270.5 billion in 2002 and $256.6 billion in 2001. The main contributors to the growth were loans and advances in Australia and New Zealand, which increased by 17.0% and 8.9% respectively, over the year to September 30, 2003. Loan growth was predominantly in real estate. Average interest-earning assets were impacted by the sale of HomeSide US. *For a further discussion of the main factors influencing the movement in average interest-earning assets, refer to gross loans and advances on page 46.*

Net interest margin

The net interest margin (net interest income as a percentage of average interest-earning assets), which includes the impact of non-accrual and restructured loans on net interest income, decreased by 14 basis points to 2.53% in 2003, from 2.67% in 2002 and 2.71% in 2001. The decrease during 2003 was impacted by lower deposit margins, reduced trading income and an increase in structured lending products in Corporate & Institutional Banking. The impact of these items were partially offset by the funding benefit on the proceeds of the sale of HomeSide US and lower cost of debt funding.

The interest rate on Australian interest-earning assets decreased by 52 basis points to 6.4% in 2003, from 6.9% in 2002 and 8.5% in 2001, while the interest rate on interest-bearing liabilities decreased by 24 basis points to 4.1% from 4.4% in 2002 and 6.1% in 2001. Net interest margins in Australia declined during 2003, resulting from lower deposit margins and adverse product mix with growth in housing lending and the focus on selective business lending to enhance the portfolio asset quality.

The interest rate on overseas interest-earning assets was flat at 5.2% in 2003 compared to 5.3% in 2002 and 7.2% in 2001, while the interest rate on interest- bearing liabilities was also flat at 3.2% in 2003, compared to 3.2% in 2002 and 5.0% in 2001. Overseas net interest margins decreased by 7 basis points to 2.27% from 2.34% in 2002 and 2.37% in 2001. The decrease is due to an increase in structured lending products in Corporate & Institutional Banking.

Net life insurance income

2003	$	444 million
2002	$	(10) million
2001	$	128 million

Net life insurance income comprises the revenue and interest component of premiums, dividends, realised and unrealised capital gains and other returns on investments under the life insurer s control, net of claims expense, change in policy liabilities, policy acquisition and maintenance expense, and investment management fees *(refer to note 57 in the financial report for a definition of the life insurer).*

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Net life insurance income increased by $454 million to $444 million income in 2003, from a $10 million loss in 2002 and $128 million income in 2001.

Life insurance revenue increased by $3,562 million to $3,708 million in 2003 from $146 million in 2002 and $197 million in 2001. This increase was impacted by an increase in investment revenue (increase of $3,747 million in 2003) reflecting the improved performance of global equity markets, particularly over the six months to September 30, 2003. This is offset by an increase in policy liabilities. There is a further offset within the income tax expense, which includes the tax expense for policyholders relating to investment income. Premium and related revenue decreased $185 million or 16.3% to $949 million due to decreased premium revenue from the international businesses arising from the strength of the Australian dollar, decreased investment business sales in Australia and a decline in premiums from the closed book of traditional business. This has been partly offset by increased insurance premiums reflecting growth in volumes.

Life insurance expenses increased by $3,108 million to $3,264 million in 2003 from $156 million in 2002 and $69 million in 2001. This is due to the increase in policy liabilities resulting from the improved performance of global equity markets, and is consistent with the increase in investment revenue. Claims expense increased $2 million or 0.2% to $958 million as a result of increased surrenders in the closed traditional life business, as well as increased insurance claims resulting from the growth in volumes, partly offset by the decrease in claims expense from the international businesses due to the impact of strengthening Australian dollar.

Other banking and financial services income

2003	$	5,010	million
2002	$	7,006	million
2001	$	4,749	million

Other banking and financial services income includes loan fees from banking, money transfer fees, fees and commissions, treasury-related income, investment management fees, fleet management fees and other income (including rental income, dividends received and profit on sale of property, plant and equipment and other assets).

Other banking and financial services income decreased by $1,996 million or 28.5% to $5,010 million in 2003, after increases of 47.5% in 2002 and 15.2% in 2001. The movement reflects the inclusion in 2002 of the $2,314 million proceeds received from the sale of HomeSide US s operating assets and operating platform to Washington Mutual Bank, FA. on March 1, 2002, as well as the loss of contribution from HomeSide US in 2003. Refer below for a detailed analysis of the main categories of other banking and financial services income.

Loan fees from banking

2003	$	1,441	million
2002	$	1,361	million
2001	$	1,334	million

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

Loan fees from banking increased by $80 million or 5.9% to $1,441 million in 2003, after increases of 2.0% in 2002 and 7.1% in 2001. This increase reflects lending growth, primarily in Australia and New Zealand, particularly in relation to housing lending.

Money transfer fees

2003	$	1,026	million
2002	$	1,014	million
2001	$	1,043	million

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

Money transfer fees increased by $12 million or 1.2% to $1,026 million in 2003, after a decrease of 2.8% in 2002 and 0.5% in 2001. This increase reflects sustained activity across all regions during the year.

Fees and commissions

2003	$	1,158	million
2002	$	1,118	million
2001	$	998	million

Fees and commissions consist of fees charged to cover the costs of establishing credit card facilities, commissions from selling insurance and investment products and other fees.

Fees and commissions increased by $40 million or 3.6% to $1,158 million in 2003, after an increase of 12.0% in 2002 and a decrease of 9.1% in 2001. This increase is primarily due to higher fees in relation to structured finance transactions, partly offset by lower income from the outsourcing of the merchant acquiring business in Europe.

Treasury-related income

2003	$	625	million
2002	$	563	million
2001	$	721	million

Treasury-related income includes all realised and unrealised profits and losses resulting directly from foreign exchange trading activities, trading securities and interest rate-related and other derivative trading activities.

Treasury-related income increased by $62 million or 11.0% to $625 million in 2003, after a decrease of 21.9% in 2002 and an increase of 54.1% in 2001. The increase during 2003 has primarily resulted from higher activity in Corporate & Institutional Banking largely due to higher interest rate derivative income, partially offset by lower foreign exchange derivative income.

Investment management fees

2003	$	303	million
2002	$	297	million
2001	$	305	million

Investment management fee income relates to management fees received for services rendered acting as a responsible entity and/or an approved trustee for retail and wholesale unit trusts.

Investment management fees increased by $6 million or 2.0% to $303 million in 2003, after a decrease of 2.6% in 2002. The increase in 2003 reflects sustained activity in Wealth Management during the year.

Fleet management fees

2003	$	85	million
2002	$	56	million
2001	$	54	million

Fleet management fees consist of fleet and custom fleet management fees. Specifically, fleet management fees include fleet management, maintenance and fleet fuel card fees, whilst custom fleet management fees includes operating lease, sale and leaseback and management service fees.

Fleet management fees increased by $29 million or 51.8% to $85 million in 2003, after an increase of 3.7% in 2002 and decrease of 12.5% in 2001. The increase in 2003 reflects the impact of the acquisition of Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited) on November 1, 2002.

Other income

2003	$	372	million
2002	$	2,597	million
2001	$	294	million

Other income includes rental income, dividends received, profit on sale of property, plant and equipment and other assets, foreign exchange income and sundry income.

Other income decreased by $2,225 million or 85.7% to $372 million in 2003, after increases of 783.3% in 2002 and 36.1% in 2001. Excluding the impact of the sale of HomeSide US, other income increased by 56.3% during 2003, primarily reflecting the sale of properties in Australia and a gain on the restructure of hedging swaps.

Mortgage servicing and origination revenue

Net mortgage servicing fees

2003	$		million
2002	$	187	million
2001	$	474	million

Net mortgage servicing fees related to HomeSide US and represented fee income derived from mortgage servicing activities less amortisation of capitalised costs *(refer to note 1 in the financial report).*

Net mortgage servicing fees decreased from $187 million in 2002 to $nil in 2003. On October 1, 2002, the Group sold SR Investment, Inc., the parent entity of HomeSide US, to Washington Mutual Bank, FA. The sale has resulted in the complete disposal of the associated mortgage servicing rights. Following this sale, mortgage servicing fees were no longer derived by the Group.

Net mortgage origination revenue

2003	$		million
2002	$	191	million
2001	$	336	million

Net mortgage origination revenue related to HomeSide US and comprised fees earned on the origination of mortgage loans, gains and losses on the sale of loans, gains and losses resulting from hedges of secondary marketing activity, and fees charged to review loan documents for purchased loan production.

Net mortgage origination revenue decreased from $191 million in 2002 to $nil in 2003. On March 1, 2002, Homeside US sold its operating assets and operating platform to Washington Mutual Bank, FA. Following this sale, mortgage origination revenue was no longer derived by the Group.

Movement in the excess of net market value over net assets of life insurance controlled entities

2003	$	(160)	million
2002	$	(155)	million
2001	$	510	million

Australian Accounting Standard AASB 1038   Life Insurance Business   (AASB 1038) requires life insurance entities of the Group to value their investments in controlled entities at market value, with changes in the excess of net market value over net assets reflected in the consolidated statement of financial performance.

The revaluation of life insurance entities interest in controlled entities gave rise to a loss of $160 million before tax, reflecting the movement in the excess of the net market value over the net assets of companies owned by National Australia Financial Management Limited (NAFiM), adjusted for capital. Values shown are directors market valuations. The valuations are based on discounted cash flow (DCF) valuations prepared by Tillinghast-Towers Perrin, using, for the Australian and New Zealand entities, risk discount rates specified by the directors.

NAFiM subsidiaries market value summary

	Net assets (1)	Value of in force business	Embedded value	Value of future new business (2)	Market value
	$m	$m	$m	$m	$m
Market value at September 30, 2002	1,301	2,252	3,553	2,922	6,475
Operating profit after tax *(3)*	293		293		293
Net capital transfers *(4)*	25		25		25
Increase in shareholders net assets	**318**		**318**		**318**
Movement in the excess of net market value over net assets of life insurance controlled entities, components before tax:					
Roll forward and business assumptions					
Roll forward of DCF *(5)*		399	399		399
Change in assumptions and experience		(235)	(235)	(324)	(559)
Movement in the excess of net market value over net assets of life insurance controlled entities before tax *(6)*		**164**	**164**	**(324)**	**(160)**
Excess movements *(7)*	(47)	47			
Market value at September 30, 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 tax is before the movement in the excess of net market value over net assets of life insurance controlled entities and excludes the 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 movement in excess of net market value over net assets of life insurance controlled entities 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 increase of the Group s interest in Plum Financial Services Limited and Advance MLC Assurance Co. Ltd and foreign exchange impacts on the net assets of international subsidiaries and market value of intragroup debt.

The components that contributed to the $160 million ($200 million after tax) negative movement in the excess of net market value of the life insurance controlled entities comprised:

the effect of assumption and experience changes primarily comprising lower retail sales volumes than anticipated at September 2002, the effect of weaker operating environments reducing the values of the international businesses, and the over all strengthening in the Australian dollar. The impact of these factors has been partially mitigated by the active management of expenses; and

the anticipated growth in the business above current levels of operating profit (ie. the roll forward of the discounted cash flow).

Significant revenue

Proceeds from the sale of foreign controlled entities

The results and assets and liabilities of SR Investment, Inc. and its controlled entities were included up to and including the year to September 30, 2002. On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The Group received proceeds on sale of $2,671 million (US$1,453 million) for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including income tax.

Michigan National Corporation and its controlled entities results were included up to and including the six months to March 31, 2001. On April 1, 2001, the Group sold Michigan National Corporation and its controlled entities to ABN AMRO North America, Inc., a subsidiary of ABN AMRO NV. The Group received proceeds on sale of $5,314 million (US$2,750 million) from the sale of assets with a cost of $2,929 million, resulting in a profit on sale of $1,681 million after all disposal costs, including taxation. Further, an amount of $1,118 million was transferred from the foreign currency translation reserve to distributable retained profits in relation to the sale, giving rise to a total gain of $2,799 million.

Operating expenses

Personnel expenses

2003	$	3,416	million
2002	$	3,379	million
2001	$	3,725	million

Personnel expenses increased by $37 million or 1.1% to $3,416 million in 2003, after a decrease of 9.3% in 2002 and an increase of 9.5% in 2001. Excluding the impact of the sale of HomeSide US, personnel expenses increased 5.7% during 2003. This increase reflects market-based salary increases across regions, increased pension fund expenses and higher contractor costs. The impact of this was partly offset by a reduction in staff (full-time equivalent employee) numbers as a result of the implementation of productivity initiatives across the Group *(refer to employees on page 36).*

Occupancy expenses

2003	$	556	million
2002	$	559	million
2001	$	587	million

Occupancy expenses decreased by $3 million or 0.5% to $556 million in 2003, after a decrease of 4.8% in 2002 and an increase of 14.6% in 2001.

The decrease reflects a reduced contribution from HomeSide US following its sale, offset by appreciating rental rates and on-costs (ie. security expenses) and higher costs associated with the sale and lease-back of buildings in Australia and New Zealand.

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General expenses

2003	$	2,382	million
2002	$	4,769	million
2001	$	2,158	million

General expenses decreased by $2,387 million or 50.1% to $2,382 million in 2003, after increases of 121.0% in 2002 and 13.9% in 2001. Excluding the impact of the sale of HomeSide US, general expenses increased $146 million during 2003. The increase has been impacted by higher computer and software expenses impacted by the write-off of the development work associated with the global roll out of the SAP core banking module and the write-off of European Monetary Unit development costs. In addition, higher professional fees and other expenses associated with the industry-wide regulatory reform such as Basel II, Financial Services Reform Act, International Financial Reporting Standards, and the United States *Sarbanes-Oxley Act of 2002* have also contributed to the increase. This has been partially offset by the compensation provided of $64 million in 2002 compared with $27 million in 2003, for investors relating to a reduction in unit prices. Further, the decrease has been impacted by lower fees and commissions within Wealth Management, and a reduction in communications, postage and stationery costs with the renegotiation of telecommunication contracts within Australia and Europe.

(Refer to notes 4 and 5 in the financial report for details of revenue and expense items).

Charge to provide for doubtful debts

2003	$	633	million
2002	$	697	million
2001	$	989	million

The total charge to provide for doubtful debts decreased by $64 million or 9.2% to $633 million in 2003, after a decrease of 29.5% in 2002 and an increase of 68.2% in 2001.

The charge in Australia increased by $213 million to $321 million in 2003, after a decrease of 77.2% in 2002 and an increase of 128.5% in 2001. The 2003 charge was impacted by a small number of large corporate exposures in Financial Services Australia and Corporate & Institutional Banking, During the 2002 year, a review of the risk profile within the Corporate & Institutional Banking and Financial Services Australia (Business) loan portfolios, resulted in a reduced

charge.

(The nature of general and specific provisioning is explained in note 1(q)(i) in the financial report.)

The charge in Europe decreased by $108 million or 28.1% to $277 million in 2003, after a decrease of 2.8% in 2002 and an increase of 36.1% in 2001. Clydesdale and Yorkshire Banks charges decreased by $112 million reflecting a change in the mix of the loan portfolio, with falling personal loan volumes and higher housing volumes. Northern and National Irish Banks charges decreased by $24 million, reflecting the recovery of a large corporate exposure. The balance of the reduction reflects the impact of the realignment of Corporate & Institutional Banking s loan portfolio during 2002, in order to reduce its risk profile.

The charge in New Zealand increased by $23 million to a charge of $11 million in 2003, compared with a credit of $12 million in 2002 and a charge of $10 million in 2001. The increase has resulted from a charge in relation to a large corporate exposure in Corporate & Institutional Banking, whilst during 2002 the loan portfolio provisioning requirement was reviewed resulting in a write-back to the general provision.

The charge in the United States decreased by $181 million or 84.2% to $34 million in 2003, after increases of 100.9% in 2002 and of 52.9% in 2001. The decrease has resulted from the inclusion of a major provisioning charge in 2002 for a large corporate exposure in Corporate & Institutional Banking.

The charge in Asia decreased by $11 million to a credit of $10 million in 2003 compared with a charge of $1 million in 2002 and $3 million in 2001. The decrease has resulted from a review of the portfolio favourably impacting the charge to provide for doubtful debts.

Charge to provide for doubtful debts by region

	2003	**2002**	**2001**	**2003/2002**
	$m	**$m**	**$m**	**% change**
Australia	**321**	108	473	large
Europe				
Clydesdale and Yorkshire Banks	**250**	362	348	(30.9)
Northern and National Irish Banks	**(1)**	23	16	large
Other	**28**		32	large
	277	385	396	(28.1)
New Zealand	**11**	(12)	10	large
United States	**34**	215	107	(84.2)
Asia	**(10)**	1	3	large
Total charge to provide for doubtful debts	**633**	697	989	(9.2)

Net write-offs (bad debts written off less recoveries) in 2003 were $798 million compared with $814 million in 2002 and $587 million in 2001. As a percentage of risk-weighted assets, net write-offs were 0.3% in 2003, 0.3% in 2002 and 0.2% in 2001.

Percentage of risk-weighted assets

	2003 %	2002 %	2001 %
Australia *(1)*			
Charge	**0.22**	0.08	0.36
Net write-offs	**0.29**	0.23	0.19
Europe *(1)*			
Charge	**0.41**	0.53	0.53
Net write-offs	**0.49**	0.55	0.41
New Zealand *(1)*			
Charge	**0.05**	(0.05)	0.05
Net write-offs	**0.05**	0.05	0.05
United States *(1)*			
Charge	**0.35**	1.35	0.43
Net write-offs	**0.34**	0.64	0.09
Asia *(1)*			
Charge	**(0.23)**	0.02	0.04
Net write-offs	**0.05**	(0.02)	(0.01)
Group			
Charge	**0.25**	0.28	0.38
Net write-offs	**0.32**	0.33	0.23

(1) *Ratio calculated as a percentage of risk-weighted assets of Australia, Europe, New Zealand, United States and Asia, as appropriate.*

The Group maintains a conservative and prudent approach to actual and potential loan losses. The overall provision for doubtful debts *(refer to notes 1(q)(i) and 17 in the financial report)* is augmented as necessary by a charge against profit having regard to both specific and general factors. *An explanation of the Group s lending and risk analysis policies is provided within risk management on page 52.*

Significant expenses

Restructuring costs

During 2002, the Group recognised restructuring costs of $580 million resulting from the Positioning for Growth and other restructuring initiatives *(refer to note 5(a) in the financial report).* The majority of these costs are expected to be recovered by the end of 2004 from annual productivity improvements and revenue enhancements. The Positioning for Growth initiative was a fundamental reorganisation of the management and organisational structure of the Group, including the appointment of a new senior management team.

The restructuring costs were incurred to deliver a significant proportion of the announced cost reduction target of $370 million per annum by September 2004. It is the achievement of this target that will reflect the recovery of the majority of the restructuring costs incurred in 2002. Of these savings, approximately 80% relate to personnel costs, which are directly measurable each reporting period. Redundancy payments have a payback period of approximately one year. The balance of the savings relate to non-personnel costs, which are not measured at an account level.

In addition, further costs savings will also effectively be achieved through the reduction in rental charges over the remaining term of the leases, which extend beyond 2004, as result of an accounting benefit for the charge to provide for surplus lease space and the accounting benefit from the write-off of technology- related property, plant and equipment of $132 million is reflected in the cessation of future stream of depreciation and amortisation.

Other restructuring costs incurred in 2002 and 2001 have been expensed as incurred. Such costs were not material *(refer to note 5 in the financial report).*

Cost of foreign controlled entities sold

The results and assets and liabilities of SR Investment, Inc. and its controlled entities were included up to and including the year to September 30, 2002. On October 1, 2002, the Group sold SR Investment, Inc. (the parent entity of HomeSide US) to Washington Mutual Bank, FA. Controlled entities other than HomeSide US were excluded from the sale. The Group received proceeds on sale of $2,671 million (US$1,453 million) for assets with a cost of $2,686 million, resulting in a profit on sale of $6 million after all disposal costs, including income tax.

Michigan National Corporation and its controlled entities results were included up to and including the six months to March 31, 2001. On April 1, 2001, the Group sold Michigan National Corporation and its controlled entities to ABN AMRO North America, Inc., a subsidiary of ABN AMRO NV. The Group received proceeds on sale of $5,314 million (US$2,750 million) from the sale of assets with a cost of $2,929 million, resulting in a profit on sale of $1,681 million after all disposal costs, including taxation. Further, an amount of $1,118 million was transferred from the foreign currency translation reserve to distributable retained profits in relation to the sale, giving rise to a total gain of $2,799 million.

Impairment loss on mortgage servicing rights

In July 2001, the directors of the Company determined that the carrying value of the mortgage servicing rights asset held by HomeSide US, a controlled entity of the Company, exceeded the fair value. An impairment loss of $888 million was recognised to reflect the asset at its fair value. This impairment was the result of hedging positions which were adversely impacted by extreme volatility in US interest rate markets.

In September 2001, the directors of the Company determined that a second impairment loss on mortgage servicing rights was required in order to reflect the mortgage servicing rights asset at their fair value. This impairment loss of $755 million was the result of an incorrect interest rate assumption discovered in an internal model used to determine the fair value of HomeSide US s mortgage servicing rights.

Charge to provide for mortgage servicing rights valuation adjustment

On September 2, 2001, the directors of the Company decided to value HomeSide US at its estimated market sale value, rather than as an ongoing part of the Group, after reviewing its position within the Group s current core strategies of banking and wealth management. As a result of this decision, the carrying value of HomeSide US s core asset, mortgage servicing rights, was revalued and a provision for mortgage servicing rights valuation adjustment of $1,436 million was recognised in order to reflect the mortgage servicing rights asset at its estimated market sale value.

Impairment loss on goodwill

In conjunction with the directors decision to value HomeSide US on an estimated market sale value basis, the decision was made that the carrying value of goodwill which arose on the acquisition of HomeSide US was in excess of its recoverable amount. Accordingly, an impairment loss of $858 million was recognised, in order to reduce the carrying value of this goodwill to $nil.

Income tax expense

2003	$	1,681	million
2002	$	962	million
2001	$	1,891	million

Income tax expense increased by $719 million or 74.7% to $1,681 million in 2003, after a decrease of 49.1% in 2002 and an increase of 15.9% in 2001. The level of income tax expense is impacted by the accounting regime which applies to unrealised gains and losses relating to Wealth Management s statutory funds of the life business. The income tax expense in 2003 attributable to this impact was $126 million tax expense, compared to an income tax benefit of $248 million in 2002.

Net profit by segment

Contribution to Group net profit/(loss) attributable to members of the Company by operating segment

	2003	2002 (1)	2001
	$m	$m	$m
Financial Services Australia	**1,868**	1,572	1,377
Financial Services Europe	**866**	787	749
Financial Services New Zealand	**310**	242	223
Corporate & Institutional Banking	**846**	787	739
Wealth Management	**174**	120	720
Other *(2)*	**(109)**	(135)	(1,725)
Net profit attributable to members of the Company	**3,955**	3,373	2,083

(1) Net profit attributable to members of the Company by operating segment has been restated as described in note 3 in the financial report.

(2) Incorporates the net profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001, as well as Michigan National Corporation s contribution to profit of $132 million prior to its sale on April 1, 2001. Also incorporates the results of SR Investment, Inc. (the parent entity of HomeSide US) prior to its sale on October 1, 2002.

(Refer to note 3 in the financial report for detailed information by operating segment.)

Financial Services Australia

Financial Services Australia increased net profit 18.8% to $1,868 million in 2003, from $1,572 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $185 million (after tax), net profit increased 6.3%. Details of the increase in net profit are as follows.

Total revenue increased 7.5% to $5,469 million. Net interest income increased 6.4% to $3,519 million, reflecting growth in lending volumes, particularly housing lending, and growth in retail deposits. This was partially offset by a 31 basis point reduction in net interest margin to 3.14%, caused by the increased proportion of housing lending in the loan portfolio, and the impact of lower market rates on deposit margins and capital.

Non-interest income increased 9.6% to $1,950 million, driven by strong housing loan growth, and strong bill acceptances growth.

Total expenses decreased 1.9% to $2,803 million. During 2002 significant expenses of $261 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in 2003, include $3 million of goodwill amortisation and a $298 million charge to provide for doubtful debts. Excluding these items, total expenses increased 2.1%. This was due to higher personnel expenses with the impact of enterprise bargaining agreements partly offset by lower staff numbers reflecting the implementation of productivity initiatives. Expenses were further impacted by higher software amortisation and costs associated with the continued roll out of customer relationship and loan processing technology. The cost to income ratio improved from 48.2% to 45.7%.

Asset quality management remained a key focus during the year. The charge to provide for doubtful debts increased from $146 million in 2002 to $298 million in 2003, which was impacted by a large corporate exposure. The year saw a continued focus on credit quality and capital efficiency.

Financial Services Europe

Financial Services Europe increased net profit 10.0% to $866 million in 2003, from $787 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $117 million (after tax), net profit decreased 4.2%. Details of the movement in net profit are as follows.

Total revenue decreased 4.3% to $3,318 million. Net interest income decreased 2.9%, or increased 2.3% in local currency terms, to $2,368 million, due to growth in lending, particularly mortgage and business lending. Net interest margin declined 2 basis points in 2003 to 4.16%, resulting from falling interest rates on retail deposits, together with a change in product mix resulting from the growth in mortgage lending and the focus on selective business lending to enhance the portfolio asset quality.

Non-interest income decreased 7.6%, or 2.4% in local currency terms, to $950 million, driven by lower income from sales of creditor insurance, lower account fee income and the outsourcing of the merchant acquiring business, partly offset by increased lending fee income.

Total expenses decreased 11.1% to $2,036 million. During 2002 significant expenses of $166 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in 2003 includes $62 million of goodwill amortisation and a $254 million charge to provide for doubtful debts. Excluding these items, total expenses increased 2.4% or 5.8% in local currency terms. This was largely a result of higher pension expenses, higher personnel costs due to annual salary reviews offset by reductions in staff numbers, higher investment in core infrastructure such as the teller system and higher costs associated with compliance activities including Financial Services Authority mortgage regulation and the write-off European monetary union development costs. The cost to income ratio increased from 48.5% to 51.9%.

The charge to provide for doubtful debts decreased from $378 million in 2002 to $254 million in 2003. Asset quality management remained a key priority during the year and has improved, with higher security coverage and a lower risk profile. In addition, during 2003 the book value of the largest non-accrual loan was repaid and a large previously written-off debt was recovered.

Financial Services New Zealand

Financial Services New Zealand increased net profit 28.1% to $310 million in 2003, from $242 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $13 million (after tax), net profit increased 21.6%. Details of the increase in net profit are as follows.

Total revenue increased 17.8% to $980 million. Net interest income increased 18.6%, or 10.4% in local currency terms, to $651 million, reflecting strong growth in lending volumes, particularly in fixed rate housing mortgages and term lending, growth in retail deposit volumes and 10 basis point increase in the net interest margin to 2.71%.

Non-interest income increased 16.3% to $329 million, or 8.3% in local currency terms, with increased lending fees resulting from strong volumes and transaction levels, partly offset by lower income from the transition of customers to lower cost channels.

Total expenses increased 11.7% to $515 million. During 2002 significant expenses of $20 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in 2003 year include $1 million of goodwill amortisation and a $21 million charge to provide for doubtful debts. Excluding these items, total expenses increased 11.0%, or 3.4% in local currency terms. This was due to higher personnel expenses from the renegotiation of standard terms of employment, whilst all other expenses remained flat. The cost to income ratio improved from 53.3% to 50.3%.

The charge to provide for doubtful debts increased from $5 million credit in 2002 to a charge of $21 million in 2003. The higher charge is a result of higher commodity prices and export conditions adversely impacting Agribusiness lending. Further, the 2002 charge was impacted by a statistical provisioning write-back adjustment.

Corporate & Institutional Banking

Corporate & Institutional Banking increased its contribution to net profit attributable to members of the Company by 7.5% to $846 million in 2003, from $787 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $31 million (after tax), it increased 3.4%. Details of the increase in net profit attributable to members of the Company are as follows.

Total revenue decreased marginally by 2.1% to $1,897 million, as a result of a more challenging environment and the focus on building strong relationships with customers. The split of income between net interest income and non-interest income can vary considerably in the wholesale market, depending on market activity and environmental conditions. This was particularly evident in this year s results.

Net interest income decreased 23.2% to $807 million, mainly due to flat yield curves and the stabilisation of interest rates which has reduced the Markets unit s net interest income from funding and liquidity management activities, slightly offset by the growth in securities under reverse repurchase agreements. Net interest margin decreased by 21 basis points to 0.56%, primarily due to the factors that impacted net interest income.

Non-interest income increased 22.9% to $1,090 million, reflecting growth from specialised finance, debt markets, trading income and corporate banking.

Total expenses decreased 15.6% to $817 million. During 2002 significant expenses of $42 million were incurred relating to Positioning for Growth restructuring and efficiency initiatives. Total expenses in 2003 include a $63 million charge to provide for doubtful debts. Excluding these items, total expenses increased 0.7%. This primarily reflected the impact of cost containment initiatives. The cost to income ratio increased from 39.2% to 39.7%.

The quality of the loan portfolio across all regions remains high, with approximately 91.4% of credit exposures equivalent to investment grade or above. The charge to provide for doubtful debts decreased from $167 million in 2002 to $63 million in 2003. This was due to 2002 including a number of large corporate exposures.

Wealth Management

Wealth Management increased its contribution to net profit attributable to members of the Company by 45.0% to $174 million in 2003, from $120 million in 2002. Excluding the impact of the significant expenses incurred during 2002 of $20 million (after tax), it increased 24.3%.

The result comprised of $374 million of profit generated through operations (2002: $272 million) and a $200 million decrease in the excess of the net market value over the net assets of life insurance controlled entities, after tax (2002: negative $152 million).

The main factors impacting the profit generated through operations are:

growth in insurance business volumes;

reversal of capitalised losses due to favourable expense experience;

growth in the contribution of the Private Bank as a result of strong lending and deposit volumes;

significant improvement in global equity market conditions particularly in the six months to September 30, 2003, which has increased earnings generated on shareholders invested capital and retained earnings;

stable disability claims experience;

lower investor compensation costs of $27 million compared with $64 million in 2002;

strategic investment expenditure of $28 million (after tax), up $5 million on 2002, including operational and amortised capitalised expenditure in Australia and Europe; and

increased compliance costs and spend on regulatory projects.

The valuation of businesses held in the mark-to-market environment increased by $158 million from $6,475 million at September 30, 2002 to $6,633 million at September 30, 2003. This increase in value comprised $318 million from growth in shareholders net assets less $160 million ($200 million after tax) from other components over and above the increase in net assets, which are reported as the movement in the excess of net market value over net assets of life insurance controlled entities.

The components that contributed to the $160 million ($200 million after tax) negative movement in the net market value of the life insurance controlled entities comprised:

the effect of assumption and experience changes primarily comprising lower retail sales volumes than anticipated at September 30, 2002, the effect of weaker operating environments reducing the values of the international businesses, and the overall strengthening in the Australian dollar. The impact of these factors has been partially mitigated by the active management of expenses; and

the anticipated growth in the business above current levels of operating profit (ie. the roll-forward of the discounted cash flow).

Contribution to Group net profit by major geographic area

	2003	2002	2001	2000	1999
	$m	$m	$m	$m	$m
Australia					
Australia (excluding Wealth Management)*(1)*	**2,099**	1,798	3,264	1,406	1,308
Wealth Management	**127**	73	666	241	97
Deduct: Amortisation of goodwill	**(3)**	(8)	(1)	(1)	(11)
	2,223	1,863	3,929	1,646	1,394
Europe					
Clydesdale and Yorkshire Banks	**745**	733	819	708	605
Northern and National Irish Banks	**224**	191	200	174	202
Other *(2)*	**105**	89	4	(16)	16
Deduct: Amortisation of goodwill	**(62)**	(62)	(62)	(62)	(62)
	1,012	951	961	804	761
New Zealand					
Bank of New Zealand	**494**	433	348	311	298
Other *(3)*	**(36)**	(29)	(35)	(30)	(27)
Deduct: Amortisation of goodwill	**(33)**	(31)	(31)	(31)	(31)
	425	373	282	250	240
United States					
Michigan National Corporation			156	291	254
SR Investment, Inc.		98	(3,438)	141	153
Other *(4)*	**213**	31	191	161	78
Deduct: Amortisation of goodwill			(73)	(103)	(102)
	213	129	(3,164)	490	383
Asia					
Asian branches	**36**	44	71	39	33
Other *(5)*	**46**	13	4	10	10
	82	57	75	49	43
Net profit attributable to members of the Company	**3,955**	3,373	2,083	3,239	2,821

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(1) Australia (excluding Wealth Management) included the net profit on sale of Michigan National Corporation and its controlled entities of $1,681 million in 2001.

(2) Europe Other includes National Wealth Management Europe Holdings Limited, National Australia Group Europe Limited, the London branch of the Company, NAB Investments Limited *and NAB Finance (Ireland) Limited.*

(3) New Zealand Other includes National Australia Group (NZ) *Limited and National Wealth Management New Zealand Holdings Limited.*

(4) United States Other includes the New York branch of the Company, National Australia Funding (Delaware), Inc. and National America Investment, Inc.

(5) Asia Other includes Nautilus Insurance Pte Limited, National *Australia Capital Markets (Japan) Co., Ltd, National Australia Finance (Asia) Limited, Hong Kong MLC Holdings Limited, PT MLC Life Indonesia and Advance MLC Assurance Co. Ltd.*

Australia

Australia s net profit attributable to members of the Company increased by 19.3% to $2,223 million from $1,863 million in 2002 and $3,929 million in 2001. The 2002 result includes $256 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit attributable to members of the Company increased 4.9% due to the solid performances of the retail banking operations, and an improved Wealth Management result.

Australia (excluding Wealth Management)

The net profit of Australia (excluding Wealth Management and before goodwill amortisation) increased 16.7% in the year to $2,099 million from $1,798 million in 2002 and $3,264 million in 2001. Excluding prior year significant expenses of $256 million (after tax), net profit of $2,099 million increased 2.2% from the prior year.

Net interest income increased $179 million or 5.0%, despite a 28 basis point decline in net interest margin to 2.51% (for Australia including Wealth Management) over the same period.

The increase was driven by strong deposit and lending growth, with housing loans performing particularly well in a continuing low interest rate environment. Non-interest income increased $117 million or 4.7%, due largely to housing lending growth and bill acceptances fee income, and higher treasury-related income from Corporate & Institutional Banking.

Total expenses (before the charge to provide for doubtful debts and during 2002 significant expenses) were flat reflecting cost containment through the implementation of efficiency improvements. Expense reductions were offset by higher costs associated with the continued roll-out of the customer relationship management and loan processing technology. The cost to income ratio improved to 46.6%, compared to 49.0% in the prior year.

The charge to provide for doubtful debts increased by $210 million or 191.4%, impacted by number of large corporate exposures. During the 2002 year, a review of the risk profile within Corporate & Institutional Banking and Financial Services Australia (Business) loan portfolios resulted in a reduced charge.

Wealth Management

Net profit attributable to members of the Company for Wealth Management Australia increased 74.0% to $127 million in 2003, from $73 million in 2002. The result comprised $327 million of profit generated through operations (2002: $225 million) and $200 million negative net movement in the excess of net market value over the net assets of life insurance controlled entities, after tax (2002: negative $152 million).

Profit generated through operations was impacted by the improvement in global equity market conditions particularly in the six months to September 2003, which has increased earnings generated on shareholders invested capital and retained earnings. Compensation and associated costs of $27 million have been provided in the current year in relation to the investor compensation announced in August 2002, down from $64 million in 2002. The result also includes the impact of strategic investment expenditure including both operational and amortised capitalised expenditure.

Further financial highlights supporting the net operating profit result include:

- growth in insurance business volumes;
- stable disability claims experience; and
- contained business expenditure.

For a discussion of the $200 million decrease in the excess of net market value over net assets of life insurance controlled entities (after tax), refer to page 26.

Europe

Europe s net profit increased 6.4% in the year to $1,012 million from $951 million in 2002 and $961 million in 2001. The 2002 result included $130 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit decreased 6.4%.

Clydesdale and Yorkshire Banks

Clydesdale and Yorkshire Banks contributed a net profit (before goodwill amortisation) of $745 million, an increase of 1.6% from the prior year. Excluding significant expenses of $90 million (after tax) in 2002, net profit decreased by 9.5%.

Net interest income decreased by $74 million or 3.8%. However, excluding exchange rate movements net interest income increased, with asset growth in lending (mortgages and cards), slightly offset by the decline in personal loan volumes and a small contraction in the net interest margin. Non-interest income decreased by 10.7%. Excluding exchange rate movements non-interest income also decreased, due to reduced credit line origination fees and lower money transfer fees. In addition, merchant servicing fees were lower with the outsourcing of this operation.

Total expenses (before the charge to provide for doubtful debts and during 2002 significant expenses) decreased $46.8 million or 3.8%. However, excluding the impact of exchange rate movements expenses increased, reflecting higher pension fund expenses, slightly offset by a reduction in employee numbers lowering personnel expenses. The cost to income ratio increased from 44.4% to 48.9%. The charge to provide for doubtful debts decreased $112 million or 30.9%, with exchange rate movements favourably impacting this result. The underlying decrease reflected the recovery of a large corporate exposure.

Northern and National Irish Banks

Northern and National Irish Banks contributed a net profit of $224 million, an increase of 17.2% from the prior year. Excluding significant expenses of $26 million (after tax), net profit increased 3.2% from the prior year.

Net interest income was flat. However, excluding exchange rate movements net interest income increased, as a result of growth in lending (term business lending and mortgages), which has been partly offset by the impact of higher fixed deposits. Non-interest income decreased by 8.5%. Excluding exchange rate movements, non-interest income also decreased, as a result of reduced merchant service fees reflecting the outsourcing of this business, and lower trading income from Corporate & Institutional Banking.

Total expenses (before the charge to provide for doubtful debts and during 2002 significant expenses) were flat. However, excluding exchange rate movements expenses decreased primarily reflecting lower personnel expenses following a reduction in staff numbers. The cost to income ratio increased slightly to 57.8% from 56.2%. The charge to provide for doubtful debts decreased $24 million or 104.3%, which was favourably impacted by exchange rate movements. The underlying decrease reflected a change in the mix of the loan portfolio, with falling personal loan volumes and higher housing loan volumes.

New Zealand

New Zealand s net profit increased 13.9% in the year to $425 million from $373 million in 2002 and $282 million in 2001. The 2002 result included $14 million (after-tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, net profit increased 9.8%.

The New Zealand operations of Bank of New Zealand (BNZ) contributed net profit (before goodwill amortisation) of $494 million, an increase of 14.1% from the prior year. Excluding significant expenses of $13 million (after-tax), net profit increased 11.0% from the prior year.

Net interest income grew $104 million or 14.9% as a result of growth in lending (particularly housing) and retail deposit volumes, while the net interest margin increased due to a strong focus on margin management.

Total expenses (before the charge to provide for doubtful debts and during 2002 significant expenses) increased $95 million or 19.8%, primarily reflecting the impact of the higher personnel expenses as a result of the renegotiation of standard terms of employment and higher software costs. The cost to income ratio increased slightly from 45.3% to 45.7%. The charge to provide for doubtful debts increased by $23 million to a charge of $11 million in 2003. The increase has resulted from Agribusiness lending requirements, whilst during 2002 the loan portfolio provisioning requirement was reviewed resulting in a write-back to the general provision.

United States

The United States contributed a net profit of $213 million compared to $129 million in 2002 and a net loss of $3,164 million in 2001. The net profit in 2002 included $4 million (after tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. The Group sold HomeSide US on October 1, 2002. During 2002, HomeSide US contributed net profit (before goodwill amortisation and significant items) of $98 million. Excluding these items, net profit increased significantly.

The net profit (before goodwill amortisation) of the Company s New York branch increased by $89 million from $35 million to $124 million. The 2002 net profit was impacted by a major provisioning charge for a large corporate exposure in Corporate & Institutional Banking.

The Group sold Michigan National Corporation and its controlled entities on April 1, 2001. In the half year to March 31, 2001, Michigan National Corporation and its controlled entities contributed net profit (before goodwill amortisation and significant items) of $156 million.

Asia

Asia s net profit attributable to members of the Company increased 43.9% in the year to $82 million from $57 million in 2002 and $75 million in 2001. The 2002 result included $8 million (after-tax) of significant expenses relating to Positioning for Growth restructuring and efficiency initiatives. Excluding these items, it increased 26.2%.

The increase in net profit attributable to members of the Company was largely driven by Wealth Management. In 2003, Wealth Management s Asian operations contributed $19 million to the result, compared to $5 million in 2002. This increase is a result of higher investment earnings on shareholders retained earnings with favourable investment markets performance in Asia during 2003.

Corporate & Institutional Banking s Markets unit experiencing lower revenues largely from reduced trading opportunities and corporate finance activities have also decreased due to the slowing of activities in the region.

Employees

The following tables summarise the Group s staffing position as at September 30:

	2003 Number	**2002 (1) Number**	**2001 (2) Number**
By region			
Australia	**23,880**	24,294	24,897
Europe	**13,104**	13,542	13,706
New Zealand	**4,688**	4,560	4,731
United States	**136**	165	3,506
Asia	**732**	641	757
Total full-time equivalents *(3)*	**42,540**	43,202	47,597

	2003 Number	2002 (1)(2) Number	2001 (2) Number
By line of business			
Financial Services Australia	**17,233**	17,928	19,631
Financial Services Europe	**11,423**	11,719	12,125
Financial Services New Zealand	**4,257**	4,277	4,001
Corporate & Institutional Banking	**2,612**	2,564	2,596
Wealth Management	**6,174**	6,105	5,559
Other *(4)*	**841**	609	3,685
Total full-time equivalents	**42,540**	43,202	47,597

(1) Divisional full-time equivalent employees in relation to 2002 have been restated as described in note 3 in the financial report.

(2) Includes full-time equivalent employees for SR Investment, Inc. (the parent entity of HomeSide US) of 38 at September *30, 2002 and 3,363 at September 30, 2001.*

(3) Full-time equivalent employees (FTEs) includes part-time (pro-rated) and non-payroll FTEs (ie. contractors).

(4) Includes Corporate Centre functions and prior to March 1, 2002 includes HomeSide US.

The Group s full-time equivalent employee numbers reduced by 662 or 1.5% from 43,202 for 2002 to 42,540 for 2003. Excluding the impact of acquisitions in 2003 (Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited), the client custody contracts of Commonwealth Custodian Services Limited and the Commonwealth Bank of Australia and increased interest in Plum Financial Services Limited, and Advance MLC Assurance Co. Ltd) and the sale of HomeSide US in 2002 *(refer to page 13 for an explanation on the sale of HomeSide US)*, full-time equivalent employee numbers decreased 2.4%. This compares with a 2.4% increase from 2001 to 2002, excluding the impact of the sale of HomeSide US. The reduction during 2003 has generally resulted from the efficiency improvements as a result of the Positioning for Growth program.

The focus of the Positioning for Growth program has been to improve and streamline processes, create efficiency improvements and realign employees to areas of revenue growth. This has resulted in a reduction in employee numbers across the Group.

It was recognised early on in the Positioning for Growth program that organisational and process changes would only succeed when supported by a workforce that is empowered and motivated to deliver high quality customer service. A revitalisation project was established to effect this dynamic of cultural change. The project launched a wide range of initiatives as a catalyst in the process of cultural renewal; these have been well received by employees and continued to produce the desired outcomes.

Asia

In Australia, there was a net decrease in employee numbers of 414 in 2003, having decreased by 603 in the previous year. Excluding the impact of acquisitions in 2003 (Custom Service Leasing (New Zealand) Limited, the client custody contracts of Commonwealth Custodian Services Limited and the Commonwealth Bank of Australia and increased interest in Plum Financial Services Limited), there was a net decrease in employee numbers of 627 in 2003 mainly resulting from a reduction in employees in Financial Services Australia, as well as in Group support functions. This was a result of productivity initiatives within Financial Services Australia.

In Europe, employees decreased by 438 in 2003, having decreased by 164 in the previous year. The net decrease in employees in 2003 resulted from a reduction in employees through initiatives such as outsourcing and efficiency savings in the back office.

In New Zealand, employees increased by 128 in 2003, having decreased by 171 in the previous year. Excluding the acquisition of Custom Service Leasing (New Zealand) Limited, employees numbers were flat in 2003.

In the United States, employees decreased by 29 in 2003 primarily as a result of the sale of SR Investment, Inc. (the parent entity of HomeSide US) on October 1, 2002.

In Asia, employees increased by 91 in 2003, and decreased by 116 in the previous year (the prior year decrease was a result of 109 joint venture employees being excluded from 2002 in order to apply consistent treatment across the Group). Excluding the impact of consolidating Advance MLC Assurance Co. Ltd, employees increased by 71 in 2003 due to growth within Wealth Management.

Approximately 42% of Group employees in Australia are members of the Finance Sector Union of Australia (FSU). Over the last 12 months, the Company continued to have a good relationship with the FSU, especially through the enterprise bargaining process. A negotiated settlement of a new enterprise agreement with the FSU was certified in the Australian Industrial Relations Commission on October 24, 2002. This agreement covered many aspects of employment issues such as training, career structures and significant reforms to employee renumeration.

Assets and equity

Year-end total assets increased to $397.5 billion from $377.4 billion at September 30, 2002. Following the sale of SR Investment, Inc. (the parent entity of HomeSide US) on October 1, 2002, $4.1 billion of total assets were removed from the Group s balance sheet. The appreciation of the Australian dollar, primarily against the British pound and US dollar, decreased total assets by $24.1 billion in 2003, compared to a $7.1 billion increase in 2002. Excluding the impact of the sale of SR Investment, Inc. and exchange rate movements, total assets (in Australian dollar terms) grew $48.3 billion or 13.8% during 2003, primarily reflecting growth in lending.

Year-end total equity increased from $23.3 billion at September 30, 2002 to $27.2 billion during 2003. The increase in total equity has been due to the consolidation of the registered schemes of the Group s life insurance statutory funds of $2.5 billion during the year (*refer to note 43(e) for further details)*. Total parent entity interest in equity increased $1.2 billion to $24.4 billion during 2003. The movement in the parent entity interest included an increase of $2.6 billion (2002: $0.8 billion) in retained profits, dividend reinvestment and share issues totalling $0.4 billion (2002: $0.5 billion), the issue of $1.0 billion Trust Preferred Securities (2002: $nil) and the general reserves $0.3 billion (2002: $0.2 billion). These factors were offset by $1.6 billion resulting from the on-market share buy-back (2002: $1.2 billion) and the impact of negative movements in the foreign currency translation reserve of $1.5 billion (2002: negative $0.5 billion).

In Australia during 2003, total assets grew by $30.3 billion to $243.7 billion with gross loans and advances increasing by 16.8% to $141.2 billion. The major contributor to this increase was housing loans, which grew by 21.3% to $83.0 billion, buoyed by a continuing low interest rate environment. In Australian dollar terms, total assets in Europe decreased by 3.1% to $103.9 billion during 2003. Excluding the effect of exchange rate movements, total assets in Europe grew by 12.1%, reflecting growth in Corporate & Institutional Banking lending, as well as solid housing lending growth. In Australian dollar terms, total assets in New Zealand increased by 7.4% to $32.6 billion in 2003. Excluding the effect of exchange rate movements, total assets in New Zealand increased by 6.2%, buoyed by strong retail lending growth, particularly in relation to housing lending, up 17.9% and growth in other term lending. In Australian dollar terms, total assets in the United States decreased by 52.4% to $8.3 billion in 2003. Excluding the effect of exchange rate movements, total assets in the United States fell by 38.1%. This was due to the sale of SR Investment, Inc. which removed $4.1 billion of assets from the Group s balance sheet, and reduced activity in Corporate & Institutional Banking. In Australian dollar terms, total assets in Asia were flat at $9.0 billion in 2003. Excluding the effect of exchange rate movements, total assets in Asia increased 17.5%, reflecting increased activity in Corporate & Institutional Banking.

Assets and equity adjusted to accord with US GAAP

Year-end total assets calculated in accordance with US GAAP increased to $398.9 billion in 2003 after an increase to $380.3 billion at September 30, 2002. In US dollar terms, year-end total assets increased by US$64.6 billion, or 31.3%, from US$206.5 billion in 2002 to US$271.4 billion in 2003. The increase in total assets in 2003 is mainly attributable to the factors outlined above (offset in part by the impact of the strong Australian dollar). In 2003, total equity under US GAAP reported in Australian dollars remained flat at $23.9 billion. *(Refer to note 58 in the financial report for a detailed reconciliation of total assets and total equity according to US GAAP.)*

Return on average equity

	2003	2002	2001	2000	1999
	$m	$m	$m	$m	$m
Weighted average equity *(1)*	**20,579**	21,172	20,752	17,586	15,915
Return on average equity (%) *(1) (2)*	**18.3**	15.1	9.0	17.3	17.8
Return (before significant items) on average equity (%) *(1) (2)*	**18.3**	17.0	18.4	18.1	17.3

(1) *Based on amounts attributable to ordinary shareholders.*

(2) *Based on average ordinary shareholders funds.*

Profitability is measured by return on average equity, which increased to 18.3% in 2003 from 15.1% in 2002 and 9.0% in 2001. Excluding the impact of significant items, return on average equity increased to 18.3% in 2003 from 17.0% in 2002 and 18.4% in 2001. This was impacted by growth in the regional financial services and the wealth management businesses during 2003. Weighted average equity decreased 2.8% due to the impact of the buy-back of ordinary shares, partly offset by the retention of profits within the Company funding business growth.

Earnings and dividends per share

	2003 Cents	2002 Cents	2001 Cents	2000 Cents	1999 Cents
Earnings per share					
Basic	**248.9**	205.7	121.5	202.3	186.6
Diluted *(1)*	**243.6**	202.5	122.8	199.1	183.4
Earnings per share before significant items					
Basic	**248.9**	231.9	247.4	211.3	186.6
Diluted *(1)*	**243.6**	227.4	243.2	207.7	183.4
Cash earnings per share					
Basic	**268.5**	222.0	110.7	205.7	201.0
Diluted *(1)*	**262.3**	218.2	112.4	202.0	197.0
Cash earnings per share before significant items					
Basic	**268.5**	248.2	236.6	214.8	200.6
Diluted *(1)*	**262.3**	243.0	233.0	211.0	197.0
Dividends per share	**163.0**	147.0	135.0	123.0	112.0

(1) Calculated based on the weighted average diluted number of ordinary shares, which includes the impact of options, potential conversion of exchangeable capital units, performance rights and partly paid ordinary shares, as set out in note 8 in the financial report.

Basic earnings per share increased 21.0% in 2003 to 248.9 cents, from 205.7 cents in 2002 and 121.5 cents in 2001. Excluding the impact of significant items, basic earnings per share increased 7.3% for 2003 to 248.9 cents, from 231.9 cents in 2002 and 247.4 cents in 2001.

Basic cash earnings per share increased 20.9% in 2003 to 268.5 cents, from 222.0 cents in 2002, and 110.7 cents in 2001. Excluding the impact of significant items, basic cash earnings per share increased 8.2% in 2003 to 268.5 cents, from 248.2 cents in 2002 and 236.6 cents in 2001. The increase in basic cash earnings per share before significant items reflects strong growth in profitability before significant items, goodwill amortisation and the movement in the excess of net market value of life insurance controlled entities. It further reflects the active capital management activities of the Group during the year, in particular the impact of the continuation of the Company s ordinary share buy-back program.

An interim dividend of 80 cents per fully-paid ordinary share was paid during the year ended September 30, 2003, compared to an interim dividend of 72 and 67 cents per share in 2002 and 2001 respectively. The final dividend declared from the 2003 profit was 83 cents per share, an increase of 8 cents, or 10.7% compared with 2002 at 75 cents and 2001 at 68 cents. The 2003 final dividend was paid on December 10, 2003.

The Company expects to continue its policy of paying regular cash dividends; however, there is no assurance as to future dividends. Future dividends will be determined by the Board with regard to the Company s earnings, capital requirements, financial conditions and applicable government regulations and policies. The dividend payout ratio for 2003 was equivalent to 60.4% of after tax cash earnings (before significant items). As a consequence of the planned reinvestment in the European operations, a temporary increase in the dividend payout ratio is expected in 2004. In addition, the payment of dividends is subject to the restrictions described in note 7 in the financial report.

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

The extent to which future dividends will be franked will depend on a number of factors, including the level of the Group s profits that will be subject to Australian income tax and any future changes to the Australian business tax systems as a result of the Australian Commonwealth Government s tax reform initiatives.

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

Shareholder value

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. *Refer to non-GAAP financial measures on page 62 for a further discussion on EVA®.*

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

In order to encourage longer-term management decision making and sustained value creation, the Group sets EVA® growth targets for three year periods. The Group s EVA® target of 5% compound growth per annum was set in 2000, for the three 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% per annum 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 29.9%.

	2003	**2002**	**2001**	**2000**	**1999**
	$m	**$m**	**$m**	**$m**	**$m**
EVA® net operating profit after tax *(1)*	**4,524**	4,157	3,881	3,680	3,328
Deduct: Cost of capital *(1)*	**(2,856)**	(2,873)	(2,752)	(2,301)	(1,938)
EVA®	**1,668**	1,284	1,129	1,379	1,390
Average annual cost of capital (%)	**11.5**	11.5	11.5	11.4	10.5

(1) *Refer to reconciliation of non-GAAP measures on page 6, for a reconciliation.*

Liquidity and funding

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of insurance policy benefits, claims and surrenders, the payment of operating expenses and tax, the payment of dividends to shareholders, and the ability to fund new and existing loan commitments.

The Group s banking entities comply with the regulatory liquidity requirements of the banking regulators in Australia, the UK, the Republic of Ireland, New Zealand, the United States, Singapore, Hong Kong, Korea and Japan as required. Wealth Management also complies with the regulatory liquidity requirements of their dealers licences. Liquidity within the Group is also managed in accordance with policies approved by the Board, with oversight from regional and Group Asset and Liability Management Committees *(refer to liquidity risk under risk management on page 55 for a detailed discussion).*

The principal sources of liquidity for the Group are:

- the maturity of available for sale and investment securities;
- interest received from customer loans;
- customer deposits;
- life insurance premiums received;
- proceeds from bonds, notes and subordinated debt issues;
- fee income; and
- interest and dividends from investments.

The Group s primary source of funding is from customer deposits either on-demand and short-term deposits, and term deposits and bank issued certificates of deposit. Of total liabilities at September 30, 2003 of $370.3 billion, funding from customer deposits and certificates of deposit amounted to $186.9 billion (50.5%). Although a substantial portion of customer accounts are contractually repayable within one year, on-demand, or at short-notice, customer deposit balances have traditionally provided a stable source of core long-term funding for the Group.

Deposits taken from the inter-bank market of $45.1 billion as at September 30, 2003 supplement the Group s customer deposits.

The Group also accesses the domestic and international debt capital markets under its various funding programs. As at September 30, 2003, the Group had on issue $22.7 billion of term debt securities (bonds, notes and subordinated debt) and currently has the following funding programs available to fund the Group s general banking businesses:

Short-term funding programs:

- US commercial paper program;
- Global commercial paper and certificate of deposit program; and
- Bank of New Zealand (BNZ) global commercial paper and certificate of deposit program; and

Long-term funding programs:

- US medium-term note (MTN) program;
- US MTN program (New York branch);
- Euro MTN program;
- Australian transferable certificates of deposit program;
- BNZ domestic bond program;
- Yen shelf; and
- Australian debt issuance program.

The cost and availability of senior unsecured financing is influenced by credit ratings. At September 30, 2003(1), the Company s credit ratings were as follows:

	Short-term debt	Senior long-term debt
Standard & Poor s Corporation	A-1+	AA
Fitch, Inc.	F1+	AA
Moody s Investors Service, Inc.	P-1	Aa3

(1) Refer to note 59 for developments up to the date of signing this annual financial report.

The ability to sell assets quickly is also an important source of liquidity for the Group. The Group holds sizeable balances of marketable treasury and other eligible bills and debt securities which could be disposed of to provide additional funding should the need arise. As at September 30, 2003, the Group held $23.7 billion of trading securities and $6.5 billion of available for sale securities. In addition, the Group held $248.0 billion of loans and advances to customers, of which $95.7 billion is due to mature within one year - although a proportion of these maturing customer loans will be extended in the normal course of business.

Within the Group s Wealth Management business, the principal sources of liquidity are premiums received from policyholders, charges levied upon policyholders, investment income and proceeds from the sale and maturity of investments. The investment policies adhered to by the Group s life insurance companies consider the anticipated cash flow requirements by matching cash inflows with projected liabilities.

Based on the level of resources within the Group s businesses, and the ability of the Group to access wholesale money markets and issue debt securities should the need arise, overall liquidity is considered more than sufficient to meet current obligations to customers, policyholders and debtholders.

The following table sets out the amounts and maturities of the Group s contractual cash obligations at September 30, 2003:

	Payments due by period				
	Less than 1 year	1 to 3 year(s)	3 to 5 years	After 5 years	Total
	$m	$m	$m	$m	$m
Long-term debt dated	4,540	6,793	5,975	5,410	22,718
Operating leases	167	343	324	958	1,792
Total contractual cash obligations	4,707	7,136	6,299	6,368	24,510

The above table excludes deposits and other liabilities taken in the normal course of banking business and short-term and undated liabilities, including life insurance policy liabilities. At September 30, 2003, the Group had $1,743 million of undated long-term debt outstanding.

The following table sets out the amounts and maturities of the Group s contingent liabilities and other commercial commitments at September 30, 2003:

	Amount of commitment expiration per period				
	Less than 1 year	1 to 3 year(s)	3 to 5 years	After 5 years	Total
	$m	$m	$m	$m	$m
Contingent liabilities					
Guarantees	3,043	145	76	10	3,274
Letters of credit	4,364	617	193	697	5,871
Performance-related contingencies	2,092	86	66	25	2,269
Other contingent liabilities	116		1		117
Other commercial commitments					
Other binding credit commitments *(1)*	56,312	8,964	2,372	2,735	70,383
Investment commitments *(2)*	454				454
Total commercial commitments	66,381	9,812	2,708	3,467	82,368

(1) Credit-related commitments arise from contracts entered into in the normal course of business generally relating to financing needs of customers (refer to note 45 in the financial report).

(2) In the normal course of business of the Group s life insurance business statutory funds, various types of investment contracts are entered into that give rise to contingent or future obligations.

Refer to note 45 in the financial report for further discussion of contingent liabilities and credit commitments .

Special purpose entities

Special purpose entities (SPEs) are entities that are typically set up for a specific, limited purpose and generally would not enter into an operating activity or have any employees.

The primary purposes of SPEs relating to the Group are as follows:

- to obtain an alternative form of funding by the securitisation of certain Group assets;
- to assist customers to securitise their assets;
- to provide diversified funding sources to customers; and
- to tailor new products to satisfy customers funding requirements.

The most common form of SPEs involves the acquisition of financial assets that are funded by the issuance of securities to external investors. The repayment of these securities is determined by the performance of the assets acquired by the SPE. These vehicles form an integral part of many financial markets.

The Group generally does not hold any subordinated or residual interest in SPEs that it sponsors or sets up. The Group may provide standby liquidity facilities to SPEs. Exposures that relate to such facilities are included within contingent liabilities and credit-related commitments *(refer to note 45 in the financial report).* Generally, an SPE may only make a drawing under a standby liquidity facility in certain limited circumstances such as market circumstances (where commercial paper is unable to be issued at an economic rate on a maturity date). Standby liquidity facilities are not available to be drawn where an obligor defaults in respect of assets held by an SPE. If such an event occurs, the commitment in respect of the liquidity facility is reduced to the extent of the amount in default.

An important feature of financial accounts prepared under Australian GAAP is that they are required to present a true and fair view, which includes reflecting the economic substance of transactions and arrangements and not just their legal form or structure.

Australian Accounting Standard AASB 1024 Consolidated Accounts (AASB 1024) requires a company to consolidate entities it controls and not just entities in which it has majority ownership. Therefore, an SPE would be required to be consolidated if the Group had the capacity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of the SPE, so as to enable the SPE to operate with it in pursuing the objectives of the Group.

Further, Urgent Issues Group Abstract 28 Consolidation - Special Purpose Entities provides additional guidance as to some of the factors that would indicate control relating to the activities, decision making powers, risks and benefits of an SPE that would generally require the SPE to be consolidated.

An SPE is consolidated in the Group if it either meets the requirements of AASB 1024 or if the risks and rewards associated with the SPE lie with the Group such that the substance of the relationship is that of a controlled entity. Substance over form means examining all the agreements in relation to the transaction, including side letters or agreements relating to either the provision of guarantees or collateral on loans, or equity funding based on the value of the entity.

The Group, in the ordinary course of business, has established or sponsored the establishment of SPEs for various types of transactions, which are described below along with their Australian GAAP treatment.

Asset securitisation

The Group makes limited use of asset securitisation arrangements. SPEs for securitisation are created when the Group has a financial asset (ie. a residential mortgage loan portfolio), which it sells to an SPE. The SPE in turn sells interests in the asset as securities to investors. This type of securitisation program benefits the Group by providing an alternative source of funding and enables the Group to monetise long-term assets which positively impacts the Group s regulatory capital requirements and reduces the Group s credit exposure.

The Group does not recognise the assets and liabilities of these SPEs and they are not reported on the Group s statement of financial position at September 30, 2003. This is because the risks and rewards of the assets in the SPEs no longer lie with the Group (ie. the Group no longer retains any significant exposure to the returns on these assets). Further, the Group does not retain control over the financial or operational decision-making of these SPEs.

During the year ended September 30, 2001, the Group securitised Australian loans amounting to $1,924 million through its HomeSide Mortgage Securities Trust 2001-1 securitisation program. No loans were securitised during the 2003 financial year. Class A mortgage-backed floating rate notes of US$1.06 billion were issued into offshore markets and Class B notes of $20 million were issued into the Australian domestic debt capital market. Outstanding securitised loans of the program totalled $585 million as at September 30, 2003 (2002: $929 million). The securities issued by the program do not represent liabilities of the Company or the Group. Neither the Company nor the Group stands behind the capital value or performance of securities or assets of the program except to the limited extent provided in the transaction documents for the program through the provision of arm s length services and facilities. The Company and the Group do not guarantee the payment of interest or repayment of principal due on the securities. The Company and the Group are not obliged to support any losses that may be suffered by the investors and do not intend to provide such support. The Company and the Group have no obligation to repurchase any of the securitised loans other than in limited circumstances. Certain administrative activities and the provision of interest rate and currency swaps have been transacted with the SPE on an arm s length basis. *(Refer to notes 1 and 16 in the financial report for additional information).*

Multi-seller securitisation conduits

The Group manages two multi-seller securitisation conduits, Titan and Quasar. These conduits provide off-balance sheet funding for the Group s corporate customers. This type of securitisation program has no material impact on the Group s liquidity, capital resources or credit risk because the substance of the economic arrangement is to provide a securitisation service to our customers. These securitisation conduits use SPEs to provide access to funding via the asset-backed commercial paper and MTN investor markets.

These securitisation arrangements generally involve the sale of financial assets by customers to SPEs, which then issue commercial paper or MTNs to fund the purchases. The assets acquired by the conduits, which totalled $1,863 million at September 30, 2003, included debt securities, mortgages, lease receivables, commodity receivables and loans. These financial assets represent assets in which the Group has no interest and which are not reported on the Group s statement of financial position at September 30, 2003. Certain administrative activities and the provision of liquidity and credit facilities to the programs are performed by the Group under arm s length contracts that it, or the conduits independent board of directors, can terminate. Fees received by the Group for performing these services are recorded as fees and commission income when earned.

Repackaging securitisation

The Group sponsors and manages a repackaging securitisation vehicle, Script Securitisation Pty Ltd (Script). Script acquires debt instruments and, through the application of derivatives, generates master-funded repackaged debt instruments for sale to customers of the Group. This type of securitisation arrangement has no material impact on the Group s liquidity, capital resources or credit risk because the substance of the economic arrangement is to provide a securitisation service to our customers. The Group has no interest in the debt instruments acquired and these instruments are not reported on the Group s statement of financial position at September 30, 2003.

Structured finance transactions

The use of an SPE to isolate cash flows and assets is common in the banking industry to enable a customer to minimise their funding cost or maximise their investment returns, and the bank to have access to specific collateral. The Group has relationships with numerous SPEs to provide financing to customers. Any financing relationships are entered into under normal lending criteria and are subject to the Group s credit approval process. The assets arising from these financing activities are generally included in loans and advances to customers, investment securities, or shares in entities and other securities depending on the economic substance of the transaction. The Group also has relationships with SPEs to enable the placement of customers surplus funds with the Group. These surplus funds are in all cases included in the Group s statement of financial position as deposits and other borrowings.

Capital resources

	2003 $m	2002 $m	2001 $m
Total equity (parent entity interest)	**24,407**	23,184	23,489
Outside equity interest - Other	**69**	67	68
Perpetual floating rate notes	**367**	460	507
Exchangeable capital units	**1,262**	1,262	1,262
Total liquidity and capital resources	**26,105**	24,973	25,326

The Group assesses its capitalisation against market, regulatory and ratings agency expectations, having regard to Australian and international peers and the Group s own asset base, risk profile and capital structure. The Group believes it has sufficient capital to meet current and future commitments.

As indicated in the above table, the Group s capital position increased during the year, primarily due to the issue of $975 million in Trust Preferred Securities *(refer to note 34 in the financial report for further discussion on the Trust Preferred Securities)*. The Group has a history of internally generating capital through retained profits and has traditionally relied on retained profits to augment its capital resources to allow for real and inflation-induced growth in its asset base. The capital position also increases from the reinvestment of dividends under the Company s dividend reinvestment plan (DRP), bonus share plan (BSP), issue of shares under the share purchase plan (SPP) and share issues pursuant to employee share and option plans.

During the years ended September 30, 2003, 2002 and 2001, 10.8 million, 13.8 million and 23.5 million fully paid ordinary shares were issued under the DRP, BSP and SPP to shareholders at varying prices.

In November 2001, the Group adopted a continuing policy to buy back fully paid ordinary shares equal to new shares issued under the Group s various share and option plans. In May 2002, the Group announced its intention to extend the buy-back program until September 30, 2003, and to increase the value of shares subject to the buy-back by an additional $1,000 million. The DRP was also modified by introducing a cap of 15,000 on the number of shares per shareholder eligible to participate in the DRP. On August 28, 2002, following the announcement of the sale of SR Investment, Inc. (the parent entity of HomeSide US), the Group announced a further increase of $750 million in the value of shares subject to the ongoing share buy-back. On October 1, 2003 the Company announced its intention to buy back ordinary shares on market approximately equal to the number of shares issued under the Company s dividend package plans and staff share and option plans. The Company had expected this to be up to approximately 25,500,000 ordinary shares over the period from November 11, 2003 until September 30, 2004. However the Company announced on March 24, 2004 that it was terminating this share buy back program.

During 2003, the Group bought back 48,949,487 ordinary shares. The shares were bought back at an average price of $31.98 per share, thereby reducing ordinary equity by $1,565 million. The highest price paid was $34.35 per share and the lowest price paid was $28.40 per share. All buy-backs are subject to appropriate pricing parameters and an assessment of the circumstances facing the Group at the relevant time.

Capital adequacy

As at September 30, 2003, the Group s total capital adequacy ratio was 9.7%, consisting of Tier 1 capital of 7.8%, Tier 2 capital of 3.3% and deductions of 1.4%.

The Group s primary prudential supervisor is APRA. APRA imposes capital adequacy requirements on banks, the prime objective of which is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. Consistent with the international standards of the Basel Committee on Banking Supervision, APRA s approach to assessing capital adequacy of banks focuses on three main elements: the credit risk associated with a bank s exposures, the market risk associated with a bank s trading activities, and the form and quantity of a bank s capital.

In order to provide a broad indication of relevant credit risk, all assets are risk weighted according to four categories (0%, 20%, 50% and 100%). The assets to which those weightings apply are described more fully below *(refer to risk-adjusted assets and off-balance sheet exposures).* Off-balance sheet transactions are converted to balance sheet equivalents, using a credit conversion factor, before being allocated to a risk-weighted category.

Off-balance sheet activities giving rise to credit risk are categorised as follows: direct credit substitutes such as financial guarantees and standby letters of credit; trade and performance-related contingent items such as performance bonds, warranties, and documentary letters of credit; long-term commitments such as formal credit lines with a residual maturity exceeding one year; and market-related transactions such as foreign exchange contracts, currency and interest rate swaps and forward rate agreements.

Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices pertaining to interest rate-related instruments and equities in the trading book, and foreign exchange risk and commodity risk throughout the Group. APRA s current capital requirements for market risk, which involve creating equivalent risk-weighted exposures *(refer to risk-adjusted assets and off-balance sheet exposures)* are broadly consistent with the Basel Committee on Banking Supervision s recommendations.

For regulatory purposes, capital comprises two elements, eligible Tier 1 and Tier 2 capital, from which certain deductions are made to arrive at Tier 1 and Tier 2 capital. Tier 1 capital includes paid-up ordinary shares, hybrid instruments (such as National Income Securities), non-cumulative irredeemable preference shares, reserves (other than asset revaluation reserves), retained profits less goodwill and other intangible assets. In addition, where recognised future income tax benefits are greater than deferred income tax liabilities, the net future income tax benefit is deducted from Tier 1 capital. Tier 2 capital includes asset revaluation reserves, general provision for doubtful debts (net of associated future income tax benefits), certain hybrid debt/equity instruments, and subordinated long-term debt.

The total amount of the resultant capital is subject to further deductions to form the capital base. Such deductions include net assets in controlled entities that are deconsolidated for regulatory capital purposes and holdings of capital instruments in other non-subsidiary banks. Tier 1 capital must constitute at least 50% of the capital base.

Under guidelines issued by APRA, investments in life insurance and funds management are deconsolidated for the purposes of calculating capital adequacy and those activities are excluded from the calculation of risk-weighted assets. The tangible component of the investments comprised of the embedded value and value of future business are deducted at the capital base level. The intangible component (the difference between acquisition costs and tangible assets) is deducted from Tier 1 capital. Additionally, any profits from these entities included in the Group s results, to the extent that they have not been remitted to the Company in the form of dividends are excluded from the determination of Tier 1 capital.

As the measure of capital adequacy, Australian banks are required to maintain a minimum ratio of capital base to total risk-weighted assets of 8%, of which a minimum of 4% must be held in Tier 1 capital. The numerator of the ratio is the capital base. The denominator of the ratio is the total risk-weighted asset exposure (ie. sum of credit risk-weighted exposures and the equivalent market risk-weighted exposure).

The Basel Committee on Banking Supervision has released wide-ranging and detailed proposals for the reform of capital adequacy guidelines for banks in the Basel II. The Basel Committee on Banking Supervision s reform objective is to develop more risk-sensitive, internationally-accepted, capital adequacy guidelines that are aligned more accurately with the individual risk profiles of banks.

Refer to Basel II Capital Accord on page 15 for further information.

Capital ratios

	2003	**2002**	**2001**
	%	%	%
Tier 1	**7.8**	7.8	7.5
Tier 2	**3.3**	3.7	3.9
Deductions	**(1.4)**	(1.3)	(1.2)
Total capital	**9.7**	10.2	10.2

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

Regulatory capital

	2003 $m	2002 $m	2001 $m
Tier 1			
Contributed equity	**9,728**	9,931	10,725
Reserves	**893**	2,105	2,427
Retained profits	**13,786**	11,148	10,337
Outside equity interest	**2,804**	67	68
Estimated reinvestment under the dividend reinvestment plan *(1)*	**140**	127	365
Deduct:			
Asset revaluation reserve	**(16)**	(7)	(16)
Goodwill	**(740)**	(775)	(876)
Intangible component of investment in non-consolidated controlled entities *(2)*	**(2,448)**	(2,448)	(2,448)
Estimated final dividend *(3)*	**(1,248)**		
Fair value of mortgage servicing rights (10% of MSR)		(131)	(507)
Deconsolidation of wealth management profits net of dividends	**(290)**	(719)	(777)
FITB (excluding FITB on the general provision for doubtful debts)	**(66)**		
Non-qualifying outside equity interest *(2)*	**(2,804)**	(67)	(68)
Total Tier 1 capital	**19,739**	19,231	19,230
Tier 2			
Asset revaluation reserve	**16**	7	16
General provisions for doubtful debts	**1,248**	1,414	1,538
Perpetual floating rate notes	**367**	460	507
Exchangeable capital units	**1,262**	1,262	1,262
Dated subordinated debt	**5,390**	6,174	6,815
Notional revaluation of investment securities to market	**37**	12	11
Total Tier 2 capital	**8,320**	9,329	10,149
Total Tier 1 and 2 capital	**28,059**	28,560	29,379
Deductions *(4)*	**(3,591)**	(3,253)	(3,225)
Total regulatory capital	**24,468**	25,307	26,154

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(1) The amount is derived from reinvestment experience on the Company s dividend reinvestment and bonus share plans.

(2) Refers to controlled entities that are required to be de-consolidated for regulatory capital adequacy purposes.

(3) The Group has adopted the new Australian Accounting Standard AASB 1044 Provisions, Contingent Liabilities and Contingent Assets , which has resulted in a change in the accounting for dividend provisions. Under APRA guidelines the estimated dividend must be deducted from Tier 1 capital.

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

Risk-adjusted assets and off-balance sheet exposures

		Balance		Risk		Risk-adjusted balance (1)	
	2003	**2002**	**2001**	**weights**	**2003**	**2002**	**2001**
	$m	**$m**	**$m**	**%**	**$m**	**$m**	**$m**
Assets							
Cash, claims on Reserve Bank of Australia, Australian Commonwealth and State Governments, OECD central governments and central banks *(2)*	**29,867**	25,191	21,663	0			
Claims on Australian banks, local governments and banks incorporated in OECD countries	**32,361**	45,053	47,438	20	**6,472**	9,011	9,488
Housing loans *(3)*	**104,712**	88,212	81,515	50	**52,356**	44,106	40,757
All other assets	**157,349**	163,854	166,843	100	**157,349**	163,854	166,843
Total assets *(4)*	**324,289**	322,310	317,459		**216,177**	216,971	217,088

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	Contract or notional amount 2003	Credit equivalent amount 2003	Risk weights	Risk-adjusted balance (1)		
	$m	$m	%	2003 $m	2002 $m	2001 $m
Off-balance sheet exposures						
Financial guarantees, standby letters of credit and other letters of credit	**11,646**	**10,338**	0 - 100	**9,872**	7,788	9,115
Performance-related guarantees, warranties and indemnities	**2,712**	**1,356**	0 - 100	**1,319**	1,452	1,347
Commitments to provide finance facilities with residual term to maturity of over 12 months and other commitments	**91,416**	**14,713**	0 - 100	**11,252**	11,032	15,672
Foreign exchange, interest rate and other market-related transactions *(5)*	**1,554,207**	**34,386**	0 - 50	**9,688**	7,120	10,817
Total off-balance sheet exposures	**1,659,981**	**60,793**		**32,131**	27,392	36,951
Total risk-adjusted assets				**216,177**	216,971	217,088
Total risk-adjusted assets and off-balance sheet exposures - credit risk				**248,308**	244,363	254,039
Add: Risk-adjusted assets - market risk *(6)*				**4,057**	3,475	3,474
Total assessed risk exposure				**252,365**	247,838	257,513

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

(2) *Short-term claims on the Australian Commonwealth Government are those with a residual term to maturity of less than 12 months; longer-term claims are those with residual term to maturity of greater than 12 months. Both categories held in the banking book attract a 0% risk weighting.*

(3) *Housing loans approved after September 5, 1994 having a loan to market valuation ratio in excess of 80% must be risk weighted at 100%. However, these loans may qualify for the 50% risk weighting if they are covered by an adequate level of mortgage insurance provided by an acceptable lenders mortgage insurer. These loans are reported under all other assets .*

(4) *Total assets differ from those in the Group s statement of financial position due to the adoption of APRA s classification of certain items for capital adequacy purposes, particularly goodwill and general provision for doubtful debts. In addition, fair values of trading derivative financial instruments have been excluded as they have been incorporated into the calculation of the credit equivalent amount of off-balance sheet exposures.*

(5) *Refer to note 46 for additional information on derivative financial instruments.*

(6) Under APRA Prudential Standard APS 113 Capital Adequacy: Market Risk , Australian banks are required to hold sufficient levels of capital to cover market risk.

Gross loans and advances

Average balances

	2003 $bn	2002 $bn	2001 $bn
Average gross loans and advances			
Australia	**130**	113	102
Overseas	**114**	103	99
Total average gross loans and advances	**244**	216	201

The diversification and size of the Group is such that its lending is widely spread both in terms of geography and types of industries served. The loan portfolio continues to consist of short-term outstandings with 38.6% of the loans at September 30, 2003 maturing within one year and 21.2% maturing between one year and five years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after five years. The average balance of loans and advances in 2003 equated to 63.9% of the average total assets of the Group. This compares with 59.5% in 2002 and 56.7% in 2001.

The loan portfolio within Australia is largely comprised of real estate lending ($83.0 billion) which equates to 58.9% of the Australian portfolio at September 30, 2003. The loan portfolio overseas comprised of real estate lending of $28.5 billion or 25.6%, other commercial and industrial lending of $22.3 billion or 20.0% financial, investment and insurance lending of $24.4 million or 22.0% of the overseas portfolio as at September 30, 2003. The nature of the Group s lending reflects the operations of the Group s five discrete business segments, and the regional lending markets in which these segments operate. These segments include three financial services businesses, or retailing arms, Corporate & Institutional Banking and Wealth Management. The financial services businesses operate in Australia, Europe and New Zealand, however, Corporate & Institutional Banking and Wealth Management operate across a number of regions (including Australia). This is reflected in the composition of the Group s lending portfolio.

Average gross loans and advances increased $28.7 billion or 13.3% to $244.2 billion in 2003, from $215.5 billion in 2002 and $201.3 billion in 2001. A continuing low interest rate environment assisted the growth in lending volumes, particularly in relation to housing.

Australian average gross loans and advances accounted for 53.5% of the total average gross loans and advances in 2003, compared with 52.3% in 2002 and 50.7% in 2001. Australian average gross loans and advances increased $17.8 billion, or 15.8% to $130.5 billion in 2003, from $112.7 billion in 2002 and $101.9 billion in 2001. The increase mainly reflects strong growth in housing lending.

Overseas average gross loans and advances increased $10.8 billion, or 10.6% to $113.6 billion in 2003, from $102.8 billion in 2002 and $99.3 billion in 2001. The increase mainly related to Europe and New Zealand, reflecting strong housing growth and higher Corporate & Institutional Banking lending.

Loans by industry for the Group as at September 30, 2003

		Australia	Europe	New Zealand	United States	Asia	Total
		$m	$m	$m	$m	$m	$m
Government and public authorities		498	374	208	315	114	1,509
Agriculture, forestry and fishing		5,368	2,049	3,611	12	46	11,086
Financial, investment and insurance		6,053	19,159	3,288	1,083	887	30,470
Real estate - construction		1,935	1,647	164	512	188	4,446
Manufacturing		2,630	3,877	1,053	463	840	8,863
Real estate - mortgage		83,018	16,552	11,337		580	111,487
Instalment loans to individuals and other personal lending (including credit cards)		12,473	11,560	1,499			25,532
Lease financing		7,596	7,323	27		31	14,977
Other commercial and industrial		21,497	13,466	6,795	1,259	745	43,762
Total gross loans and advances		141,068	76,007	27,982	3,644	3,431	252,132
Deduct:	Unearned income	(1,041)	(892)				(1,933)
	Provisions for doubtful debts	(1,204)	(782)	(144)	(95)	(15)	(2,240)
Total net loans and advances		138,823	74,333	27,838	3,549	3,416	247,959

In Australia, net loans and advances grew by $20.1 billion, or 17.0% to $138.8 billion at September 30, 2003, with strong growth in housing lending and other personal lending. Residential mortgage loans increased by $14.6 billion, or 21.3% to $83.0 billion, aided by a low interest rate environment and consumer confidence. Financial, investment and insurance lending grew by $3.0 billion, or 98.3% during 2003 to $6.1 billion, primarily in relation to growth in securities under reverse repurchase agreements.

In Europe, net loans and advances decreased by $1.7 billion, or 2.3% to $74.3 billion at September 30, 2003; however, excluding the impact of exchange rate movements, net loans and advances grew by 13.1%. Financial, investment and insurance lending increased 42.4%, reflecting growth in Corporate & Institutional Banking lending of securities under reverse repurchase agreements.

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

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

In Asia, net loans and advances decreased by $0.5 billion, or 12.5% to $3.4 billion at September 30, 2003, resulting from movements in end of period loan balances in relation to the Corporate & Institutional Banking operations.

Asset quality disclosures, charge to provide and provisions for doubtful debts

Non-accrual loans

	2003 Gross	2003 Specific provision	2003 Net	2002 Gross	2002 Specific provision	2002 Net
	$m	$m (1)	$m	$m	$m (1)	$m
Australia	**658**	**238**	**420**	888	299	589
Europe	**373**	**127**	**246**	545	145	400
New Zealand	**202**	**15**	**187**	27	4	23
United States	**145**	**41**	**104**	128	51	77
Asia	**1**	**1**		2	1	1
Total	**1,379**	**422**	**957**	1,590	500	1,090
Percentage of risk-weighted assets	**0.5%**	**0.2%**	**0.4%**	0.6%	0.2%	0.4%

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	2003 $m	2002 $m	2001 $m
Net non-accrual loans	**957**	1,090	1,204
Equity (parent entity interest)	**24,407**	23,184	23,489
Percentage of net non-accrual loans to equity	**3.9**%	4.7%	5.1%

(1) Includes specific provisions for impaired off-balance sheet credit exposures.

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

Gross non-accrual loans (being, non-accrual loans before specific provision for doubtful debts) at September 30, 2003 were $1,379 million, a decrease of $211 million, or 13.3% from the balance at September 30, 2002.

The Group s gross non-accrual loans to risk-weighted assets were 0.5% at September 30, 2003, a decrease from 0.6% at September 30, 2002, primarily reflecting an improvement in asset quality in relation to the Group s balance sheet (refer comment noted above). The Australian component of the gross non-accrual loans at September 30, 2003 was $658 million, decreasing $230 million, or 25.9% from 2002. In Europe, gross non-accrual loans decreased by $172 million or 31.6% to $373 million; however, excluding the impact of exchange rate movements, gross non-accrual loans decreased by 20.8%. In New Zealand, gross non-accrual loans increased by $175 million to $202 million; however, excluding the impact of exchange rate movements non-accrual loans increased by 656.6%, reflecting the status of a large corporate exposure in Corporate & Institutional Banking. In the United States, gross non-accrual loans increased by $17 million to $145 million; however, excluding the impact of exchange rate movements, gross non-accrual loans increased 39.5%, reflecting the status of a small number of large corporate exposure in Corporate & Institutional Banking.

The Group has specialist Credit Restructuring units operating in each region, which continues to result in the earlier identification and workout of problem loans.

Provisions for doubtful debts closing balance by region

	2003 $m	2002 $m	2001 $m	2000 $m	1999 $m
Australia					
General	**955**	971	1,140	1,056	995
Specific *(1)*	**248**	219	266	208	231

	1,203	1,190	1,406	1,264	1,226
Europe					
General	**641**	809	803	642	528
Specific *(1)*	**141**	169	222	178	164
	782	978	1,025	820	692
New Zealand					
General	**130**	135	154	137	132
Specific *(1)*	**14**	10	10	14	22
	144	145	164	151	154
United States					
General	**56**	75	85	383	377
Specific *(1)*	**39**	48	5	51	15
	95	123	90	434	392
Asia					
General	**11**	32	25	20	23
Specific *(1)*	**5**	2	5	3	26
	16	34	30	23	49
Group					
General	**1,793**	2,022	2,207	2,238	2,055
Specific *(1)*	**447**	448	508	454	458
Total provisions for doubtful debts	**2,240**	2,470	2,715	2,692	2,513
Percentage of risk-weighted assets	**0.9**%	1.0%	1.1%	1.1%	1.3%

(1) Excludes specific provisions for impaired off-balance sheet credit exposures.

Total provisions for doubtful debts, excluding off-balance sheet credit exposures, held at September 30, 2003 were $2,240 million or 0.9% of risk-weighted assets, compared with $2,470 million or 1.0% of risk-weighted assets at September 30, 2002. Of the total provisions for doubtful debts at September 30, 2003, the general provision represented $1,793 million or 0.7% of risk-weighted assets.

For a discussion of certain services provided by the external auditor in connection with problem loan reviews and the Company s related internal review of auditor independence refer to Certain services provided by the external auditor - matters related to independence on page 17 in the Business overview section.

Credit quality data

The Group has adopted a statistically-based provisioning methodology to determine its general provision for doubtful debts *(refer to notes 1(q) and 17 in the financial report).* Under this methodology, the Group estimates the level of losses inherent but not specifically identified in its existing credit portfolios at balance date.

For retail lending (smaller-balance homogeneous loans), the general provision is assessed at a portfolio level and is based on product loss rates, to make a provision for losses inherent in the portfolio but not yet identified at balance date. These rates are determined by reference to observed historical loss experience for the relevant product types.

In respect of non-retail lending, the amount of the general provision is determined by multiplying the customer s probability of default by the loss given default. The probability of default is determined by the Group s internal customer rating system. Internal ratings are assigned at the customer level. This system utilises objective, verifiable external data, such as external credit ratings, and is supplemented with an assessment of economic and industry outlooks, conducted by the Group s discrete specialist economics unit. The loss given default is the amount of an individual loan at risk having regard to the level of collateral held against that facility. The level of collateral held is determined on a loan-by-loan basis, based on the Group s assessment of the loan security s value at the time of loan application and any subsequent valuations.

The operation of the statistically-based provisioning methodology is such that when individual loans are impaired, a specific provision will be raised by making a transfer from the general provision for doubtful debts. The general provision for doubtful debts is then re-established based on the remaining portfolios of credit exposures applying the above methodology.

The specific provision for doubtful debts is established to cover all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement (an impaired loan). Amounts provided for are determined by specific identification or by management s determination of probable losses for individual loans that are considered impaired in relation to loan portfolios where specific identification is impracticable. All bad debts are written-off against the specific provision for doubtful debts in the reporting period in which they are classified as irrecoverable.

	2003	2002	2001	2000	1999
	$m	$m	$m	$m	$m

Provisions for doubtful debts					
Specific (excluding off-balance sheet credit exposures)	**447**	448	508	454	458
General	**1,793**	2,022	2,207	2,238	2,055
Gross non-accrual and restructured loans	**1,379**	1,596	1,736	1,471	1,573
Charge to profit and loss account	**633**	697	989	588	581

Ratios (1)	**%**	**%**	**%**	**%**	**%**
Provisions for doubtful debts at year end as a percentage of year-end loans (before provisions)					
Specific	**0.18**	0.19	0.24	0.23	0.27
General	**0.71**	0.86	1.04	1.12	1.21
	0.89	1.05	1.28	1.35	1.48
Provisions for doubtful debts at year end as a percentage of year-end loans and acceptances (before provisions)					
Specific	**0.16**	0.18	0.22	0.20	0.24
General	**0.66**	0.79	0.95	1.00	1.07
	0.82	0.97	1.17	1.20	1.31
Provisions for doubtful debts at year end as a percentage of year-end risk-weighted assets					
Specific	**0.18**	0.18	0.20	0.19	0.23
General	**0.71**	0.82	0.86	0.94	1.04
	0.89	1.00	1.06	1.13	1.27

Ratios (1)	**2003**	**2002**	**2001**	**2000**	**1999**
	%	%	%	%	%
Non-accrual and restructured loans as a percentage of year-end loans (before provisions)	**0.55**	0.68	0.82	0.74	0.93
Charge to profit and loss account as a percentage of					
Year-end loans	**0.25**	0.30	0.47	0.29	0.34
Year-end loans and acceptances	**0.23**	0.27	0.43	0.26	0.30
Average loans and acceptances	**0.24**	0.29	0.44	0.29	0.29
Year-end risk-weighted assets	**0.25**	0.28	0.38	0.25	0.29

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

Provisioning coverage ratio

The provisioning coverage ratio (ie. the level of provisioning for non-accrual loans) is determined having regard to all identifiable losses anticipated to result from non-accrual loans. The identifiable losses anticipated is management s determination of probable losses for individual loans that are considered impaired. This considers all available information, including future cash flows, the effective rate of interest, the secondary market value of the loan and the fair value of collateral. The estimate is not determined over the life of the loan, only at the point at which the loan is considered impaired. Accordingly, the balance of the specific provision is maintained equal to the total of all estimated losses.

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

The actual levels of specific provisioning set aside to cover estimated losses on loans which are considered to be sufficiently non-accrual and impaired to warrant raising of a provision are set out below:

	2003	**2002**	**2001**
	%	%	%
Specific provision coverage *(1)*	**30.7**	31.3	30.4
Total provision coverage *(1)*	**163.4**	161.0	160.5

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

The general provision provides further coverage against these loans of 130.0% at September 30, 2003, bringing total effective coverage to 163.4%.

Deposits and other borrowings

Total deposits and other borrowings (net of set-offs) increased by $3.3 billion, or 1.6% to $210.1 billion at September 30, 2003, compared with $206.9 billion at September 30, 2002. Excluding the effect of exchange rate movements during 2003, deposits and other borrowings increased by 8.8%. The increase was the result of business growth, aided by the general increase in cash deposits with investor sentiment causing investors to seek safe, lower risk investments.

Non-interest-bearing deposits at September 30, 2003 represent 6.2% of total deposits compared to 6.6% at September 30, 2002.

In Australia, deposits and other borrowings increased by $19.6 billion or 20.6% to $114.5 billion. In Europe, deposits and other borrowings decreased by $15.5 billion, or 21.2% to $57.6 billion; however, excluding the impact of exchange rate movements, the decrease was 8.8%. In New Zealand, deposits and other borrowings increased by $1.4 billion, or 6.5% to $22.3 billion; however, excluding the impact of exchange rate movements, the increase was 5.4%. In the United States, deposits and other borrowings decreased by $2.5 billion, or 17.2% to $11.8 billion; however, excluding the impact of exchange rate movements, the increase was 1.6%. In Asia, deposits and other borrowings remained flat.

Deposits and other borrowings for the Group as at September 30, 2003

	Australia	Europe	New Zealand	United States	Asia	Total
	$m	$m	$m	$m	$m	$m
Deposits not bearing interest (net)	5,724	5,868	930	529	2	13,053
On-demand and short-term deposits	48,428	28,205	6,192	4,301	106	87,232
Certificates of deposit	15,902	11,433	3,363	503		31,201
Term deposits	26,653	12,119	10,236	2,548	3,861	55,417
Borrowings	17,754	2	1,540	3,947		23,243
Total deposits and other borrowings	114,461	57,627	22,261	11,828	3,969	210,146

Assets under management and administration

The assets of the Group as reported on the statement of financial position include certain assets managed on behalf of others, for instance, where statutory funds and registered schemes are required to be consolidated by the Group under Australian Accounting Standards. Assets on trust relate to funds held in trust by the Group s trust services businesses. The Group and its associated entities also manage and perform administration for entities such as superannuation funds and unit trusts, the assets of which do not form part of the total assets recorded on the Group s statement of financial position, as set out below:

	2003 $m	2002 $m	2001 $m
By type			
Assets under management	**58,390**	51,794	51,333
Assets under administration	**9,414**	7,677	6,055
Assets on trust	**5,289**	5,123	6,449
Total assets under management and administration	**73,093**	64,594	63,837
By region			
Australia	**66,225**	60,138	59,865
Europe	**4,322**	1,835	1,774
New Zealand	**2,030**	2,151	1,777
Asia	**516**	470	421
Total assets under management and administration	**73,093**	64,594	63,837
By investor			
Retail	**56,554**	52,073	53,112
Corporate	**16,539**	12,521	10,725
Total assets under management and administration	**73,093**	64,594	63,837

Total assets under management and administration increased by 13.2% to $73,093 million at September 30, 2003, compared with $64,594 million at September 30, 2002. The growth in total assets under management and administration reflects funds flow and investment returns as a result of improved investment markets in the six months to September 30, 2003.

Risk management

Management of risk is fundamental to the business of being a financial services provider and is an essential element of the Group s strategy. Financial services organisations face an array of risks.

An enterprise-wide risk management model structure implemented throughout the Group comprises a common policy framework and a set of controls to achieve standardisation of risk/reward practices across the Group. Each business unit is responsible for the identification and quantification of the particular risks it is exposed to and for implementation of appropriate policies, procedures and controls.

Overview and monitoring of this process throughout the Group is undertaken by Risk Management. Risk Management comprises Credit Risk Management, Internal Audit, Operational Risk and Insurance, Regulatory Compliance, Market Risk and Prudential Control, Legal, Corporate & Institutional Banking Risk Management and Wealth Management Risk Management.

Risk Management s role is to monitor and systematically assess the Group s risk profile in existing and proposed business operations, and to assist business units in the design and implementation of appropriate risk management policies and strategies. Risk Management also works with the businesses to promote awareness of the need to manage risk.

Developments continue to be made in the quantification of risks, and the allocation of appropriate risk capital. Portfolio management methods are being adopted to manage the Group s risk profile. Modelling to forecast future risk management trends is being used increasingly to assist in decision making. This will continue to increase in importance as the Group prepares to implement Basel II across the various risk streams.

Risk Management prepares and submits the Group risk profile to the Board. This document profiles the major recognised on-balance sheet and off-balance sheet strategy, performance and operational risks, together with procedures for their day-to-day responsibility, control and management.

A Risk Committee of the Board has been established to review in greater detail the Group s risk and return appetite and oversee the Group s overall control framework. This Risk Committee will have cross membership with the Audit Committee.

The Risk Committee covers key elements of risk, including regulatory compliance, operational risk, market risk and prudential control, internal audit, credit risk, balance sheet management, and business risk management.

The framework is consistent with the proposed supervisory review process (Pillar 2) of Basel II.

Refer to page 66 for Risk Committee members, responsibilities and charter.

The majority of risk policy decisions are made within each business unit.

A Group Risk Forum, comprising executive and senior management, is the principal risk policy decision making body within executive management.

This forum, reviews and approves the more strategic risk assessments, and is supported by the Central Risk Management Committee, which has an operational focus, and Business Risk Management Committees in each region and/or line of business.

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

A recent report by APRA in respect of foreign currency options trading has identified deficiencies in some aspects of the Company s risk management systems. *Refer to note 59 in the financial report for further details.*

Credit risk

Credit risk is the potential that a bank borrower or a counterparty will fail to meet its obligations in accordance with agreed terms.

The Group s credit risk management infrastructure is framed to provide sound management principles and practices for the maintenance of appropriate asset quality across the Group.

Credit Risk Management, a division of Risk Management, is structured to develop and maintain credit policies and key credit risk systems, provide monitoring and reporting of asset quality and undertake the independent oversight of credit portfolios across the Group.

The management of credit risk within the Group is achieved through a focus on approval and monitoring of individual transactions together with analysis of the performance of the various credit risk portfolios. Portfolio monitoring covers such areas as industry or geographic concentrations and delinquency trends.

Establishing an appropriate credit risk environment

Significant credit risk strategies and policies are approved, and reviewed annually, by the Board. Through such policies as borrower (single large exposure) and industry concentration limit, the Board establishes the Group s tolerance for risk. These policies are delegated to, and disseminated under the guidance and control of, executive management.

The Group s credit policies, which are subject to ongoing review, are documented and disseminated in a form that provides a consistent view of all major credit policies supporting the credit operations of the Group.

For complex credit products and services, Credit Risk Management provides a product profile that identifies and quantifies risks and establishes the means of mitigating such risks.

Single large exposure policies and industry concentration limits are in place across the Group. Overall composition and quality of credit portfolio exposures are monitored and periodically reported to the Board, and, where required, to the relevant regional supervisory authorities.

A key factor in the introduction of new products and services is the identification of credit risk inherent in such products and services. This is managed through a process requiring acceptance by all impacted areas of the business and approval by Risk Management Committees prior to implementation.

Operating under a sound credit granting process

The Group has established processes for the granting of credit. These include:

establishment of overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties for both on-balance sheet and off-balance sheet exposures;

satisfaction with repayment capacity and integrity of the counterparty;

use of financial covenants;

use of collateral;

consideration of economic and industry conditions; and

an objective customer rating assessment system.

Supporting these expectations are defined and documented policies and processes for the granting of credit. The key elements of the process include:

clearly-defined authorities for the approving of credit; and

a system of overview of credit approvals by a higher level of authority to ensure adherence to policies and good credit practice.

During the year, the delegated authorities were further aligned to the counterparty risk by the inclusion of customer ratings in the authority matrix. The Group s credit rating system has been the hub of credit assessment and related processes for a number of years. The system, based on probability of default of a counterparty, has been implemented globally and provides meaningful differentiation of credit risk and focus in pricing for risk.

For consumer credit, scoring solutions are in place and are supported by the mandatory use of appropriate monitoring tools. These tools provide the essential continual review of data integrity, scorecard performance and decision strategies. Software to validate and verify input data is used globally to support data integrity and reduce fraudulent activity.

Maintaining an appropriate credit administration, measurement and monitoring process

Efficient and effective credit administration operations and adequate control over back office procedures such as monitoring documentation, contractual requirements, legal covenants and collateral, are recognised as being vitally important aspects of the end-to-end credit process.

The Group assigns these responsibilities to various business units (ie. Business, Personal, Cards, Payments, and Asset Finance and Fleet Management), together with centralised structures supporting the branch network, and business bankers, such as Customer Service and Operations.

Monitoring the condition of individual credits in the business units in the Financial Services businesses and Corporate & Institutional Banking principally rests with the customer-facing relationship managers, with overview by supervising authorities.

Ensuring adequate controls over credit risk

There is a formal process, undertaken by specialist units, of independent oversight of credit in each region across the Group. Periodic reporting is submitted to executive management, the Audit Committee and the Risk Committee.

Additionally, credit processes and policy compliance are subject to internal auditing and targeted credit reviews of specific business units or regions are undertaken as considered appropriate.

On a regular basis, credits that are outside agreed arrangements are reported to the appropriate levels of authority for attention and monitoring of actions taken.

Credits showing adverse trends are passed to specialist units that undertake the collections and recovery processes. The Group utilises skilled internal resources supported by external secondments.

The role of supervisors

The Group is subject to supervision by APRA, together with the local supervisors in each of the countries in which the Company or its subsidiary banks, carry on business. In addition to regular dialogue, APRA undertakes periodic visits to the Company to review asset quality and the operation of credit risk management processes.

The Group also provides quarterly information to APRA, detailing large exposures to individual customers or groups of related customers in excess of 10% of total Tier 1 and Tier 2 capital. APRA imposes restrictions on the Group s ability to accept large exposures.

Basel II

As a globally active financial institution, the Group aspires to the advanced internal-ratings based approach under Basel II.

The Group has a Basel II program in place entrusted with developing the required capability (processes, policies, systems and data) to achieve an internal ratings based approach.

Refer to page 15 for a more detailed discussion of the Basel II Capital Accord.

Market risk

Market risk is the potential for losses to the Group resulting from adverse changes in interest rates, foreign exchange rates, option volatility, equities in the trading book and commodity prices in the financial markets in which the Group operates.

Trading risk management

The Group has a market risk control framework covering all trading centres for Corporate & Institutional Banking. Market Risk and Prudential Control is responsible for approving limits for Markets Division s adherence. This risk control function is fully segregated from Corporate & Institutional Banking to ensure the independence necessary for prudent internal risk management and to satisfy regulatory requirements.

Value at risk (VaR)

Trading risk is managed using VaR limits, supplemented by stress testing, scenario analysis and concentration limits, together with position and sensitivity limits. The Markets unit has a VaR limit approved by the Board to cover all trading activities. Limits for the management of trading risk are delegated to regional or global management in accordance with the organisational structure of the Markets unit. VaR is applied to all activities conducted by Markets irrespective of whether mark-to-market or accrual accounting applies to the specific activity.

VaR methodology

VaR is an estimate of potential losses resulting from shifts in interest rates, currency exchange rates, option volatility, equity prices and commodity prices. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions.

VaR can be calculated using a number of different methods. The Group s VaR is predominantly calculated using historical simulation. Portfolio transactions are repriced according to daily market shifts over two years of market price history. The 99^{th} percentile loss is reported as the VaR.

For example, a VaR exposure of $1 million means that on 99 days out of 100, given the historical behaviour of rates, an overnight loss on the trading portfolio should not exceed $1 million.

The Group s VaR should be viewed in light of the limitations of the methodologies used. These limitations include:

the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. The historical data may cause the underestimation of losses in more volatile market conditions, or the over-estimation of losses in placid market conditions;

market rate movements may exceed the most extreme rate movement in the historical data leading to significant underestimation of losses;

VaR methodology assumes that positions are held for one day and no attempt is made to manage risk during that day. The positive or negative impact of transactions intended to manage risk on the portfolio are excluded from the loss estimate; and

VaR is calculated at the close of business and positions may change substantially during the course of the trading day. Intra-day exposures are not subject to intra-day VaR calculations.

Given these limitations of VaR methodology, the Group employs supplementary risk measures in the form of stress testing, to estimate losses resulting from extreme market shifts, and position and sensitivity limits, which provide specific controls on risk at a portfolio level.

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

Certain unauthorised trading in foreign currency options *(for further detail refer to report on directors and officers events subsequent to balance date on page 74)* may have had an effect on the VaR numbers in these tables. However, the nature of the trading activities during the reporting period were such that any effect on the numbers will be immaterial.

Value at risk at 99% confidence interval	**2003**	**2002**
	\$m	**\$m**
Average value during reporting period		
Foreign exchange risk	**7**	7
Interest rate risk	**17**	15
Volatility risk	**4**	4
Commodity risk	**1**	
Diversification benefit	**(7)**	(7)
Total	**22**	19
Minimum value during reporting period *(1)*		
Foreign exchange risk	**2**	2
Interest rate risk	**9**	9
Volatility risk	**2**	2
Maximum value during reporting period *(1)*		
Foreign exchange rate	**20**	26
Interest rate	**25**	23
Volatility risk	**7**	5
Commodity risk	**1**	1

(1) *The VaR numbers in these tables could be taken from different days; hence, they are not additive.*

Balance sheet (non-trading) risk

The Group Asset and Liability Management Committee (Group ALCO), under delegated Board authority, sets policies in relation to the management of structural balance sheet exposures. These exposures include structural interest rate risk, structural foreign exchange risk and liquidity risk. The Group s global structural balance sheet risk is monitored against approved policies by Group Balance Sheet Management and reported on a monthly basis to Group ALCO.

Wealth Management and each regional bank in the Group has an Asset and Liability Management Committee (ALCO) which is delegated the responsibility for managing local structural balance sheet risks in accordance with Group Balance Sheet Management policies. Group ALCO supervises the management of these local structural risks and monitors activity for compliance with Group policies.

Structural interest rate risk

In carrying out its business activities, each regional bank and non-banking entity in the Group strives to meet customer demands for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of assets and liabilities. As interest rates and yield curves change over time, the size and nature of these mismatches may result in a loss or gain in earnings.

Structural interest rate risks arise mainly in the Group s banking operations. The primary management objective is to limit the extent to which net interest income could be impacted by an adverse movement in interest rates. Each regional bank s ALCO is responsible for managing the structural interest rate risk within the region, in accordance with approved Group policy.

Structural interest rate risk is calculated using balance sheet simulation processes, which are undertaken across the Group s banking operations. The balance sheet simulation process is based on planned product volumes and margins, which are regularly updated to reflect the Group s latest views on business projections and interest rate environments.

The results of balance sheet simulations in the Group s banking operations, together with other balance sheet risk management information and strategies, are presented and reviewed by each regional bank ALCO and the Group ALCO on a monthly basis and at scheduled Board meetings. Similarly, Wealth Management s balance sheet risk management information and strategy are presented and reviewed by Wealth Management ALCO on a monthly basis.

The table below presents a summary of the aggregated structural earnings at risk relating to non-trading assets and liabilities. Based on the structural interest rate risk position at balance date, the table shows the possible impact on net interest income, for the year ending September 30, 2004, under a rising or declining interest rate environment.

The Group applies a wide range of interest rate scenarios in measuring structural interest rate risk. These interest rate scenarios are derived using estimates of volatility to generate a range of potential outcomes around the market implied yield curve. This provides the ability to derive a statistical distribution of potential movements in net interest income. To capture a wide range of potential outcomes, structural interest rate risk is measured to a 99% confidence interval. The Group also measures potential movements in the market value of equity of the banking operations using a 200 basis point change in the market interest rates.

The impact of interest rate movements on the net interest income of life insurance and funds management entities is not incorporated within the table below. However, interest rate movement is one of the factors taken into account in determining the change in net market value of life insurance and funds management entities when applying Australian Accounting Standard AASB 1038 Life Insurance Business .

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

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

The exposure expressed in non-Australian dollars is the net exposure of offshore banking and non-banking entities. Structural interest rate exposure in some currencies may be biased towards rising interest rates, whilst in others may be biased to declining interest rates.

Structural foreign exchange risk

Structural foreign exchange risk arises from investments in the Group s foreign branches and controlled entities. Both earnings and capital are exposed to movements in foreign exchange rates as the result of these investments.

Reported earnings and equity are exposed to movements in exchange rates as a result of the need to translate earnings and net assets of the foreign operations into the Australian dollar consolidated financial statements.

This exposure of reported earnings and equity to movements in exchange rates is sometimes referred to as an accounting or translation exposure which, in the absence of any long-term realignment in exchange rates, has no impact on underlying economic exposures.

The policy of the Group is that the net asset position of integrated foreign operations is to be fully hedged, whilst the net asset position and earnings of offshore subsidiaries and self-sustaining foreign operations are not to be hedged. The rationale for this approach is that the Group bases its hedging decisions on economic considerations and not on the potential impact which short-term currency fluctuations may have on reported net assets and earnings.

The net assets of the Group s integrated foreign operations are denominated in US dollars. As at September 30, 2003 the net assets of US$132 million were fully hedged.

Real foreign exchange exposures, on the other hand, arise independently of the accounting process. Such transaction exposures arise from the risk that future cash flows will be converted to Australian dollars at less favourable rates than at present. Such cash flows could result from the repatriation of profits or capital back to the Company. The policy of the Group is to fully hedge these exposures at the time of commitment, if they are of a material nature. Hedging of transaction exposures relating to offshore acquisitions and divestments is assessed on a case-by-case basis.

Liquidity risk

Liquidity risk is the risk that the Group is unable to service its cash flow obligations today or in the future. Liquidity within the Group is managed in accordance with policies approved by the Board, with oversight from the regional bank ALCOs, Wealth Management ALCO and Group ALCO.

Throughout the year, the Group managed liquidity risk by a combination of positive cash flow management, the maintenance of portfolios of high quality liquid assets, and diversification of its funding base. In accordance with the requirements of APRA, cash flow liquidity risk is measured and managed in the Group s banking entities on a cash flow basis. Each regional bank is required to monitor liquidity under both going concern and name crisis scenarios, and cash flow mismatch limits have been established to limit the Group s liquidity exposure. In addition, regional banks are required to hold liquid asset portfolios to meet any unexpected cash flow requirement.

Regulatory authorities in some countries in which the Group operates may impose additional requirements to ensure that liquidity is managed prudently. These requirements may require the holding of a reserve deposit account with the central bank or the holding of a portfolio of liquid securities.

Liquidity is managed on a regional basis, with day-to-day responsibility residing with regional banks, offshore branches and regional treasury operating divisions of the Group.

A contingency plan has also been established for management of an escalated liquidity requirement where the Group experiences either restricted access to wholesale funding, or a large increase in withdrawal of funds.

Refer also to liquidity and funding on page 40.

Life insurance and funds management market risk

The life insurance business is exposed to market risk arising from adverse movements in market prices affecting fee income on investment-linked policies and the returns obtained from investing shareholder funds held in each life company. Market risk is also affected by mismatches between assets and the guaranteed returns offered on some classes of policy, which may not have been effectively hedged through the matching of assets.

The Group attempts to, wherever possible, segregate policyholder funds from shareholder funds. Appropriate investment mandates are then developed for each. The Group (for investment mandates set for assets in policyholder funds) attempts to match asset characteristics with the nature of policy obligations; however, certain clauses included in policy and sales documents, regulatory constraints or the lack of suitable investments may affect this.

The majority of the policyholder assets are held for investment-linked policies where the policyholder bears the risk of movements in the market value and determines the allocation of the assets. Should markets fall, fee income will decrease as it is based on the amount of assets invested.

Market risk in the life insurance and funds management businesses also arises from movements in the value of the controlled entities of National Australia Financial Management Limited. The economic value of these assets fluctuates based on a number of factors including interest rates, retention rates and fee income.

Country risk

Sound international credit practices require not only commercial credit analysis of the counterparty, of the type normally associated with domestic credit, but also an assessment of country risk. Country risk arises from economic, financial, political or social factors within a country, which may affect a counterparty s ability and willingness to repay loans made by the Group. This consideration is applied notwithstanding the fact that the counterparty s own credit standing dom