

NATIONAL AUSTRALIA BANK LTD

Form 6-K

November 25, 2003

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON DC 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

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

For the month of November 2003

National Australia Bank Limited

ACN 004 044 937

(Registrant's Name)

Level 24

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500 Bourke Street

MELBOURNE VICTORIA 3000

AUSTRALIA

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

Form 20-F Form 40-F

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

Yes No

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

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National Australia Bank Limited and to be part thereof from the date on which this Report, is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

SIGNATURE PAGE

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

NATIONAL AUSTRALIA BANK LIMITED

Date: 25 November 2003

/s/ Susan E Crook

Title: *Associate Company Secretary*

Growth through
excellent relationships

National Australia Bank Limited

ABN 12 004 044 937

This annual financial report 2003 is lodged with the Australian Securities and Investments Commission and Australian Stock Exchange Limited.

Nothing in this annual financial report 2003 is, or should be taken as, an offer of securities in National Australia Bank Limited for issue or sale, or an invitation to apply for the issue or for the purchase of such securities.

All figures in this document are in Australian dollars unless otherwise stated.

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Presentation of information

Basis of presentation

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 81 to 197. 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 215. In addition, non-GAAP financial measures have been defined at page 60.

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 of the directors;

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

Profitability

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

Net profit before significant items⁽¹⁾ 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(1) increased 21.0% to 248.9 cents. Excluding significant items, basic earnings per share increased 7.3% from 231.9 cents.

Basic cash earnings(1) 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(1) 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 fully franked and the final dividend of 83 cents per share will be 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®)(1) 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 glossary on page 215, non-GAAP financial measures on page 60 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 \$m	2003 (1) US\$m	2002 (2) \$m	2001 (3) \$m	2000 (4) \$m	1999 \$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
Currency of presentation						

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	\$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	n/a	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

Currency of presentation

<i>(16)</i>					
Return on average assets <i>(15)</i>	1.0	0.9	0.5	1.1	1.1
Return on equity (average ordinary shareholder funds) <i>(15) (16)</i>	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 <i>(17)</i>					
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 <i>(18)</i>	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) <i>(6) (14)</i>	1.0	1.0	0.5	1.1	1.0
Average equity <i>(6)</i>	14.8	14.5	7.7	14.6	15.5
Total equity as percentage of total assets (excluding statutory funds) <i>(14)</i>	6.6	6.9	7.0	7.0	7.4
Ratio of earnings to fixed charges <i>(6) (18)</i>	1.6	1.5	1.3	1.4	1.4

	2003 (1)	2002 (2)	Group 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)

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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

	2003	2002	Group 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

	2003	2002	Group 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

	2003	2002	Group 2001	2000	1999
(US\$ per A\$1.00)					
Average (23)	0.6131	0.5322	0.5221	0.6091	0.6404
September 30	0.6797	0.5429	0.4915	0.5415	0.6528

On November 7, 2003 the noon buying rate was US\$0.7092 per A\$1.00.

	Group 2003					
	October	September	August	July	June	May
United States dollar (per A\$1.00)						
High	0.7094	0.6830	0.6595	0.6822	0.6722	0.6604
Low	0.6810	0.6374	0.6379	0.6476	0.6529	0.6268

(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 60 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. The 2003 final dividend of A\$0.83 per ordinary share is not payable until December 10, 2003. Accordingly, the total US dollar dividend per ADS cannot be determined until that date.*

(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.

(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 42 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 60 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. Including 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 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 30 for detailed information of the financial performance of Financial Services Australia.

Financial Services Europe

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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.

There are 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.

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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 30 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, 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 is 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 31 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 31 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.

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.

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.

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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;

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.

Services

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 31 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 enterprises 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), proposed amendments to *Banking Act 1959* (Cth) would 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 43 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

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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. Measures have been adopted to restrict the financial capacity of terrorists and their organisations in most countries in which the Group operates. 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 Sector 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.

In July 2003, the Group formally applied to ASIC for its new Australian financial services licences. The Group's Australian operations will be operating under 20 licences representing the wide variety of financial services that it offers. The Group intends to enter the new regulatory regime late in calendar 2003, ahead of the conclusion of the industry transition period of March 11, 2004. Plans are underway to complete the required licensing changes designed to provide even greater protection for the Group's customers.

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.

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.

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The Group is considering its response to the draft bill, however, the legislation, when enacted, is not expected to have an material impact on the financial condition of the Group.

Refer to page 62 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 may make the election to form a tax consolidated group and be taxed as a single taxpayer from October 1, 2002. To do so it must make the election 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). However, a final decision has not been made and the Company may choose not to elect to form a tax consolidated group and continue to be taxed as a single taxpayer.

The Board of the directors of the Company (the Board) is responsible for making the election to have the Group taxed as a single taxpayer. Accordingly, the Board will determine if, and from when, the tax consolidation regime will apply to the wholly-owned Australian controlled entities of the Group.

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 impact from this change.

The second stage of the credit card reforms, effective October 31, 2003, introduces a new cost-based approach to calculating interchange fees. Interchange fees are wholesale fees that banks pay one another. The cost-based approach will significantly reduce 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 will allow non-banks to issue and acquire credit cards. Although guidelines have been set by APRA, a date for the introduction of this stage is still to be determined by the RBA.

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

In February 2003, an industry working group comprising banks, building societies and credit unions (of which the Company is a member), lodged an authorisation application outlining reforms to EFTPOS (debit) interchange fees with the ACCC. The ACCC has released a draft determination rejecting the proposal on the grounds that it did not deal with scheme access, and has called for further submissions from interested parties. The industry working group continues to pursue the authorisation route, and is awaiting the ACCC's final determination.

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 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.

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 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 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.

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

Financial review

Summary

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	2003 \$m	Group 2002 \$m	2001 \$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 20 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 22 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 23 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 24 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 25 for a detailed discussion of the movement in the excess of net market value over net assets of life insurance controlled entities.*

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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 26 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 27 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 29 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.

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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.*

The slowdown in the global economy toward the end of calendar 2002 has generally continued into 2003. Improvement in activity is expected towards the end of this calendar year. However, the outlook for the economies and markets in which the Group operates remains varied.

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

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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			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-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

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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	2002	2001
	\$m	\$m	\$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 45.*

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*).

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.

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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) \$m	Value of in force business \$m	Embedded value \$m	Value of future new business (2) \$m	Market value \$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

(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

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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 35*).

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.

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.)

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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 \$m	2002 \$m	2001 \$m	2003/2002 % 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 51.*

Significant expenses

Restructuring costs

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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 \$m	2002 (1) \$m	2001 \$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

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	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

(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 25.

Europe

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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

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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.

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 remuneration.

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	2002	2001	2000	1999
	Cents	Cents	Cents	Cents	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 is payable on December 10, 2003.

The Company expects to continue its policy of paying regular cash dividends; however, there is no assurance as to future dividends. Future 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.

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The interim dividend paid was fully franked and the final dividend will be 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 60 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 54 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.

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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 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; and

Yen shelf.

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The cost and availability of senior unsecured financing is influenced by credit ratings. At September 30, 2003, 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

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				Total
	Less than 1 year	1 to 3 year(s)	3 to 5 years	After 5 years	
	\$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				Total \$m
	Less than 1 year \$m	1 to 3 year(s) \$m	3 to 5 years \$m	After 5 years \$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	2002	2001
	\$m	\$m	\$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 Group announced its intention to buy back ordinary shares on-market equal to approximately the number of shares issued under the Company's dividend package plans and staff share and option plans. The Company expects this to be up to approximately 25,500,000 ordinary shares. The period of the buy-back is expected to be from November 11, 2003 until September 30, 2004.

During the year, 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.

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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 16 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	2002	2001
	\$m	\$m	\$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

(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

	2003	Balance	2001	Risk	Risk-adjusted balance (1)		
	\$m	2002	\$m	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

	Contract or notional amount 2003	Credit equivalent amount 2003	Risk weights	Risk-adjusted balance (1)		
	\$m	\$m	%	2003	2002	2001
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 \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total \$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

	Gross \$m	2003 Specific provision \$m (1)	Net \$m	Gross \$m	2002 Specific provision \$m (1)	Net \$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%

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

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	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.

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.

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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 65 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.

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 and the Audit 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 16 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 comprehensive market risk control framework in operation. Market Risk and Prudential Control is responsible for approving and monitoring trading limits and the approval of new products to be used by the Markets unit. 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 99th 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 losses across products and regions in which the Group operates.

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)*

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	Rising rates \$m	Declining rates \$m	Rising rates \$m	Declining rates \$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 39.

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 domestically might not have been impaired.

The Group has an established process for measuring country risk, which is used in determining and monitoring its cross border exposures. This includes setting prudential cross border limits based upon the Group's risk appetite for each country. Among other things, these limits are reflective of a country's credit grading, size, level of foreign exchange reserves and ability to meet financial obligations.

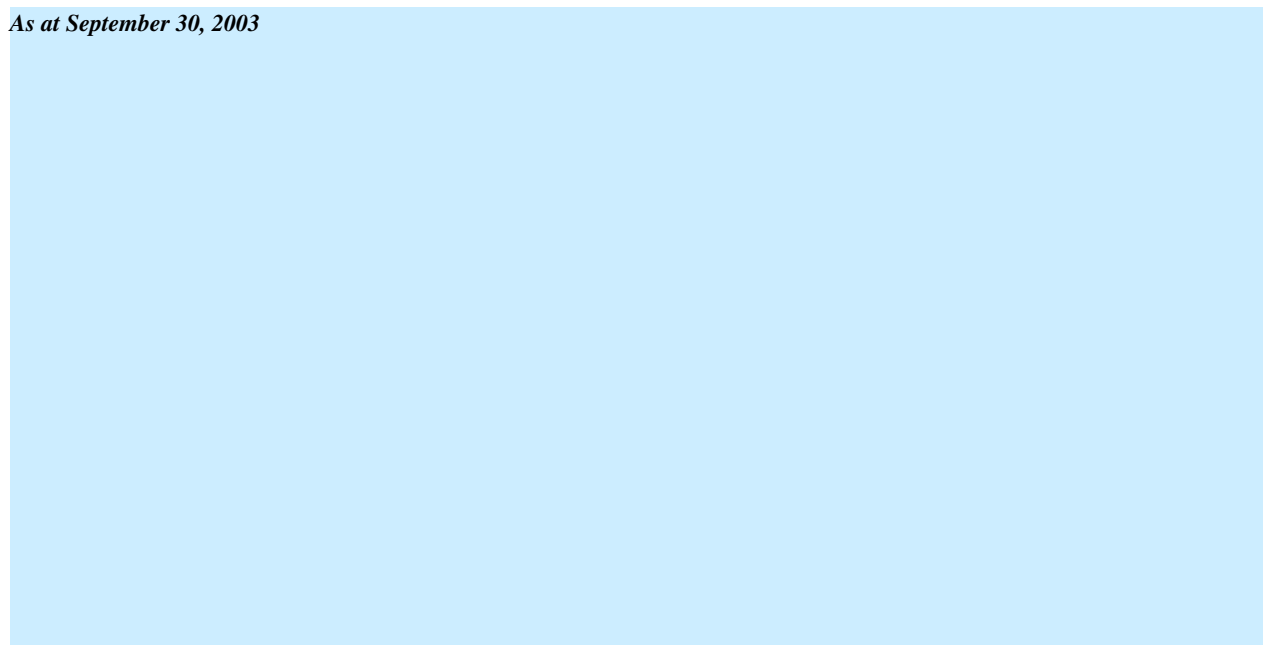
Limits are allocated into maturity time bands, which vary according to the risks of the country concerned and the outlook for the economic/political landscape. Exposures are monitored daily. The Board reviews these individual country limits on a periodic basis.

Cross border outstandings by industry category

The following table analyses the aggregate cross border outstandings due from countries other than Australia where such outstandings individually exceed 0.75% of the Group's assets. For the purposes of the annual financial report, cross border outstandings are based on the country of domicile of the counterparty or guarantor of the ultimate risk, and comprise loans, balances due from banks, acceptances and other monetary assets. Local currency activities with local residents by foreign branches and subsidiaries are excluded.

Bank and other financial institutions \$m	Other commercial and industry \$m	Total \$m	% of Group total assets	Commitments including irrevocable letters of credit \$m
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As at September 30, 2003



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Canada	922	1,159	2,081	0.5	
Germany	2,166	1,281	3,477	0.9	1,807
United Kingdom	2,761	1,607	4,368	1.1	4,980
United States	1,956	2,748	4,704	1.2	10,913

As at September 30, 2002



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Germany	5,132	2,075(1)	7,207	1.9	3,748
United Kingdom	4,358	1,507	5,865	1.6	6,686
United States	1,596	3,540	5,136	1.4	11,916

As at September 30, 2001

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Germany	6,164	874	7,038	1.9	3,660
United Kingdom	4,007	1,153	5,160	1.4	5,882
Japan	4,053	249	4,302	1.1	129
United States	2,056	2,589	4,645	1.2	10,776

(1) Includes \$79 million relating to governments.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems, or from external events.

Individual business units own and are responsible for the identification, assessment and mitigation of their risk profile. Various reports are produced at executive management and Board level for their information and to assist in monitoring and where necessary determining appropriate actions.

The Operational Risk and Insurance function is responsible for:

operational risk policy development;

operational risk advice;

business continuity planning advice;

support in risk evaluation;

operational risk reporting; and

co-ordination of the risk assessment and approval process of new and re-engineered products and processes to ensure change initiatives are robustly assessed from a risk perspective.

To enhance the Group's ability to identify, measure and manage operational risk, a systematic framework and methodology for operational risk management has been developed and implemented. The methodology includes risk modelling and risk evaluation. Risk modelling is the statistical estimation of operational risk exposure based on internal and external historical loss experience. Risk evaluation involves the quality mapping and appraisal of the internal control environment based on end-to-end evaluation criteria.

Regulatory compliance risk

Regulatory compliance risk is the risk that the Group, or any business unit, fails to meet the requirements or expectations of regulatory authorities or supervisors responsible for enforcing legislation, regulations or industry codes and standards, potentially resulting in financial loss, restrictions on operating licences, reputational damage, and customer and stakeholder dissatisfaction. Regulatory compliance risk can also arise where the Group fails to anticipate and effectively manage the impact of regulatory change on its operations.

The Group aims to pro-actively manage and meet the obligations imposed on it across all business lines, customer segments and products in the jurisdictions in which it operates.

The Group's regulatory compliance policy and operating framework set out the underlying compliance management expectations and control standards. The framework being enhanced to ensure the delivery of practical compliance processes, systems and tools to assist the business in tailoring and embedding its compliance obligations into core operations.

Each business unit is responsible for the implementation and maintenance of those controls necessary to meet and satisfy its regulatory compliance obligations. Regulatory compliance teams work in each line of business assisting management to fulfil these responsibilities and to address the impact of regulatory change on business practices.

Fostering a positive compliance culture throughout all levels of the Group is recognised as an integral part of excellent relationships with customers and regulators as well as good corporate governance.

Life insurance risk

Life insurance risk occurs when the experience of mortality and morbidity claims compares adversely to that assumed when pricing life insurance policies. Factors affecting this include the trend of future claims and incidence of actual claims, unforeseen diseases or epidemics, and longer than assumed recovery periods for morbidity claims. Life insurance risk also occurs when the mortality and morbidity experience is higher than the assumptions used to determine the fair value of the life insurance business.

These risks are controlled by ensuring that the Group's underwriting policies and procedures adequately identify any potential risk, while retaining the right to amend premiums on risk policies where appropriate, and through the effective use of reinsurance. The experiences of the Group's life insurance business and that of the industry are reviewed on an annual basis to ensure that the risks continue to be effectively managed.

Disclosure controls and procedures and internal control over financial reporting

Under the requirements of the United States *Sarbanes-Oxley Act of 2002*, the Chief Executive Officer and the Chief Financial Officer must each review and evaluate the Group's disclosure controls and procedures, including internal control over financial reporting.

This evaluation was performed as at September 30, 2003, under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as at September 30, 2003.

There have been no changes in the Company's internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Transactions with related and other non-independent parties

In the year to September 30, 2003, the Group had a number of related party transactions (*refer to note 52 in the financial report*). These transactions were made in the ordinary course of business and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons or charged on the basis of equitable rates agreed between the parties. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

Other non-independent parties are parties that are able to negotiate terms of transactions that are not on an arm's length basis, but do not meet the definition of a related party. The Group is not aware of any relationships or transactions with such parties that would materially affect its financial position or results of operations.

Risk factors

Business conditions and general economy

As an international financial services group, the Group's businesses are affected by the external environment in the markets in which it operates. The profitability of the Group's businesses could be adversely affected by a worsening of general economic conditions in Australia, New Zealand, the UK, the US, or elsewhere, as well as by foreign and domestic trading market conditions. Such factors could also adversely affect the credit quality of the Group's on-balance sheet and off-balance sheet assets. An economic downturn can impact the Group's results and financial position by affecting demand for the Group's products and services. Such a downturn, international disruption, dispute or event, or significantly higher interest rates, could impact the credit quality of the Group's counterparties, increasing the risk that a greater number of the Group's customers would default on their loans or other obligations to the Group, or would refrain from seeking additional credit.

For a discussion of the Group's economic outlook, refer to economic outlook on page 19.

Competitive forces

The Group faces intense competition in all markets in which it operates

For a discussion of the competitive factors facing the Group, refer to competition on page 13.

Government policies and economic controls

The Group's businesses and earnings are affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian Commonwealth Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Group's control.

Fluctuations in currency exchange rates

As the Group prepares its accounts in Australian dollars, changes in currency exchange rates, particularly between the Australian dollar and the British pound or US dollar, may have an adverse effect on the earnings that it reports.

For a discussion of the Group's risk management procedures, including the management of currency risk, refer to 'risk management' on page 54.

Credit risk

The Group's provisions for doubtful debts provide for risks of losses inherent in loans and advances. Estimating losses inherent in the loan portfolio is of its very nature uncertain and the accuracy of those estimates depends on many factors, including general economic conditions, rating migration, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements.

For a discussion of the Group's risk management procedures, including the management of credit risk, refer to 'risk management' on page 51.

Market risk

The Group's earnings are also subject to market risk exposures, principally changes in market interest and foreign exchange rates, equity and commodity prices, and associated financial derivatives. The Group has in place stringent controls and processes governing market risk activities together with oversight at the appropriate level of management.

For a discussion of the Group's risk management procedures, including the management of market risk, refer to 'risk management' on page 52.

Operational risk

As a financial services group, the Group is exposed to a number of other risks relating to people, processes, and systems and from external events. These risks are identified, measured and managed by the co-ordinated efforts of the individual business units and the Operational Risk unit, through the rigorous application of the Group's systematic risk framework and methodology.

For a discussion of the Group's risk management procedures, including the management of operational risk, refer to risk management on page 55.

Control systems and programs

The implementation of control systems and programs is dependent upon factors such as the Group's ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel, the competence and performance of employees, the co-operation of customers, or third party vendors.

Critical accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Group's annual financial report has been prepared in accordance with Australian GAAP.

The Group's principal accounting policies are disclosed in note 1 to the financial report and in note 58 with respect to policies that differ from US GAAP.

Certain of these policies are considered to be critical to the representation of the Group's financial performance and position, since they require difficult, subjective, or complex judgements. The following disclosure is intended to provide an enhanced level of understanding of these judgements and their impact on the Group's financial statements. These judgements necessarily involve assumptions or estimates in respect of future events, which can frequently vary from what is forecast. However, the Company believes that its financial statements and its ongoing review of the estimates and assumptions utilised in preparing those financial statements, are appropriate to provide a true and fair view of the Group's financial performance and position over the relevant period.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee and the Committee has reviewed the Group's disclosure relating to them in this financial review.

The following are considered critical accounting policies of the Group.

Provision for doubtful debts

Under Australian GAAP, loans and advances are carried at their recoverable amount, representing the gross value of the outstanding balance adjusted for provisions for doubtful debts and unearned income. To best meet this requirement, the Group has adopted a statistically-based provisioning methodology for its general provision for doubtful debts, which is consistent with other large financial institutions in Australia and the US. Under this methodology, the Group estimates the level of losses inherent, but not specifically identified, in its existing credit portfolios at balance date. The statistical provisioning methodology is applied to existing credit portfolios, including loans and advances drawn down in the current year.

In applying the statistically-based provisioning methodology, two key inputs are used in a statistical model: probability of default and the level of collateral held.

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. A small degree of subjective data is input into the model in relation to an assessment of the borrower's management and any changes in this assessment would be unlikely to result in a material change to the Group's general provision. The key driver of changes in the general provision for non-retail lending is changes in credit quality.

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. Changes in the level of collateral held will impact the loss given default and, in turn, the determination of the general provision.

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

For retail lending, historical collateral levels have directly influenced product loss rates. For example, mortgage lending has historically had high levels of collateral. Product loss rates, based on this history, are therefore lower than for unsecured lending, such as credit cards.

The Group undertakes periodic sensitivity analysis to assess the impact of deterioration in credit risk on the credit portfolio. The Group considers the key inputs and assumptions used in the calculation of the general provision for doubtful debts to be reasonable and supportable in the existing economic environment.

In addition to the general provision, specific provisions for doubtful debts are recognised once a loan is classified as impaired to cover any potential losses inherent in the loan. A loan is considered impaired when there is reasonable doubt over the collectability of principal and interest in accordance with the relevant loan agreements. 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.

Upon identification of a loan requiring a specific provision (that is an impaired loan), the respective loan's general provision balance is transferred to the specific provision. An assessment is then made by management as to whether the transferred balance is adequate to cover the estimated credit loss at balance date on that impaired loan.

For larger-balance, non-homogeneous loans that have been individually determined to be impaired, the level of specific provision required is based on an assessment of the recoverability of each loan. This takes into account available evidence on the collateral and other objective and subjective factors that may impact the collectability of the outstanding loan principal and interest. Management judgement is required in determining the valuation of the loan collateral. Independent valuations are frequently obtained by management to provide expert advice.

Each portfolio of smaller-balance, homogenous loans, including credit cards and personal loans, is collectively evaluated for impairment. The Group uses both dynamic modelling and specific provisioning at the account level. Management considers overall portfolio indicators, including historical credit losses and delinquency rates, in determining the level of specific provision required for each portfolio.

The historical experience of the Group has shown that management's judgement of the specific provisions required in the past has been appropriate. The Group considers the assumptions used in the calculation of the specific provision for doubtful debts to be reasonable and supportable in the existing economic environment.

Valuation of life insurance controlled entities

The Group is required by Australian Accounting Standard AASB 1038 *Life Insurance Business* to measure all the assets and liabilities of its life insurance controlled entities at net market value. Movement in the excess of net market value over net assets of life insurance controlled entities is recognised in the profit and loss account as an unrealised gain or loss.

Directors' bi-annual valuations of the life insurance controlled entities are carried out by management using industry-accepted actuarial valuation methodologies. Value is determined in three distinct areas, being value of:

each entity's net assets;

future profits from current business contracts; and

future profits from future (yet to be written) business contracts.

In determining the value of all future profits to emerge from the life insurance controlled entities, careful consideration is given to both future business and economic assumptions affecting the business. Many of these assumptions require significant judgement because they are dependent on a number of factors that cannot be precisely determined at the time the valuation is made.

The key business assumptions used relate to sales (volume and growth), profit margin squeeze, discontinuances, expenses and claims. These assumptions are determined after an examination of the experience of the Group's life insurance controlled entities, their short-term and long-term business plans, and industry experience and expectations.

The key economic assumptions used relate to investment earnings, risk discount, inflation and tax rates. These assumptions are determined after an examination of current market rates and future market expectations. In addition, the overall assumptions set and their impact on value are reviewed against transactions in the market place, current prices of listed entities and other publicly-available information.

Changes in management's assessment of key business factors and economic conditions (global, regional and sector specific) in the future would affect the valuation of life insurance controlled entities. As a result, the carrying value of life insurance controlled entities recorded in the statement of financial position and the movement in the excess of net market value over net assets of life insurance controlled entities recorded in the statement of financial performance could be materially different in the future. The Group considers the assumptions used in the valuations to be reasonable and supportable in the existing economic environment. Further, the valuations are supported by discounted cash flow valuations prepared by Tillinghast-Towers Perrin and the key business and economic assumptions are approved by a committee of senior management and a non-executive director of the Wealth Management holding company (National Wealth Management Holdings Limited). Recommendation of the final valuation is then made to the Wealth Management audit and compliance committee and the board of directors of the Wealth Management holding company.

Key valuation results and assumptions are disclosed in note 25 to the financial report.

Life insurance policy liabilities

Policy liabilities in the Group's statement of financial position and the change in policy liabilities disclosed as an expense have been calculated using the Margin on Services methodology in accordance with guidance provided by the Life Insurance Actuarial Standard Board's Actuarial Standard AS 1.03 Valuation of Policy Liabilities.

Policy liabilities for investment-linked business are calculated using the accumulation method. The liability is generally the accumulation of amounts invested by policyholders plus investment earnings less fees specified in policy contracts. Deferred acquisition costs are offset against this liability.

Policy liabilities for non-investment-linked business are measured mainly using the projection method, which is based on the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses).

The measurement of policy liabilities is subject to actuarial assumptions, which involve complex judgements. Assumptions made in the calculation of policy liabilities at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance date.

Economic assumptions are based on the prevailing interest rate and economic environment. Other assumptions are based on company experience, or where this is insufficient, industry experience. A summary of the significant actuarial methods and assumptions used is contained in note 57 to the financial statements. Many of these assumptions are based on actuarial tables published by the Institute of Actuaries of Australia.

The Group considers the assumptions used in the calculation of life insurance policy liabilities to be reasonable and supportable in the existing economic environment. Changes in actual experience and management's assessment of economic conditions (global, regional and sector specific) in the future could affect the level of life insurance policy liabilities recorded. As a result, the amount of policy liabilities recorded in the Group's statement of financial position and the change in policy liabilities recorded in the statement of financial performance could be different in the future.

Defined benefit superannuation and pension arrangements

The Group maintains several defined benefit superannuation and pension arrangements, details of which are given in note 48 to the financial report. In accordance with applicable accounting rules, the Group does not consolidate the assets and liabilities associated with these defined benefits plans. Instead, the Group recognises a prepaid asset for contributions the Group has made to the pension plan in excess of pension expense. The measurement of the prepaid asset and the annual pension expense involves actuarial and economic assumptions. The four key variables used in pension accounting relate to the size of the employee and pensioners population, actuarial assumptions, expected long-term rate of return on plan assets, and the discount rate. The annual pension expense and balance sheet position for the Group is currently most sensitive to discount rate and return on asset assumptions.

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The discount rate is used to determine the present value of the Group's future benefit obligations. It is an assumption that reflects the rates available on long-term high-quality fixed-income debt instruments.

The Group calculates the expected return on plan assets based on the balance in the pension asset portfolio and the expected long-term rate of return on that portfolio. The expected long-term rate of return is designed to approximate the long-term rate of return actually earned on the plan assets over time and is generally held constant so that the pattern of income/expense recognition more closely matches the stable pattern of services provided by the Group's employees over the life of the pension obligation.

There is an acceptable range in which the estimates for assumptions can validly sit. If different estimates within that range had been chosen, the cost recognised in the profit and loss account and balance sheet position could be significantly altered.

In relation to the actuarial assumptions such as mortality rate, turnover rate, retirement rate, disability rate and the rate of compensation increases, because these factors do not tend to change materially over time, the range of actuarial assumptions is generally narrow.

Changes in actuarial assumptions, discount rate and return on asset assumptions would affect the prepaid pension cost asset and pension expense and, in certain circumstances, require the recognition of a pension liability. The Group considers the assumptions used in the calculation of the prepaid pension cost asset and pension expense to be reasonable and supportable in the existing economic environment. Further, the assumptions were considered reasonable by the actuaries of the respective defined benefit pension plans.

Carrying value of plant and equipment, including application software

The asset class plant and equipment reported on the Group's statement of financial position includes leasehold improvements, furniture, fixtures and fittings and other equipment, data processing equipment, and application software. The largest balance of these items at September 30, 2003 related to application software.

Plant and equipment is carried at the lower of cost less accumulated depreciation/amortisation and recoverable amount. Recoverable amount is the net amount expected to be recovered through the net cash flows arising from an asset's continued use and subsequent disposal. These cash flows are not discounted. Any write-down to recoverable amount is recognised in the Group's profit and loss account.

The Group assesses the value of plant and equipment each six months. If impairment indicators are identified, management makes an assessment about whether the carrying value of such assets remains fully recoverable. Where a group of assets work together to support the generation of cash inflows, such as corporate infrastructure assets (eg. enterprise application software), recoverable amount is assessed in relation to the cash-generating unit in which those assets operate.

Changes in management's assessment of whether indicators of impairment have occurred and the recoverable amount in relation to impaired plant and equipment would affect the carrying value of plant and equipment. The Group considers the impairment identification process in place to be sound and the assumptions used in the valuation of recoverable amount to be reasonable and supportable in the existing economic environment.

Accounting developments

The following is a summary of the impact of recently issued accounting standards and other developments that are expected to have a material effect on the Group's future financial performance or position:

International Financial Reporting Standards

In July 2002, the Financial Reporting Council in Australia formally announced that Australian reporting entities would be required to comply with accounting standards equivalent to those set by the International Accounting Standards Board (IASB). These standards are referred to as International Financial Reporting Standards (IFRS). The adoption of IFRS is expected to have a material effect on the Group's financial performance and position.

The Group will be required to adopt these standards for the financial year commencing October 1, 2005. The Group continues to evaluate the areas most impacted by adoption. 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 at this time.

A full suite of the 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 the AASB around April 2004. The Group continues to monitor these developments.

Variable interest entities

In January 2003, the Financial Accounting Standards Board (FASB) in the US issued FASB Interpretation no. 46 Consolidation of Variable Interest Entities (FIN 46). FIN 46 addresses consolidation of variable interest entities. Variable interest entities have one or both of the following characteristics:

equity that is not sufficient to finance its activities without additional financial support from other parties;
and/ or

equity investors lack the ability to make decisions about the entity, or do not absorb expected losses or expected residual returns of the entity.

The provisions of FIN 46 apply immediately to variable interest entities where the Group obtained an interest in or created after January 31, 2003. For variable interest entities that the Group acquired before February 1, 2003, FIN 46 applies in the first financial year ending after December 15, 2003.

The Group has applied FIN 46 to variable interest entities that an interest was obtained in or was created after January 31, 2003. As a result of this application, Medfin Trust has been consolidated under US GAAP (*refer to note 58(m) in the financial report for additional information*).

The Group is evaluating the impact of applying FIN 46 to existing variable interest entities. This analysis is not yet complete and may result in the consolidation of additional variable interest entities under US GAAP in future reporting periods that have not been previously consolidated.

Non-GAAP financial measures

The following is a summary of the key non-GAAP financial measures used throughout the annual financial report:

Cash earnings

Cash earnings is a key performance measure and financial target used by the Group. Dividends paid by the Company are based on after-tax cash earnings (adjusted for significant items). Cash earnings per share is a key performance measure used in the investment broking community, as well as by those Australian peers of the Group with a similar business portfolio. Management considers that the exclusion of the intangible and other items detailed below from net profit is a prudent and useful indicator of the Group's underlying operating performance. Cash earnings does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the Group. It does not refer to any amount represented on a statement of cash flows.

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

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

Distributions this reflects payments to holders of National Income Securities, Trust Units Exchangeable for Preferred Shares and Trust Preferred Securities, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders.

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

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

Refer to page 6 for the reconciliation of cash earnings to net profit.

Significant items

Significant items including significant revenue, significant expenses and the associated income tax expense is defined as follows. When the revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the entity for the reporting period and its disclosure is not otherwise required under Australian Accounting Standards, its nature and amount must be disclosed separately either on the face of the statement of financial performance or in the notes to the financial report.

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

Economic Value Added (EVA[®])

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

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

In order to encourage longer-term management decision making and sustained value creation, the Group sets EVA[®] growth targets for 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[®] is a registered trademark of Stern Stewart & Co.

Corporate governance

Importance of corporate governance

The Board of directors of the Company (the Board) is responsible for the corporate governance of the Company and its controlled entities (the Group). Corporate governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. Good corporate governance is a fundamental part of the culture and the business practices of the Group. The main corporate governance practices that were in place during the year to September 30, 2003, or otherwise as referred to below, are discussed in this section.

The Board has approved corporate governance guidelines, which set out the specific roles, duties, responsibilities and rights of the directors of the Company. Each director is expected to have regard to these guidelines in the performance of his or her duties as a director of the Company.

The major processes by which the directors of the Group meet their duties are described in this corporate governance statement.

Responsibilities and functions of the Board

The Board has adopted a formal charter that details the functions and responsibilities of the Board. The most significant responsibilities of the Board are to:

Stakeholder interests

serve in the interests of all stakeholders, being the shareholders, customers, staff and the communities in the geographic regions in which the Group operates;

build trust in the Group through consistent behaviour, transparency and accountability; and

establish, review and monitor processes for corporate governance throughout the Group;

Future strategy

develop an in-depth understanding of each substantial segment of the Group's business;

review, approve and monitor corporate strategy and plans and review the assumptions and rationale underlying the annual plans;

make decisions concerning the Group s capital structure and dividend policy; and

review, approve, and monitor major investment and strategic commitments;

Review of past performance

review business results, monitor budgetary control and review, approve and monitor necessary corrective actions and processes;

Integrity of external reporting

review and monitor the processes, controls and procedures which are in place to maintain the integrity of the Group s accounting and financial records and statements with the guidance of the Audit Committee;

review and monitor the reporting to shareholders providing objective comprehensive, factual and timely information to the various markets in which the Company's shares are listed; and

monitor and receive reports from the Audit Committee in relation to internal controls and internal and external audit reports;

Risk management and compliance

establish, monitor and review the risk management processes with the guidance of the Risk Committee;

review and monitor processes for compliance with prudential regulations and standards and other regulatory requirements;

review and monitor processes for the maintenance of adequate credit quality; and

review and monitor processes for the documentation and regular review and updating of the Group s risk profile;

Executive review, succession planning and culture

approve key executive appointments and monitor and review executive succession planning;

review and monitor the performance of the Managing Director and Chief Executive Officer and senior management;

review and approve executive remuneration with the guidance of the Compensation Committee;

approve all appointments of directors to the boards of controlled entities and appointments made by the Group to non-controlled entities; and

monitor and influence the culture, reputation and ethical standards of the Group; and

Board performance

monitor Board composition, director selection, Board processes and performance with the guidance of the Nomination Committee;

monitor and review the processes to assist directors in having sufficient time to devote to Board matters in order that they discharge their duties effectively; and

review the charter and its continuing adequacy from time to time.

Composition of the Board

The Board requires that each of its directors possess unquestionable integrity and character. The Nomination Committee will assist the Board in identifying other appropriate skills and characteristics required for the Board as a whole and the Board's individual members in order for the Group to fulfil its goals and responsibilities to shareholders and other key stakeholders.

The composition of the Board is based on the following factors:

the size of the Board will be of a size to assist in efficient decision making;

the Chairman of the Board should be an independent non-executive director and shall be elected by the directors annually;

the Chairman must not be a former executive officer of the Group;

the Board should comprise a majority of independent non-executive directors; and

the Board should comprise directors with a broad range of expertise, skills and experience from a diverse range of backgrounds.

The Board is comprised of a majority of independent non-executive directors. There are two executive directors and nine independent non-executive directors. The role of Chairman and role of Chief Executive Officer are held by two separate individuals. The Chairman is a non-executive director and the Managing Director and Chief Executive Officer is an executive director.

The skills, experience and expertise of the directors are set out in the report of the directors.

Independence of directors

In judging whether a director is independent for the purposes of services on the Board and Board committees of the Company, the Board has regard to the standards adopted by the Board from time to time to assist it in its regular independence determinations. These standards reflect the independence requirements of applicable laws, rules and regulations, including the Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations and the United States *Sarbanes-Oxley Act of 2002*. Directors are required to provide all relevant information to allow a regular assessment of independence. The fundamental premise of the standards is that an independent director must be independent of management and free to exercise his or her unfettered and independent judgement.

The non-executive directors meet informally on a regular basis, without the Managing Director and Chief Executive Officer, the other executive director and other members of management being present.

The directors considered by the Board to constitute independent directors are identified, along with their period in office, in the report of the directors.

Disclosure of related party transactions is set out in note 52 in the financial report.

Appointment and re-election of Board members

The process for appointing a director is that, when a vacancy exists, the Board, assisted by the Nomination Committee, identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed by the Board but must stand for election by the shareholders at the next annual general meeting of the Company.

The Company has formal letters of appointment for its directors setting out the key terms and conditions of the appointments.

The process for re-election of a director is in accordance with the Company's constitution, which requires that, each year, at least one-third of the directors, except the Managing Director, retire from office at the annual general meeting. The retiring directors may be eligible for re-election.

Prior to each annual general meeting, the Board will assess the performance of each director due to stand for re-election and determine if the Board will recommend to the shareholders that they vote in favour of the re-election, or otherwise, of each such director.

For directors appointed after 1995, the Board has set a limit of 15 years for which an individual may serve as a director. The Board regards this as an appropriate period of service. Directors who have served on the Board for an extended period of time have gained valuable experiences, insights and historical perspectives regarding the Group that would not be easily replaced.

The retirement age for directors is fixed by the Company's constitution at 70 years of age.

Induction and continuing education

Senior management, working with the Board, will provide an orientation program for new directors in order to assist them in fulfilling their duties and responsibilities. The program will include discussions with the Managing Director and Chief Executive Officer and executives, the provision of reading material, tutorials and workshops. These will include detail on directors' rights, duties and responsibilities, the Group's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its management structure and its internal and external auditors.

Management will conduct additional presentations and tutorial sessions for directors from time to time regarding the Group, the factors impacting, or likely to impact, on its businesses, and to assist the non-executive directors in gaining a broader understanding and knowledge of the Group. Directors are also encouraged to keep up to date on relevant topical issues.

Board meetings

The frequency of Board meetings and directors' attendance at those meetings is set out in the report of the directors. Directors are expected to prepare adequately, attend and participate at Board meetings and meetings of committees. Some on-site inspections are conducted which directors are also expected to attend. The Board meets once each year in Europe, where the Group has a substantial proportion of its assets, and in New Zealand where there are significant business interests. The amount of work undertaken is considerable. The time requirement varies depending on the number of Board committee meetings and controlled entity board meetings a director attends.

Board performance

The Board reviews and evaluates the performance of the Board with the guidance of the Nomination Committee. The Board receives feedback from shareholders and executives on the performance of the Board. During the year, an external independent expert was engaged to review many aspects of the Board's activities and to assist in a continuous improvement process to enhance the effectiveness of the Board.

Remuneration of directors

The maximum aggregate amount from which non-executive directors may be remunerated is determined by the shareholders. It is possible that this maximum aggregate amount may not be fully utilised in any one year. From this amount, the individual directors are remunerated based on a philosophy of compensating the directors at around the upper quartile of the market, having regard to the size and complexity of the Company.

The remuneration of non-executive directors involves all the non-executive directors receiving part of their remuneration in the form of shares in the Company.

The Compensation Committee provides guidance to the Board in respect of these matters.

The remuneration policy for the Board and the remuneration of each director is set out in the report of the directors.

Remuneration of senior executives

The Group's remuneration philosophy for senior executives is to reward high levels of sustained performance and contribution through a pay-for-performance model.

Remuneration comprises the following major components:

- fixed remuneration; and
- variable remuneration;
- short-term incentives; and
- long term incentives.

Variable remuneration, also known as at risk remuneration, comprises short-term incentives and long-term incentives. In general, the Group aims to target the upper quartile of the market for remuneration to ensure the attraction and retention of talented executives.

The Compensation Committee provides guidance to the Board in respect of these matters.

The remuneration policy for senior executives is set out in the report of the directors.

Conflicts of interest

Directors are expected to avoid any action, position or interest that conflicts with an interest of the Group, or gives the appearance of a conflict. A director who has a material personal interest in a matter that relates to the affairs of the Group must give the other directors notice of such interest. Such notice should be provided in writing to the Company Secretary, who is to ensure that the notice is brought to the attention of the other directors.

The *Corporations Act 2001* (Cth) together with the constitution of the Company provide that a director who has a material personal interest in a matter that is being considered at a directors' meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following circumstances:

the directors who do not have a material personal interest in the matter have passed a resolution that identifies the director, the nature and extent of the director's interest in the matter and its relation to the affairs of the company, which states that the remaining directors are satisfied that the interest should not disqualify the director from voting or being present;

ASIC has made a declaration or order under the *Corporations Act 2001* (Cth), which permits the director to be present and vote notwithstanding the director's material personal interest;

there are not enough directors to form a quorum for a directors' meeting because of the disqualification of the interested directors, in which event one or more of the directors (including a director with a material personal interest) may call a general meeting to address the matter; and

the matter is of a type which the *Corporations Act 2001* (Cth) specifically permits the director to vote upon and to be present at a directors' meeting during consideration of the matter notwithstanding the director's material personal interest.

However, notwithstanding the exceptions permitted by the *Corporations Act 2001* (Cth) and the constitution of the Company (as described above), the Group's corporate governance standards provide that generally speaking, when a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, in such circumstances the director concerned takes no part in discussions nor exercises any influence over other members of the Board. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his or her resignation after consultation with the Chairman.

Financial services are provided to non-executive directors under terms and conditions that would normally apply to the public. Executive directors are entitled to financial services under terms and conditions that would normally apply to full-time employees. The granting of financial services to directors is subject to any applicable legal or regulatory restrictions, including the United States *Sarbanes-Oxley Act of 2002*.

Access to management

Conflicts of interest

Board members shall have complete and open access to members of management following consultation with the Chairman and the Managing Director and Chief Executive Officer.

Access to independent professional advice

Written guidelines are in place providing for each director to have the right to seek independent professional advice at the Company's expense, subject to the prior approval of the Chairman.

The Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Group's expense, such legal, accounting or other services, consultants or experts as it considers necessary from time to time in the performance of its duties.

Restrictions on share dealings by directors

Directors are subject to the *Corporations Act 2001* (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so), if they are in possession of inside information. Inside information is that information which is not generally available, and which if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Company.

Further, directors may only trade in the Company's securities (subject to also complying with applicable law) during each of the eight weeks commencing the day following each half yearly profit announcement or the date of issue of a prospectus. Directors are further required to discuss their intention to trade in the Company's securities with the Chairman prior to trading.

The directors are also subject to legal restrictions on insider trading in other jurisdictions.

Directors must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director by virtue of holding office as a director of the Company.

Shareholding requirements

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Within two months after a director's appointment, the director is required to hold at least 2,000 shares in the Company. Non-executive directors are required to receive at least 10% and up to 40% of their annual remuneration in the form of shares in the Company, under the National Australia Bank Staff Share Ownership Plan, which was approved by shareholders at the Company's annual general meeting in 2000 and fresh approval of the non-executive directors' share plan will be sought again at the 2003 annual general meeting. Such shares are acquired at market prices. The executive directors may receive share options and performance rights over shares as approved by shareholders and, as staff members, may also receive shares in the Company.

Details of all shareholdings by directors in the Company are set out in the report of the directors.

Confidential information

Internal control systems are monitored and employee integrity is fostered to ensure that confidential customer information is not disclosed outside the Group or used for financial gain of any other entity with which the director has an association. The directors regard the confidentiality of customer information as highly important. When the directors are serving on the boards of other companies and undertaking private transactions, they have regard to their confidentiality obligations at all times.

Board and committee agendas

Board and committee agendas are structured throughout the year to assist the Board to meet its significant responsibilities. This includes the Board's consideration of strategy and the achievement of financial and other goals. This also includes the Board receiving a detailed overview of the performance and significant issues confronting each business unit and support unit and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

Directors receive detailed financial, operational and strategy reports from senior management during the year and management is available to discuss the reports with the Board.

Board committees

The Board may establish committees as it considers necessary or appropriate to assist it in carrying out its responsibilities. The Board has established the following committees and has adopted charters setting out the matters relevant to the composition, responsibilities and administration of these committees:

Risk Committee;

Audit Committee;

Nomination Committee; and

Compensation Committee.

Other matters of special importance in relation to which Board committees are established include consideration of large credit facilities, borrowing programs, projects, capital strategies, major investments and commitments, capital expenditure, delegation of authorities to act, and the allocation of resources.

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During the year, the responsibilities of the previous Compensation and Nomination Committee were divided and allocated between two new committees.

Risk Committee

Membership

The Risk Committee was established on August 28, 2003. There were no meetings held during 2003.

The members of the Risk Committee at the date of this annual financial report are:

Mr Graham J Kraehe (Chairman);

Mr Frank J Cicutto;

Mr Peter JB Duncan; and

Dr Edward D Tweddell.

It is appropriate that members of the Risk Committee have a range of different backgrounds, skills and experiences having regard to the operations, financial and strategic risk profile of the Group.

Responsibilities and Risk Committee charter

The roles, responsibilities, composition and membership requirements are documented in the Risk Committee charter, which has been approved by the Board and may be found on the Group's website at www.nabgroup.com

The responsibilities of the Risk Committee include:

reviewing the Group's risk profile within the context of the Board risk/return profile determined by the Board;

implementing and reviewing risk management and internal compliance and control systems throughout the Group;

reviewing the adequacy and effectiveness of the Group's compliance management framework;

reviewing balance sheet risk management framework and strategies;

overseeing the Group's credit policies;

assessing operational risk limits;

reviewing business risk management;

reviewing country lines of credit; and

reviewing the liquidity policies of the Group.

More comprehensive details on risk management appear on pages 51 to 57.

Audit Committee

Membership

The members of the Audit Committee at the date of this annual financial report are:

Mrs Catherine M Walter (Chairman);

Mr Peter JB Duncan;

Dr Kenneth J Moss; and

Mr John G Thorn (joined on October 16, 2003).

All members of the Audit Committee must be independent, non-executive directors. Independence for these purposes is determined in accordance with the standard adopted by the Board, which reflects the independence requirements of applicable laws, rules and regulations, including the Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations and the United States *Sarbanes-Oxley Act of 2002*. Members are appointed for an initial term of three years. Membership is reviewed every three years and periodic rotation is encouraged whereby no more than one member each year can resign as a result of periodic rotation. It is considered appropriate that members of the Audit Committee be financially literate and have a range of different backgrounds, skills and experiences having regard to the operations, financial and strategic risk profile of the Group. The Board recognises the importance of the Audit Committee having at least one member with appropriate accounting or financial expertise, as required by applicable laws, best practice guidelines and listing standards. There is currently a member on the Audit Committee, Mr John G Thorn, who acts as the financial expert for United States regulatory purposes. All members of the Audit Committee are financially literate.

The Chairman of the Board cannot be a member of the Audit Committee.

The qualifications of the Audit Committee members together with the number of meetings attended by each member during the year may be found in the report of the directors.

Responsibilities and Audit Committee charter

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee charter, which has been approved by the Board and may be found on the Group's website at www.nabgroup.com

The Audit Committee is responsible for review and oversight of:

the integrity of the accounting and financial reporting processes of the Group;

the Group's external audit;

the Group's internal audit; and

compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group.

The Audit Committee met on seven occasions during the year. The charter is reviewed at least annually.

The Audit Committee has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

External auditor

The Audit Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to shareholder approval where required. Responsibilities of this nature are a departure from the Australian Stock Exchange Corporate Council Principles of Good Corporate Governance and Best Practice Recommendations which provide that the Audit Committee should recommend to the Board the appointment and removal of the external auditor. The reason for the departure is that United States laws and regulations require that these responsibilities rest with the Audit Committee.

The Audit Committee is to ensure that the external lead audit partner and concurring review partner are rotated off the Group's audit after no more than five years and are not reassigned to the Group's audit for at least five years.

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit. The Audit Committee meets with internal audit, the external auditor and the consulting actuary separately, without the presence of management, at least annually.

The Audit Committee receives certified assurances from the external auditor and the consulting actuary that they meet the independence requirements of the Company's global regulators.

Non-audit services

The Group has adopted an internal policy requiring the pre-approval of any non-audit services proposed to be undertaken by the external auditor. The policy incorporates auditor independence requirements of applicable laws, rules and regulations and has been promulgated throughout the Group.

Confidential financial submissions

The Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters. It is a responsibility of the Audit Committee to ensure that employees can make confidential, anonymous submissions regarding such matters.

Nomination Committee

Membership

The Nomination Committee's members at the date of this annual financial report are:

Mr D Charles K Allen (Chairman);
Mr Frank J Cicutto;
Dr J Brian Clark;
Mr Peter JB Duncan;
Mr Graham J Kraehe;
Dr Kenneth J Moss;
Mr John M Stewart;
Mr John G Thorn (joined October 16, 2003);
Mr Geoffrey A Tomlinson;
Dr Edward D Tweddell; and
Mrs Catherine M Walter,
acting in committee.

The Committee has authority from the Board to sub-delegate the authority of the Committee to a Sub-Committee, comprised of a minimum of three members of the Committee, to examine, review, consider and recommend such matters, relevant to the Nomination Committee Charter, as the Committee may consider appropriate from time to time.

The number of meetings attended by each member during the year, may be found in the report of the directors.

Responsibilities and Nomination Committee charter

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in a Nomination Committee charter, which has been approved by the Board, and which is available on the Group's website at www.nabgroup.com

The responsibilities of the Nomination Committee are to:

monitor, review and make recommendations to the Board regarding its performance;

monitor, review and make recommendations to the Board as necessary and appropriate regarding the objectives for and assessment of the performance of the Managing Director and Chief Executive Officer;

review and make recommendations to the Board as appropriate, with regard to:

- the size and composition of the Board;

- the criteria for Board membership and desirable qualifications, experience and domicile for individual new appointees to the Board;

- the induction program for new directors;

- the continuing education program for directors; and

- identification of potential candidates for appointment to the Board; and

review the Nomination Committee's charter, as well as its composition, annually.

Succession planning

The Nomination Committee reviews the succession planning for the Board and senior executives and reports to the Board on such issues.

Compensation Committee

Membership

The Compensation Committee's members at the date of this annual financial report are:

Dr Kenneth J Moss (Chairman);
Dr J Brian Clark;
Mr John G Thorn (joined November 7, 2003); and
Dr Edward D Tweddell.

The number of meetings attended by each member during the year may be found in the report of the directors.

Responsibilities and Compensation Committee charter

The Compensation Committee's role, responsibilities, composition and membership requirements are documented in a Compensation Committee charter, which has been approved by the Board and may be found on the Group's website at www.nabgroup.com

The responsibilities of the Compensation Committee are to:

monitor, review and make recommendations to the Board as necessary and appropriate regarding:

- the compensation arrangements for the Managing Director and Chief Executive Officer, including incentive plans, other benefits and service contracts; and

- the remuneration arrangements for non-executive directors;

oversee the remuneration policies of the Group generally;

review and approve:

- offers under existing share, option and performance rights plans from time to time on such conditions (not inconsistent with the provisions of the relevant plan) as the Compensation Committee thinks fit, including setting the terms of issue of shares, options and performance rights, within the aggregate number of securities able to be made available under the relevant plan as approved by the Board;

- remuneration reviews and payments under current incentive plans for senior executives and reward pools under various specialist incentive plans;

- fees for the members of the boards of controlled entities; and

- changes to the factors regarding the measurement of Economic Value Added EVA[®]; and

review the Compensation Committee's charter, as well as its composition, annually.

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Performance review

The Board reviews performance and sets the remuneration package applicable to the Managing Director and Chief Executive Officer following recommendations from the Compensation Committee. This performance review involves meeting established performance-based criteria structured on increasing shareholder value.

The remuneration policy for senior executives is set out in the report of the directors.

Controlled entities

The activities of every company in the Group are overseen by their own board of directors.

Directors of each of these controlled entities are provided with Corporate Governance Guidelines, which have been approved by the Board. The Corporate Governance Guidelines set out the specific roles, duties, responsibilities and rights of the directors of the controlled entities. Such guidelines set out the key expectations that the Board would have of the boards of controlled entities. The guidelines have been specifically tailored for the different types of entities depending on the nature of their business and their activities.

Mr Geoffrey A Tomlinson is the Chairman of National Wealth Management Holdings Limited, and certain wealth management controlled entities, due to his in-depth background and expertise in wealth management and insurance business. Directors of controlled entities are normally selected from among the outstanding business people in the local market in which the entities operate. A primary pre-requisite to the Board having confidence in the activities of a controlled entity board is to have a high quality subsidiary board with a commitment to the Group objectives. There is a standing invitation to all of the Board directors to attend any board meeting of a controlled entity through consultation with the Chairman. Such visits are undertaken to develop a broader understanding of the Group's total operations.

Communicating with shareholders

Strategy

The Group aims to be open and transparent with all stakeholders, including the owners of the business – the shareholders (direct and indirect). Plain English communications and easy access to company information are important objectives of the Company's communications strategy. Information is communicated to shareholders regularly through a range of forums, publications and online. These include:

the Company's annual general meeting, which this year will be held in Melbourne on December 19, 2003;

notices and explanatory memoranda of annual general meetings;

the concise annual report (unless a shareholder has requested not to receive this);

the annual financial report (for those shareholders who have requested a copy);

disclosures to the stock exchanges in Australia, London, Luxembourg, New York, New Zealand and Tokyo, and to the Australian Securities and Investments Commission and the US Securities and Exchange Commission;

letters from the Managing Director and Chief Executive Officer or the Chairman to specifically inform shareholders of key matters of interest; and

the Group's website at www.nabgroup.com, where there is a Shareholder Centre which includes access to company announcements and media releases and investor presentations.

In addition to the registered shareholders, there are many thousands who have invested indirectly through the Group's funds management products, and through the funds management products of a large number of organisations. The Group encourages these beneficial owners to take an active interest in the affairs of the Group by visiting the Group's website. Beneficial owners and others may also access the Shareholder Centre.

Meetings

The notice of annual general meeting provides details of the location, time and date of the meeting, the business to be considered by shareholders and details about each candidate standing for election or re-election as a director of the Company. On average, these meetings attract around 1,000 shareholders and stakeholders. For those shareholders who are unable to attend the meeting, the Company provides a webcast. The Company's external auditor attends this meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Continuous disclosure

The Board's policy is that shareholders are informed of all major developments that impact on the Company. There is a detailed continuous disclosure policy in place, which is intended to maintain the market integrity and market efficiency of the Company's shares listed on international stock exchanges. The Company has established written policies and procedures designed to manage the Company's compliance with the continuous disclosure obligations imposed by the various stock exchanges on which the Company's securities are listed (including the ASX) and to attribute accountability at a senior management level for that compliance.

Ethical standards

The operations of the Group are driven by the Group's purpose, vision statement and values. All of the Group's values are important and cover every aspect of daily banking and financial service practices.

The Group's values include the requirement that the business be conducted ethically, with integrity and professionalism to achieve the highest standards of behaviour. These values are reinforced by the Company's Code of Conduct, which requires the observance of strict ethical guidelines. The Code of Conduct applies to all senior executives and employees of the Group, as well as to directors, and temporary workers. In addition, the Board charter also governs the conduct of the Board and each director. The Code of Conduct covers:

personal conduct;

honesty;

relations with customers;

prevention of fraud;

financial advice to customers;

conflict of interest; and

disclosure.

The Group regularly reviews its relationships with the external suppliers of goods and services. Organisations with high ethical standards are favourably considered. Where there is transition of executives between the Group and major suppliers or customers, appropriate confidentiality and independence issues are addressed in both principle and process.

The Board supports the code of conduct issued by the Australian Institute of Company Directors.

In addition, the Group has adopted a code of conduct for financial professionals which applies to the Managing Director and Chief Executive Officer, Chief Financial Officer and all professionals worldwide serving in finance, accounting, tax or investor relations roles.

The Company strongly supports the Code of Banking Practice 2003, recently launched by the Australian Bankers Association, which includes:

major commitments and obligations to customers;

principles of conduct; and

the roles and responsibilities of the independent external body, the Code of Compliance Monitoring Committee, which investigates complaints about non-compliance.

Whistleblower Protection Program

The Group has a Whistleblower Protection Program established for the confidential reporting of issues of unacceptable or undesirable conduct. The system enables disclosures to be made to a Protected Disclosure Officer by the Group's employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, direct to the Audit Committee.

The Group does not tolerate known or suspected incidents of fraud, corrupt conduct, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

Nor does the Group tolerate taking reprisals against those who come forward to disclose such conduct. The Group will take all reasonable steps to protect employees who make such disclosures from any reprisal or detrimental action following the disclosure.

Report of the directors

The directors of National Australia Bank Limited (the Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended September 30, 2003.

Directors

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

Details of directors of the Company in office at the date of this report, and each director's qualifications, experience and special responsibilities are below:

Mr D Charles K Allen

AO, MA, MSc, FTSE, FAICD

Mr Allen was appointed Chairman in September 2001 and has been an independent non-executive director since 1992. He is Chairman of the Nomination Committee.

Experience

35 years in the petroleum industry including 21 years with Shell International and 14 years as Managing Director of Woodside Petroleum Ltd until 1996.

Other directorships

Ancor Limited, The Australian Gas Light Company (AGL), Air Liquide Australia Limited and Earthwatch Australia.

Mr Frank J Cicutto

BCom, FAIBF, FCIBS

Mr Cicutto, the Managing Director and Chief Executive Officer, was appointed to the Board as an executive director in 1998. He is a member of the Risk Committee and the Nomination Committee.

Experience

35 years in banking and finance in Australia and internationally. Previous executive positions within the Group include Head of Credit Bureau, State Manager New South Wales, Chief Executive Clydesdale Bank PLC, and Chief General Manager, Australian Financial Services. Appointed Executive Director and Chief Operating Officer in July 1998, and appointed Managing Director and Chief Executive Officer in June 1999.

Other directorships

Melbourne Business School Limited.

Dr J Brian Clark

DSc

Dr Clark is an independent non-executive director and was appointed in 2001. He is a member of the Compensation Committee and the Nomination Committee.

Experience

30 years as a research physicist and senior manager, including five years as President of CSIR, the largest multi-disciplinary contract research organisation in South Africa. From 1990 he has been involved in telecommunications, first as a non-executive director of Telkom SA Limited, then as its Managing Director and Chief Executive Officer. In 1997 he joined the Vodafone Group where he currently serves as Chief Executive Officer of Asia Pacific and a member of the Group's executive committee.

Other directorships

Chairman of the public company Vodafone Holdings KK in Japan and is a non-executive director of China Mobile (Hong Kong) Limited, Chairman and Board member of a number of Vodafone Group Companies.

Mr Peter JB Duncan

BE (Chem) (1st Class Hons), DBS (with Distinction), MAICD

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Mr Duncan is an independent non-executive director and was appointed in 2001. He is a member of the Audit Committee, the Risk Committee and the Nomination Committee.

Experience

36 years with Royal Dutch/Shell Group of companies, including senior finance and general management positions in Australia, New Zealand, South America, Europe and South East Asia. He was Chairman of the Shell Group of Companies in Australia and New Zealand. Former Chairman of the Australian Institute of Petroleum.

Other directorships

Orica Limited, GasNet Australia Limited and Commonwealth Scientific and Industrial Research Organisation (CSIRO). Chairman of Scania Australia Pty Limited. President of the Australian German Association. Honorary member of the Business Council of Australia.

Mr Graham J Kraehe

AO, BEc, FAICD

Mr Kraehe is an independent non-executive director and was appointed in 1997. He is the Chairman of the Risk Committee and a member of the Nomination Committee.

Experience

38 years in the wine, automotive and diversified manufacturing industries. Managing Director of Pacifica Limited from 1985 until 1994. Managing Director and Chief Executive Officer of Southcorp Limited from 1994 until early 2001.

Other directorships

Brambles Industries Limited, Brambles Industries PLC, The News Corporation Limited and Djerriwarrah Investments Limited. Chairman of BHP Steel Limited.

Dr Kenneth J Moss

BE, PhD, FIEAust, CPEng, FAICD

Dr Moss is an independent non-executive director and was appointed in 2000. He is Chairman of the Compensation Committee and is a member of the Audit Committee and the Nomination Committee.

Experience

35 years in the mining, engineering, marine and hardware industries with BHP Limited and the Howard Smith Group, including seven years as Managing Director of Howard Smith Limited until July 2000.

Other directorships

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Adsteam Marine Limited, GPT Management Limited and Hunter Area Health Service. Chairman of Boral Limited and Centennial Coal Company Limited.

Mr John M Stewart

BA, ACII, FCIB

Mr Stewart is an executive director and was appointed in August 2003. He is the Managing Director and Chief Executive Officer of National Australia Group Europe Limited and is a director of Clydesdale Bank PLC, Northern Bank Limited, National Irish Bank Limited and Yorkshire Bank PLC. He is a member of the Nomination Committee.

Experience

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26 years in banking and finance in the United Kingdom including four years as Group Chief Executive of Woolwich PLC until its acquisition by Barclays PLC in 2000 when he was appointed Deputy Group Chief Executive of Barclays PLC.

Mr John G Thorn

FCA, MAICD

Mr Thorn is an independent non-executive director and was appointed in October 2003. He is a member of the Audit Committee, the Compensation Committee and the Nomination Committee. He acts as the financial expert on the Audit Committee for United States regulatory purposes.

Experience

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37 years in professional services with PricewaterhouseCoopers, over 20 years as a partner responsible for significant international and Australian clients. Australian National Managing Partner and a member of the Global Audit Management Group until 2003.

Other directorships

Salmat Limited.

Mr Geoffrey A Tomlinson

BEc

Mr Tomlinson is an independent non-executive director and was appointed in 2000. He is Chairman of National Wealth Management Holdings Limited. He is a member of the Nomination Committee.

Experience

29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998.

Other directorships

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Amcor Limited and Mirrabooka Investments Limited. Chairman of Reckon Limited, Funtastic Limited and Programmed Maintenance Services Limited. Deputy Chairman of Hansen Technologies Limited.

Dr Edward D Tweddell

BSc, MBBS (Hons), FRACGP, FAICD

Dr Tweddell is an independent non-executive director and was appointed in 1998. He is a member of the Compensation Committee, the Nomination Committee and the Risk Committee.

Experience

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25 years in the pharmaceutical and health care industries. Group Managing Director and Chief Executive Officer of FH Faulding & Co Limited from 1993 to 2001.

Other directorships

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Chairman of Ansell Limited. Director of Australian Postal Corporation and Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Mrs Catherine M Walter

AM, LLB (Hons), LLM, MBA, FAICD

Mrs Walter is an independent non-executive director and was appointed in 1995. She is Chairman of the Audit Committee and is a member of the Nomination Committee.

Experience

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20 years as a solicitor and eight years as a partner in the firm Clayton Utz until 1994, including a period as Managing Partner of the Melbourne office. She also served as a Commissioner of the City of Melbourne.

Other directorships

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Australian Stock Exchange Limited, Orica Limited, Australian Foundation Investment Company Limited, Melbourne Business School Limited and The Walter and Eliza Hall Institute of Medical Research.

Board changes

During the year Mr John M Stewart was appointed an executive director and in October 2003, Mr John G Thorn was appointed a non-executive director.

Directors and officers indemnity

The Company's constitution

Article 21 of the Company's constitution provides:

Every person who is or has been an officer is entitled to be indemnified out of the property of the Company to the relevant extent against:

every liability incurred by the person in the capacity as an officer (except a liability for legal costs); and

all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil, criminal or of an administrative or investigatory nature, in which the officer becomes involved in that capacity,

unless:

the Company is forbidden by statute to indemnify the person against the liability or legal costs; or

an indemnity by the Company of the person against the liability or legal costs would, if given, be made void by statute.

The reference to the relevant extent means to the extent and for the amount that the officer is not otherwise entitled to be indemnified and is not actually indemnified.

The Company may also pay, or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in their capacity as an officer, including a liability for legal costs, unless:

the Company is forbidden by statute to pay or agree to pay the premium; or

the contract would, if the Company paid the premium, be made void by statute.

The Company may enter into a contract with an officer or former officer to give:

effect to the rights of the officer or former officer conferred by Article 21; and

an officer or former officer access to papers, including those documents provided from or on behalf of the Company or a related body corporate of the Company to the officer during their appointment and those documents which are referred to in such documents or were made available to the officer for the purpose of carrying out their duties as an officer.

Article 21 does not limit any right the officer otherwise has. In the context of Article 21, officer means a director, secretary or executive officer of the Company or of a related body corporate of the Company.

The existing and former directors, secretaries and executive officers of the Company and of its related bodies corporate are indemnified in terms of Article 21.

The Company has executed deeds of indemnity in terms of Article 21 in favour of each non-executive director of the Company and each non-executive director of a related body corporate of the Company.

Directors and officers insurance

During the year, the Company, pursuant to Article 21, paid a premium for a contract insuring all directors, secretaries, executive officers and employees of the Company and of each related body corporate of the Company. The insurance does not provide cover for the independent auditors of the Company or of a related body corporate of the Company.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Principal activities and significant changes in nature of activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

Review of operations

A review of the operations of the Group during the year, and the results of those operations are contained on pages 2 to 3, 14 to 23, and 42 to 43 of the concise annual report 2003. For a more detailed review of the operations of the Group, refer to pages 3 to 61 of this annual financial report.

Group results

The net profit attributable to members of the Company for the year ended September 30, 2003 was \$3,955 million, an increase of \$582 million (17.3%) on the previous year.

A detailed review of the Group results is contained on pages 42 to 43 of the concise annual report 2003. For a more detailed review of the Group results, refer to pages 3 to 61 of this annual financial report.

Dividends

The directors have declared a final dividend of 83 cents per fully paid ordinary share, 100% franked, payable on December 10, 2003. The proposed payment amounts to \$1,248 million.

Dividends paid since the end of the previous financial year:

the final dividend for the year ended September 30, 2002 of 75 cents per fully paid ordinary share, 90% franked, paid on December 11, 2002. The payment amount was \$1,151 million; and

the interim dividend for the year ended September 30, 2003 of 80 cents per fully paid ordinary share, fully franked, paid on July 2, 2003. The payment amount was \$1,104 million.

Further information on the dividends paid and declared to date is contained in note 7 to the financial statements.

The franked portion of these dividends carry imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%.

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

Significant changes in the state of affairs

On September 29, 2003, the Group raised GBP400 million through the issue by National Capital Trust I (a controlled entity formed in Delaware) of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until December 17, 2018 equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the five-year benchmark UK government bond rate at the start of that period plus 1.93%.

In certain limited circumstances, the Trust Preferred Securities will be exchanged for redeemable preference shares in the Company (TPS preference shares). The Company also has discretion to exchange the Trust Preferred Securities for TPS preference shares at any time. If issued, each holder of a TPS preference share would receive, if declared, non-cumulative dividends calculated at the same rate and payable on the same basis as apply to the Trust Preferred Securities.

With the prior consent of APRA, the Trust Preferred Securities and the TPS preference shares (if issued) may be redeemed in certain limited circumstances. In some circumstances, the redemption price may include a "make-whole" adjustment to compensate the investor for the investment opportunity lost by the early redemption.

The Trust Preferred Securities are listed on the Luxembourg Stock Exchange and on a winding up of the Company will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

In the opinion of the directors, there have been no other significant changes in the state of affairs during the year ended September 30, 2003.

Events subsequent to balance date

At the date of this report, the Company had not made the decision to elect to consolidate for Australian income tax purposes. If such an election is made, the Company would be the head entity in a tax-consolidated group comprising the Company and all of its Australian wholly-owned subsidiaries.

The financial effects of the tax consolidation legislation cannot be estimated reliably at this point in time and have not been brought to account in the financial statements for the year ended September 30, 2003, except as stated in note 23 of the financial report.

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 expects this to be up to approximately 25,500,000 ordinary shares. The period of the buy-back is expected to be from November 11, 2003 until September 30, 2004.

At the Company's annual general meeting to be held on December 19, 2003, the Company will seek shareholder approval to buy back the total of 36,008,000 fully paid non-converting non-cumulative preference shares of the Company issued in connection with the issue of 18,004,000 Trust Units Exchangeable for Preferred Shares™ of the Group. Approval of the buy-back will give the Group the flexibility to redeem these capital instruments if it considers the capital is no longer required and/or the instruments no longer offer a cost effective source of Tier 1 capital.

No further matter, item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

Details of the likely major developments in the operations of the Group in future years and the expected results of those operations are referred to on pages 4 to 7 in the concise annual report 2003.

In the opinion of the directors, disclosure of any further information would be likely to result in unreasonable prejudice to the interests of the Group.

Environmental regulation

The operations of the Group are not subject to any particular and significant environmental regulation under a law of the Australian Commonwealth Government or of a State or Territory, but the Group can incur environmental liabilities as a lender. The Group has developed credit policies to ensure this is managed appropriately.

Rounding of amounts

Events subsequent to balance date

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

Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Company by a member or other person entitled to do so under section 237 of the *Corporations Act 2001* (Cth).

Remuneration policy and relationship to Company performance

Non-executive directors

The fees paid to non-executive members of the Board are based on advice and data from the Company's remuneration specialists and from external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Company's operations, the achievements of the Company and the responsibilities and workload requirements of Board members.

Because the focus of the Board is on the long-term strategic direction of the Company, there is no direct link between non-executive director remuneration and the short-term results of the Company. The long-term performance of the Company, relative to other large corporations, is considered among other factors in setting the fee pool, which is periodically proposed to shareholders at the annual general meeting for approval. Shareholders will be presented with a proposal to consider a revised fee pool at the Company's annual general meeting to be held on December 19, 2003.

Fees are established annually for the Chairman and non-executive directors. Additional fees are paid, where applicable, for participation in Board committees and for serving on the boards of controlled entities. The total fees paid to members of the Board, including fees paid for their involvement on Board committees and controlled entity boards, are kept within the total approved by shareholders from time to time.

At the Company's annual general meeting held in December 2000, shareholders approved the non-executive directors' share arrangement under the National Australia Bank Staff Share Ownership Plan. Under this arrangement, shares are provided to non-executive directors as part of their remuneration, rather than receiving cash. The shares are either issued or acquired on-market on behalf of participants and allocated to non-executive directors on dates determined by the trustee of the National Australia Bank Staff Share Ownership Plan in its sole discretion. Shareholder approval for the continued provision of shares in accordance with this arrangement will be sought at the Company's annual general meeting to be held on December 19, 2003.

Agreements between the Company and certain of the non-executive directors provide that upon, and in the consequence of, each of these directors ceasing to be a director by reason of retirement or death, the Company shall pay a lump sum retirement allowance. This retirement

benefit, as approved by shareholders, is based on period of service, as follows:

Less than 15 years

One-third of the average yearly emoluments paid by the Company to the director:

- (a) during the last three years of service; or
- (b) when the period of such service is less than three years, during that period,

for each completed year of service and proportionately for part of a year, as a non-executive director; or

15 years or more

Five times the average yearly emoluments paid by the Company to the director during the last three years of service as a non-executive director.

During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors. For all new non-executive directors, who would have no entitlement to a retirement allowance benefit, their directors' fees have been set at a higher level than the current fees payable. The new directors would then have flexibility in relation to their remuneration, including the opportunity to set aside additional superannuation beyond the compulsory superannuation guarantee levy, if so desired.

It is proposed that the existing contractual arrangements will be frozen. Current directors will move onto similar arrangements to those of new directors. Shareholders will be asked to approve this proposal at the Company's annual general meeting to be held on December 19, 2003.

The following table shows details of the nature and amount of each element of the emoluments of each non-executive director of the Company for 2003. No options or performance rights have been granted to non-executive directors during or since the end of 2003 as part of their remuneration.

Fees, cash component (1)	Fees, share component (1) (2)	Other benefits (3)	Total remuneration	Accrual of retirement	Total accumulated retirement benefit
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Events subsequent to balance date

					allowance benefits for the year	(4)
	\$	\$	\$	\$	\$	\$
Non-executive directors						
D Charles K Allen	251,449	137,266	22,630	411,345	352,911	1,083,218
J Brian Clark	72,800	42,200	6,552	121,552	31,781	65,315
Peter JB Duncan	173,253	29,119	15,593	217,965	55,429	93,470
Graham J Kraehe	114,030	23,200	10,263	147,493	55,620	252,311
Kenneth J Moss	179,436	32,433	16,149	228,018	45,474	124,178
Geoffrey A Tomlinson	226,592	43,788	20,393	290,773	83,366	239,534
Edward D Tweddell	138,530	11,900	12,468	162,898	52,406	252,467
Catherine M Walter	262,615	32,950	23,635	319,200	163,096	546,862

(1) *Non-executive directors remuneration represents fees in connection with their roles, duties and responsibilities as non-executive director, and includes attendance at meetings of the Board, Board committees and boards of controlled entities and includes payments of \$78,484 to Mrs Walter and \$31,218 to Mr Tomlinson in respect of services performed as non-executive directors of subsidiary boards and committees relating to the prior year.*

(2) *The aggregate number of shares acquired by non-executive directors as part of their remuneration was 13,299 shares and the average issue price was \$29.77.*

(3) *Reflects compulsory Company contributions to superannuation and includes contributions of \$3,320 to Mrs Walter and \$531 to Mr Tomlinson in respect of services performed as non-executive directors of subsidiary boards and committees relating to the prior year.*

(4) *Excludes accumulated compulsory contributions to superannuation and accumulated investment earnings on those contributions.*

Senior executives

The Group operates in a number of countries and business segments so it is necessary to consider remuneration for senior executives in the context of the different geographic and specialist remuneration markets in which the Group competes for top executive talent.

Senior executives have a direct impact on the performance of the Group and its future prospects and the Board believes it is imperative that remuneration levels are set to be among the leaders of major corporations, in the appropriate remuneration markets, to ensure that the Group is able to attract and retain the best available executive talent.

Remuneration for senior executives of the Group is determined in accordance with remuneration structures set by the Board, following recommendations from the Compensation Committee (previously the Nomination and Compensation Committee). The Compensation Committee receives advice on the level and form the remuneration should take from the Group's remuneration specialists. This advice incorporates individual performance achievements and competitive market data and analysis from several external remuneration advisers.

Individual performance for senior executives is assessed through a mix of qualitative and quantitative measures using a scorecard approach. An annual review of performance objectives is conducted by the Chief Executive Officer for each senior executive and outcomes are distributed to the Board for noting.

Senior executive remuneration is made up of three components. For out-performance, these amounts can exceed the median of the selected remuneration market:

Fixed remuneration

This element reflects the scope of the role and the level of skill and experience of the individual and is generally referenced to the median of the applicable remuneration market;

Short-term incentive

Short-term incentives are structured to reward achievement of individual, business and Group annual performance targets. This is paid depending on the annual performance of the Group (measured by the Group EVA[®] profitability measure), the individual business unit and the individual executive. The weighting of this component varies depending on the nature of the specific executive role. This aspect of the reward program considers actual achievements over the past year.

The performance of the Group and individual business units is the key factor in setting the pools to provide these short-term rewards which generally apply to other staff as well as senior executives; and

Long-term incentive

Long-term incentives are an integral part of the Group's remuneration program in rewarding an individual's contribution and potential contribution to the Group's performance. They involve the issue of options, performance rights and shares to executives.

The current long-term incentive plan links the reward of the executive directly to the total shareholder return (TSR) of the Company (based on share price growth, assuming reinvestment of dividends). This aspect of the reward program focuses the executive on the future performance of the Group over the next three to eight years.

Performance rights were introduced in 2003 to rebalance the long-term incentive plan. Prior to their introduction, almost all of a senior executive's long-term incentive was provided in the form of options. From March 2003, half of the remuneration value previously assigned to options is allocated in the form of performance rights. The introduction of performance rights has reduced the number of options granted annually and ensures that part of a senior executive's long-term incentive remains active in situations where the Group has met the assigned performance hurdles but where options have no value.

Before executive share options and performance rights can be exercised, a performance hurdle must be met.

This hurdle compares the TSR of the Company with the TSRs of the top 50 companies in the S&P ASX100 (excluding the Company) as at the date the options or performance rights are granted or such other date determined by the Board. The number of options or performance rights that may be exercised, if any, depends on the relevant ranking of the Company compared with this comparator group. Only 50% of options and performance rights vest if the median TSR ranking is achieved. For a more detailed description of the performance hurdle, see [share options and performance rights](#) below.

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Each option and performance right granted is over one ordinary share in the capital of the Company.

The following table shows the remuneration details for all executive directors (including the Managing Director) and the senior executives receiving the highest emoluments from the Company and the Group during 2003:

Executive director emoluments

Name and position	Salary package (1)	Cash performance-based remuneration(2)	Other benefits (3)	Total cash remuneration	Deferred performance-based remuneration (4)	Allocation of fair value of all unvested options and performance rights (5)	Total remuneration	Options granted during 2003 (6)	Performance rights granted during 2003 (7)
	\$	\$	\$	\$	\$	\$	\$	(No.)	(No.)
Frank J Cicutto Managing Director and Chief Executive Officer	1,897,707	1,293,000	153,544	3,344,251	2,586,000	1,844,375	7,774,626	300,000	100,000
John M Stewart (8) Managing Director and Chief Executive Officer, National Australia Group Europe Limited	175,798	296,021	55,807	527,626		52,161	579,787	125,000	31,250

Senior executive emoluments (current employees at September 30, 2003)

Name and position	Salary package (1)	Cash performance-based remuneration(2)	Other benefits (3)	Total cash remuneration	Deferred performance-based remuneration (4)	Allocation of fair value of all unvested options and performance rights (5)	Total remuneration	Options granted during 2003 (6)	Performance rights granted during 2003 (7)
	\$	\$	\$	\$	\$	\$	\$	(No.)	(No.)
Peter B Scott Executive General Manager, Wealth Management	663,120	825,000	314,855	1,802,975	139,000	1,082,984	3,024,959	125,000	31,250
Richard E McKinnon Chief Financial Officer	740,000	871,000	59,670	1,670,670	146,000	1,088,709	2,905,379	125,000	31,250
Ian G MacDonald Executive General Manager, Financial Services Australia	636,411	762,000	51,157	1,449,568	144,000	1,030,734	2,624,302	125,000	31,250
Ian F Scholes Executive General Manager, Corporate & Institutional Banking	575,000	1,062,000	43,847	1,680,847	263,000	555,234	2,499,081	125,000	31,250
Ross E Pinney Executive General Manager, Financial Services Europe	663,002	422,000	171,340	1,256,342	128,000	857,641	2,241,983	75,000	18,750

Senior executive emoluments (ceased employees)

Name and position	Salary package (1)	Performance-based remuneration (2)	Other benefits (4) (9)	Allocation of fair value of options and performance rights (5)	Total emoluments	Options granted during 2003 (6)	Performance rights granted during 2003 (7)
	\$	\$	\$	\$	\$	(No.)	(No.)
Joseph J Whiteside							

Former Chairman and Chief Executive Officer, HomeSide Lending, Inc.	2,710,517	2,710,517
Stephen C Targett Former Executive General Manager, Financial Services Europe	305,397	464,322

(1) Reflects the total remuneration package consisting of both basic salary and packaged benefits, which could otherwise be taken as cash.

(2) Reflects performance-based remuneration accrued but not yet paid in respect of performance for the year to September 30, 2003. Previously, the Group determined the allocation of performance-based remuneration after the signing of the annual financial report and as such reported performance-based remuneration in the year paid. The performance-based remuneration paid in 2003 in respect of performance for the year to September 30, 2002 was: Frank J Cicutto \$1,931,288; John M Stewart \$nil; Peter B Scott \$599,250; Richard E McKinnon \$773,746; Ian G MacDonald \$666,450; Ian F Scholes \$877,762; Ross E Pinney \$329,035; Joseph J Whiteside \$nil; and Stephen C Targett \$753,473.

(3) Reflects non-salary package remuneration and includes Company contributions to superannuation, benefits received under the Group's employee share plans as described in note 39 in the financial report and expatriate benefits.

(4) Reflects above-target performance-based remuneration which has been accrued but not yet paid in respect of performance for the year to September 30, 2003. This above-target remuneration is held in an at-risk reserve and is only paid when an executive has met required service and performance conditions.

(5) Refer below for an explanation of fair value based on the guidelines issued by ASIC.

(6) The options were granted on March 21, 2003, and with respect to John M Stewart on August 8, 2003, at an exercise price of \$30.46 each and are first exercisable on March 21, 2006. No options have been granted to senior executives since September 30, 2003. Refer to share options and performance rights below for an explanation of the performance hurdle that must be achieved before the options can be exercised.

(7) A notional sum of \$1.00 is payable by the holder on exercise of an entire tranche of performance rights. The performance rights were granted on March 21, 2003, and with respect to John M Stewart on August 8, 2003, and are first exercisable on March 21, 2006. No performance rights have been granted to senior executives since

September 30, 2003. Refer to share options and performance rights below for an explanation of the performance hurdle that must be achieved before the performance rights can be exercised.

(8) Mr John M Stewart commenced service late in 2003.

(9) Reflects payment made to Joseph J Whiteside under contract following the sale of SR Investment, Inc. and its controlled entity, HomeSide Lending, Inc., on October 1, 2002.

The disclosure of the allocation of fair value of options and performance rights in the above tables has been based upon guidelines issued by ASIC in June 2003. These guidelines have regard to the draft accounting standards ED 2 Share-based Payment issued by the International Accounting Standards Board (IASB) and ED 108 Request for Comment on IASB ED 2 Share-based Payment issued by the Australian Accounting Standards Board (AASB). In accordance with these guidelines, each year a portion of the fair value of all unvested options and performance rights is included in the remuneration of senior executives for disclosure purposes. This portion of the fair value is based on a straight-line allocation of fair value over the expected life of each unvested option or performance right. No adjustments are made to reverse amounts in relation to options and performance rights that never vest. Prior to October 1, 2002, the Company disclosed the fair value of options granted during the financial year using a numerical pricing model, but did not allocate those values over their expected life for reporting emoluments. Rather, the full fair value of the grant was disclosed as an emolument in the year of grant. As a result, included in the amounts disclosed above as an allocation of fair value of option and performance rights in relation to 2003, are amounts related to unvested options granted in prior years that were disclosed as part of emoluments in the relevant prior years. This is a result of transitioning to the reporting principles required by ASIC. Note however, when the final accounting standards referred to above are promulgated, they will not require all unvested options and performance rights to be treated in this way, only those granted after November 7, 2002 that are unvested at the date of adoption of the standards. A difference may therefore arise between disclosure under the ASIC guidelines and the remuneration expense recognised under the new accounting standards in the Group's financial performance.

Options and performance rights granted as part of executive emoluments have been valued using a numerical pricing model, which takes account of factors including the option or performance right exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share, the expected life of the option and the probability of the performance hurdle being reached. *For further details, refer to note 39 in the financial report.*

Share options and performance rights

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The share options and performance rights currently issued by the Company are options and performance rights over ordinary shares granted by the Group under the Company's National Australia Bank Executive Share Option Plan No. 2 (ESOP no. 2) and its National Australia Bank Performance Rights Plan (performance rights plan). Note that the holders of exchangeable capital units have the right to exchange those units for ordinary shares in the Company or, at the Company's option, cash. Refer to note 32 in the financial report for full details of the number and terms of exchangeable capital units issued by the Group.

The number and terms of options and performance rights over ordinary shares granted by the Group under the ESOP no. 2 and the performance rights plan, and the Company's valuation of those options and performance rights at grant date are detailed below.

During and since the end of 2003, the following share options and performance rights were granted to 847 senior employees (including the options and performance rights granted to senior executives referred to immediately above):

Grant date	Exercise period (1)	Exercise price (2)	Held at September 30, 2003	Lapsed during the period (3)	Granted	Fair value as at grant date (4)
		\$	(No.)	(No.)	(No.)	\$
Options						
March 21, 2003	March 21, 2006 - March 20, 2011	30.46	5,949,000	29,750	5,978,750	26,964,163
August 8, 2003	March 21, 2006 - March 20, 2011	30.46	125,000		125,000	563,750
October 31, 2003	March 21, 2006 - March 20, 2011	30.98	127,500		127,500	559,725
Performance rights						
March 21, 2003	March 21, 2006 - March 20, 2011	1.00	1,512,394	7,438	1,519,832	33,466,701
August 8, 2003	March 21, 2006 - March 20, 2011	1.00	31,250		31,250	688,125
October 31, 2003	March 21, 2006 - March 20, 2011	1.00	31,875		31,875	720,056

(1) Share options and performance rights expire on the last day of their exercise period.

- (2) *A notional sum of \$1.00 is payable by the holder on exercise of each tranche of performance rights.*
- (3) *These share options and performance rights lapse 30 days after the termination of employment unless otherwise determined by the Board in accordance with their terms.*
- (4) *Fair values of options and performance rights are based on a numerical pricing model. For the purposes of this table, the fair value at grant date represents the full fair value in the year of grant and has not been allocated over the expected life of the option or performance right. Refer above and to note 39 in the financial report for further information*

The ESOP no. 2 was approved by shareholders by special resolution in January 1997 and again at the 2002 annual general meeting. Options granted under the plan up to September 30, 2003 are detailed in note 39 in the financial report.

The ESOP no. 2 provides for the Board to grant options to executives of the Group to subscribe for fully paid ordinary shares in the Company. Options must not be granted if the total number of shares issued in the last five years under the Company's employee share or option plans and of outstanding options and performance rights under its plans, including the proposed offer or grant, exceeds 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer or grant. This calculation does not include offers made or shares or options or performance rights granted as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act 2001* (Cth) (for example, shares provided for no consideration under the National Australia Bank Staff Share Allocation Plan), otherwise than as a result of relief granted by ASIC.

Options are granted free of charge to participants in the ESOP no. 2. Each option is to subscribe for one fully paid ordinary share in the Company. The exercise price per share for an option is the market price of the Company's fully paid ordinary shares as at the date the option was granted or such other date determined by the Board. The market price is determined as the weighted average of the prices at which the Company's fully paid ordinary shares were traded on Australian Stock Exchange Limited (ASX) in the one week up to and including the relevant day.

Generally, these options may not be exercised before the third anniversary of their grant, and must be exercised before the fifth or eighth anniversary (depending on the particular terms of each option) of grant. Currently options granted under the ESOP no. 2 have a life of eight years. The Board may determine such other terms for the grant of options consistent with the ASX Listing Rules and the *Corporations Act 2001* (Cth).

The Board may allow the option-holders to exercise the options irrespective of the normal criteria (for example, before the third anniversary of grant and notwithstanding the performance hurdle) where certain events occur, such as the making of a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.

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Options will lapse if unexercised on or before their expiry date or, for options granted prior to November 1999, if the Board determines that the holder has acted fraudulently, dishonestly or in breach of the holder's obligations to any entity in the Group and for options granted after November 1999, 30 days after an executive ceases to be employed by the Group otherwise than as a result of death or total and permanent disablement unless otherwise determined.

A loan may be available to executives (except for executive directors) if and when they wish to exercise their options, subject to the provisions of applicable laws and regulations (including the United States *Sarbanes-Oxley Act of 2002*). The ESOP no. 2 rules provide that the rate of interest applicable to such a loan be the Company's base lending rate plus any margin determined by the Board. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

Exercise of the options is subject to satisfaction of a performance hurdle. The performance hurdle for options granted after November 1999 is measured after the first three years by comparing the performance of the Company with the performance of other companies in which shareholders may potentially invest. Options become exercisable depending on the maximum total shareholder return (based on share price growth assuming reinvestment of dividends) of the Company relative to the total shareholder return of a group of companies during the relevant performance period. This group of companies is based on the top 50 companies in the S&P ASX100 (excluding the Company), determined at the date when the options are granted or such other date determined by the Board. If the relative performance of the Company during the relevant vesting period (years three to eight) does not exceed the 49th percentile at any time, then no options will vest with the holder (or be exercisable). If the relative performance of the Company reaches or exceeds the 75th percentile during the performance period at any time, then all options will be exercisable by the holder. If the relative performance of the Company reaches between the 50th and 74th percentile then a formula is applied resulting in a percentage of between 50% and 74%, of the total options granted being exercisable by the holder.

The performance rights plan was approved by shareholders at the 2002 annual general meeting and performance rights granted under this plan are shown in the table above.

The performance rights plan provides for the Board to grant performance rights to executives of the Group to subscribe for fully paid ordinary shares in the Company. Performance rights cannot be granted under the performance rights plan if the number of shares to be received on exercise of those performance rights together with all shares granted under the Company's employee incentive plans over the last five years and the number of outstanding options and performance rights granted under those plans exceeds 5% of the Company's issued share capital. This calculation does not include offers or grants made or shares, options or performance rights granted as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act 2001* (Cth) (for example, shares provided for no consideration under the National Australia Bank Staff Share Allocation Plan), otherwise than as a result of relief granted by ASIC.

Performance rights cannot be transferred and are not quoted on ASX. Each performance right is to subscribe for one fully paid ordinary share in the Company. Executives do not need to pay any amounts to the Company for the performance rights they receive; however, the holder of performance rights must pay a nominal exercise price to exercise the performance rights. The total exercise price payable by a holder for the exercise of performance rights on a particular day is \$1.00, irrespective of the number of rights exercised on that day.

Generally, performance rights may not be exercised before the third anniversary of their grant, and must be exercised before the eighth anniversary of grant. The Board may determine such other terms for the

grant of performance rights consistent with the ASX Listing Rules and the *Corporations Act 2001*(Cth).

The Board may allow performance rights holders to exercise the performance rights irrespective of the normal criteria (for example, before the third anniversary of grant and notwithstanding the performance hurdle) where certain events occur, such as the making of a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.

Exercise of the performance rights is subject to substantially the same vesting schedule and performance hurdle as options granted under the ESOP no. 2. A performance right not exercised will lapse in similar circumstances to an unexercised option granted under the ESOP no. 2.

The Group does not recognise an expense in its profit and loss account for options or performance rights. The IASB is currently finalising the drafting of a standard for accounting for share-based payments (including employee share options and their repricing). The Company intends to adopt the new standards in relation to accounting for share options once promulgated by the IASB and the AASB.

There were 6,395,000 fully paid ordinary shares of the Company issued during the year as a result of options granted being exercised, for a total consideration of \$135,215,445. There were 77,900 fully paid ordinary shares of the Company issued since the end of the year as a result of options granted being exercised, for a total consideration of \$1,890,331. No performance rights were exercised during the relevant time. The amount paid on issue of each of these shares is set out in note 39 to the financial statements in this annual financial report. There are currently 46,296,100 options and 1,575,269 performance rights outstanding under the respective plans.

No person holding an option has or had, by virtue of the options, a right to participate in a share issue of any body corporate other than the Company.

Directors meetings

The table below shows the number of directors meetings held (including meetings of Board committees) and number of meetings attended by each of the directors of the Company during the year:

Directors	Directors meetings of the Company				Audit Committee meetings of the Company		Compensation and Nomination Committee meetings of the Company (6)		Directors meetings of controlled entities		Additional meetings (8)	Meetings attended (8)
	Scheduled meetings attended	Scheduled meetings held (1) (2)	Unscheduled meetings attended (3)	Unscheduled meetings held (2)	Meetings attended	Meetings held (2)	Meetings attended	Meetings held (2)	Meetings attended	Meetings held (2)		
DCK Allen	10	10	6	6	7(4)	7(4)	4	4	8	8		21
FJ Cicutto	10	10	6	6	6(4)	6(4)	3(1)	3(1)	14	14		13

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JB Clark	10	10	3(3)	6				7	7	7
PJB										
Duncan	10	10	5(3)	6	7	7		18	18	13
GJ Kraehe	10	10	4(3)	6	7	7		7	7	14
KJ Moss	10	10	6	6	7	7	3	4	14	14
JM Stewart										
(5)	1(2)	1(2)	4	4						
GA										
Tomlinson	10	10	5(3)	6	1(4)	1(4)		29	36	9
ED										
Tweddell	10	10	6	6			4	4	7	7
CM Walter	10	10	6	6	7	7		15	18	34

(1) *Scheduled Board meetings span two days.*

(2) *Reflects the number of meetings held during the time the director held office during the year. Where a controlled entity holds board meetings in a country other than the country of residence of the director, or where there may be a potential conflict of interest, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year.*

(3) *Where a director is unable to attend an unscheduled Board meeting called at short notice, the director is provided with a separate briefing on the matters to be considered at the meeting, and the views of the director are obtained.*

(4) *Reflects the number of committee meetings attended, even though the director is not a member of the committee.*

(5) *Mr John M Stewart became a director on August 11, 2003.*

(6) *At the meeting of the Board held on September 4, 2003, the Compensation and Nomination Committee was divided into two separate committees.*

(7) *At the meeting of the Board held on August 28, 2003, the Risk Committee was established.*

(8) *Reflects the number of additional formal meetings attended during the year by each director, including committee meetings (other than Audit Committee, Compensation Committee or Nomination Committee) where any two directors are required to form a quorum.*

Subsequent to the end of the year, Mr John G Thorn was appointed as an independent non-executive director.

Directors interests

The table below shows the interests of each director in the issued ordinary shares and National Income Securities of the Company, and in registered schemes made available by the Group as at the date of this report. No director held an interest in the Trust Preferred Securities, the Trust Units Exchangeable for Preferred SharesTM or exchangeable capital units of the Group. *Trust Units Exchangeable for Preferred SharesTM* is a trademark of Merrill Lynch & Co., Inc.

Directors	Fully paid ordinary shares of the Company	Options over fully paid ordinary shares of the Company	Performance rights	National Income Securities
D Charles K Allen (1)	22,261			
Frank J Cicutto (2)(3)	241,122	1,700,000	100,000	
J Brian Clark (1)	4,825			
Peter JB Duncan (1)	4,854			
Graham J Kraehe (1)	15,638			670
Kenneth J Moss (1)	4,957			
John M Stewart		125,000	31,250	
John G Thorn (4)	2,000			
Geoffrey A Tomlinson (1)	19,204			500
Edward D Tweddell (1)	4,168			
Catherine M Walter (1)	18,011			

(1) *Includes shares held under National Australia Bank Staff Share Ownership Plan.*

(2) *Includes National Australia Bank Staff Share Allocation Plan issues.*

(3) *There were no shares acquired as a result of options exercised.*

(4) *Mr John G Thorn became a director on October 16, 2003.*

There are no contracts, other than those disclosed above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for or deliver interests in a registered scheme made available by the Company or a related body corporate.

All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between the Company and any such organisations.

Signed in accordance with a resolution of the directors:

/s/ D Charles K Allen
D Charles K Allen
Chairman

/s/ Frank J Cicutto
Frank J Cicutto
Managing Director

November 11, 2003

Financial report

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Statement of financial performance

For the year ended September 30	Note	Group			Company	
		2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Interest income	4	17,100	16,475	19,919	11,979	11,438
Interest expense	5(b)	(9,681)	(9,253)	(12,959)	(7,928)	(7,545)
Net interest income		7,419	7,222	6,960	4,051	3,893
Premium and related revenue	4, 57	949	1,134	1,074		
Investment revenue	4, 57	2,759	(988)	(877)		
Claims expense	5(b), 57	(958)	(956)	(599)		
Change in policy liabilities	5(b), 57	(1,518)	1,637	1,318		
Policy acquisition and maintenance expense	5(b), 57	(713)	(751)	(699)		
Investment management fees	5(b), 57	(75)	(86)	(89)		
Net life insurance income		444	(10)	128		
Other banking and financial services income	4	5,010	7,006	4,749	6,230	3,260
Mortgage servicing and origination revenue	4		378	810		
Movement in the excess of net market value over net assets of life insurance controlled entities	4	(160)	(155)	510		
Significant revenue Proceeds from the sale of foreign controlled entities	4, 5(a)		2,671	5,314		
Personnel expenses	5(b)	(3,416)	(3,379)	(3,725)	(1,907)	(1,851)
Occupancy expenses	5(b)	(556)	(559)	(587)	(280)	(276)
General expenses	5(b)	(2,382)	(4,769)	(2,158)	(1,072)	(1,052)
Amortisation of goodwill	5(b)	(98)	(101)	(167)		
Charge to provide for doubtful debts	5(b), 17	(633)	(697)	(989)	(373)	(259)
Significant expenses						
Restructuring costs	5(a), (b)		(580)			(363)
Cost of foreign controlled entities sold	5(a), (b)		(2,686)	(2,929)		(138)
Impairment loss on mortgage servicing rights	5(a), (b)			(1,643)		
Charge to provide for mortgage servicing rights valuation adjustment	5(a), (b)			(1,436)		
Impairment loss on goodwill	5(a), (b)			(858)		
Profit from ordinary activities before income tax		5,628	4,341	3,979	6,649	3,214

expense

Income tax expense relating to ordinary activities	6	(1,681)	(962)	(1,891)	(929)	(712)
Net profit		3,947	3,379	2,088	5,720	2,502
Net loss/(profit) attributable to outside equity interest – Life insurance business		16	(6)	(5)		
Net (profit) attributable to outside equity interest – Other		(8)				
Net profit attributable to members of the Company		3,955	3,373	2,083	5,720	2,502

Other changes in equity other than those resulting from transactions with owners as owners

Net credit to asset revaluation reserve	35	9	9	8		3
Net credit/(debit) to foreign currency translation reserve	35	(1,251)	(520)	1,380	(40)	
Net credit to retained profits on initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	1(d), 36	1,151			1,151	
Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised directly in equity		(91)	(511)	1,388	1,111	3
Total changes in equity other than those resulting from transactions with owners as owners		3,864	2,862	3,471	6,831	2,505

Basic earnings per share (cents)	8	248.8	205.7	121.5		
Diluted earnings per share (cents)	8	243.6	202.5	122.8		
Dividends per ordinary share (cents)						
Interim	7	80	72	67		
Final	7	83	75	68		

Statement of financial position

As at September 30	Note	Group		Company	
		2003 \$m	2002 \$m	2003 \$m	2002 \$m
Assets					
Cash assets	9	5,032	6,294	779	1,515
Due from other financial institutions	10	10,383	15,876	7,820	12,579
Due from customers on acceptances	11	19,562	19,474	19,496	19,400
Trading securities	12	23,724	19,590	22,952	17,471
Trading derivatives		23,644	12,128	22,773	11,498
Available for sale securities	13	6,513	6,192	6,503	6,150
Investment securities	14	8,647	13,541	3,668	9,644
Investments relating to life insurance business	15	35,846	31,012		
Loans and advances	16	247,959	231,300	165,746	143,607
Mortgage servicing rights	19		1,794		
Due from controlled entities				29,569	28,923
Shares in controlled entities, joint venture entities and other securities	20	1,445	1,199	12,250	11,926
Regulatory deposits	21	225	129	93	38
Property, plant and equipment	22	2,498	2,640		