

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

FILE NO 1-9945

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON DC 20549

---

## FORM 6-K

### REPORT OF FOREIGN ISSUER

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

For the month of November 2003

### **National Australia Bank Limited**

ACN 004 044 937  
(Registrant's Name)

Level 24  
500 Bourke Street  
MELBOURNE VICTORIA 3000  
AUSTRALIA

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

Form 20-F

Form 40-F

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

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

Yes

No

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

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National Australia Bank Limited and to be part thereof from the date on which this Report, is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

---

National Australia Bank Limited

**Full Year Results 2003**

12 Months Ended 30 September 2003

[NATIONAL LOGO]

---

## TABLE OF CONTENTS

|   |    |
|---|----|
| <b><u>Media Release</u></b>   | 1  |
| <b><u>Section 2 - Financial Summary</u></b>                               | 5  |
| <u>Reporting Format</u>   | 6  |
| <u>Divisional Performance Summary</u>                                     | 8  |
| <u>Group Performance Summary</u>  | 9  |
| <u>Regional Performance Summary</u>                                       | 10 |
| <u>Summary of Financial Position</u>                                      | 11 |
| <u>Group Key Performance Measures</u>                                     | 12 |
| <b><u>Section 3 - Management Discussion &amp; Analysis</u></b>            | 13 |
| <u>Overview</u>   | 14 |
| <u>Restructuring Progress</u>   | 16 |
| <u>Asset Quality</u>  | 18 |
| <u>European Pension Schemes</u>   | 21 |
| <u>Software Capitalisation</u>  | 21 |
| <u>Profitability</u>  | 22 |
| <u>Net Operating Income</u>   | 22 |
| <u>Net Interest Income</u>  | 22 |
| <u>Net Life Insurance Income</u>  | 24 |
| <u>Other Operating Income</u>   | 25 |
| <u>Operating Expenses</u>   | 25 |
| <u>Income Tax Expense</u>   | 26 |
| <u>Capital and Performance Measures</u>                                   | 27 |
| <u>Performance Measures</u>   | 27 |
| <u>Capital Position</u>   | 28 |
| <u>Share Buy-back Program</u>   | 28 |
| <u>Total Banking</u>  | 29 |
| <u>Retail Banking</u>   | 30 |
| <u>Financial Services Australia</u>                                       | 31 |
| <u>Financial Services Europe</u>  | 33 |
| <u>Financial Services New Zealand</u>                                     | 36 |
| <u>Corporate &amp; Institutional Banking</u>                              | 38 |
| <u>Wealth Management</u>  | 40 |
| <u>Other (incl. Excess Capital, Group Funding &amp; Corporate Centre)</u> | 45 |
| <b><u>Section 4 - Detailed Financial Information</u></b>                  | 46 |
| <u>1. Performance Summary by Division</u>                                 | 47 |
| <u>2. Net Interest Income</u>   | 51 |
| <u>3. Net Interest Margins &amp; Spreads</u>                              | 52 |
| <u>4. Average Balance Sheet &amp; Related Interest</u>                    | 54 |
| <u>5. Gross Loans &amp; Advances</u>                                      | 59 |
| <u>6. Net Life Insurance Income</u>                                       | 62 |
| <u>7. Revenue</u>   | 63 |

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

|  |    |
|--|----|
| <u>8. Expenses</u>                       | 65 |
| <u>9. Full Time Equivalent Employees</u> | 67 |
| <u>10. Doubtful Debts</u>                | 68 |
| <u>11. Asset Quality</u>                 | 70 |
| <u>12. Income Tax Reconciliation</u>     | 72 |
| <u>13. Significant Items</u>             | 74 |
| <u>14. Exchange Rates</u>                | 75 |
| <u>15. Capital Adequacy</u>              | 77 |
| <u>16. Cash Earnings per Share</u>       | 79 |
| <u>17. Risk Management</u>               | 80 |
| <u>Non-GAAP financial measures</u>       | 82 |
| <u>Alphabetical Index</u>                | 84 |

---

**Media Release**  
**11 November 2003**

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

**RECORD RESULT LIFTS NATIONAL S DIVIDEND 11%**





**FINANCIAL HIGHLIGHTS**

Achieved full year forecast:

cash earnings per share up 8.2%

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

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

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

Retail banking cash earnings:

Australia - up 6.5%

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

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

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

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

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

Return on equity up from 17.0% to 18.3%.

Economic Value Added (EVA<sup>®</sup>) up 29.9% to \$1,668 million\*.

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

\*EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co. It measures the economic profit earned in excess of the Group's cost of capital.

*MANAGING DIRECTOR S REVIEW*

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



## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

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

### **DIVISIONAL PERFORMANCE**

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

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

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

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

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

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

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

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

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



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

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

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

#### **BALANCED STAKEHOLDER APPROACH**



## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

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

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

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

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

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

## OUTLOOK

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

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

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

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

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

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

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

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

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

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

**For media enquiries, please contact:**



**Brandon Phillips**



0419 369 058

**For investor enquiries, please contact:**





Hany Messieh

0414 446 876

Or visit [www.nabgroup.com](http://www.nabgroup.com)

**RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2003**

FINANCIAL SUMMARY

**REPORTING FORMAT**

**Reporting Structure**

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

**Ongoing operations**



Retail Banking, which comprises:

Financial Services Australia ( FSA )

Financial Services Europe ( FSE )

Financial Services New Zealand ( FSNZ );

Corporate & Institutional Banking ( CIB );

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

Wealth Management ( WM ).

**Disposed operations**





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

**Cash Earnings**



## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

### **Wealth Management Registered Schemes**



## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

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

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

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

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

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

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

## DIVISIONAL PERFORMANCE SUMMARY

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



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

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

---

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

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

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

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

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

## GROUP PERFORMANCE SUMMARY

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

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

## REGIONAL PERFORMANCE SUMMARY

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

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

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

## SUMMARY OF FINANCIAL POSITION

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

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

---

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

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

## Group Key Performance Measures

## GROUP KEY PERFORMANCE MEASURES

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

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



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

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

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

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

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

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

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

**RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2003**

MANAGEMENT DISCUSSION & ANALYSIS

**Management Discussion & Analysis Overview**

**OVERVIEW (1)**

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

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

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

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

**Cash earnings per share growth (in cents)**

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

## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

---

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

## Management Discussion &amp; Analysis Overview

## Banking

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

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

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

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

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

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

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

**Management Discussion & Analysis Overview****Wealth Management**

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

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

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

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

**Restructuring Progress**

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

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

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

**Restructuring expenses**

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

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



**Management Discussion & Analysis Overview***Staffing levels ongoing operations*

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

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

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

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

**Management Discussion & Analysis Overview**

**Asset Quality**

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

falling non-accrual loans (NALs);

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

favourable movement in credit ratings across the business portfolio; and

improving collateral / security coverage across the business portfolio.

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

## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

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

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

unsecured portfolio - including personal loans;

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

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

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

**Management Discussion & Analysis Overview**

**Asset Composition**

**Business Portfolio**

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

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

**Level of Security Business Customers (1)**

---

(1) *Business lending categories:*

*Category A - Bank security > 142% of the facility*

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

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

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

**Management Discussion & Analysis Overview****Select Industry Exposures**

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

**Retail Portfolio**

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

**Provisioning Coverage**

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

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

## **Management Discussion & Analysis Overview**

### **European Defined Benefit Pension Schemes**

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

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

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

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

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

### **Software Capitalisation**

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

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



## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

## Management Discussion &amp; Analysis Profitability

## PROFITABILITY (1)

## Net Operating Income

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

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

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

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

## Net Interest Income

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

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

---

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

**Management Discussion & Analysis Profitability***Volumes by Division*

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

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

*Net interest margin*

Sep 02 year

Sep 03 year

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

Margin decline in:

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

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

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

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

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

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

Better asset quality in the business loan book; and

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

**Management Discussion & Analysis   Profitability**

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

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

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

**Net Life Insurance Income**

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

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

## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

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

**Management Discussion & Analysis   Profitability**

**Other Operating Income**



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

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

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

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

Other includes a one-off benefit on the restructure of the hedging swaps on the TrUEPrS<sup>SM</sup> preference shares.

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

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

## Operating Expenses

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

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

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

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

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

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

**Management Discussion & Analysis   Profitability**

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

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

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

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

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

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

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

***Major global regulatory and compliance projects***



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

Regulatory issues include:

Basel II Capital Accord;

Financial Services Reform Act;

International Financial Reporting Standards;

Sarbanes-Oxley Act;

Code of Banking Practice; and

Mortgage selling regulations in the United Kingdom.

Income Tax **Expense**



## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

**Management Discussion & Analysis    Capital & Performance Measures**

**CAPITAL & PERFORMANCE MEASURES**





**Performance Measures**



*Economic Value Added (EVA<sup>®</sup>)*

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

EVA<sup>®</sup> 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<sup>®</sup> annual growth targets.

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

EVA<sup>®</sup>'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<sup>®</sup>'s capital charge is based on an 11.5% cost of capital, applied to a calculation of economic capital that is based on shareholders equity.

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

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

Applying the revised EVA<sup>®</sup> methodology, the relevant comparatives that will be used for future reporting are as follows:

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

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

---

*EVA<sup>®</sup> is a registered trademark of Stern Stewart & Co.*

**Management Discussion & Analysis    Capital & Performance Measures**

**Capital Position**

## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

Capital has been managed within a framework of:

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

### Trust Preferred Securities

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

### Share Buy-back Program





## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

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

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

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

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

**Management Discussion & Analysis Banking**

**TOTAL BANKING**

## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

### Performance Summary

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

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

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

---

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

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

**Management Discussion & Analysis    Retail Banking**

**RETAIL BANKING**



## Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

### *Performance Summary*

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

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

(1) Change expressed at constant foreign exchange rates.

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





## Management Discussion &amp; Analysis Financial Services Australia

## FINANCIAL SERVICES AUSTRALIA

## Performance Summary

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

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

## Key Performance Measures

## Performance &amp; profitability

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

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

---

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

**Management Discussion & Analysis Financial Services Australia**

**Financial performance**

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

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

Net interest income reflected strong growth in lending and deposits.

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

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

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

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

**Key achievements**



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

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

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

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

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

**Management Discussion & Analysis   Financial Services Europe**

**FINANCIAL SERVICES EUROPE**





*Performance Summary*

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

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

*Pounds sterling*

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

Edgar Filing: NATIONAL AUSTRALIA BANK LTD - Form 6-K

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

## Management Discussion &amp; Analysis Financial Services Europe

| <i>Key Performance Measures</i>                      | Half year to |              | Fav/<br>(unfav)<br>change on<br>Mar 03<br>% | Year to      |              | Fav/<br>(unfav)<br>change on<br>Sep 02<br>% |
|--|--------------|--------------|---|--------------|--------------|---|
|  | Sep 03<br>£m | Mar 03<br>£m |   | Sep 03<br>£m | Sep 02<br>£m |   |
| <b>Performance &amp; profitability</b>               |              |              |   |              |              |   |
| Return on average assets<br>(annualised)             | 1.27%        | 1.43%        |   | <b>1.36%</b> | 1.39%        |   |
| Cost to income ratio                                 | 53.8%        | 50.1%        |   | <b>51.9%</b> | 48.4%        |   |
| Cost to income ratio (excl. pension<br>fund expense) | 50.5%        | 47.7%        |   | <b>49.1%</b> | 47.6%        |   |