

ASX Announcement

Friday, 9 November 2007

NAB cash earnings up 17.7% to record \$4.4 billion.

Group Financial Highlights*

Cash earnings	▲ 17.7% to \$4.4 billion
Cash return on equity	▲ to 17.1% from 15.9%
Revenue	▲ 8.3% to \$14.6 billion
Expenses	▲ 0.9% to \$7.4 billion
Cash EPS (Diluted)	▲ 16.4% to 268.5 cents per share
Net Profit	▲ 4.2% to \$4.6 billion
Final dividend	▲ 8 cps to 95 cps, fully franked
Full year dividend	▲ 15 cps to \$1.82 cps

*Ongoing operations, FY '07 compared with FY '06

Group Performance

National Australia Bank today announced a 17.7% increase in cash earnings to \$4.4 billion for the year ended 30 September 2007. NAB Group Chief Executive Officer, John Stewart said: "The National Australia Bank is in great shape."

"This is a strong result built on the sound foundations of improved customer satisfaction along with employee and community engagement.

"Revenue was up by more than 8% while operating expenses grew less than 1%. This demonstrates the underlying business is going from strength to strength.

"We will continue to simplify processes and efficiency opportunities are still significant.

"All of our businesses recorded double digit growth in cash earnings and have strong momentum.

"Total lending increased 13.8% to \$394.7 billion and customer deposits grew by 15.2% to \$268.4 billion.

All our banking operations reduced their cost to income ratios with the total banking cost to income ratio down from 54.5% to 50.8% for the year. The Group cost to income ratio was 49.9% for the September half year.

"Asset quality measures show early signs of moving up from historically low levels but are within expectations for this stage of the credit cycle.

"We are well positioned for the years ahead and I am very optimistic about our future.

"We have a clearly defined strategic agenda based on three areas of core capability. These are integrated Financial Solutions, Agri banking and Wealth Management and we are making real progress in execution of this program," Mr Stewart said.

Review of Operations*

	Full Year to Cash Earnings (\$m)		% Change
	30 Sept 2007	30 Sept 2006	
Australia	2,874	2,341	+22.8
United Kingdom	592	518	+14.3
New Zealand	379	321	+18.1
nabCapital	715	613	+16.6
Other**	(174)	(65)	large
Cash earnings	4,386	3,728	+17.7

*Ongoing operations

**Other includes income on retained earnings (IORE) and Central Functions.

Australia

The strong result of a 22.8% cash earnings growth from both banking and MLC businesses was driven by 11.4% revenue growth and flat expenses.

This reflects the success of our program to be truly competitive in areas including customer satisfaction, cross-selling and engagement with employees and the community.

This was achieved with careful balance sheet management and cost control, while at the same time investing approximately \$500 million during the year.

Banking

Banking revenue increased by 10.9%, expense growth was 0.2% and cash earnings rose 21.2% to \$2.47 billion due to careful margin management and strong growth in retail and business deposits, transaction banking and business lending.

Efficiency and productivity initiatives reduced the banking cost to income ratio to 44.8% in the September half. Comparing the full year, the cost to income ratio fell from 51.1% to 46.0%.

Business and Private banking maintained and extended its leadership position with revenue growth running at approximately 13%.

Retail banking is gaining momentum whilst continuing to invest in distribution to maximise the quality, depth and longevity of customer relationships. Revenue growth is running at approximately 8%.

Wealth Management (MLC)

MLC has delivered an outstanding result with a strong platform for continued growth, reflecting the successful execution of its strategy of being truly competitive.

MLC's strong revenue growth of 14.5%, combined with a 1.3% increase in operating expenses, drove a cash earnings before IORE increase of 30.5% to \$402 million.

Efficiency and productivity initiatives reduced the MLC cost to net income ratio to 54.9% in the September half, with the full year cost to net income ratio falling from 64.1% to 56.7%.

MLC's investment division cash earnings increased 42.3%. This was driven by a 213% increase in net funds flow to \$6.4 billion, and together with favourable investment earnings, resulted in a 17.1% increase in FUM.

Cross-sell momentum continued with investment sales up 67% and insurance sales up 15% in the bank channel.

Review of Operations continued

United Kingdom

The UK business continued to deliver strong and sustainable growth during turbulent market conditions.

Cash earnings in local currency were 13.6% higher while operating expenses decreased by 3%.

The cost to income ratio improved from 62.2% to 60.1%.

In addition to a good retail performance, business banking through our integrated Financial Solutions Centres continued to power ahead with income, lending and deposits all up more than 20%.

This growth has been supported by a conservative approach to risk, liquidity and funding.

A number of key milestones were achieved during the year including the convergence of the Yorkshire and Clydesdale back office systems and the roll out of a new branch teller system and our first mortgage securitisation of £3 billion.

New Zealand

The New Zealand business reported a strong increase in cash earnings, up 18.1% in local currency.

This was achieved through a focus on three strategic themes of simplification, culture and new revenue streams.

The focus on clear strategic themes has had a positive impact on branch satisfaction, reaching a record high of 85% and a market leading position in New Zealand.

Average lending volumes increased 12.4%, with mortgage volumes up 13.1% and business lending volumes up 13%.

Retail deposits increased 9.4%. Overall key product market share levels have remained stable as the Bank of New Zealand continued to focus on profitable volume growth.

The cost to income ratio fell from 53.5% to 50.1%.

nabCapital

nabCapital's Originate-Warehouse-Distribute operating model continued to provide the basis for sustained improvement in performance with cash earnings up 16.6%.

Key contributions to the strong performance included the:

- Improved momentum in key product lines;
- Acceleration of new business initiatives;
- Ongoing development of our global distribution businesses;
- Improved earnings in Global Markets from risk management and trading activities following the recent market disruption;
- 16% income increase while expense growth was 3.3%; and
- Reduced cost to income ratio, down from 50.7% to 45.1%.

nabCapital's capabilities were further increased during the year with the launch of an alternative investments business, a project finance business in Asia and the agreement to acquire a 20% stake in the China-based Union Trust & Investment Ltd.

Capital and Basel II

The Group has revised its Tier 1 target range from 6.25%-7.00% to 6.00%-6.75%. This reflects the bank's focus on an efficient capital structure and is consistent with the Group's credit rating and peers.

National Australia Bank Group is targeting achievement of Basel II accreditation in a phased manner due to the nature of its operations which are in three regulatory jurisdictions.

The Group already has advanced accreditation for Traded Market Risk and is targeting advanced accreditation for Operational Risk, Credit Risk and Interest Rate Risk in the Banking Book for the Australian, nabCapital and New Zealand operations during 2008.

The UK operations will move to advanced accreditation for operational risk and credit risk at a time to be agreed with APRA and the FSA.

Outlook

"We plan to grow our revenue at better than system growth rates in key customer segments, primarily in the areas related to integrated Financial Solutions, Agribusiness and Wealth Management," Mr Stewart said.

"Our guidance that annual operating expense growth will remain within inflation is extended to 2010.

"Organic growth remains our preferred option but acquisition opportunities will be assessed against both our strategic agenda and shareholder value driven criteria.

"This will be achieved with careful consideration of funding and capital management.

"Our medium term target dividend payout ratio is 65%, and given the business portfolio, franking in the 80% to 100% range.

"Attracting and retaining a disproportionate share of talent is a key strategic priority to ensure we can achieve the growth agenda we are setting ourselves and create sustainable growth in shareholder value," he said.

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