

ASX Announcement

Thursday, 10 May 2007

National Australia Bank cash earnings up 22.8% to \$2.2 billion

National Australia Bank today announced a 22.8% increase in cash earnings (ongoing operations) to \$2,196 million up from \$1,788 million in the half year to March 2006.

Net profit* increased by 7.1% from \$1,994 million in the half year to March 2006 to \$2,136 million for the half year to March 2007.

Net profit, excluding significant items, increased by 21.2% from \$1,762 million for the half year to March 2006 to \$2,136 million for the half year to March 2007.

"This is a good all-round result," National Australia Bank Group Chief Executive Officer, John Stewart said today.

"We increased revenue and lending, with flat operating costs and a stable net interest margin. This demonstrates our progress in improving all aspects of our business.

"We have outlined the strategy for each business and these results show pleasing progress, although more remains to be done.

Return on equity improved to 16.9% up from 15.4% in the March 2006 half year.

"The increase in shareholder return has been achieved while continuing to invest in all our businesses.

"We have also worked to improve our culture and recruit and develop talented people at all levels of the National Australia Bank. This is a vital part of creating sustainable growth in shareholder value.

"Asset quality remains sound. Areas being carefully managed include personal lending and credit cards in the UK. In Australia the rise in the provision for bad and doubtful debts reflected relative weakness in the New South Wales economy.

Increased Interim Dividend

"Interim dividend is 87 cents, an increase of 4 cents on the 2006 interim dividend and is franked to 90%.

"NAB remains well capitalised. During the half year the \$500 million buy back announced last November was completed and we are part way through the additional \$700 million announced at the annual general meeting.

*Net profit attributable to members of the Company.

Review of Operations

Group Performance Measures (HY 07 compared with HY 06)

- Return on average equity before significant items increased from 15.4% to 16.9%.
- Diluted cash earnings per share increased 16.9% from 114.5 cents to 133.8 cents.
- Total lending increased by 13.7% to \$367 billion*.
- Operating expenses (ongoing operations) were flat at \$3.6 billion.
- Net interest margin was 2.33% compared with 2.31% in March 2006.
- Gross impaired assets (% of total lending) were 0.29% compared with 0.31% in March 2006.

*Total gross loans, advances & acceptances.

Cash earnings by business unit (ongoing operations)

	Half Year to (\$m)		% Change	% Change (Excluding foreign exchange impact)
	31 March 2007	31 March 2006		
Australia	1,377	1,120	+22.9	
United Kingdom	324	252	+28.6	+22.6
New Zealand	220	164	+34.1 [#]	+39.7
nabCapital	343	286	+19.9	+19.6
Other ^{##}	69	93		
Distributions	(137)	(127)		
Total cash earnings	2,196	1,788	+22.8	

[#]Adjusting for fair value volatility and hedge ineffectiveness, the increase over the March 2006 half year is 11.2%

^{##}Includes Group Funding, Corporate Centre and investment earnings on shareholders retained earnings (IoRE) for the Australian region.

Australia

(Ongoing operations)

“Cash earnings from ongoing operations in Australia, excluding IoRE, increased by 22.9% to \$1,377 million compared with the March 2006 half year.

“The cash earnings of both Australian banking and wealth management showed strong improvement, particularly in the areas of business lending, retail deposits and investment sales.

Banking

“Banking cash earnings increased by 22.6% to \$1,194 million compared with March 2006.

“Growth in banking total income was 10.1% compared with March 2006.

“Careful management of product pricing and mix offset competitive pressures and resulted in stable margins for the half year.

“Net interest margin was 2.41% compared with 2.42% a year ago.

“The focus on efficiency and productivity delivered a continued fall in banking operating expenses which were 3.1% lower at \$1,659 million compared with the March 2006 half year.

“The cost to income ratio fell from 52.9% in March 2006 to 46.9%.

“We continue to invest in our people and network with new sales and business training for frontline staff, increased capability in mortgages and business lending and the development of new incentive programs.

“A program to extend the ATM network by nearly 25% through the installation of 322 ATMs in Coles Express and Coles Group stores was announced during the half year.

Wealth Management

“As a result of strong sales of both investments and insurance, Wealth Management cash earnings before IoRE increased by 26.2% to \$183 million compared with the March 2006 half year.

“Total net income increased 12.2%. This was driven by strong sales momentum from improved adviser productivity and higher cross selling through the NAB network.

“Expense growth was significantly less than the increase in the level of business activity.

“Funds under management as at March 31 increased 13.1% to \$102.4 billion and average annual inforce premiums rose by 12% to \$742.5 million compared with the March 2006 half year.

United Kingdom

(Ongoing operations)

“Our UK business has real momentum in both lending and retail deposits, firm cost control and a stabilisation in the charge for doubtful debts.

“Cash earnings were up 22.6% to £130 million compared with the March 2006 half year.

“The network of Financial Solutions Centres has been central to the improved performance with business lending volumes up 27.7% on the March 2006 half year and average retail deposit volumes up by 20.2%.

“Continued focus on mortgage lending, primarily through third party distribution, resulted in a 23.8% increase in mortgage volumes.

“Net interest margin fell from 3.68% to 3.16% as a result of the plan to move the product mix away from personal loans and credit cards to mortgage and business lending.

“Operating expenses were reduced by 5.5% to £358 million compared with March 2006. The cost to income ratio fell from 62.7% in March 2006 to 58.6%.

“The new Yorkshire teller system was implemented by the end of 2006. The program to converge both Yorkshire and Clydesdale onto a single integrated core banking platform was completed in recent weeks with the move to a new teller system for Clydesdale scheduled to be completed by the end of 2007.”

New Zealand

(Ongoing operations)

“Solid volume growth, sound asset quality and disciplined cost management combined with the introduction of new and innovative products continues to position our New Zealand business well in this highly competitive market.

“Cash earnings increased 39.7% to NZ\$250 million compared with the March 2006 half year.

“However, when adjustment is made for the impact of fair value volatility and hedge ineffectiveness, the increase over the March 2006 half year reduces to 11.2%.

“Average lending volumes increased 12.5% on the March 2006 half year, with mortgages up 12.9% and business lending up 14.1%. Retail deposits rose 9%.

“Net interest margin fell from 2.64% to 2.51% due to intense competition in the housing and credit card markets.

“Operating expenses increased by 1.5% in local currency largely due to increased wage costs which were partially offset by efficiency gains.

“Product innovation included the recent launch of “Total Money”, a new concept in banking for the New Zealand market. With Total Money customers can either earn a better interest rate on all their accounts (“pooling”), or pay less interest on the variable portion of their home loan (“offsetting”) while only paying a set fee of \$10 for up to ten accounts.

nabCapital

(Ongoing operations)

“nabCapital performed strongly with cash earnings increasing to \$343 million, up 19.9% compared with the March 2006 half year. This was achieved through a combination of developing sustainable income streams and efficiency improvements.

“The originate-warehouse-distribute operating model provides the framework for nabCapital’s key activities.

“Income growth of 17.3% was well ahead of expense growth of 6.6% which largely related to higher personnel costs.

“The cost to income ratio improved from 50.3% in March 2006 to 45.7% and the net interest margin was 0.74% compared with 0.64% in March 2006.

“The return on risk weighted assets improved from 0.89% to 1.14% in the March 2007 half year.

“Asset quality remains strong with 91.9% of exposures rated as investment grade equivalent (AAA to BBB-) at March 2007 and the ratio of the specific provision to gross impaired assets was 61.7% up from 31.7% in the March 2006 half year.

“nabCapital has a three year strategic investment program to improve product capability and efficiency. The strategic investment agenda is supported by a cultural development initiative aimed at fostering a more collaborative, innovative and accountable workforce. This includes talent development and leadership behaviours programs.”

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