

ASX Announcement

Tuesday, 21 October 2008

NAB reports solid underlying business performance**Revenue growth and cost control drives underlying profit**

FY 08 compared with FY 07, ongoing operations

Revenue	▲ 5.8% to \$15.4 billion
Expenses	▼ 2.0% to \$7.3 billion
Underlying Profit	▲ 13.9% to \$8.1 billion
Operating Income less Operating Expenses excluding charge for Bad and Doubtful Debts	
Net Profit	▼ 0.9% to \$4.5 billion
Attributable to members of the Co.	

Cash earnings up prior to conduit costs

Cash earnings excluding conduit costs	▲ 7.7% to \$4.7 billion
Cash earnings	▼ 10.7% to \$3.9 billion

Strong Capital, Funding and Liquidity

Tier 1 Capital Ratio	7.35%
Total Capital Ratio	10.93%
Term funding raised	\$28 billion (av. mat. 4 years)
Liquid Asset Portfolio	▲ to \$66 billion from \$54 billion

Full Year Dividend Increased

2008 final dividend	▲ 2 cps to 97 cps, fully franked
2008 full year dividend	▲ 12 cps to 194 cps, fully franked

Group Performance Comments

National Australia Bank Group Chief Executive Officer, John Stewart said: "In an extremely difficult environment, each of the Group's businesses delivered strong underlying results. This reflects the continued strength of our franchises, effective cost disciplines, and pro-active credit management. On a pre-provisioning basis, the Group's underlying profit was \$8.1 billion, up 13.9% on the prior year.

"Unfortunately, this strong result was marred by the provisions required against conduit assets in the nabCapital securitisation business, reflecting unprecedented conditions in global markets.

"While significant, the loss of approximately \$1 billion incurred by nabCapital is considerably less than write-offs by many of our global peers. The strength of the Group's underlying profit growth allowed this loss to be absorbed and still deliver cash earnings of \$3.9 billion, down 10.7% on the prior year.

"Our core banking franchises have performed well despite great volatility in financial markets.

“Our traditional branch banking and wealth management operations are all profitable, well capitalised and conservatively funded. Overall, and individually, our banking businesses have sound asset quality and are well provisioned. While this is the norm for the Australian banking industry, it is in stark contrast to the situation of many banks around the world,” he said.

“The continued revenue growth and tight cost control demonstrates the quality of the disciplined management of the underlying businesses.

“The Australian region continues to perform well with strong revenue growth and an outstanding cost to income ratio of 40.6% for the banking operation in the second half of the year. MLC has performed well given the deterioration in investment market conditions.

“The UK Region demonstrated resilience under exceptionally difficult market conditions where a number of banks have struggled to survive. It has out-performed local peers on many key measures, and on asset quality, by a large margin.

“Our New Zealand operation has recorded the seventh consecutive half year of flat costs and delivered solid revenue and earnings growth.

“nabCapital’s exceptional underlying profit growth was driven in large part by performance across the Global Markets business, which achieved record revenues.

“The NAB’s Tier 1 capital was strong at 7.35% and \$28 billion of term funding was raised during the year, with a four year average maturity. Our liquidity is very strong with liquid assets of \$66 billion, more than double the pre-market dislocation levels. These conservative capital, funding and liquidity settings are considered appropriate in light of the continuing uncertainty about global credit market conditions.

“I am confident NAB’s operations are well placed to weather this uncertain environment, with the appropriate focus on core businesses and the right financial settings to maintain strength and flexibility,” Mr Stewart said.

Asset Quality

The deteriorating economic conditions and volatility in financial markets, particularly in the second half of the financial year, has led to an expected softening in asset quality, albeit following a prolonged benign credit cycle.

The Group undertook a thorough review of its loan portfolio in the 4th quarter of September 2008 financial year. This extensive review focused on higher risk areas and was undertaken across all regional businesses by credit personnel with external auditor oversight, to provide additional verification of the adequacy of provision coverage. The review concluded that the portfolio is performing well and the Group is appropriately provisioned. The lending portfolio is well diversified, both geographically and by product. Total provisions now stand at \$3,294 million.

Capital

As announced last week, NAB intends to further strengthen its capital position in response to the ongoing global economic uncertainty. The general strategy is to continue to seek to raise capital equivalent to the shortfall in the Dividend Reinvestment Plan for the next two dividend payments, and to continue to explore opportunities to utilise our Tier 1 hybrid capacity.

Regional Performance Summary

Good underlying profit performance by all business units

Underlying Profit is Operating Income less Operating Expenses, excluding charge for Bad and Doubtful Debts

	FY 2008 \$m	FY 2007 \$m	Growth
Australia (AUD)	5,310	4,451	+19.3%
United Kingdom (£)	518	463	+11.9%
New Zealand (NZD)	763	685	+11.4%
nabCapital (AUD)	1,309	960	+36.4%

Australia

The Australia Region delivered cash earnings growth (before IoRE) of 15.8% and underlying profit growth of 19.3% over the prior comparative period. Revenue growth of 10.1% was an excellent result achieved in a very challenging environment. The strong performance of cash earnings growth of 18.5% by the Australia Banking business reflects continued momentum in business lending and consumer deposit gathering. MLC cash earnings growth of 1.5% benefited from strong sales performance and excellent insurance results but was offset by negative investment earnings growth.

The regional expense base decreased marginally over the prior comparative period, which is a standout result achieved in a 3 to 4% inflationary environment and within a competitive labour market. The cost base in 2008 has been held relatively flat for the last three years and stands lower than 2006.

Bad and doubtful debt charges were up 55% reflecting the tightening in the credit environment and a slowdown in economic growth. The charge includes increases across the portfolio, with higher specific provisions generated across Business & Private Banking and in particular, the impairment of one large business client in the March 2008 half.

Significant work has been undertaken in the Australia Region to ensure risk associated with the lending book is actively managed and priced appropriately. Asset quality is in good shape with 90 days past due stabilising and is flat on the first half of 2008.

The Efficiency, Quality and Services program was central to the improvement in the banking cost to income ratio to 40.6% for the six months to September 2008 and has delivered over \$300 million in benefits in the year to September 2008, bringing a cumulative total sustainable benefit in excess of \$500 million since the program began in 2005. The region remains committed to operating expenses remaining within the Australian inflation rate to 2010.

NAB has committed to the first phase of its Next Generation Platform initiative that will replace the core banking systems over the next five years to underpin its strategy for sustainable out-performance.

NAB's strategic focus on specialised businesses concentrating on the needs of the customer, particularly in the core business banking area, demonstrated strong revenue and volume growth in areas such as health, 'agri' and education.

NAB aims to better manage the needs of high net worth customers through the creation of the Private & Institutional Wealth division and has launched a specialised, low cost, high service direct bank to customers in the growing direct segment through the Star Direct & Alliances business.

The first brand in NAB's Star Direct & Alliances division, UBank, is a new direct channel and was launched in 2008 offering term deposits. Over time, a range of additional savings, transaction and investment products will be added.

MLC continues to perform well in very difficult investment markets with underlying cash earnings of \$408 million slightly ahead of the prior period. This result reflects the diversification of the MLC business model including a strong and growing insurance business, accompanied by the retail platform "MasterKey" which is supported by MLC's manager of manager's investment process.

MLC's advice networks continue to grow strongly as an outcome of the commitment to running a sustainable and transparent business model. A highlight of the MLC result is also expense control.

United Kingdom

The UK Region continues to deliver a strong trading performance relative to local peers in a very challenging market. Cash earnings in local currency increased 2.5% and underlying profits were up 11.9% over September 2007. This reflected higher income, flat expenses and a lower tax charge, partially offset by higher charges to provide for doubtful debts.

Against a backdrop of slowing credit growth and a weakening economy, the UK Region maintained momentum in quality lending and deposit gathering, particularly through its iFS relationship proposition. The rate of underlying contraction of interest margins continued to slow despite higher costs of funding.

Differentiated in the UK market by its adherence to the sound principles of a traditional banking model, firm cost control and ongoing business efficiency improvements, our banks have delivered six consecutive halves of flat costs. This, coupled with strong credit management, has helped set the business apart from peers.

In a difficult market, some key asset quality measures have softened since the March half, albeit these have risen off a very low base and again compare favourably to the peer group. In particular, the retail portfolio is performing well with the value of accounts 90 days past due in housing and unsecured lending remaining broadly stable. Specifically, the level of mortgages 90 days or more in arrears is less than half the United Kingdom industry average. The combined ratio of 90 days past due and gross impaired assets to gross loans and acceptances has increased mainly in the business segment, reflecting the challenging conditions.

The UK Region remains resolutely focused on the prudent development of its operations and is well positioned to capture business in the aftermath of current consolidation activity within the UK banking sector.

New Zealand

Solid revenue growth driven by a profitable market share focus, disciplined cost management and stable asset quality, have delivered cash earnings growth in local currency of 12.1% for the NZ Region over the September 2007 full year.

The performance of the NZ Region for September 2008 reflects the continuing success from three strategic themes of simplification, culture and new revenue streams. These strategic themes are continuing to provide the core foundations for the organisation to navigate through the current turbulent global economic conditions and deliver long term sustainable returns to the NAB Group and its shareholders.

Simplification efforts have continued to reduce the complexity in processes, systems, structures and products using the well engrained disciplines of continuous improvement (Kaizen) making life easier and better for customers and staff alike. This is the seventh consecutive half year period of relatively flat costs while also continuing to improve customer satisfaction and culture, and grow revenue.

nabCapital

Despite having the greatest exposure to global market conditions, which adversely affected cash earnings, nabCapital's core businesses continued to perform very well, delivering a 36% increase in underlying profit compared to the prior year.

This was driven by an exceptional performance across the Global Markets division which achieved record revenues. The Global Markets business was well positioned to benefit from the increased market volatility through sound risk management and a strong client focus. Performance was enhanced by increased cross-sell with the branch banking businesses.

The lending businesses benefited from growth in Corporate Finance and repricing initiatives in Institutional Banking, driven by our commitment to support key clients in the challenging market environment.

Cash earnings were negatively affected by the need for additional provisioning, particularly in respect of the portfolio of Asset Backed Securities (ABS) Collateralised Debt Obligations (CDOs) held within nabCapital's conduit structures (provision of A\$1,011 million) and further risk mitigation efforts. The write-down in these assets is a direct result of the severe and escalating distress of the US housing market experienced throughout 2008.

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