



Global Credit Crisis

Impact on Australian banks cost of funds

Wednesday, 5 November 2008

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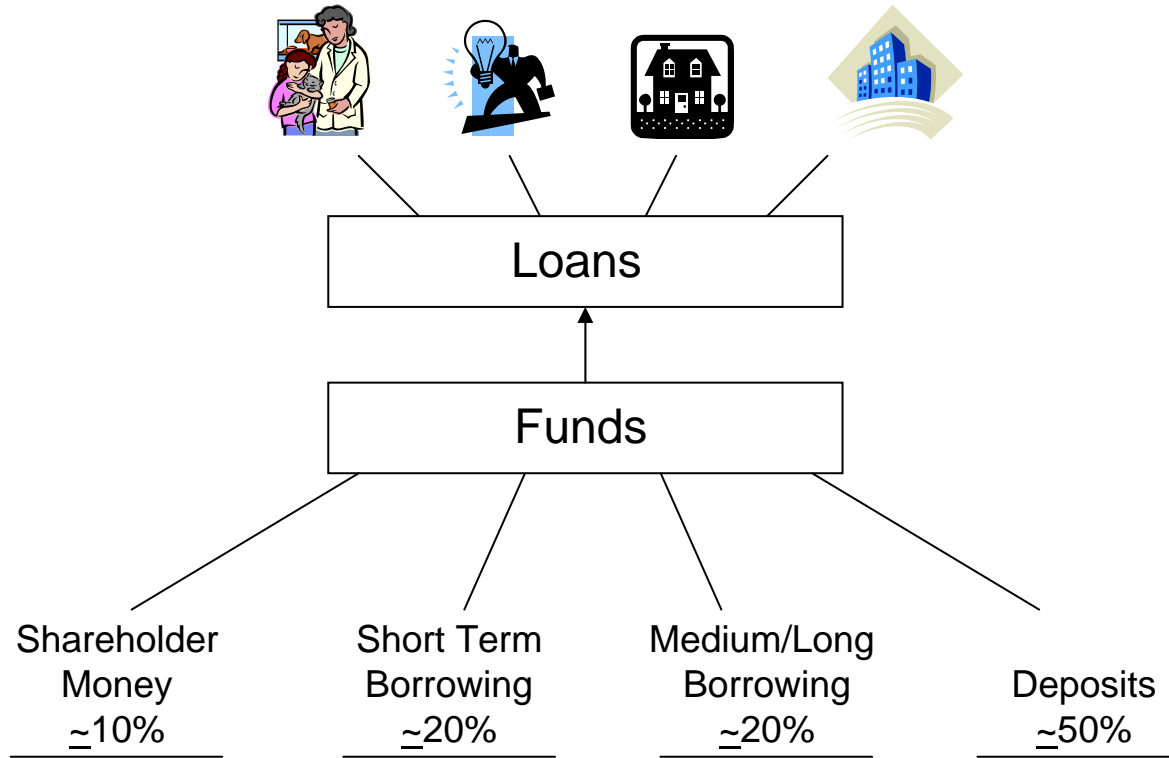
Executive Director & Chief Executive Officer Australia
National Australia Bank



Summary

- The Australian banking system remains sound and well capitalised. It is one of the few debt markets in the world still functioning well and soundly.
- Despite the RBA cash rate reduction, it is now apparent that the cost of borrowing money anywhere in the world has become a lot more expensive.
- Over the last few months the average cost to funding has increased around 30-40 basis points, which has not been factored into pricing.
- This current increase in our funding costs since September has come from a widening in the spread banks are now paying for short term funding over the RBA cash rates.
- In addition to the short-end cost of funds increased impact on our total cost of funds (30-40 basis points), the international credit crunch has made it more difficult and expensive for Australian banks to borrow money internationally for medium term/long term funding.
- Furthermore, this has pushed up demand for domestic deposits and wholesale funding and this has forced banks to pay much more for deposits further increasing the total cost of funds which is likely to be around 50 basis points over the next 12 months time.

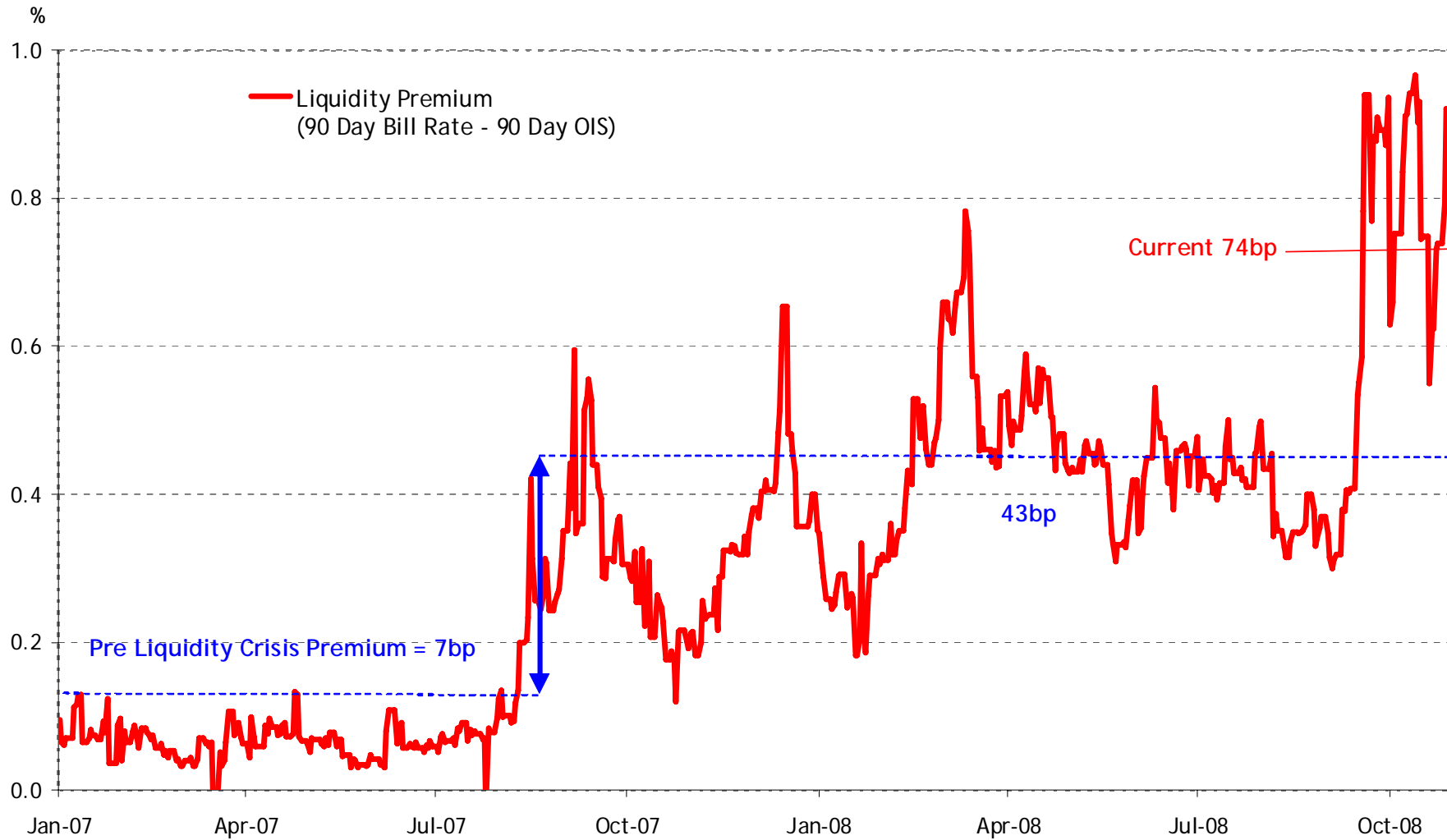
Typical Bank Funding Composition



	Shareholder Money ≈10%	Short Term Borrowing ≈20%	Medium/Long Borrowing ≈20%	Deposits ≈50%
To August 2008	↑	↑ ↑ ↑	↑	↑
September 2008	↑ ↑ ↑	↓ ↓ ↓	↑ ↑	↑ ↑
October 2008	↑ ↑ ↑	↑ ↑ ↑	↑ ↑ ↑	↑ ↑ ↑



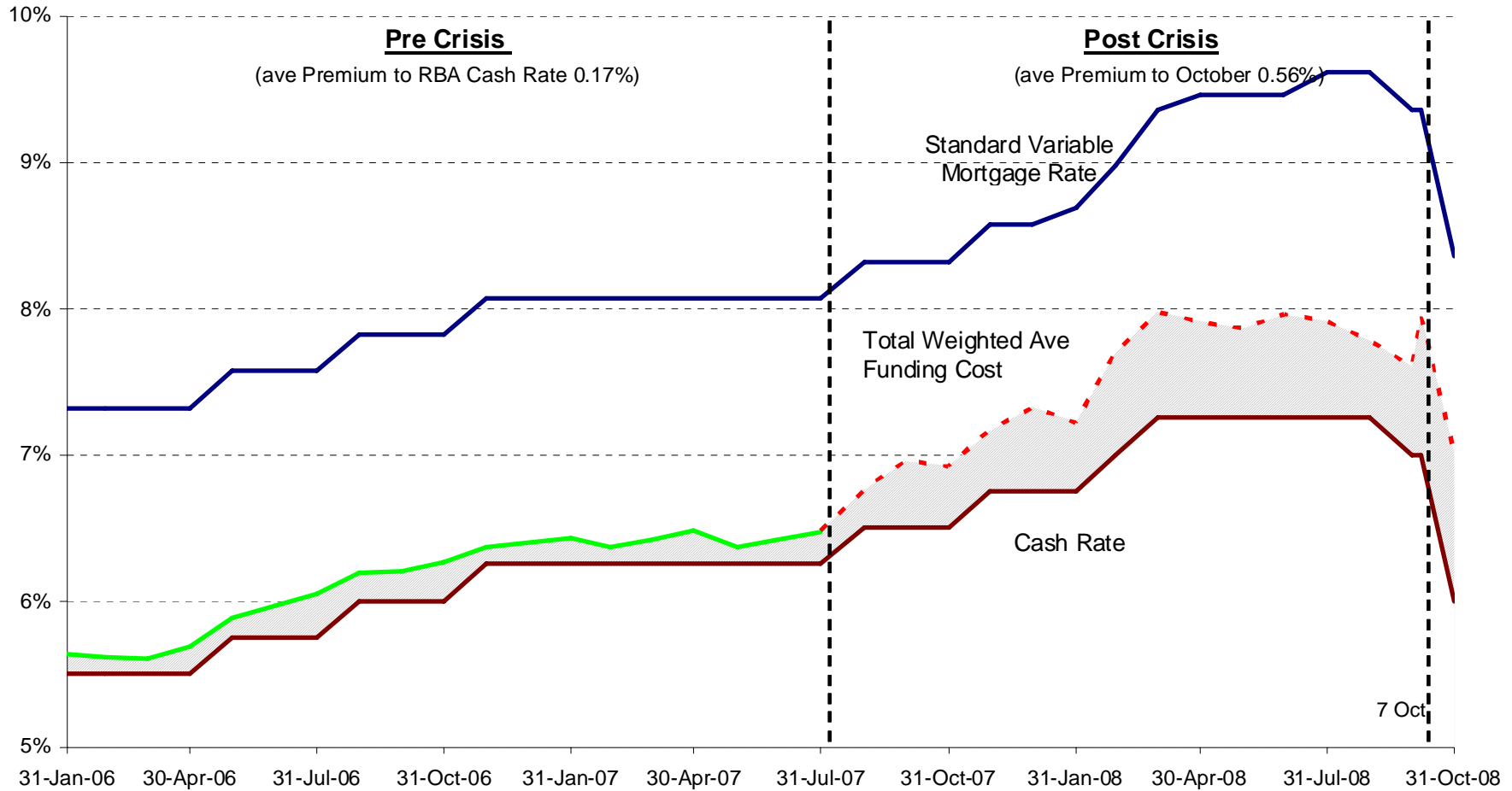
Cash / Bills Spreads is a key driver of banks short term funding costs



Source: NAB & RBA
As at 31 October 2008



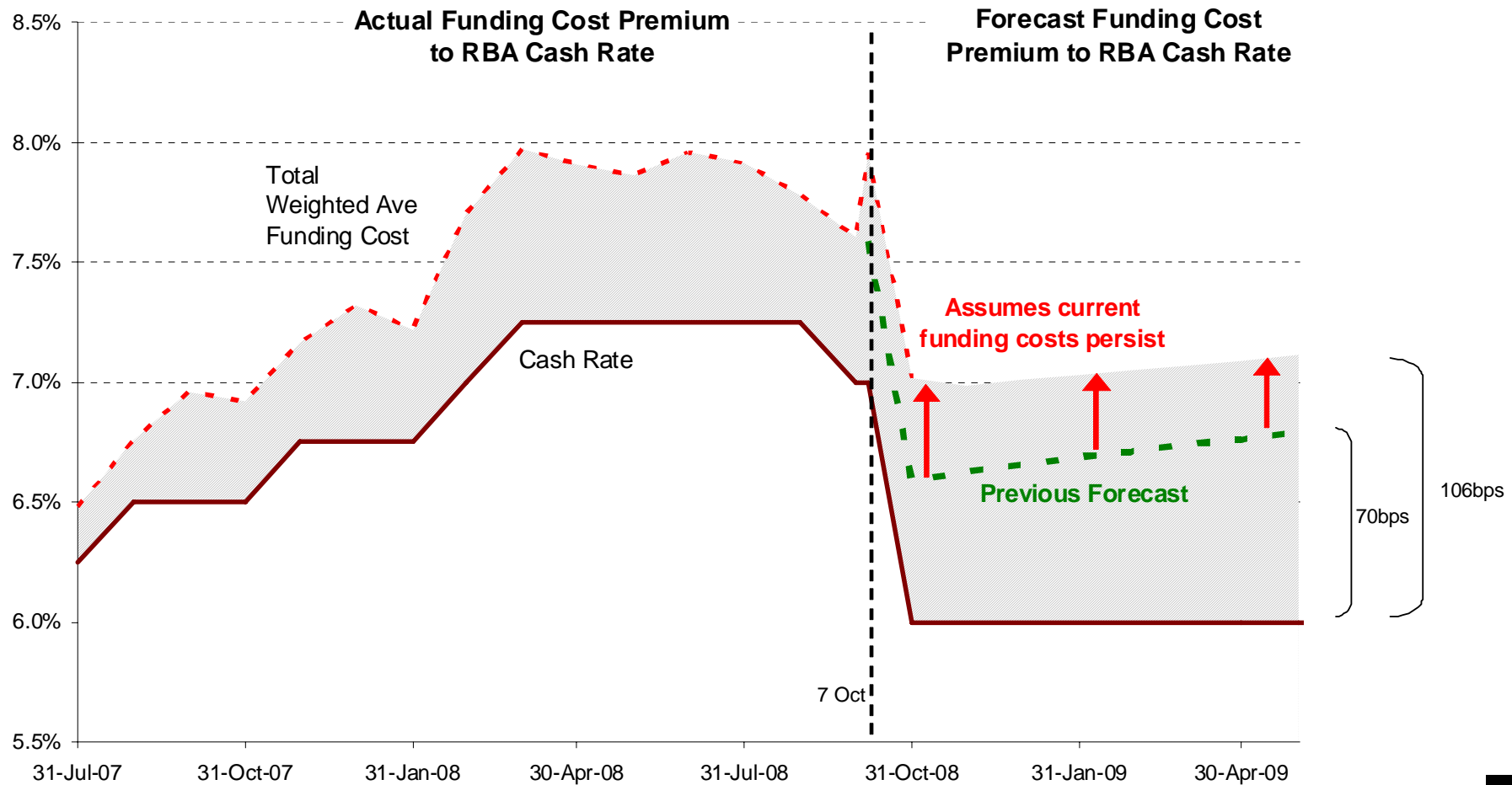
Standard Variable Mortgage Rate vs Funding Costs vs Cash Rate



Source: NAB & RBA
As at 31 October 2008



Banking Funding Costs vs Cash Rate forecast* over the next 12 months may rise from 0.70% premium to 1.06% premium.



Source: NAB & RBA

As at 31 October 2008

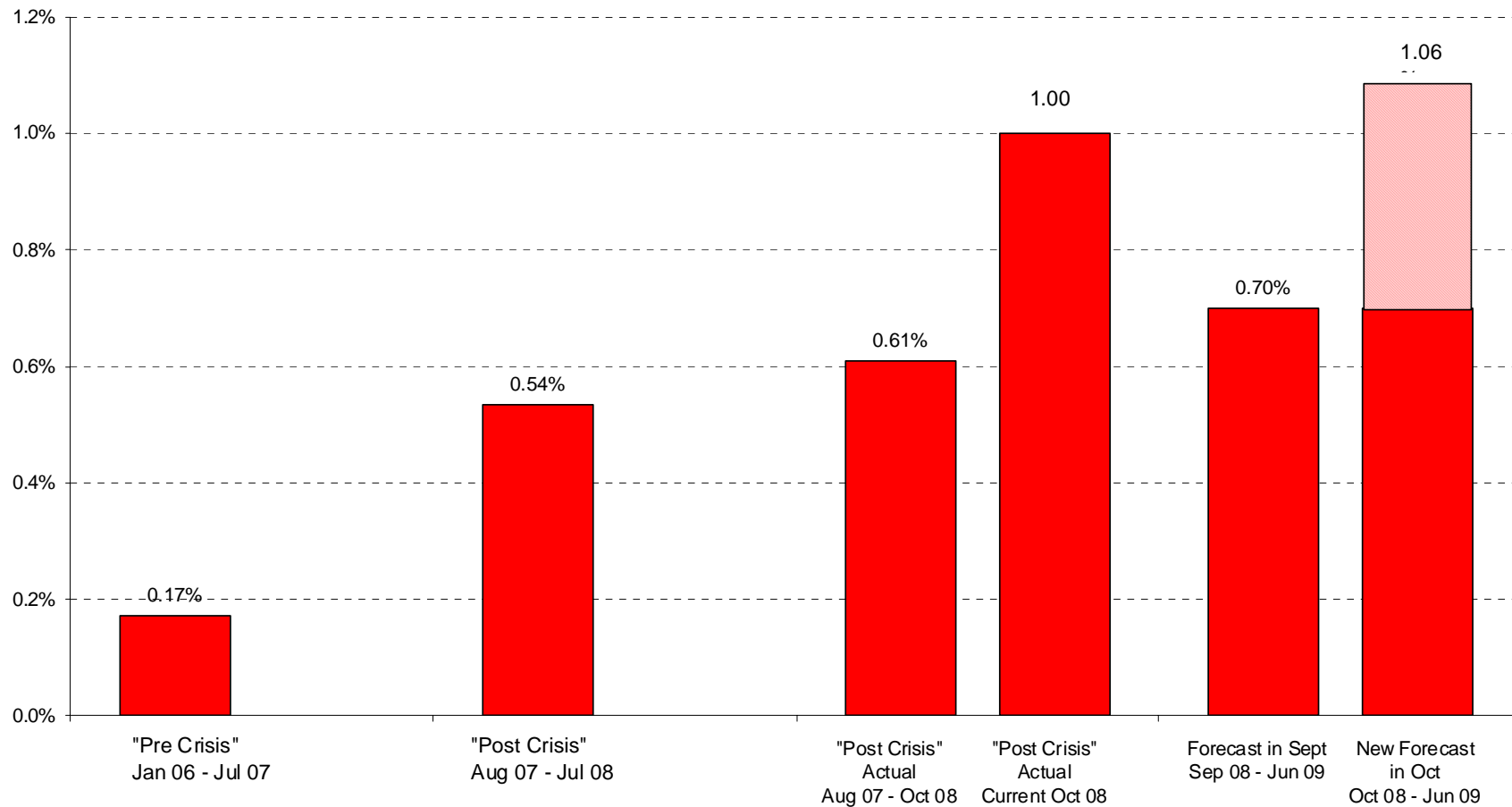
* Based on assumption all other costs are held constant except for term wholesale funding costs

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Despite August short term relief due to short term rates, long term rates are averaging up

Bank Total Funding Costs Premium to RBA Cash Rate

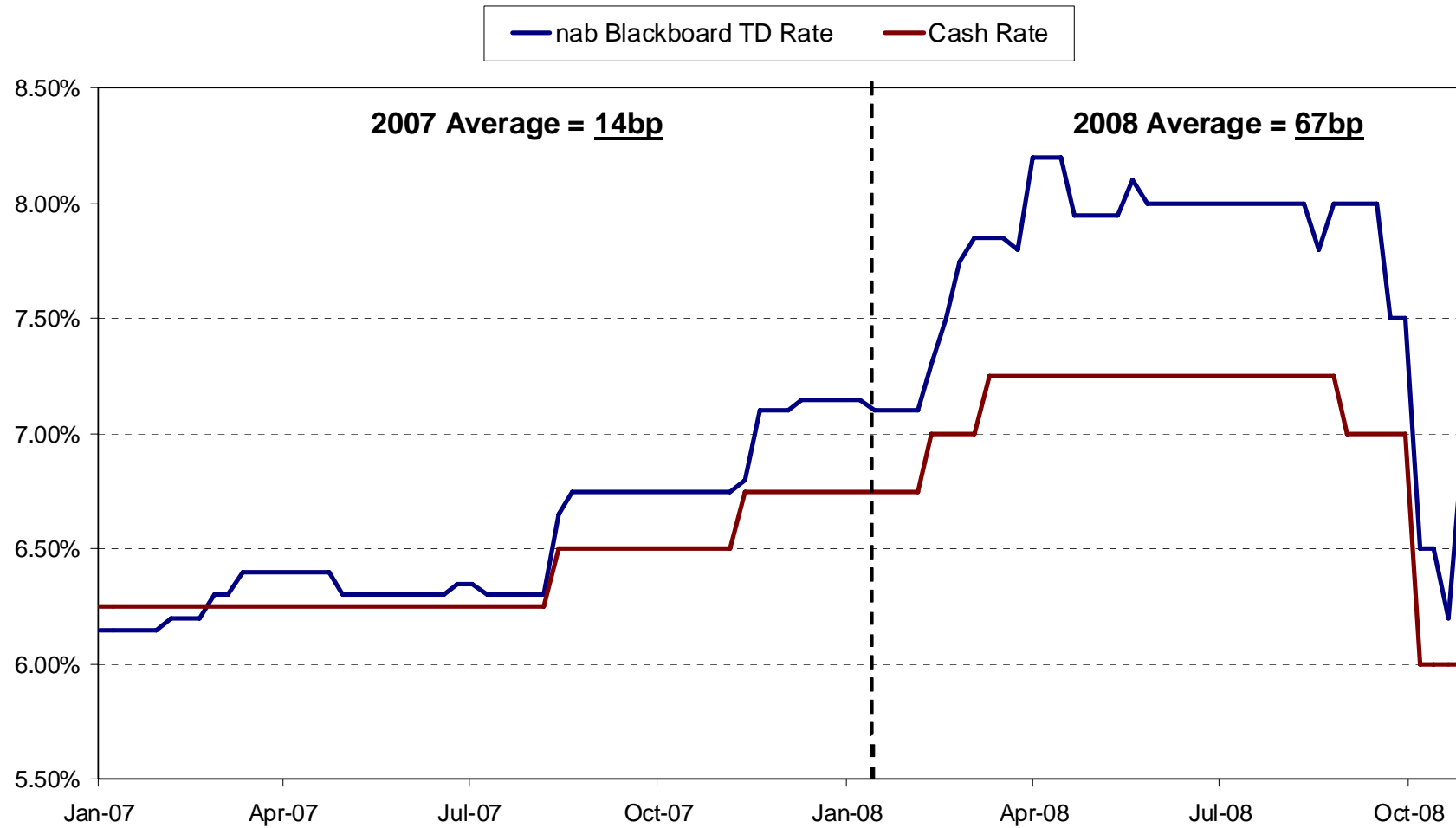


Source: NAB & RBA
As at 31 October 2008



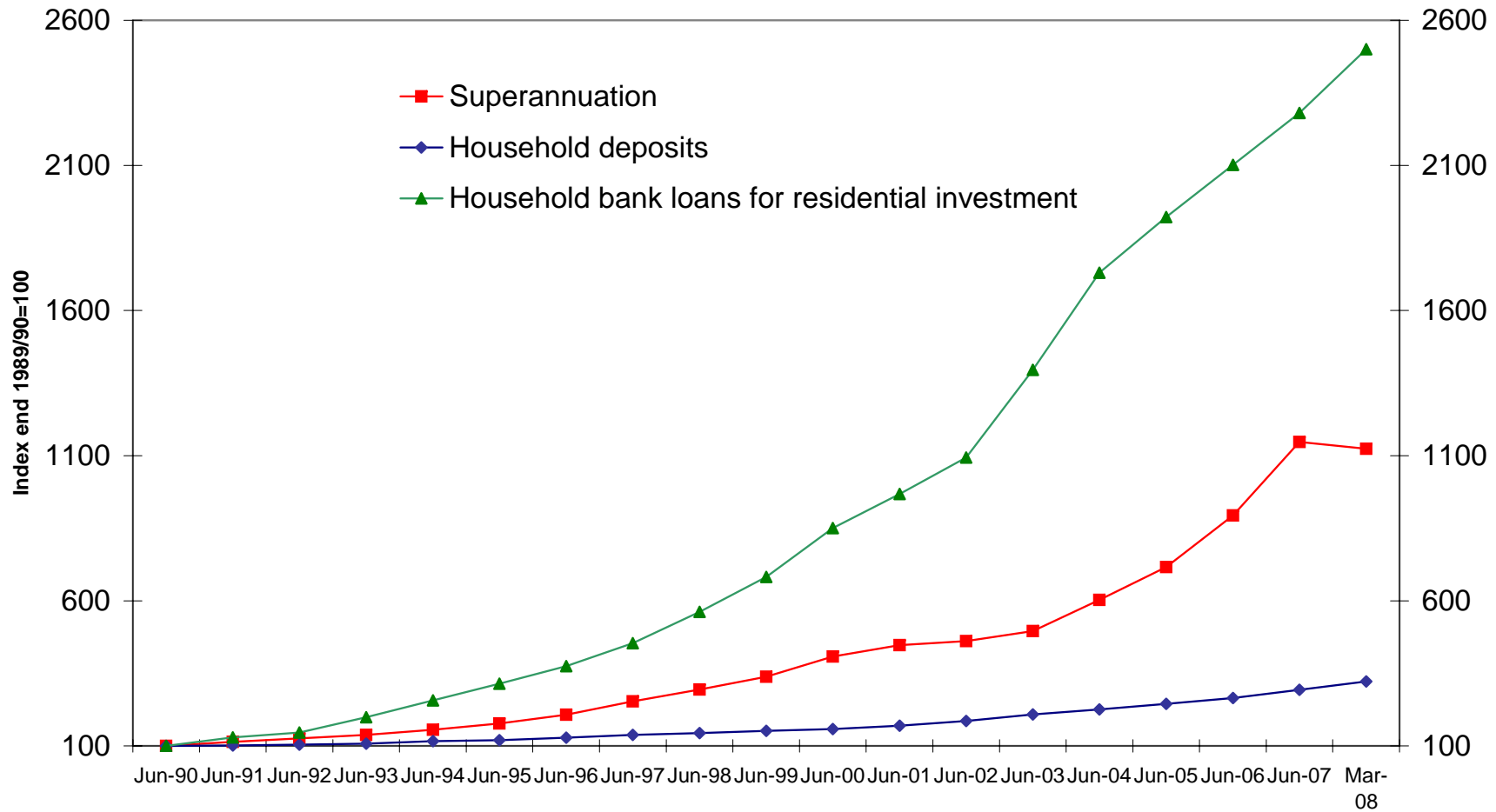
The increases in wholesale costs are made worse with increased cost of deposits

Cash Rate and nab "Blackboard" TD Rates Paid



Real Estate Investments and Superannuation Tax Advantaged versus Deposits

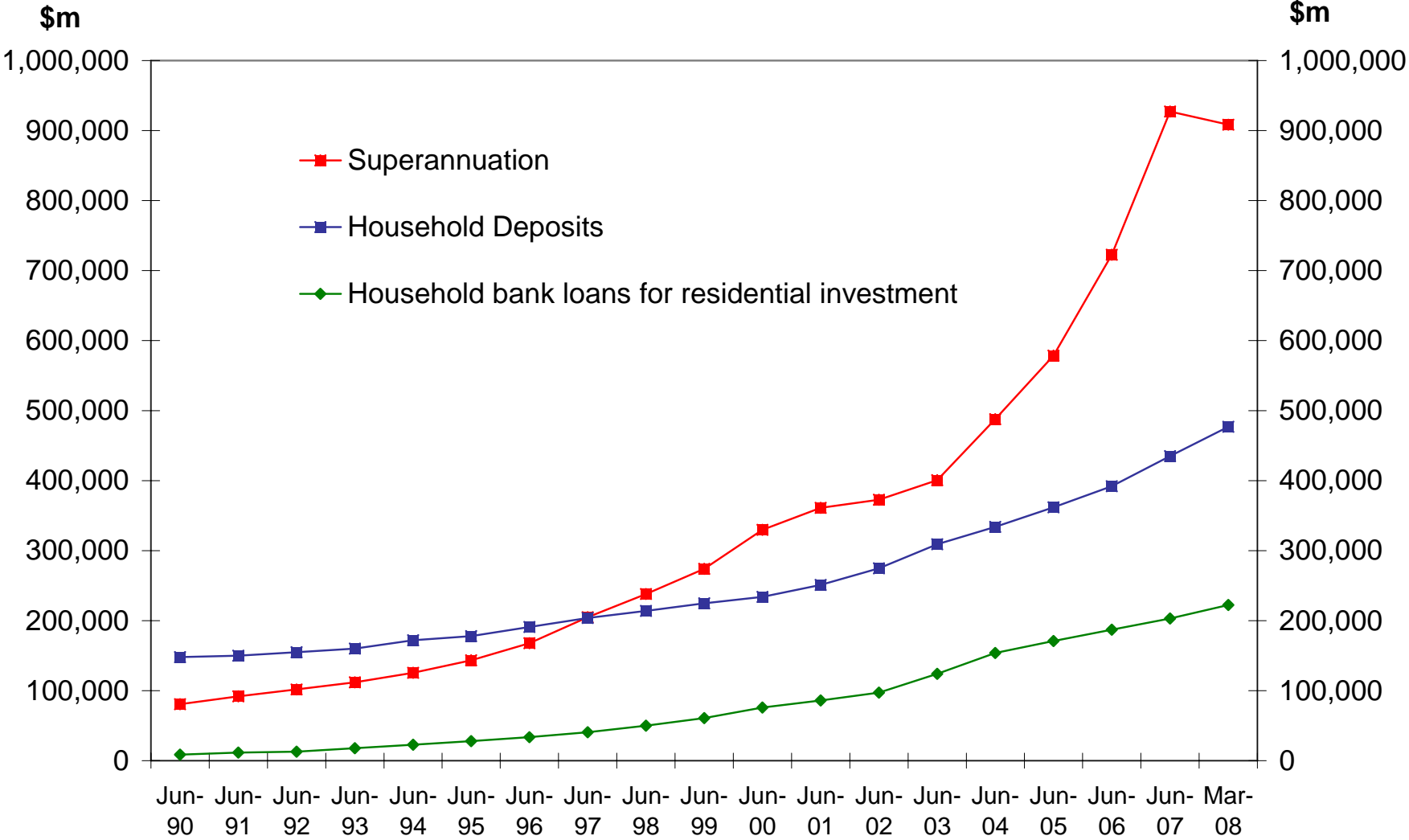
Selected Household Financial Assets & Liabilities Australia



Source: NAB & RBA
As at 31 October 2008



Standard Financial Assets of Households



Source: NAB & RBA
As at 31 October 2008



Disclaimer

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