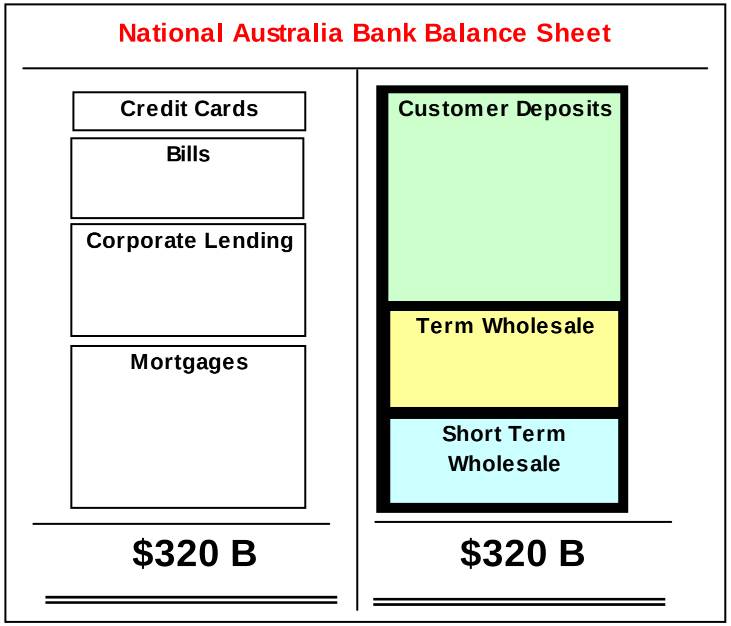
The key drivers of NAB’s cost of funds

Contents

1. Three key sources of funds

- **Customer Deposits** (50-60%): money which is deposited by retail and business customers.
- **Wholesale term funding** (20-25%): larger, institutional investors buying debt securities issued by the bank for a fixed term (normally 2-5 years).
- **Short term wholesale funding** (20-25%): larger investors buying shorter term (normally 1-6 months) securities issued by the bank.
- **Interest rates themselves are driven by**:
  - The cost of funds
  - The assessment of risks
  - Competitive behaviour



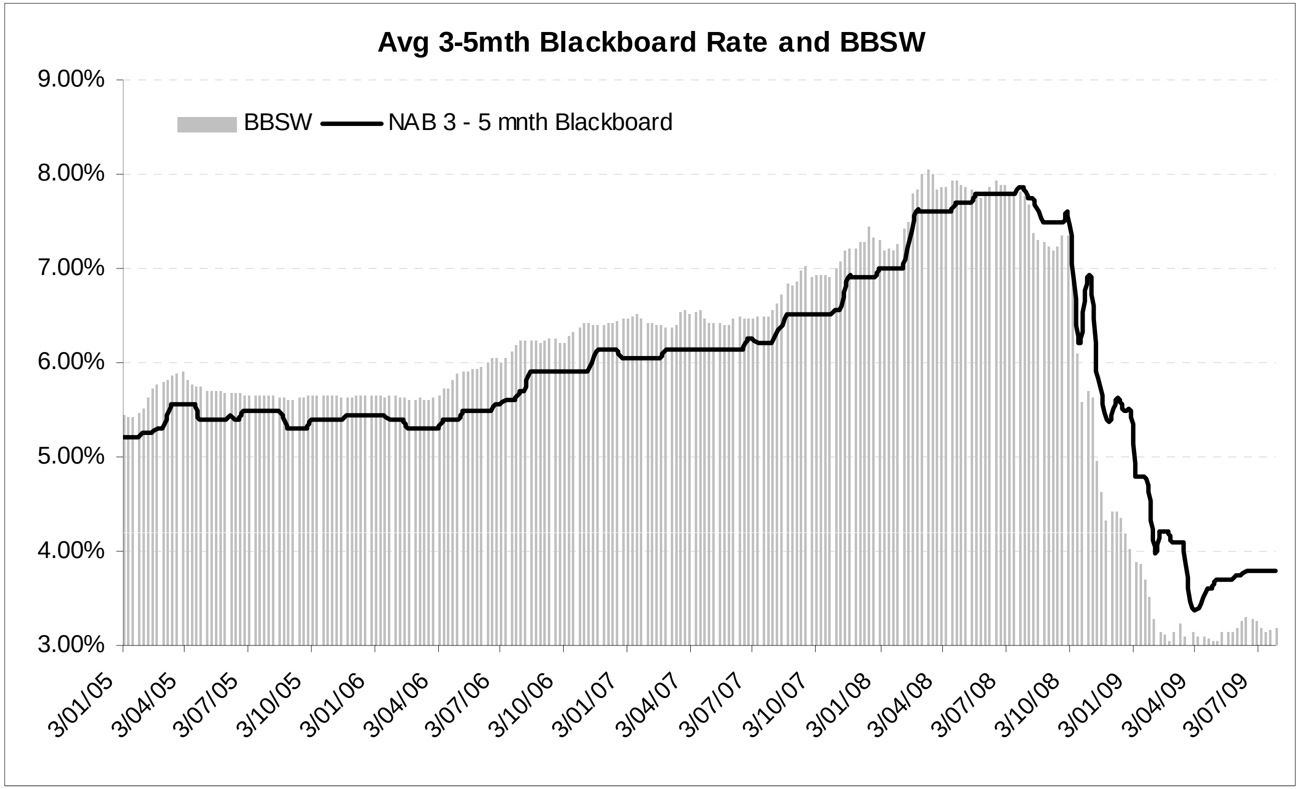
1. The balance sheet above summarises NAB Ltd’s core lending assets. It excludes trading and other liquid assets, which are treated as available for sale.

2. Customer Deposits

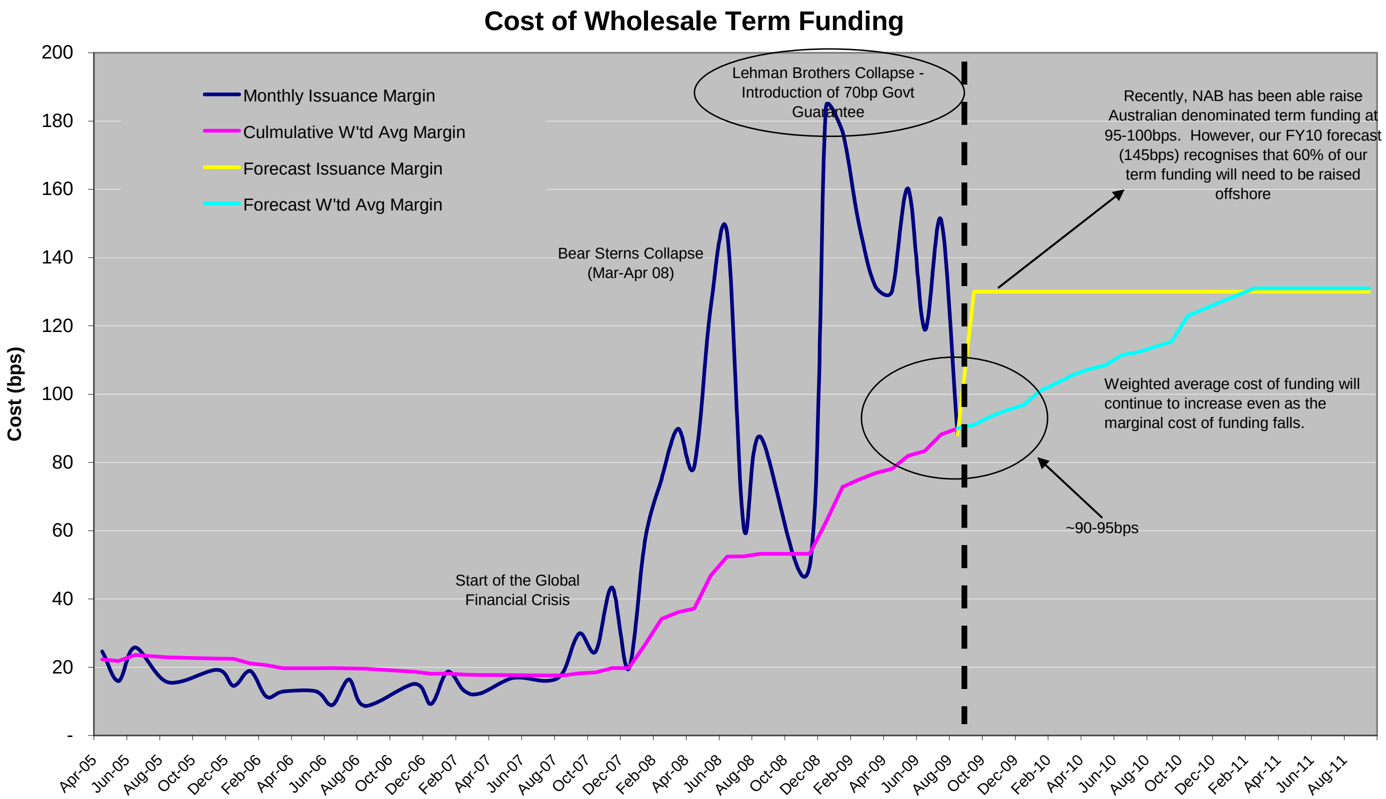
• The global financial crisis has pushed up the cost of offshore wholesale borrowing and made access to overseas markets more difficult

• This has forced all banks to rely more upon domestic deposits, which in turn has pushed up customer deposit costs substantially

•The cost of deposits has risen by around 1%-1.2% over the past 12 months and we expect this cost to increase further into 2010.



3. Term Wholesale Funding



• Pre-crisis wholesale term funding costs averaged 0.15%-0.20% above BBSW

•Following the collapse of Lehman Bros, term funding costs increased sharply to over 1.70% in the half year ending March (including Govt Guarantee fee)

• Recently, the cost of domestic issued debt has eased, but offshore issue costs are higher

•As term funding at pre-crisis costs is progressively replaced by funding at post-crisis costs, the average cost of term funding will continue to rise into 2010, even as costs at the margin decline.

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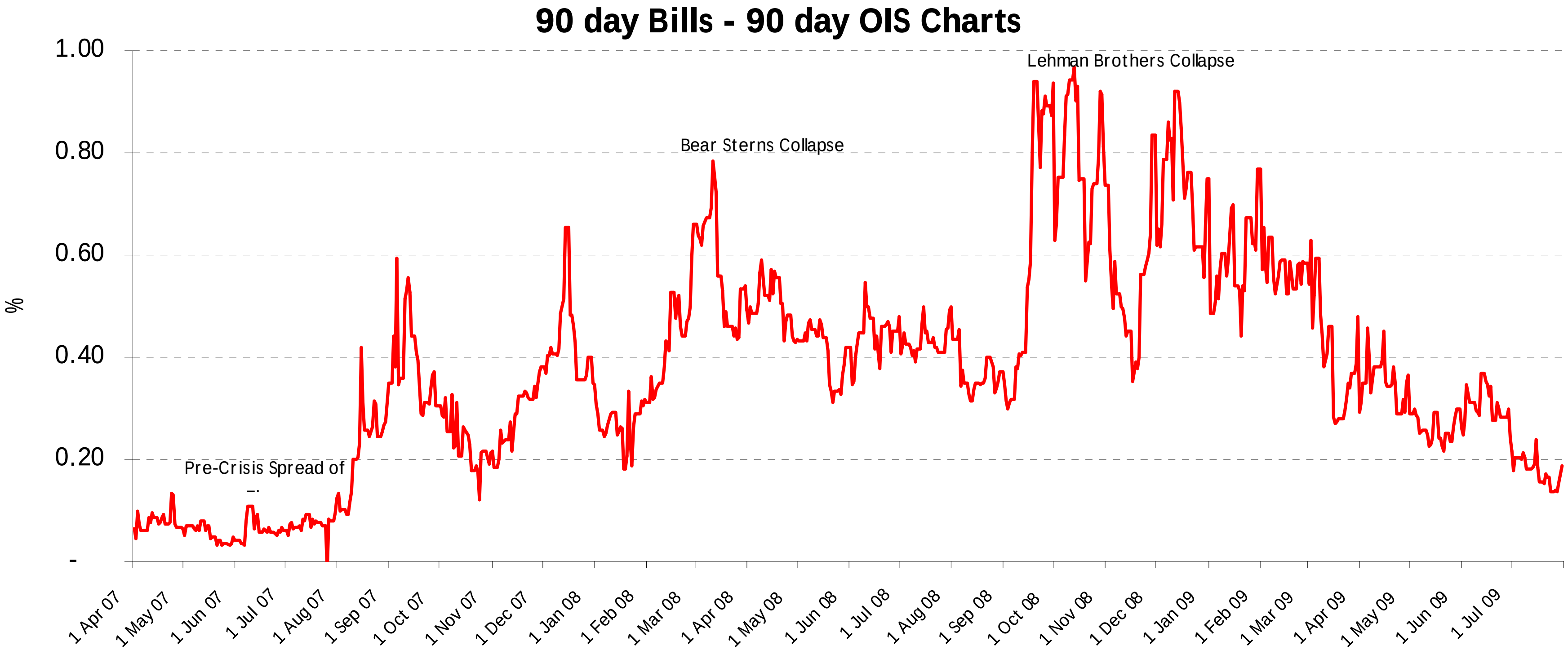
4. Short Term Wholesale



•The global financial crisis caused short term funding costs to rise sharply as banks were forced to raise more money onshore.

•Pre-crisis, short term funding costs averaged 0.07%-0.10%, but post-crisis, these costs have averaged 0.40%-0.45%, with a peak at around 0.95%

•As financial markets have become more stable, short term funding costs have eased. However there is still volatility.

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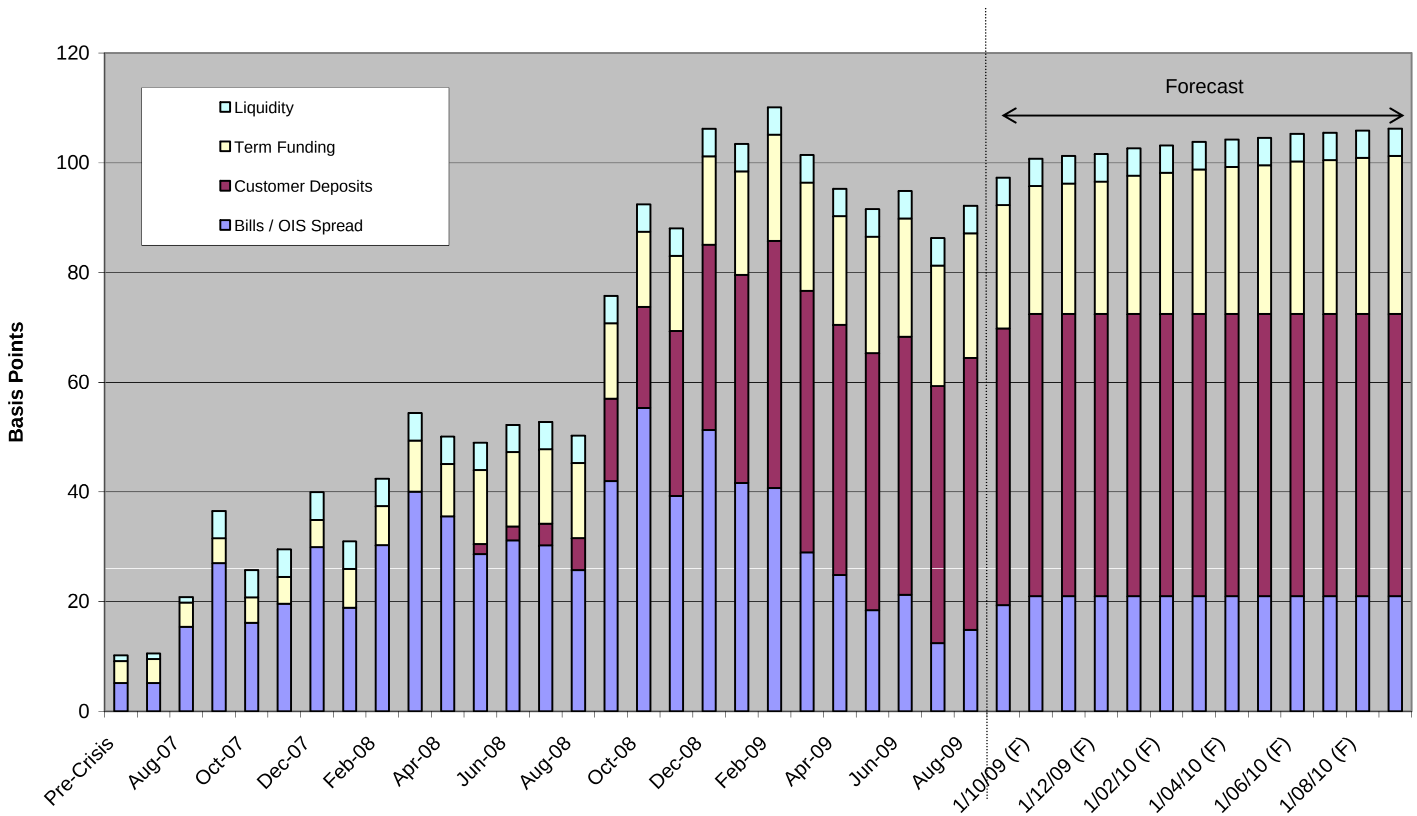
5. Overall Funding Cost Picture

- Through 2008 most of our increased funding costs were driven by higher short term funding costs.
- Recently short term funding costs have eased, however average term wholesale and customer funding costs have increased.
- We expect overall costs to increase into 2010, driven mainly by the rising average cost of term wholesale and retail deposit costs.

Cost of Funding a Standard Variable Rate Mortgage



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Disclaimer

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