



# Global Credit Crisis

Impact on Australian banks cost of funds

Tuesday, 7 October 2008

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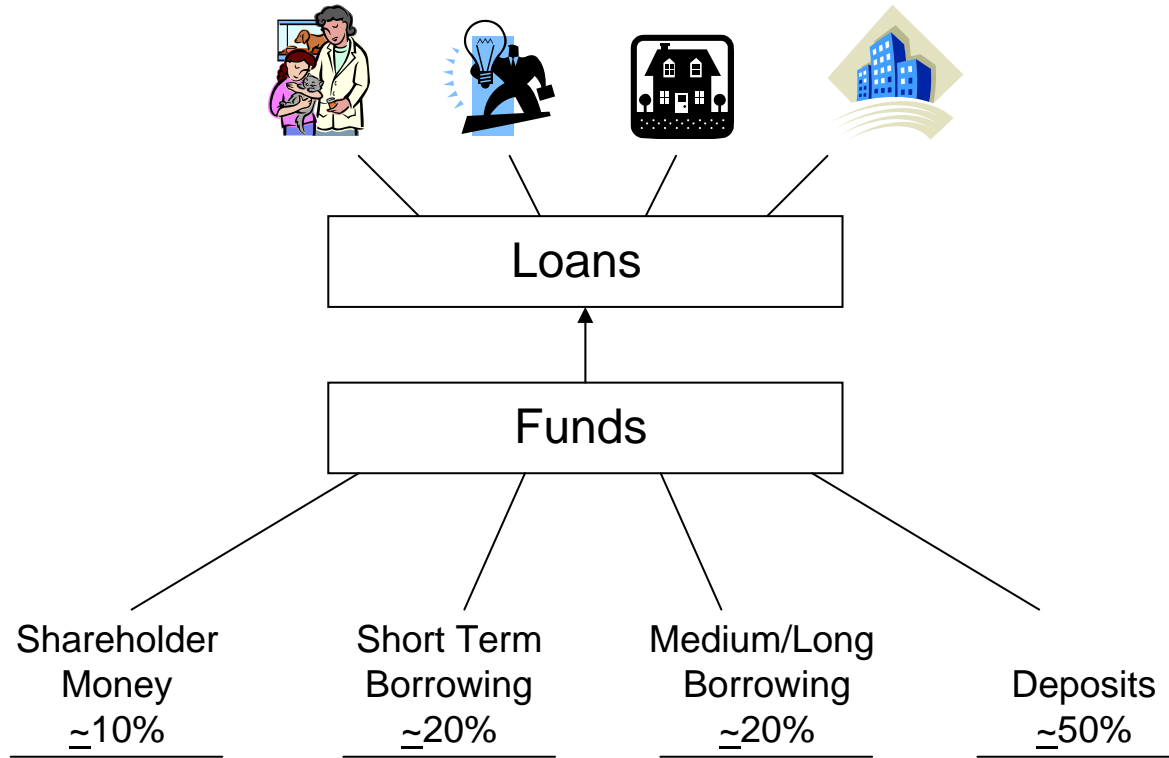
Executive Director & Chief Executive Officer Australia  
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## Summary

- The Australian banking system remains sound and well capitalised.
- Despite the RBA one percent reduction, it is now apparent that the cost of borrowing money anywhere in the world has become a lot more expensive.
- Since we passed on the last cut of 25 basis points in early September 2008, our average cost of funds has increased around 40 basis points.
- 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 (40 basis points), the credit crunch will make it more difficult and expensive for Australian banks to borrow money overseas for medium term/long term funding.
- Furthermore, this has pushed up demand for domestic deposits and has forced banks to pay much more for deposits further increasing the total cost of funds which is likely to be around 60 basis points in 12 months time.

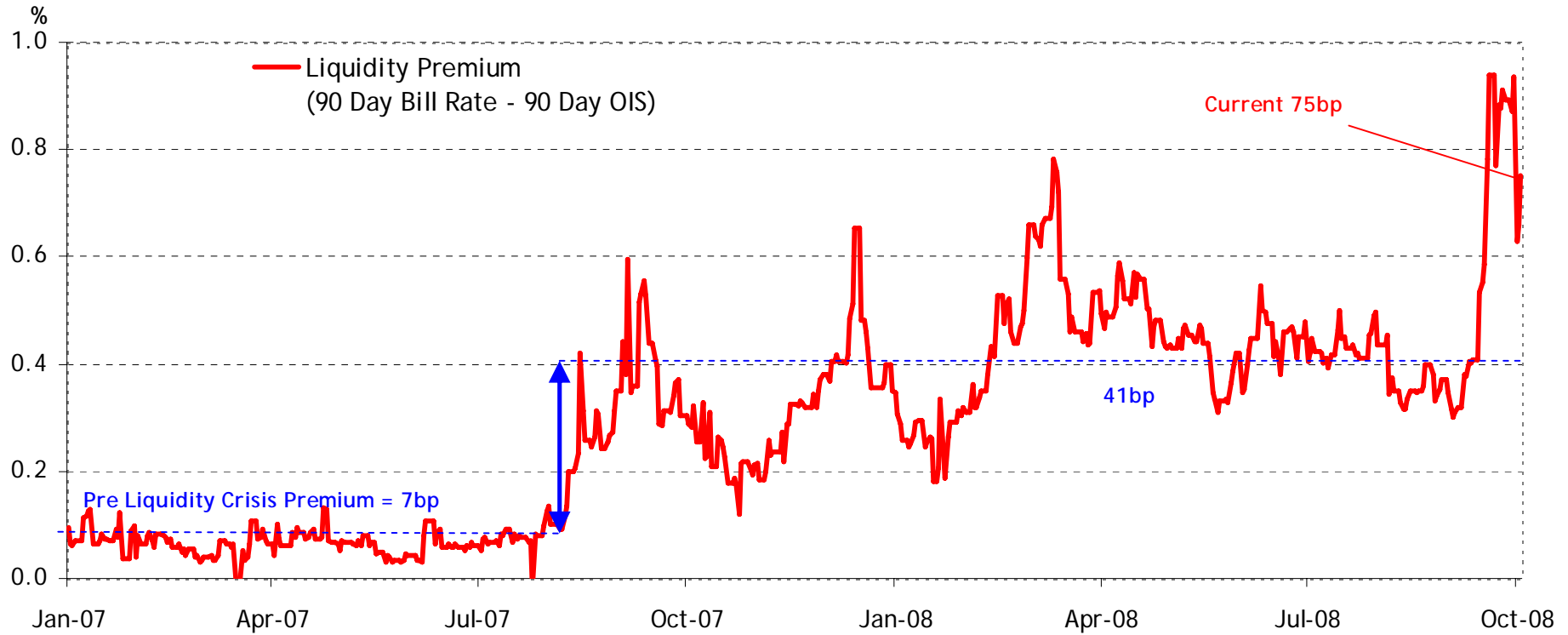
# Typical Bank Funding Composition



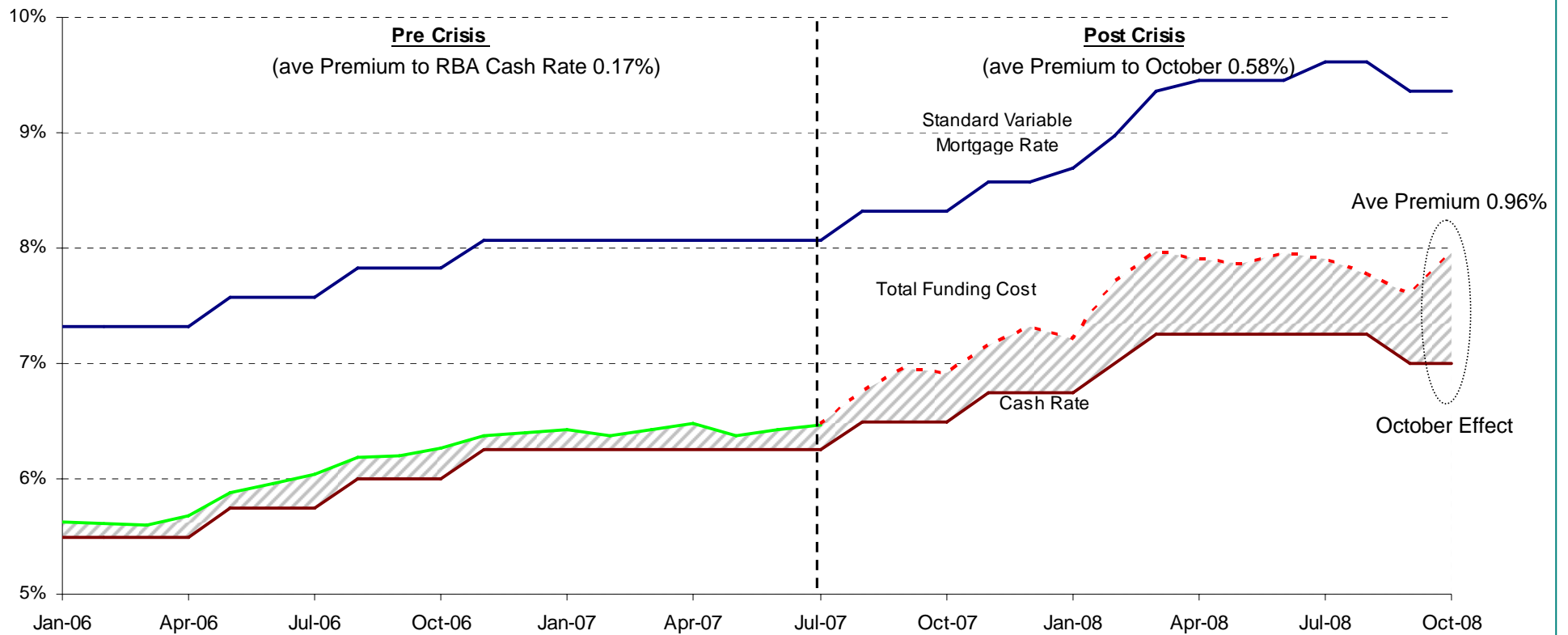
	Shareholder Money ≈10%	Short Term Borrowing ≈20%	Medium/Long Borrowing ≈20%	Deposits ≈50%
To August 2008	↑	↑ ↑ ↑	↑	↑
September 2008	↑ ↑ ↑	↓ ↓ ↓	↑ ↑	↑ ↑
October 2008	↑ ↑ ↑	↑ ↑ ↑	↑ ↑ ↑	↑ ↑ ↑



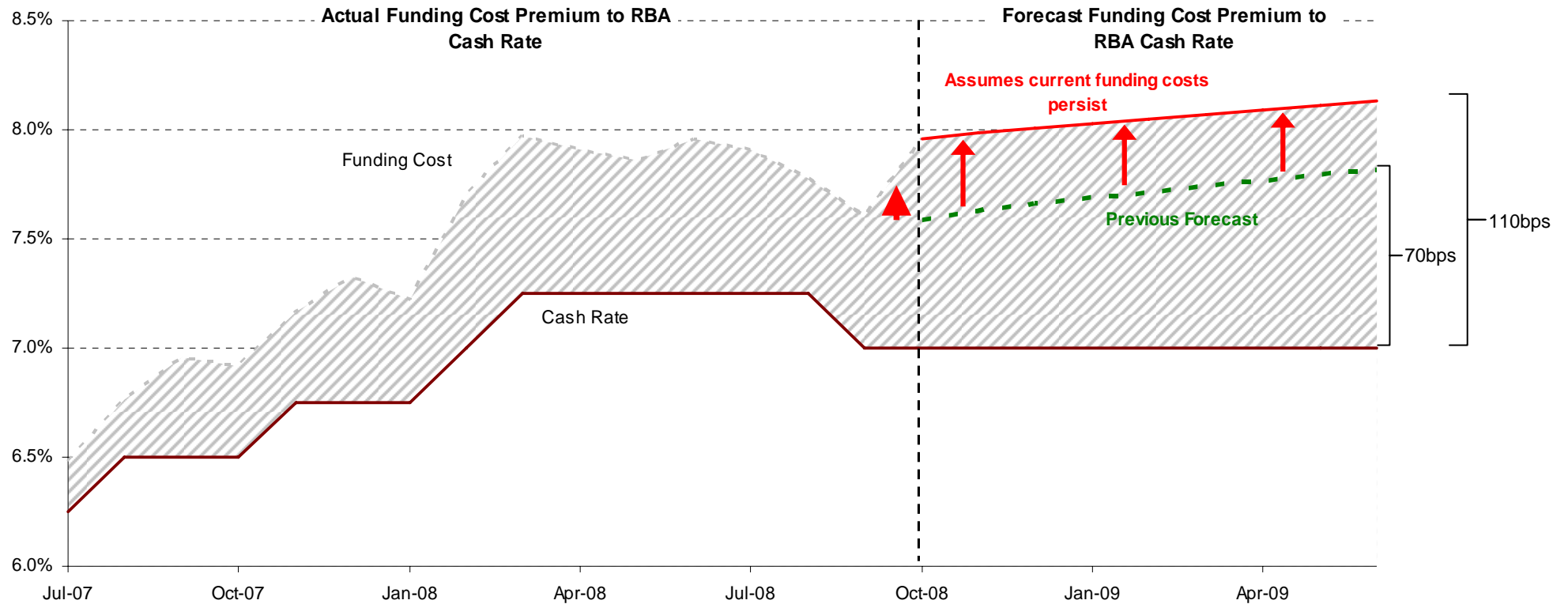
# Cash / Bills Spreads



# Standard Variable Mortgage Rate vs Funding Costs vs Cash Rate



# Banking Funding Costs vs Cash Rate forecast\* over the next 12 months may rise from 0.70% premium to 1.10% premium.

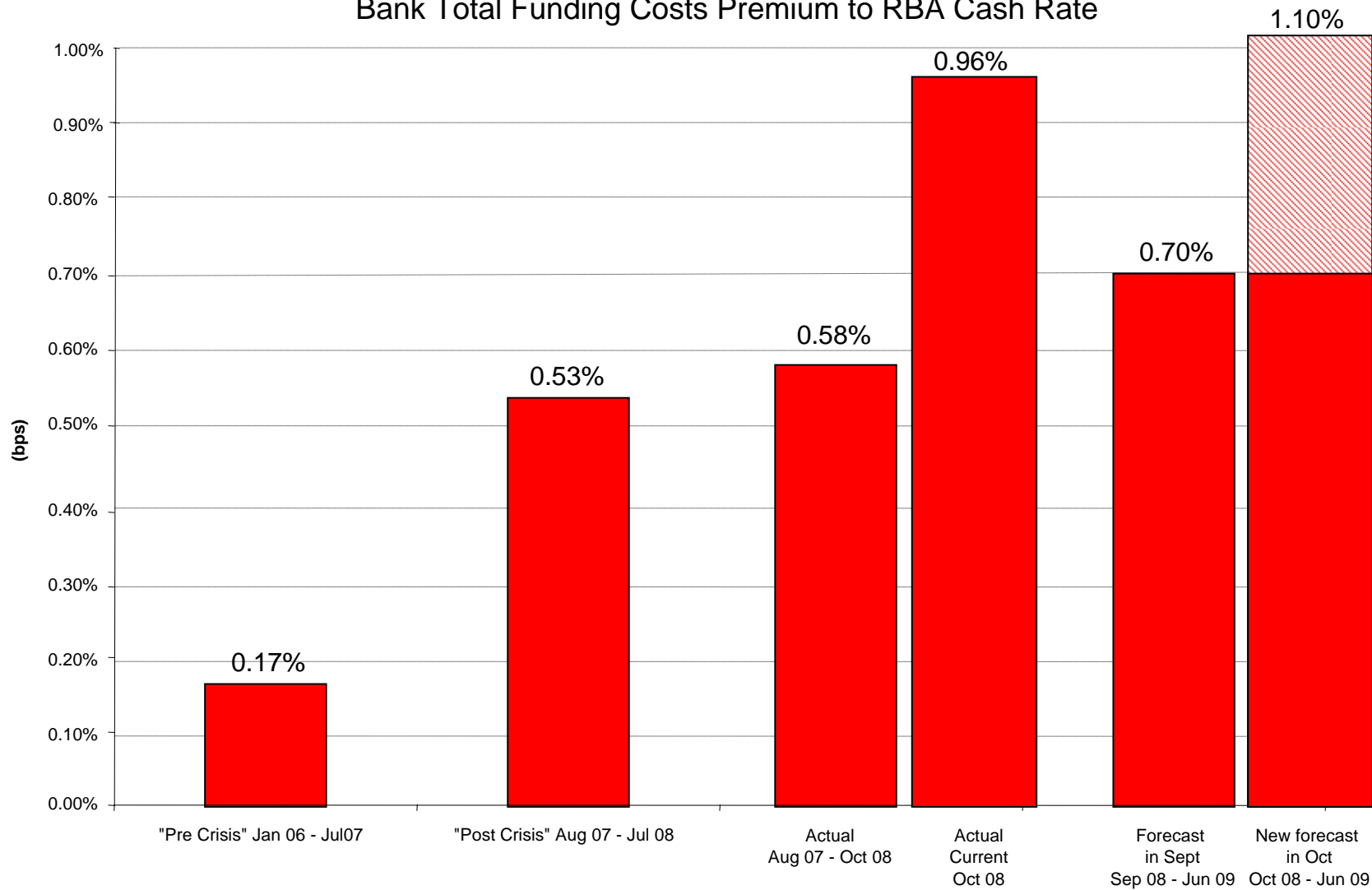


\* Based on assumption all other costs are held constant except for term wholesale funding costs  
 Source: NAB & RBA



# 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

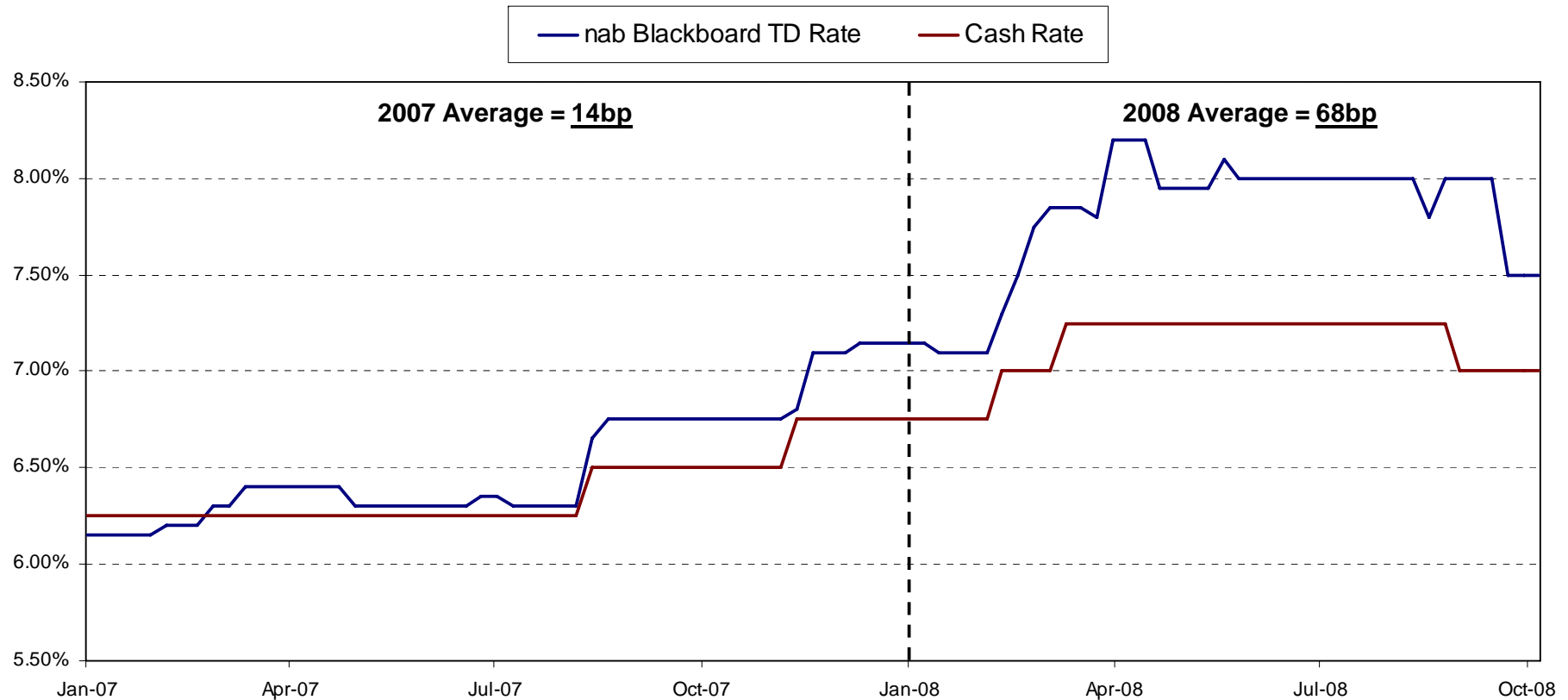


Source: NAB & RBA



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

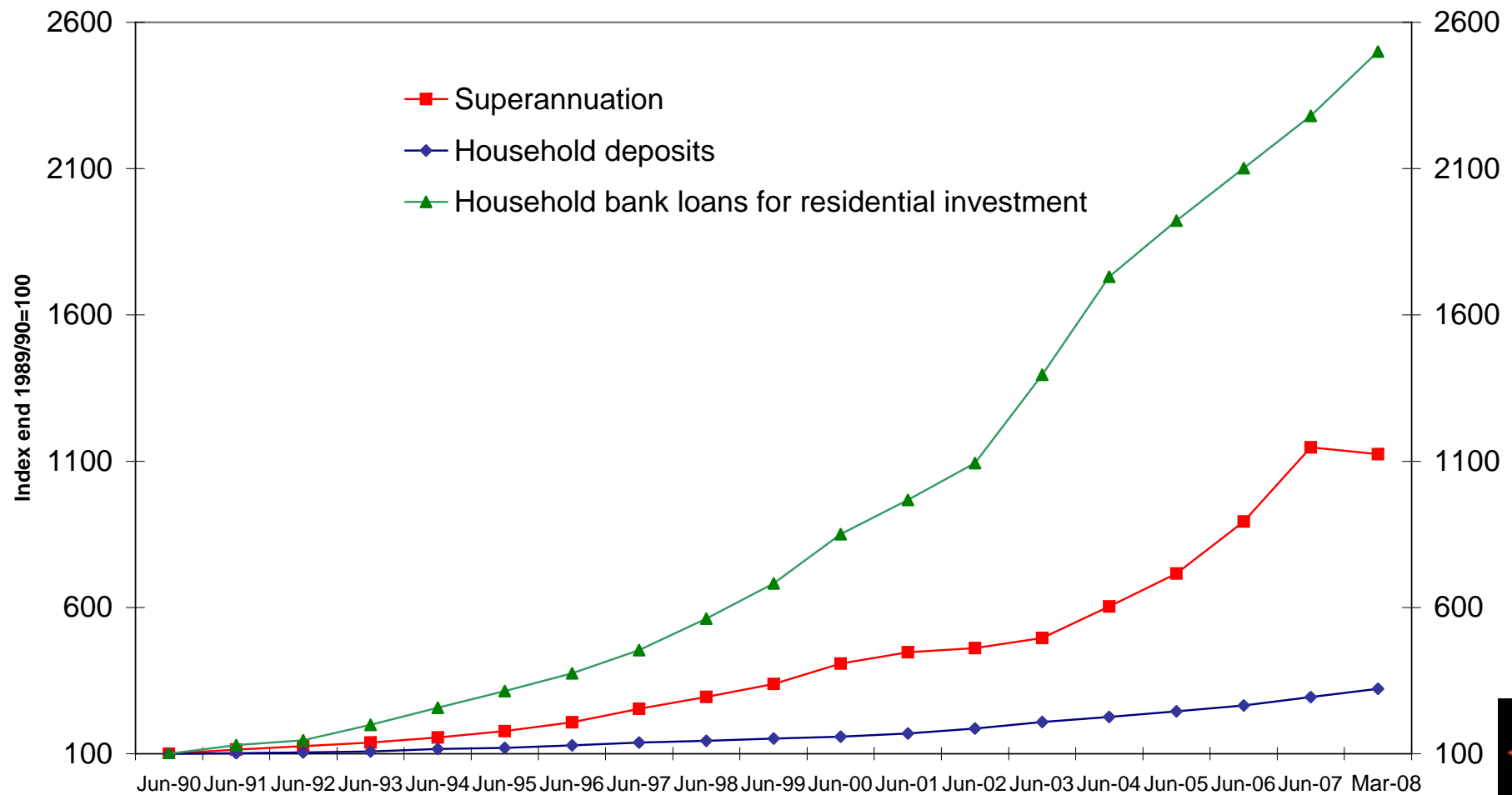
Cash Rate and nab "Blackboard" TD Rates Paid



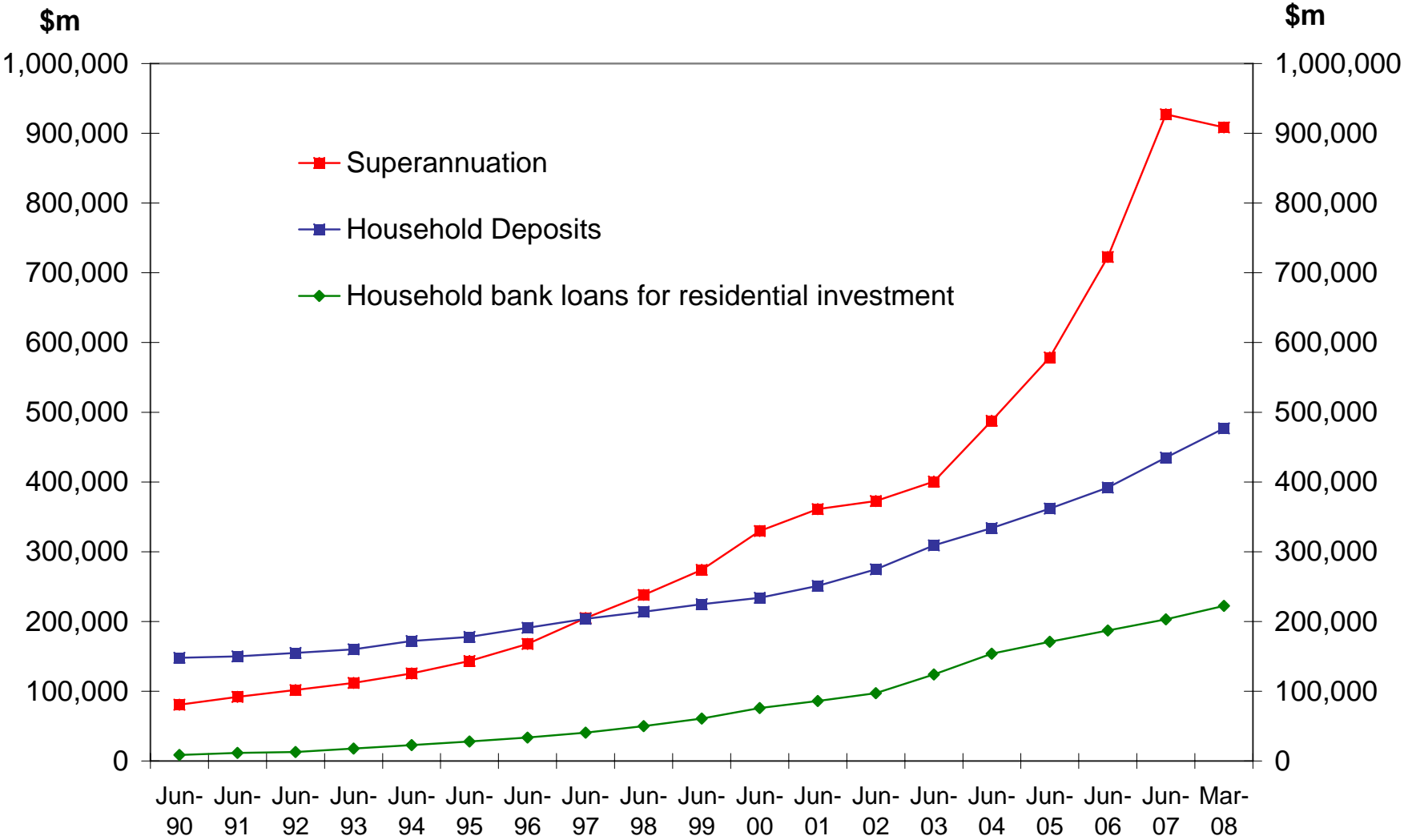


# Real Estate Investments and Superannuation Tax Advantaged versus Deposits

Selected Household Financial Assets & Liabilities Australia



# Standard Financial Assets of Households



Source: NAB & RBA



## Disclaimer

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