

**Received from National Australia Bank on 27 January 2011:
answers to Questions on Notice taken at
a public hearing in Sydney on 13 December 2010**

How important are economies of scale in retail banking, and in participating in international lending? Does this constitute a barrier to entry and a force for concentration?

Scale lowers the cost of capital because of increased diversification (e.g. most smaller players operate in just a few asset classes with real estate security concentrated geographically).

Most of the economies of scale are country specific – i.e. if smaller players don't operate overseas that doesn't affect their ability to compete in Australia.

More generally, economies of scale in retail banking derive from IT capabilities, branch network presence, discretionary overheads (risk, marketing, finance, etc) and the spreading of risk.

But these are small proportion of cost base and are being attacked by falling IT costs/ new technology and shift in consumer towards internet vs branch.

More important is cost of funding which ultimately depends on credit rating/quality of lending book.

Your submission (page 15) refers to requirements for additional liquid assets having an impact on competition as it will be more expensive for smaller banks to comply. Can you see a way to avoid this?

NAB's view is that it would be very hard to see this being avoided unless smaller banks (this needs to be defined) are given specific concessions. However, all indications are that official regulatory bodies are seeking the broadest, most uniform application of these new requirements as it is possible.

The Chairman of the ACCC Graeme Samuel has expressed his concern that the banks are publicly commenting on how they are planning on increasing their rates which is effectively providing comfort to the big four that they can increase without facing any competitive pressure. ("price signalling") How do you respond to this claim?

NAB has made a comprehensive submission to Treasury's consultation on the price signalling legislation proposed by Mr Swan in his banking package released in December 2010. In short, note does not favour the proposed legislation.

Your submission (page 3) refers to a commitment to "fair fees and charges". How do you ensure fees are fair? Is there a difference between fair and profit-maximising fees?

Our aim under our Fair Fees & Charges foundation is to ensure that NAB's pricing represents a fair exchange of value between us and our customers, and also meets the needs of our other stakeholders (Community, Shareholders and Employees).

Some of the guiding criteria we use to help meet this are:

- Value: Every fee will relate to a service of value to customers
- Choice: Customers will be able to choose the services that they use and consequently the fees they incur
- Simplicity: Our services will have simpler and fewer fees, well understood by the customer
- Our pricing will support recognition of our customers relationship

Additionally, we have used a handful of simple fair value tests to help determine whether our pricing and practices deliver to our Fair Fees & Charges foundation.

Fair value tests:

- Do our customers and employees think the practice is fair or are they complaining about it?
- Are we making it easier for our customers to maximise their money or is it difficult for them to understand the rules?
- Are we demonstrating a fair exchange of value or are our customers staying with us because they have to
- Will our shareholders understand how this decision helps grow the business?

Senator WILLIAMS—Would the committee be able to get a graph of your last 12 months of, say, three-year investment rates? Would that not be a problem?

Senator Williams' request for interest rate table:

	maximum	90 day BBSW
2-Jan-06	5.45%	5.65%
9-Jan-06	5.45%	5.63%
16-Jan-06	5.45%	5.62%
23-Jan-06	5.40%	5.62%
30-Jan-06	5.40%	5.63%
6-Feb-06	5.40%	5.63%
13-Feb-06	5.40%	5.60%
20-Feb-06	5.30%	5.60%
27-Feb-06	5.30%	5.60%
6-Mar-06	5.30%	5.60%
13-Mar-06	5.30%	5.61%
20-Mar-06	5.30%	5.60%

27-Mar-06	5.30%	5.59%
3-Apr-06	5.30%	5.59%
10-Apr-06	5.40%	5.68%
17-Apr-06	5.40%	5.67%
24-Apr-06	5.40%	5.74%
1-May-06	5.40%	5.80%
8-May-06	5.50%	5.87%
15-May-06	5.50%	5.89%
22-May-06	5.50%	5.89%
29-May-06	5.50%	5.88%
5-Jun-06	5.50%	5.91%
12-Jun-06	5.50%	5.95%
19-Jun-06	5.50%	5.99%
26-Jun-06	5.55%	6.05%
3-Jul-06	5.55%	5.96%
10-Jul-06	5.60%	5.96%
17-Jul-06	5.60%	6.06%
24-Jul-06	5.60%	6.09%
31-Jul-06	5.70%	6.21%
7-Aug-06	5.70%	6.20%
14-Aug-06	5.90%	6.22%
21-Aug-06	5.90%	6.17%
28-Aug-06	5.90%	6.17%
4-Sep-06	5.90%	6.19%
11-Sep-06	5.90%	6.23%
18-Sep-06	5.90%	6.22%
25-Sep-06	5.90%	6.20%
2-Oct-06	5.90%	6.17%
9-Oct-06	5.90%	6.21%
16-Oct-06	5.90%	6.29%
23-Oct-06	5.90%	6.33%
30-Oct-06	5.90%	6.35%
6-Nov-06	5.90%	6.39%
13-Nov-06	6.00%	6.37%
20-Nov-06	6.15%	6.36%
27-Nov-06	6.15%	6.38%
4-Dec-06	6.15%	6.39%
11-Dec-06	6.15%	6.40%
18-Dec-06	6.15%	6.40%
25-Dec-06	6.05%	6.40%
1-Jan-07	6.05%	6.44%
8-Jan-07	6.05%	6.43%
15-Jan-07	6.05%	6.45%
22-Jan-07	6.05%	6.48%

29-Jan-07	6.05%	6.40%
5-Feb-07	6.05%	6.39%
12-Feb-07	6.05%	6.38%
19-Feb-07	6.05%	6.37%
26-Feb-07	6.15%	6.35%
5-Mar-07	6.15%	6.36%
12-Mar-07	6.15%	6.37%
19-Mar-07	6.15%	6.42%
26-Mar-07	6.15%	6.54%
2-Apr-07	6.15%	6.50%
9-Apr-07	6.15%	6.46%
16-Apr-07	6.15%	6.53%
23-Apr-07	6.15%	6.51%
30-Apr-07	6.15%	6.38%
7-May-07	6.15%	6.37%
14-May-07	6.15%	6.38%
21-May-07	6.15%	6.36%
28-May-07	6.15%	6.36%
4-Jun-07	6.15%	6.35%
11-Jun-07	6.15%	6.48%
18-Jun-07	6.15%	6.42%
25-Jun-07	6.25%	6.42%
2-Jul-07	6.25%	6.42%
9-Jul-07	6.20%	6.45%
16-Jul-07	6.20%	6.43%
23-Jul-07	6.20%	6.44%
30-Jul-07	6.20%	6.58%
6-Aug-07	6.30%	6.60%
13-Aug-07	6.40%	6.73%
20-Aug-07	6.50%	6.80%
27-Aug-07	6.50%	6.79%
3-Sep-07	6.50%	6.90%
10-Sep-07	6.50%	7.07%
17-Sep-07	6.50%	6.97%
24-Sep-07	6.50%	6.87%
1-Oct-07	6.50%	6.89%
8-Oct-07	6.50%	6.91%
15-Oct-07	6.50%	6.92%
22-Oct-07	6.50%	6.85%
29-Oct-07	6.55%	6.98%
5-Nov-07	6.55%	7.07%
12-Nov-07	6.70%	7.12%
19-Nov-07	6.90%	7.17%
26-Nov-07	6.90%	7.18%

3-Dec-07	6.90%	7.22%
10-Dec-07	6.90%	7.25%
17-Dec-07	6.90%	7.34%
24-Dec-07	6.90%	7.22%
31-Dec-07	7.00%	7.24%
7-Jan-08	7.00%	7.12%
14-Jan-08	7.00%	7.14%
21-Jan-08	7.00%	7.22%
28-Jan-08	7.00%	7.28%
4-Feb-08	7.00%	7.43%
11-Feb-08	7.20%	7.51%
18-Feb-08	7.40%	7.76%
25-Feb-08	7.60%	7.78%
3-Mar-08	7.60%	7.96%
10-Mar-08	7.60%	8.02%
17-Mar-08	7.60%	7.86%
24-Mar-08	7.60%	7.78%
31-Mar-08	7.60%	7.86%
7-Apr-08	7.60%	7.83%
14-Apr-08	7.60%	7.84%
21-Apr-08	7.70%	7.83%
28-Apr-08	7.70%	7.81%
5-May-08	7.70%	7.79%
12-May-08	7.70%	7.76%
19-May-08	7.80%	7.75%
26-May-08	7.80%	7.70%
2-Jun-08	7.80%	7.70%
9-Jun-08	7.80%	7.83%
16-Jun-08	7.80%	7.79%
23-Jun-08	7.80%	7.84%
30-Jun-08	7.80%	7.84%
7-Jul-08	7.80%	7.76%
14-Jul-08	7.80%	7.80%
21-Jul-08	7.85%	7.76%
28-Jul-08	7.85%	7.75%
4-Aug-08	7.75%	7.57%
11-Aug-08	7.75%	7.32%
18-Aug-08	7.60%	7.29%
25-Aug-08	7.50%	7.27%
1-Sep-08	7.50%	7.22%
8-Sep-08	7.50%	7.25%
15-Sep-08	7.50%	7.29%
22-Sep-08	7.50%	7.37%
29-Sep-	7.60%	7.32%

08		
6-Oct-08	7.20%	7.00%
13-Oct-08	6.50%	6.04%
20-Oct-08	6.20%	5.71%
27-Oct-08	6.90%	5.80%
3-Nov-08	6.90%	5.62%
10-Nov-08	6.00%	4.95%
17-Nov-08	5.75%	4.60%
24-Nov-08	5.40%	4.47%
1-Dec-08	5.40%	4.50%
8-Dec-08	5.60%	4.69%
15-Dec-08	5.60%	4.51%
22-Dec-08	5.50%	4.25%
29-Dec-08	5.50%	4.03%
5-Jan-09	4.80%	3.96%
12-Jan-09	4.80%	3.92%
19-Jan-09	4.80%	3.70%
26-Jan-09	4.70%	3.60%
2-Feb-09	4.00%	3.06%
9-Feb-09	4.20%	3.37%
16-Feb-09	4.20%	3.08%
23-Feb-09	4.20%	3.09%
2-Mar-09	4.10%	3.29%
9-Mar-09	4.10%	3.21%
16-Mar-09	4.10%	3.03%
23-Mar-09	3.60%	3.03%
30-Mar-09	3.40%	3.17%
6-Apr-09	3.40%	3.11%
13-Apr-09	3.50%	3.13%
20-Apr-09	3.60%	3.08%
27-Apr-09	3.70%	3.07%
4-May-09	3.70%	3.08%
11-May-09	3.70%	3.14%
18-May-09	3.70%	3.11%
25-May-09	3.70%	3.14%
1-Jun-09	3.75%	3.16%
8-Jun-09	3.75%	3.24%
15-Jun-09	3.80%	3.30%
22-Jun-09	3.80%	3.25%
29-Jun-09	3.80%	3.25%
6-Jul-09	3.80%	3.12%
13-Jul-09	3.80%	3.12%
20-Jul-09	3.80%	3.11%
27-Jul-09	3.80%	3.11%
3-Aug-09	3.80%	3.20%

10-Aug-09	3.80%	3.32%
17-Aug-09	3.80%	3.28%
24-Aug-09	3.80%	3.33%
31-Aug-09	3.80%	3.49%
7-Sep-09	3.80%	3.45%
14-Sep-09	3.80%	3.44%
21-Sep-09	4.00%	3.28%
28-Sep-09	4.00%	3.30%
5-Oct-09	4.00%	3.41%
12-Oct-09	4.00%	3.80%
19-Oct-09	4.25%	3.85%
26-Oct-09	4.25%	3.83%
2-Nov-09	4.25%	3.89%
9-Nov-09	4.25%	3.95%
16-Nov-09	4.25%	4.01%
23-Nov-09	4.25%	3.92%
30-Nov-09	5.00%	4.03%
7-Dec-09	5.00%	4.10%
14-Dec-09	5.00%	4.27%
21-Dec-09	5.00%	4.02%
28-Dec-09	5.00%	4.20%
4-Jan-10	5.00%	4.11%
11-Jan-10	5.00%	4.15%
18-Jan-10	5.00%	4.22%
25-Jan-10	5.00%	4.23%
1-Feb-10	5.00%	4.21%
8-Feb-10	5.00%	4.19%
15-Feb-10	5.00%	4.23%
22-Feb-10	5.00%	4.10%
1-Mar-10	5.00%	4.17%
8-Mar-10	5.00%	4.22%
15-Mar-10	5.00%	4.43%
22-Mar-10	5.00%	4.24%
29-Mar-10	5.00%	4.49%
5-Apr-10	5.00%	4.42%
12-Apr-10	5.00%	4.57%
19-Apr-10	5.00%	4.46%
26-Apr-10	5.00%	4.53%
3-May-10	5.00%	4.63%
10-May-10	5.00%	4.85%
17-May-10	5.00%	4.85%
24-May-10	5.00%	4.75%

31-May-10	5.00%	4.87%
7-Jun-10	5.00%	4.86%
14-Jun-10	5.00%	4.95%
21-Jun-10	5.00%	4.90%
28-Jun-10	5.40%	4.97%
5-Jul-10	5.40%	4.85%
12-Jul-10	5.40%	4.85%
19-Jul-10	5.40%	4.80%
26-Jul-10	5.40%	4.82%
2-Aug-10	5.40%	4.78%
9-Aug-10	5.40%	4.76%
16-Aug-10	5.40%	4.74%
23-Aug-10	5.40%	4.72%
30-Aug-10	5.40%	4.76%
6-Sep-10	5.40%	4.74%
13-Sep-10	5.40%	4.83%
20-Sep-10	5.40%	4.74%
27-Sep-10	5.40%	4.96%
4-Oct-10	5.40%	4.88%
11-Oct-10	5.40%	4.83%
18-Oct-10	5.40%	4.74%
25-Oct-10	5.40%	4.79%
1-Nov-10	5.40%	4.80%
8-Nov-10	5.40%	5.01%
15-Nov-10	5.40%	5.05%
22-Nov-10	5.40%	5.00%
29-Nov-10	5.40%	5.07%

NAB's Best Term Deposit Blackboard Rate
(for terms 3 to 5 months)

