

Australian banks cost of funds

NAB overview

As at 7 April 2009

The facts

Why do banks' interest rates change?

- Interest rates change for a combination of reasons, including:
 - movements in the Reserve Bank of Australia's official cash rate;
 - the cost of funding a loan from the wholesale money market in Australia and overseas;
 - the cost of attracting customer deposits; and
 - the overall competitive market.

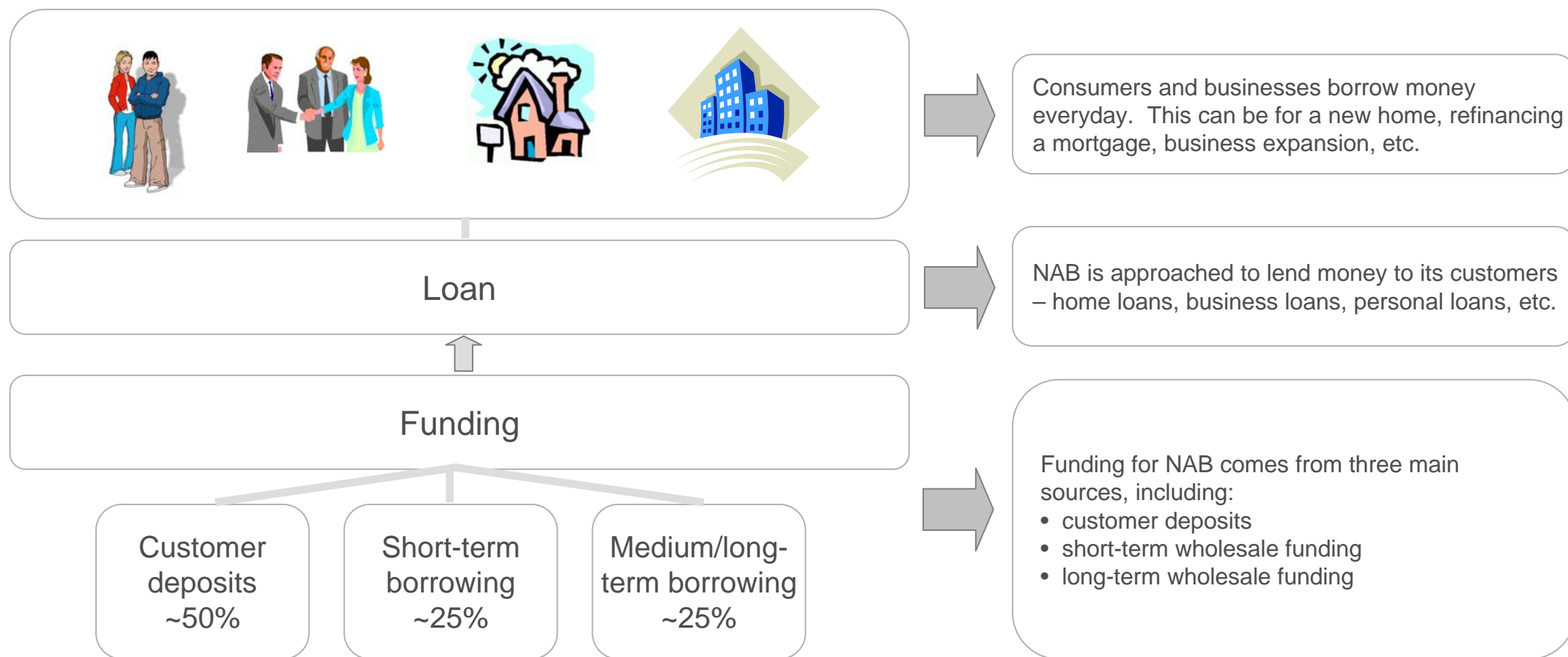
What are each of these contributing factors?

- **Official cash rate:** the interest rate paid by banks in Australia, adjusted and set by the Reserve Bank of Australia, to reflect the availability and supply of money.
- **Wholesale funding costs:** the price banks pay to access money from the wholesale money market which is then on-lent to consumers and businesses for personal and business loans.
- **Customer deposits:** the money consumers and businesses deposit into banks which can then be used to on-lend to other consumers or businesses for personal and business loans.
- **Competitive market:** the competition between financial institutions in Australia to attract customers.

What is NAB's current competitive position?

- Since September 2008, NAB has passed on 3.87% in interest rate cuts to its standard variable home loan customer.
- NAB's standard variable home loan interest rates is 5.74% per annum – one of the most competitive in Australia.
- NAB offers a range of highly competitive fixed interest home loan rates including 1 and 2 Year Choice Package rates at 4.99% pa and 3 Year Choice Package at 5.19% pa.

NAB funding composition



The three main components of NAB's funding

The cost of providing a mortgage has increased significantly since the credit crisis hit in mid-2007. In order to maintain a sustainable position in the future, the interest rates NAB charges its customers needs to responsibly reflect these increased funding costs.

Short-term wholesale funding

The gap between the bank bill rate (ie. 90 day BBSW) and the Overnight Index Swap (ie. 90 day OIS) rate represents the risk premium which banks must pay for short-term wholesale funding. This has increased significantly since June 2007.

Wholesale funding costs:

Pre-credit crisis: 0.07% Range since 1 Oct: 0.27%-0.97% Current: 0.40%

Medium/long-term wholesale funding

Term funding provides banks with certainty that they will have access to wholesale funding over the next three to five years. The cost of term funding has increased more than short-term wholesale funding due to increased investor risk aversion and a decline in availability of funds.

Wholesale funding costs:

Pre-credit crisis: 0.15% Range since 1 Oct : 0.30%-2.02% Current: 1.30%

Customer deposits

Approximately half of NAB's funding is through customer deposits. In particular term deposit rates have increased significantly relative to swap rates (90 day BBSW) as customer deposits have become an alternative source of funding to the now more expensive term funding.

Deposit funding costs:

Pre-credit crisis: -0.15% Range since 1 Oct: +0.50% - +1.50% Current: 1.10%

- Since the credit crisis began in July 2007, funding costs have increased significantly for standard variable mortgages.
 - Pre-crisis, the average premium of funding costs to the Standard Variable Rate was around 0.09% pa.
 - Post-crisis, the premium has averaged around 0.56% pa.
- Since Sept 2008, NAB has passed on 3.87% pa in interest rate cuts to its home loan customer – the most of any major bank in Australia.
- NAB's forward project suggests that this position will continue.

Customers

- NAB's standard variable interest rate is 5.74% pa – this is the lowest it has been since 1968.
- If certainty is important to customers, they have the option of fixing all or part of their home loan - NAB offers a range of highly competitive fixed interest home loan rates including 1 and 2 Year Choice Package rates at 4.99% pa and 3 Year Choice Package at 5.19% pa.
- Customers who choose to maintain their existing repayments could save them thousands of dollars and years over the life of their loan.
- If customers are looking to reduce their payments, they should call NAB Direct on 13 22 65 or visit any of NAB's 750 branches and talk through their options with a NAB banker.
- NAB has options for customers experiencing hardship – with a number of assistance options available to help manage repayments. Customers seeking assistance or financial advice should visit any NAB branch or call NAB Direct on 13 22 65.

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