

HACK, Mark

From: STEWART, Chris
Sent: Tuesday, 24 August 2010 10:34
To:
Cc: Derick Cullen; Susan Kluth; PLUMB, Michael; HACK, Mark; FABBRO, Daniel
Subject: Banks' Funding Costs [SEC=IN-CONFIDENCE]

Security Classification:
IN-CONFIDENCE

Michael,

Some of the series from the Reserve Bank's funding cost model are in the attached file. Hopefully this will be of assistance to the ABS. If there are any questions about the underlying data, methods of construction, etc please let me know.

At this stage, we ask that these data are only used for internal purposes, and not distributed.

Regards
Chris



Data for ABS (CPI
review) - br...

Chris Stewart
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DOMESTIC MARKETS REVIEW: SEPTEMBER 2010

Summary

- Secondary market **spreads** on major bank's unguaranteed bonds have tightened slightly, and currently stand at 124 bps.

NON-INTERMEDIATED MARKETS

Credit markets

Financials

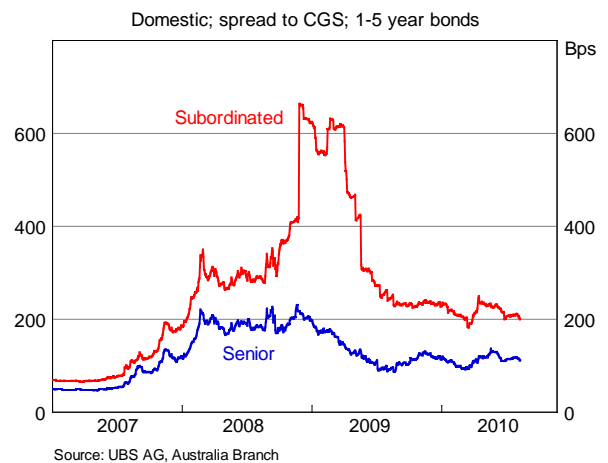
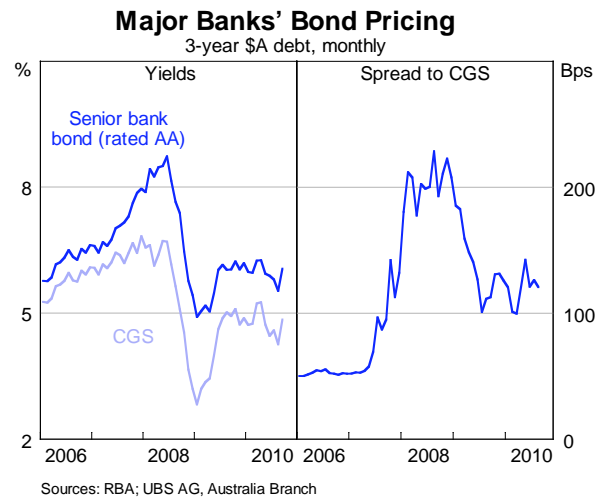
Three large domestic deals so far this month included CBA, ANZ and Bank of Scotland Australia, with CBA tapping their September 2013 line. They raised A\$1.5 billion in two 3-year tranches, while ANZ tapped their July 2013 line and raised A\$1.35 billion in floating rate tranche. Bank of Scotland Australia raised A\$600 million in two 2-year tranches.

For further details on the major banks' bond issuance refer to the table below:

Senior Bond Issuance by the Major Banks since 24 August 10: Selected Issues

Issuer	Size (A\$ million; conversion at issuance)	Term (years)	Market of Issue	Initial spread
NAB	1059	5	Offshore	US Treasury +137
NAB	1059	5	Offshore	US Treasury +137
Westpac	666	5	Offshore	JPY Swap + 50bps
Westpac	199	5	Offshore	JPY Libor + 65bps
ANZ	1350	3	Domestic	BBSW+90bps
CBA (tap)	1,000	3	Domestic	BBSW + 85bps
CBA (tap)	500	3	Domestic	Swap + 85bps

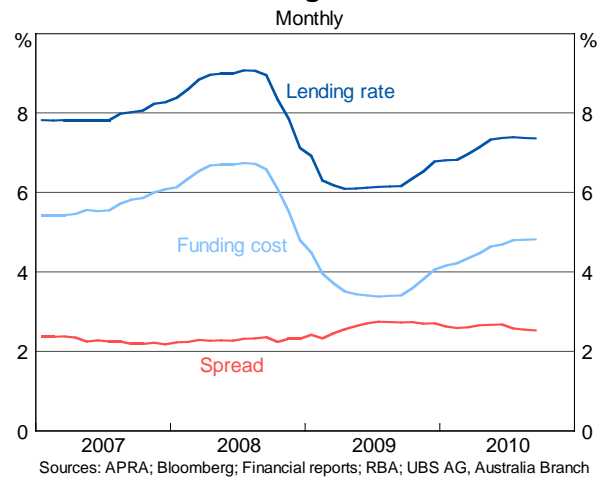
Spreads on major banks' 3-year senior bonds have tightened by about 5bps since end of last month and stand at 121 bps over CGS. Spreads on major banks' domestically-issued subordinated bonds have tightened by about 8 bps since end-July, and currently stand at around 202 bps over CGS.



INTERMEDIATED MARKETS

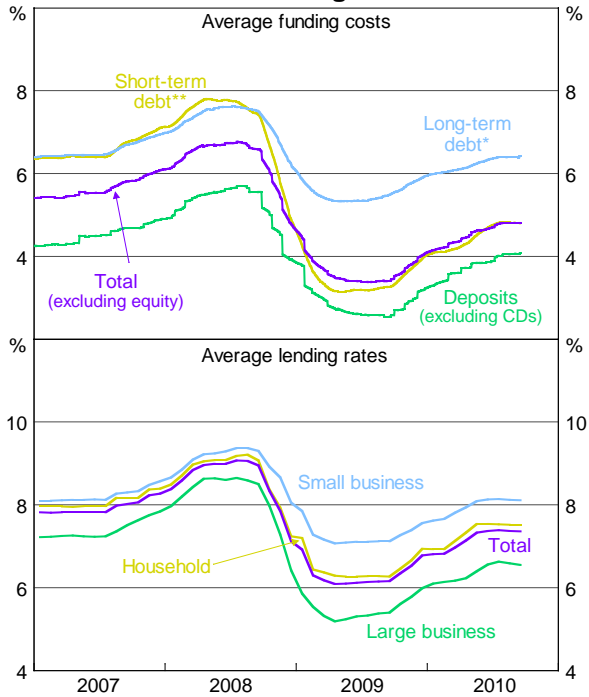
Banks' Balance Sheets

Major Banks' Lending Rates and Funding Costs



With the major banks' average funding cost estimated to have remained steady since end August, the slight fall in the estimated NIM reflects a small decline in our estimated average lending rate (mostly due to large business variable rates moving in line with market rates).

Major Banks' Average Lending Rates and Funding Costs



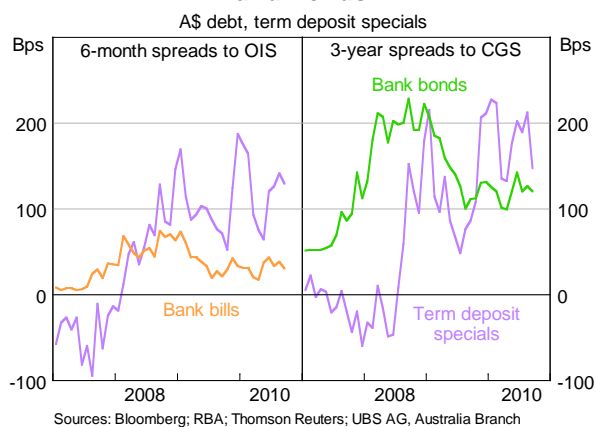
* Includes RMBS and hybrids

** Includes CDs

Sources: APRA; Bloomberg; Financial Reports; RBA; UBS AG, Australia branch

The major banks continue to offer higher rates on longer-duration term deposits relative to the rates on bonds of equivalent maturities.

Major Banks' Pricing of Term Deposits and Bonds



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MEMORANDUM FOR THE BOARD

SEPTEMBER 2010 MEETING

Financial Stability

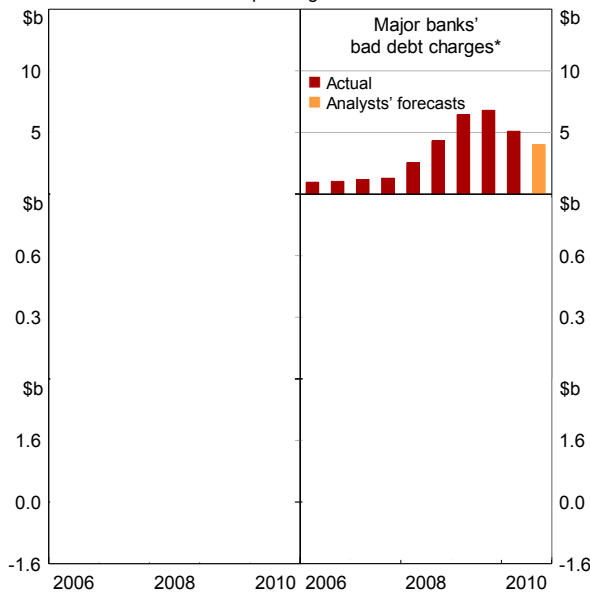
The Australian Financial System

The Australian banking system has regained much of its pre-crisis strength. The profitability of the largest banks has picked up over the past half-year, reflecting increased interest income and a decline in bad and doubtful debt charges.

Profits and asset quality

The four major banks reported aggregate headline profits after tax and minority interests of almost \$10 billion in their latest available half-yearly results (Graph 11). This result was about \$1 billion higher than in the same period a year earlier and signals a recovery to pre-crisis profitability, following a relatively shallow downturn over the preceding 18 months. Net interest income increased from a year earlier, and there was a marked reduction in bad and doubtful debt charges in the half-yearly data for the first time since the financial market turbulence began. With the outlook remaining positive overall, analysts are forecasting further near-term declines in bad and doubtful debts and commensurate profit growth, though some have revised down expectations for growth in net interest income.

Graph 11
Profitability
Banks operating in Australia



* First half figures are half year to December for CBA, and half year to March for ANZ, NAB and Westpac. Second half 2010 figures are half year to June for CBA, and analyst forecasts for ANZ, NAB and Westpac. Includes St. George and Bankwest from the first half of 2009.

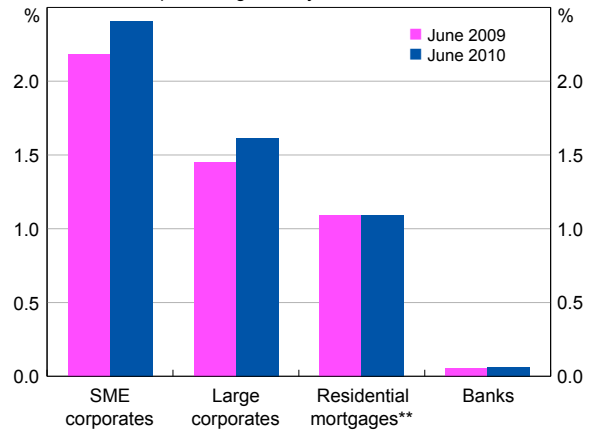
Sources: APRA; Citigroup; Morgan Stanley; UBS; banks' annual and interim reports; (Confidential)

Net interest income, which is the main source of revenue, has underpinned profitability over the past two years; interest receipts rose sufficiently to fully recoup higher funding costs and partly offset the rise in loan losses. The net interest margin (NIM) of the major banks' global consolidated operations increased by around 20 basis points since the trough in 2008 but has declined a little more recently. Over the same period, the NIM for their Australian operations is almost 40 basis points higher. This divergence reflects that banks have been less successful in recovering their funding costs in overseas markets, which have been more adversely affected by the financial crisis than Australia.

The value of housing assets on banks' balance sheets that are non-performing has continued to rise but remains low. Some of the major banks attributed the increases in early 2010 to rising interest rates and ongoing 'underemployment'. Unlike non-performing business assets, non-performing housing assets are mainly classed as past-due, not impaired, implying that they continue to be well collateralised – not surprisingly, given house price gains in recent years.

The quality of banks' commercial property assets remains under the most pressure. Non-performance in loans to this sector (which account for less than one-third of banks' on-balance-sheet business credit) has continued to rise, with the share of loans that are impaired almost double that for all business credit. Part of this increase can be attributed to a run-off in major banks' property portfolios, since a given value of impairments represents a greater share of a shrinking overall portfolio. Nonetheless, there are signs of stabilisation in these loans, with specific provisions having declined slightly. Overall, the major banks' estimated default probabilities for corporate exposures have risen over the past year, partly reflecting expectations about the delayed effects of the macroeconomic slowdown, and the unwinding of stimulus measures, on small and medium enterprises (SMEs) (Graph 18).

Graph 18
Counterparty Default Probabilities*
Simple average of major banks' estimates



* On-balance sheet portfolios assessed under the Internal Ratings-based approach only
** Loans to households and small businesses that are secured by residential mortgages
Source: APRA

Funding conditions and liquidity

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The rate of Australian bank bond issuance has also slowed in 2010, from the very strong pace of 2009 when the government guarantee arrangements were in place. The major banks have returned to markets in recent months, after issuing very little long-term debt when concerns around European sovereign debt escalated around April/May and spreads widened.

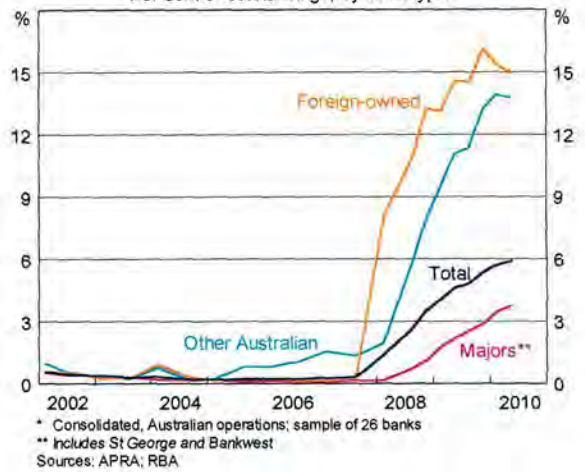
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BANKS' COMMERCIAL PROPERTY LENDING & ASSET QUALITY – JUNE 2010¹

Overall, exposure limits fell by 2.0 per cent (\$4.1 billion), with most of the fall driven by the major banks (\$3.4 billion). This was less than the fall in exposures, causing exposures as a percentage of limits to reverse the trend of the past few years, and decline to 87.6 per cent (Graph 3).

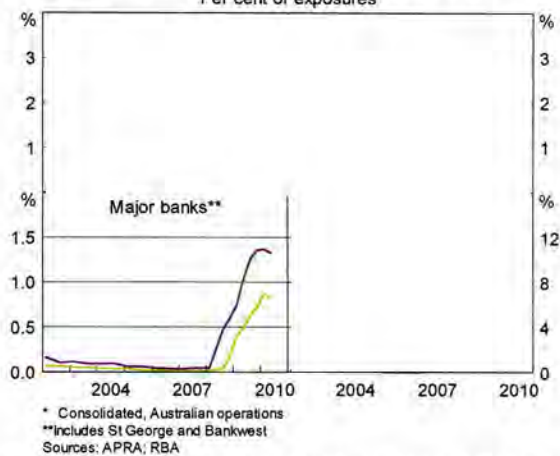
Asset quality

Graph 6
Australian Commercial Property Impaired Assets
Per cent of outstandings, by bank type*



Turning to **bank type**, the impaired assets ratio of the major banks rose to 3.8 per cent over the quarter from 3.5 per cent at March 2010 (Graph 6). This rise was not driven solely by falls in exposures – impaired assets rose by \$230m (4.5 per cent) among this group.

Graph 8
Specific Provisions and Security Held*
 Per cent of exposures



Provisions for (individually identified) expected losses on impaired commercial property assets declined by 7.9 per cent over the quarter among the major banks, in line with a 5.9 per cent fall in the stock of unsecured impaired assets (impaired assets less security held) at these institutions

David Rodgers
Financial Stability Department
23 September 2010

HACK, Mark

From: FABBRO, Daniel
Sent: Friday, 1 October 2010 08:15
To:
Cc: HARDY, Kathryn; HACK, Mark
Subject:

Security Classification:
 UNCLASSIFIED

Thank you for your questions relating to the RBA's analysis of Australia's major banks' funding costs and lending rates.

Our internal model was first set up a few years ago, to give a more timely indicator of developments in banks' funding costs, lending rates and margins during the financial crisis — similar data to what we compute internally are available publicly through banks' profit reporting.

We estimate the total **average funding cost** for Australia's major banks using a weighted-average of the outstanding rates on the various funding sources used by these banks. The weights come from confidential balance sheet data collected by Australia's prudential regulator, APRA, on a monthly basis. The outstanding funding rates on each funding source are calculated internally. A brief summary of how we do this is provided below:

- Deposits
 - We compile daily data on term deposit rates (across all tenors), at-call savings deposit rates and transaction deposit rates for each of the banks. For term deposit rates (which are fixed throughout the life of the term deposit), we estimate the outstanding rate using rolling average rates offered by each of the banks across each relevant term deposit tenor (e.g. for 3-month term deposit rates, we take a 3-month rolling average). We then take a weighted-average of the estimated rate for each tenor. We give most weight to term deposit rates with maturities between 5 and 8 months, as these are the most popular maturities.
- Short-term debt
 - We estimate the cost of short-term debt using rolling averages of bank bill rates (e.g. 3-month rolling average of 3-month bank bill rate). For domestic short-term debt, we use bank bill rates, for offshore short-term debt we use A\$ Libor rates.
- Long-term debt
 - The RBA maintains a bonds database, which captures, among other things, all bond issuance by resident entities, and includes such information as issuance date, maturity date, currency and market of issuance, coupon type (fixed/floating) and pricing. In our funding cost model, we use this database to compute an estimate of the cost of major bank bonds outstanding. To do this we split the analysis into fixed and floating rate bonds. For fixed rate bonds, we compute the A\$ equivalent face-value weighted-average yield to maturity at issuance of all currently outstanding fixed rate bonds. For floating rate bonds, we compute the A\$ equivalent face-value coupon spread (to bank bill rates), and add on a 90-day rolling average of the 90-day bank bill rate (as the bulk of floating rate securities have quarterly coupons, expressed as a spread to this benchmark). We then weight the fixed and floating rate yields based on the relative value of bonds outstanding for each coupon type to compute an estimate of the total yield on outstanding bonds. For foreign currency denominated bonds, we add on an estimate of the hedging cost (since our banks swap the vast majority of their foreign currency bond issuance back into A\$). The hedging cost is determined using the cross-currency basis swap spread.
- Hybrids and RMBS

- We estimated the weighted-average spreads on outstanding hybrids and RMBS, and add on the equivalent base rate (90-day and 30-day bank bill rates, respectively).

We estimate the total **average lending rate** for Australia's major banks using weighted-averages of internal estimates of the outstanding lending rate on housing, personal (including home equity, margin lending, credit cards and personal loans), small business and large business loans. The weights are once again sourced from confidential balance sheet data collected by APRA on a monthly basis. The internal estimates of the various lending rates are based on indicator lending rates data, published by the major Australian banks, which we maintain on a daily basis.

kind regards
Dan Fabbro

Daniel Fabbro
Manager
Institutional Markets
Domestic Markets Department
Reserve Bank of Australia
Phone: 9551 8342

DOMESTIC MARKETS REVIEW: OCTOBER 2010

Summary

- The major banks' **net interest margins** are estimated to have been unchanged since September, reflecting stable funding costs and lending rates.

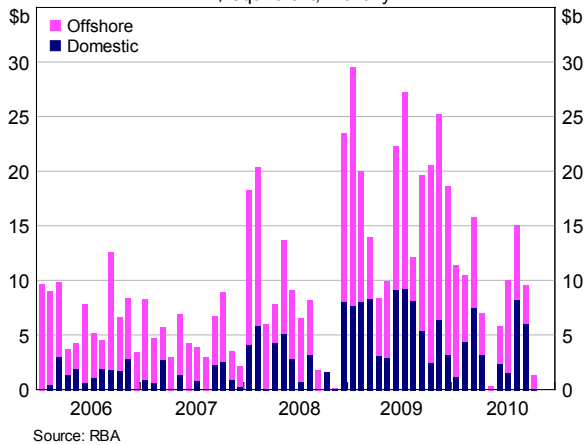
NON-INTERMEDIATED MARKETS

Credit markets

Australian bank bond issuance has been very modest so far this month after a brisk pace of activity in August and September. Just \$1.4 billion of bonds have been issued in October to date, and the majority of this activity was offshore.

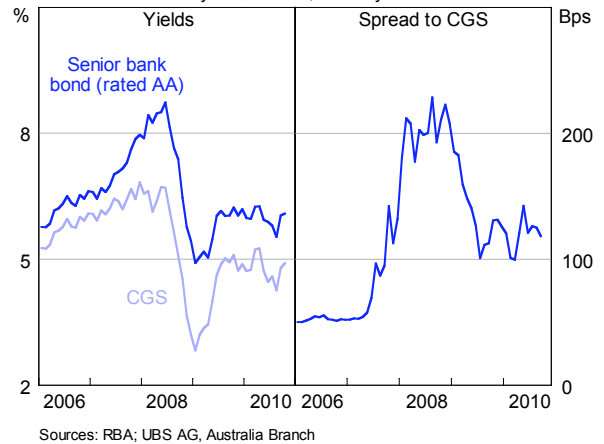
This term issuance remains relatively costly. For example, Westpac's 2014 Canadian dollar was tapped (CA\$275 million or A\$275 million) at CGS+171 bps. ANZ raised US\$250 million (A\$251 million) in the US private placement market, but chose to issue a 12-month note, which priced at around CGS+50 bps – a little wider than similar issues in recent times.

Australian Banks' Bond Issuance
A\$ equivalent, monthly

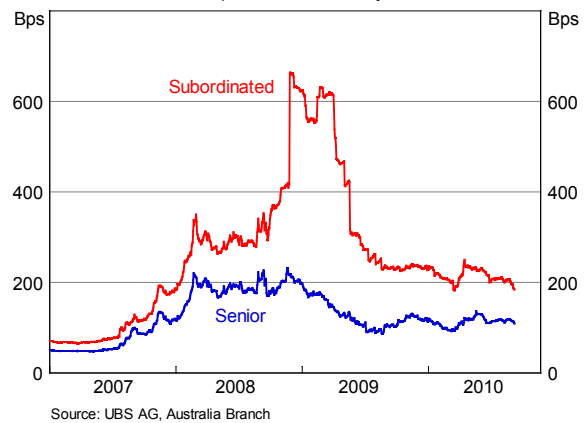


Spreads on major banks' 3-year senior bonds have tightened by around 5 bps since end-September, to 119 bps over CGS, but spreads on major banks' domestically-issued subordinated bonds have tightened by about 25 bps since end-September to 185 bps over CGS. According to market reports, tightening in subordinated bond spreads is likely due to increased offshore demand for these securities.

Major Banks' Bond Pricing
3-year \$A debt, monthly



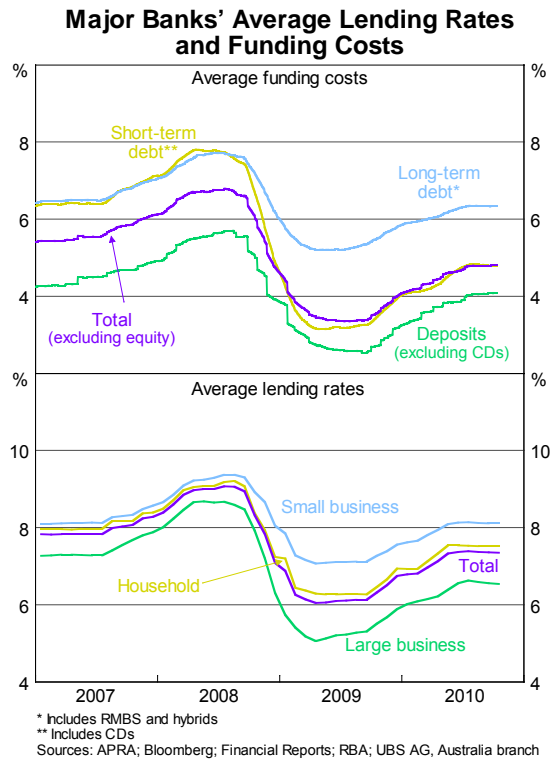
Major Banks' Unguaranteed Bond Spreads
Domestic; spread to CGS; 1-5 year bonds



The average tenor of banks' bonds issued since end-September has increased by around 1 year to 5.3 years overall. The average maturity of bonds issued offshore since the start of October is 5.4 years, as banks have issued a few longer dated offshore. The average tenor of bonds issued in the domestic market has increased to around 4.3 years, with the remaining maturity of the stock of bonds outstanding at 2.4 years.

On the funding side, there was a small decline in the average spread on short-term debt (the bank bill spread to OIS). However, this was offset by a slight increase in the average cost of term deposits; this partly reflects some longer-term deposits being rolling over at higher rates.

the average cost of wholesale debt will rise as bonds with lower spreads mature and are replaced with more expensive bonds.



Market Developments

Major banks raise LVRs

In August, Westpac increased its maximum loan-to-valuation (LVR) on home loans for new customers to 92 per cent from 87 per cent (its maximum LVR for existing customers remains at 97 per cent). ANZ also increased their maximum LVR for new customers, to 90 per cent (92 per cent with lenders' mortgage insurance) from 85 per cent.

HACK, Mark

From: HACK, Mark
Sent: Tuesday, 5 October 2010 18:05
To: KEARNS, Jonathan
Cc: STEWART, Chris
Subject: FW: SMWG Paper - Bullet RMBS [SEC=IN-CONFIDENCE]

Security Classification: IN-CONFIDENCE

Jonathan,

Below is a draft reply to send through to ASIC. I have discussed this with Chris, and we feel as though this addresses ASIC's queries. Happy to discuss.

DRAFT REPLY:

Hi Peter,

The bulk of mortgages in Australia are made, and continue to be held by, the major banks. The major banks fund their holdings of mortgages primarily with deposits and wholesale debt (both short-term and long-term). The regional banks are more reliant on RMBS to fund their mortgages, but still source around the vast majority of their funding from deposits and wholesale debt. For more information on Australian banks' funding costs (and lending rates), including a pre- and post-GFC analysis, please see: '[Recent Developments in Banks' Funding Costs and Lending Rates](#)'. The data presented in this article and our estimate of banks' funding costs come from balance sheet data collected on a monthly basis by APRA and funding rates on each source of funding tracked or estimated by the RBA. In contrast to the Australian banks, non-ADIs are almost solely reliant on RMBS as a funding source.

From: KEARNS, Jonathan
Sent: Tuesday, 5 October 2010 11:19
To: STEWART, Chris
Cc: CHAMBERS, Mark
Subject: FW: SMWG Paper - Bullet RMBS [SEC=IN-CONFIDENCE]

Chris

I think we can largely direct them to the funding cost articles. But we should also reply with something on:

- majors vs regionals (non ADI is just securitisation I guess)
- what we know on the costs in RMBS (origination, servicing etc).

Can you draft a few sentences.

thanks

From: Peter Chia
Sent: Tuesday, 5 October 2010 10:53

To: KEARNS, Jonathan

Cc: Cullen Hughes; Chris Van-Homrigh; Kevin Stephenson; Kieran David; CHAMBERS, Mark

Subject: Fw: SMWG Paper - Bullet RMBS [SEC=IN-CONFIDENCE]

Hi Jonathan

We are specifically interested in:

3. Differences in funding costs of the major banks, regional banks, and other non-ADI lenders.

Please feel free to call me if you have any questions about the above. Thank you for your help

Kind regards,

Peter

Peter Chia | Senior Lawyer | Investment Banks | ASIC |

Banks' Interest Rate Risk, Replicating Portfolios, and Profits

One of the sources of interest rate risk for banks is when the repricing term of assets does not match that for liabilities, as it exposes banks to potential losses from changes in the level of interest rates. Domestically, while the vast majority (close to 85 per cent) of the major banks' current lending to households and businesses is variable-rate, around 77 per cent of these institutions' debt funding (including deposits) is variable-rate.¹ One of the reasons why the major banks have this on-balance sheet interest rate risk exposure is that transaction deposits are effectively fixed-rate funding, as they tend to have very 'sticky' rates. Transaction deposits currently account for around 8 per cent of debt funding.

A consequence of the major banks having a higher variable-rate lending share than variable-rate funding share is that they are exposed to the risk that, in easing cycles, interest margins will fall. There are two ways that banks can address this source of interest rate risk, which are often referred to as replicating portfolios:

- First, they can hold fixed-rate, rather than variable-rate, bonds as investments. Banks undoubtedly do this by holding some fixed-rate bonds in their banking books (possibility also for the purposes of meeting liquidity requirements).
- Second, the bank can enter into an interest rate swap, which involves paying a floating rate and receiving a fixed rate.

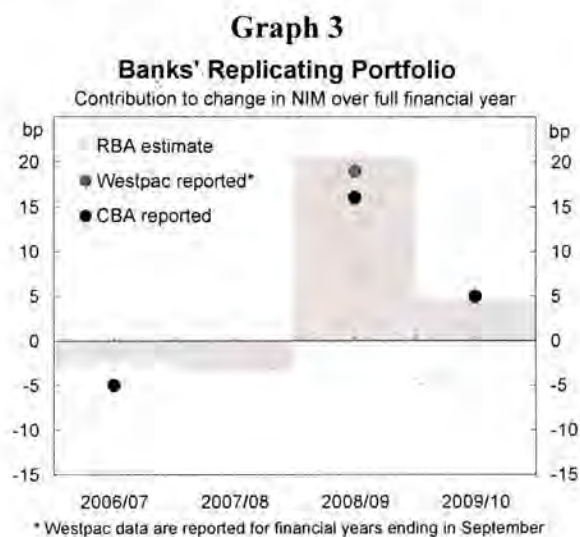
For example, if a bank were to only engage in variable-rate mortgage lending, and funded this with transaction deposits, its interest margin will simply be the mortgage rate less the rate on transaction deposits (assumed to be zero). In this case, the bank's margin will be highly correlated with the cash rate. Instead, entry into a swap to create a replicating portfolio, say paying the one-month bank bill rate and receiving the 3-year swap rate, would provide a more stable margin for shareholders over time. The components of the swap (the replicating portfolio) and its rolling return are shown in Graph 1. The bank's interest margin, before and after hedging, is shown in Graph 2.

By entering into these swaps, banks also effectively lengthen their net long duration position.⁴ That is, banks are able to *reduce* their repricing risk, despite also *increasing* their net duration position (see Appendix for details).

¹ Term deposit funding is treated as being variable-rate, as the average maturity of these deposits is less than 1 year.

⁴ Transaction deposits have been treated as having zero duration, given these are not interest rate sensitive.

Graph 3 shows the substantial benefit the banks received from these hedges during the 2008/09 financial year, reflecting the sharp increase in the slope of the yield curve as the cash rate was lowered in late 2008 and early 2009. The benefit of these hedges in 2008/09 for CBA and Westpac were 16 and 19 basis points, which equates to approximately \$1 billion and \$0.8 billion in net interest income.



Dan Fabbro
Institutional Markets Section
Domestic Markets Department
6 October 2010

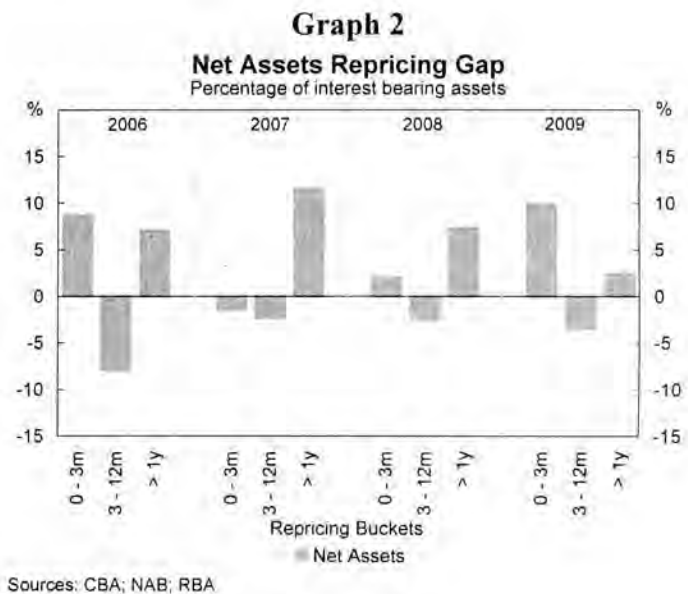
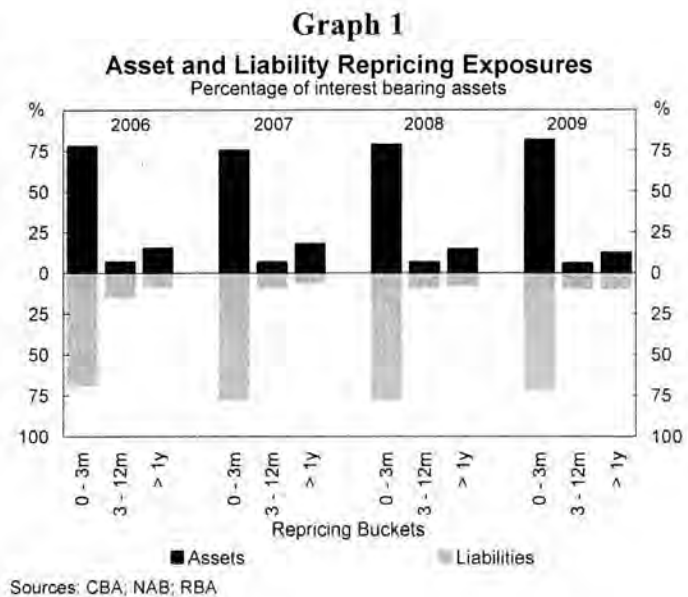
Banks' Interest Rate Repricing Risk and Profits

Analysis of the repricing risk information for CBA and NAB indicates that between 2006 and 2009 their repricing risk (after accounting for derivatives) was typically dominated by a net asset position in instruments that reprice infrequently.

Gap Analysis

On-balance sheet gaps

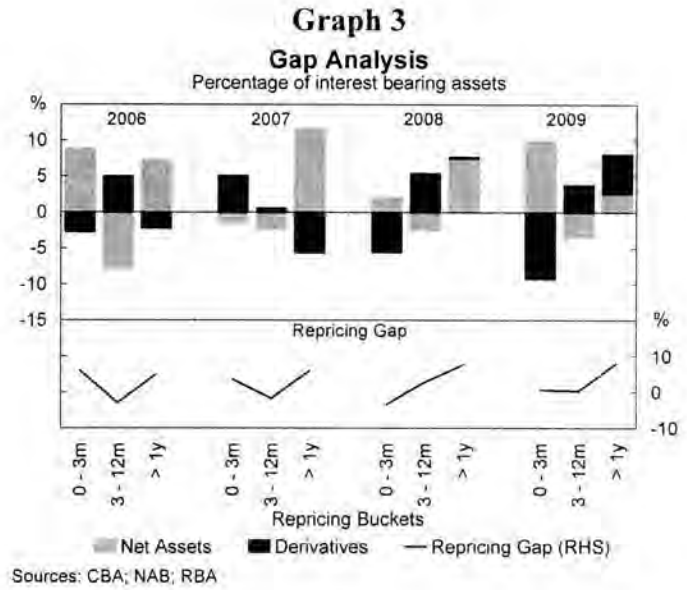
Analysis of both CBA's and NAB's repricing gaps indicates that the vast majority of assets and liabilities reprice frequently (typically within three months) and that in most repricing buckets, the volume of assets and liabilities is somewhat symmetric (Graph 1).³ This is driven by banks lending and sourcing most of their funds at variable-rates, and provides a reasonable degree of natural hedging. However, some repricing risks remain (Graph 2).



³ Only CBA and NAB provide sufficient data in their annual reports for comparative analysis.

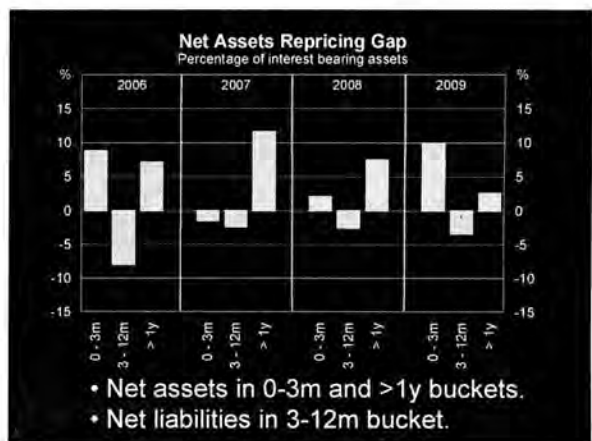
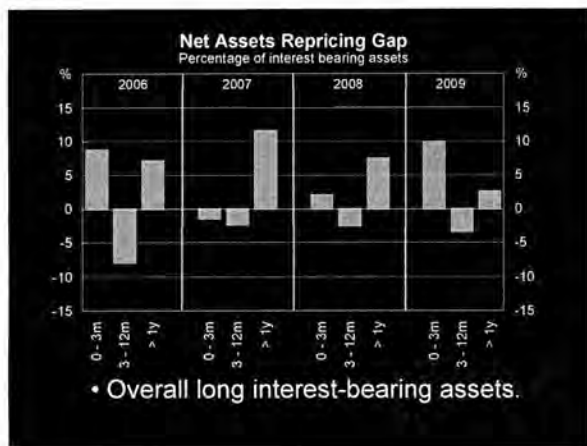
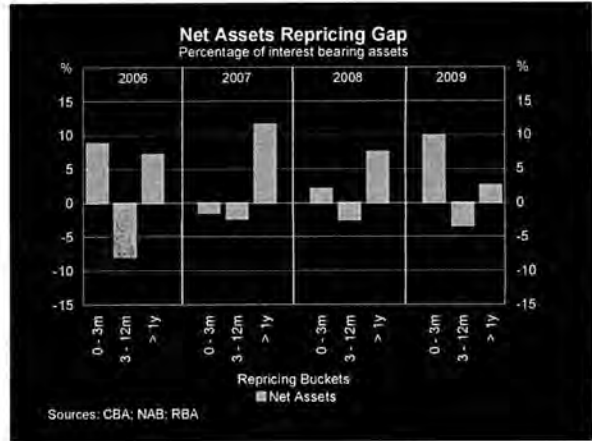
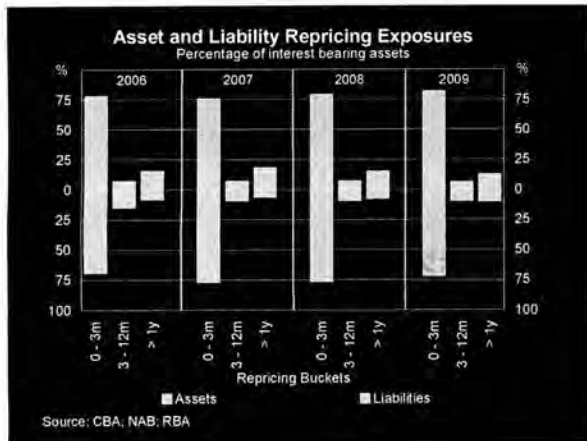
Use of Derivatives

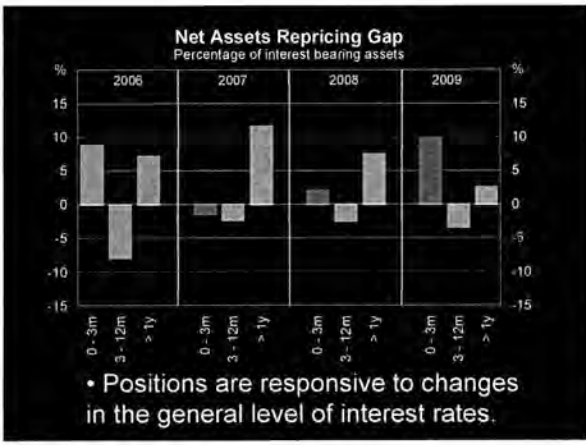
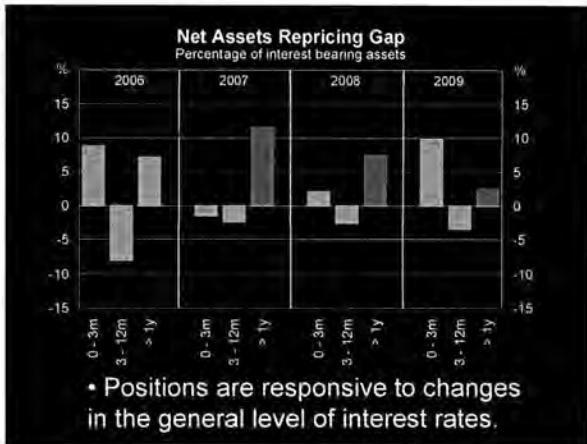
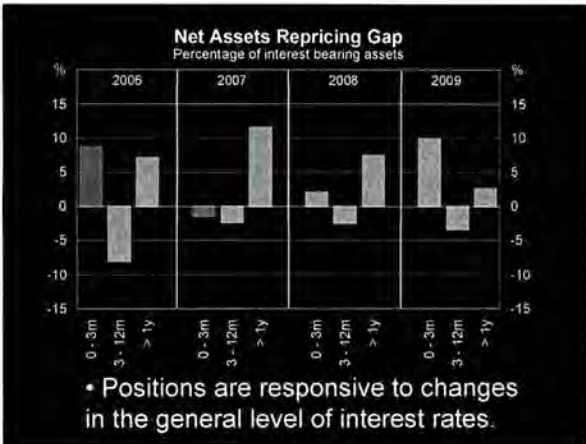
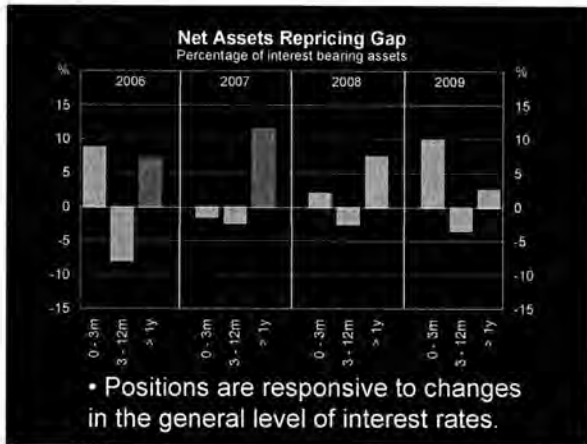
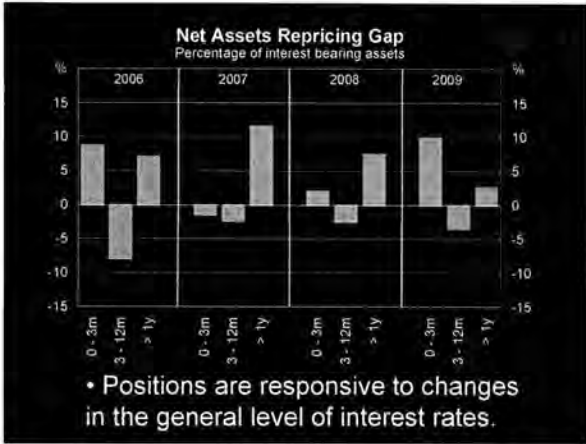
Banks also use derivatives to manage their interest rate repricing risk. Typically, banks use derivatives to transfer their net asset position from instruments that are repriced frequently to those that are repriced infrequently in order to smooth net interest margins (Graph 3).⁴

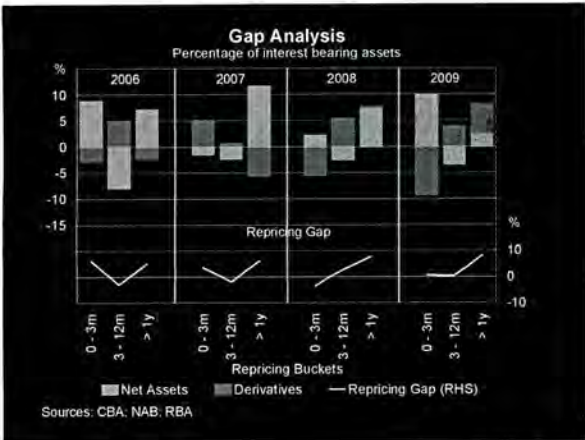


Benn Robertson
Institutional Markets
Domestic Markets Department
15 October 2010

Interest Rate
Repricing Risk







HACK, Mark

From: HACK, Mark
Sent: Tuesday, 26 October 2010 16:21
To: STEWART, Chris; FABBRO, Daniel
Subject: Citigroup seminar on Australian banks' funding costs [SEC=UNCLASSIFIED]

Security Classification:
 UNCLASSIFIED

Chris/Dan,

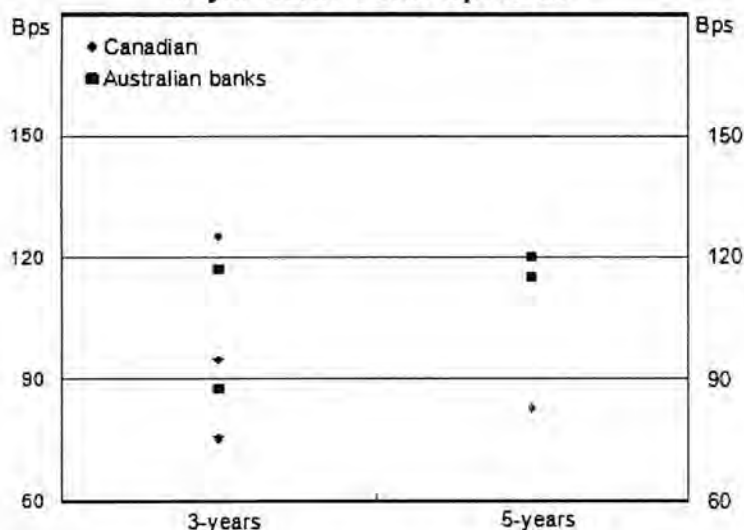
This afternoon, I attended a Citigroup seminar on Australian banks' funding costs. Overall, there wasn't an overly amount of new material presented. Presenters noted that the major banks currently face a number of funding problems, including:

- high loan-to-deposit ratios (which are the main structural issue with respect to the majors maintaining their AA credit ratings); and
- heavy reliance on offshore wholesale funding markets (major bank bond issuance increased from 1 to 10 per cent of total global bank bond issuance over the past decade, whilst Australia's GDP as a share of world GDP was steady at around 1½ per cent).

Citigroup estimates that major banks' funding costs have increased by 122 basis points since June 2007, reflecting an 89 basis point increase in the cost of wholesale funding and 146 basis point increase in the cost of deposit funding.

One interesting point made by the presenters was that the Australian major banks pay 50-100 basis points more for term wholesale funding than the Canadian major banks. They attributed this to a demand and supply story—the supply of Australian bank paper is much greater than that of the Canadian banks. I gathered some recent bond issuance data and put together the graph below—it suggests that there is likely some truth to the Australian majors paying more for bond issuance than the Canadian majors, though not likely to the extent mentioned by Citigroup.

Major Bank Bond Spreads*



* Fixed-rate USD-denominated bond spreads to US Treasuries
 Sources: Bloomberg; RBA; Thomson Reuters

Implications of these funding problems:

- Annual credit growth will slow to be around 6 per cent (or approximately nominal GDP)
- The cost of (intermediated) credit will increase, as credit becomes a scarcer resource
- Lower loan growth, but improved major bank profitability

RELEASE NOTE

ANZ 2010 FULL-YEAR PROFIT RESULTS

Net interest income

Underlying net interest income rose by 11 per cent to \$10.8 billion, driven by balance sheet growth and an increase in the net interest margin (NIM).

Over the year, ANZ's average interest-earning assets rose by 3 per cent, although asset growth was faster in the second half. The growth in assets was driven by domestic housing loans, and to a lesser extent trading securities (particularly liquid assets). Loans to the Asia Pacific, Europe & America (APEA) region also grew strongly.

The Group's NIM increased by 16 basis points over the year to 2.41 per cent. Over the two halves the NIM increased 5 basis points to 2.50 per cent. The improvement over the year was driven by increased margins on business loans (particularly in the Institutional division) and on the New Zealand loan book. ANZ also benefited from a change in its funding composition towards relatively-cheaper deposits, although this was partly offset by higher wholesale funding and deposits costs. ANZ expects that its term funding costs will rise by another 25-30 basis points before stabilising.

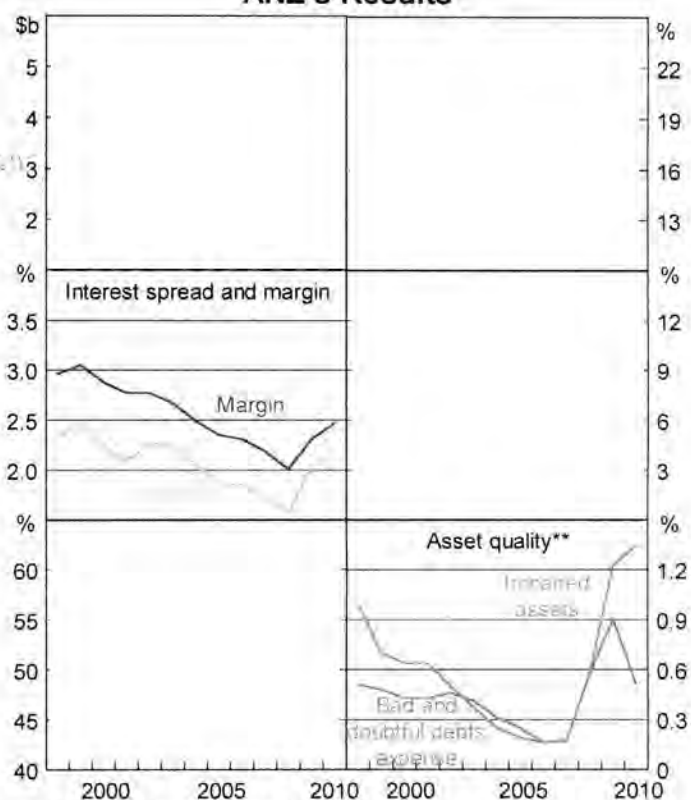
ANZ 2009 Full-Year Profit Results

	Underlying*		Headline	
	\$b	Growth**	\$b	Growth**
Bad and doubtful debts	1.8	-40	1.8	-40

* Excluding significant items

** Year-on-year percentage change

ANZ's Results*



* From 2006, figures are under AIFRS

** Expressed as a percentage of net loans.

The Australian NIM rose by 23 basis points, to 2.61 per cent, between the 2009 and 2010 financial years. The Australian NIM increased by 4 basis points between the first and second halves.

Asset quality

ANZ's bad and doubtful debts expense (BDDE) decreased by 40 per cent (\$1.2 billion) over the full year to \$1.78 billion, with this expense falling in all regions. Over the two halves the BDDE decreased from \$1.1 billion to \$0.7 billion. As a percentage of lending assets, bad and doubtful debts decreased by 40 basis points to 0.51 per cent.

Over the year, collective provisions increased by 5 per cent to \$3.1 billion and specific provisions increased 20 per cent to \$1.9 billion. Net impaired assets as a percentage of lending assets increased 12 basis points to 1.3 per cent.

Capital and funding mix

ANZ's Tier 1 capital ratio decreased by 0.5 percentage points, to 10.1 per cent, over the year to September 2010. The Core Tier 1 ratio fell 1 percentage point to 8 per cent.

Consistent with other banks, ANZ continued to reduce its reliance on short term wholesale funding. On a residual maturity basis, short-term debt comprised 18 per cent of ANZ's liabilities in September 2010, down from 22 per cent in September 2009 and 29 per cent in September 2008. ANZ reports that the share of liabilities sourced from customer deposits increased by 3 percentage points over the year to comprise 58 per cent of total liabilities. This was partially driven by strong growth in deposits invested in overseas operations.

ANZ raised \$26.4 billion in term funding in 2010, with a weighted average maturity of 4.7 years. ANZ forecasts a similar funding task in financial year 2011, of which 10 per cent has been pre-funded.

STEWART, Chris

From: STEWART, Chris
Sent: Monday, 1 November 2010 16:43
To: DEBELLE, Guy
Cc: BROADBENT, John; FABBRO, Daniel; HEATH, Alex
Subject: Additional Funding Cost Information [SEC=UNCLASSIFIED]

Security Classification: UNCLASSIFIED

Guy,

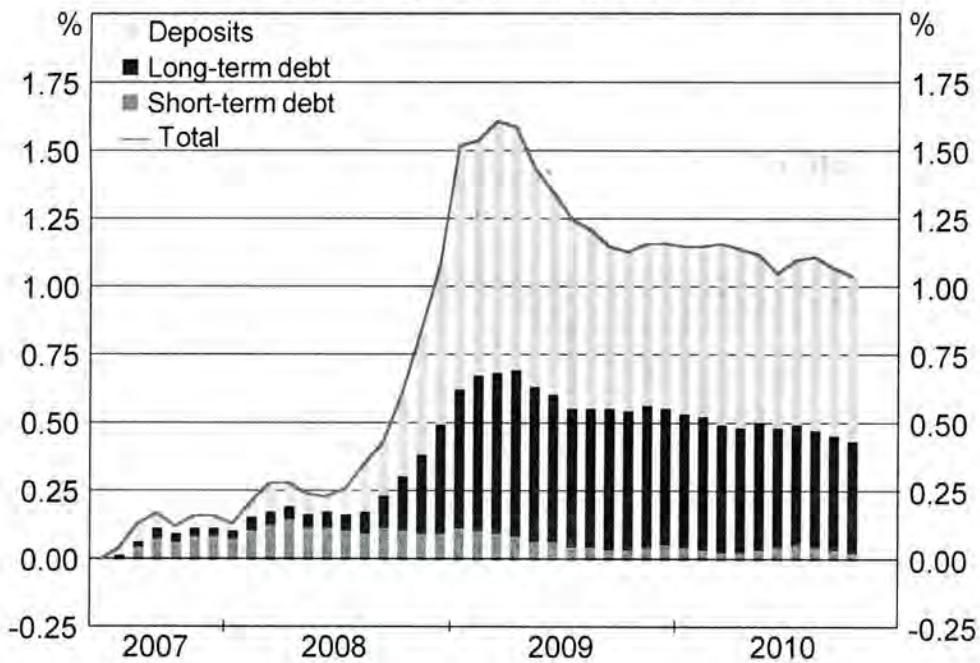
Please see below. Let me know if you want anything added to your presentation.

Thanks
Chris
x8303

- Expressing **funding costs relative to the OIS** gets rid of the 'odd' movements in mid 2010 as short-term term deposits, being priced off OIS/market rates, will have priced in some of the movements in the cash rate.

Major Banks' Average Funding Cost

Contributions to change in spread to OIS since June 2007



RELEASE NOTE

NAB 2010 FULL-YEAR PROFIT RESULTS

Net interest income

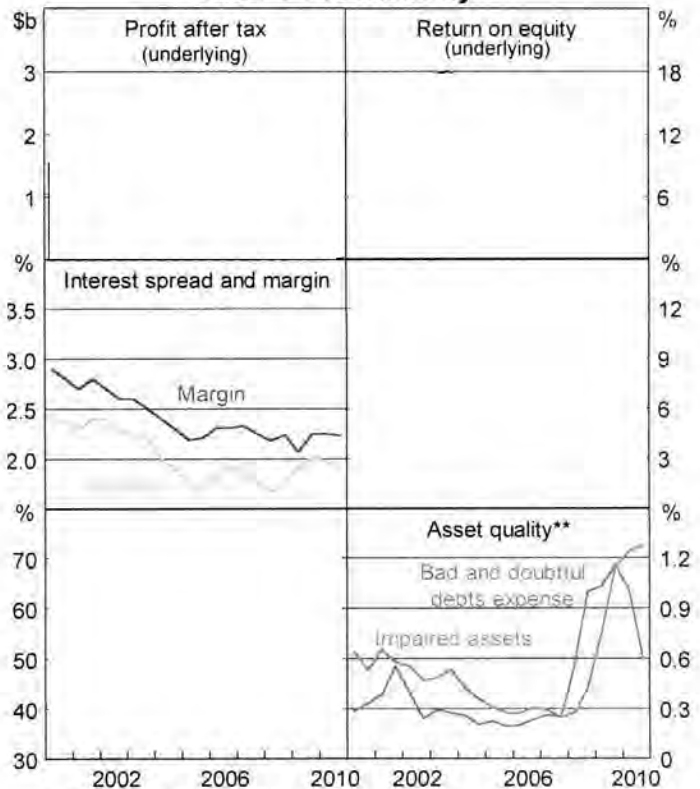
NAB 2009 Full-Year Profit Results

	Underlying*		Headline	
	\$b	Growth**	\$b	Growth**
Bad and doubtful debts	2.79	-27	2.79	-27

* Excluding significant items
 ** Year-on-year percentage change

The increase in the NIM was driven by increased margins on business lending, which more than offset higher costs of wholesale funding and deposits. Over the second half the NIM fell by 2 basis points to 2.23 per cent, as funding cost pressures outweighed increased lending spreads.

NAB's Profitability*



* From 2006, figures are under AIFRS.
 ** Expressed as a percentage of net loans.

Asset quality

The full-year bad and doubtful debts expense (BDDE) was \$2.8 billion, 27 per cent lower than in 2009. Over the two halves the BDDE fell from \$1.7 billion to \$1 billion, mostly reflecting a fall in the charge for collective provisions. As a percentage of net loans and advances, the BDDE fell 0.3 percentage points to 0.8 per cent over the year.

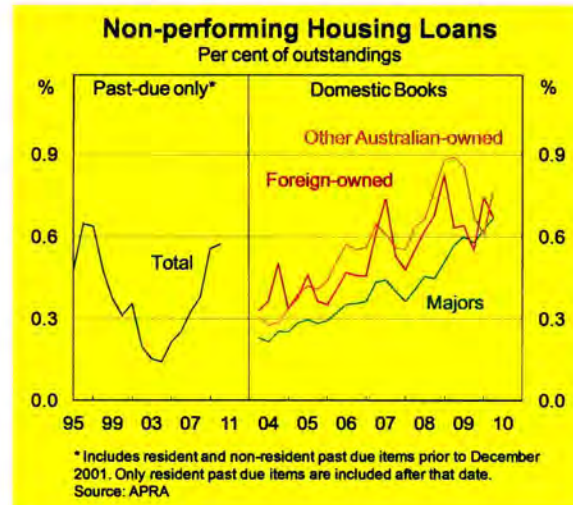
Net impaired assets increased 15 per cent over the year to \$4.2 billion, rising 12 basis points as a percentage of net loans to 1.3 per cent.

Capital and funding mix

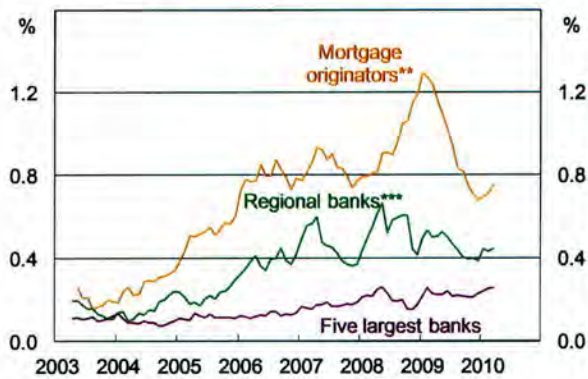
NAB's Tier 1 capital ratio was 8.9 per cent at September 2010, down only slightly from 9.1 per cent at March 2010 and 9.0 per cent at September 2009. NAB's Core Tier 1 capital ratio is only 6.8 per cent.

Over the 2010 financial year NAB raised \$28 billion in unguaranteed wholesale term funding, of which 60 per cent came from public offshore markets, 19 per cent from public domestic markets and 21 per cent from private placements. The weighted average maturity was approximately 5.1 years compared to 4.1 years in the 2009 financial year. NAB expects to raise between \$25-30 billion in the 2011 financial year, compared to \$22 billion in refinancing requirements.

Graph 6

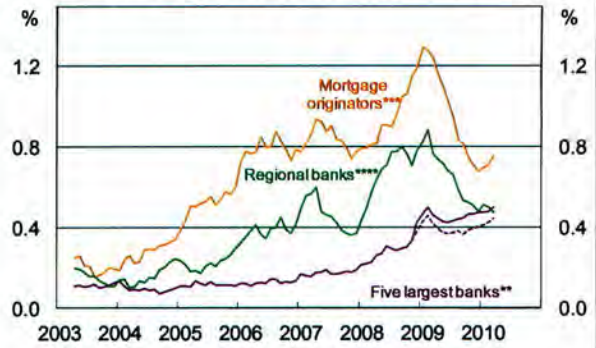


Housing Loan Arrears by Originator*
90+ days past due, per cent of outstandings



* Prime loans
 ** Includes Macquarie Securitisation
 *** Adelaide Bank, Bank of Queensland, Bendigo Bank, Suncorp-Metway
 Sources: Perpetual; RBA

Housing Loan Arrears by Originator*
90+ days past due, per cent of outstandings



* Full-doc and low-doc loans. Excludes 'self-securitisations'.
 ** Dashed line excludes Bankwest.
 *** Includes Macquarie Securitisation.
 **** Bendigo & Adelaide Bank, Bank of Queensland, Suncorp-Metway.
 Sources: Perpetual; RBA