

Funding Costs for Home Loans



Determined to be different

12 June 2009

Overall Funding Costs continue to increase

- The cost of long term wholesale funding is still at record levels
- As old wholesale funding matures and is replaced by new more expensive funding, the Bank average cost of funding continues to increase.
- The cost of retail funding has been increasing significantly as banks compete aggressively on deposits.

CBA home loan rate remains very competitive

- Throughout the credit crunch, CBA has retained a very competitive standard variable home loan rate.
- Even with a 10bp increase, CBA has equal lowest standard variable rate of all the major banks



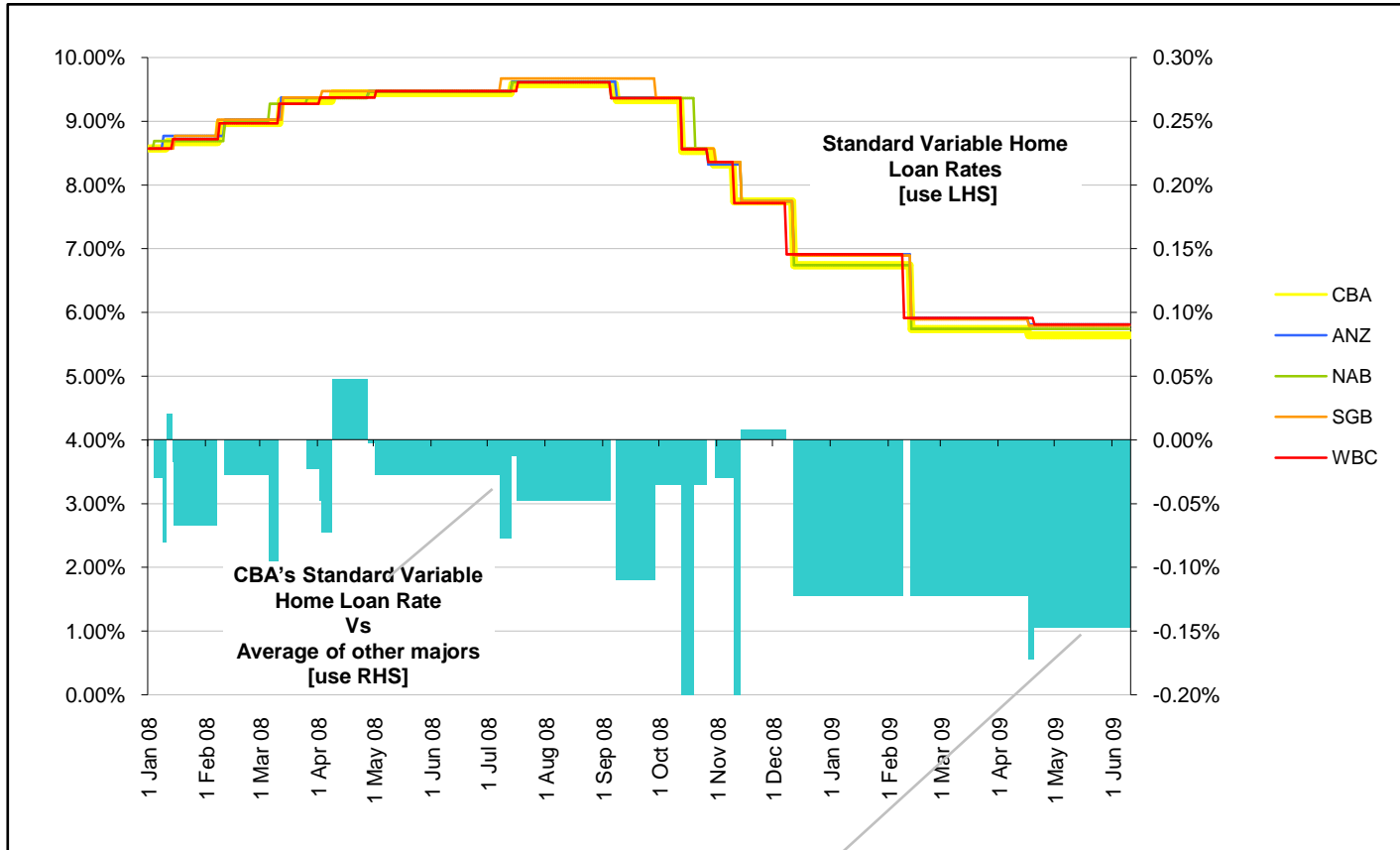
Standard Variable Rate Comparison

	SVR
CBA	5.64%
CBA (after change)	5.74%
ANZ	5.81%
NAB	5.74%
Westpac	5.81%
St George	5.79%
Suncorp	5.80%
BankWest	5.70%
Bank of Queensland	5.89%
Bendigo	5.90%
HSBC	5.74%

Source: Canstar Cannex



CBA Standard Variable Home Loan Rate - comparison



CBA's Standard Variable Home Loan Rate is currently 0.15% less than the average of other majors



Funding Costs for Variable Rate Home Loans

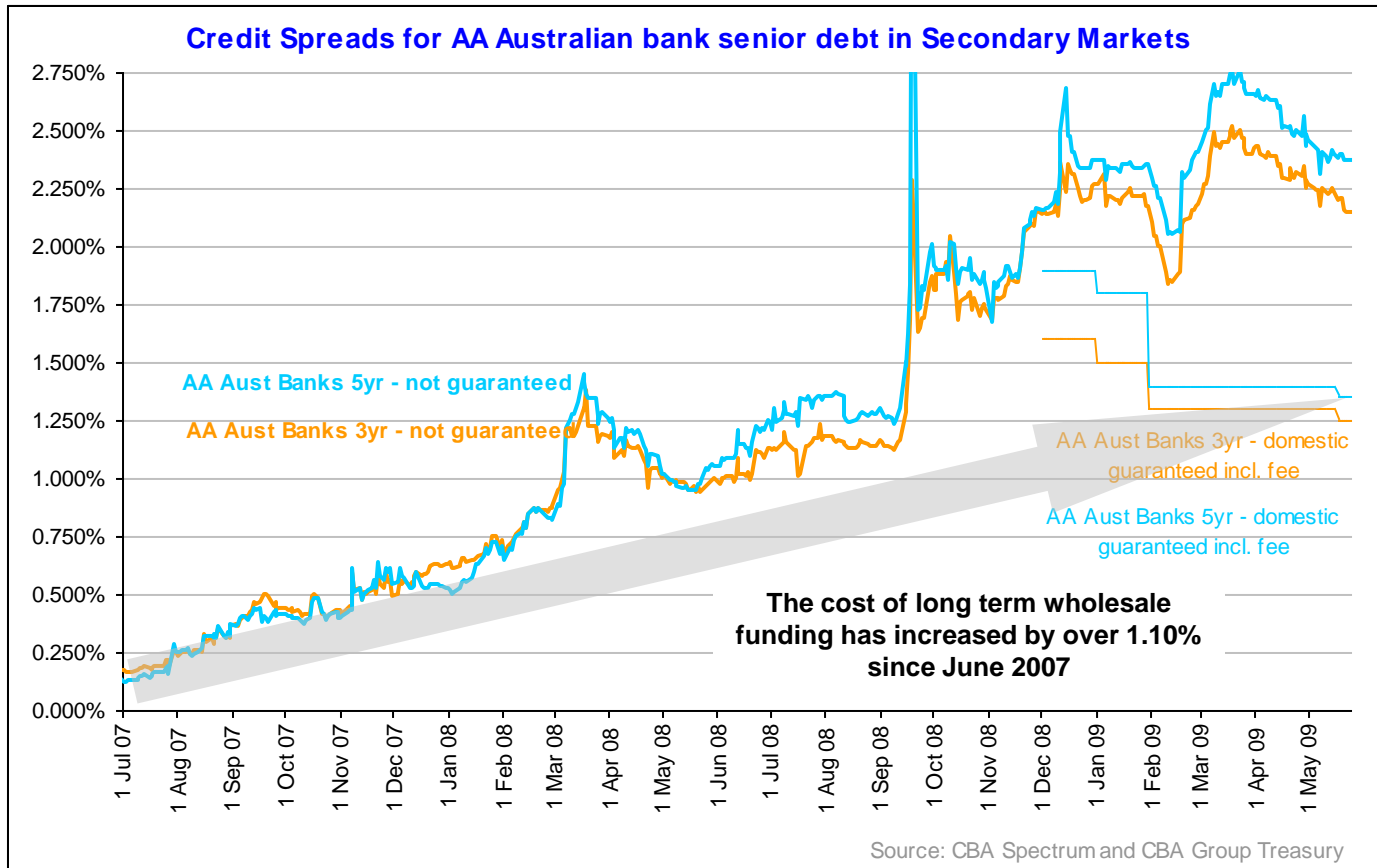
Funding Cost for Variable Rate Home Loans

$$= \text{Cash Rate} + \text{Long Term Funding Cost} + \text{Basis Risk Cost}$$



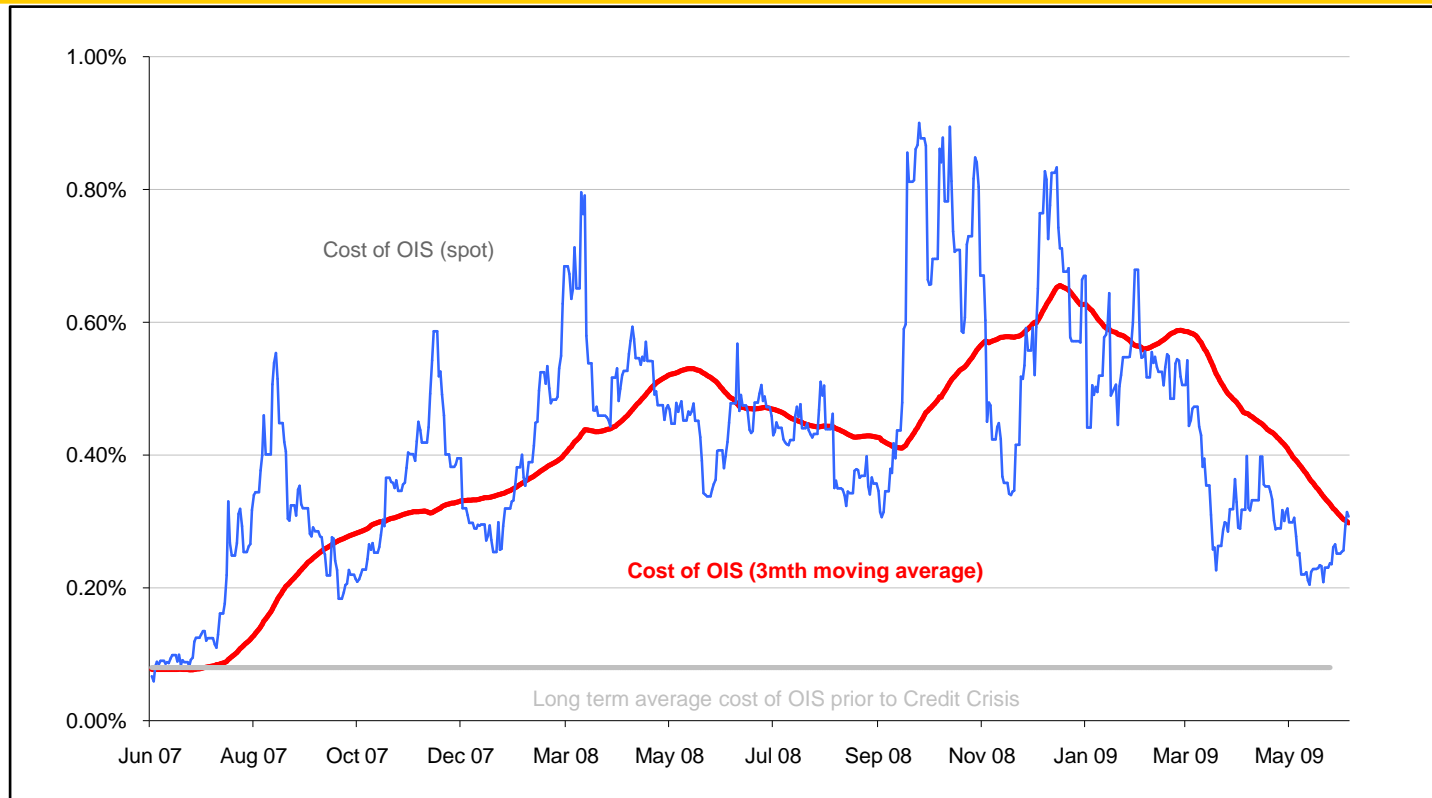
Long Term Funding

- Costs have increased from Aug 07, and still remain very high



Basis Risk Cost

– has reduced in recent months but remains high



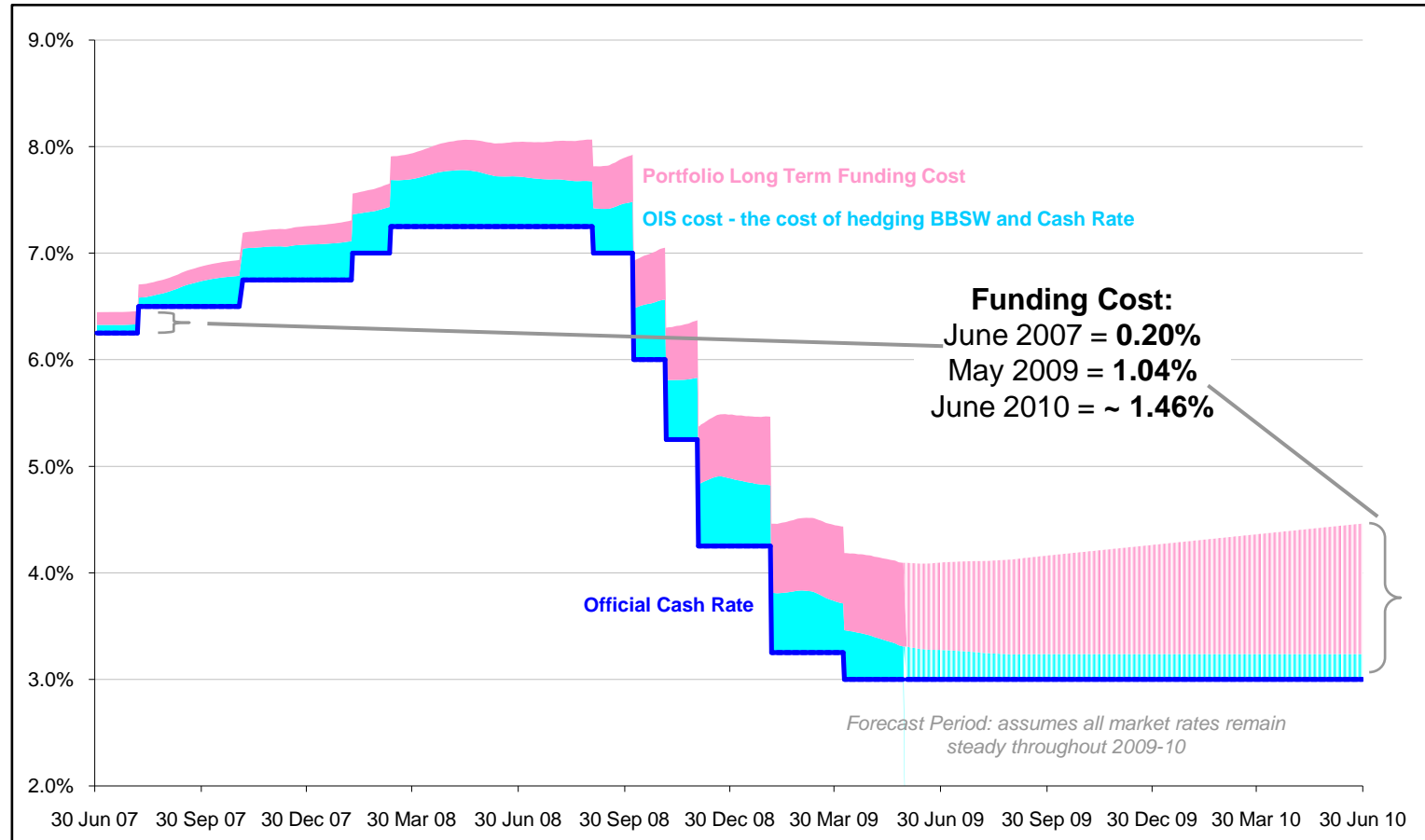
- The majority of the Bank's funding is priced by reference to BBSW rates. BBSW rates are wholesale market reference rates set daily, and are fixed rates for a period of months (eg typically 3 months). The difference between BBSW rates and the official cash rate (referred to as basis risk) has been extremely large and extremely volatile.
- The Bank uses Overnight Index Swaps (OIS) to manage this Basis Risk.
- The cost of OIS swaps has also increased dramatically since the start of the Credit Crisis.

- Note: LIBOR (London Interbank Offered Rate) does not affect Australian banks – BBSW is the Australian equivalent of LIBOR.



The cost of funding the home loan portfolio will continue to rise as the older cheap term funding matures and must be replaced by more expensive new term funding

Total wholesale funding costs



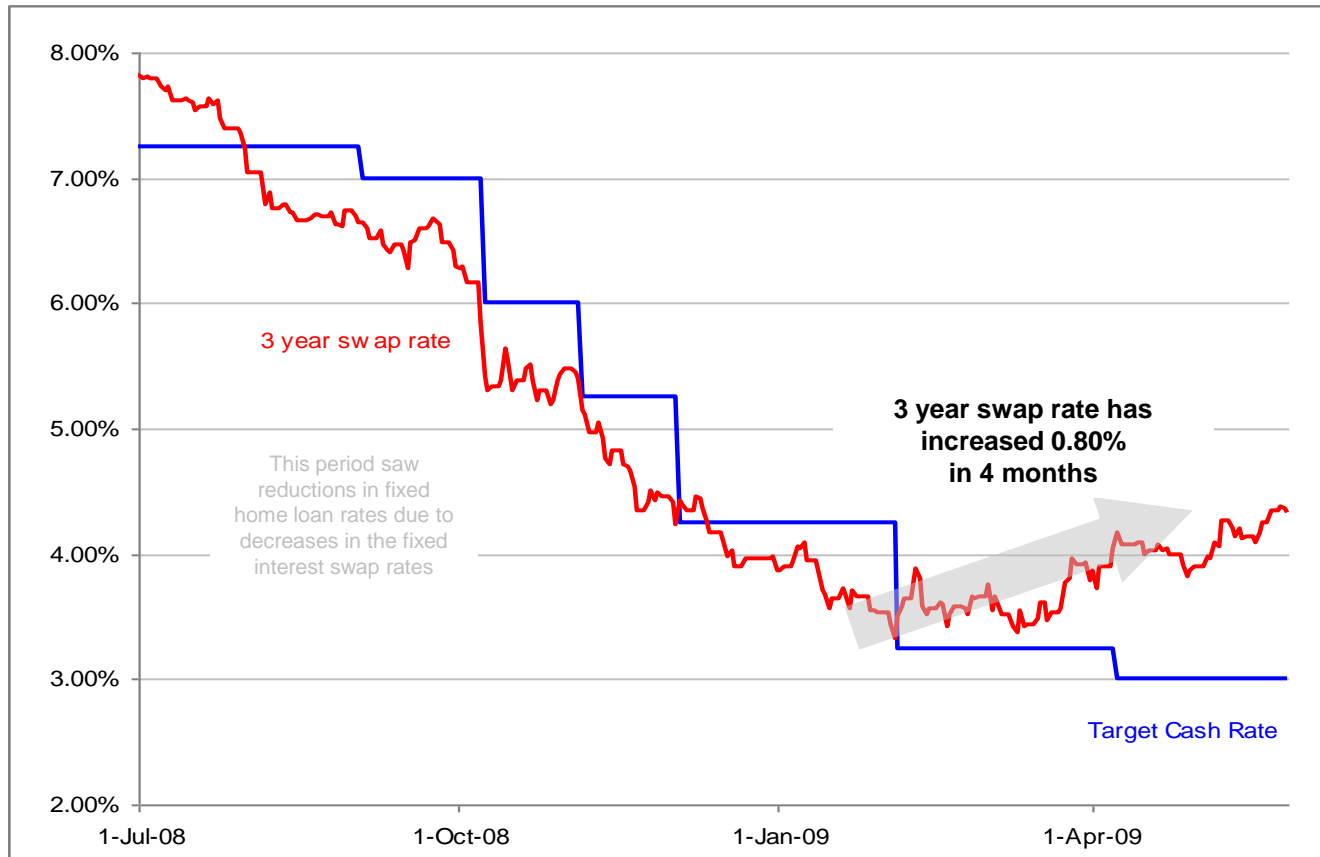
Funding Costs for Fixed Rate Home Loans

Funding Cost for Fixed Rate Home Loans

= Fixed Interest Swap + Rate Long Term Funding Cost

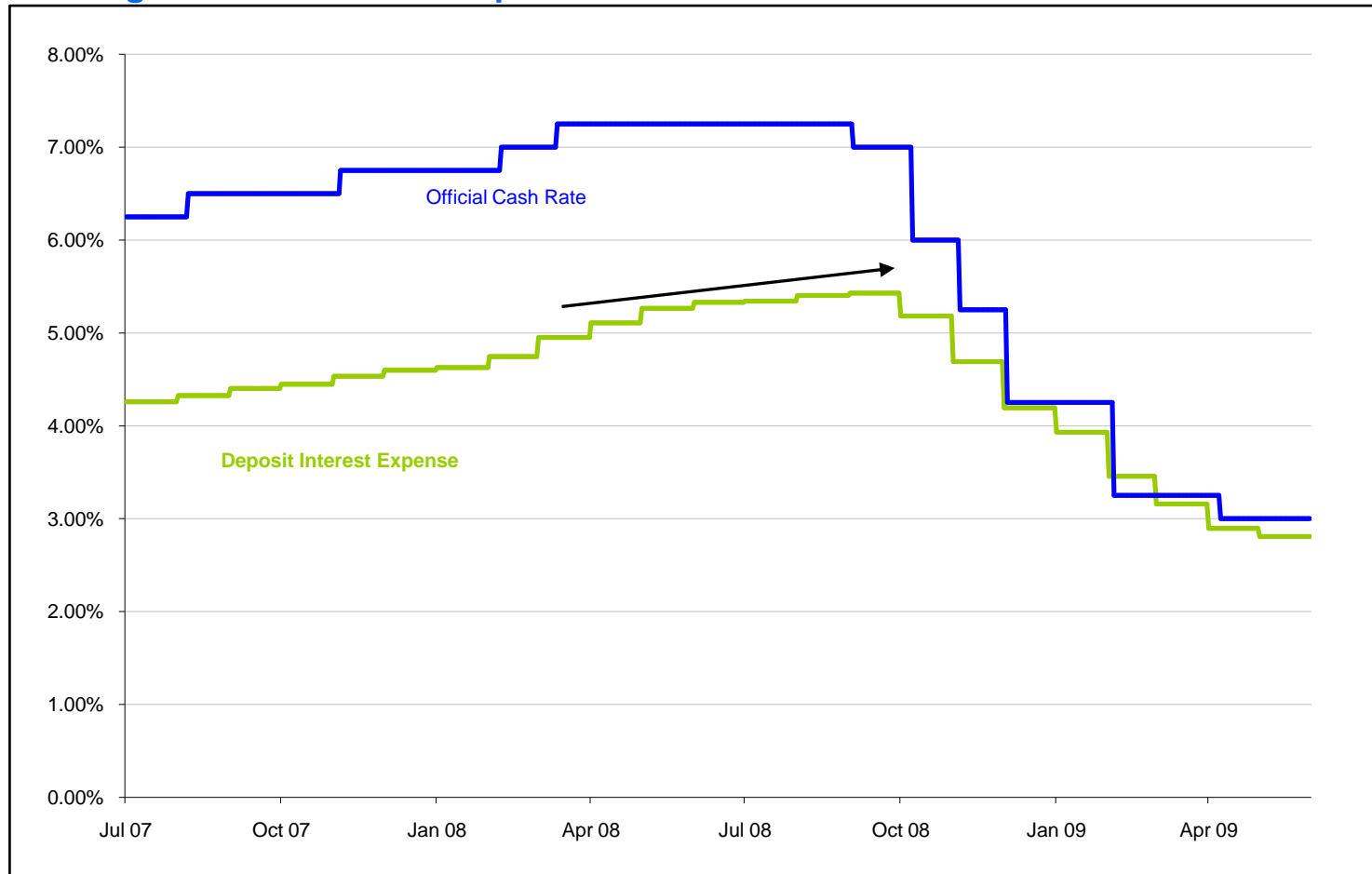


3 Year Fixed Interest Swap Rate



Deposit Funding – Extreme Competition has driven up costs

Average Interest rates on deposits v cash rate

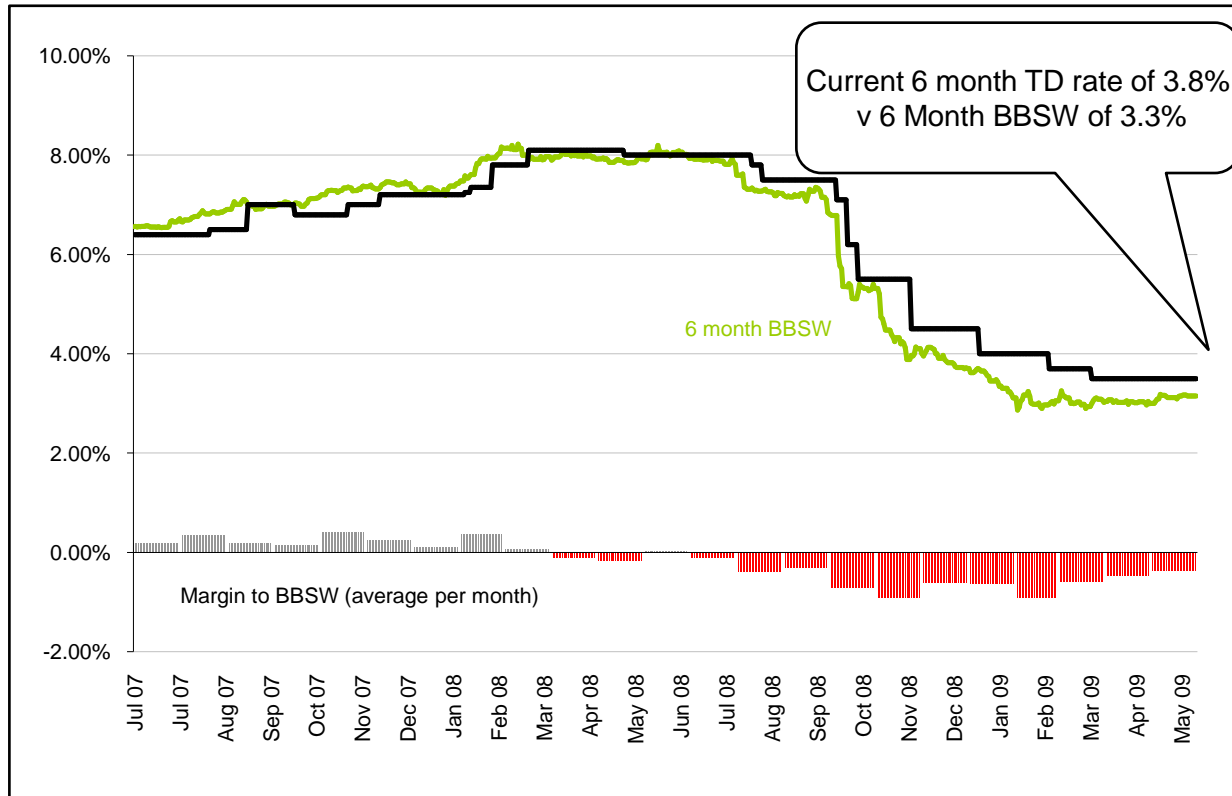


Note: this is not the same as reported deposit margin which is based on internal transfer pricing that reflects swap rates, basis risk and long term funding premiums

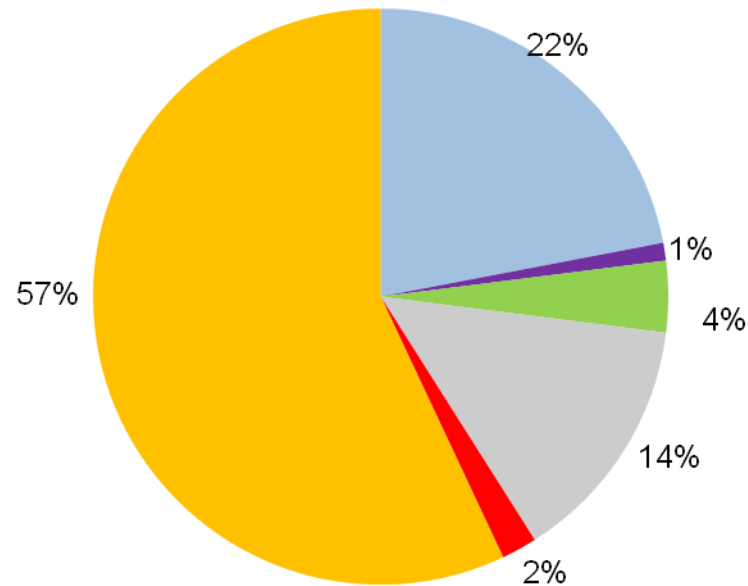


Retail Term Deposit Rates are well above wholesale rates

Headline Term Deposit rates v 6 Month BBSW



Source of funding CBA FY09



Deposit Funding

Short Term Wholesale

Structured Funding with first call <12mth

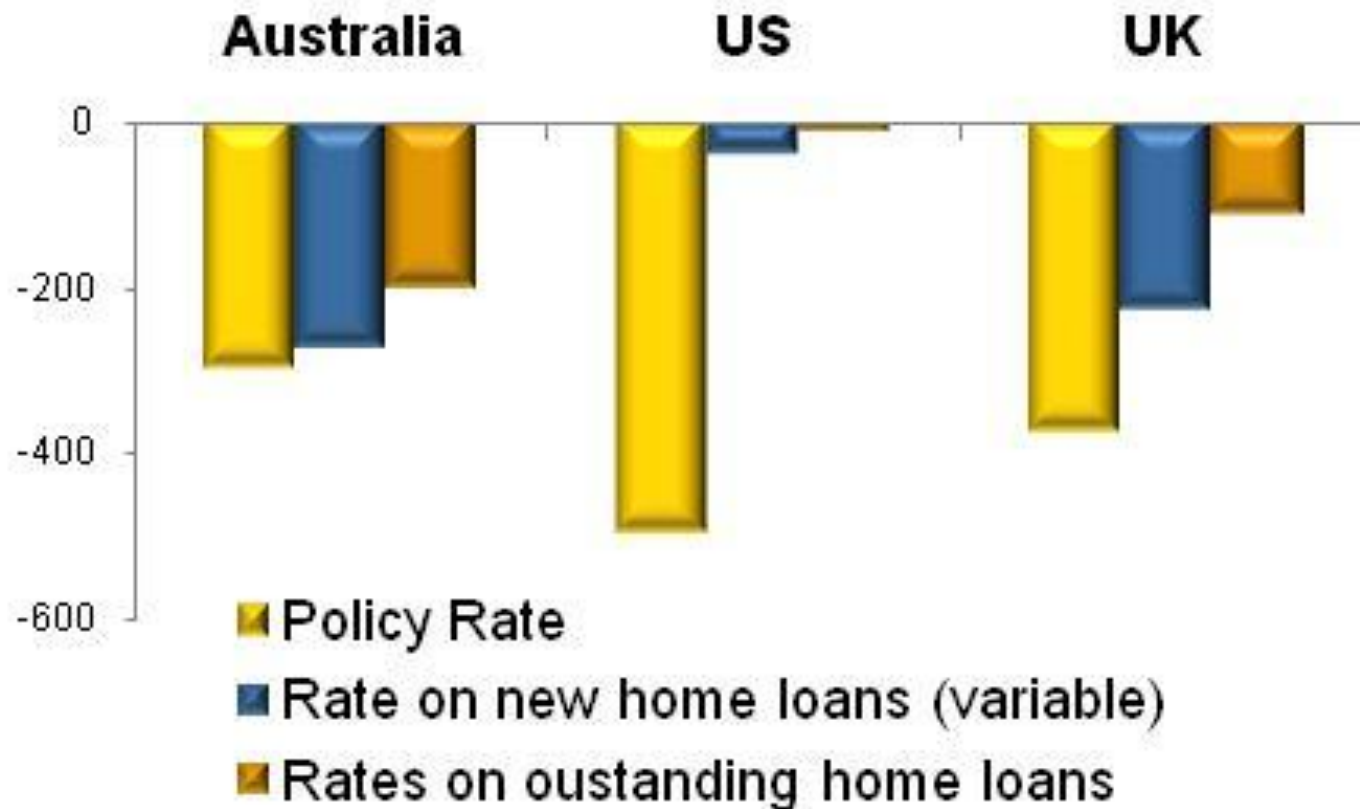
Long Term Wholesale maturing in next 12m

Long Term Wholesale maturing after 12m

Securitisation



Australian Banks have passed on much larger rate cuts than overseas



* From start of easing cycle to end December 2008. Source: RBA

