



Mr John Hawkins  
Committee Secretary  
Senate Standing Committee on Economics  
Parliament House  
CANBERRA ACT 2600

30 December 2010

Dear Mr Hawkins

On 15 December 2010, at ANZ's appearance before the Senate Economics Committee's Inquiry into Competition within the Australian Banking Sector, Senator Xenophon asked us to take a question on notice. The question related to analysis tabled by the Australia Institute. The following points are our response to Senator Xenophon's question.

- The Australia Institute (TAI) contends that, on the basis of their analysis of our annual report, ANZ is spending less on interest in 2010 than in 2009 and that this is inconsistent with our evidence that funding costs are rising.
- TAI has calculated ANZ's interest expense as a share of liabilities based on data published in ANZ's 2009 and 2010 Annual Reports. We do not dispute the calculations, however, it is a simplistic analysis of ANZ's interest expense and funding costs. There are a number of factors which have contributed to the decline from 2009 to 2010.
  - The Full Year 2010 balance sheet includes non-interest bearing liabilities relating to the Group's life insurance and funds management business post the full ownership of ING Australia (now called OnePath). As these balances are not included in the Full Year 2009 balance sheet and as they are non-interest bearing, TAI's analysis incorrectly interprets this change as a fall in total funding costs.
  - TAI's analysis uses total ANZ Group interest expense and balance sheet and therefore includes multiple jurisdictions and currencies (predominantly USD and NZD), which are at different (lower) interest rates. Each country manages its own funding needs on a regional basis. New Zealand liabilities fund New Zealand assets, and APEA (Asia, Pacific, Europe and America) fund APEA assets which are dominated by USD. Clearly, if USD interest rates are low and have fallen between 2009 and 2010, this does not result in funding costs for Australian dollar loans falling.

**Group Corporate Affairs**

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- The funding cost for the Australian retail lending book, which includes Australian mortgages, has increased in line with the evidence presented in our December 2010 Submission to the Senate Economics Committee's Inquiry into Competition within the Australian banking sector.

Yours sincerely

Jane Nash  
Head of Government and Regulatory Affairs