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27 June 2023

Mark Basile
Executive Director
Merger Investigations
Level 27, 135 King Street
SYDNEY NSW 2000

Dear Mark

ANZ proposed acquisition of SBGH Limited – Supplementary Statement of Shayne Elliott – global bank ROE

We refer to your letter dated 21 June 2023, requesting information regarding global bank ROE data collated by Flagstaff Partners, provided as Exhibit "SCE-8" to the Supplementary Statement of Shayne Elliott dated 17 May 2023.

ANZ's response is set out below and in the **enclosed** spreadsheet with the file name "20230627-Global peers ROE" (**Annex A**). We adopt the definitions used in your letter of 21 June 2023 unless stated otherwise.

1. **ANZ's Response**

Q1. Provide more information on the methodology underpinning Exhibit "SCE-8" to the Supplementary Statement of Shayne Elliott dated 17 May 2023, being the spreadsheet with the file name "Flagstaff – 20230515 – Global peers ROE" (hereafter called Exhibit "SCE-8"):

- a. We understand Flagstaff Partners selected the banks in each jurisdiction because they are comparable to the Australian major banks based on their high level of Gross Loans and Advances (**GLA**).
 - Describe how and why Flagstaff Partners chose the level or range of GLA to be applied to the banks in each jurisdiction.
 - Provide the level or range of GLA applied to the banks in each jurisdiction.
 - Provide the level of GLA of each bank in Exhibit "SCE-8".
 - Provide details of which countries Flagstaff Partners obtained GLAs for and considered to be incomparable to Australia.

- 1.1 The banks selected in each jurisdiction are the domestic systemically important banks (or an equivalent term) as defined by the jurisdiction's local banking regulatory authority (disclosed by relevant regulators, or reliable third party sources when not recently disclosed by regulators).
- 1.2 By definition, a domestic systemically important bank has a substantial amount of lending assets for that jurisdiction.
- 1.3 There was no specific range of lending assets applied to the banks in each jurisdiction – the filter criteria for banks were as follows:
- (a) domestic systemically important status;
 - (b) publicly listed with published financials;
 - (c) if operations of a given bank span over multiple countries, the bank is only included in the ROE index of the country in which it is headquartered/incorporated (e.g., JP Morgan and Santander are domestic systemically important in several countries, however, have only been included in USA and Spain respectively); and
 - (d) if a subsidiary of a large bank is separately listed in the country in which it is systemically important, the subsidiary has been included in the ROE index for that country (e.g., ING Bank Slaski and Santander Polska have been included in Poland as they are listed subsidiaries of ING Group headquartered in Netherlands, and Santander Group headquartered in Spain).
- 1.4 The level of lending assets for each bank (last reported as per FactSet Research Systems) has been included in the spreadsheet in Annex A (refer column J of the "Backing_hardcode" sheet).
- 1.5 Refer to the response to question 1(b) for details about countries considered incomparable to Australia.
- b. Explain whether there are other developed countries with banks that may have high levels of GLA have not been included in the analysis of Exhibit "SCE-8".
- 1.6 Jurisdictions were selected based on the similarity of their retail and commercial banking system to Australia, and the relative maturity of their domestic economies.
- 1.7 Specific jurisdictions that were considered and excluded, and the reasons for exclusion, are as follows:
- (a) USA: High level of securitisation of mortgages, and off-balance sheet lending assets.
 - (b) China: High level of central government influence.

- (c) Japan: Zero interest rate policy since 2016.
- (d) Eurozone: Extremely low / negative interest rates post GFC and Eurozone banking crisis (over the 2010s decade).

c. Explain the methodology for selecting the number of banks for each jurisdiction.

- 1.8 All domestic systemically important banks (or an equivalent term) as defined by the jurisdiction's local banking regulatory authority were selected.

Q2. Apply the same methodology and time range used in the calculation of Exhibit "SCE-8" and calculate the Return on Equity indexes for the following countries:

- a. Colombia
- b. France
- c. Germany
- d. Italy
- e. Japan
- f. Korea
- g. Mexico
- h. Netherlands
- i. Poland
- j. Spain
- k. Turkey
- l. United States.

Q3. Provide the GLA for each of the banks selected in response to item 2 and the underlying data and calculations underpinning the analysis of item 2.

- 1.9 For the purpose of responding to the ACCC's request, Flagstaff Partners prepared the spreadsheet in Annex A, which contains data for the additional jurisdictions requested by the ACCC. Please note the following:

- (a) Flagstaff Partners has not made an assessment of how comparable these jurisdictions are to Australia, or sought to draw any inference from the data.
- (b) There has been a slight change in methodology to extract market capitalisation from Bloomberg in order to keep methodology consistent across jurisdictions (i.e., ensuring data consistency). Flagstaff Partners considers that this change in methodology has a de minimis impact on data previously provided in Exhibit "SCE-8".

- (c) The level of lending assets by bank has been extracted from another market data provider (FactSet Research Systems) as directionally accurate Bloomberg data for lending assets was only sporadically available.
- (d) Flagstaff Partners has undertaken reasonable endeavours, in the time available, to supply accurate data but errors may have occurred in the recording, collection and extraction of data.
- (e) The data extracted from Bloomberg or FactSet has not been independently verified for accuracy or reasonableness.

If you have any questions in relation to the above, please contact Tihana Zuk on [REDACTED] or [REDACTED].

Yours faithfully

Ashurst

Annex A – "20230627-Global peers ROE" spreadsheet

Encl.