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Media Release

Powerful New Insights on Australian Bank Funding Behaviour

(15th July 2011 – Australia) The issue of bank funding strategies has become central to competitive performance in Australia's lending markets during and post the Global Financial Crisis. East & Partners has developed an independent monitor known as The Deposit Funding & Debt Index which will be issued monthly and is being released today.

East and Partners has formed a set of key analytics based on monthly deposit and lending data produced by APRA which we believe adds significant value to the way individual deposit takers and lenders diagnose and monitor their competitive performance. These include market share measures in deposit taking and business/retail deposit volume ration among others.

Traditionally, Australian banks have looked to offshore capital markets for 60 percent of their funding requirements, with the domestic deposit market representing 40 percent of overall funding needs. In Easts' view however, the banks have worked well to reverse their dependence on capital markets over the past two years and now take 60 percent of their total funding from the domestic deposit market.

Key Deposit Funding & Debt Index Highlights:

- The Deposit Funding Index (DFI) business banking ratio has reached 1.25, up from 1.15 a year ago; i.e. 25 percent more in deposits is being taken from business than is being lent back to business customers.

- There are significantly lower DFI ratios in retail (a market-wide average of 0.44) compared to business markets (1.25); i.e. banks are taking less than half in deposits from retail/consumer customers than is being lent back into the mortgage market.

- The Big Four domestic banks achieved a collective 76.9 percent of business deposits in May versus a collective 70.0 percent share of business lending.

- Small businesses could be seen to be supporting big business' lending through the banks (the research has shown institutional scale customers are borrowing far more than they are depositing).

- In the business market, the two big retail banks (Westpac and Commonwealth Bank) have the highest DFI scores; i.e. they are taking in more money than they are lending out (Figure 1). However in the retail market, these same banks are lending out far more than the amount of deposits they are taking in (Figure 2), indicating active reallocation of deposit funding from business customers to mortgage lending is taking place.

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Figure 1: Business Deposits/Business Loans

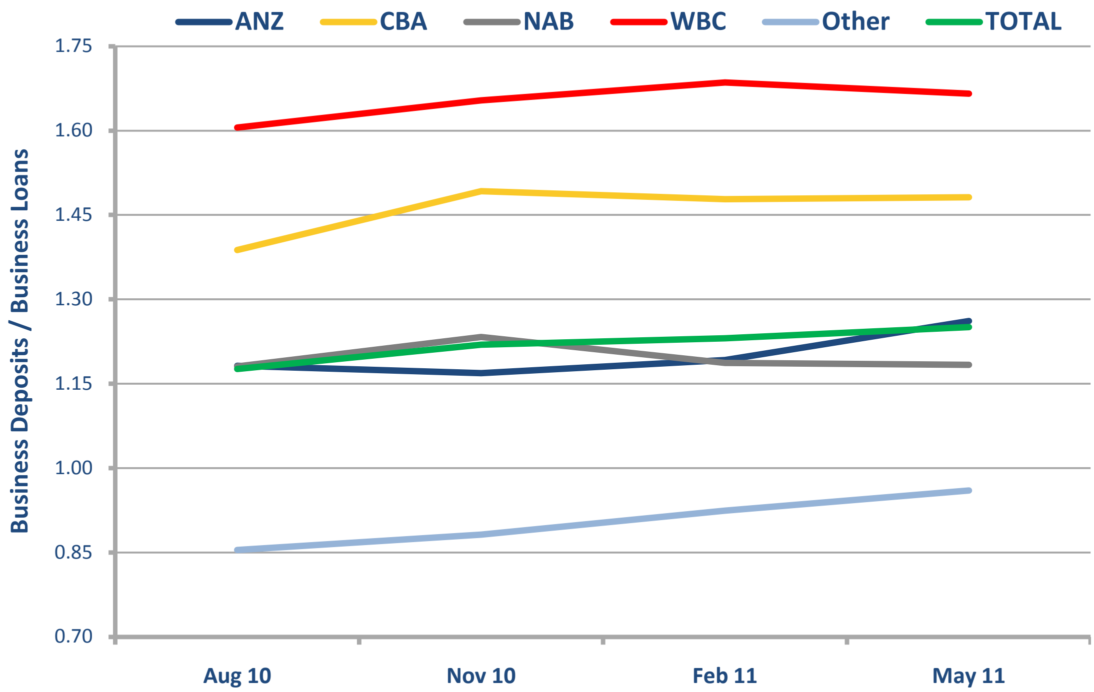
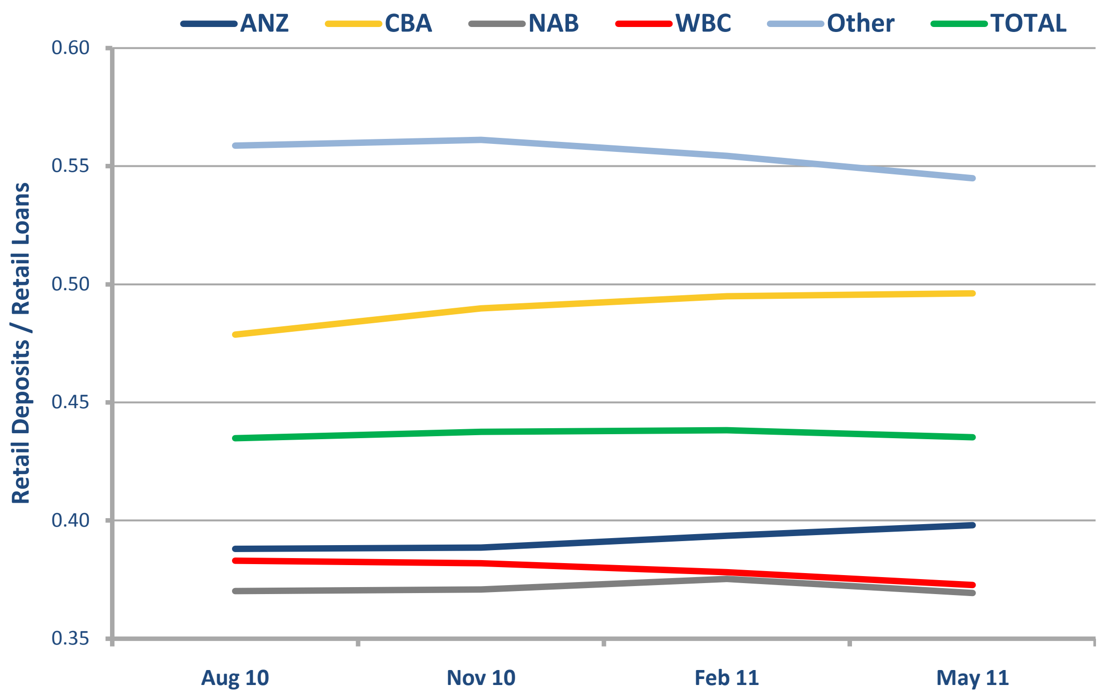


Figure 2: Retail Deposits/ Retail Loans



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Paul Dowling, East & Partners' Principal Analyst said "We are seeing major imbalances in these flows even within the business banking sector. SMEs for example had a DFI ratio in May of 2.13 – they are deposit funding over twice their borrowings".

About East & Partners' Deposit Funding & Debt Index

An ongoing, monthly report monitoring the area of deposit funding and lending across Australia's banking system. Based on data sourced from the Reserve Bank of Australia the data is subjected to a set of standardised analysis run by East & Partners to produce the Index's set of ratio indicators. The report covers business versus retail deposit volume ratio, the ratio of deposit versus lending by bank by market segment and market share.

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