STATISTICS

Quarterly authorised deposit-taking institution performance statistics - highlights

September 2022 (released 6 December 2022)

Contents

Highlights

Financial performance[1]

- ADIs' net profit after tax increased by 8.0 per cent (or $2.9 billion) to $39.3 billion for the year ended September 2022, driven largely by improvements in net interest income. The industry return on equity (ROE) increased by 0.5 percentage points to 10.8 per cent for the year ended September 2022 (Chart 1).

- Increases in operating income outpaced increases in operating expenses. ADIs' cost-to-income ratio declined by 2.3 percentage points to 52.6 per cent for the year ended September 2022. Operating expenses increased by 1.0 per cent, driven by a 6.4 per cent increase in personnel expenses. However, these increases in expenses were outpaced by increases in operational income, notably net interest income (Chart 2).

- Charges for bad or doubtful debts were a net expense in the September 2022 quarter for the first time since the onset of the pandemic. Charges for bad and doubtful debts were $0.7 billion for the September quarter, however were $-0.1 billion for the year ended September. ADIs booked a significant amount of provisions at the onset of the pandemic. As the credit losses experienced during the pandemic were materially lower than expected, ADIs began to release these provisions, leading to net negative charges for bad and doubtful debts (Chart 3).

[1] Analysis in this document excludes ADIs that are neither banks, building societies nor credit unions. Includes foreign branch banks where applicable.

Chart 1: Return on Equity[2]

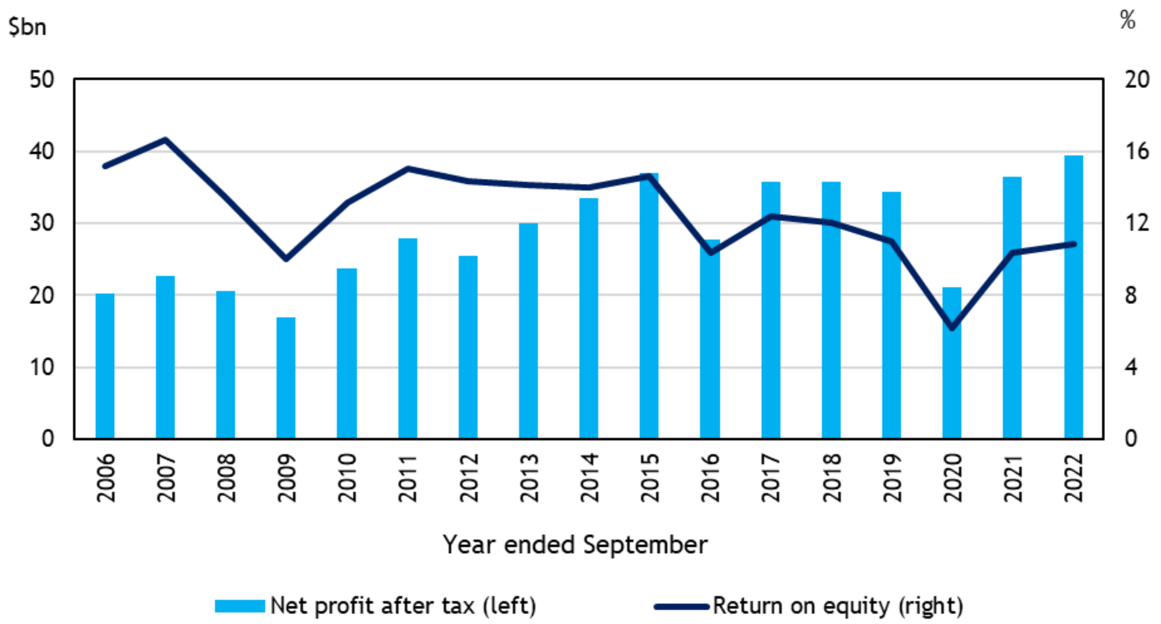
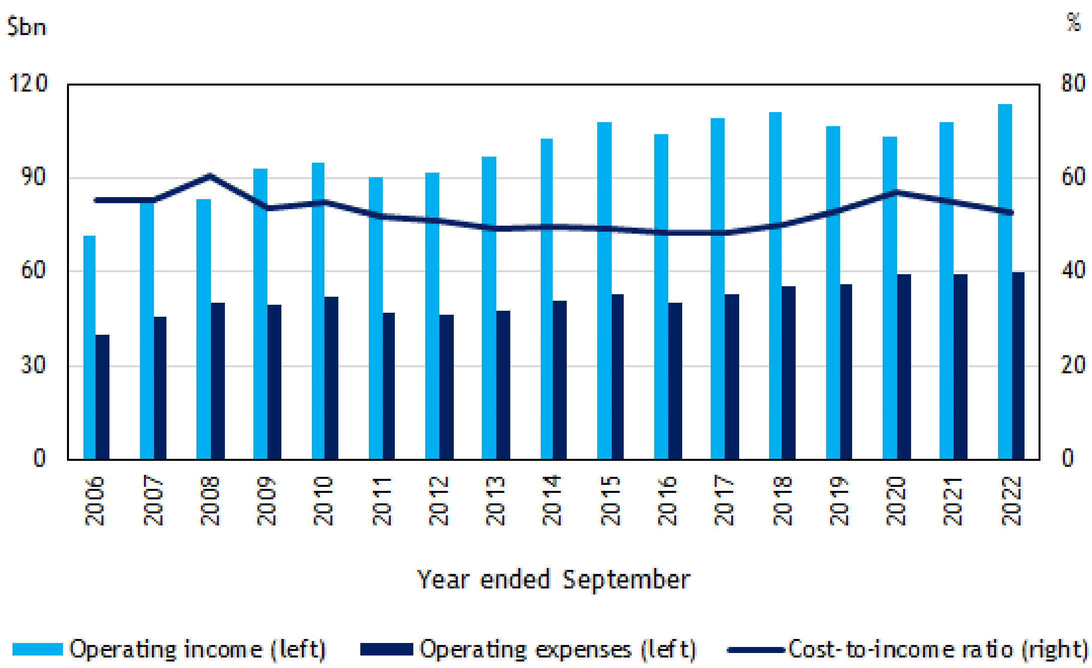
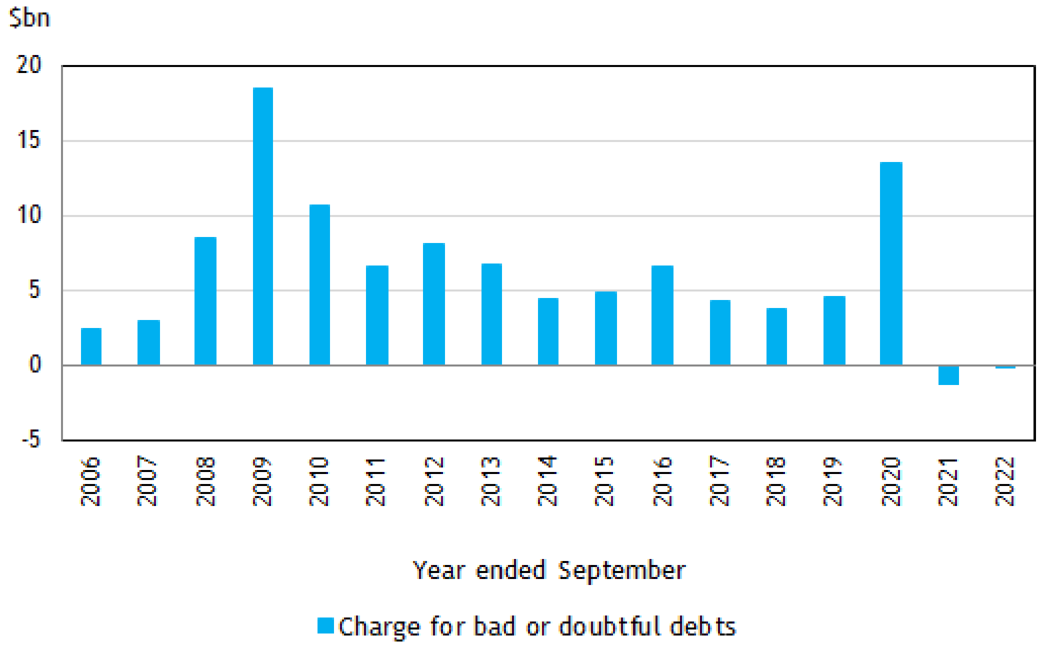


Chart 2: Cost-to-income ratio



[2] Return on equity excludes foreign branch banks, as they do not hold equity in Australia.

Chart 3: Charge for bad or doubtful debts



Financial position

- ADIs' balance sheets continued to grow, reflecting continued credit growth. Industry total assets increased by 3.2 per cent (or $193.4 billion) over the quarter, to $6.2 trillion as at 30 September 2022 (Chart 4). This was driven by increases in other assets and gross loans and advances.

- A large portion of the increase in balance sheets was driven by client driven derivatives in the trading book, due to the weakening Australian Dollar. Other assets increased by 17.5 per cent ($113.4 billion) over the quarter. This was paired by an increase in creditors and other liabilities 18.4 per cent ($127.8 billion).

- Total liabilities increased by 3.3 per cent ($187.0 billion) over the quarter (Chart 5). Deposit liabilities continued to grow in the September 2022 quarter, increasing 1.3 per cent over the quarter and 9.0 per cent over the year.

Chart 4: Assets

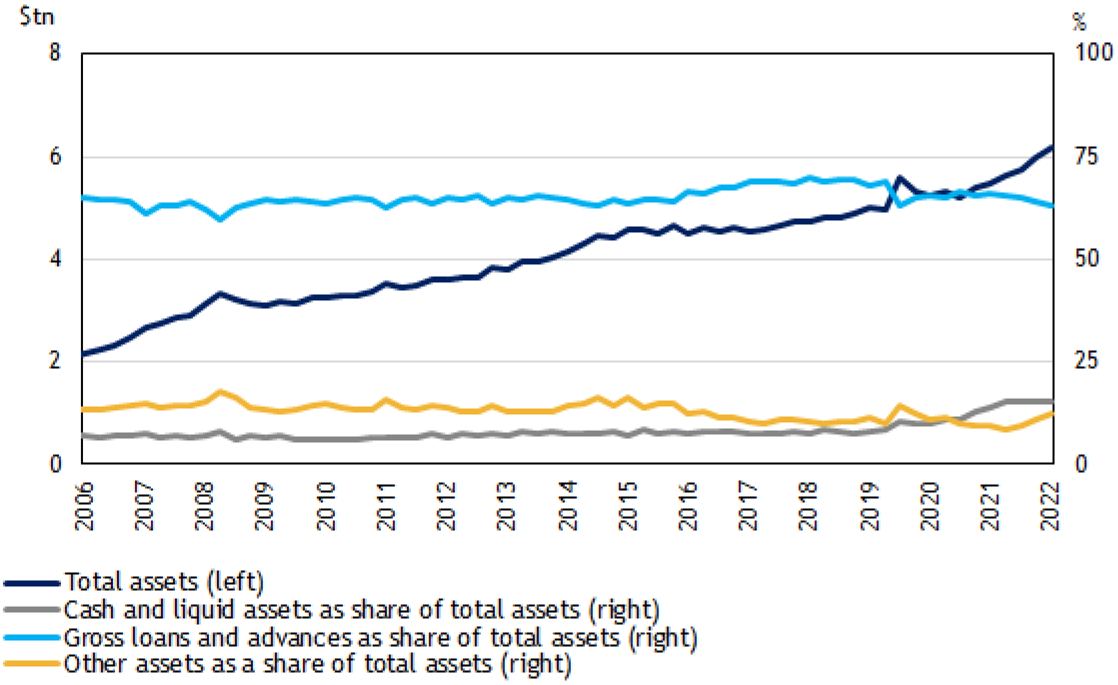
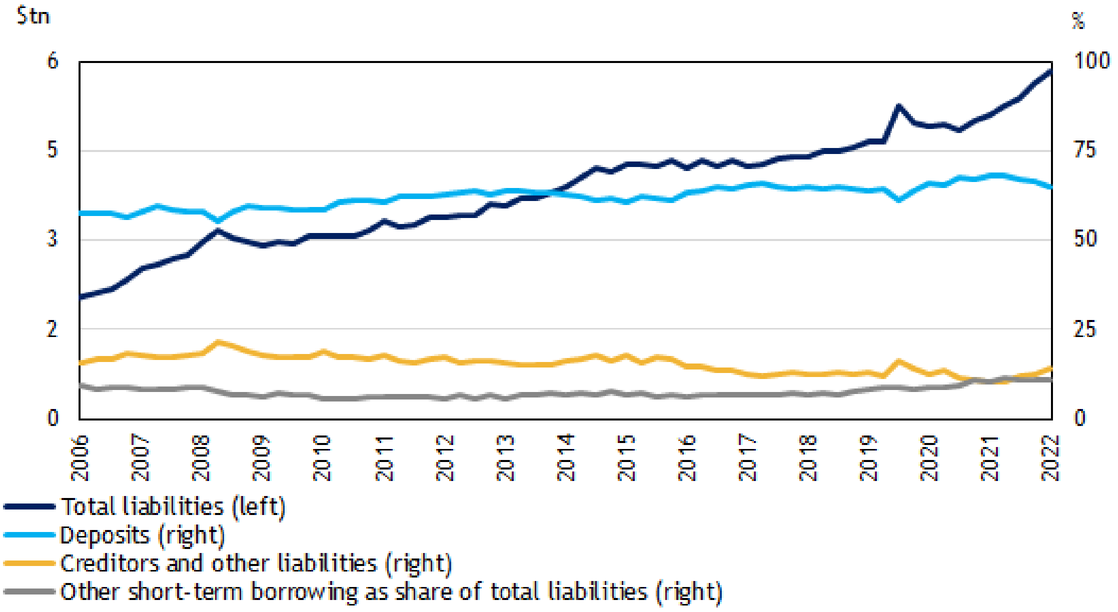


Chart 5: Liabilities

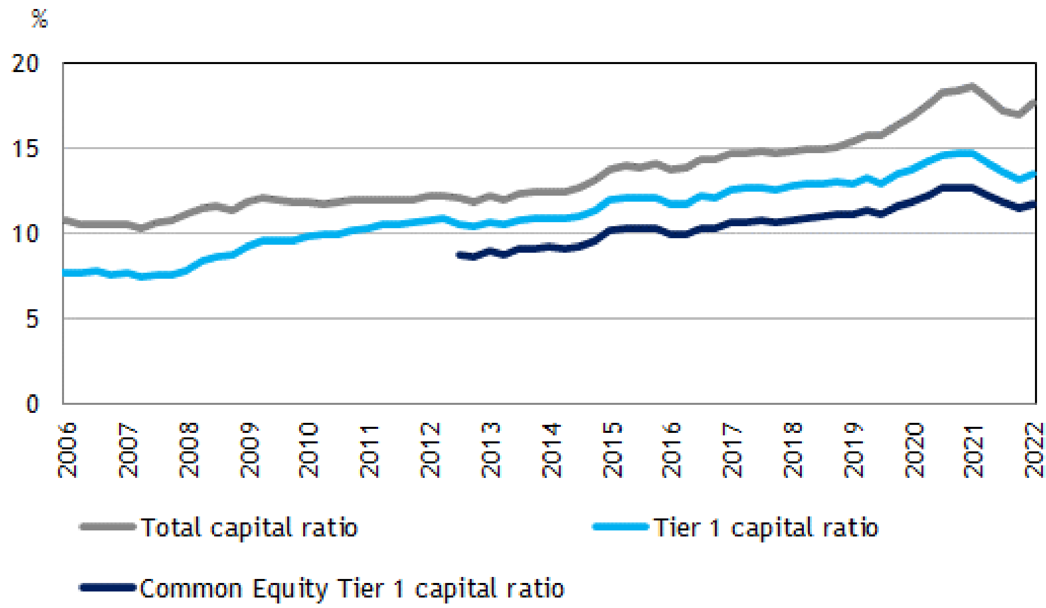


Capital adequacy

- The ADI industry remains well capitalised. The total capital ratio increased to 17.7 percent in September 2022, up from 16.9 per cent in June 2022. The common equity tier 1 (CET1) capital ratio increased to 11.7 per cent from 11.4 percent over the same period (Chart 6).

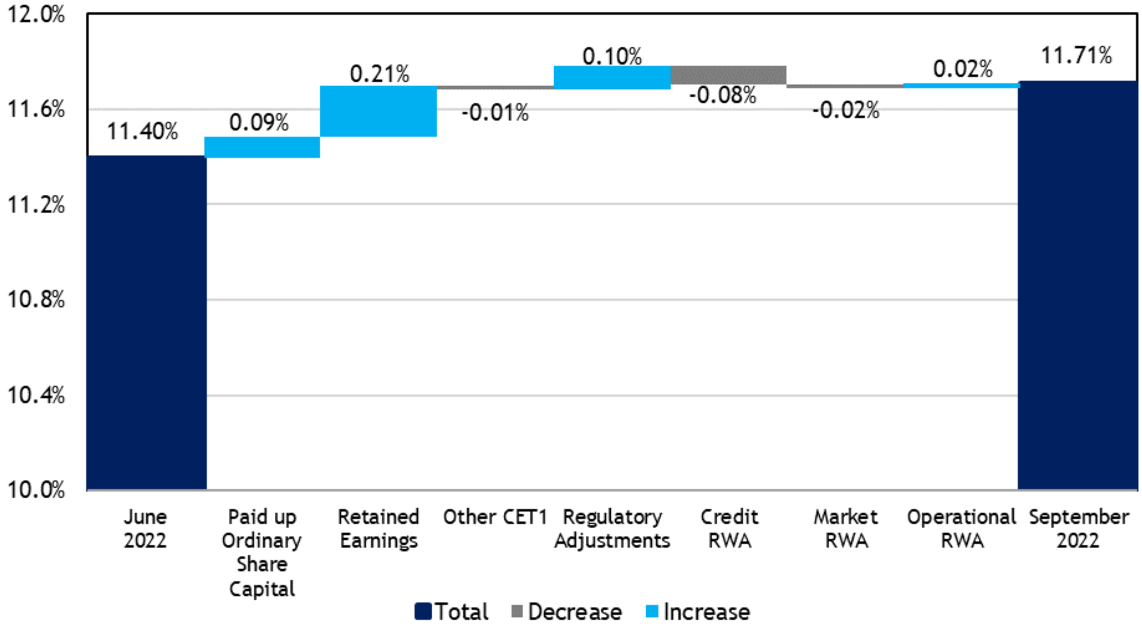
- The increase in the CET1 capital ratio over the quarter was driven by increases in both retained earnings and paid-up ordinary share capital. This included equity raising by Australia and New Zealand Banking Group Limited, to fund merger and acquisition activity (Chart 7).[3]

Chart 6 Capital Ratios



[3] See ANZ announcement: ANZ accelerates Australia Retail and Commercial

Chart 7 Movements in CET1 ratio[4]



Asset quality

- ADIs' asset quality continues to improve. Over the quarter, the non-performing loan (NPL) ratio (non-performing to gross loans and advances) continued to decline, falling by 0.05 percentage points to 0.82 per cent as at 30 September 2022 (Chart 8).[5] Any material impact of rising interest rates is yet to be seen in the asset quality data.

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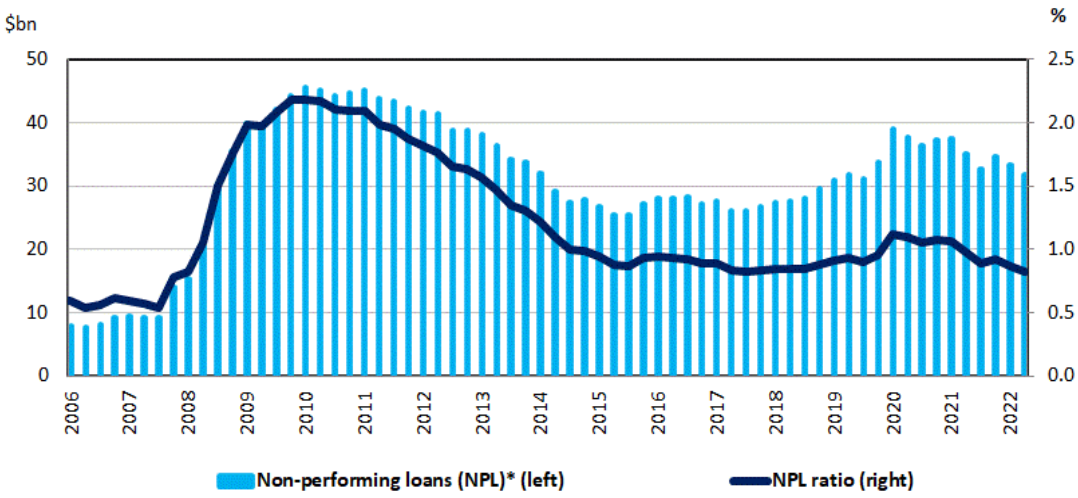
[4] RWA: Risk weighted assets

[5] The definition of 'non-performing' has changed since 1 January 2022, as a result of the implementation of the new prudential standard *APS 220 Credit Risk Management*. For more details, please refer to the explanatory note, glossary and the APRA website: *Proposed revisions to the credit risk management framework for authorised deposit-taking institutions*

Chart 8: Non-performing loans



* Before 1 January 2022, NPLs are defined as the sum of 'impaired' and '≥90 days past due'. Since 1 January 2022, NPLs are defined as any exposure that is in default.

Liquidity

- The ADI industry continues to maintain liquid assets well above regulatory minimums. The industry liquidity coverage ratio (LCR) decreased over the September quarter by 1.8 percentage points to 132.9 per cent, remaining well above regulatory minimum of 100 per cent (Chart 9).

- The continued phase out of Committed Liquidity Facility (CLF) saw a decrease in total LCR liquid assets over the quarter. These fell by 2.6 per cent (or $25.2 billion), driven by a fall in alternative liquid assets (ALAs) of 52.4 per cent (or $34.2 billion). ALAs are expected to be nil from 1 January 2023. To replace the CLF, ADIs have increased their holdings of high-quality liquid assets over the past year, increasing their holdings of central bank balances and government securities.

- The impact of this decrease in LCR liquid assets was partially offset by APRA's removal of add-on liquidity requirements for Westpac Banking Corporation. Net cash outflows for the LCR calculation decreased 1.3 per cent ($9.3 billion) over the quarter.[6]

- The industry minimum liquidity holdings (MLH) ratio also remains well above regulatory minimums. The MLH ratio increased over the quarter by 0.4 percentage points, to 17.7 per cent as at 30 September 2022 (Chart 10).

[6] See APRA announcement – APRA removes add-on liquidity requirement for Westpac

Chart 9: High quality liquid assets (HQLA) and liquidity coverage ratio (LCR)

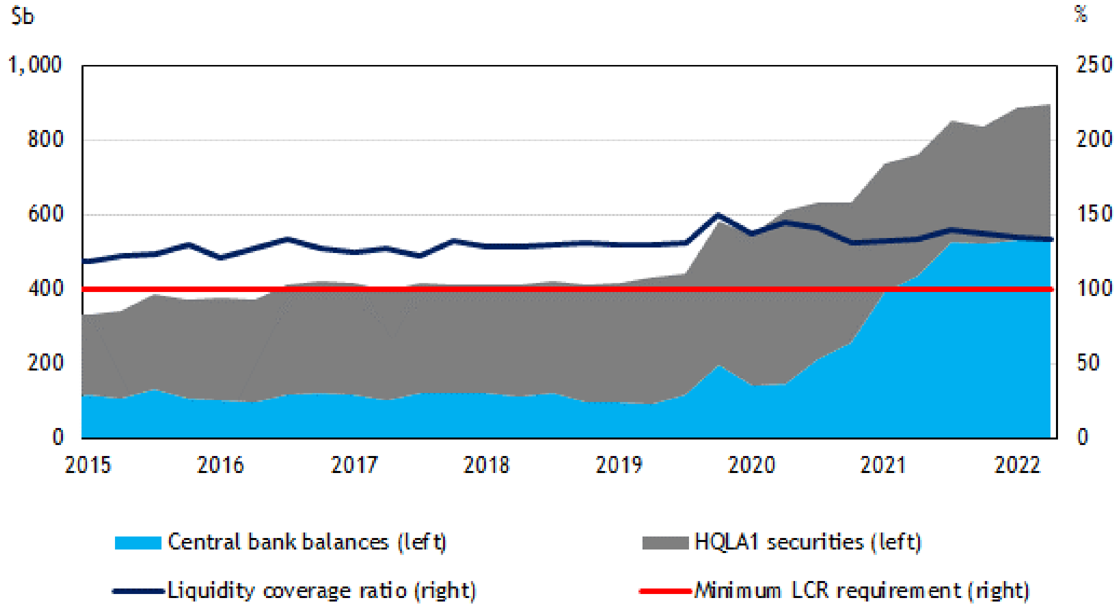
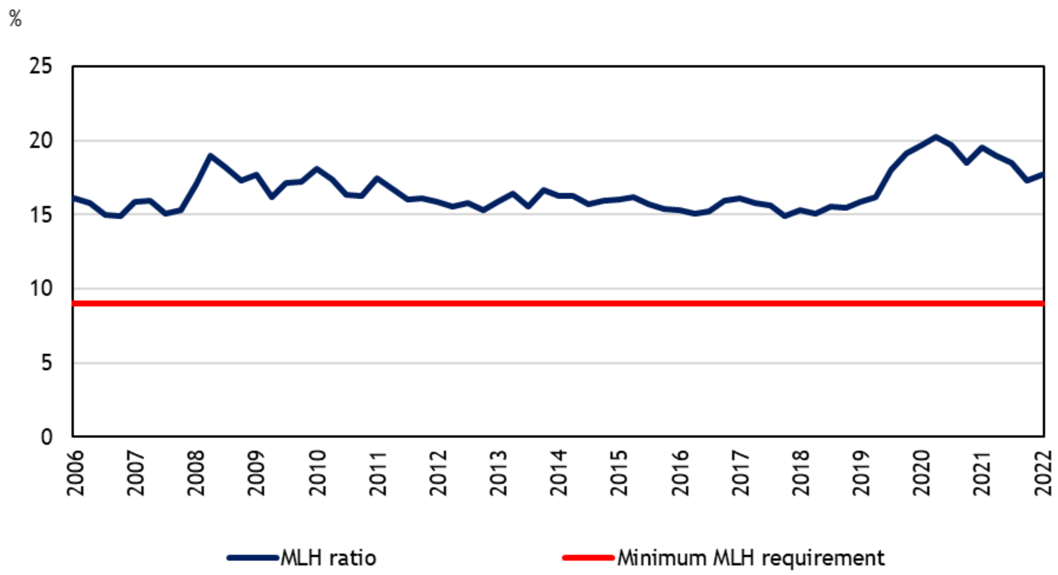


Chart 10: Minimum liquidity holding ratio (MLH)



Population changes

On a consolidated group basis, there were 142 ADIs operating in Australia as at 30 September 2022. The changes over the quarter were:

- IBA Group Pty Ltd was granted a new restricted ADI licence, with effect from 5 July 2022;
- NongHyup Bank was granted a new foreign branch ADI licence, with effect from 12 August 2022; and
- Volt Bank Limited's ADI licence was revoked, with effect from 26 August 2022.

APRA