STATISTICS

Quarterly authorised deposit-taking institution performance statistics - highlights

June 2023 (released 5 September 2023)

Contents

Key messages

- **The Australian banking industry reported a solid financial performance over the quarter contributing to strong capital ratios. ADIs remain well positioned to absorb higher credit losses and manage any future economic uncertainty.**
- **A large increase in net interest income contributed to ADIs' strong financial performance, though return on equity remained below the average of the previous decade.** Profitability may moderate over the latter half of the year with cash rate stabilisation and competitive pressures lowering net interest income, while inflation and wage growth drive higher expenses.
- **Balance sheet growth slowed over the year but remained robust.** Growth in loans and advances exceeded growth in deposits.
- **Liquidity and funding positions were strong.** Liquidity coverage ratios (LCR) and minimum liquidity holdings (MLH) ratios were well above regulatory minimums.
- **Asset quality metrics deteriorated but remained stronger than historical averages.** Provisioning coverage remained broadly stable.

Capital adequacy

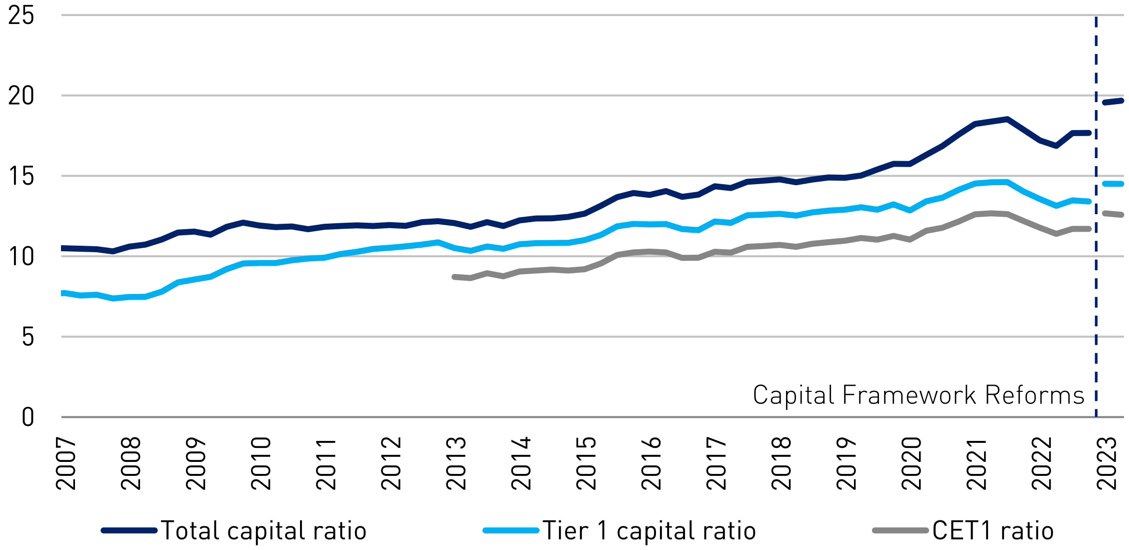
Capital ratios remain strong and stable

- The June quarter was the second quarter of APRA's capital framework reforms, which took effect on 1 January 2023. As outlined in APRA's information paper: An Unquestionably Strong Framework for Bank Capital, the new framework did not require ADIs to raise additional capital given they already met "unquestionably strong" benchmarks set by APRA in 2017.[1]

- Over the June quarter, the total capital ratio increased by 0.1 percentage point to 19.7 per cent. This was driven primarily by higher retained earnings. Market risk-weighted assets (RWAs) increased over the quarter, which was partially offset by a fall in credit RWAs.

- High capital ratios mean ADIs are well-positioned to absorb losses from future economic uncertainty. Given their strong capital positions, ADIs have maintained dividend payouts and some have announced share buybacks to return excess capital to shareholders.

Capital base as a percentage of total risk-weighted assets (%)

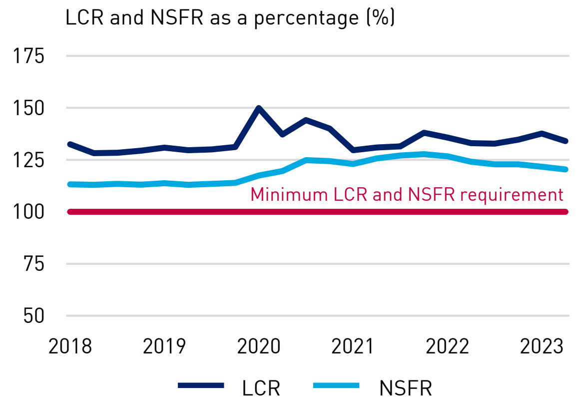


[1] The framework sought to ensure that high levels of capital adequacy are maintained in the industry, embedding increases in capital through a combination of additional regulatory buffers and adjustments to risk weights. Reported capital ratios are higher under the new framework, given lower risk weights in a number of areas.

Liquidity

ADIs' liquidity and funding positions remained strong

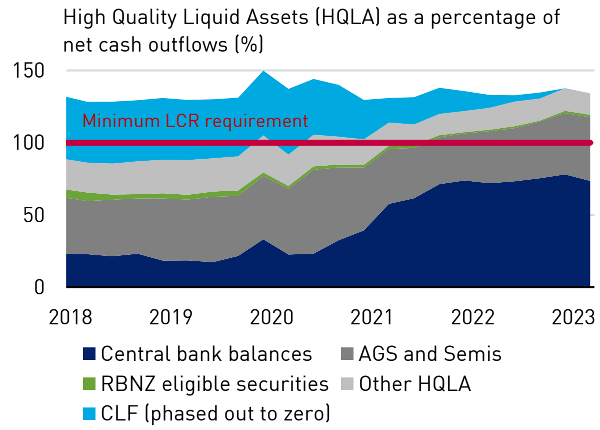
- The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained well above the 100 per cent regulatory minimum requirement. Minimum levels for these ratios apply to larger and more complex ADIs.



The LCR remained broadly stable over the quarter

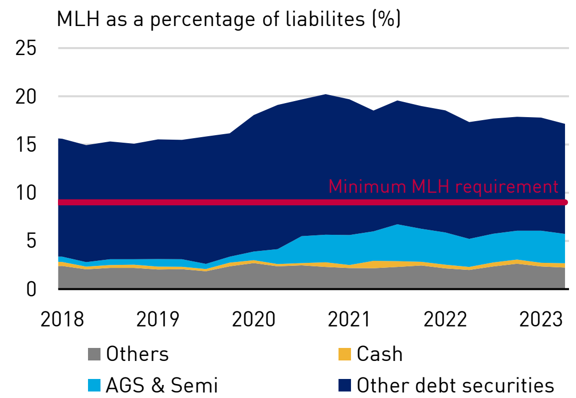
- The LCR declined by 3.6 percentage points to 134.0 per cent over the June quarter.

- Balances in exchange settlement accounts held at the Reserve Bank of Australia (RBA) increased materially during the pandemic due to policy measures by the RBA, including the Term Funding Facility (TFF). These balances are expected to decline further as these measures are unwound.



Smaller ADIs' liquidity and funding positions remain above pre-pandemic levels

- The Minimum Liquidity Holdings (MLH) ratio was 17.1 per cent at the end of June 2023 and was well above the regulatory minimum of 9.0 per cent. This minimum ratio applies to smaller ADIs.



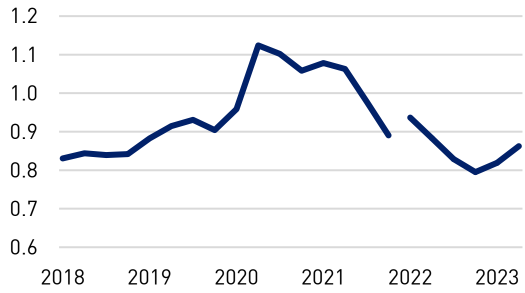
Asset Quality

Asset quality deteriorated for the second quarter, returning to pre-pandemic levels

- Non-performing loans (NPLs) as a share of gross loans and advances increased from 0.82 per cent to 0.86 per cent over the quarter. The deterioration was recorded for both housing and business sectors. While these have returned to pre-pandemic levels, they remain well below recent highs. Higher non-performing business loan ratios are consistent with the recent increase in business insolvencies.

- Slowing economic growth and persistent cost of living pressures present a risk for ADIs' asset quality in the second half of the year. In the housing sector, the roll-off of fixed-rate loans may contribute to some increase in NPLs. However, any deterioration is expected to be limited as a resilient labour market and high savings buffers provide most households the ability to continue to service mortgage loans.

Non-performing loans as a percentage of gross loans and advances (%)



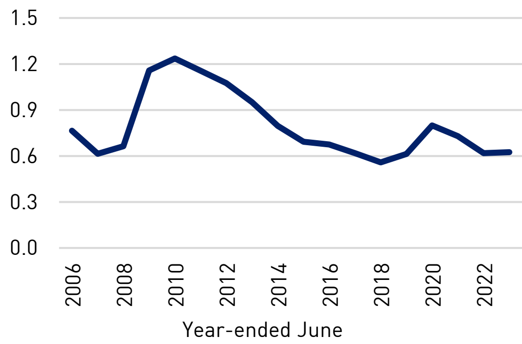
Series break due to reporting definition change

Provisioning coverage levels remained unchanged

- ADIs' lending provisions increased by $601 million but overall coverage as a percentage of gross loans and advances remained stable at 0.62 per cent at end-June 2023.

- ADIs' provisioning coverage and high capital levels means that the industry is well positioned to withstand potential increases in expected credit losses.

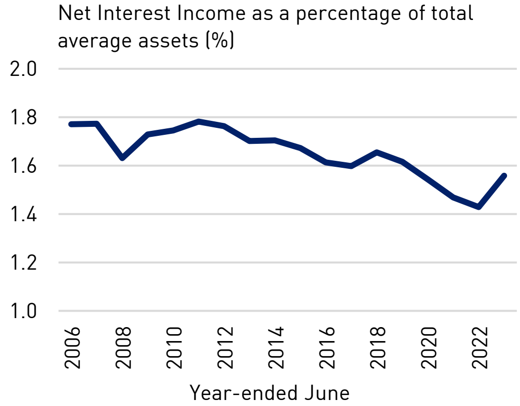
Lending provisions as a percentage of gross loans and advances (%)



Financial Performance and Position

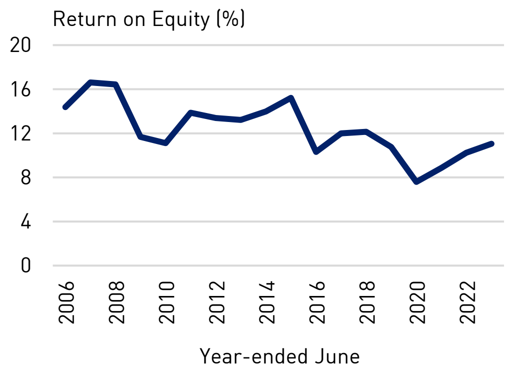
Bank profitability is expected to moderate as net interest income declines

- Net interest income (NII) increased by 16.2 per cent to $94.4 billion for the year ended June 2023. As a share of total average assets, NII increased from 1.43 to 1.56 per cent over the year to 2023.
- The growth in NII may moderate with ongoing market competition, and an expectation that interest rates are likely to stabilise over the period ahead.



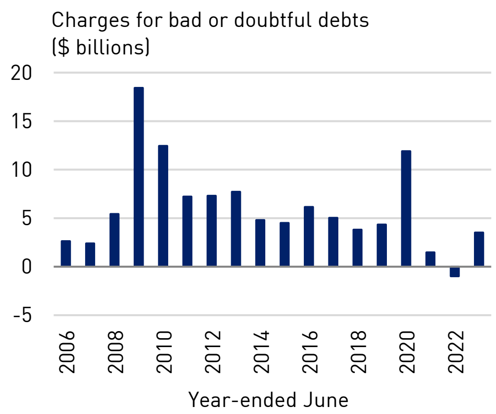
Returns remained below historical levels

- ADIs reported a 9.8 per cent increase in net profit after tax (to $41.8 billion). ADIs' cost-to-income ratio decreased 4.5 percentage points to 49.9 per cent for the year ended June 2023.
- Return on equity increased marginally by 0.9 percentage points to 11.6 per cent for the year ended June 2023. It remains below the average of the prior decade.



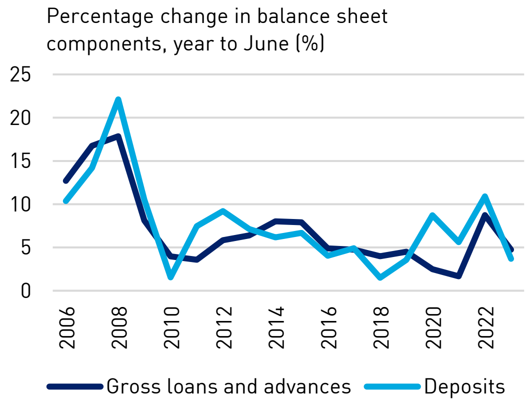
Charges for bad or doubtful debts have returned to normal levels

- ADIs reported an increase in charges for bad and doubtful debts for the year ended June 2023 to $3.5 billion, although these charges remain below pre-pandemic levels.
- Charges were negative in 2022 as ADIs released their pandemic-related provisions.



Balance sheet growth slowed in tandem with the economy

- ADIs' balance sheet growth has slowed in line with the Australian economy. ADIs' assets and liabilities increased by 2.0 and 1.9 per cent, respectively, for the year ended June 2023.
- Over the 12 months to June 2023, growth in gross loans and advances (GLAs) outpaced deposits for the first time since 2019. GLAs increased by 4.8 per cent compared to 3.7 per cent for deposits.



Population changes

The number of ADIs on a consolidated group basis operating in Australia remained unchanged from the March 2023 quarter at 140 ADIs as of 30 June 2023. During the quarter APRA made the following ADI licence amendments:

- In May 2023 APRA granted in1bank a licence to operate as an unrestricted ADI, having previously been licenced by APRA as a restricted ADI in December 2019.

APRA