STATISTICS

Quarterly authorised deposit-taking institution performance statistics - highlights

September 2023 (released 5 December 2023)

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Key messages

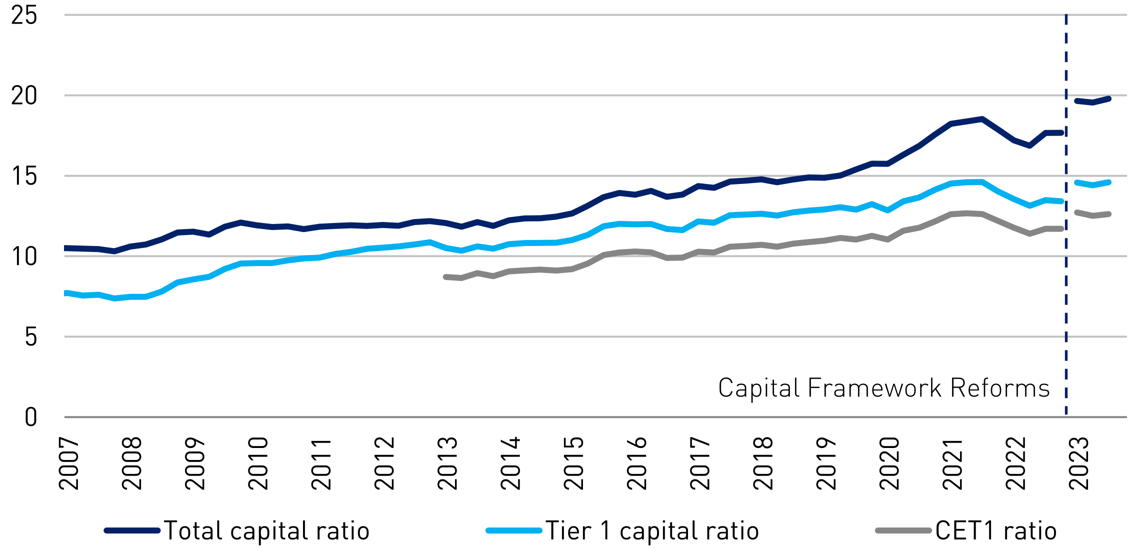
- **ADIs reported strong profits although growth has eased. These profits have continued to support capital growth.** Strong competition led to compressed margins which caused net interest income growth to stall. This, alongside increased cost pressures and the potential for further asset quality deterioration, suggests that overall profitability for the near to medium term has likely reached its peak.
- **ADIs continued to hold large amounts of liquid assets despite repayments of the Term Funding Facility.** As such, ADIs' remained well placed to manage any future liquidity stresses. This is reflected by Liquidity Coverage Ratios and Minimum Liquidity Holdings ratios which remained well above regulatory minimums. The TFF-related decline in Exchange Settlement balances were replaced with semi-government securities.
- **Losses from non-performing loans remained low.** Asset quality remained reasonably strong despite a slight deterioration as borrowers faced higher interest repayments and cost of living pressures.

Capital adequacy

Capital ratios remained strong and stable

- The industry's CET 1 ratio increased by 0.9 percentage points over the quarter to 12.6 per cent as at 30 September 2023. There were two main contributing factors:
    - ADIs reported strong profits for the quarter. While retained earnings increased by 2.1 per cent from the previous quarter by $2.9 billion, it is expected that growth in the total capital base may ease over coming quarters as profitability moderates (discussed further in the Financial Performance section of this report) and some ADIs return capital to shareholders.
    - Total RWAs decreased marginally by 0.1 per cent over the quarter. Market RWAs declined by 8.2 per cent, which more than offset a 0.8 per cent increase in credit RWAs.
- Domestic Systemically Important Banks (D-SIBs) - currently the major banks - are required to meet an interim setting for loss-absorbing capacity rules, involving an increase in total capital requirements of 3 percentage points of RWA, by 1 January 2024. As of September 2023, the D-SIBS were well above the interim requirements.[1]

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



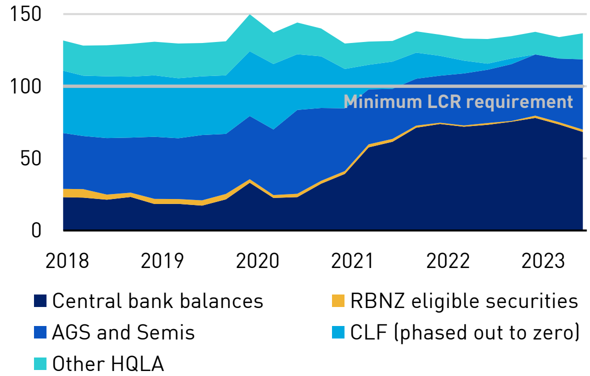
[1] Finalising loss-absorbing capacity requirements for domestic systemically important banks | APRA

Liquidity

ADIs hold strong liquidity buffers despite repayments of the TFF

- The Liquidity Coverage Ratio increased by 2.8 percentage points to 136.8 per cent over the September quarter, well above the regulatory minimum of 100 per cent. The LCR applies to larger, more complex ADIs.
- As expected, balances in exchange settlement accounts held with the Reserve Bank of Australia continued to decline as the Term Funding Facility (TFF) is unwound. The effect of the decline in central bank balances on LCRs was offset largely by increased holdings of semi-government securities (Semis).

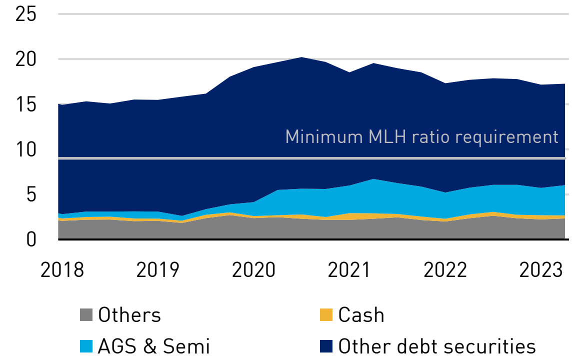
High quality liquid assets as a percentage of net cash outflows, Liquidity Coverage Ratio (%)



Smaller ADIs also maintained strong liquidity buffers

- The Minimum Liquidity Holdings (MLH) ratio increased by 0.1 percentage points to 17.3 per cent as at the end of September 2023, well above the regulatory minimum of 9.0 per cent. The MLH ratio applies to smaller ADIs.
- Smaller ADIs increased their holdings of Semis marginally.

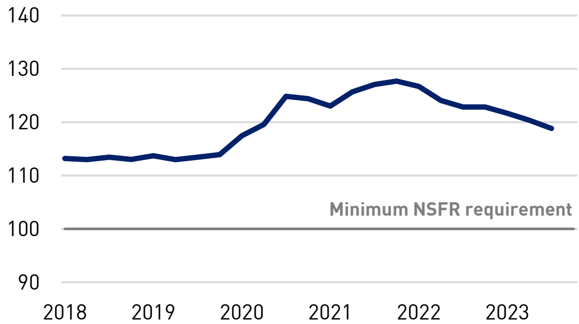
Minimum Liquidity Holdings (MLH) as a percentage of liabilites (%)



ADIs also maintained a stable funding base

- The NSFR, which is the ratio of total Available Stable Funding (ASF) to total Required Stable Funding (RSF), decreased by 1.5 percentage points to 118.8 per cent in September but remained well above the 100 per cent regulatory minimum requirement.
- The movements in the NSFR since 2020 have been driven largely by the introduction and unwinding of the TFF. The NSFR is expected to return to pre-pandemic levels as ADIs repay the TFF.

Net stable funding ratio (NSFR) (%)

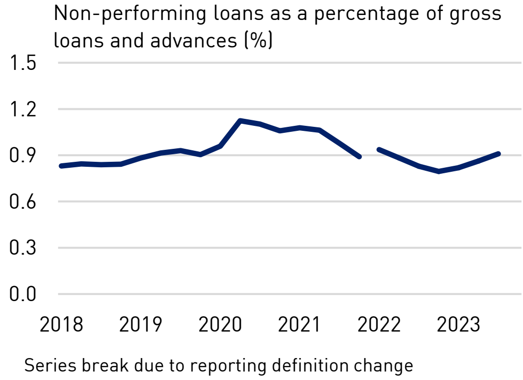


Asset quality

Asset quality remained strong despite increased pressure on borrowers

- Most borrowers continued to meet their repayment obligations despite higher interest rates and cost of living pressures. Non-performing loans (NPLs) as a share of gross loans and advances increased marginally from 0.86 per cent to 0.91 per cent over the quarter. NPLs for both commercial real estate and business lending increased, which reflected a more challenging operating environment for some businesses.

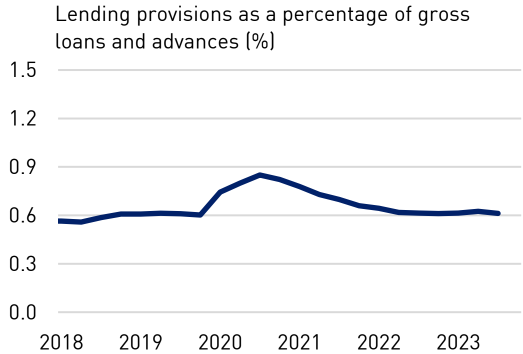
- Over half of the housing loans that were fixed at historically low interest rates during the pandemic have now rolled-off onto other terms or products, with no substantive impact on asset quality observed to date.



Provisioning coverage remained stable

- Current provisioning levels, coupled with strong capital ratios, mean the industry is well-placed to manage expected increases in credit losses.

- Provisioning coverage remained stable at 0.62 per cent on 30 September 2023. ADIs' reported lending provisions decreased by -1.0 per cent in the quarter to $24.9 billion.



Financial performance

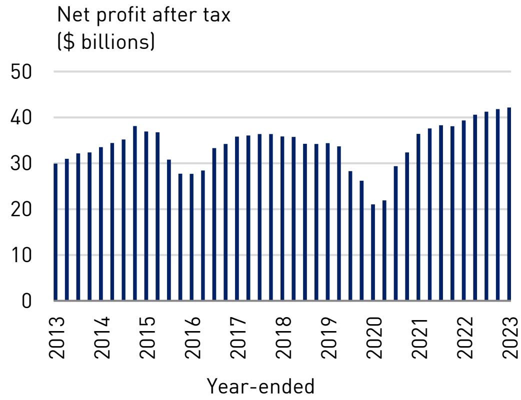
Bank profitability may have reached the peak of the cycle

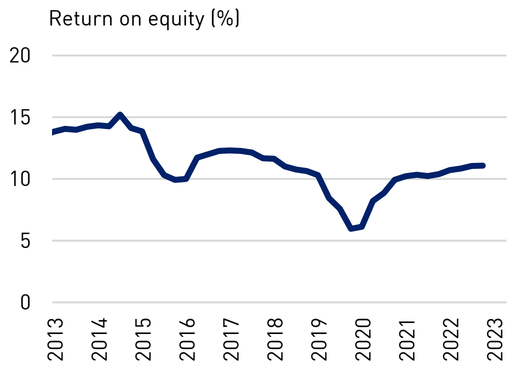
- Strong competition contributed to compressed margins. In lending, aggressive mortgage pricing drove near record high rates of external refinancing. Several ADIs have also reported increased competition for fixed-term deposits.

- Net interest income (NII) increased by 12.7 per cent over the year to September 2023. This compares unfavourably with a 16.2 per cent increase over the year to June 2023, reflecting competitive pressures in both loans and deposits.

- Total operating expenses continued to increase. The increase of 6.1 per cent was driven primarily by an increase of 11.0 per cent in personnel expenses, which may reflect wage inflation.

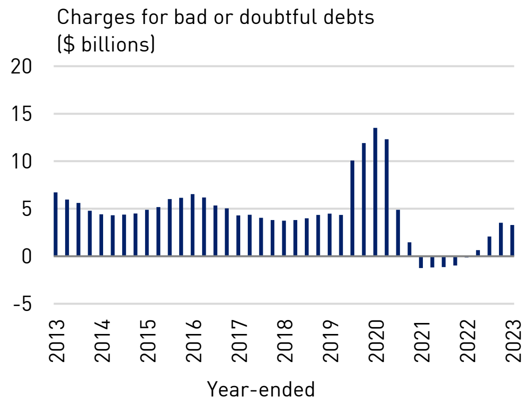
- Overall, annual net profit after tax increased by 7.2 per cent over the year to September 2023, while return on equity increased from 10.8 per cent to 11.6 per cent over the same period. These strong results were driven by stronger results in the prior three quarters.





Bad debts have not affected profitability

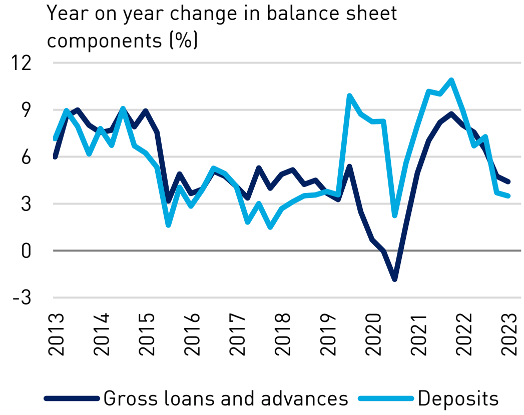
- Charges for bad or doubtful debts remained relatively stable. While they remain very low and below pre-pandemic levels, higher charges for bad or doubtful debts are expected in the near to medium term given headwinds in the economic environment.



Financial position

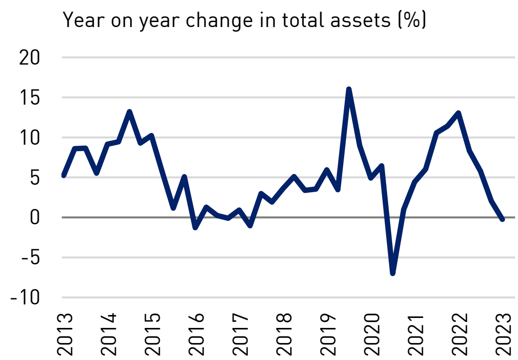
Growth in credit and deposit funding remained healthy

- The growth rate for gross loans and advances (GLAs) and deposits stabilised after a period of decline. GLAs and deposits grew by 4.4 per cent and 3.5 per cent, respectively, for the year ending in September 2023.
- The higher growth rate in lending compared to deposits has increased the need for ADIs to obtain other forms of funding.



Other assets continued to contribute to broader balance sheet movements

- Total assets decreased by 0.3 per cent (to $6.2 trillion) while total liabilities declined by 0.4 per cent (to $5.8 trillion) for the year ending in September 2023.
- The movement in non-credit items of the balance sheet reflected large movements in other items (which includes derivatives).



Population changes

The number of ADIs on a consolidated group basis operating in Australia remained unchanged from the June 2023 quarter at 140 ADIs as of 30 September 2023.