“The task of balancing the multiple factors that determine the economic trajectory of the nation is as challenging as ever; however we see many encouraging signs. We are committed to continuing to play our part in realising Australia’s ongoing economic recovery.”

Matt Comyn – CEO, CBA

Return to growth

| Total income increased by | 0.8% |

Efficiency is critical

| Total expenses decreased by | 4% |

Cash profit increased by

| 62.3% |

Credit quality stabilising

| (Q0DPD + GIA) / GLA increased by | 9 bps |

Lending growth has slightly increased

| Total average interest earning asset growth | 1.7% |

‘Unquestionably strong’ capital for growth

| Average CET1 | 12.4% |

Source: 1H 2021 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis, compared to 1H 2020.
Major banks
Half year results FY21

The global economic narrative has shifted rapidly within the space of just six months. As recently as October 2020, the IMF noted that COVID-19 would cause “lasting damage” to many economies around the world, with any recovery likely to be “long, uneven and uncertain.” However, in its latest World Economic Outlook, the IMF now projects a stronger recovery for the global economy after a significant contraction in 2020. With the unprecedented levels of fiscal and monetary support over the last year, the Australian economy is rebounding very strongly, with the majority of key economic indicators exceeding expectations.

Deloitte Access Economics’ analysis notes that “Australia’s labour market recovery is world leading. Employment in the US and Canada is still well below where it was in February last year. Australia has also outpaced Japan and the UK in recovery, even though both countries experienced significantly smaller employment shocks through 2020.” The unemployment rate in Australia has fallen rapidly to 5.6%, job advertisements as measured by ANZ are 23% above pre-COVID levels, and at 12-year high, business and consumer sentiment are at their highest levels since the last decade.

Australia’s comparatively more restrictive COVID-19 measures have accelerated the return to normalcy as the Deloitte Access Economics’ latest business outlook stated, “Australia’s economy is roaring back … even with some delay in vaccination, most of Australia’s economy looks on course to be close to pre-pandemic normal by Christmas 2021.”

Australia is the envy of its peers. The Australian economy has rebounded strongly after its first recession in 30 years, and in comparison to most other advanced economies around the world, Australia has delivered world-leading outcome in containing COVID-19 supported by its well-capitalised banking system.

As APRA Chairman Wayne Byres, recently noted, “The Australian banking system withstood 2020 very well, both from a financial and operational perspective. We – the industry, its regulators, the government and the Australian public – should all be pleased with that.”

Given the economic backdrop, earnings recovery, comparatively lower risk profile and healthy balance sheets, the domestic banking sector is thundering back from the COVID-19 crisis. The sector’s profitability rebounded during the first half of FY21, its mortgage and loan deferrals have substantially reduced, and current provisions are likely to be sufficient to absorb the blow from future defaults.

At the same time, the road to recovery is going to be uneven. As a result of a strong economic recovery, improving consumer and business sentiment, ultra-low-interest rates and massive fiscal and monetary support, the domestic housing market has surprised on the upside. Australian households are some of the most leveraged in the world, and high household debt has the potential to increase financial stability risk over the medium term, particularly when interest rates start to rise.
Prior to COVID-19 the banking sector was evolving at a rapid pace driven by changing customer expectations, heightened competitive environment, evolving regulatory space, and advancements in technology. Digital transformation was well underway, evidenced by a proliferation of digital channels, tools, and investments in cloud and artificial intelligence by the incumbents, as well as the emergence of challenger banks around the globe.

The pandemic has created further radical changes in consumer behaviour, moved significant portions of the economy online and increased the comfort and willingness of customers to engage digitally in a very short period of time.

Banks are now investing to accelerate their digital transformation across their entire organisation and have an opportunity to deploy an optimal mix of digital and human interactions, intelligent use of data, novel partnerships and compelling service delivery models to set the foundations for the bank of 2030.

Given the stronger than expected economic recovery, it’s not surprising the aggregate 1H21 cash profit of the major banks increased by $5.3 billion to $13.8 billion (62.3% up vs 1H20) and the bottom-line results were impacted by $1.3 billion of large, notable one-off items. Even after stripping out these items, underlying cash profit from continuing operations increased by 29.9%.

Cash profit – 1H21 vs 1H20
AUD millions

Source: 1H 2021 Results and Investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
Australia’s response to the pandemic stands out. We’ve demonstrated our ability to mobilise quickly, respond, and adapt over what has been an incredibly challenging period. From our position of strength, after rebounding faster than originally expected, the burning question for the banking sector is what needs to be done now to prepare for the future?

Uneven recovery
Australia has delivered a world leading outcome from a health and economic perspective, with the majority of key economic indicators exceeding expectations. However, there are still some pockets of uncertainty and the global health and economic story is mixed. Australia’s recovery, although showing positive signs, is likely to be uneven with travel, tourism, hospitality and international education continuing to face challenges.

Seeking growth opportunities and purpose
Thriving in a post-COVID world will push banks to find new pathways to profitable growth while keeping technology at the heart of everything they do. While banking seems to be changing, so is the purpose of banks. Shareholders and society now expect banks to help address issues such as gender inequality, climate change, culture and governance. The need to address a low-carbon future is widely recognised by banks and investors and current initiatives are taking a pragmatic approach.

Housing market
The housing market is expected to remain heated for some time driven by owner-occupiers and first time buyers. Despite the fears of global inflation forcing central banks to raise rates, we expect it is still some time off before we see the cost of borrowing rise. Currently APRA is hesitant to introduce macroprudential regulation to dampen house price growth. Some of the key indicators of an overheated market, such as shares of total lending that is interest only, or that is going to investors, are still below 2015 levels.

Accelerated transformation
COVID-19 has reshaped the banking sector on a number of dimensions, prompting a new wave of innovation and accelerating trends that otherwise may have taken decades, including recasting the role of branches and accelerating digital transformation in almost every sphere. Now is the moment to reimagine the bank of 2030 by considering the key intersects of technology, innovation, sustainability and the future of work.

Lower for longer interest rates
Lower for longer interest rates have suppressed margins and profitability of the banking sector. Whilst the RBA has signalled no rate rises for three years, rising long-term bond yields suggest that inflation post-COVID will return sooner than first thought, suggesting that central banks across the globe may shift their accommodative monetary policy stance sooner than expected. Any potential lift in interest rates could provide a tailwind to bank profits in the medium term.

Evolving competitive landscape
The rise of ‘Buy Now Pay Later’ players is grabbing headlines. This is particularly notable given their success at building a largely younger customer base, and their speed in acquiring merchants. With the threat of their expansion into future growth, banks are looking for ways to aggressively compete or collaborate. The open banking regime could also substantially impact the primary relationship banks have with their customers.
## What is profit?

Statutory Profit. Cash Profit. Cash Profit from Continuing Operations. Underlying Profit. The banks report a number of different profit results.

<table>
<thead>
<tr>
<th></th>
<th>ANZ</th>
<th>CBA</th>
<th>NAB</th>
<th>WBC</th>
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<td>Statutory Net Profit after Tax</td>
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<tr>
<td>Cash Net Profit after Tax from continuing operations excluding ‘one-offs’ and notable items (estimate)</td>
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<td>Core earnings before Tax excluding notable items</td>
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<td>$6.64</td>
<td>$4.58</td>
<td>$5.12</td>
<td>$21.20</td>
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</table>

Source: 1H 2021 Results and Investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
Growth

“If you arrived from Mars today, you’d think things were pretty good. It’s not brilliant, but unemployment is reasonably low, businesses are optimistic, there’s lots of money around, house prices are high, and retail sales are up ... the cost of borrowing has never been lower, people have reasonable confidence about the future, and they’re not travelling overseas, so they’ve got a bit of excess money, and they’re spending it on a bigger house, renovations or cars.”

Shayne Elliott – CEO, ANZ

Major banks: 1H 2021 results

CBA recorded a decrease of 10.8% in its cash profit for 1H21 as a result of a 35.9% increase in its credit impairment charge as its top line income remained flat (vs 1H20). However, CBA’s cash profit increased by 32.2% when compared to 2H20 as total income returned to slightly below pre-COVID levels and a significant decline in its credit impairment charge (-52.8% vs 2H20).

Net interest income remained flat compared to 1H20 as a 5% growth in average interest earning assets was offset by a 10 basis point decline in NIM. Non-interest income also declined by 3.1% as gains in lending and trading income were more than offset by impairment of aircraft owned by CBA and leased to airlines.
Both CBA’s net interest income and non-interest income experienced gains, rising by 1.2% and 4.5% (vs 2H20). This was primarily supported by 1% growth in interest earning assets and a 24% increase in trading income, which was partially offset by a 3 basis point decrease in NIM.

CBA’s home and business lending growth for 1H21 remains above the system, with increases of 2.8% and 0.7% respectively. CBA’s discontinued operations had a $1.1 billion impact on its statutory profit from the sale of its interests in Colonial First State and BoCommLife.

ANZ
The ANZ’s cash profit from continuing operations was up 112% to $3 billion. This was due mainly to the recognition of a $491 million impairment benefit. This was slightly offset by a 1.8% decline in total income as net interest income was down 3.3% from average interest earning assets having remained flat and a 6 basis point decrease in NIM to 1.63%. The decline in NIM was driven by growth in liquid assets, which comparatively earns lower interest as well as the impact of rate cuts on capital and replicated deposits.

Whilst ANZ’s interest earning assets remained flat, this was due to the growth in average trading and investment securities and home lending growth being offset by a decrease in institutional lending. ANZ recorded a 11% decline in fee and commission and markets income, offset by the non-recurrence of an $815 million impairment of PT Panin and AmBank in March 2020. This resulted in a 5.9% increase in non-interest income for the half, which partially offset the decline in net interest income.

NAB
NAB’s cash earnings increased by 94.8% compared with 1H20 as a result of a credit charge write-back. NAB’s cash profit increased by 35.1% compared with 1H20 when large notable items are excluded. NAB’s total operating income increased slightly to $8.4 billion as a result of the 10.6% increase in non-interest income, offsetting the 1% decline in net interest income. This included a 31% increase in trading income from NAB’s risk management income in its Treasury function due to the non-repeat of mark-to-market losses on the high quality liquids portfolio in the March 2020 half year. Net interest income’s decrease was a result of the 4 basis point decline in NIM offsetting the 1.8% growth in average interest earning assets.

WESTPAC
Westpac’s cash earnings increased significantly by 256.2% to $3.54 billion compared with 1H20, due to a 4.4% increase in income and a large decrease in its credit impairment charge. Westpac’s net interest income declined slightly to $8.5 billion, which was more than offset by a 39.1% increase in non-interest income. The increase in non-interest income was primarily driven by the $546 million gain in the revaluation of Westpac’s stake in Coinbase Inc. Excluding large notable items, Westpac’s non-interest income increased by 2.9% from higher insurance partially offset by lower fee income.

Westpac’s 2.3% decline in net interest income was a result of a 4-basis point decline in NIM as average interest earning assets remained flat. Westpac’s Return on Equity (ROE) increased significantly to 10.2% from 2.9% in 1H20.

Divisional performance
Each of the banks split their divisional results slightly differently. CBA’s retail banking and business banking services divisions both declined as its operating expenses and loan impairment expense increased while income remained flat. However, CBA’s New Zealand division increased by 2.5% due to currency adjustments (vs 1H20). CBA’s institutional division decreased 9% as the uncertain outlook, particularly within the aviation industry, led to a $110 million increase in its loan impairment expense.

All of ANZ’s key divisions had large increases in their cash profits due to the impairment release. However, the core earnings of its Retail and Commercial and Institutional divisions declined 12% and 16% respectively. The declines were due to lower interest income and the loss on ANZ’s Share Investing business being reclassified as held for sale and lower markets income. This was partially offset by a 4% increase in the New Zealand division’s core earnings as operating expenses declined from lower full-time equivalent (FTE) numbers.

NAB had increases in its Personal, Corporate and Institutional and New Zealand divisions of 14.1%, 15.7% and 7.7% respectively. NAB’s Business and Private division declined 10.3% when compared to 1H20, as its net interest income decreased 5.5% from lower interest earning assets and a 7 basis point decline in NIM.

Similar to ANZ, all of Westpac’s key divisions in 1H21 experienced increases in their cash profits due to the large decline in impairment expenses. Despite Westpac’s consumer and business divisions cash profits increasing by 8% and 92%, their core earnings were down 13% and 14% respectively as the increases in NIM were offset by declining lending volumes. Similarly, its institutional division, with a 56% increase in cash profit, had a 36% decrease in core earnings from lower lending activity and a 19-basis point decline in NIM. Westpac’s New Zealand division’s cash profit increased 94% and its core earnings increased 12% from growth in its interest earning assets.

Key questions
Questions leaders should consider include:
1.  Can we improve our understanding of the drivers of customer pressure, churn and switching, especially on the new drivers caused by COVID?
2.  Are we focused on the right activities to drive strong customer relationships and growth?
3.  Do we effectively manage customer transition points?
4.  Do the promises we are making to our customers align with their expectations and our capacity to deliver?
5.  Do we tailor our sales and marketing programs to specific customer segments?
6.  Are we effectively using our analytic tools and are they the right ones?
7.  Have we adopted strategic pricing programs?
8.  What platforms are we using to meet customers’ needs and should we refresh our alliances to continuously improve our products and services delivered through these platforms?
9.  Are we allocating investment to increase digitisation and making business model updates to enable innovation in new products, new services and new ways of doing things?
**Efficiency**

“A significant reset is required to ensure the business is cost competitive over the long term, particularly as we navigate the pandemic’s recovery phase and an extended low-rate environment. We need to do things differently to deliver a competitive cost base, including continuing to redesign and digitise many of our processes.”

Peter King – CEO, Westpac

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**Major banks: 1H 2021 results**

<table>
<thead>
<tr>
<th>Cost to Income ratio %</th>
<th>FTEs (spot)</th>
<th>Operating costs (AUD Billions)</th>
<th>Income excluding large notable items/ average FTE (’000s)</th>
<th>Expenses excluding large notable items/ average FTE (’000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBA</td>
<td>55.4%</td>
<td>42,720</td>
<td>6.0</td>
<td>138.8</td>
</tr>
<tr>
<td>NAB</td>
<td>46.5%</td>
<td>38,747</td>
<td>5.6</td>
<td>123.5</td>
</tr>
<tr>
<td>ANZ</td>
<td>53.2%</td>
<td>38,747</td>
<td>4.5</td>
<td>123.5</td>
</tr>
<tr>
<td>Westpac</td>
<td>55.4%</td>
<td>38,747</td>
<td>3.9</td>
<td>123.5</td>
</tr>
</tbody>
</table>

Note: Banks’ comparative positioning here is based on approximation. Cash Profit and Operating Costs have been stated on a continuing operations basis including large notable items.

> Indicates increase/decrease in numbers with respect to the previous corresponding period.

No arrow indicates no change from the previous corresponding period.

Source: 1H 2021 Results and Investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.

CBA’s headline costs increased 6.9% and income decreased slightly by 0.5%, resulting in negative jaws (vs 1H20).

CBA’s cost to income (CTI) ratio increased by 320 basis points to 46.5% when compared to 1H20. This was driven by an 11% increase in occupancy expenses and additional costs to address remediation issues.

NAB reported a significant decrease by 1100 basis points in CTI to 45.8% mostly due to the fact that no large notable items were recognised. Excluding the effect of this NAB’s CTI increased by 140 basis points. ANZ reported a decrease of 50 basis points to 53.2%, which includes large notable items on a continuing operations basis.

CBA, NAB, ANZ and Westpac had increases in underlying operating expenses compared to 1H20 of 2.3%, 3.1%, 3.4% and 6.8%, respectively.

ANZ’s average FTE staff numbers decreased slightly reflecting the investments in digitisation and automation. Technology expenses were down by 6% resulting from lease related items. Occupancy expenses decreased by 13.6% due to the ongoing optimisation of ANZ’s property usage.

CBA’s personnel and technology expenses rose by 3% and 2.3% respectively compared with 1H20. The CBA’s FTE count increased by 5.4% to 42,720 compared with 1H20 as part of developing digital capabilities, risk and compliance initiatives and increasing operations staff.
Key questions

Questions COOs, CIOs, CFOs and business units should be asking include:

1. Are we harnessing the transformational power of digital technologies to streamline our cost structures?
2. Can we increase cross-business unit and cross-enterprise collaboration?
3. Can we increase business agility and flexibility?
4. Can we improve our training processes to emphasise customer experience and culture?
5. Can we further rationalise our IT application portfolio?
6. Can we improve our processes for managing systems operation, maintenance and change?
7. Can we consolidate or re-architect data stores?
8. Can we improve IT performance management methods and tools?
9. Can we establish product, service and process innovation as core competencies?
10. Are there options to buy or rent capabilities as well as build?

Large notable items and discontinued operations

CBA’s underlying profit was impacted by notable items in the half year by $241 million. This consisted of $118 million related to the Aligned Advice and $123 million of Banking & Wealth remediation issues.

The majority of ANZ’s large notable items related to the reclassification to held-for-sale of its ANZ Share Investing business resulting in a $251 million loss. Further notable items for its Asian associates, AmBank 1MDB settlement and AmBank goodwill impairment, resulted in a loss of $347 million. In addition, ANZ customer remediation impacted the result with a loss of $108 million.

The Westpac result was affected by notable items in the half year to the amount of $282 million. The bank has set aside $276 million for additional customer remediation costs, $199 million write-down of intangible items and partially offset these losses by asset sales and revaluations of $193 million.

NAB did not recognise any large notable items in the 1H21.
# Analysis of second tier banks

## Second-tier banks: 1H 2021 results

<table>
<thead>
<tr>
<th>Metric</th>
<th>BOQ</th>
<th>Suncorp</th>
<th>BEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash profit from continuing operations (AUD Millions)</td>
<td>165.0</td>
<td>190.0</td>
<td>219.7</td>
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<tr>
<td>NIM %</td>
<td>1.95%</td>
<td>1.57%</td>
<td>2.04%</td>
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<tr>
<td>Cost to income ratio</td>
<td>60.9%</td>
<td>53.8%</td>
<td>60.2%</td>
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<tr>
<td>CP/CRWA</td>
<td>0.94%</td>
<td>0.97%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Impairment expense as a % of GLA</td>
<td>0.06%</td>
<td>0.03%</td>
<td>0.10%</td>
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<tr>
<td>CET1 ratio</td>
<td>9.36%</td>
<td>10.03%</td>
<td>9.3%</td>
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</tbody>
</table>

**Note:** Banks’ comparative positioning here is based on approximation. Cash Profit and Operating Costs have been stated on a continuing operations basis including large notable items.

- Indicates increase/decrease in numbers with respect to the previous corresponding period.
- No arrow indicates no change from the previous corresponding period.

Source: 1H 2021 Results and Investor presentations for BEN, BOQ and Suncorp and Deloitte analysis.

As with the four major banks, Bendigo and Adelaide Bank (BEN), Suncorp and Bank of Queensland (BOQ) all experienced increases in their 1H21 cash profits greater than pre-COVID levels. Suncorp’s Banking and Wealth division had the largest increase of the second-tier banks to $190 million, an 11.1% increase compared to 1H20. BOQ’s net interest income increased by 6% as NIM increased by six basis points to 1.95%, and average interest-earning assets increased by 3% compared to 1H20. Suncorp had the largest increase in NIMs out of the regional banks to 2.04%, a rise of 12 basis points. However, the NIMs’ positive impact on net interest income was slightly offset by a 2.2% decrease in interest-earning assets.

Unlike the other regional banks, BEN’s 5.2% increase in net interest income was driven by interest-earning asset growth and offset by a 2 basis point decrease in NIM. The second tier bank’s income was slightly offset by a decline in fee and commission income as COVID-19 continued to negatively impact fee collection.

The second-tier banks are facing similar cost pressures to that of the major banks. BEN saw the largest increase of 160 basis points in its cost-to-income ratio to 60.9%, primarily due to increases in personnel and technology expenses.

The large increase is a result of $7.7 million redundancy costs, staff costs to support lending growth and higher software licensing fees. Suncorp’s Banking and Wealth division cost-to-income ratio had the largest improvement of 310 basis points from 1H20, whilst BOQ had the best ratio of the second-tier banks (53.8%).

The second-tier banks’ provisions have remained relatively flat from 2H20, as the impact of COVID-19 on their lending assets was largely recognised in the previous half and because of the improved economic outlook. Suncorp’s annualised impairment expense as a percentage of gross loans and advances remains the lowest of the three banks in 1H21 at 0.03%, which was a 3 basis point increase from 1H20. BOQ and BEN had slight decreases of 2 basis points and 1 basis point to 0.10% and 0.06%, respectively.

Collective provisions as a percentage of credit risk-weighted assets remained flat when compared to 2H20, with BOQ having the highest ratio at 0.94%. With the favourable market conditions improving the banks’ performances, all three second-tier banks CET1 ratios improved. BOQ’s and Suncorp’s ratio increased to above 10%, as BEN’s CET1 ratio increased by 36 basis points to 9.36%.
Quality & risk

“The rebound in the Australian and New Zealand economies from COVID-19 has been better than expected... but risks do remain. The recovery is not even, and some customers such as those in international travel and hospitality, particularly in CBD areas, still face significant challenges.”

Ross McEwan – CEO, NAB

Major banks: 1H 2021 results

The COVID-19 pandemic placed uncertainty on the outlook of the Australian economy. Banks took a more conservative approach on the Australian and New Zealand economic outlook as they anticipated a significant deterioration in asset quality from lower economic growth and higher unemployment.

The quicker than expected recovery from the depths of the recession with the fiscal and monetary initiatives designed to support the economy improved asset quality, as banks shifted macroeconomic views from a slightly pessimistic outlook towards a more favourable economic one. CBA's impairment expense as a percentage of Gross Loans and Advances (GLA) increased by 5 basis points (vs 1H20) but decreased by 26 basis points when compared to 2H20. Since Westpac, ANZ and NAB recognised an impairment benefit/release in 1H21, their impairment expenses to GLA decreased by 73, 69 and 42 basis points to -0.11%, -0.16% and -0.04% respectively.

CBA’s total Risk Weighted Assets (RWA) remained flat (vs 2H20) at $454 billion as the 13% decline in Operational RWA and 10% decline in Traded RWA was offset by increases in credit and non-traded (IRRB) RWAs. CBA’s credit risk weighted assets (CRWAs) increased by 0.7% due to positive lending volume growth, which was slightly offset by improved credit quality.

Westpac’s total RWAs decreased by 2.1% when compared to 2H20, as lower lending growth and improved credit quality resulted in a 3.4% decrease in CRWA. The improved credit quality and lower personal and business lending partially offset by an increase in residential lending accounted for $4.4 billion and $1.6 billion in the CRWAs $12.3 billion decrease.
ANZ had the largest decline in its total RWA of 4.9% because of a 5% and 25.1% reduction in CRWAs and IRRBB RWAs. The CRWA movement was largely due to the decline in institutional lending, which attracts a higher risk weighting and reduced risk migration in the Australia Retail and Commercial division. IRRBB RWAs decreased from improvements in embedded gains and lower repricing and yield curve risk.

NAB’s total RWAs decreased by 1.8% (vs 2H20), which was driven by a 1.6% decline in CRWAs. NAB’s Business and Institutional division’s RWAs declined as higher lending volumes were offset by lower operational risk, improved asset quality and interest rate and exchange rate movements. Unlike the divisions previously mentioned, NAB’s personal banking divisions RWAs increased 4.4% primarily due to mortgage asset quality deterioration.

**AASB 9 expected credit losses**

As part of calculating the provision for expected credit losses, the banks consider a range of scenarios using current economic conditions and forecast forward-looking economic conditions. The banks have revised their economic outlooks as conditions improved and are using the forecasted inputs in the table above in their base case scenarios.

### September 2020 – Total

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### February 2021 – Total

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<td>FY22(Sept year-end)</td>
<td>20889</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WBC</td>
<td>FY22(Sept year-end)</td>
<td>20889</td>
<td></td>
<td>FY22(Sept year-end)</td>
<td>20889</td>
<td></td>
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</tr>
</tbody>
</table>

### Change (%)

<table>
<thead>
<tr>
<th></th>
<th>Number of facilities</th>
<th>Amount ($m)</th>
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<th>Number of facilities</th>
<th>Amount ($m)</th>
<th></th>
<th>Number of facilities</th>
<th>Amount ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZ</td>
<td>12753</td>
<td>3909</td>
<td>-89.5%</td>
<td>-89.0%</td>
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<tr>
<td>CBA</td>
<td>5741</td>
<td>2300</td>
<td>-95.5%</td>
<td>-94.5%</td>
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</tr>
<tr>
<td>NAB</td>
<td>FY21(Sept year-end)</td>
<td>1488</td>
<td>-98.3%</td>
<td>-97.9%</td>
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</tr>
<tr>
<td>WBC</td>
<td>FY22(Sept year-end)</td>
<td>20889</td>
<td>-83.7%</td>
<td>-84.0%</td>
<td></td>
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</tr>
</tbody>
</table>


**Key questions**

Questions CROs and business units should be asking include:

1. Have we reassessed the organisation’s risk appetite and tolerance in light of the COVID-19 crisis?
2. Have we been and are we continuing to effectively stress test our risk management processes?
3. Do we have a clear cross-enterprise customer view of risk, and have we effectively communicated it?
4. Have we effectively added risk assessment into our new products and services?
5. Is our data collection, aggregation, use and reporting robust?
6. Is non-financial risk, including operational risk effectively incorporated into our key controls enabling us to rapidly and effectively respond to shifting business needs, risk exposures, regulatory change and community expectations?
7. Do we have a complete picture of third parties that enables us to continuously monitor and supervise them as we rely on them for elements of our risk and compliance performance?
8. Do we effectively measure our performance in meeting the promises we make to our customers?
9. Do we have the right number and type of capabilities in our risk and compliance teams?

Source: 1H 2021 Results and Investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
Capital & funding

“The banking system entered the crisis in a historically strong capital position. Due to a combination of capital raisings, dividend restraint and subdued asset growth, that position has only strengthened since then. The CET1 capital ratio of the banking system finished 2020 at 12.2%, a historic high. With an additional 500 plus basis points of other loss absorbing capacity, the core financial resilience of the banking system is as strong as it has been in recent memory.”

Wayne Byres – Chair, APRA

Major banks: 1H 2021 results

Capital & funding

CET1 ratio %

- ANZ: 12.34%
- NAB: 12.37%
- Westpac: 12.40%

NSFR %

- ANZ: 121%
- NAB: 122%
- Westpac: 123%

LCR %

- ANZ: 124%
- NAB: 136%
- Westpac: 138%

Net tangible assets per share

- ANZ: 16.60
- NAB: 17.52
- Westpac: 20.57

Note: Banks’ comparative positioning here is based on approximation. Cash Profit and Operating Costs have been stated on a continuing operations basis including large notable items.

Indicates increase/decrease in numbers with respect to the previous corresponding period.
No arrow indicates no change from the previous corresponding period.

Source: 1H 2021 Results and Investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.

Capital

With all big four banks continuing to meet the ‘unquestionably strong’ Common Equity Tier 1 (CET1) target; APRA on 8 December 2020 released a discussion paper titled “A more flexible and resilient capital framework for ADIs”.$11 This will change the calculation of RWA to be more aligned with Basel III requirements with no effect on the dollar amount of capital required; capital ratios are in fact expected to increase. Alignment with Basel III is to be implemented by 1 January 2023.

The CET1 ratio for Westpac increased 121 basis points compared to FY20 to 12.3%, with strong cash earnings and a decrease in RWA alone contributing a 102 basis points increase. This is similar to ANZ and NAB whose CET1 ratio also increased to 12.4% and 12.37% respectively – representing an increase that mainly comes from the same contributors to that of Westpac. Unlike other banks, the payment of the final FY20 dividend had no net impact on the CET1 ratio for Westpac as the dividend reinvestment plan of the bank was fully underwritten. For CBA, strong cash earnings and divestments contributed significantly to the CET1 ratio increasing 100 basis points to 12.6%, this is partially offset by the capital impact from its 2020 final dividend.
Both APRA and RBNZ have replaced their guidance on dividends. APRA, in its letter to ADIs\(^{14}\), advised that it will no longer hold banks to a minimum level of earnings retention. RBNZ has allowed banks to pay up to a maximum of 50% of their earnings as dividends to their shareholders; this restriction is set to last until 1 July 2022.\(^{15}\)

As per guidance from APRA, banks are to consider the outlook for profitability, capital and the economic environment in deciding their dividends. CBA has paid its interim dividend of 150 cents, while Westpac has decided on a 58 cent fully franked dividend, up 27 cents from half year Sept 2020; ANZ has proposed an interim dividend of 70 cents, significantly higher than the last interim dividend of 25 cents. NAB has doubled its interim dividend from last interim dividend to 60 cents per share currently.

**Key questions**

Questions CFOs and business units should be asking include:

1. Do we understand the impact that regulatory changes will have on business strategy?
2. Have we communicated this to business units?
3. Do we understand how sensitive profitability is to changes in funding costs, interest rates and competitive pressures on asset re-pricing?
4. Have we assessed the impact of proposed changes to RWAs on our product portfolio?
5. Do we have a broad diversification of funding sources, and should we consider refreshing our deposit strategy, in light of the current environment?

**Funding**

The Reserve Bank of Australia (RBA) Term Funding Facility (TFF), whose objectives are to reduce funding costs of ADIs and in turn interest rates for borrowers, as well as to encourage ADIs to support businesses, has been almost fully drawn down by both major banks and mid-sized Australian banks with 97% of the available TFF initial allowance already used.\(^{16}\) CBA has included the TFF as one of its key funding tools with $19,163 million drawn down from its allowance. Westpac has drawn down $22 billion out of its $30 billion allowance. ANZ and NAB have drawn down fully their initial allowance of $12 billion and $14.3 billion, respectively.

Customer deposits, however, remain the biggest funding contributor to all four banks; in CBA customer deposits account for 75% of total funding, Westpac 65.7%, ANZ 62% and similarly NAB 60.8%.

Consistent with prior periods, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) of all banks are sitting comfortably above the requirements at 135% for LCR and 122% for NSFR. However, LCR is 11% lower compared to 2H20, this is due to a decrease in Committed Liquidity Facility (CLF) allocation. On 1 December 2020 APRA announced a $46 billion reduction in the aggregate amount of CLF allocation to ADIs from the RBA. The reason noted is the observed improvements in funding and liquidity along with a substantial increase in high quality liquid assets available.\(^{17}\)
Last word

“Our industry is going through massive, massive disruption; fintech, deregulation, disaggregation. You can literally put the lipstick-on-a-pig sort of strategy and perhaps you buy a fintech company, or perhaps you do some shiny new thing, but we’re doing a bit of a deep digital transformation.”

Shayne Elliott – CEO, ANZ

From shock absorbers to growth enablers, Australia’s strong, stable and well capitalised banking system has played a critical role in supporting Australia’s economic recovery by ensuring the uninterrupted flow of credit to households, small businesses and corporates over the last 12 months. Australian banks have not forgotten lessons from the Royal Commission with fair treatment of their customers the key plank of their strategy over the last 12 months.

The task ahead is to capitalise on the strong economic rebound and support Australians to realise their dreams and aspirations while keeping their capital and data safe.

Banks must use this crisis as an opportunity to re-examine their strategic paths post COVID – to revisit and focus on their purpose, re-engage with the community, adopt new ideas from agile platform challengers and deliver strategic transformation.

Banking leaders will need to make strategic choices to reinvent their businesses aligned to the emerging next normal, for example targeting new customer segments, innovating product sets, and rapidly increasing digitisation to name but a few.

Reverting back to the way things were pre-pandemic will not prove to be a sustainable business strategy.

Now is the moment to imagine the bank of 2030 by considering the key intersects of technology, innovation, sustainability, and the future of work. If anything, the last year demonstrated the integral role banking plays in building a resilient and adaptable nation that supports the collective prosperity of people, communities, and the country.
Endnotes


6. ANZ job Ads hits 12 year high. Refer: https://media.anz.com/posts/2021/april/anz-job-ads-hits-12-year-high?adobemc=MCMID%3D2667044170356658964220058263079759047%7CMCORGID%3D67A16D751E567820A490D4%5C4%254D0AdobeOrg%2%7CSTS%3D162028580


17. APRA’s letter to all ADIs: Aggregate Committed Liquid Facility available to all ADIs. 06th Jan 2021. Refer: https://www.apra.gov.au/sites/default/files/2021-01/Aggregate%20Committed%20Liquidity%20Facility%20Available%20to%20ADIs.pdf

