Back to basics
Australian major banks
Full year results FY21
November 2021
“But while the initial damage of COVID-19 is receding, a range of challenges remain. COVID-19 is still mutating, governments are grappling to get the balance right between safety and freedom. Inflation is increasing. The transition to a low carbon future is gathering pace. The impact of technology disruption, labour shortages and supply chain bottlenecks impact our businesses and our customers every day.”

Shayne Elliott – CEO, ANZ

Cash profit **increased** by 54.7%

Efficiency is **critical**
- Total expenses decreased by 1.4%

Growth is still a challenge
- Total income increased by 0.1%

Credit quality improving
- (90DPD + GIA) / GLA decreased by 19 bps

Lending growth **has increased**
- Total average interest earning asset growth 1.6%

‘**Unquestionably strong**’ capital for growth
- Average CET1 12.7%

Source: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis, compared with FY20.
Deloitte Access Economics’ latest Business Outlook noted “we see a two-track global recovery, with advanced economies continuing to recover and repair throughout 2022, but the developing world stuck in the doldrums until 2023. And although that global backdrop is pretty good, China is amid a sharp slowdown, so the net impact of global economic developments on the Australian economy is turning down once more.”

The pandemic-induced economic crisis seems to be over, but the global economic outlook from here is quite uncertain and poses plenty of challenges for policymakers amid rising global inflation and slowing global growth. The pandemic is still raging in many parts of the world and its long-term health and economic implications are still unknown. There is a risk that new highly infectious or vaccine resistant variants could emerge which could derail the global economic recovery.

Overall, Australia has done relatively well over the last 12 months; Australia’s policy response and an accelerated vaccination rollout (after slow progress initially) has delivered a strong economic and health outcome. As Australia learns to ‘live with the virus’, strong household and business balance sheets, a humming labour market, and strong pent-up demand mean the economy is likely to bounce back on the other side of the NSW, Victorian and ACT lockdowns. However, in order to ensure our prosperity in a post-pandemic world, Australia must seize what is a massive opportunity to shape its future.

As the latest edition of Deloitte’s ‘Building the Lucky Country – Australia remade’ noted, “The decisions we make – the way we recover, the size of our ambition and the appetite for reform – will determine the future of Australia in a post-pandemic world, and how resilient, adaptable and connected we will be ... Out of uncertainty and volatility comes the opportunity for Australia to shape a new future.
As a result of the strong economic rebound, Australian banks have continued to write back provisions for loan losses, which have increased their profitability and capital ratios.

Further, the prospect of rising inflation and a steepening yield curve will be net positive for net interest margin and therefore the banks’ bottom lines and balance sheets, assuming they can appropriately manage credit risk.

As the exit from non-core operations is almost complete, Australian banks are getting back to basics and focusing their strategies on leveraging what they are good at. The sector has learned valuable lessons on new ways of working, agility and collaboration from the pandemic, which they should look to institutionalise.

For example, the beginning of the pandemic was a catalyst for the Commonwealth Bank of Australia (CBA) to move swiftly towards ‘hybrid’ ways of working, with decisions being made in real time about access to technology, where work could be done and how effectively the bank could lead its teams remotely. CBA knew that as the situation evolved over the longer term, it would need sophisticated data and insights to measure employee’s sentiment towards ways of working in real-time and inform its approach into the future. Asking the right questions through pulse surveys and structured team discussions helped inform the design of the CBA hybrid working model that was introduced at scale in early 2021 and the bank continues to measure sentiment to inform its approach into the future. Banks should focus on the immediate priorities of retaining their market shares, delivering structural cost reduction, building strategic partnerships and at the same time think about laying the foundations for becoming the bank of 2030.

This will be achieved by reinventing their distribution models, accelerating digital transformation and leveraging customer data and analytics to deliver hyperpersonalised services to its customers. Given that migration levels are not expected to rise materially until the middle of 2022, they should also think about developing new talent models and focus on workplace redesign to boost productivity, creativity and collaboration.

A big factor that will underpin changes to customer experiences, staff roles and product innovation is cloud adoption. According to IDC data, financial services industry cloud spending in Australia and New Zealand is set to grow to $US3.1 billion by 2024 – more than double its level in 2020. Businesses leading cloud adoption saw a revenue growth rate in 2020 double that of the most cloud-lagging businesses.

There is no doubt that COVID-19 has acted as a catalyst for digitisation. The pandemic has accelerated the transformation which was already underway. Customers are moving to digital channels faster than they have in the past which is helping the banks to drive strong operational performance. For example, CBA’s CommBank app now has 6.4 million users, 70% of all of the bank’s transactions (by value) are digital and the bank has reported that 65% of all home loan applications are auto-decisioned the same day and 85% of referred applications are decisioned the same day for proprietary channels.

Given the stronger than expected economic recovery, it’s not surprising the aggregate FY21 cash profit of the major banks increased by $9.5 billion to $26.8 billion (54.7% up vs FY20) and the bottom-line results were impacted by $3.1 billion of large, notable one-off items. Even after removing these items, underlying cash profit from continuing operations increased 30.5%.

### Net profit – FY21 vs FY20

<table>
<thead>
<tr>
<th>Category</th>
<th>FY21 Results</th>
<th>FY20 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Profit – September 2020</td>
<td>$17,301</td>
<td></td>
</tr>
<tr>
<td>Cash Profit – September 2021</td>
<td>$26,761</td>
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<tr>
<td>Net Interest Income – Volume</td>
<td>$1,027</td>
<td>$1,132</td>
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<tr>
<td>Net Interest Income – Rate</td>
<td>$1,119</td>
<td>$1,151</td>
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<tr>
<td>Fee &amp; commission income</td>
<td>$443</td>
<td>$1,416</td>
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<tr>
<td>Trading income</td>
<td>$1,295</td>
<td>$1,369</td>
</tr>
<tr>
<td>Wealth, funds Management &amp; Insurance</td>
<td>$2,541</td>
<td>$1,016</td>
</tr>
<tr>
<td>Other OOI</td>
<td>$3,928</td>
<td>$265</td>
</tr>
<tr>
<td>Personnel Expenses – Volume</td>
<td>$1,192</td>
<td>$259</td>
</tr>
<tr>
<td>Personnel Expenses – Rate</td>
<td>$1,275</td>
<td>$1,369</td>
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<tr>
<td>Occupancy/Premises Expenses</td>
<td>$1,259</td>
<td>$1,369</td>
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<tr>
<td>Technology Expenses</td>
<td>$2,541</td>
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<tr>
<td>Other Expenses</td>
<td>$3,928</td>
<td>$265</td>
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<tr>
<td>Credit Impairment charge</td>
<td>$1,192</td>
<td>$259</td>
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<tr>
<td>Income Tax – change in profit</td>
<td>$1,275</td>
<td>$1,369</td>
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<tr>
<td>Income Tax – change in rate</td>
<td>$2,541</td>
<td>$1,016</td>
</tr>
<tr>
<td>NCI</td>
<td>$3,928</td>
<td>$265</td>
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</table>

**Source:** FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
The banking sector in Australia has demonstrated unprecedented agility and resilience throughout the pandemic. However, as the pandemic is still raging in many parts of the world, uncertainty about the effects of the pandemic will likely remain for the foreseeable future. The sector must institutionalise the learnings from the pandemic and lay strong foundations for the bank of 2030.

Recovery in full swing but challenges ahead
Australia has delivered a great health and economic outcome, which is the envy of many nations across the world. The accelerated vaccine rollout, strong household and business balance sheets, and pent-up demand means the Australian economy will strongly bounce back on the other side of the NSW, VIC and ACT lockdowns. However, the global health and economic recovery is still mixed, and the pandemic is far from over. The recovery, although in full swing, is likely to be uneven across the world and may adversely affect the economic momentum in the short to medium term.

Housing market and rising household debt
According to CoreLogic, the total value of residential real estate is estimated at $9.1 trillion, which is 28% higher than the combined estimated value of superannuation, the ASX and commercial real estate. Rising household debt could pose a financial stability risk given Australian households are some of the most leveraged in the world. This is especially the case given that inflation is back and interest rate rises are inevitable.

Banking with a purpose
As the immediate impact of the pandemic fades, the focus on environmental, social and governance (ESG) issues will continue to increase. Although all parts of the economy will be impacted by climate-related risks, banks will have a pivotal role to play in responding to this challenge. Banks should become more creative, take a leadership role and continue to engage with customers, government and regulators to build a robust, pervasive and persistent sustainable finance agenda going forward.

Competitive advantage
The major banks are facing tremendous pressures on their NIMs and ROEs via a number of headwinds; intensive competitive pressures from international banks and non-traditional players in business lending, residential lending and the payments space; ultra-low interest rates, inability to cut deposit rates below zero and high compliance and regulatory costs. However, they are not standing still, and are simplifying their business models by automating processes and decisions, reducing costs, improving speed to market, and where possible, creating additional investment capacity. They have been successful in maintaining their dominant market positions thanks to their size, brand power, and customer inertia.
What is 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>
<th>TOTAL</th>
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</thead>
<tbody>
<tr>
<td>Statutory net profit after tax</td>
<td>6.16</td>
<td>10.18</td>
<td>6.36</td>
<td>5.46</td>
<td>28.17</td>
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<tr>
<td>Statutory net profit after tax from continuing operations</td>
<td>6.18</td>
<td>8.84</td>
<td>6.47</td>
<td>5.46</td>
<td>26.95</td>
</tr>
<tr>
<td>Cash net profit after tax from continuing operations</td>
<td>6.20</td>
<td>8.65</td>
<td>6.56</td>
<td>5.35</td>
<td>26.76</td>
</tr>
<tr>
<td>Cash net profit after tax from continuing operations excluding ‘one-offs’ and notable items (estimate)</td>
<td>7.14</td>
<td>9.23</td>
<td>6.56</td>
<td>6.96</td>
<td>29.89</td>
</tr>
<tr>
<td>Core earnings before tax excluding notable items</td>
<td>9.50</td>
<td>13.37</td>
<td>8.99</td>
<td>9.46</td>
<td>41.32</td>
</tr>
</tbody>
</table>

Source: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
Growth

“While Australia faces near-term challenges due to the lockdowns, we expect growth will simply be pushed back by six months with the economy rebounding in late 2021 and growing strongly in 2022. We see a number of factors supporting growth, including the significant accumulated household savings, a swift employment recovery due to low supply of labour, expansion in fiscal and monetary support and the strong housing market that has been a key area of support for the economy.”

Matt Comyn – CEO, CBA

Major banks: 2021 results

Cash profit from continuing operations (AUD billions)
- ANZ: 5.4
- CBA: 6.6
- NAB: 8.6
- Westpac: 8.7

Core earnings before tax excluding notable items (AUD billions)
- ANZ: 5.5
- CBA: 6.2
- NAB: 9.5
- Westpac: 11.6

Cash ROE %
- ANZ: 7.55%
- CBA: 6.2%
- NAB: 9.90%
- Westpac: 11.50%

NIM %
- ANZ: 1.64%
- CBA: 1.71%
- NAB: 2.02%
- Westpac: 2.05%

Income/AIEA %
- ANZ: 6.4%
- CBA: 6.6%
- NAB: 6.6%
- Westpac: 6.6%

Average interest earning assets (AUD billions)
- ANZ: 805
- CBA: 819
- NAB: 864
- Westpac: 930

Note: The 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: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
Cash profit and total operating income

CBA
CBA recorded an increase of 19.8% in its cash profit for FY21 as a result of a 78% decline in its credit impairment charge. CBA’s cash ROE remains the largest of the banks with 11.5% (10.2% vs FY20). Its top line income grew steadily at 1.7%, which was partially offset by a 3.3% increase in operating expenses (vs FY20).

Net interest income increased slightly by 1.2% compared with FY20 as the 3.6% growth in average interest earning assets was partially offset by a 4-basis point decline in NIM. Home loan balances increased by 4% to $502 billion while business and corporate loan balances declined by 1% as a result of greater focus being placed on achieving better risk-adjusted returns. The decline in CBA’s NIM was driven by 12% growth in its non-lending interest earning assets attracting lower yields, and the lower cash rate resulting in lower earning on transaction and savings deposits. Non-interest income also increased by 3.2% as the decline in trading and funds management income was more than offset by 14% growth in lending fees and higher net profits from minority investments.

CBA’s discontinued operations had a $1.3 billion positive impact on its statutory profit from the sale of its interests in Colonial First State, BoComm Life, PT Commonwealth Life and other businesses.

ANZ
ANZ’s cash profit from continuing operations was up 64.9% to $6.2 billion and cash ROE increased by 370-basis points to 9.9%. This was due mainly to the recognition of a $567 million impairment benefit, the majority of which was recognised in 1H21. This was slightly offset by a 1.7% decline in total income as the 0.8% increase in net interest income was offset by an 11.3% decrease in non-interest income. The slight increase in net interest income was due to a 1-basis point increase in NIM as average interest earning assets remained flat.

While ANZ’s interest earning assets remained flat, this was due to the growth in non-lending interest earning assets offsetting the decrease in its lending interest earning assets.

ANZ recorded a 6.9% decline in fee and commission income, primarily from lower fees earned in Transactional Banking and Corporate Finance. Markets income also decreased significantly due to lower interest rate volatility, excess liquidity and unfavourable credit trading conditions. The decline in non-interest income also includes the losses associated with its shares in AmBank and PT Panin.

NAB
NAB’s cash earnings increased by 76.8% compared with FY20 as a result of a credit charge write-back. Excluding large notable items, NAB’s cash profit increased by 38.6%. NAB’s total operating income decreased by 2.2% to $16.8 billion as both net interest income and non-interest income declined. The net interest income decrease was a result of the 6 basis point decline in NIM offsetting the 3% growth in average interest earning assets. NAB’s fee and commission income excluding the customer-related remediation increased from higher income in its Corporate and Institutional Banking and higher merchant acquiring income. Trading income declined by 40.4% from lower NAB risk management income in Markets and Treasury. NAB also realised gains on bond sales in Treasury, increasing its other income by $78 million.

Westpac
Westpac’s cash earnings increased significantly by 105.2% to $5.4 billion compared with FY20, due to a $590 million impairment benefit and a 2% increase in income. This increased Westpac’s cash ROE from 3.8% in FY20 to 7.6%. Excluding notable items, Westpac’s core earnings decreased by 13% as income declined by 3% and costs increased by 7.6% compared with FY20. Westpac’s net interest income declined to $16.7 billion as its NIM declined by 4 basis points to 2.04% and its average interest earning assets growth was flat. The decrease in net interest income was more than offset by a 22.1% increase in non-interest income. The increase in non-interest income was primarily driven by the gain in the revaluation of Westpac’s stake in Coinbase Inc and gain on the sale of Westpac General Insurance. Similar to ANZ and NAB, Westpac also saw a large decrease in its trading income (-23% vs FY20) as a result of lower fixed interest, FX trading and commodities income. Excluding large notable items, Westpac’s non-interest income remained flat.

Divisional performance
CBA’s retail banking and business banking divisions both increased significantly by 16% and 11.5% respectively, as a result of the large decrease in their loan impairment expenses. Income in the Retail division remained flat and the Business division increased slightly when compared with FY20. Of note, CBA pursued a strategy to grow significantly in business lending with 3x system growth. Both CBA’s New Zealand and Institutional divisions had larger increases in cash profits of 45.7% and 43.3% respectively.
CBA’s NZ divisional profit increase was also driven by a 9.5% increase in income from a higher NIM and strong growth in its interest earning assets.
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, Commercial and institutional divisions declined by 1%, 6.6% and 22.5% respectively. The decline in the Retail and Commercial divisions was due to the loss on ANZ's Share Investing business being reclassified as held for sale recognised in 1H21, which was partially offset by growth in net interest income from higher lending volumes. Despite the higher lending volumes when compared with FY20, the Retail and Commercial division lending declined by 1% when compared with 1H21. The significant decrease in ANZ's Institutional division core earnings was a result of lower markets income from the normalisation of financial market conditions and the impact of surplus system liquidity. Excluding the impact of markets income and large notable items, the division's profit before provisions decreased by 3%.

NAB had increases in its Personal, Business and Private Banking and New Zealand divisions of 14.4%, 0.3% and 18.1% respectively. NAB's Corporate and Institutional division declined 14.8% when compared with FY20, as its net interest income decreased 7.6% from lower Market's risk management income and lower average interest earning assets. The division also had an increase in its credit impairment charge as the provisions associated with the sale of loans in the aviation portfolio offset the decrease in the underlying impairment charges. Despite a 5% increase in expenses, NAB's NZ division underlying profit increased 6.6% as net interest income increased by 8.3%. The Business and Private Banking division profit increased slightly as the movement in the impairment charge more than offset the 4.7% decrease in its underlying profit.

Westpac's Consumer, Business and New Zealand divisions in FY21 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 12.2% and 143.7%, their core earnings were both down by 13.6% and 14.1% respectively. This occurred as costs rose by 10.7% and 10.1% from greater spending on risk and compliance programs as its income declined in both divisions. Its Institutional division cash profit decreased by $1 billion to a loss of $670 million following a 9-basis point decline in NIM, an 11.3% decrease in average interest earning assets and notable items such as large write-downs of its goodwill, capitalised software and other assets. Excluding these notable items, Westpac's Institutional division declined by 3.3% compared with FY20. Westpac's New Zealand division cash profit increased by 55.2% and its core earnings increased by 8.2% from growth in its interest earning assets and NIM. The specialist business division returned to profit this year to $193m as a result of lower notable items and higher insurance income.
Efficiency

“Digital, data and analytics are critical enablers of our strategic ambitions. By increasingly leveraging these capabilities, we can deliver simpler, faster, safer and more personalised customer and colleague outcomes more efficiently ... As we increasingly simplify, automate and digitise, not only are we improving outcomes for our customers and colleagues, we are also becoming more efficient.”

NAB Results Announcement FY21

Major banks: 2021 results

CBA's cost to income (CTI) ratio increased by 70 basis points to 47% when compared with FY20. This was driven by a 6.2% increase in occupancy expenses and a 4.4% increase in personnel expenses. The increase in occupancy expenses is due to CBA’s effort to consolidate its property footprint and resulting concurrent rent expenses. CBA's underlying operating expenses were positively impacted by business simplifications of $321 million.

NAB reported a significant decrease of 590 basis points in CTI to 46.5%, mostly due to the fact that no large notable items were recognised. Excluding the effect of this, NAB's CTI increased by 220-basis points. ANZ had a decrease of 100 basis points to 51.9%, which includes large notable items on a continuing operations basis. Westpac reported an increase of 157 basis points in CTI to 63.1% including notable items. Westpac’s underlying CTI increased significantly by 531 basis points to 53.6%.

CBA, NAB, and Westpac had increases in underlying operating expenses compared with FY20 of 3.3%, 1.8%, and 7.6%, respectively. ANZ's underlying operating expenses remained flat compared with FY20 which included productivity savings of $308 million.

ANZ’s spot full-time equivalent (FTE) staff numbers increased by 5.8% mainly due to an increase in the TSO and Group Centre divisions. The increase in staff numbers was partially offset by favourable foreign currency translation movements, which resulted in a 1.4% increase of personnel expenses. Technology expenses were down by 13% resulting from accelerated amortisation and lease related items. Occupancy expenses decreased by 11% due to the ongoing optimisation of ANZ’s property usage.

Note: The 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.

Source: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
CBA's technology expenses rose by 1.3% compared with FY20. The CBA's FTE count increased by 6.2% to 44,375 compared with FY20 as part of developing digital capabilities, risk and compliance initiatives and increasing operations staff. The increase is also the main driver of the increase in personnel expenses.

NAB's FTE numbers increased by 4.4% compared with FY20, which was reflected in its increase of personnel expenses of 4.9%. The increase is partially due to higher provisions for performance based compensation, additional bankers and resources to support customers in response to COVID-19. NAB's total underlying expenses increased by 1.8%, which includes productivity savings of $411 million.

Westpac's total operating expenses increased by 4.6% compared with March 2020. Excluding notable items, total operating expenses increased by 7.6%. Underlying staff expenses increased 17.0% as the number of employees increased over the year. This increase is due to additional resources to support Westpac's Fix strategic priority, higher mortgage volumes, COVID-19 related activities, bringing back more than 1,000 previously outsourced roles to Australia and increased short-term incentives. At the same time, underlying occupancy expenses decreased by 5.5% and underlying technology expenses remained flat. Most of the decrease in occupancy expenses was largely attributable to the lower distribution network and branch closures.

Collectively the major banks' total operating expenses decreased to $41.5 billion, representing a 1.4% decrease over the last year mainly due to a reduction in large notable items.

**Aggregate operating expenses – FY21**

Total: $41.5 billion

- Personnel expenses: $21,531 million
- Occupancy expenses: $9,398 million
- Technology expenses: $6,762 million
- Other expenses: $3,819 million

Source: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.

**Large notable items and discontinued operations**

CBA's underlying profit was impacted by notable items in the full year by $575 million. This consisted of $326 million related to the Aligned Advice and $249 million of Banking & Wealth remediation issues.

The majority of ANZ's divestment impacts were recognised in the first half year of FY21 and 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, which was also recognised in the first half year of FY21. In addition, ANZ customer remediation impacted the result with a loss of $221 million.

The Westpac result was affected by notable items in FY21 of $1.6 billion. The bank has set aside $448 million for additional customer remediation costs, $1.16 billion write-downs of intangible items and partially offset these losses by asset sales and revaluations of $11 million.

NAB did not recognise any large notable items in the FY21.

**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 accelerate remediation of historical issues and reset cost base for the future?
5. Can we improve our training processes to emphasise customer experience and culture?
6. Can we further rationalise our IT application portfolio?
7. Can we improve our processes for managing systems operation, maintenance & change?
8. Can we consolidate or re-architect data stores?
9. Can we improve IT performance management methods and tools?
10. Can we establish product, service and process innovation as core competencies?
11. Are there options to buy or rent capabilities as well as build?
Analysis of second-tier banks

Second-tier banks: FY21 results

<table>
<thead>
<tr>
<th></th>
<th>BEN</th>
<th>BOQ</th>
<th>Suncorp</th>
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<tbody>
<tr>
<td>Cash profit from</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>continuing operations</td>
<td>83.1%</td>
<td>73.1%</td>
<td>51.5%</td>
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<tr>
<td>(AUD millions)</td>
<td>412.0</td>
<td>419.0</td>
<td>457.2</td>
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<td>NIM %</td>
<td></td>
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<tr>
<td></td>
<td>1bps</td>
<td>-2bps</td>
<td>13bps</td>
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<tr>
<td>Cost to income ratio</td>
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<td></td>
<td>60.3%</td>
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<td></td>
<td>-240bps</td>
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<td>-50bps</td>
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<td>CP/CRWA</td>
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<td></td>
<td>0.68%</td>
<td>0.66%</td>
<td>0.52%</td>
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<tr>
<td></td>
<td>-9bps</td>
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<td>Impairment expense</td>
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<tr>
<td>as a % of GLA</td>
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<tr>
<td></td>
<td>6.4%</td>
<td>0.03%</td>
<td>0.09%</td>
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<tr>
<td></td>
<td>24bps</td>
<td>40bps</td>
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<tr>
<td>CET1 ratio</td>
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<tr>
<td></td>
<td>9.57%</td>
<td>9.80%</td>
<td>10.07%</td>
</tr>
<tr>
<td></td>
<td>32bps</td>
<td>2bps</td>
<td>73bps</td>
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Note: The 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: FY21 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 FY21 cash profits as net interest income grew strongly and from large decreases in credit impairment charges. Given that BOQ completed its acquisition of ME bank in 2H21, they had the largest increase in profit to $412 million, an 83.1% increase compared with FY20. Excluding the acquisition of ME Bank, BOQ's cash profit increased by 72.9% to $389 million.

Despite the lower lending volumes, Suncorp’s Banking and Wealth division net interest income increased by 4.3% as NIM rose by 13 basis points to 2.07%. The increase in NIM was due to obtaining lower funding costs. BOQ’s net interest income increased by 14.4% from growth in interest earning assets as NIM increased slightly by 1 basis point to 1.92%. When the ME Bank acquisition is excluded, BOQ’s net interest income increased by 6.5%. Similarly, BEN’s 6.4% increase in net interest income was driven by 7.3% growth in interest-earning assets, which more than offset the 2-basis point decrease in NIM. The second-tier banks’ other income decreased slightly as trading income was negatively impacted by the RBA’s lower cash rates and quantitative easing program.

All three second-tier banks saw improvements in their cost to income ratios despite rising costs.

BEN had the largest improvement in its cost-to-income ratio with a 240-basis point decrease to 60.3% but remains the highest of the second-tier banks. The improvement is due to growth in income while expenses remained flat. Suncorp’s Banking and Wealth division and BOQ’s cost-to-income ratios both had improvements to 57.1% and 54.4% respectively as income growth offset expense increases.

The second-tier banks’ collective provisions decreased by an average of 18.6% from FY20 as economic conditions improved. Suncorp and BOQ’s impairment expenses as a percentage of gross loans and advances significantly decreased and were negative in FY21 at -0.09% and -0.03% respectively, as each recognised impairment benefits. Similarly, BEN had a 24-basis point decrease to 0.02% in its impairment expense as a percentage of gross loans and advances.

Collective provisions as a percentage of credit risk-weighted assets decreased when compared with FY20, with BOQ showing the largest improvement with a 45-basis point decrease to 0.52%. With the favourable market conditions improving the banks’ performances, all three second-tier banks’ CET1 ratios improved. BOQ’s CET1 ratio slightly increased by 2 basis points while Suncorp and BEN’s ratios increased by 73 basis points and 32 basis points to 10.07% and 9.57% respectively.
Quality & risk

“In terms of the housing market, there’s still plenty of demand … and there’s not as much supply. The question the regulator asks is, is it leverage that’s driving prices? Whenever housing debt is growing faster than income growth, that’s the right question to ask.”

Peter King – CEO, Westpac

Major banks: FY21 results

<table>
<thead>
<tr>
<th>Quality &amp; risk</th>
<th>Collective provision /CRWA %</th>
<th>Credit RWA (AUD billions)</th>
<th>Total RWA (AUD billions)</th>
<th>Impairment expense to GLA (annualised) %</th>
<th>Core earnings before tax excluding large notable items/RWA %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.39%</td>
<td>342</td>
<td>416</td>
<td>0.07</td>
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<td>-3.1%</td>
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<td>-11bps</td>
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<td>22bps</td>
<td>-32bps</td>
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<td>1.22%</td>
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<td>437</td>
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<td></td>
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<tr>
<td></td>
<td>-37bps</td>
<td>2.0%</td>
<td>-0.9%</td>
<td>50bps</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

Note: The 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: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.

The banks took a conservative approach on the Australian and New Zealand economic outlooks during the depths of COVID-19 in FY20, forecasting lower economic growth and higher unemployment. The fiscal and monetary initiatives, and the rollout of vaccines, have supported the banks’ abilities to upgrade the macroeconomic outlook. This has resulted in stronger credit quality metrics and some banks recognising impairment benefits in FY21. CBA’s impairment expense as a percentage of GLA decreased by 26 basis points when compared with FY20. Since Westpac, ANZ and NAB recognised an impairment benefit/release in FY21, their impairment expenses to GLA decreased by 53, 52 and 49-basis points to -0.08%, -0.09% and -0.03% respectively. CBA’s total RWAs declined by 1% to $451 billion as the 33.3% decrease in Traded Market Risk RWA and 19.2% decrease in Operational Risk RWA more than offset increases in credit and non-traded (IRRBB) RWAs. CBA has made good progress in addressing APRA’s operational risk concerns resulting in a 50% reduction in additional overlay required by APRA at the start of FY21. CBA’s credit risk weighted assets (CRWAs) increased by 2% due to positive lending volume growth, which was partly offset by improved credit quality.

Westpac’s total RWAs remained flat when compared with FY20, as the 0.6% decrease in CRWA and 24% decrease in Market RWA was offset by increases in IRRBB RWA and Operational RWA. CRWA was lower as credit quality across its corporate and business lending improved and lower CRWA associated with derivative exposures. This was partially offset by an increase in residential lending volumes and an increase from foreign currency translation impacts.
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?

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 below in their base case scenarios.

<table>
<thead>
<tr>
<th></th>
<th>GDP rate</th>
<th>Australian unemployment rate</th>
<th>Cash rate</th>
<th>Property price growth</th>
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<tr>
<td>ANZ</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CY21</td>
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<td>5.3%</td>
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<td>3.8%</td>
<td>4.3%</td>
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<td>6.7%</td>
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<tr>
<td>CY23</td>
<td>3.4%</td>
<td>4.1%</td>
<td>N/A</td>
<td>3.5%</td>
</tr>
<tr>
<td>CBA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CY21</td>
<td>4.8%</td>
<td>5.0%</td>
<td>0.1%</td>
<td>10.0%</td>
</tr>
<tr>
<td>CY22</td>
<td>3.5%</td>
<td>4.5%</td>
<td>0.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>CY23</td>
<td>2.5%</td>
<td>4.5%</td>
<td>0.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>NAB</td>
<td>FY22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Sep year-end)</td>
<td>5.9%</td>
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<td>N/A</td>
<td>5.5%</td>
</tr>
<tr>
<td>FY23</td>
<td>2.2%</td>
<td>4.0%</td>
<td>N/A</td>
<td>3.0%</td>
</tr>
<tr>
<td>(Sep year-end)</td>
<td>2.5%</td>
<td>3.8%</td>
<td>N/A</td>
<td>2.0%</td>
</tr>
<tr>
<td>WBC</td>
<td>CY21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.1%</td>
<td>5.4%</td>
<td>0.1%</td>
<td></td>
<td>11.8%</td>
</tr>
<tr>
<td>CY22</td>
<td>7.4%</td>
<td>4.0%</td>
<td>0.1%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Source: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.
Capital & funding

“APRA has provided capital guidance to banks, including on dividend payouts and will continue to monitor ADIs to ensure ongoing prudent capital management. APRA will continue to assess banks’ capital management, including their stress testing capabilities, the scenarios they consider and how recovery planning options have been integrated, in order to identify gaps and ensure that they deliver on their capital management plans.”

Australian Prudential Regulation Authority

Major banks: FY21 results

<table>
<thead>
<tr>
<th>CET1 ratio %</th>
<th>LCR %</th>
<th>NSFR %</th>
<th>Net tangible assets per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBA</td>
<td>ANZ</td>
<td>Westpac</td>
<td>CBA</td>
</tr>
<tr>
<td>12.32%</td>
<td>12.34%</td>
<td>12.34%</td>
<td>16.90</td>
</tr>
<tr>
<td>-19 bps</td>
<td>-100bps</td>
<td>300bps</td>
<td>21.09</td>
</tr>
<tr>
<td>123%</td>
<td>124%</td>
<td>125%</td>
<td>17.88</td>
</tr>
<tr>
<td>-400bps</td>
<td>-400bps</td>
<td>900bps</td>
<td>5.2%</td>
</tr>
<tr>
<td>128%</td>
<td>129%</td>
<td>129%</td>
<td>5.9%</td>
</tr>
<tr>
<td>-1100bps</td>
<td>1100bps</td>
<td>1100bps</td>
<td>-2200bps</td>
</tr>
<tr>
<td>123%</td>
<td>124%</td>
<td>125%</td>
<td>7.8%</td>
</tr>
<tr>
<td>-400bps</td>
<td>-400bps</td>
<td>900bps</td>
<td>5.2%</td>
</tr>
<tr>
<td>128%</td>
<td>129%</td>
<td>129%</td>
<td>5.9%</td>
</tr>
<tr>
<td>-1100bps</td>
<td>1100bps</td>
<td>1100bps</td>
<td>7.2%</td>
</tr>
<tr>
<td>123%</td>
<td>124%</td>
<td>125%</td>
<td>7.8%</td>
</tr>
<tr>
<td>-400bps</td>
<td>-400bps</td>
<td>900bps</td>
<td>5.2%</td>
</tr>
<tr>
<td>128%</td>
<td>129%</td>
<td>129%</td>
<td>5.9%</td>
</tr>
<tr>
<td>-1100bps</td>
<td>1100bps</td>
<td>1100bps</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

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

Source: FY21 results and investor presentations for ANZ, CBA, NAB and Westpac and Deloitte analysis.

Capital

Consistent with previous results, the big four banks are well capitalised, with CBA’s CET1 Ratio of 13.1%, ANZ of 12.3%, WBC of 12.3%, NAB of 13.0% all of which are well above APRA’s benchmark of 10.5%. This benchmark includes a base Countercyclical buffer (CCyB) of 1% and Capital Conservation Buffer (CCB) of 4%. This increase came as part of the Bank Capital Reform initiatives in introducing more flexible capital buffers to be used in times of stress. Note that all banks are well positioned from a capital perspective, and no capital increase is needed for this change, which will come into effect in January 2023, along with other changes to align further with Basel III.

CBA’s 2021 final dividend is fully franked at 200 cents per share, a significant increase from 2020, but still falls short as compared with FY19 dividends. ANZ’s final dividend is fully franked at 72 cents per share, also more than double from the 2020 final dividend.

WBC and NAB have announced a 60 cents and 67 cents per share final dividend, respectively. This is a cash basis dividend payout ratio of 71% for CBA, 64.8% for ANZ, 80.9% for WBC, and 63.7% for NAB. A range of factors are considered in determining the final dividend, including APRA’s guidance of ensuring dividends are sustainable and considering the outlook for profitability.

Notable items which affect CBA’s CET1 capital ratio are the proceeds received from its divestments, which are mainly sales of BoCommLife, Comminsure Life. Similarly, Westpac’s divestments of its General Insurance Business, Coinbase. Inc and Westpac Lender Mortgage’s Insurance business affected the CET1 capital ratio by 26 basis points. Further divestments are expected in the next financial year, which will continue to contribute largely to the movement of Westpac’s CET1 ratio. For ANZ, notable items impacting CET1 are share buybacks, customer remediation,
restructuring in the Australia Retail and Commercial division. NAB’s sale of MLC Wealth affected its CET1 capital ratio by 34 basis points, offset slightly by the acquisition of 86 400.

Movements in RWAs have also impacted all four banks’ CET1 ratios. WBC showed a 16-basis points decrease to its CET1 due to the RWA effect on application of the mortgage risk weight floor of 25%. ANZ showed a 17-basis points increase to CET1, mainly from lower Institutional business Credit RWA. While, CBA showed an 8-basis point decrease to CET1 due to RWA movements, NAB’s FX translation effect on RWA has decreased their CET1 ratio by 15 basis points.

All the major banks either raised capital or lowered dividends heading into the COVID-19 crisis back in 2020, to provide a capital buffer preparing for the worst. Now that the health crisis is under control and economic conditions have improved, all the major banks have announced share buybacks, deciding to return surplus capital to shareholders. ANZ announced a $1.5 billion buyback, NAB $2.5 billion, CBA $6 billion and WBC $3.5 billion. The buybacks should improve reported ROE in the first half 2022 results.

Funding

Liquidity in the banking system is significantly higher compared with pre-pandemic levels due to the RBA’s support of the banking system, with Exchange Settlement Account balances at a $350 billion high as at July 2021. Customer deposits continue to be the biggest funding contributor with 73% of CBA funding coming from customer deposits, with ANZ at 63%, WBC at 65%, and NAB at 60%.

The RBA’s term funding facility (TFF) was a significant contributor to system liquidity during the pandemic. As at August 2021, the following TFF had been drawn down by the major banks: $51.8 billion by CBA, $31.87 billion by NAB, $29.78 billion by Westpac and $20.09 billion by ANZ. In total, the RBA has provided $188 billion in TFF funding to banks, which is 88% of the total available TFF to be drawn. While the TFF has contributed significantly to banks funding, it is due to be repaid in the next two to three years, with its last maturity date in mid-2024. Nonetheless, the RBA believes that with the current positive economic outlook, banks are well positioned to source funding from wholesale debt markets on favourable terms.

As previously observed, APRA has been reducing the CLF allocation to ADIs, however in September 2021 APRA released a statement that reliance on the committed liquidity facility (CLF) is to be reduced to zero by the end of 2022. This decision by APRA is due to expectations of having sufficient HQLA for ADIs to meet their liquidity coverage ratio (LCR) requirements without using CLF.

The LCR and net stable funding ratio (NSFR) of all banks are both comfortably sitting above the requirements at 131% and 125%, respectively. It is expected with the CLF closure that long-run impacts may be seen, as maintaining the current level of LCR with HQLA can be at a high cost in comparison to utilising the CLF. In fact, LCR appears to be reducing across all banks already, with CBA reducing by 26%, ANZ by 3%, WBC by 22% and NAB by 11%. It is observed that all banks are replacing their CLF and TFF eligible liquid assets with HQLAs. Banks’ funding plans are expected to account for both refinancing the TFF and closure of the CLF.

Key questions

Questions CFOs and business units should be asking include:

1. Do we understand the impact that regulatory changes in provisioning will have on our business strategy?
2. Have we communicated this to our business units?
3. Do we understand how sensitive profitability is to changes in funding costs, interest rates and competitive pressures on asset repricing?
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?
Last word

With the COVID-19 pandemic now under control and the local and global economies getting back to normal, banks can once again focus on building the bank of the future.

Challenges to income remain with low interest rates, therefore lending growth, new income streams and productivity will continue to be critically important.

Remediation risk and compliance costs will remain elevated in the near term, however these should moderate as banks simplify and get back to basics. Digital transformation programs accelerated through the pandemic as employees and customers embraced technology out of necessity. Banks are now reviewing their property strategies with work from home and digital customer channels becoming widely accepted.

The hot property market is another strategic challenge, but this is somewhat outside the banks’ control. With inflation pressures now rising it is inevitable that interest rates will have to increase. While this will lift banks’ NIMs, it could pose an issue if defaults increase together with a general economic slowdown. All eyes will be on central banks.

ESG is now firmly at the top of the agenda for individuals, governments, regulators and corporates. The banks have a significant role to play in influencing corporates and customers about the choices they make with regard to sustainability and climate change. It also means banks will need to consider ESG risk across their entire customer base with regulators and shareholders demanding transparency and action.

The major banks have faced and passed an incredible challenge with the recent global pandemic. They have emerged well-capitalised, liquid and safe. The next 12–24 months will be important for them to demonstrate whether the strategic choices they have made over recent years have been the right ones.
Endnotes


ix 2021 Full Year Results – Management Discussion and Analysis Refer: https://www2.asx.com.au/markets/trade-our-cash-market/announcements.nab


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