

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2015 - 2016

Department/Agency: Australian Prudential Regulation Authority

Question: AET 5-17

Topic: Australia's Big Four Banks

Reference: written - 11 February 2016

Senator: Williams, John

Question:

5. What are the real capital equity levels of each of the four big banks of Australia, without taking into consideration the support loaded debt (risk weighted debt), particularly for home loans? Please express this as percentage capital equity.
6. What percentage of lending by each of the four major banks is secured against real property?
7. What is the percentage and total amount of unsecured lending for each bank, and what percentage is loaned by each of the four major banks on credit cards?
8. What is the average loan to value ratio (LVR) for secured lending against real property, held by each of the four major banks and the average for the credit unions and also for the building societies?
9. What is the percentage and total off liquid funds held by each of the four major banks, and the average for credit unions and also for the building societies?
10. What percentage of deposits is 'at call' for each of the four major banks and the average for credit unions and building societies?
11. What percentage of funds deposited in the four major banks are deposited on fixed terms? Also provide the average figures for credit unions and building societies separately.
12. Of the fixed term deposits in the four major banks, credit unions and building societies, please provide the percentage is maturing in the following fixed terms of, three months, six months, 12 months, 24 months and 36 months.
13. What percentage of funds held by the four major banks are wholesale funds and what percentage of funds are retail investors? Please provide the same for credit unions collectively and building societies collectively.
14. What is the average interest rate being paid for wholesale funds and also for retail funds deposited with the four major banks?
15. What is the average loan interest rate being charged by the four major banks for each of the following categories of loans: home loans; rural loans; commercial loans; and lines of credit
16. For each of the four major banks please provide the volume of funds advanced against each of the following security types: residential property; commercial property and rural property.
17. In December 2011, APRA asked the Banks to stress test their businesses for certain criteria (12% unemployment, deflation of residential property by 30%, and commercial property by 40%). What were their responses?

Answer:**Question 5**

What are the real capital equity levels of each of the four big banks of Australia, without taking into consideration the support loaded debt (risk weighted debt), particularly for home loans? Please express this as percentage capital equity.

Major banks' tier 1 capital¹				
(\$ millions, Level 2)				
	Sep 2015			Dec 2015
	Australia and New Zealand Banking Group Limited	National Australia Bank Limited	Westpac Banking Corporation	Commonwealth Bank of Australia
Tier 1 capital	45,484	49,743	40,798	47,972
Total assets	854,787	864,777	798,217	888,212
Tangible assets	848,467	861,668	786,836	878,194
Tier 1 capital / tangible assets	5.4%	5.8%	5.2%	5.5%

Question 6

What percentage of lending by each of the four major banks is secured against real property?

As at 31 December 2015, approximately 65 per cent of total gross loans and advances written on domestic Australian books (i.e. in Australia) by the major banks were for residential property². The figures for individual banks were:

- 63.1 per cent for Australia and New Zealand Banking Group Limited;
- 69.2 per cent for Commonwealth Bank of Australia;
- 54.2 per cent for National Australia Bank Limited; and
- 70.4 per cent for Westpac Banking Corporation.

As at 31 December 2015, commercial property represented approximately 9 per cent of the total gross loans and advances written on domestic Australian books (i.e. in Australia) by the major banks³.

APRA does not publish data on commercial property lending by individual banks. These data are confidential under the *Australian Prudential Regulation Authority Act 1997*.

Question 7

What is the percentage and total amount of unsecured lending for each bank, and what percentage is loaned by each of the four major banks on credit cards?

APRA does not collect data on the amount of bank lending that is unsecured.

As at 31 December 2015, credit card loans to households as a percentage of total gross loans and advances were⁴:

- 2.3 per cent for Australian and New Zealand Banking Group Limited;

¹ Source: Pillar 3 disclosures for banks.

² Source: APRA [Monthly Banking Statistics](#), January 2015

³ Source: APRA [Quarterly ADI Property Exposures](#), December 2015

⁴ Source: APRA [Monthly Banking Statistics](#), January 2015

- 2.1 per cent for Commonwealth Bank of Australia;
- 1.4 per cent for National Australia Bank Limited; and
- 1.9 per cent for Westpac Banking Corporation.

Question 8

What is the average loan to value ratio (LVR) for secured lending against real property, held by each of the four major banks and the average for the credit unions and also for the building societies?

APRA currently collects residential mortgage LVR data for the major banks on new mortgage approvals on Australian books. Data for 2015 for the major banks are shown below.

Major banks' new residential mortgage approvals by LVR ⁵ , year-end December 2015	
Loan-to-valuation ratio (LVR)	As a percentage of total approvals
≤ 60%	21.9%
60% to ≤ 80%	54.3%
80% to ≤ 90%	13.6%
> 90%	10.3%

For credit unions and building societies (CUBS), residential mortgage LVR data refer to actual exposures. These data as at 31 December 2015 are shown below.

Building societies and credit unions residential mortgage exposures by LVR ⁶ , December 2015		
Loan-to-valuation ratios (LVR)	As a percentage of total residential mortgage exposures	
	Building societies	Credit unions
< 60%	30.9%	31.5%
60.01% - 80%	44.3%	46.3%
80.01% - 90%	15.6%	13.2%
> 90.01%	9.2%	9.0%

Question 9

What is the percentage and total off liquid funds held by each of the four major banks, and the average for credit unions and also for the building societies?

From January 2015, APRA requires major banks to manage their liquidity using the Liquidity Coverage Ratio (LCR). ADIs calculate their expected cash outflows for 30 business days in a standardised stress scenario. This is compared to the weighted average of daily values of high quality liquid assets. Major banks are required to maintain an LCR of at least 100 per cent. The LCRs for each major bank is presented below.

⁵ Source: APRA [Quarterly ADI Property Exposures](#), December 2015

⁶ Source: Unpublished APRA data.

Major banks' liquidity coverage ratios (LCR) ⁷ , September 2015				
(\$ billion)				
	Australia and New Zealand Banking Group Limited	Commonwealth Bank of Australia	National Australia Bank Limited	Westpac Banking Corporation
Weighted average liquid assets	173.4	136.5	150.2	128.9
Total net cash outflows	136.1	110.1	130.6	106.3
Liquidity coverage ratio	127%	124%	115%	121%

From January 2015, APRA requires building societies and credit unions to manage their liquidity using the minimum liquid holdings (MLH) ratio. This compares the ADIs' holding of liquid assets (referred to as MLH) and their liabilities. Building societies and credit unions are required to maintain an MLH ratio of at least nine per cent. The MLH ratio for building societies and credit unions is shown below.

Building societies and credit unions minimum liquid holdings (MLH) ratios ⁸ , September 2015		
(\$ billion)		
	Building societies	Credit unions
Total adjusted MLH	2.7	6.5
Adjusted liability base	15.5	41.1
MLH ratio	17.5%	15.8%

Question 10

What percentage of deposits is 'at call' for each of the four major banks and the average for credit unions and building societies?

As at 31 December 2015, the major banks held \$875.9 billion in 'at call' deposits on their domestic Australian books (i.e. in Australia). This represented 67 per cent of their total deposits.

As at 31 December 2015, building societies held \$7.7 billion in 'at call' deposits, which represented 58 per cent of their total deposits. The comparable figure for credit unions was \$21 billion, representing 59 per cent of their total deposits⁹.

Question 11

What percentage of funds deposited in the four major banks are deposited on fixed terms? Also provide the average figures for credit unions and building societies separately.

As at 31 December 2015, the major banks held \$427.8 billion in term deposits on their Australian books (i.e. in Australia). This represented 33 per cent of their total deposits.

⁷ Source: Banks' Pillar 3 regulatory disclosures

⁸ Source: [Quarterly ADI Performance](#) December 2015

⁹ Source: unpublished APRA data.

As at 31 December 2015, building societies held \$5.7 billion in term deposits, which represented 43 per cent of their total deposits. The comparable figure for credit unions was \$14.1 billion, representing 41 per cent of their total deposits¹⁰.

Question 12

Of the fixed term deposits in the four major banks, credit unions and building societies, please provide the percentage is maturing in the following fixed terms of, three months, six months, 12 months, 24 months and 36 months.

ADIs' term deposits by maturity as a proportion of term deposits ¹¹ , December 2015		
Residual maturity	Major banks	Building societies and credit unions
≤ 3 months	63.6%	44.7%
> 3 months to ≤ 6 months	18.3%	27.3%
> 6 months to ≤ 12 months	11.4%	20.4%
> 12 months to ≤ 24 months	3.1%	4.4%
> 24 months to ≤ 36 months	1.4%	1.5%
> 36 months	2.1%	1.6%

Question 13

What percentage of funds held by the four major banks are wholesale funds and what percentage of funds are retail investors? Please provide the same for credit unions collectively and building societies collectively.

ADIs' sources of funding as a proportion of funding ¹² , December 2015		
	Major banks	Building societies and credit unions
Unsecured funding from individuals	29.5%	73.3%
Unsecured funding from small and medium enterprise	6.0%	2.1%
Debt securities and other funding liabilities	57.0%	16.8%
Capital	7.5%	7.9%

Question 14

What is the average interest rate being paid for wholesale funds and also for retail funds deposited with the four major banks?

APRA does not collect these data on a standardised basis.

¹⁰ Source: unpublished APRA data.

¹¹ Source: unpublished APRA data.

¹² Source: unpublished APRA data.

The Reserve Bank of Australia is preparing an article on ADI funding costs for inclusion in the March 2016 Bulletin.

Question 15

What is the average loan interest rate being charged by the four major banks for each of the following categories of loans: home loans; rural loans; commercial loans; and lines of credit?

APRA does not collect these data on a standardised basis.

Question 16

For each of the four major banks please provide the volume of funds advanced against each of the following security types: residential property; commercial property and rural property.

As at 31 December 2015, the major banks held \$1,181 billion¹³ in housing loan assets on their domestic Australian books (i.e. in Australia) and \$171 billion¹⁴ in commercial property loan assets.

As at 31 December 2015, housing loan assets were:

- \$227.0 billion for Australia and New Zealand Banking Group Limited;
- \$376.9 billion for Commonwealth Bank of Australia;
- \$225.0 billion for National Australia Bank Limited; and
- \$352.4 billion for Westpac Banking Corporation.

APRA does not distinguish rural property from other property in its data collection.

Question 17

In December 2011, APRA asked the Banks to stress test their businesses for certain criteria (12% unemployment, deflation of residential property by 30%, and commercial property by 40%). What were their responses?

The 2011/12 stress test utilised a scenario that involved:

- a 5 per cent contraction in real GDP in the first year;
- a rapid rise in the unemployment rate to a peak of 12 per cent;
- a peak-to-trough fall in house prices of 35 per cent; and
- a fall in commercial property prices of 40 per cent.

The results of the 2011/12 stress test can be found in a speech by John Laker on 8 November 2012 titled '[The Australian banking system under stress - again?](#)'. This speech is available on the APRA website.

APRA conducted another stress test in 2014, using slightly different scenarios that included:

- Australian GDP growth declines to -4 per cent;
- unemployment increases to over 13 per cent;
- house prices fall by almost 40 per cent; and
- commercial property prices fall by 25 per cent.

The results of this stress test can be found in a speech by Wayne Byres on 7 November 2014 "[Seeking strength in adversity: Lessons from APRA's 2014 stress test on Australia's largest banks](#)". This is also available on the APRA website.

¹³ Source: APRA [Monthly Banking Statistics](#), December 2015

¹⁴ Source: [Quarterly ADI Property Exposures](#), December 2015