BANKS' DOMESTIC NON-PERFORMING ASSETS – MARCH QUARTER 2010[1]

[1] These data are preliminary and may be subject to revisions.

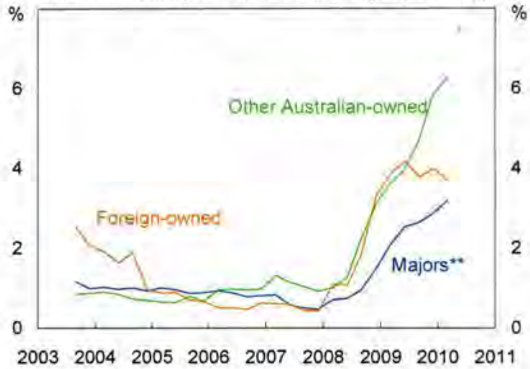
The deterioration in business loan quality was greatest for the smaller Australian-owned banks (Graph 4). Their business and other NPL ratio increased by 46 basis points over the quarter, to stand at 6.3 per cent.

. The major banks' NPL ratio increased over the March quarter but, at 3.2 per cent, remains more moderate.

Graph 4

Non-performing Business and Other Loans*

Domestic books, per cent of outstandings by bank type



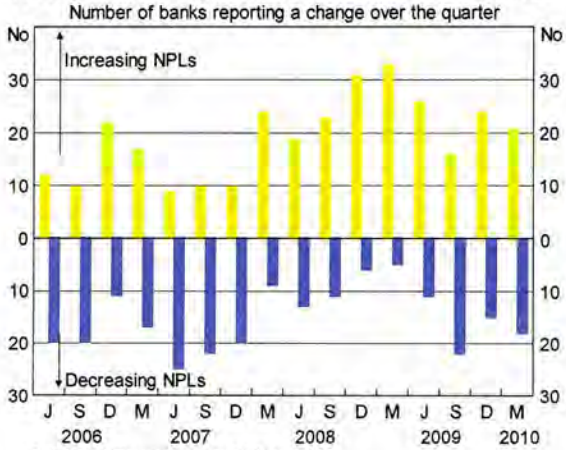
* Includes bill acceptances and debt securities
** Includes St George, and Bankwest from March 2009
Source: APRA

At an individual bank level, 21 banks (from a total of 52 that have business loans outstanding on their domestic books) reported an increase in business and other NPLs over the March quarter 2010 (Graph 5). This included each of the four majors.

Graph 5

Non-performing Business and Other Loans*

Number of banks reporting a change over the quarter



* Includes bill acceptances and debt securities
Source: APRA

Looking ahead, indications are that the major banks generally expect arrears on business lending to be stable over the June quarter. Wholesale business loans (greater than $50 million) are expected to perform slightly better than smaller business loans. It is also worth noting that in the December quarter the major banks were generally successful at predicting the rises in their business NPL ratios that took place over the March quarter.

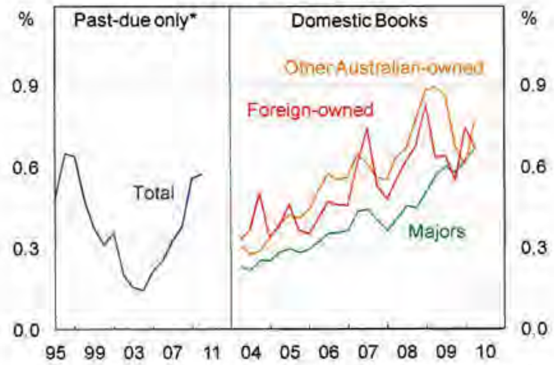
Housing lending (53 per cent of lending)

The share of housing loans that were non-performing rose by 4 basis points over the March quarter, to 0.7 per cent. This is up from 0.6 per cent a year ago. Some of the major banks have explicitly attributed recent increases to rising interest rates, ongoing 'underemployment', and seasonal factors.

Graph 6

Non-performing Housing Loans

Per cent of outstandings



* Includes resident and non-resident past due items prior to December 2001. Only resident past due items are included after that date.
Source: APRA

The deterioration in housing loan quality was greatest for the second-tier Australian-owned banks. Their housing NPL ratio increased by 16 basis points over the quarter, to 0.8 per cent. The major banks' housing NPL ratio increased by 5 basis points.

At an individual bank level, 11 banks (from a total of 26 which have reported housing loans on their domestic books) reported an increase in housing NPLs over the March quarter 2010, including each of the four majors (Graph 7). This is a marked turnaround from the September and December quarters of 2009, when three banks reported increases, including just one of the majors

Fortnightly Briefing on Lending and Funding

4. Bank funding

Spreads on the major banks' unguaranteed 3-year bonds' trading in the domestic secondary market tightened by about 8 basis points over the fortnight, while guaranteed spreads tightened by about 4 basis points (having previously widened due to euro area concerns).

Reserve Bank of Australia and Australian Prudential Regulation Authority

21 May 2010

HACK, Mark

From: STEWART, Chris
Sent: Monday, 24 May 2010 16:48
To: BROWN, Anna; DEANS, Cameron; HACK, Mark; LIVERMORE, Tanya; PRICE, Christopher; WONG, Arlene
Cc: FABBRO, Daniel
Subject: FW: Meeting with Treasury [SEC=UNCLASSIFIED]

Security Classification:
UNCLASSIFIED

FYI

From: STEWART, Chris
Sent: Monday, 24 May 2010 16:11
To: BROADBENT, John; KEARNS, Jonathan; EMERY, David; ELLIS, Luci; SCHWARTZ, Carl; RICHARDS, Anthony; HOLLOWAY, James; CONNOLLY, Ellis
Cc: BECKER, Chris; BLOXHAM, Paul; FABBRO, Daniel
Subject: Meeting with Treasury [SEC=UNCLASSIFIED]

Chris Becker, Paul Bloxham, Dan Fabbro and I met with members of Treasury's Financial System Division this afternoon. John Lonsdale, Jacky Rowbotham, Nick Loan and Katherine Cook had asked for the meeting to talk about banks' funding costs and lending. The discussion was, however, somewhat wider. Key points included:

- Treasury asked whether the **majors are unfairly competing against smaller institutions in deposit markets**. Bank staff responded by noting that the majors are responding to a sizeable increase in their wholesale funding costs and a wide range of economic agents (investors, credit rating agencies, regulators, etc) wanting a higher share of funding from deposits.

- Treasury wanted to know **how long before spreads on banks' wholesale debt declined**. It was pointed out that the pre-crisis figures were too low, that there are still a large number of shocks hitting the banking system, and that spreads of 100 basis points imply a very low default probability.

- **Bank credit and the amount of competition** were raised. In response, it was noted that it is in banks' interest to expand credit. Consequently, it is difficult to second guess banks' credit growth and that, at most, there would only be a few industries where the availability of credit is somewhat of an issue. In terms of housing, there is no evidence to suggest that credit availability is an issue (e.g. non-price conditions seem little changed and housing credit is growing solidly).

Regards
Chris

DOMESTIC MARKETS REVIEW: JUNE 2010

Summary

- Secondary market spreads on major banks' unguaranteed bonds widened by around 10 basis points, reflecting concerns about potential euro area contagion.

- We estimate that the major banks' outstanding net interest margin narrowed slightly over the month, as average funding costs increased by a little more than average lending rates.

NON-INTERMEDIATED MARKETS

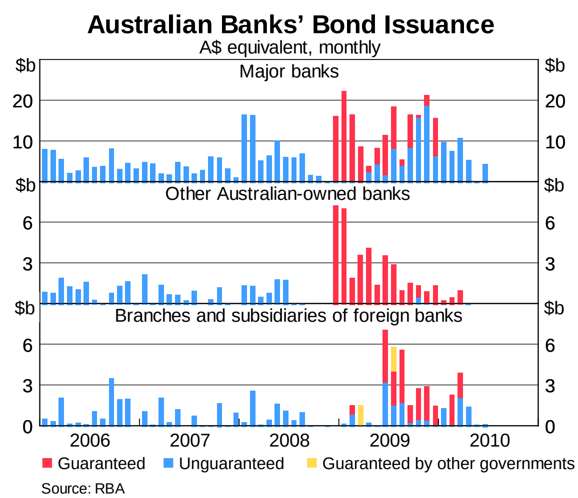
Credit markets

Financials

After virtually no issuance in May, Australian banks have issued $4.7 billion of bonds in June to date – of which $2.8 billion was issued offshore by the major banks. However, the largest individual issues were in the domestic market. NAB priced a $1 billion increase to its April 2013 line at 85 basis points over swap/BBSW, taking outstanding on the line to $2.5 billion. Despite the weakened market conditions, the tap priced at just 8 basis points wider than the original issue in March. This was the first publicly placed domestic bank bond issue since April. Also in the domestic market, Westpac privately placed a $750 million 3-year bond (pricing was not disclosed).

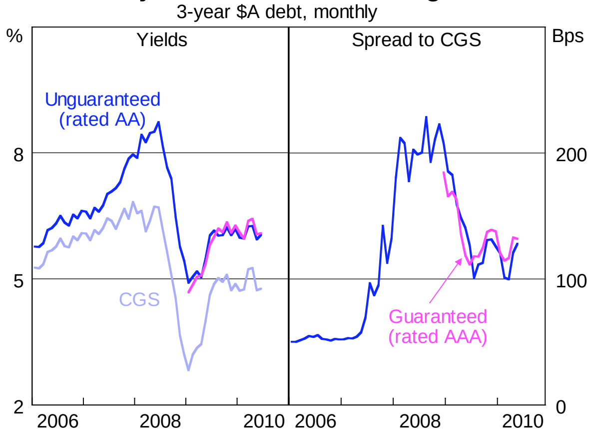
National Australia Bank (NAB) issued 18-month and 3-year paper offshore (totalling $395 million) and also managed to place a 7-year bond offshore (CHF 200 million) at 65 basis points over swap. Westpac issued the largest offshore deal so far in June, a 6-year $591 million (US$ 500 million) bond. Pricing information for most of the above issuance was not disclosed.

ANZ has issued a number of bonds so far in June, including two short term notes priced in the US market (1-year and 18-months): a $125 3½-year deal AUD denominated eurobond; as well as a 6-year $336 million (CHF 325 million) bond, which priced at 60 basis points over swap.



Major Banks' Bond Pricing*

3-year $A debt, monthly



* Includes fee for guaranteed issues.
Sources: RBA; UBS AG, Australia Branch

Spreads on major banks' 3-year unguaranteed bonds trading in the domestic secondary market widened by about 10 basis points earlier this month, to around 128 basis points over CGS. The widening of spreads continued from the previous month reflecting ongoing concern about the potential for contagion from the euro area sovereign debt crisis.

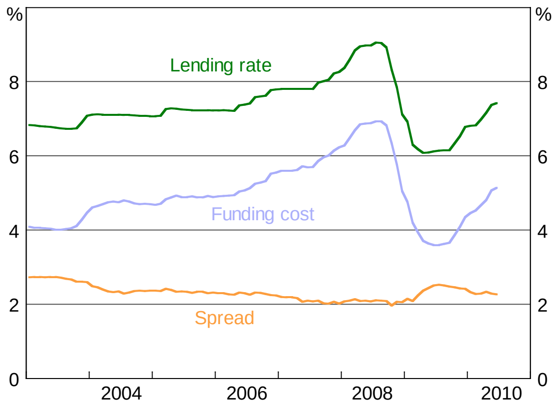
Guaranteed spreads were little changed during June, at 132 basis points over CGS, including the fee).

INTERMEDIATED MARKETS

Banks' Net Interest Margin

We estimate that the *major banks'* net interest margin (NIM) on their outstanding interest-earning assets and liabilities has decreased by 2 basis points since end May, to 228 basis points.

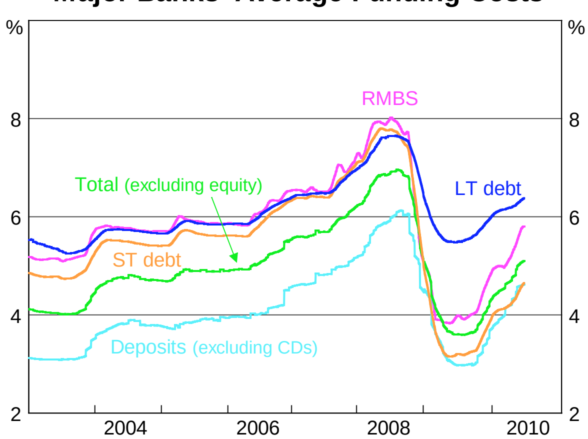
Average Rates on Major Banks' Outstanding Lending and Funding



Sources: APRA; Bloomberg; Financial reports; RBA; UBS AG, Australia Branch

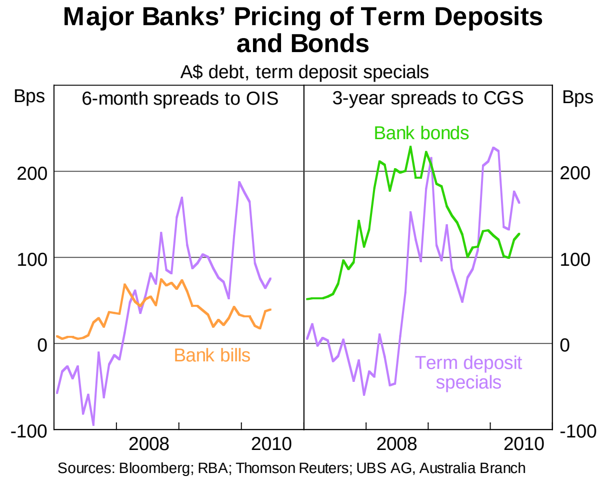
The major banks' average funding cost is estimated to have increased by 7 basis points since end May. The increase was attributable to a 15 basis point increase in the cost of short-term debt, and smaller increases in the costs of long-term debt (9 basis points) and deposits (4 basis points).

Major Banks' Average Funding Costs



Sources: APRA; Bloomberg; Financial reports; RBA; UBS Australia AG

The major banks continue to offer higher rates on term deposits with longer tenors relative to the rates on bonds of equivalent maturities.



HACK, Mark

From: STEWART, Chris
Sent: Thursday, 3 June 2010 19:48
To: HACK, Mark; DEANS, Cameron; BROWN, Anna
Subject: FW: SMH article this morning [SEC=UNCLASSIFIED]

Security Classification:
UNCLASSIFIED

I have no idea if I actually sent you guys a copy of this one it was all said and done!

From: BROADBENT, John
Sent: Thursday, 3 June 2010 13:41
To: BATTELLINO, Ric
Cc: DEBELLE, Guy; KEARNS, Jonathan; STEWART, Chris
Subject: SMH article this morning [SEC=UNCLASSIFIED]

Ric

The table summarises the numbers underpinning the March Bulletin article on banks' funding costs and the piece in today's SMH. The Herald's analysis takes a few numbers from the article, converts the margins into dollar figures for various loan sizes, and puts its own spin around the outcomes. There is nothing new in the figures - a product showing a rate increase smaller than the increase in funding costs (relative to the cash rate) has been "subsidised", while banks have "gouged" borrowers on products where rates have increased by more.

Major Banks' Interest Rates
Level (per cent)

	June 2007	February 2010	Cumulative change
Funding costs			
Average funding cost	5.70	4.57	-1.13
3-year bond	6.77	6.14	-0.63
Swap rate (3-year)	6.88	5.37	-1.51
Swap rate (5-year)	6.97	5.60	-1.37

Specifically:

Between June 2007 and February 2010, we estimated that banks' average funding costs fell by 113 basis points. As the cash rate declined by 250 basis points over the same period, the resulting increase in spread was estimated at 137 basis points. The Bulletin article describes this as "130-140 basis points higher".

The SMH gets the figures on gouging for fixed rate borrowers from our description that "spreads on banks' new 3- and 5-year fixed rate housing loans have risen by 170-180 basis points relative to equivalent maturity swap rates". 3- and 5-year fixed rates rose by about 20 to 40 basis points over the period while 3-year and 5-year swap rates fell by around 150 and 140 basis points respectively. Fixed-rate borrowers were a segment of the market used to recoup higher margins. Not surprisingly, the number of housing borrowers taking up fixed-rate products has shrunk considerably over the past couple of years. Another way of illustrating this would be to match the loan to borrowing in the market for the same fixed term. In that case, banks would have earnt an extra 80 basis points on a new fixed rate loan compared with their margin in mid 2007.

As variable housing rates fell by about 140 basis points and average funding costs fell by an estimated 113 basis points, the SMH portays this as a subsidy to the variable loan rate borrower.

JB

Banks' gouging brings in billions

Stuart Washington

June 3, 2010

Big banks gouging us on rates

Evidence reveals the big banks have been raising rates at much higher levels than funding costs, taking advantage of customers.

EXCLUSIVE

The big four Australian banks have used the cover of the global financial crisis to charge borrowers more than the increase in their own costs, resulting in big profits for the lenders and much higher interest bills for many customers.

A *Herald* analysis of Reserve Bank figures shows for the first time how much extra individual borrowers are paying on a monthly basis as a contribution to bank profits after the financial crisis hit in mid-2007.

The analysis reveals that a borrower with a three-year fixed-rate home loan of $300,000 pays a personal contribution to extra bank profit of between $75 and $125 of the monthly mortgage bill.

The extra profit contribution comes about because banks have increased the interest rates they charge customers more than their own costs have increased as a result of the financial crisis.

The big banks have captured the extra profits so successfully they have contributed to a bumper round of profit reports in the most recent reporting season.

In their most recent results ANZ, Commonwealth, National Australia Bank and Westpac reported profits before tax of $14 billion in the first half of the financial year, a record result beating pre-crisis profit levels.

Increased interest rates helped bolster the big banks' lending business even as their retail operations were knocked by cuts in fees they charged.

A spokesman for the consumer advocacy group Choice, Christopher Zinn, said: "It's well documented that the large banks profited in various ways from the financial downturn, including taking market share from smaller competitors, and increasing their lending profit margins."

The *Herald's* analysis was based on the Reserve Bank's most recent quarterly bulletin which showed how the big four banks had faced a 1.3 to 1.4 per cent increase in their funding costs since the crisis.

The bulletin also shows how the increases in costs faced by banks was more than offset by interest rate increases for their customers.

Since the crisis began, fixed-rate mortgage borrowers on three- to five-year terms are paying 1.7 to 1.8 per cent above a benchmark rate, business borrowers are paying 2 per cent more and personal borrowers are paying an extra 3.4 per cent.

A borrower with a $30,000 personal loan is paying $50 a month of their loan bill as their contribution to extra bank profit.

And a business borrower with a $1 million overdraft is paying $500 to $583 a month as their contribution to extra bank profit.

The analysis also shows how the bigger interest rate increases for business and personal borrowers has effectively subsidised smaller rate increases in variable rate home loans.

Contrary to public perception, the *Herald's* analysis shows a $300,000 variable interest rate home loan is subsidised by the banks to the tune of $50 to $75 a month.

The result occurs because the Reserve Bank's estimate of a 1.1 per cent increase in variable rate mortgage costs above a benchmark rate has lagged the increases in the banks' costs.

The chief executive of the Australian Bankers Association, Steve Munchenberg, contested whether interest rate increases beyond the banks' cost-of-funding increases could be regarded as profit.

He said increases in rates for business loans and personal loans should be regarded as charging for increased risk, because bankers' assessments of risk in those markets had changed.

He also said the banks' own cost of funding was continuing to increase, and he disputed the Reserve Bank's finding that fixed-rate mortgage borrowers had faced increases above the banks' cost of funding.

Fortnightly Briefing on Lending and Funding

4. Bank funding

Spreads over CGS on the major banks' unguaranteed 3-year bonds' trading in the domestic secondary market widened by about 8 basis points over the fortnight to 123 basis points, while guaranteed spreads widened by about 6 basis points to 61 basis points.

Reserve Bank of Australia and Australian Prudential Regulation Authority

4 June 2010

AGENDA ITEM 3

BANK FUNDING: MARKET CONDITIONS AND FUNDING REQUIREMENTS

Australian Developments and Banking Sector Position

Bank treasurers report that conditions for long-term bank debt are very challenging, in both offshore and domestic markets. Part of the explanation from the major banks for the limited issuance is that they are ahead of their funding plans and are being patient in accessing markets where spreads are likely to have widened.

Reserve Bank of Australia

17 June 2010

Fortnightly Briefing on Lending and Funding

4. Bank funding

Spreads on the major banks' unguaranteed 3-year bonds' trading in the domestic secondary market widened by 6 basis points over the fortnight to 128 basis points over CGS, while guaranteed spreads were little changed at 62 basis points over CGS.

Reserve Bank of Australia and Australian Prudential Regulation Authority

18 June 2010

DOMESTIC MARKETS REVIEW: JULY 2010

Summary

- Secondary market spreads on major banks' unguaranteed bonds were little changed.

- We estimate that the major banks' **net interest margins** narrowed slightly since end June, as average funding costs increased by more than average lending rates.

NON-INTERMEDIATED MARKETS

Credit markets

Financials

NAB issued a 10-year EUR 1.25 billion bond (A$1.9 billion), priced at swap+123 bps, (CGS+262 bps). This is around 30 bps wider than a similar deal by CBA in February.

Domestically, ANZ issued a $1.25 billion bond in two 3-year tranches; both priced at swap+90 bps (5 bps wider than a similar issue last month).

For details on major bank's bond issuance refer to the table below:

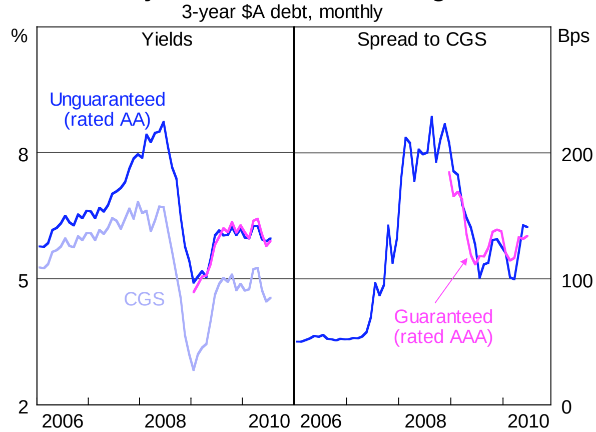
Senior Bond Issuance by the Major Banks since 22 June 10: Selected

Issuer	Size (A$ million; conversion at issuance)	Term (years)	Market of Issue	Initial spread
NAB	1,856	10	Offshore	EUR Swap + 123bps
ANZ	111	6	Offshore	n/a
NAB	438	5	Offshore	n/a
ANZ	1000	3	Domesti	BBSW + 90 bps
ANZ	250	3	Domesti	Swap + 90bps
ANZ	229	2	Offshore	US Libor + 22bps
NAB	171	2	Offshore	US Libor + 20bps

Spreads on major banks' 3-year senior bonds trading in the domestic secondary market were little changed this month at 140 bps over CGS.

Major Banks' Bond Pricing*

3-year $A debt, monthly



* Includes fee for guaranteed issues.
Sources: RBA; UBS AG, Australia Branch

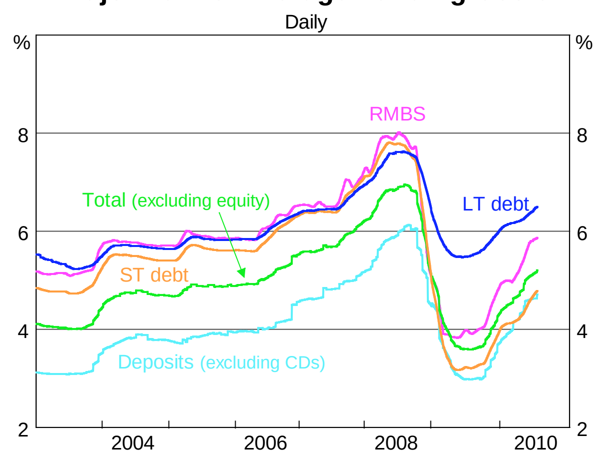
INTERMEDIATED MARKETS

Banks' Net Interest Margin

We estimate that the *major banks*' net interest margin (NIM) on their outstanding interest-earning assets and liabilities has decreased by 5 basis points since end June, to around 2.30 per cent.

The major banks' average funding cost is estimated to have increased by 8 basis points since end June. The increase was attributable to a 13 basis point increase in short-term debt, and smaller increases in the cost of deposits (8 basis points) and long-term debt (5 basis points).

Major Banks' Average Funding Costs

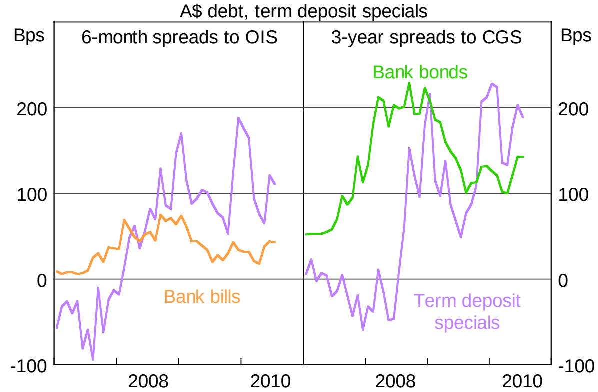


Sources: APRA; Bloomberg; Financial reports; RBA; UBS Australia AG

The major banks continue to offer higher rates on term deposits with longer tenors relative to the rates on bonds of equivalent maturities.

Major Banks' Pricing of Term Deposits and Bonds

A$ debt, term deposit specials

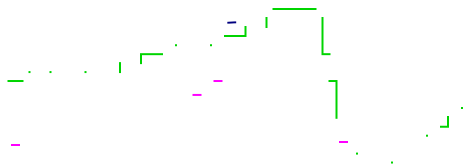


Sources: Bloomberg; RBA; Thomson Reuters; UBS AG, Australia Branch

Fortnightly Briefing on Lending and Funding

4. Bank funding

Spreads on the major banks' unguaranteed 3-year bonds' trading in the domestic secondary market widened by 16 basis points over the fortnight to 145 basis points over CGS.



Reserve Bank of Australia and Australian Prudential Regulation Authority

02 July 2010

JI, Daniel

From: JI, Daniel
Sent: Tuesday, 6 July 2010 11:10
To: EMERY, David
Subject: NAB Euro1.25 billion spread [SEC=UNCLASSIFIED]

Attachments: Majors primary spreads tables.xls
Security Classification:
UNCLASSIFIED

Dave,

Majors primary
spreads tables....

Cheers,

Daniel

Recent Unguaranteed Bond Issuance by the Major Banks: Selected Issues					
Issue Date	**Issuer**	**Size (A$ million; conversion at issuance)**	**Term (years)**	**Market of Issue**	**Initial spread**
16/04/2010	Westpac	572	**1.5**	Offshore	US Libor + 18bps
14/06/2010	ANZ	291	**1.5**	Offshore	Fed Funds + 62bps
22/04/2010	CBA	326	**2**	Offshore	US Libor + 30bps
04/01/2010	NAB	1394	**3**	Offshore	US Treasury + 88bps
04/01/2010	NAB	557	**3**	Offshore	US Libor + 48bps
06/01/2010	ANZ	547	**3**	Offshore	US Treasury + 88bps
03/03/2010	CBA	900	**3**	Domestic	BBSW + 80bps
03/03/2010	CBA	600	**3**	Domestic	Swap + 80bps
16/03/2010	CBA	819	**3**	Offshore	US Libor + 55bps
25/03/2010	NAB	900	**3**	Domestic	Swap + 77bps
25/03/2010	NAB	600	**3**	Domestic	BBSW + 77bps
01/04/2010	CBA	108	**3**	Offshore	CAD Libor + 60bps
08/04/2010	Westpac	815	**3**	Domestic	Swap + 76bps
08/04/2010	Westpac	935	**3**	Domestic	BBSW + 76bps
30/04/2010	ANZ (tap)	230	**3**	Domestic	BBSW + 70bps
11/06/2010	Westpac	750	**3**	Domestic	Swap+83bps
22/06/2010	NAB (tap)	325	**3**	Domestic	Swap + 85bps
22/06/2010	NAB (tap)	675	**3**	Domestic	BBSW + 85bps
11/02/2010	ANZ	600	**4**	Domestic	Swap + 95 bps
11/02/2010	ANZ	1200	**4**	Domestic	BBSW + 95 bps
06/01/2010	ANZ	1,368	**5**	Offshore	US Treasury + 115bps
15/01/2010	ANZ	261	**5**	Offshore	CAN Gov + 110bps
15/01/2010	Westpac	973	**5**	Offshore	JPY Swap + 45bps
15/01/2010	Westpac	198	**5**	Offshore	JPY Libor + 60bps
03/02/2010	ANZ	702	**5**	Offshore	JPY Swap + 45bps
04/02/2010	CBA (tap)	268	**5**	Offshore	CAN Gov + 121bps
23/02/2010	NAB	1,387	**5**	Offshore	US Treasury + 140bps
16/03/2010	CBA	1,912	**5**	Offshore	US Treasury + 120bps
29/06/2010	Westpac	500	**5**	Domestic	BBSW+135bps
29/06/2010	Westpac	300	**5**	Domestic	BBSW+135bps
07/04/2010	CBA	823	**6**	Offshore	GBP Swap + 85bps
11/06/2010	ANZ	336	**6**	Offshore	Swap + 60bps
15/01/2010	Westpac	132	**7**	Offshore	JPY Swap + 58bps
19/01/2010	Westpac	211	**7**	Offshore	Swap + 40bps
03/03/2010	ANZ	1,882	**7**	Offshore	Swap + 87bps
17/06/2010	NAB	206	**7**	Offshore	Swap + 65bps
06/01/2010	ANZ	1,368	**10**	Offshore	US Treasury + 130bps
02/02/2010	NAB*	1,581	**10**	Offshore	EUR Swap + 133bps
18/02/2010	CBA	1,528	**10**	Offshore	EUR Swap + 98bps
16/03/2010	CBA	1,093	**10**	Offshore	US Treasury + 135bps
01/04/2010	CBA	431	**10**	Offshore	CAD Treasury + 153bps
05/07/2010	NAB	1,856	**10**	Offshore	EUR Swap + 123bps

* Subordinated bond

Source: RBA

CONFIDENTIAL

Credit Growth and Bank Funding

Spreads on the major banks' unguaranteed 3-year bonds' trading in the domestic secondary market tightened by 10 basis points over the month to 132 basis points over CGS, while guaranteed spreads were little changed at 59 basis points over CGS.

Reserve Bank of Australia and
Australian Prudential Regulation Authority

23 July 2010

DOMESTIC MARKETS REVIEW: AUGUST 2010

Summary

- Secondary market **spreads** on major bank's unguaranteed bonds have widened slightly and currently stand at 127 basis points.

- We estimate that the major banks' **net interest margin** is unchanged since end July, with average lending rates and funding costs both stable.

NON-INTERMEDIATED MARKETS

Credit markets

Financials

Australian banks have issued $10.7 billion of bonds in August to date, of which $4.8 billion was issued offshore by the major banks.

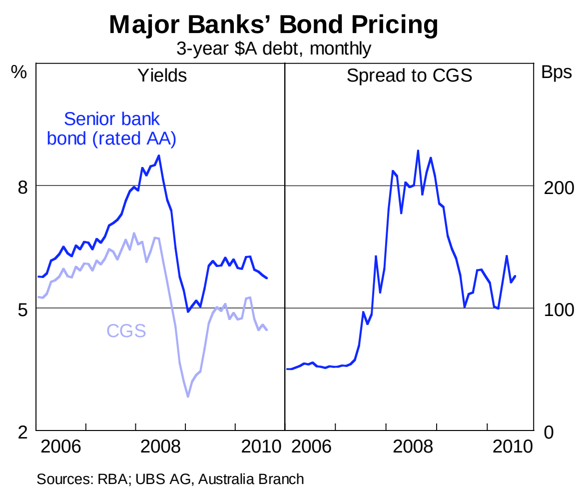
Two large offshore deals included NAB and Westpac, with NAB issuing a samurai bond in two 5-year tranches, while Westpac raised US$3 billion (A$3.3 billion) in two tranches (3 year and 5 year, see table). Pricing was around 40-60 bps wider than a similar issue by CBA in March.

For further details on major bank's bond issuance refer to the table below:

Senior Bond Issuance by the Major Banks since 20 July 10: Selected Issues

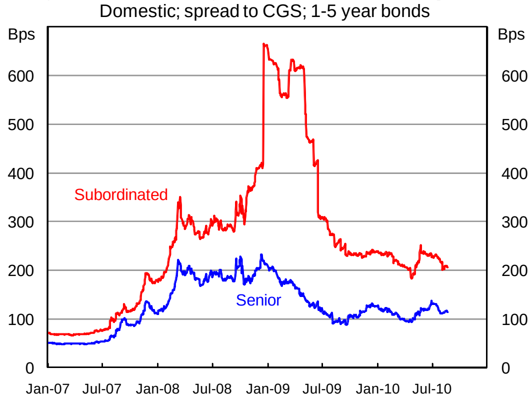
Issuer	Size (A$ million; conversion at issuance)	Term (years)	Market of Issue	Initial spread
Westpac	1091	1	Offshore	US Libor + 2bps
NAB	1108	1	Offshore	US Libor + 1bps
ANZ	549	2	Offshore	US Libor + 20bps
Westpac	1117	3	Offshore	US Treasury + 117bps
NAB	305	4	Domesti	BBSW+105bps
NAB	270	4	Domesti	Swap+105bps
NAB	868	5	Offshore	JPY Swap + 53bps
NAB	422	5	Offshore	JPY Libor + 70bps
Westpac	2234	5	Offshore	US Treasury + 137bps

Movements in resident bank's spreads were mixed. Spreads on major banks' 3-year senior bonds widened by about 5 bps since end of last month and stand at 127 bps over CGS. Spreads on major banks' domestically-issued subordinated bonds have tightened by about 11 bps since end-July, and currently stand at 206 bps over CGS.



Major Banks' Unguaranteed Bond Spreads

Domestic; spread to CGS; 1-5 year bonds



Source: UBS AG, Australia Branch

INTERMEDIATED MARKETS

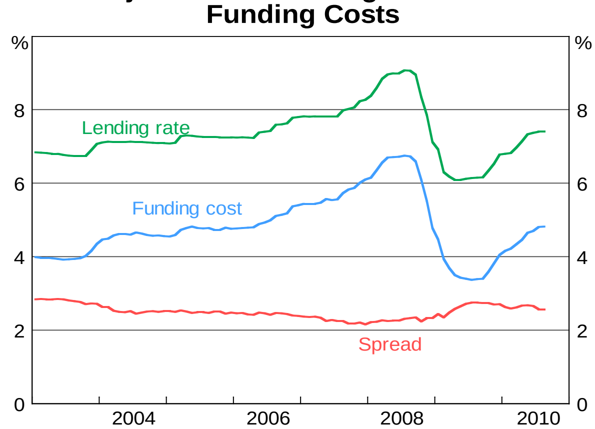
A fall in the bad and doubtful debts expense, from $3.0 billion to $2.1 billion, also made a substantial contribution to profits. This expense fell to the equivalent of 0.43 per cent of net lending assets in 2009/10, down from 0.66 per cent in 2008/09.

Westpac, NAB and ANZ also released their third quarter trading updates in August. WBC and NAB reported unaudited cash earnings of $1.4 and $1.1 billion, which were in-line with the first two quarters for these banks, while ANZ reported a slight increase to $1.3 billion. Changes in net interest margins varied; WBC announced a small decline, NAB's had little change and ANZ reported a small improvement. All three cited competitive pricing pressures and increased funding costs, especially for deposits. All three banks reported a fall in the charge for bad and doubtful. The banks have also completed their wholesale funding requirements for the year (ending September).

Banks' Net Interest Margin

We estimate that the *major banks'* NIM on their outstanding interest-earning assets and liabilities is unchanged since end-July.

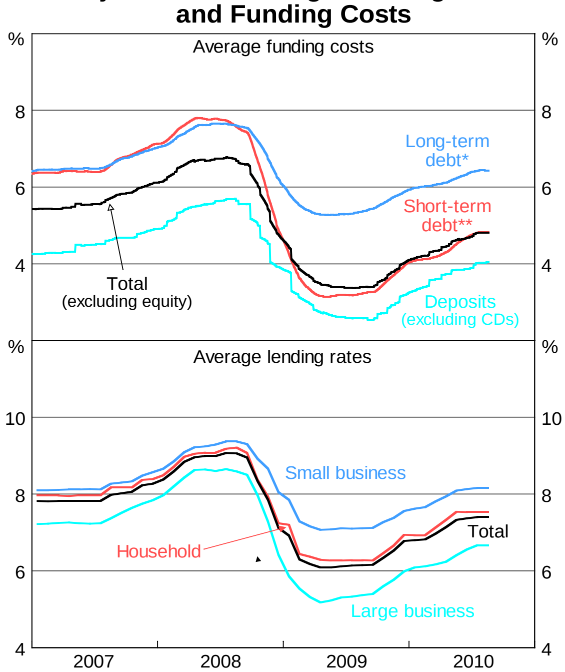
Major Banks' Lending Rates and Funding Costs



Sources: APRA; Bloomberg; Financial reports; RBA; UBS Australia AG

The major banks' average funding cost and lending rate are estimated to have remained steady since end July, with little movement in the rates for components of funding and lending.

Major Banks' Average Lending Rates and Funding Costs

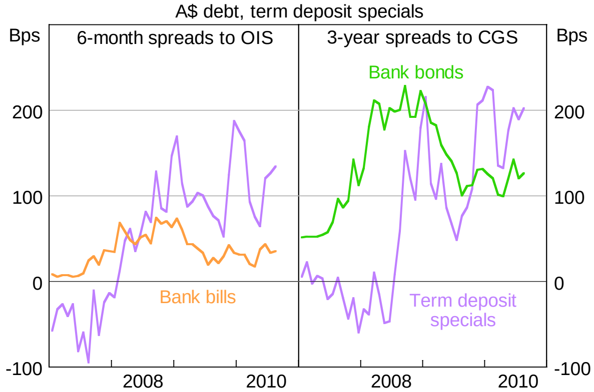


* Includes RMBS and hybrids
** Includes CDs
Sources: APRA; Bloomberg; Financial Reports; RBA; UBS AG, Australia branch

The major banks continue to offer higher rates on term deposits with longer tenors relative to the rates on bonds of equivalent maturities.

Major Banks' Pricing of Term Deposits and Bonds

A$ debt, term deposit specials



Sources: Bloomberg; RBA; Thomson Reuters; UBS AG, Australia Branch

CBA FULL-YEAR 2009/10 PROFIT RESULT

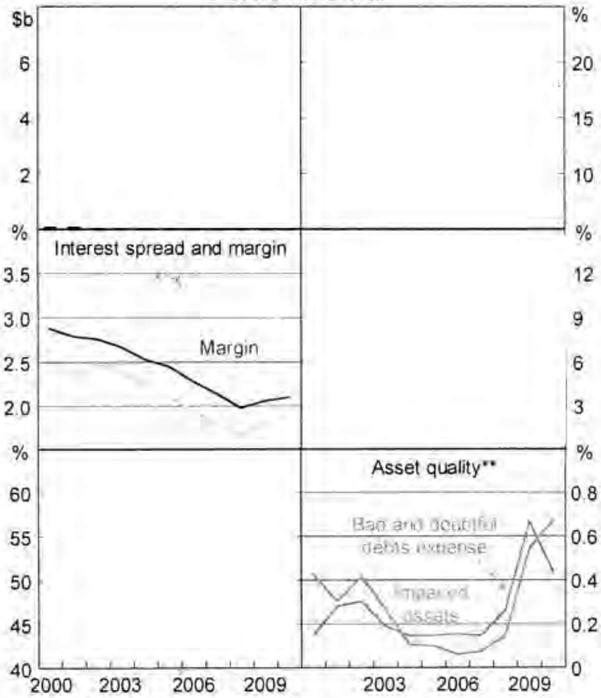
CBA Yearly Profit Results

	Underlying* $b	Underlying* Growth**	Headline $b	Headline Growth**
Bad and doubtful debts	2.1	(32)	2.4	(22)

* Excluding significant items
** Year-on-year percentage change

Net interest income[3]

CBA's Results*



* From 2006, figures are under AIFRS
** Expressed as a percentage of net loans
Sources: CBA; RBA

Over the full year, the group net interest margin was 2.13 per cent, 5 basis points higher than the previous year (on a pro-forma basis); this was driven by a 13 basis point increase in the Australian NIM, while the overseas NIM fell by 36 basis points. The increase in margin largely reflected the effects of asset repricing more than offsetting increased deposit costs (including the replicating portfolio hedges).

[3] NIM numbers exclude securitisation

However, the group NIM fell over the most recent financial year, from 2.18 per cent in the first half to 2.08 per cent in the second half; the Australian NIM fell by 13 basis points, while the overseas NIM rose 3 basis points. This decrease in the NIM mainly reflected reduced benefit from the replicating portfolio (primarily hedges of transaction deposits) and balance sheet positioning.

Asset quality

The underlying bad and doubtful debts expense (BDD) was $2.1 billion, down from $3.0 billion the previous year. This was equivalent to 0.43 per cent of net lending asset, down from 0.66 per cent in 2009 and 0.59 per cent in the first half of 2010. The lower BDD largely reflects the fall in this expense for the Institutional Banking and Markets division from $1.7 billion to $0.2 billion; this reflects the absence of new large single-name exposures. However, impairment expenses rose a little for the Retail Banking and Business and Private Banking divisions. CBA continues to maintain a conservative approach to provisioning, with their total provisions (specific and collective) remaining at around 1.1 per cent of lending assets. Net impaired assets as a percentage of net loans and advances were 67 basis points as at June 2010, an increase of 13 basis points since June 2009.

Capital

CBA's Tier 1 capital ratio increased by 108 basis points from June 2009 to 9.15 per cent, most of this increase occurred in the first half. The Tier 1 capital ratio at December 2009 was 9.1 per cent. Total capital ratio is 11.5 per cent, up from 10.4 per cent in June 2009.

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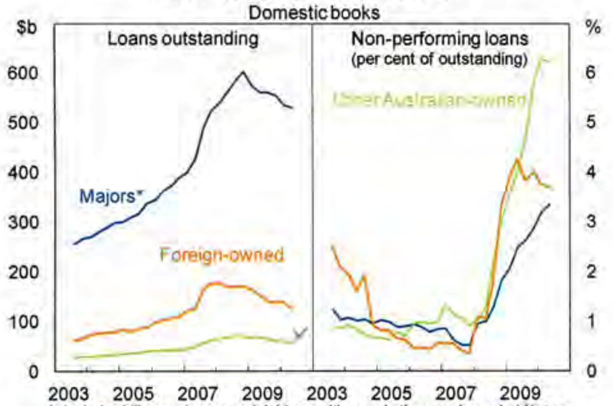
BANKS' DOMESTIC NON-PERFORMING ASSETS – JUNE QUARTER 2010[1]

The increase in the NPL ratio for business credit was driven by the major banks, which more than offset improvements in the asset quality of other banks (Graph 7).

Graph 7
Banks' Business Loans*
Domestic books

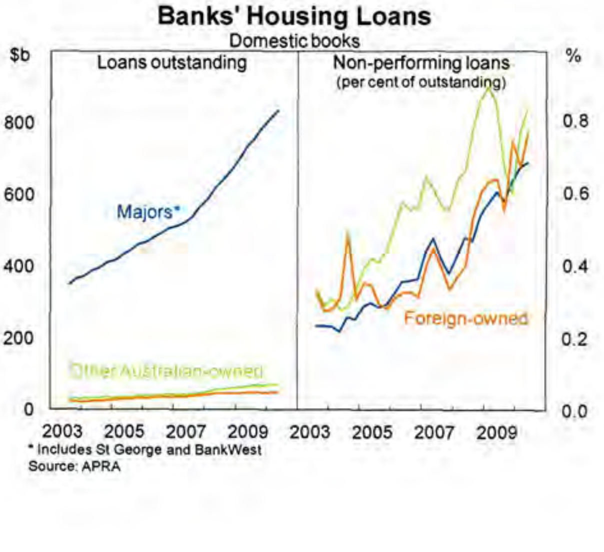


* Includes bill acceptances and debt securities, and other non-household loans
** Includes St George and BankWest
Source: APRA

All four major banks reported an increase in non-performing business loans. This, when combined with the continued contraction of their business loan books, saw the business lending NPL ratio increase further for three major banks

Housing credit

Graph 13
Banks' Housing Loans



Iris Chan
Australian Financial System, Financial Stability
11 August 2010