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# Banking Matters

## Major Banks Analysis

November 2015

# Major Banks Analysis – Outlook

> “ *Reshaping and innovating*

| | |
|---|---|
| 5.3% ↑ | Cash earnings for the year rose 5.3% to $30.2 billion, driven by strong balance sheet growth, offset by a decline in interest margin. |
| 60 bps ↓ | Return on equity (ROE) fell from 15.6% to 15.0% year on year (yoy), a movement of -60bps. This movement was not unexpected given capital increases. |
| 4 bps ↓ | Net interest margin declined 4bps yoy. At 2.02%, margins are at a record low, the previous low being in early 2008. The margin story differs bank to bank. |
| 8.9% ↑ | Bad debt expense (bde) rose for the first time in 3 years, by 8.9% yoy, though from an extremely low base, having delivered aggregate pre-tax earnings benefits of more than $10 billion since 2009. Asset quality metrics continue to improve. |
| 45.1% ↓ | Expense-to-income ratio at 45.1% was 30bps lower than 45.4% yoy. After adjusting for one-off items, expense-to-income rose 45bps. |
| 9.6% ↑ | The combined Common Equity Tier 1 (CET1) ratio increased 70bps to 9.6% yoy, with the banks generating $22.3 billion of CET1. |

**The Major Banks have continued to do what they do best and delivered another record set of results. Business reshaping and investment in innovation feature heavily in the result and outlook.**

## Looking deeper

There are multiple dynamics at play in the banks’ results, reflective of where the industry finds itself as the economic and regulatory environment post-crisis comes to fruition.

Six months ago, we commented on the attention NAB’s decision to raise $5.5 billion of capital had attracted. Fast forward 6 months and the majors have raised or are in the process of generating over $33 billion of additional capital. This is a remarkable achievement in such a short time frame. We’ve yet to see the longer term impact of these changes on Return on Equity measures.

The majors’ capital management options and particularly their decisions on who should bear the cost of greater resilience in the system have understandably become a matter of debate. Ultimately, decisions like those taken in the last month are commercial ones and are uniquely sensitive in Australia given the significant number of customers who are also shareholders.

Lending competition has driven margin declines in those areas where each bank is most prominent, at home and overseas. Careful deposit margin management has taken the edge off some of this decline.

Investment for the future and regulatory and compliance headwinds are challenging efforts to reduce expense-to-income ratios, despite intense focus and productivity investments.

Bad debt expense seems to be bouncing around what looks like a bottom for now. Asset quality measures have continued to improve indicating no signs of a dramatic increase, so all eyes will remain on unemployment and house prices, both of which have more bearish commentators than we would have observed a year ago.

## The case for change- innovation

But the banks’ results also set the stage for change. Whether in responding to pervasive change in the external environment, persistent concerns about the global economic condition or steps closer to home (e.g. the Murray Inquiry), at the heart of the matter for the banks is innovation from a resilient base – “evolution and revolution”.

Our view is that the banks’ results show the relevance of the Murray Inquiry‘s broader recommendations and why the outlook should be bigger than simply capital and who pays for it.

The themes are well known in the context of the financial system as a whole – resilience (capital); superannuation (for the banks, shareholders and customers alike); innovation; consumer outcomes and regulation.

> “…blockchain typifies the boundless opportunity and challenge of fintech.

Australia’s financial system is critical to the overall economic growth of the country and has to adapt to seize the opportunities that the technological revolution in particular represent, or we risk falling behind. The majors are a microcosm of this larger burning platform.

You only have to look at the size and proportion of investment spend of the banks dedicated to growth and technology ($3.4 billion in 2015 alone) to see the significance ascribed to this opportunity.

The challenge is ensuring the cost or revenue benefit of such investments is extracted before the next innovation renders it obsolete, as evidenced by recent trends of shortening the accounting lives for technology investments.

As the FSI and Government acknowledge, regulators have to evolve with the industry to ensure they don’t become a handbrake on this broader transformation. This is relevant to all institutions and particularly the banks which have the benefit of scale but the burden of systemic importance and legacy systems. Regulatory and compliance costs have continued to expand significantly to a total of $1.3 billion from $1.2 billion in 2014, representing 28% of the aggregate investment spend.

A proportion of this growth should probably be considered business as usual given the regulatory environment is unlikely to abate. It is a pertinent reminder however, that the cost of regulation is high and should, as the Government has endorsed, always be weighed up against the benefit.

One such innovation that has attracted much industry and regulator attention has been blockchain and cryptocurrencies. For us blockchain typifies the boundless opportunity and challenge of fintech and its relevance to incumbents as well as disruptors. It has moved from “novelty status” to the mainstream in a remarkably short time.

What is perhaps most interesting was the announcement in September 2015 that eight international banks (including one of the majors) were working to consider the application of blockchain technology to the international payment system. As the Bank of England observed in an excellent September 2014 bulletin considering the topic, “most financial assets today exist as purely digital records. This opens up the possibility for distributed ledgers to transform the financial system more generally”.

We explore the opportunity that blockchain and cryptocurrencies represent to the financial system and banking further in our contribution *Blockchain – a Fintech opportunity.*

All of this, in the end, presents a challenging task for the majors perhaps best described as “evolution and revolution”.

## Outlook

We expect in the coming year the banks will be focused on balancing steady, disciplined reshaping while making the right investments to keep pace with an uncertain, disruptive future:

- Execution on the additional $11.4 billion (80bps, pro-forma) of CET1 capital initiatives already announced
- Managing the broader transition to a new capital environment and determining how the cost and benefit is shared between stakeholders
- Focusing on investment priorities, particularly in Asia and the emerging markets
- Keeping a close eye on lending standards and the key economic drivers of asset quality, particularly house prices and unemployment
- The outturn and intensifying focus on customer and conduct issues and broader regulatory reform
- Disciplined investment in innovation (particularly technology) in balance with expense/income considerations

# Overview

The banks delivered combined cash profits of $30.2 billion, up 5.3% compared to September 2014 (yoy). The half on half (hoh) results were down 4.7%, with only one of the banks showing growth in margin and cash earnings since March 2015. Net interest margins declined 4bps yoy to 2.02%, a record low, though the story varies for the composition of the movements. The impact of lending competition was close to offset by deposit margins with treasury and markets margin reductions making up for the difference.

Reductions in bad debt expense, which delivered a combined $10.2 billion pretax net profit growth since 2009, appear to have reached a bottom, growing 8.9% yoy and 17.4% hoh.

Banks' costs continue to be stubborn, increasing at equal or, for certain times, faster than revenues (after adjusting for foreign exchange). The margin and cost dynamics are the key driver of the outlook, as the majors work hard to maintain returns in a newly based capital environment.

5.3%

## Cash earnings

The banks' cash earnings grew 5.3% yoy but declined 4.7% hoh. This reflects strong performance amidst a challenging environment with margin and cost headwinds particularly in the second half.

60 bps

## ROE

Over the year, RoE declined 60bps, from 15.6% at September 2014 to 15.0%. During the year, more than $22.3 billion of CET1 capital was generated by the major banks, with an additional $11.4 billion announced and expected subsequent to year end.

## Four major banks combined performance

Cash earnings – A$ million

| | FY2015 | FY2014 | 2015 vs 2014 | 2H15 | 1H15 | 2H15 vs 1H15 |
|---|---|---|---|---|---|---|
| Net interest income | 58,671 | 55,835 | 5.1% | 29,763 | 28,908 | 3.0% |
| Other income | 25,263 | 24,485 | 3.2% | 12,670 | 12,953 | 0.6% |
| Total income | 83,934 | 80,320 | 4.5% | 42,433 | 41,501 | 2.2% |
| Operating expense | (37,886) | (36,492) | 3.8% | (19,774) | (18,112) | 9.2% |
| Core earnings | 46,048 | 43,828 | 5.1% | 22,659 | 23,389 | (3.1%) |
| Bad debt expense | (3,769) | (3,461) | 8.9% | (2,035) | (1,734) | 17.4% |
| Tax expense | (11,999) | (11,610) | 3.4% | (5,854) | (6,145) | (4.7%) |
| Outside equity interests | (93) | (97) | (4.1%) | (41) | (52) | (21.2%) |
| Cash earnings | 30,187 | 28,660 | 5.3% | 14,729 | 15,458 | (4.7%) |
| Statutory results | 30,925 | 28,644 | 8.0% | 20,076 | 15,047 | 42.7% |

# Balance sheet dynamics

## Credit

Lending growth in the overall market for the year was again at a post-GFC high, growing at 6.7% yoy. This sustained growth is relatively in line with the period to March 2015 at 6.3% per annum and higher from a year ago at 5.4% yoy. Both housing and business lending have continued to grow.

Growth in housing credit of 7.5% yoy remained relatively in line with the previous period at 7.3% per annum in March 2015 and an unsurprising increase from 6.8% in September 2014. Owner-occupied lending grew at 5.6% yoy, higher than 5.2% per annum in March 2015 and 5.1% a year ago.

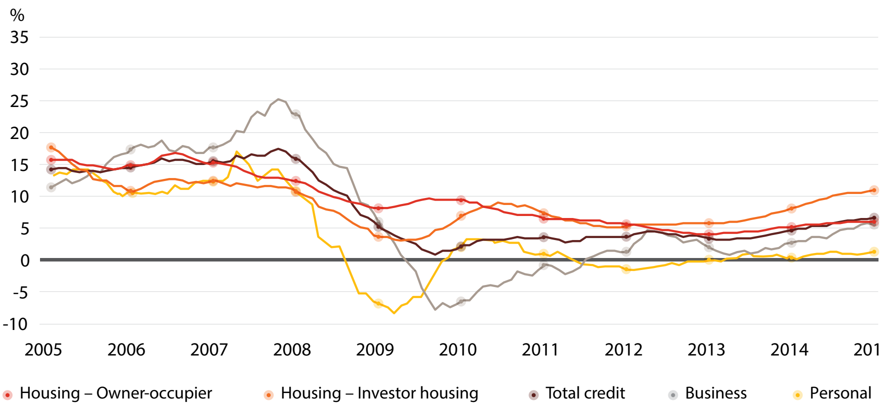
Investor lending continued to grow at the fastest rate, though there are signs that APRA's 10% benchmark has started to bite. Growth in the year of 10.4% per annum is lower than the 10.8% per annum observed in March 2015 and growth rates have now fallen for three consecutive months. We expect this easing of investor demand to continue as measures taken by banks in recent periods take effect, notwithstanding that even at 10%, growth rates are still at March 2008 levels.

The standout result in the credit statistics was the 6.3% yoy growth in business credit for the year, exceeding owner-occupied housing. Building on the trend observed at March 2015 (5.4% yoy), these are growth levels not seen since early 2009.

The hope is that this all indicates a rebound in business confidence which, given the uncertain outlook for China and resources in particular, would be very positive.

The major banks achieved market share in total lending of 72.7% at September 2015, slightly higher than 71.5% a year ago.

Domestic credit growth (Annual % growth – 12 month rolling average)




Source: RBA

# Balance sheet dynamics

## Bank Deposits

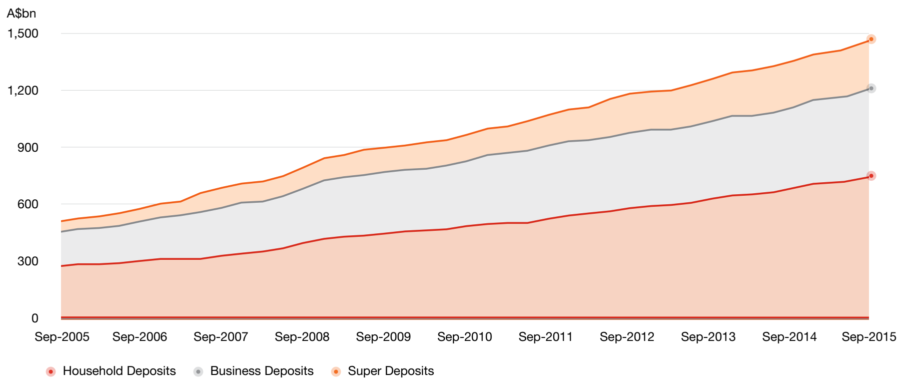
Bank deposits grew at 7.2% yoy in line with March 2015 but lower than the 7.6% in September 2014. Deposit mix continued to move away from term deposits (declining 5.9% yoy at September 2015) favouring call deposits which grew by 15.4% yoy, higher than in March 2015 at 14.0% or a year ago at 13.7%.

This trend is reflective of customer preference following repricing activity during the year and the introduction of new features to those existing products which are classified as more stable under regulatory liquidity rules (e.g. 31-day withdrawal period for term deposits).

Household deposits grew by 10.7% yoy, higher than the 10.1% seen in March 2015 and the 9.3% of a year ago.

Business deposits increased 7.1% yoy, as compared to 8.5% at March 2015 and 5.7% at September 2014. Superannuation deposits grew by 1.2% yoy, in contrast to a 3.8% contraction at March 2015 and much lower than the 8.5% growth seen a year ago.

Composition of bank deposits (A$bn)




Source: RBA, ABS

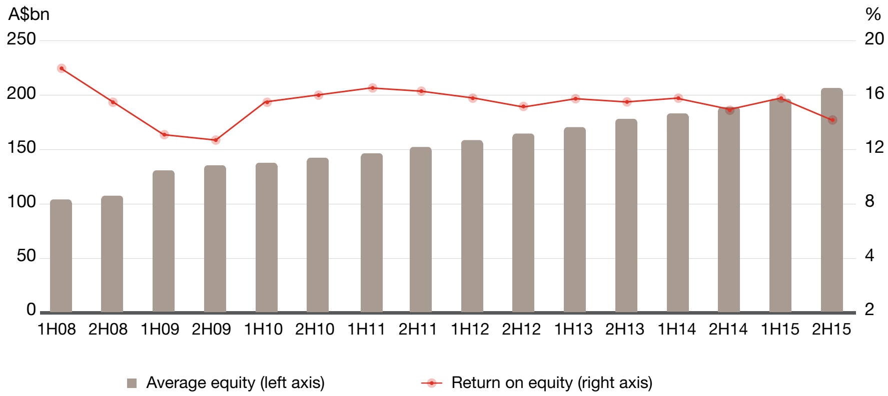
Deposits continued to be the primary funding source for lending growth, though wholesale funding has again increased with the loan to deposit ratio at 69.7%, lower than prior year at 70.7%. The impact of recent increases in wholesale funding spreads will only be partly incorporated in these numbers. The increase may also generate a rebound in term deposit competition.

## Capital

The major banks have all taken a wide range of steps to strengthen their capital. The Combined Common Equity Tier One (CET1) capital ratio was 9.6%, higher than 8.9% a year ago. The banks appear to have put themselves even further on the path to 'unquestionably strong' levels relative to risk weighted assets.

Collectively, CET1 capital increased by $22.3 billion, more than double the initiatives typically seen in the past (increase of $10.5 billion in September 2014). The banks have also announced additional capital initiatives of approximately $11.4 billion which will increase CET1 ratio by a further 80bps (pro-forma).

Average equity and return on equity (half year)




The steady increase in capital has yet to translate in to a settled impact on RoE which was 15.0% down from 15.6% a year ago and 14.3% for the half year, down 161bps on the first half. With further regulatory changes on the horizon, including the leverage ratio and APRA's decisions on the Total Loss Absorbing Capital (TLAC) requirements, capital management remains a significant focus for all banks. The historical investor story of high ROE and high dividend payout ratios are understandably under scrutiny as a result, not forgetting that our banks' returns and capital ratios are among the highest in the world.

# Revenues

## Net interest income

Net interest income grew 5.1% yoy and 3.0% hoh reflecting high single digit loan and deposit growth, offset by continued pressure on net interest margin from competition.

While lending assets continue to account for more than 80.4% of total interest earning assets, average interest earning non-lending assets increased 10.3% as banks are required by new liquidity rules to hold higher levels of "liquid assets". The lower returns on liquid assets restricted income growth, as did the fees associated with the Reserve Bank's committed liquidity facility.

The banks' combined net interest margin ended at 2.02% down 4 bps from 2.06% a year ago and flat hoh. The shape of this trend differed fairly significantly by bank, with one bank managing to hold margins flat yoy.

**Lending**
*-8bps yoy, -2bps hoh*

Driven by competitive asset pricing across mortgages, corporate and institutional lending, generally aligned to each bank's relative exposure.

**Deposits**
*+5bps yoy, +2bps hoh*

Banks repriced term deposits in particular, with two banks seeing over 5 bps increases yoy.

**Wholesale funding**
*+3bps yoy, +1 bp hoh*

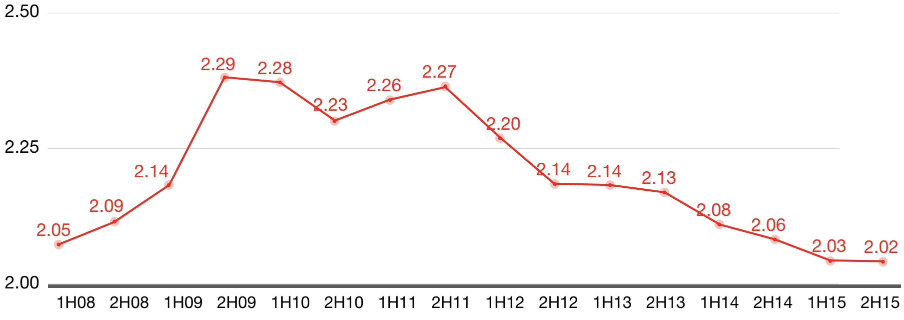
Wholesale funding costs continued to reduce as cheaper issuances during the period replaced older, more expensive debt.

**Treasury and markets**
*-4bps yoy, flat hoh*

Increased holdings of lower earning liquid assets for regulatory reasons and a widening of market risk margins.

Given we expect volume growth to remain subdued by historical standards, we expect competition to flow in to continued downward pressure on lending margins. In addition it is not clear that deposit margins can continue to widen indefinitely. Taken together, the outlook for NIM is for continued downward pressure.

Combined net interest margin



# Revenues

## Other income

Other income continued to contribute 30% of the banks total income, growing 3.2% yoy and a modest 0.6% hoh.

Excluding non-recurring transactions during the year, composition of non-interest income remained relatively consistent with prior periods, with banking fees contributing 53% of total, wealth management 30% and trading income 17%.

Growth in banking fees of 2.0% yoy is slightly lower than a year ago at 3.6% yoy and flat hoh, reflective of growing lending balances offset by competition on fees. We expect these growth rates in banking fees to continue as pressure from traditional competitors, regulatory reforms (including the implementation of FSI recommendations) and digitization (and disruption) of service delivery intensify.

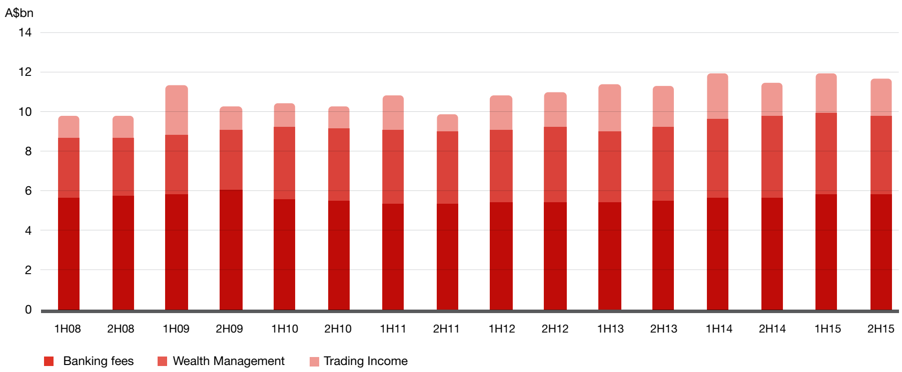
Trading income declined by 5.2% yoy, an improvement from a contraction of 10.4% yoy a year ago. The main drivers of this decline was negative portfolio valuation adjustments due to newly adopted accounting valuation adjustments and wider credit spreads in the latter half of the year. This was offset by higher markets income (FX and interest rates).

Wealth management fees showed growth of 1.0% yoy and 0.2% hoh. This relatively subdued growth reflected a change in ownership of one of the major's funds subsidiaries and the impact of extreme weather events.

Underlying growth in funds under administration, in force premiums plus better lapse rates for insurance helped offset this.

The Government's adoption of the Financial System Inquiry's recommendations surrounding consumer outcomes, particularly advice, fees and commissions, is likely to initiate some further change in the structure of the banks' non-interest income over the coming years.

Analysis of other operating income (other income)





Revenue from banking fees grew 2.0% yoy. Fees and commissions grew 3.0% yoy, driven by higher lending fee income and credit-card interchange income fees.


Trading income was down 5.2% yoy. Counterparty and other valuation adjustments due to widening of credit spreads more than offset the strong market sales and trading performance.


The wealth management businesses delivered income growth of 1.0% yoy driven by increases in funds under administration, growth in in-force premium and improved lapse rates for insurance offset by higher claims related to severe weather events.

# Expenses

$4.6bn

The banks have invested $4.6 billion over the last 12 months, with 46.2% being spent on transformation and productivity projects. Risk and compliance spend ($1.3 billion) has increased by 10.5% yoy.

Total operating expenses increased by 3.8% yoy and 9.2% hoh, compared to 9.1% yoy increase in the prior year.

The banks' combined expense to income ratio for the year was 45.1%, slightly lower from 45.4% a year ago but was 46.6% for the second half.

After adjusting for larger 'one-off' items (predominantly NAB's UK conduct provisions) expense-to-income increased 45bps yoy to 43.9% on a like-for-like basis.. Expense-to-income ratios have been stubborn in the 42-45% range (adjusted for 'one-offs').

These results underline again the challenge the banks face in making sustained improvement in their expense-to-income ratios.

Total investment spend remained relatively in line with the prior year at $4.6 billion.

The majority of investment spend remained focused on growth, transformation and productivity (46.2%), though risk and compliance costs continue to expand, rising to $1.3 billion for the year.

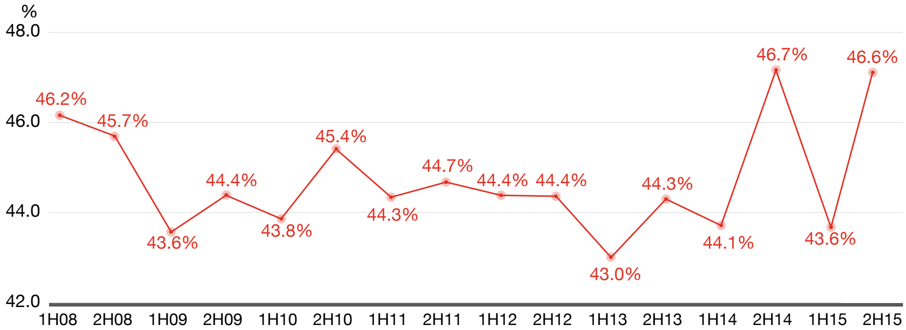
Increases in software amortisation ($1.5 billion in 2014 to $1.7 billion in 2015) and/or write downs ($0.5 billion in 2014 and $0.6 billion in 2015) are reflective of the rapidly changing technology environment and the shortening in benefit profile for technology investments.

Staff compensation continues to account for 54.7% of total operating expenses. Salaries grew by 3.3% yoy and 1.2% hoh, primarily driven by increase in average salary cost.

We therefore see the investment profile of the banks as reflective of a number of challenges we have foreshadowed for some time:

- The need to invest to expand and defend customer relationships against technology-enabled disruptors, both current and anticipated
- Regulatory and compliance costs settling at significantly higher levels than seen historically
- The inherent challenge of generating productivity and growth at a fast enough pace to offset the investment required.

Combined expense-to-income ratio



# Asset quality

16 bps

At 16 bps, the bad debt expense in 2015 as a percentage of loans and acceptances is at a record low though rose in absolute terms for the first time since 2012.

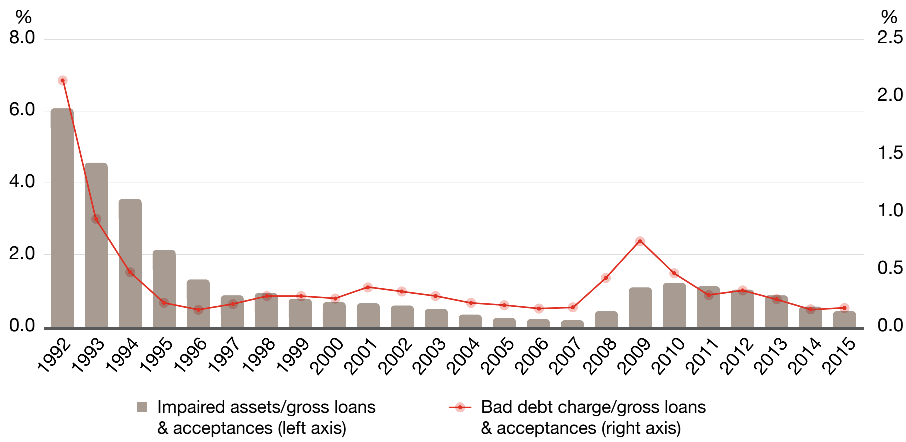
Asset quality has continued to improve with impaired assets accounting for 0.4% of total loans and advances at September 2015 from 0.6% at the same time last year. Impaired facilities declined by 25.2% from the previous year as a consequence of the low interest rate environment. Non-performing loans or those 90 days past due have remained low at 0.38% of total loans and advances, a slight improvement from previous year of 0.39%.

While all indicators depict continued improvement in asset quality on an annualised basis, the impact on bad debt expense has been less positive than in the past.

Bad debt expense increased from $3.5 billion a year ago to $3.7 billion and by $0.3 billion since March 2015, partially driven by writebacks in previous periods that did not recur this year. Having driven combined growth in the banks' results of $10.2 billion since 2009, we may have seen the best of the bad debt reductions for some time.

It is important to remember, however, that in absolute terms the credit quality and bad debt expense position of the banks is exceptionally strong. The outlook for asset prices (particularly housing), unemployment and the broader economy will be a significant factor in the period-to-period performance of the banks as a result.

Impaired assets and bad debt expense



# *Key banking statistics – Full year 2015*

| | ANZ | | | CBA | | | NAB (iii) | | | WBC | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| **Balance sheet** | | | | | | | | | | | | |
| Total assets | 889,900 | 772,092 | 702,995 | 873,446 | 791,451 | 753,857 | 955,052 | 883,301 | 809,870 | 812,156 | 770,842 | 701,097 |
| Risk weighted assets | 401,937 | 361,529 | 339,265 | 368,721 | 337,715 | 329,158 | 399,758 | 367,652 | 362,078 | 358,580 | 331,387 | 307,372 |
| Gross loans and acceptances | 572,370 | 524,383 | 486,818 | 646,172 | 608,127 | 568,821 | 584,147 | 545,361 | 522,079 | 626,344 | 583,516 | 539,806 |
| **Asset quality & provisioning** | | | | | | | | | | | | |
| Gross impaired assets | 2,719 | 2,889 | 4,264 | 2,855 | 3,367 | 4,330 | 2,050 | 4,122 | 6,347 | 1,895 | 2,340 | 3,600 |
| Net impaired assets | 1,658 | 1,713 | 2,797 | 1,829 | 2,101 | 2,571 | 1,379 | 2,668 | 4,317 | 1,018 | 1,293 | 2,046 |
| Gross impaired assets as a % of gross loans and acceptances | 0.48% | 0.55% | 0.88% | 0.44% | 0.55% | 0.76% | 0.35% | 0.76% | 1.22% | 0.30% | 0.40% | 0.67% |
| Individually assessed provisions | 1,061 | 1,176 | 1,467 | 887 | 1,127 | 1,628 | 671 | 1,454 | 2,030 | 669 | 867 | 1,364 |
| Individually assessed provisions as a % of impaired assets | 39.0% | 40.7% | 34.4% | 31.1% | 33.5% | 37.6% | 32.7% | 35.3% | 32.0% | 35.3% | 37.1% | 37.9% |
| Collective provisions | 2,956 | 2,757 | 2,887 | 2,762 | 2,779 | 2,858 | 3,172 | 2,471 | 2,783 | 2,663 | 2,614 | 2,585 |
| Collective provisions as a % of non-housing loans & acceptances | 1.09% | 1.09% | 1.24% | 1.24% | 1.33% | 1.46% | 1.31% | 1.06% | 1.20% | 1.26% | 1.33% | 1.46% |
| Total provisions | 4,017 | 3,933 | 4,354 | 3,649 | 3,906 | 4,486 | 3,843 | 3,925 | 4,813 | 3,332 | 3,481 | 3,949 |
| Total provision as a % of gross loans & acceptances | 0.70% | 0.75% | 0.89% | 0.56% | 0.64% | 0.79% | 0.66% | 0.72% | 0.92% | 0.53% | 0.60% | 0.73% |
| **Profit & loss analysis (i)** | | | | | | | | | | | | |
| Net interest income | 14,616 | 13,797 | 12,772 | 15,799 | 15,091 | 13,944 | 14,017 | 13,451 | 13,407 | 14,239 | 13,496 | 12,912 |
| Other income | 5,902 | 5,781 | 5,619 | 7,779 | 7,310 | 6,877 | 5,281 | 5,070 | 5,156 | 6,301 | 6,324 | 5,921 |
| Operating expenses | 9,359 | 8,760 | 8,257 | 9,993 | 9,499 | 9,010 | 9,899 | 9,987 | 8,410 | 8,635 | 8,246 | 7,759 |
| Core earnings | 11,159 | 10,818 | 10,134 | 13,585 | 12,902 | 11,811 | 9,399 | 8,534 | 10,153 | 11,905 | 11,574 | 11,074 |
| Bad debt expense | 1,205 | 989 | 1,197 | 988 | 953 | 1,082 | 823 | 869 | 1,934 | 753 | 650 | 847 |
| Profit before tax | 9,954 | 9,829 | 8,937 | 12,597 | 11,949 | 10,729 | 8,576 | 7,665 | 8,219 | 11,152 | 10,924 | 10,227 |
| Income tax expense | 2,724 | 2,700 | 2,435 | 3,439 | 3,250 | 2,953 | 2,562 | 2,430 | 2,284 | 3,274 | 3,230 | 3,088 |
| Minority interest | 14 | 12 | 10 | 21 | 19 | 16 | 0 | 0 | 0 | 58 | 66 | 76 |
| Cash earnings | 7,216 | 7,117 | 6,492 | 9,137 | 8,680 | 7,760 | 6,014 | 5,235 | 5,935 | 7,820 | 7,628 | 7,063 |
| Statutory results (ii) | 7,493 | 7,271 | 6,310 | 9,063 | 8,631 | 7,618 | 6,357 | 5,181 | 5,355 | 8,012 | 7,561 | 6,751 |
| **Key data** | | | | | | | | | | | | |
| Other operating income as a % of total income | 28.76% | 29.53% | 30.55% | 32.99% | 32.63% | 33.03% | 27.37% | 27.37% | 27.78% | 30.68% | 31.91% | 31.44% |
| Interest spread | 1.82% | 1.90% | 1.97% | 1.96% | 1.97% | 1.91% | 1.61% | 1.62% | 1.69% | 1.90% | 1.89% | 1.92% |
| Interest margin | 2.04% | 2.13% | 2.22% | 2.09% | 2.14% | 2.13% | 1.87% | 1.91% | 2.03% | 2.08% | 2.08% | 2.15% |
| Expense/income ratio (as reported ratio) | 45.60% | 44.70% | 44.90% | 42.80% | 42.90% | 43.60% | 50.80% | 53.10% | 43.70% | 42.00% | 41.60% | 41.20% |
| Total number of full time equivalent staff | 50,152 | 50,328 | 49,866 | 45,948 | 44,329 | 44,969 | 41,826 | 41,420 | 42,164 | 35,241 | 36,373 | 35,597 |
| Operating costs per employee (dollars) – annualised | 186,286 | 174,861 | 168,330 | 219,827 | 212,748 | 200,639 | 236,541 | 238,644 | 196,573 | 241,154 | 226,271 | 216,104 |
| Return on average equity (as reported) | 14.00% | 15.40% | 15.30% | 18.20% | 18.70% | 18.20% | 12.00% | 11.60% | 14.10% | 15.84% | 16.41% | 15.93% |
| Return on average assets (underlying cash) | 0.85% | 0.95% | 0.96% | 1.08% | 1.11% | 1.07% | 0.63% | 0.61% | 0.74% | 0.98% | 1.03% | 1.03% |
| **Capital ratios** | | | | | | | | | | | | |
| Common equity | 9.60% | 8.80% | 8.50% | 9.10% | 9.30% | 8.20% | 10.24% | 8.63% | 8.43% | 9.50% | 9.00% | 9.10% |
| Tier 1 | 11.30% | 10.70% | 10.40% | 11.20% | 11.10% | 10.30% | 12.44% | 10.81% | 10.35% | 11.40% | 10.60% | 10.70% |
| Tier 2 (net of deductions) | 2.00% | 2.00% | 1.80% | 1.50% | 0.90% | 0.90% | 1.70% | 1.45% | 1.40% | 1.90% | 1.70% | 1.60% |
| Total | 13.30% | 12.70% | 12.20% | 12.70% | 12.00% | 11.20% | 14.15% | 12.16% | 11.80% | 13.30% | 12.30% | 12.30% |
| **Lending and funding ratios** | | | | | | | | | | | | |
| Gross Loans & Acceptances/Total Assets | 64.32% | 67.92% | 69.25% | 73.98% | 76.84% | 75.45% | 61.16% | 61.74% | 64.46% | 77.12% | 75.70% | 76.99% |
| Housing Loans Gross Loans & Acceptances | 52.50% | 51.75% | 52.03% | 65.44% | 65.72% | 65.55% | 58.54% | 57.22% | 55.43% | 66.13% | 66.39% | 67.21% |
| Deposits (exclude CDs)/gross loans | 84.21% | 84.06% | 81.15% | 73.84% | 72.06% | 71.25% | 71.71% | 71.71% | 70.06% | 68.20% | 70.13% | 70.88% |
| Deposits (exclude CDs)/total liabilities | 57.90% | 60.98% | 60.09% | 58.15% | 59.05% | 57.22% | 46.57% | 46.81% | 47.91% | 56.33% | 56.72% | 58.55% |

All figures in AUD million unless otherwise indicated

(i) In arriving at "cash earnings", income and expenses exclude certain non-cash items. Non-cash items include acquisition related adjustments, impact of hedge accounting and revaluation of treasury shares and other items reported by the banks. Some components of income and expenses have been reclassified to improve comparability between banks.

(ii) Statutory result as reported by the banks, unadjusted.

(iii) NAB's underlying cash earnings after tax are shown before distributions to holders of National Income Securities, Trust Preferred Securities, Trust Preferred Securities II, and National Capital Instruments – 2015 ($ 175) million and 2014 ($180) million, NAB only reports an expense to income ratio for its banking operations. NAB also restated 2014 income statement following the divestment of holding in Great Western Bank to present information on a continuing operations basis.

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