HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS
INQUIRY INTO PROMOTING ECONOMIC DYNAMISM, COMPETITION AND BUSINESS FORMATION

ED-CBA01QON:

CHAIR: One way to look at this is your return on equity over time. I'll be interested to see the stats. I think certainly it was claimed yesterday that it's declined, say, over the last 20 years. Another way is to compare it to return on equity for banks in other jurisdictions. But another way to think about it is the return on equity for banks versus other Australian publicly held companies. Again, we get into a debate about how safe banks are and how close to the edge they're operating with their net interest margin declining. They're also an unusual industry in the sense that there are arguably explicit or implicit guarantees, with government standing behind them in certain ways. But **how do banks fare in terms of return on equity compared to other safe, large, publicly listed companies in Australia?**

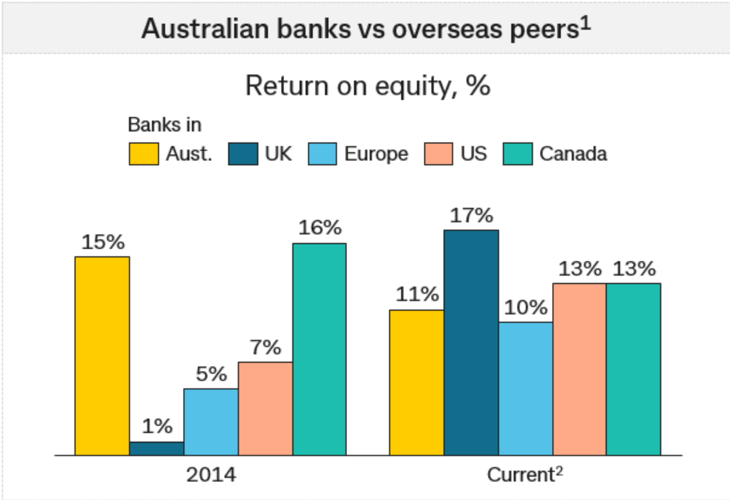
Mr Comyn: I think they compare poorly in terms of lower returns on equity than many high-profile listed companies. Obviously, that would skew even more towards technology companies, because they have much lower capital that's tied up. We have to, for both regulatory and for our own soundness and stability—we're currently holding more than $5 billion of excess capital beyond the regulatory requirements. That, of course, reduces our return on equity. So banks won't compare well with other sectors in the Australian market. I'm very happy to furnish that to you. We won't necessarily compare well with a number of other international banking markets. I'm equally very happy to provide that to you and happy to break down both the numerator and the denominator and return on equity calculation and how that's changed.

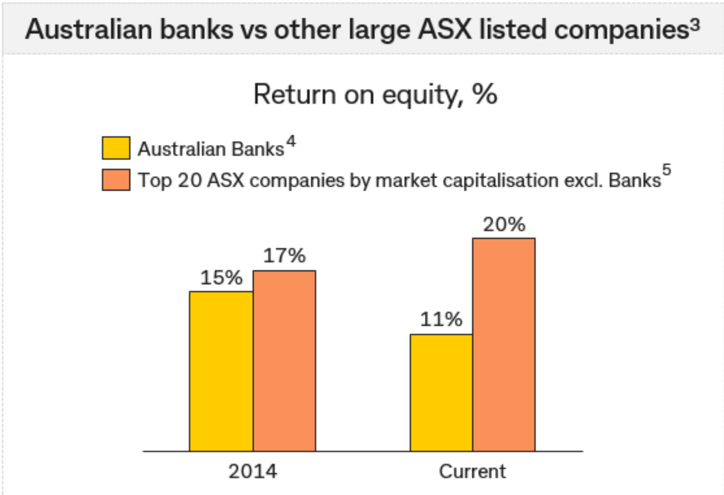
Answer:

CBA has undertaken analysis to compare Australian banks' return on equity with banks in other jurisdictions as well as listed companies that comprise the top ASX 20. The charts on the following page provide an overview of this analysis.

Whilst structurally different markets, when comparing the returns of banks globally the analysis identifies that Australian banks have underperformed relative to peers, driven by falling interest rates, increased capital and liquidity requirements and divestment of wealth management businesses across the industry.

Across other industries locally, the average ROE of the current top 20 largest ASX listed businesses (excluding the four major banks) have increased over the same time horizon while Australian banks ROEs have reduced by ~25%.





Notes:

1. Australia: Based on data published in APRA's quarterly ADI performance statistics for March 2023; Europe: Return on equity for the 8 largest countries by credit volume, sourced from European Central Bank; US: 2014 based on the return on equity for the top 6 banks, current includes data for other financial institutions sourced from Federal Financial Institutions Examination Council; UK: Return on equity for the top 4 commercial banks; Canada: Return on equity for the top 5 banks.
2. Represents 1Q-2023 data except Canada, which is based on the first reported quarter of financial year 2023.
3. Current represents FY23. Data sourced from S&P Capital IQ.
4. Australian banks include ANZ, CBA, NAB and WBC.
5. Represents weighted average based on market capitalisation at 30 June 2014.

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ED-CBA02QW: Please provide data on the following key returns metrics, as a time series for the past 20 years:

- net interest margin (NIM)
- return on equity (ROE).

Answer: The table below outlines the CBA Group's NIM and ROE figures for the past 20 years.

The CBA Group NIM has declined steadily over the past 20 years, due to declining cash rates, increased competition and higher cash and liquid asset balances driven by related regulatory requirements.

It is difficult to compare ROE figures over a 20 year basis due to a range of factors, including structural changes to the bank's operations following divestments, macroeconomic conditions, as well as changes to the banking regulatory environment, including the impact of Basel III reforms.

It is important for banks to generate a return on their cost of capital, both as an investment and to be able to raise funding and, in turn, lend money to support growth in the economy.

Financial Year	Return on Equity (ROE) – cash basis (%)	Net Interest Margin (NIM) (%)
2003/04	12.7	2.53
2004/05	18.8	2.43
2005/06	21.3	2.34
2006/07	21.7	2.08
2007/08	20.4	2.02
2008/09	15.8	2.10
2009/10	18.7	2.13
2010/11	19.5	2.12
2011/12	18.6	2.09
2012/13	18.2	2.13
2013/14	18.7	2.14
2014/15	18.2	2.09
2015/16	16.5	2.14
2016/17	15.7	2.10
2017/18	13.6	2.15
2018/19	12.0	2.09
2019/20	10.2	2.07
2020/21	11.5	2.08
2021/22	12.7	1.90
2022/23	14.0	2.07

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ED-CBA03QW: Variable interest rates

Please provide:

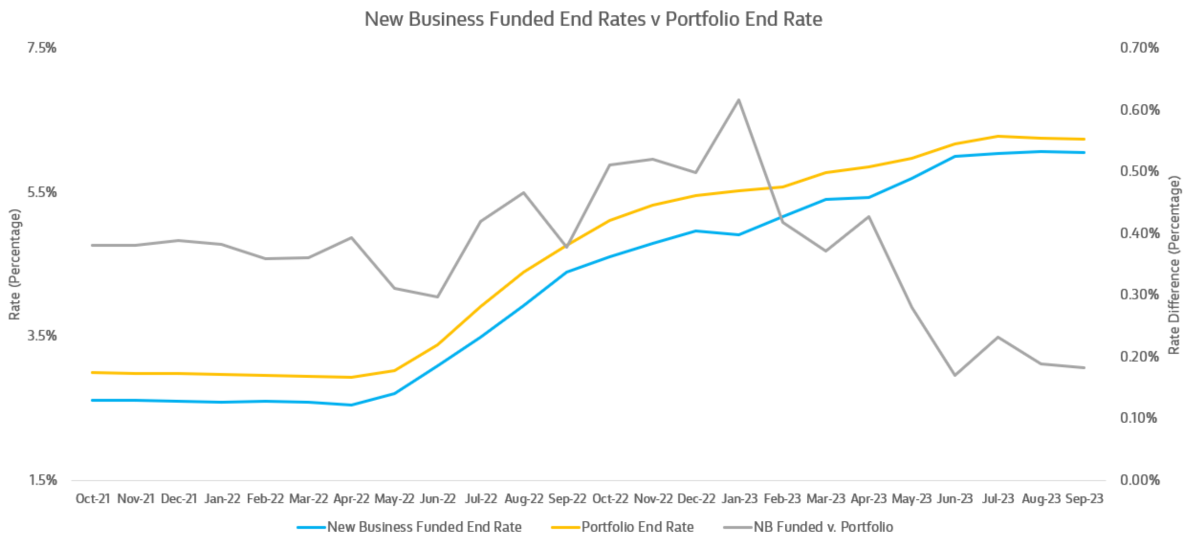
a. The average variable interest rate by age of loan, as a time series going back 10 years for the weighted average interest rate on variable rate owner-occupied home loans with principal and interest repayments (as referenced in Figure 1.3 of the ACCC Home loan price inquiry—Final report, November 2020 report) for the following age of loan:

i. Less than one year
ii. Greater than 1 year and less than 3 years
iii. Greater than 3 years and less than 5 years
iv. Greater than 5 years and less than 10 years
v. 10 years or more.

b. The proportion of borrowers who actively reached out to the bank seeking a better deal (as a time series if data is available, going back 10 years).

Answer: a. Figure 1.3 of the ACCC Home loan price inquiry report is a RBA graph drawn from the securitisation dataset (a RBA dataset comprised of Australian mortgage data plus APRA data). While CBA provides some mortgage data to the RBA's securitisation dataset, it is limited data comprising loan level and securitised pool level information, across a subset of the CBA loan book. Given CBA's loan book accounts for around 25% of the home loan market, it could be expected that CBA loans follow a similar trajectory to that of the RBA graph.

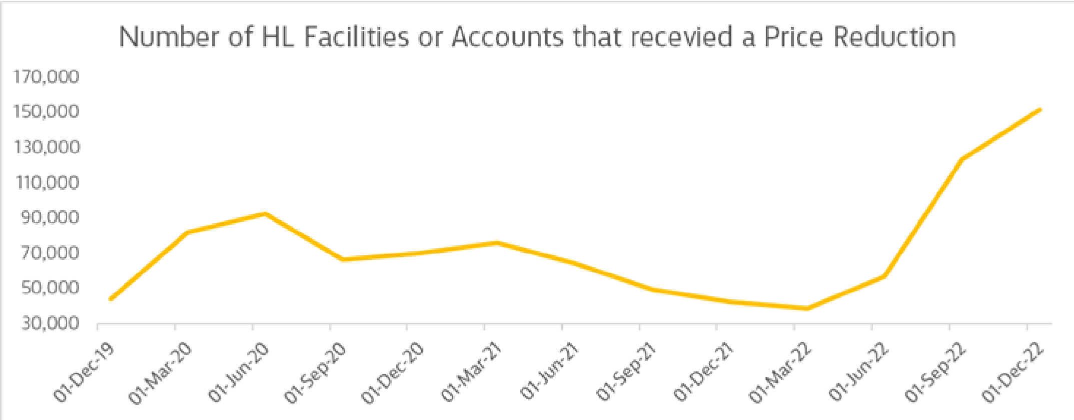
Data provided in the graph below compares the customer mortgage rate pricing for new lending compared to average customer mortgage for all home loan customers (i.e. portfolio end rates) over the past two years.



b. There are complexities with tracking the number of customers who contact the bank to seek a better deal.

However, in response to a compulsory regulatory request, CBA was recently asked to report on the number of loan facilities or accounts that received a mortgage rate reduction. That would include both customers who contacted the bank as well as customers who the bank contacted proactively.

Prior to June 2022, the number of customers who received a mortgage rate/price reduction was relatively stable, however this has increased materially since June 2022.



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ED-CBA04QW: In relation to discharge processing, please provide:
a. The bank's Discharge Authority Form.
b. The average time for processing discharge requests (as a time series if data is available, going back 10 years).
c. The proportion of discharge requests that take longer than 10 business days to process (as a time series if data is available, going back 10 years).

Answer: a-c. Please find attached a mortgage discharge form. Customers discharging for purposes like sold property, can also use the online discharge authority form on our website.

For a range of reasons, it is not possible to calculate a precise average mortgage discharge time. In July 2021, 63% of CBA's mortgage discharges were processed within 10 business days (from application to 'ready to settle'). Currently applications with a full release of all securities are processed within ~2 days. This accounts for 80% of all discharge requests. The remaining 20% of discharges are partial discharges and are processed within ~4-5 days due to the additional requirement of a credit assessment. At this point we do not have discharges extending beyond 10 days. CBA has also improved the time it takes to review the mortgage discharge request, from 2 days to 1 day currently.

Timing of processing of mortgage discharges is generally dependent on both CBA processes and customers providing accurate and requisite information throughout the process. Currently, 34% of processing time is spent on reworking mortgage discharge forms and extracting additional or required information from the customer.