

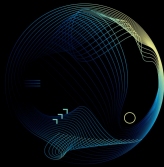


FTA Bank Treasurer Workshop

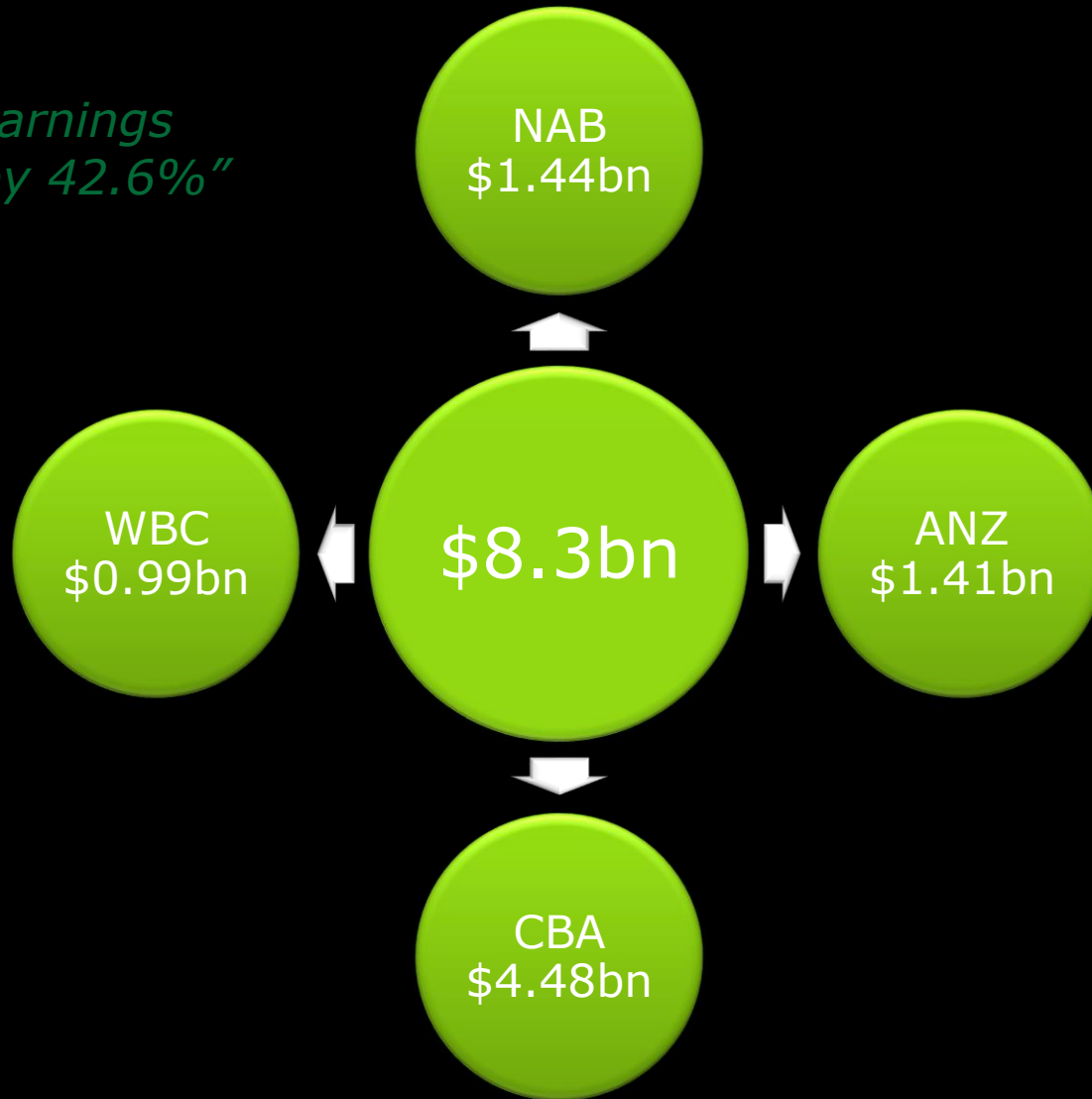
13 May 2020 – Overview of the banking sector

Steven Cunico

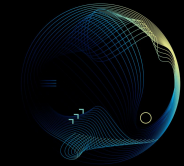
COVID - 19



"Cash earnings declined by 42.6%"

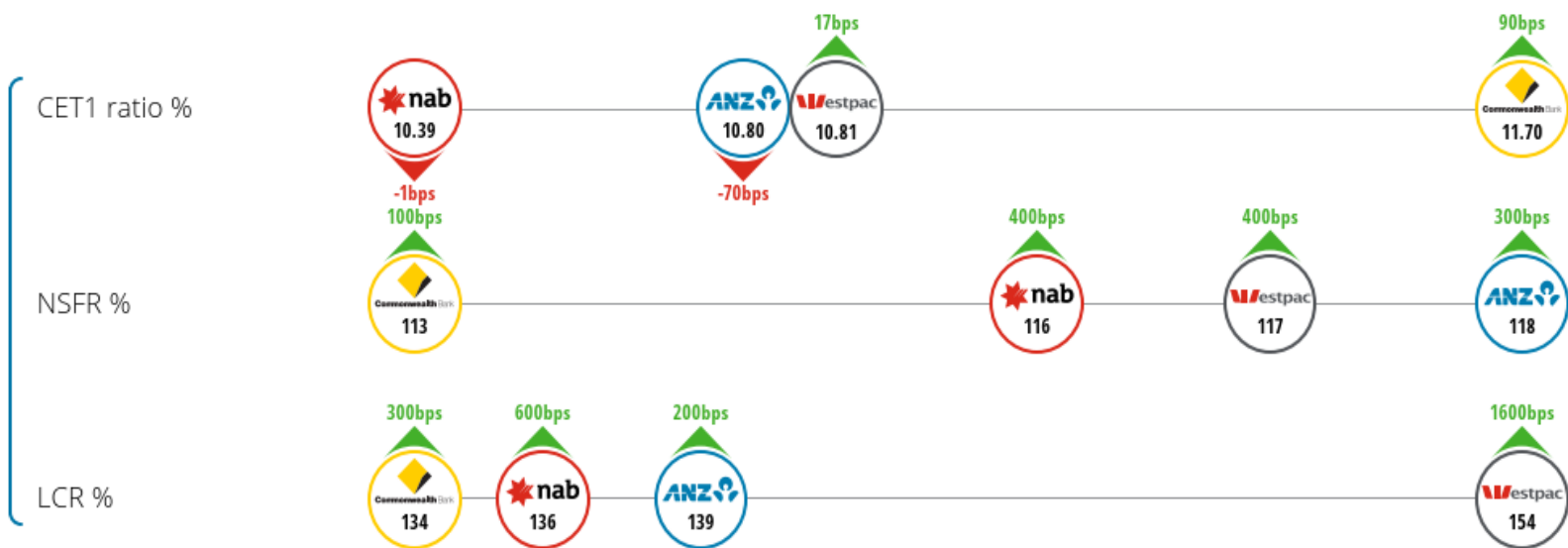


Capital & Funding

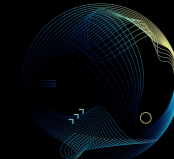


Major banks: 1H 2020 results

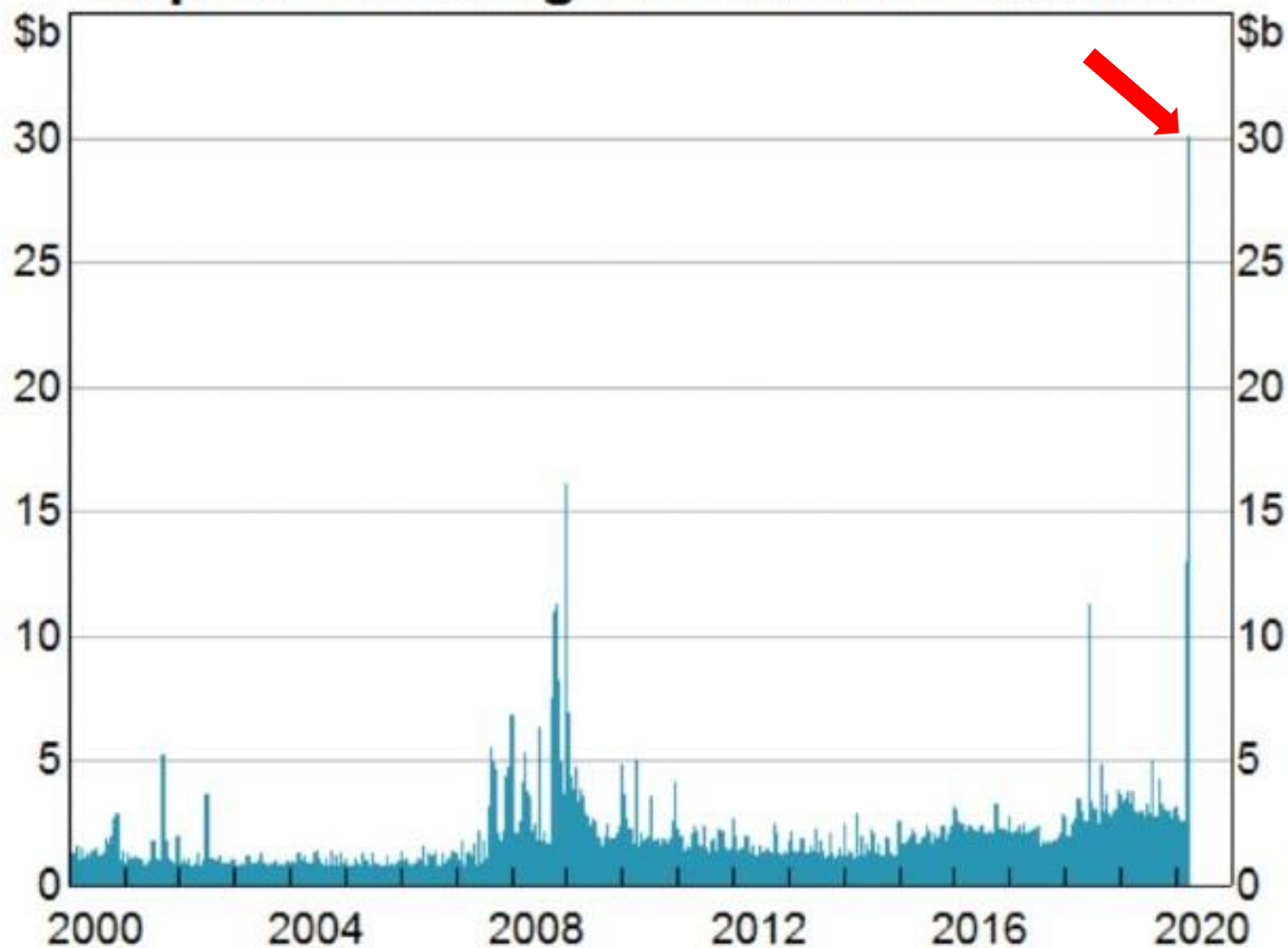
Capital & Funding



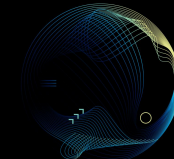
Liquidity risk – COVID19



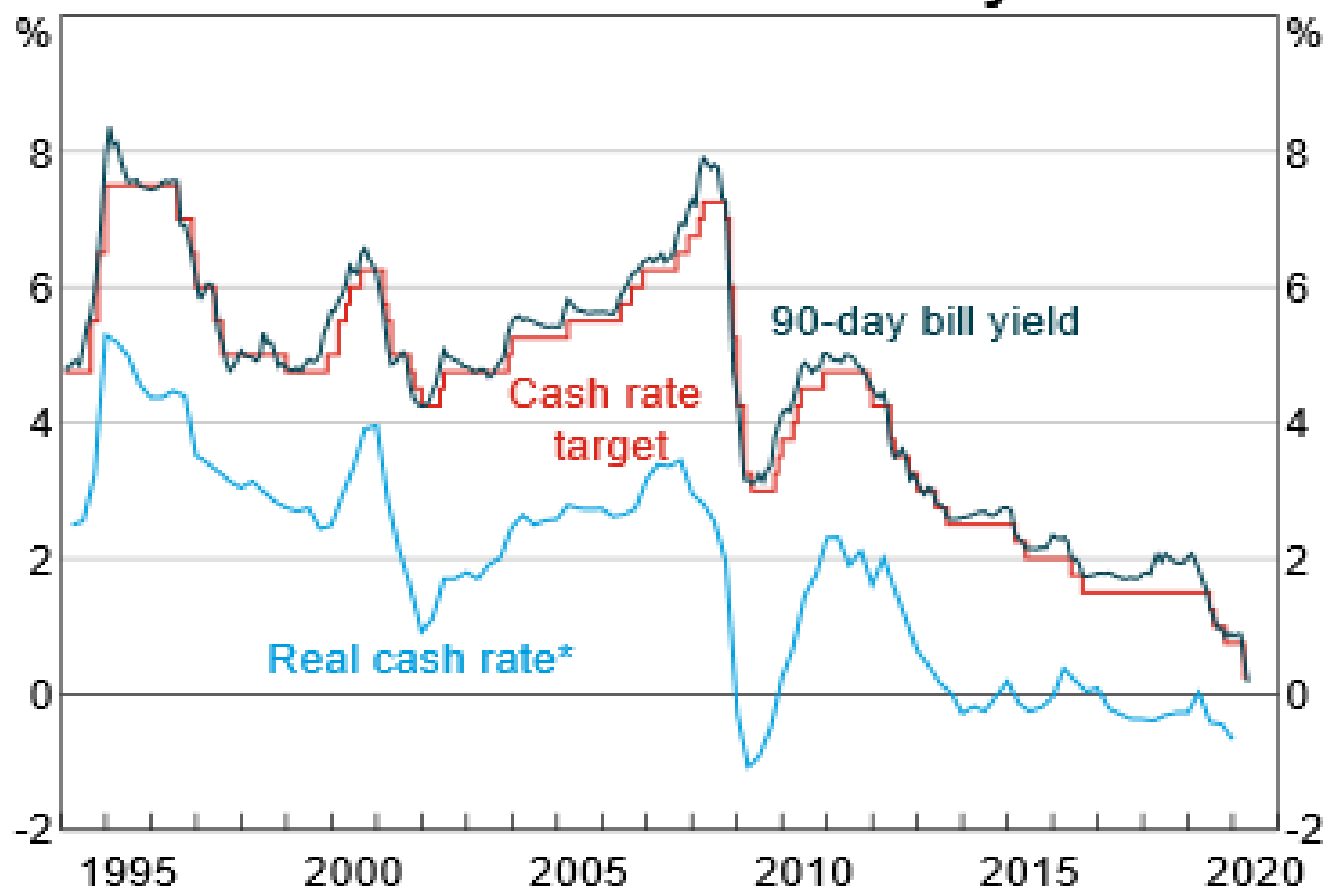
'Surplus' Exchange Settlement Balances



Liquidity risk – COVID19



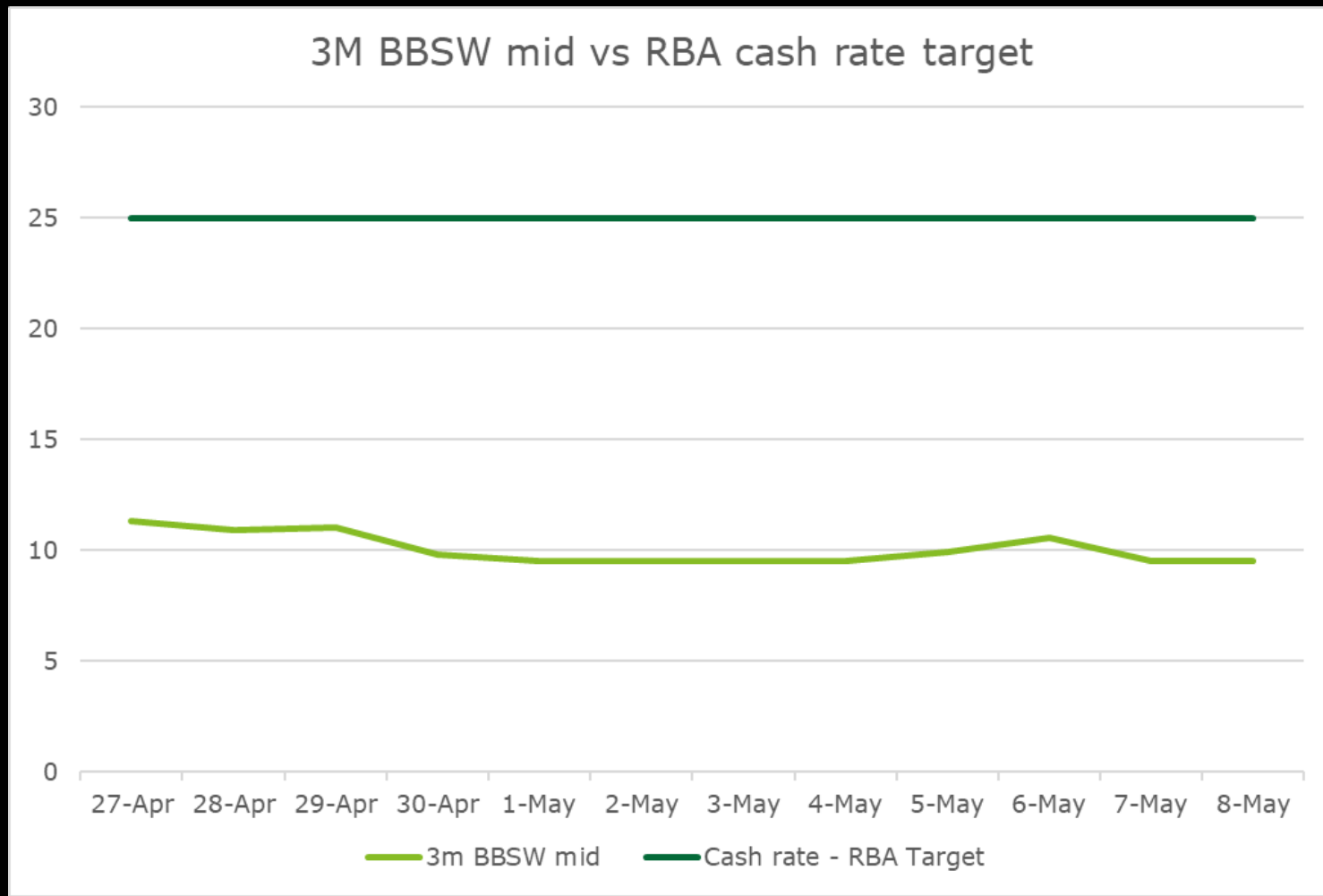
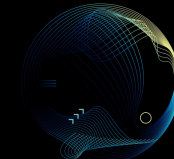
Australian Cash Rate and 90-day Bill Yield

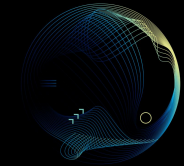


* Calculated using average of year-ended weighted median inflation and year-ended trimmed mean inflation

Sources: ABS; ASX; RBA

Liquidity risk – COVID19





Liquidity risk – COVID19

RBA support

Term funding facility – TFF

25 bps – 3 year term

\$90bn total for all ADI's

Initial allowance – 3% total credit outstanding

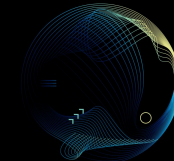
Additional allowance

- 1 x increase in Large business credit
- 5 x increase in SME business credit

Eligible collateral

- Same as before, except
- Corporate debt rating reduced to investment grade (BBB-)

APRA support



Banks permitted to use capital buffers

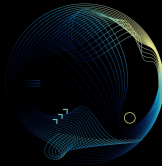
Home loan deferrals not treated as arrears (6 months) or restructured

SME loan govt guarantee – eligible g'tee for risk weighting purposes

TFF included in LCR, NSFR and MLH calcs

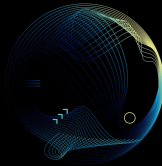
APRA policy and supervision initiatives suspended for 6 months

APRA support



Prudential Standard	Original implementation date	Revised implementation date
APS 110 Capital Adequacy*	1 January 2022	1 January 2023
APS 112 Capital Adequacy: Standardised Approach to Credit Risk	1 January 2022	1 January 2023
APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk	1 January 2022	1 January 2023
APS 115 Capital Adequacy: Standardised Measurement Approach to Operational Risk	1 January 2021 (AMA banks)	1 January 2023
	1 January 2022 (all other ADIs)	
APS 116 Capital Adequacy: Market Risk	1 January 2023	1 January 2024
APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book	1 January 2022	1 January 2023
APS 330 Public Disclosures	1 January 2022	1 January 2023

Credit risk....and Capital Management

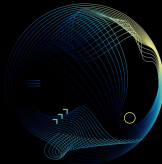


AASB 9 provisions materially increased at 31 March – extra \$3.4bn of provisions for NAB, WBC, ANZ.

- Need to apply forward looking macro-economic forecasts to inform provisions (don't wait for delinquencies and defaults to occur)

APRA expects that all ADIs ... will:

- *take a forward-looking view on the need to conserve capital and use capacity to support the economy;*
- *use stress testing to inform these views, and give due consideration to plausible downside scenarios (periodically refreshed and updated as conditions evolve); and*
- *initiate prudent capital management actions in response, on a pre-emptive basis, to ensure they maintain the confidence and capacity to continue to lend and support their customers.*



AGENDA

1. Interest Rate risk management in a low or negative rate environment
2. Digital Transition of the Wholesale Deposit & Funding Market: Impacts and Opportunities
3. Regulatory Reforms impacting Australia's major banks, including Increased Tier 2 Capital requirements to bolster TLAC and increased capital requirements for New Zealand banks.
4. Mutuels and capital raising - a more level playing field? Including reforms to the Corporations Act; Mutual Capital Instruments, what are they, why issue, how to market, offer and sell
5. Current issues in funding and liquidity from APRA;
6. Interest rate benchmark reform - IBORs, overnight rates, the impact on BBSW - what you need to think about now;