

## Media release

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### Bank Watch

#### **CBA interest costs differ from evidence to Senate inquiry**

The Commonwealth Bank of Australia's half year report released today shows that interest expenses have increased but by substantially less than official interest rates, an analysis by The Australia Institute has found.

This is in contrast to evidence the bank provided to the Senate Economics Committee in December that their interest expenses were increasing by more than the adjustments to the official interest rate.

The Commonwealth Bank officials were asked to confirm the impression that their 'evidence is that your funding costs have increased. If you overlay an increase in the official cash rate, your funding costs would increase even further'. The Chief Financial Officer, David Craig, responded 'correct'.

The Australia Institute's Senior Research Fellow David Richardson said the bank's half year report reveals the opposite is true.

The Commonwealth Bank's interest costs for the half year have increased to 4.06% compared with 3.69% in the previous half and 3.11% in the same half last year, which is an increase of 95 basis points in the bank's interest expense.

In the meantime official interest rates have increased from 3.00% to 4.75%. To compare like with like the table below uses the average official rate over the half year in question. The table shows that official rates have increased from 3.23% in the second half of 2009 to 4.11% in the first half of 2010 to 4.58% in the second half of 2010. That is a total increase of 135 basis points.

"Based on those calculations, we have to conclude that over the past 18 months the Commonwealth Bank's interest expenses have not increased to the same extent as official interest rates," said Mr Richardson.

"The half year report also highlights how profitable being in the banking business is, with the CBA's profit for the first half of financial year 2010-11 running at \$3,052 million. That's an impressive start to what will no doubt be another record profit by the end of the financial year," concluded Mr Richardson.

*The table is provided overleaf*

**For media enquiries, please contact:**

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year to:	Net interest expense	Liabilities	Interest expense as % of liabilities	Official rates
31/12/10	12341	614293	4.06	4.58
30/6/10	11161	610760	3.69	4.11
31/12/09	9132	591893	3.11	3.23

Source: CBA, *Profit announcement for the half year ended 31 December 2010*, Reserve Bank of Australia Statistics and TAI calculations.