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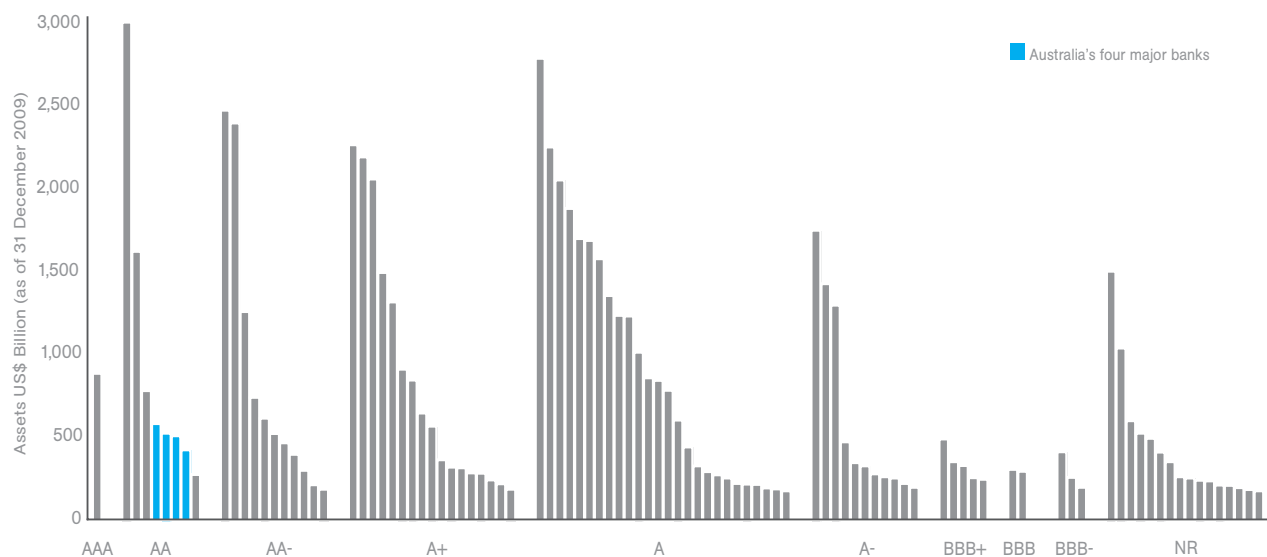
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Australian banks continue to exhibit robust performance

Australia's four major banks have maintained their 'AA' ratings, consistent with their strong performance and sound capital position. They are among nine of the world's 100 top banks with a AA or above rating. The Australian financial system has remained resilient in the face of the global financial crisis that affected many developed economies over recent years: Australia's uninterrupted economic growth, healthy financial system, and strong regulatory framework have underpinned continued sound performance by the Australian banks which have a largely domestic focus and limited exposure to exotic derivatives.

- Finance and insurance overtook the manufacturing sector in 2006 as the largest sector in Australia's economy. The sector directly generated 10.8 per cent or A\$122 billion of real gross value added in the year to June 2010.¹ This contribution is up from 8.9 per cent or A\$54 billion from two decades ago. With Australia's financial institutions' assets reaching A\$4.8 trillion by end June 2010², or almost four times of Australia's nominal GDP, the sector is both large and mature.
- The World Economic Forum's *Financial Development Report 2009* ranked Australia second of 55 of the world's leading financial systems and capital markets, ahead of the United States, Singapore and Hong Kong. The report highlighted the efficiency of Australia's banks, the stability of the country's banking system, and a low risk of a sovereign debt crisis as underpinning the country's ranking.
- Each of the four major Australian banks has retained a AA rating. Only five of the other 100 largest banking groups in the world have an equivalent or higher credit rating; this has been an important factor in ensuring the major banks' ongoing access to long-term debt markets. Standard & Poor's has Australian major banks on a stable credit outlook, while the outlook for other five banks is more volatile and currently negative.³
- The major Australian banks have reported strong profits for the first half (H1) of 2010. While global competitors continue to face problems, Australia's major banks have capitalised on sustained economic growth producing combined profits before tax of A\$14 billion in the H1 of 2010 compared with A\$9.7 billion in the H2 of 2009.⁴
- One of the reasons why the Australian banks' earnings have remained comparatively strong is they had relatively little exposure to the kinds of securities that were a significant source of losses in many of the major economies worst affected by the global financial crisis.
- Most of the foreign claims of the Australian banks represent their local banking operations in New Zealand and the United Kingdom. Australian banks engage in relatively little cross-border lending; this accounts for just 6 per cent of total assets. Given concerns about sovereign credit risk in smaller European countries, it is worth noting that Australian bank exposures to these countries are very small.⁵
- The ratio of Australian banks' non-performing assets to total on-balance sheet assets increased modestly during the period of financial turmoil, but has remained broadly flat at around 1½ per cent since mid 2009, according to the latest *Financial Stability Report* of the Reserve Bank of Australia. Australian banks have one of the lowest non-performing loans ratios of 97 IMF surveyed economies.⁶

World's 100 Largest Banks' Credit Ranking



Sources: The chart was sourced from the Reserve Bank of Australia *Financial Stability Report March 2009*, page 25, Graph 38, and updated with the 2009 data of banks assets from *The Banker 1000 World Banks 2010* and *Standard and Poor's Credit Ratings* (downloaded 27 July 2010) from Bloomberg; Austrade

1. Australia Bureau of Statistics cat. no. 5206.0, *Australian National Accounts: National Income, Expenditure and Product*, June 2010, *Time Series workbook*, Table 6 (released 1 September 2010); 2. Reserve Bank of Australia (RBA) *Bulletin Statistical Table B01 Assets of Financial Institutions*, Table B18 Managed Funds (downloaded 1 September 2010); 3. Data of banks assets sourced from the Banker, and credit ratings sourced from Bloomberg on 27 July 2010; 4. KPMG, *Major Australian Banks: Half Year 2010 Financial Institutions Performance Summary*, page 6; 5. RBA, *Financial Stability Review – March 2010*, page 21; 6. International Monetary Fund, *Global Financial Stability Report*, April 2010, Statistical Appendix, Table 24

