



AUSTRALIAN BANKERS'
ASSOCIATION INC.

Strong banks – strong Australia

Key facts about Australia's banks' earnings

November 2015





Strong banks – strong Australia

This page is intentionally blank.



Strong banks – strong Australia

Table of Contents

Introduction	1
Profit – cash earnings	2
Tax paid	3
Dividends	3
International comparison	5
Comparison with other industries	6
Australia's banks are safe.....	6



Strong banks – strong Australia

Introduction

Australia's banks are consistently profitable. That makes them a reliable investment for shareholders, underpins their stability and safety, and generates significant revenue for governments.

This report looks at the profit performance of Australia's main retail banks in the 2015 reporting season.

The report shows:

- Australia's main retail banks¹ recorded solid profit results in 2015.
- From this, banks paid a record \$13.5 billion in tax.
- The bulk of the after-tax profits were distributed to ordinary Australians - mum and dad investors and retirees. Dividend payout ratios of Australia's banks are high compared with those of banks in many other countries.
- The remainder of the profits was retained by banks to boost capital holdings and for reinvestment in the business to enhance the delivery of products and services to customers.
- The overall return on equity (**ROE**) for Australia's four major banks was around 15 per cent, similar to major banks in Canada.
- The ROE for Australia's four major banks was middle of the road for Australian businesses.
- Profitable banks are safe banks. Australia's four major banks are in the small group of only 11 banks globally which have earned the highest Standard & Poor's rating of AA-.

¹ ANZ, Bank of Queensland, Bendigo and Adelaide, CBA, Macquarie, NAB, Suncorp, and Westpac



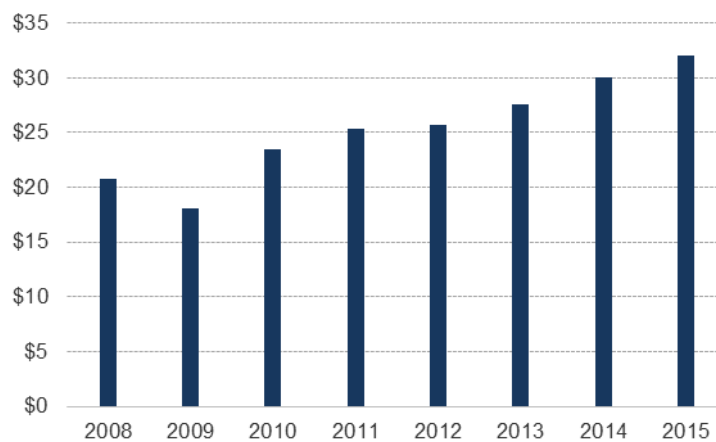
Strong banks – strong Australia

Profit – cash earnings

Australia's main retail banks reported strong full year results for 2015, with cash earnings (profits after tax) of \$32.0 billion - an increase of 6.7 per cent on 2014.

Bank profits have generally trended higher since the post GFC low in 2009.

Figure 1: Bank profits after tax (cash earnings) (\$bn)

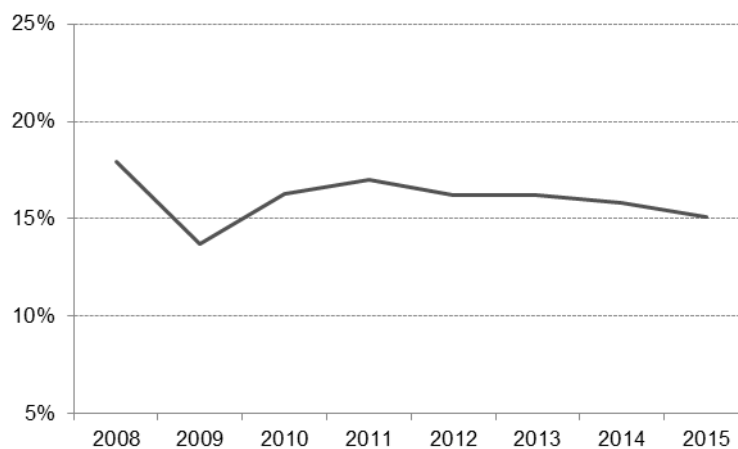


Source: Banks' Annual Reports

The profits made by banks are a return on the capital employed and the adequacy or otherwise of this return can be assessed by the ROE.

In 2015 the ROE of Australia's four major banks was just over 15 per cent. ROE for Australia's major banks has eased since 2011 although it remains slightly higher than the post GFC low recorded in 2009.

Figure 2: Australia's banks' return on equity



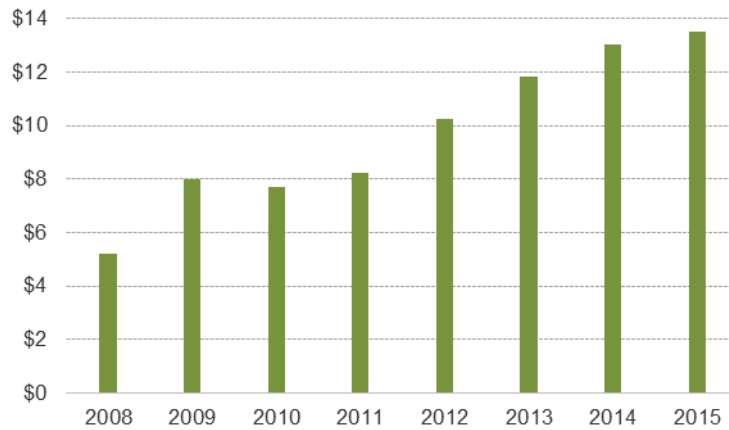
Source: UBS



Tax paid

Governments reap their fair share of banks' earnings, with Australia's main retail banks continuing to make a significant contribution to government revenue. In 2015 banks paid a record \$13.5 billion in tax.

Figure 3: Tax paid by Australia's main retail banks (\$bn)

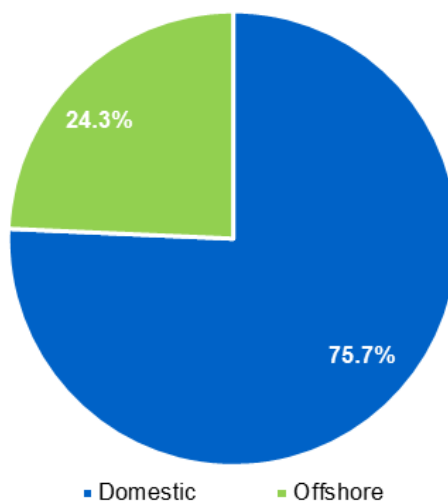


Source: Banks' Annual Reports

Dividends

Banks are owned by their shareholders and it is these shareholders that benefit from the profits which remain after the payment of tax. About three quarters of Australia's banks' shares are owned by domestic shareholders with the remainder held offshore.

Figure 4: Bank shareholders by domicile



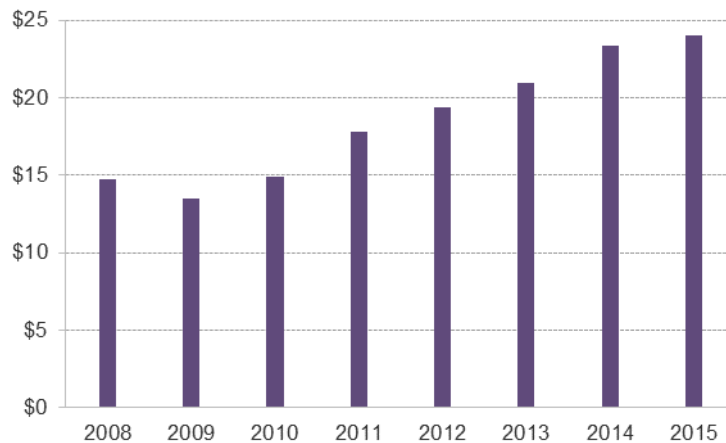
Source: Banks



Most domestic shareholders are Australian households, which hold bank shares directly through the stock market or indirectly through their superannuation or investments in managed funds, trusts or other vehicles.

When banks' profits are distributed, a large portion flows directly or indirectly via dividends to Australian households. A record \$24 billion in dividends was paid to shareholders by Australia's main retail banks in 2015.

Figure 5: Dividends paid by Australia's main retail banks (\$bn)



Source: Banks' Annual Reports

The dividend payout ratios of Australia's banks are high compared with those of banks in some other countries.

Figure 6: Bank dividend payout ratios by selected countries

Country	Dividend Payout Ratio
Australia	69% to 83%
USA	14% to 36%
Canada	47% to 53%
UK	from 76%
Germany	54%
Netherlands	40%
China	24% to 33%

Source: Bloomberg

The profits which are not paid out to shareholders are retained by the banks, either to boost capital holdings or for re-investment in the business to enhance the delivery of products and services and respond to the evolving needs of customers. In 2015 around \$6 billion was retained for these purposes.



International comparison

The ROE of Australia’s banks is about the same as the major banks in Canada which has broadly comparable financial and economic characteristics.

Figure 7: Bank return on equity by selected countries

Country	Number of banks	ROE average
VENEZUELA	4	55.2%
INDONESIA	3	22.5%
SOUTH AFRICA	2	21.0%
QATAR	1	20.2%
BRAZIL	3	18.8%
HONG KONG	2	18.3%
UAE	1	18.2%
CHINA	14	17.5%
SAUDI ARABIA	2	17.1%
MEXICO	2	16.8%
INDIA	5	15.7%
CANADA	5	15.6%
AUSTRALIA	4	15.3%
MALAYSIA	2	15.0%
NORWAY	1	13.5%
SWEDEN	4	12.9%
SINGAPORE	3	12.2%
NETHERLANDS	1	10.9%
BELGIUM	2	10.7%
KUWAIT	1	10.4%
UNITED STATES	10	9.5%
SWITZERLAND	2	9.1%
IRELAND	1	9.0%
JAPAN	4	8.2%
SOUTH KOREA	1	7.5%
SPAIN	4	7.4%
FRANCE	4	7.1%
ITALY	2	4.8%
RUSSIA	2	4.0%
DENMARK	1	4.0%
GERMANY	2	2.1%
BRITAIN	5	1.0%

Source: Bloomberg



Comparison with other industries

ROE for Australia’s banks is middle of the road for Australian businesses. Returns for telecommunications and information technology businesses is much higher. Returns for non-bank financial businesses is also higher than for mainstream banks.

Figure 8: Return on equity by industry (based on ASX200 companies)

GICS	No of businesses	Average ROE
Telecommunication Services	5	21.9%
Information Technology	5	21.4%
Financials ex-bank	31	17.4%
Health Care	17	14.4%
Bank	9	13.0%
Materials	23	10.6%
Consumer Staples	9	9.7%
Industrials	25	8.9%
Consumer Discretionary	34	8.8%
Utilities	4	6.4%
Energy	11	-2.9%
Total	173	11.3%

Source: Bloomberg

Australia’s banks are safe

Profitable banks are strong banks. The Federal Government, in its response to the Financial System Inquiry noted the importance of banks’ resiliency during global shocks. Strong profits are an important contributor to resilience as they facilitate stronger capital backing and a higher capital base as a springboard to future expansion and growth.

Australia’s four major banks are in the small group of only 11 banks globally which have earned the highest Standard & Poor’s rating of AA-. This provides Australians with confidence that in uncertain times their money is safe in Australia’s banks.



Strong banks – strong Australia

Figure 9: Bank ratings (Standard & Poor's)

NAME	Market Cap (AUD\$m)	Country	S&P Rating
CBA	\$132,676	AUSTRALIA	AA-
ROYAL BANK OF CANADA	\$113,522	CANADA	AA-
WESTPAC	\$105,551	AUSTRALIA	AA-
TORONTO-DOMINION BANK	\$105,505	CANADA	AA-
NAB	\$85,127	AUSTRALIA	AA-
ANZ	\$84,092	AUSTRALIA	AA-
NORDEA BANK AB	\$64,275	SWEDEN	AA-
HANG SENG BANK LTD	\$49,180	HONG KONG	AA-
OVERSEA-CHINESE BANKING CORP	\$38,081	SINGAPORE	AA-
SVENSKA HANDELSBANKEN-A SHS	\$36,924	SWEDEN	AA-
UNITED OVERSEAS BANK LTD	\$32,269	SINGAPORE	AA-
WELLS FARGO & CO	\$385,304	UNITED STATES	A+
BNP PARIBAS	\$106,486	FRANCE	A+
US BANCORP	\$103,523	UNITED STATES	A+
BANK OF NOVA SCOTIA	\$78,301	CANADA	A+
BANK OF MONTREAL	\$52,203	CANADA	A+
QATAR NATIONAL BANK	\$49,152	QATAR	A+
CAN IMPERIAL BK OF COMMERCE	\$42,171	CANADA	A+
NATIONAL COMMERCIAL BANK	\$39,558	SAUDI ARABIA	A+
SWEDBANK AB - A SHARES	\$36,503	SWEDEN	A+
SKANDINAVISKA ENSKILDA BAN-A	\$32,982	SWEDEN	A+
AL RAJHI BANK	\$31,788	SAUDI ARABIA	A+
BNP PARIBAS FORTIS SA- AUC	\$21,047	BELGIUM	A+
NATIONAL BANK OF KUWAIT	\$19,108	KUWAIT	A+
IND & COMM BK OF CHINA-A	\$350,344	CHINA	A
JP MORGAN CHASE & CO	\$326,706	UNITED STATES	A
CHINA CONSTRUCTION BANK-H	\$256,806	CHINA	A
BANK OF CHINA LTD-H	\$235,151	CHINA	A
AGRICULTURAL BANK OF CHINA-A	\$219,732	CHINA	A
HSBC HOLDINGS PLC	\$213,313	BRITAIN	A
SOCIETE GENERALE SA	\$53,433	FRANCE	A
CREDIT AGRICOLE SA	\$46,786	FRANCE	A
DANSKE BANK A/S	\$41,345	DENMARK	A
NATIXIS	\$26,832	FRANCE	A
BANK OF AMERICA CORP	\$238,267	UNITED STATES	A-
CITIGROUP INC	\$221,005	UNITED STATES	A-
BANCO SANTANDER SA	\$114,435	SPAIN	A-
BANK OF COMMUNICATIONS CO-H	\$91,899	CHINA	A-
ING GROEP NV-CVA	\$79,718	NETHERLANDS	A-
SUMITOMO MITSUI FINANCIAL GR	\$78,398	JAPAN	A-
MIZUHO FINANCIAL GROUP INC	\$70,442	JAPAN	A-
PNC FINANCIAL SERVICES GROUP	\$64,134	UNITED STATES	A-
BB&T CORP	\$40,221	UNITED STATES	A-
STANDARD CHARTERED PLC	\$39,945	BRITAIN	A-
KBC GROEP NV	\$34,212	BELGIUM	A-
MALAYAN BANKING BHD	\$26,442	MALAYSIA	A-
PUBLIC BANK BERHAD	\$23,260	MALAYSIA	A-
M & T BANK CORP	\$22,698	UNITED STATES	A-
MITSUBISHI UFJ FINANCIAL GRO	\$127,134	JAPAN	A-

Source: Bloomberg