

# Bad debts threaten banks' double-digit profit growth

WEST MAY 12 2008

MATHEW MURPHY

PACK 33

Australia's major banks have ended several years of double-digit growth and are about to experience further increases in the cost of bad debt.

A half-yearly report card by financial advisory firm KPMG says the outlook for the major banks is significantly healthier than that of their overseas counterparts, which recorded more than \$US250 billion (\$265 billion) in asset write-downs and credit losses since the start of last year.

"Bad debts have increased but these have, by and large, been one-off losses, rather than any reflection of system credit quality problems," Andrew Dickinson, head of KPMG's banking practice, said.

"The result, when looked at in the context of global markets, is a solid one for Australian banks.

"Prudent lending policies over the past few reporting periods have protected the Australian banks



**NAB: Bad debt provision raised.**

from the catastrophic results reported elsewhere."

On the plus side for the banks, profit increased 12.7 per cent to \$9.8 billion in the first half of 2007-08, compared with \$8.7 billion in the previous corresponding period.

Revenue grew 3.6 per cent driven by increased lending and bank fees as well as one-off items.

Cash return on equity fell from 21.1 per cent to 19.2 per cent, below the previous industry benchmark of 20 per cent.

The downturn in the share-market prompted investors to shift cash from investment funds into bank deposits. As a result, wealth management profit increased by \$915 million compared with \$834 million in the first half of 2006-07.

"Given significant market volatility and uncertainty in recent months it is not unexpected to see a shift of funds from the wealth management industry to banks," Mr Dickinson said.

Last week St George Bank cut its earnings forecast for the rest of this financial year from 10 per cent to as low as 8 per cent, after first-half core profit growth slowed.

National Australia Bank reported a 25.8 per cent increase in first-half net profit to \$2.7 billion net profit. But it has increased its first-half provision for bad and doubtful debts 86.2 per cent to \$726 million.