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Australia's big four banks thrive as credit crunch damage felt elsewhere

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Australia's big four commercial banks are the most profitable in the developed world and managed to thrive last year despite the global credit crunch, a report shows.

The annual report from the Bank for International Settlements shows Australia's commercial banking sector increased its net interest margins and cut operating costs as banks everywhere else struggled under the weight of higher lending costs and shrinking customer demand.

The BIS effectively works as the reserve bank to the globe's central banks and every year compares the results of banking sectors of key nations, including the US, Britain, Switzerland, France and Australia.

Last year banks in only Australia and Spain increased their pre-tax profits. Profits for the nation's biggest banks broke the \$16 billion mark for the 2006-07 financial year and half-year results for 2007-08 showed the big four had made almost \$9 billion in profits.

Pre-tax profit among America's biggest banks fell almost 44 per cent, while those of British banks tumbled a third.

The BIS measures pre-tax profit as a percentage of total average



World beating: Australia's big banks led the table of pre-tax profits.

assets. Australian banks lifted this to 1.67 per cent from 1.62 per cent in 2007. In 2005, pre-tax profits for Australian banks were 1.52 per cent.

Despite concern about the impact of the sub-prime mortgage woes of the US and the global credit crunch, the figures show Australia's biggest banks only marginally increased their loan loss provisions, from 0.13 per cent of total average assets to 0.15 per cent.

By comparison, loan loss provisions from America's top 11 banks more than doubled to 0.56 per cent of total assets from 0.2 per cent.

Australia's banks reduced their

operating costs even though lending costs increased.

Figures compiled by the Australian Prudential Regulation Authority released yesterday confirm the strength of the big four banks.

The principal balance of securitised assets held by the four all increased by at least 14 per cent over the past year to the end of May. The securitised assets held by the Commonwealth Bank grew almost 25 per cent to \$392 billion.

Despite the strength of Australia's banking sector, the BIS warned that global banking could weaken world economic activity in coming months.