Foreign Bank Tracker **2020**

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Introduction

This is the fifth year in which we have produced this report, which reveals capital flow trends into Australia via foreign banks and market analysis of the results.

To produce the FBT, we drew on the Australian Prudential Regulation Authority (APRA) statistics. The report continues to reveal interesting patterns of capital investment into Australia. Indeed, this latest edition shows a continued expansion of foreign banks in our domestic marketplace.

A key theme this year was foreign banks' continued expansion in the Australian market. In particular, we identified three highlights:

European investment was back on the table

Following a prolonged period of quiet and uncertainty, European banks stood out this year with a 24% rate of growth – the highest of all the regions. With renewed confidence and certainty following Brexit, European – and particularly UK-based investors – were poised for action, and keen to look further afield.

Asian bank growth was consistently strong

Asian bank growth continued their pattern of acceleration, growing to a 17% rate of growth in 2019. Asia is a consistently strong investor in Australia, and with 28 Asian banks operating in Australia, all Asian countries grew resident assets at effectively double digit growth rates.

Emerging market issues are set to have a major impact

Emerging global issues in 2020 are set to have a profound effect on the market and capital flow into Australia and around the world. We're seeing unprecedented impacts of the COVID-19 pandemic, which has emerged as a major operational challenge for all businesses. Foreign businesses such as foreign banks are facing travel restrictions and disruptions from the need to quarantine individuals. Additionally, the supply and demand disruption created by COVID-19 has generated cashflow volatility for many businesses, adding an additional layer of difficulty to credit assessment. It has also changed risk appetites, leading to changes in the availability of credit.

In addition, reduced oil prices and climate change concerns, exacerbated by the Australian bushfire crisis, have provided additional challenges for investors.

The long term impact of these challenges is yet to be seen. However, as countries start to recover and stabilise, we expect to see a flurry of activity as funds look to invest in businesses. Looking ahead, we expect foreign banks to continue to expand in Australia, despite significant headwinds.

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(All financial data and figures including share price information is represented as at 31 July 2019 unless specifically noted).

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Key highlights

Strong double digit growth compared to sub-inflation growth for three of the four big four Australian banks (though off a substantially lower base);

One new foreign bank

- Societe Generale from France, which has returned to the Australian market after a six year absence.
- While it has not obtained an ADI licence, 2019 also saw the return of Barclays Capital.

Regional growth spurts

- Europe was the fastest growing region, growing resident Australian assets 24% - its highest rate of growth since 2007.
- Asian banks accelerating year on year (YOY) growth to 17% after 15% the previous year. Asian banks grew resident Australian assets by $25.8 billion in aggregate.
- North American banks grew resident Australian assets by 18%, the strongest growth since 2010.

YOY growth

- Swiss banks grew 43%
- UK banks grew 42%
- German banks contracted by 3%
- French banks grew 1%
- Chinese banks grew 20%
- Japanese banks grew 10%
- Indian banks grew 93%

The long term impact of challenges such as the COVID-19 pandemic, reduced oil prices and climate change concerns is yet to be seen. However, as countries start to recover and stabilise, we expect to see a flurry of activity as funds look to invest.

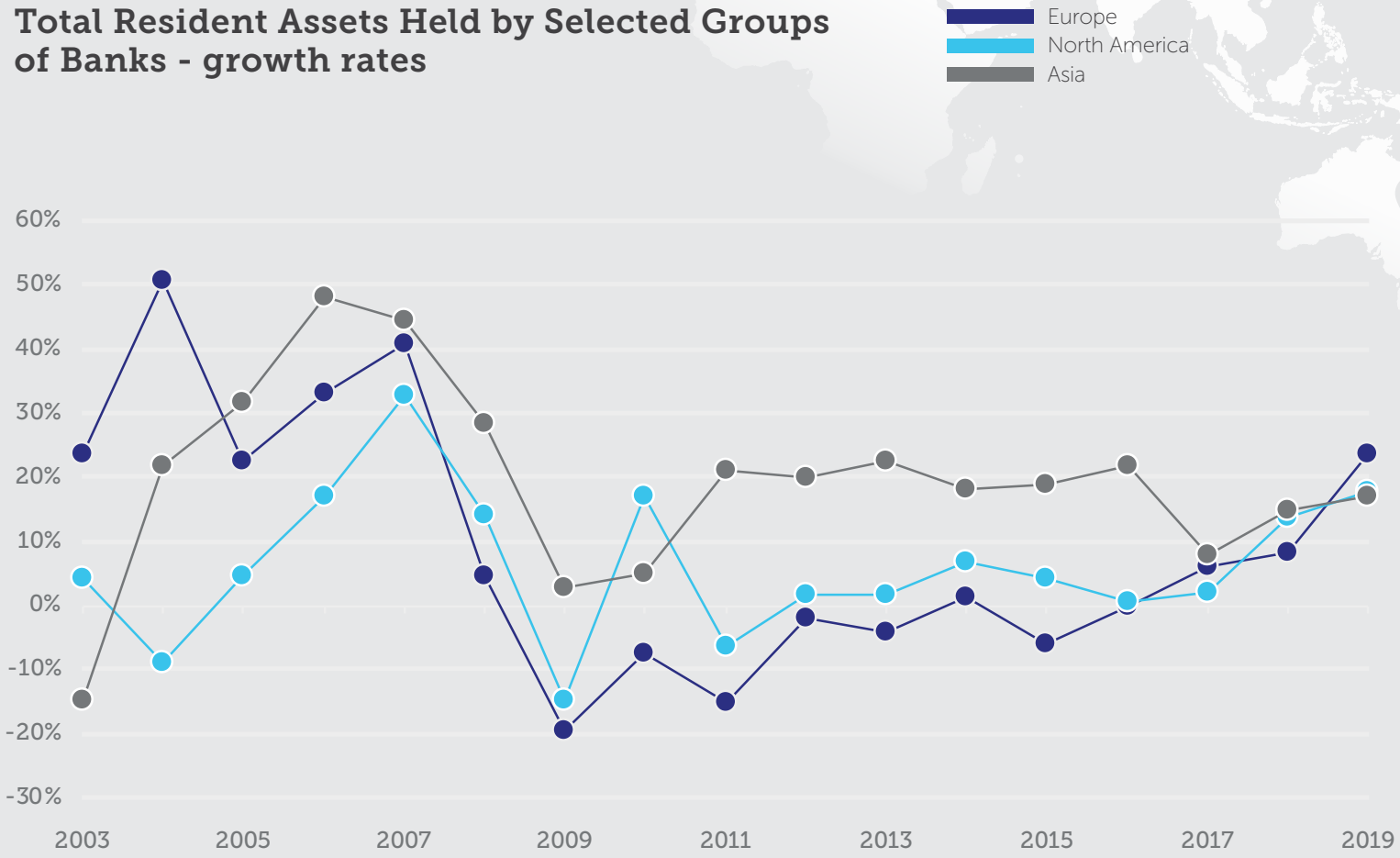
John Elias, Partner - MinterEllison

The global picture

Growth rates have picked up on the past year across all regions. Europe had the greatest lift in growth, driven primarily by domestic subsidiaries of HSBC and ING.

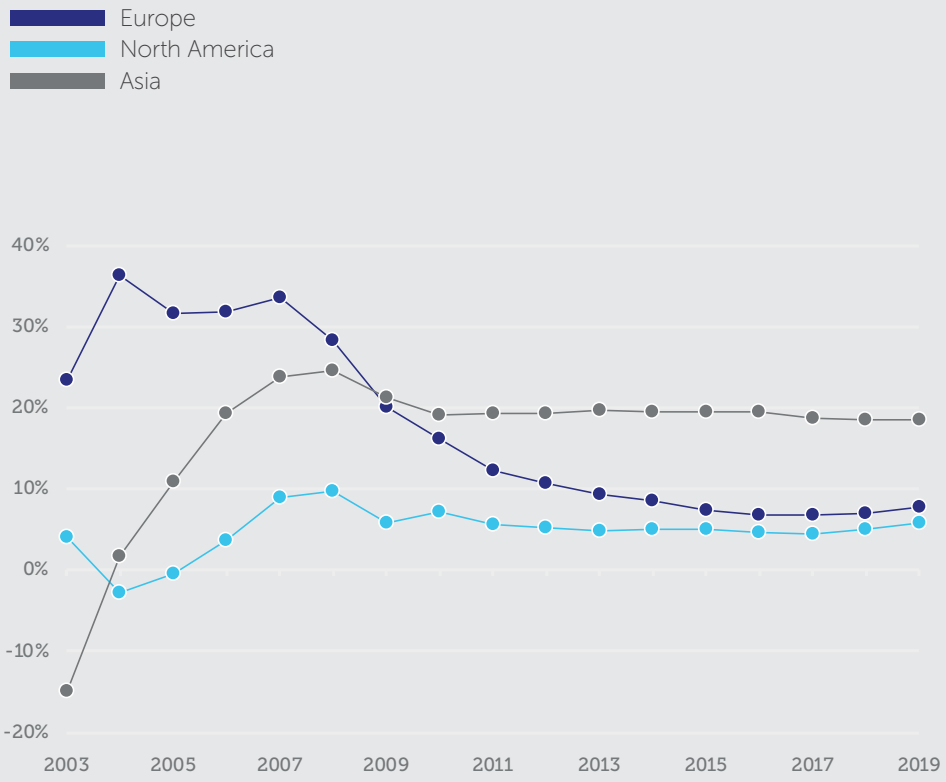
While there is still some variation, the volatility in Asian banks growth rates has been significantly lower than of those in Europe or the US.

Total Resident Assets Held by Selected Groups of Banks - growth rates

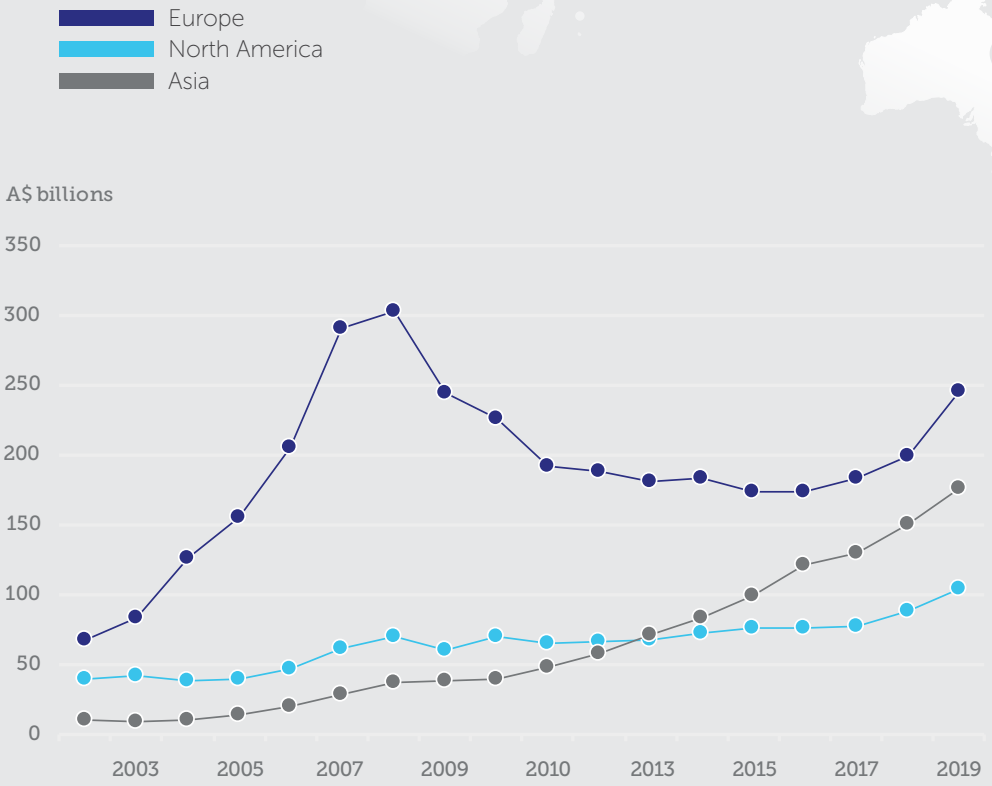


The global picture (cont.)

Total Resident Assets Held by Selected Groups of Banks - CAGR since 2002



Total Resident Assets Held by Foreign Banks in Australia

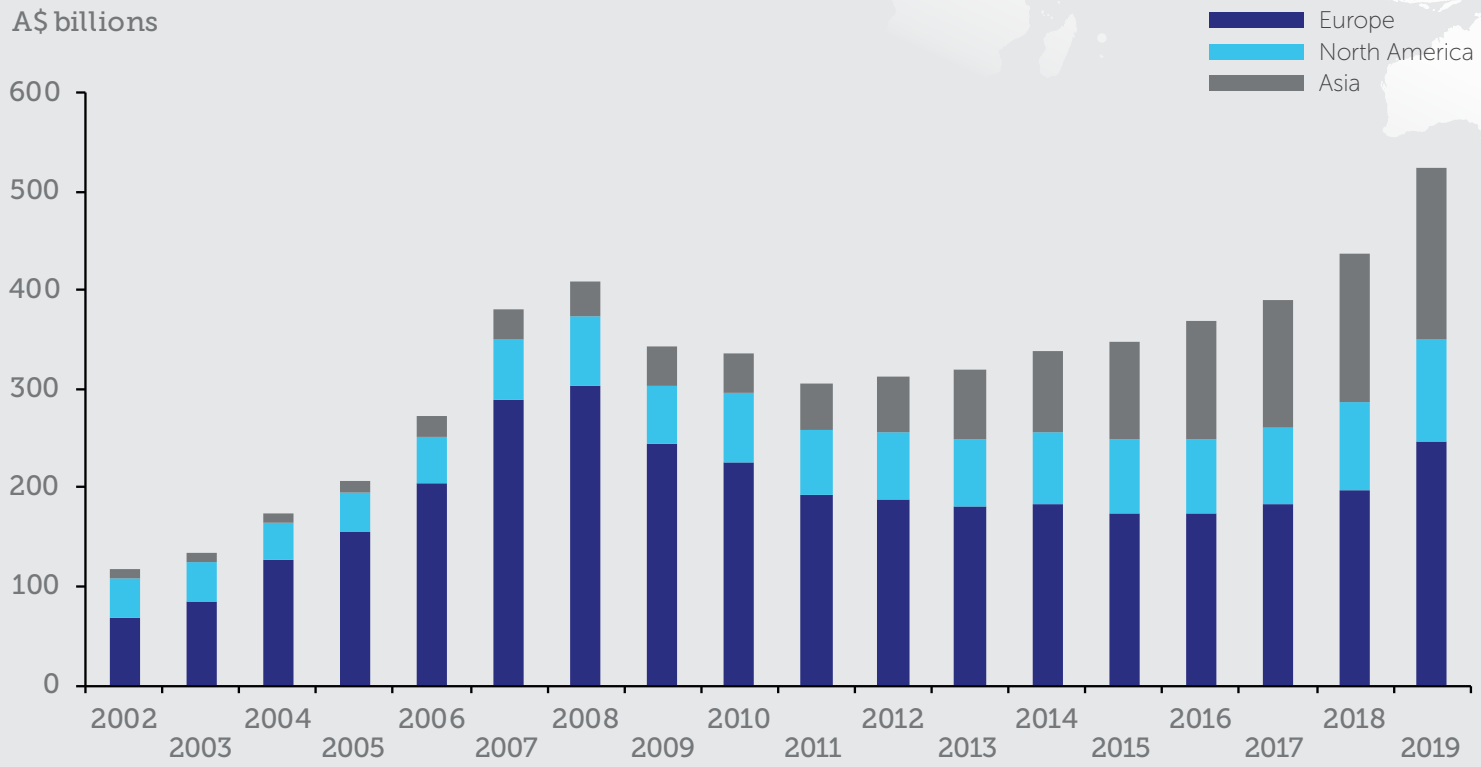


Foreign bank resident assets

European banks have the most resident assets of foreign banks, followed by Asian banks and finally North American banks.

Over the past year, European banks in Australia have been the fastest growing of banks from the three different regions.

Total Resident Assets Held by Foreign Banks in Australia



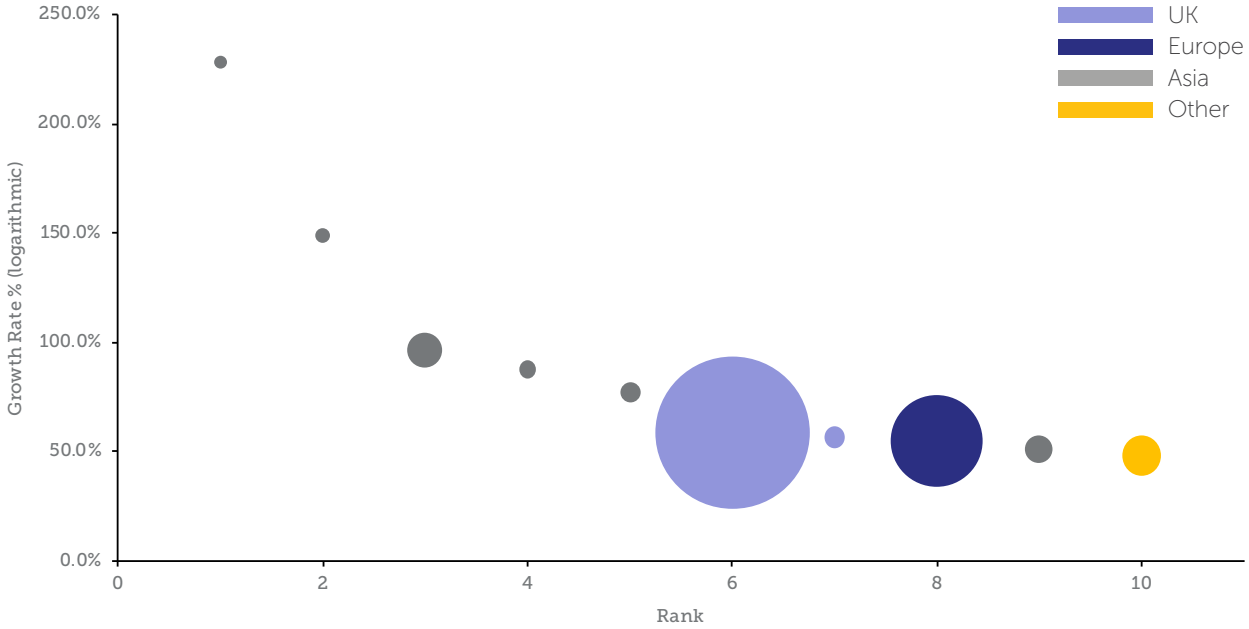
Resident asset growth in 2019 - top 10 banks

While seven out of the top ten fastest growing foreign banks in Australia were Asian, they were relatively small in dollar asset terms.

There are two banks from the UK, HSBC and Standard Chartered, with HSBC having a meaningful size of $49.3 billion of assets.

The eighth fastest growing bank was the European region (Swiss) UBS, which grew resident assets to $17.9 billion, up 55% over the past year.

Rounding out the top 10 is the Bank of Sydney, a subsidiary of the Bank of Beirut Group.



Key findings: Europe

In 2019, Europe was the fastest growing region.

There are 15 European banks operating in Australia. However, this double or triple counts some banks operating under multiple licences such as ING, Rabobank, Investec, BNP Paribas, and HSBC. This includes an increase of two over the past year, namely Investec Bank (the parent of the domestically incorporated Investec, which has been operating in Australia for some time), and Societe Generale, which has returned to the Australian market after a six year absence. While it has not obtained an ADI licence, 2019 also saw the return of Barclays Capital.

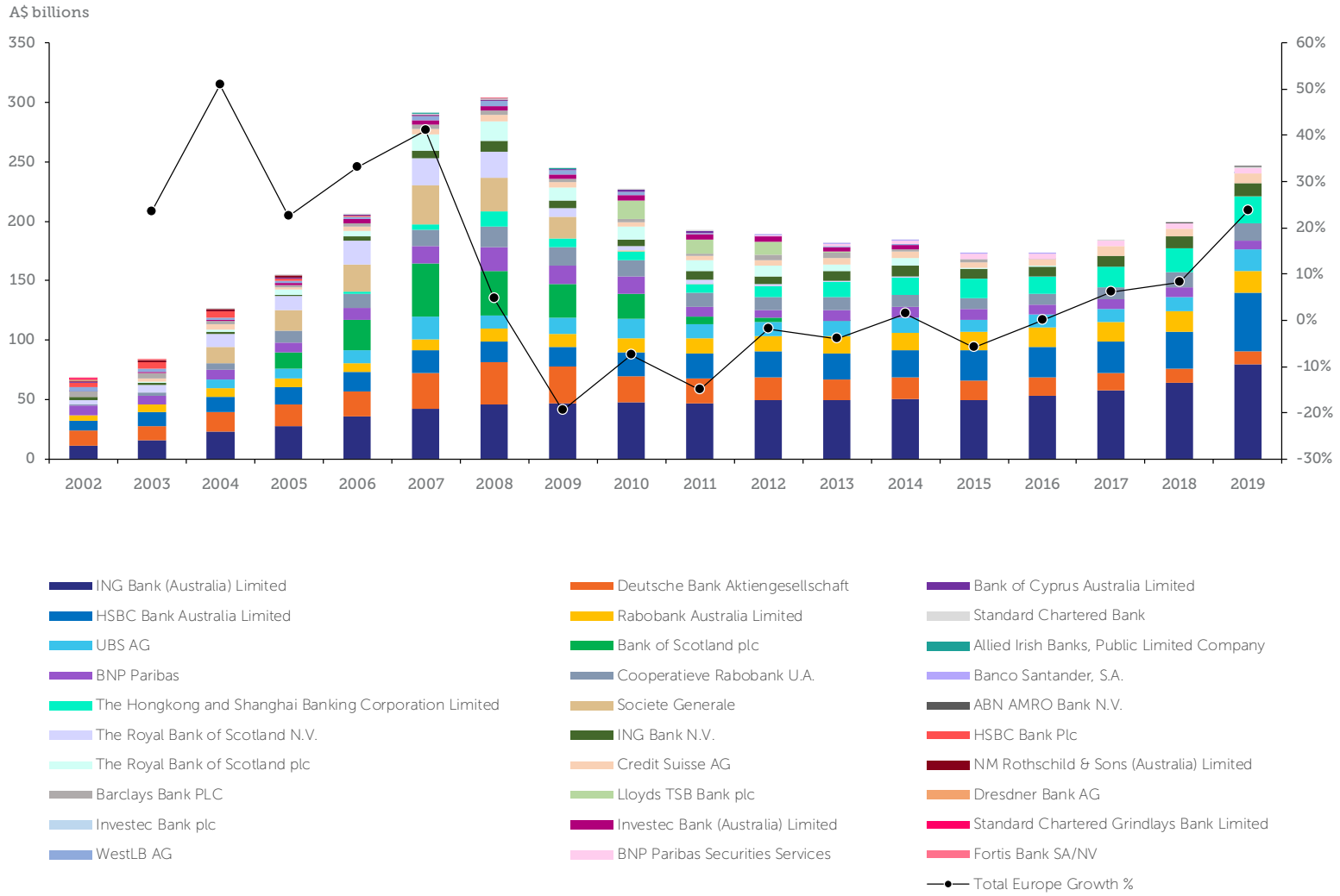
UK banks in aggregate were the fastest growing in Europe, with growth over the past year of 42%. French banks in aggregate were growing the slowest at 0.6%, while the only German bank operating in Australia, Deutsche Bank, saw its resident assets decline by 3.2%.

Of individual banks, ABN Amro was the fastest growing, increasing resident assets by over 152 times from a very small base, having just returned to Australia at the end of last year. HSBC Australia, Standard Charted and UBS all grew resident Australian assets by over 50%.

BNP Paribas and Deutsche Bank both contracted resident Australian assets over the past year.

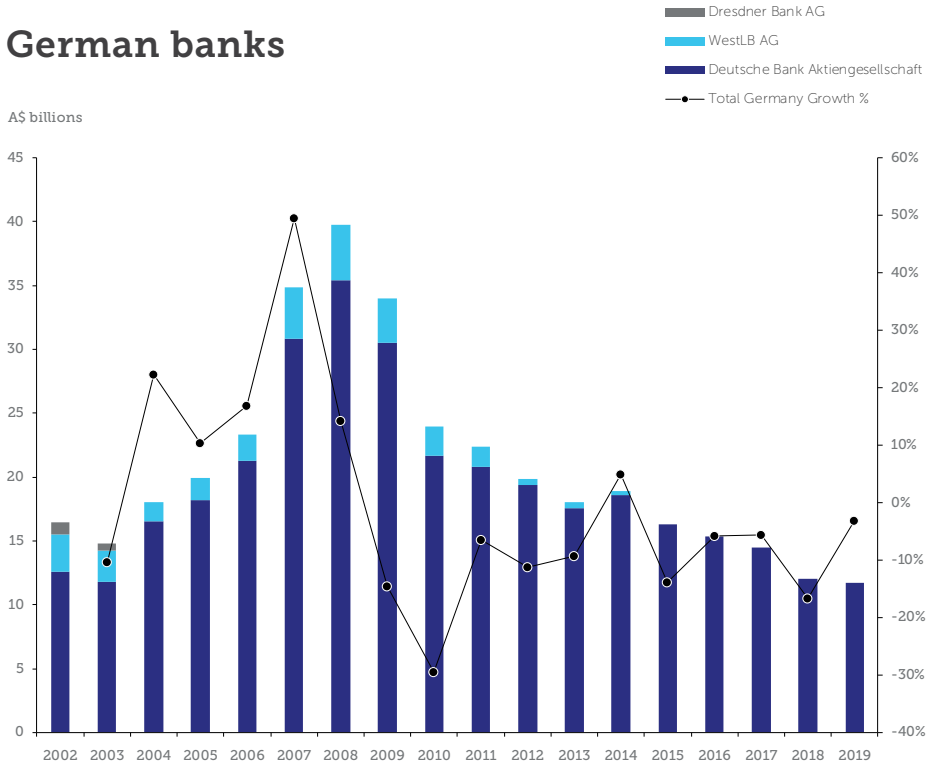
Key findings: Europe (cont.)

- European region banks grew resident Australian assets by $47.2 billion in aggregate, the equivalent of 24%.
- Dutch banks are the largest in Australia, followed by British banks.
- ING Bank (Australia) is the largest European region bank, following by HSBC Bank Australia, Rabobank and UBS.

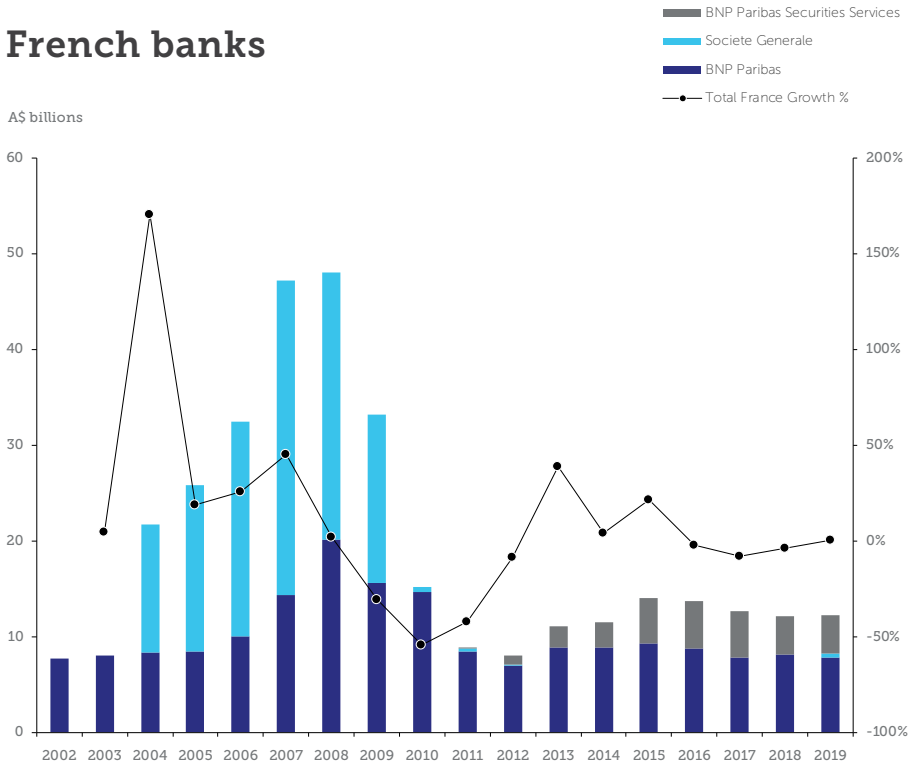


Germany and France

German banks

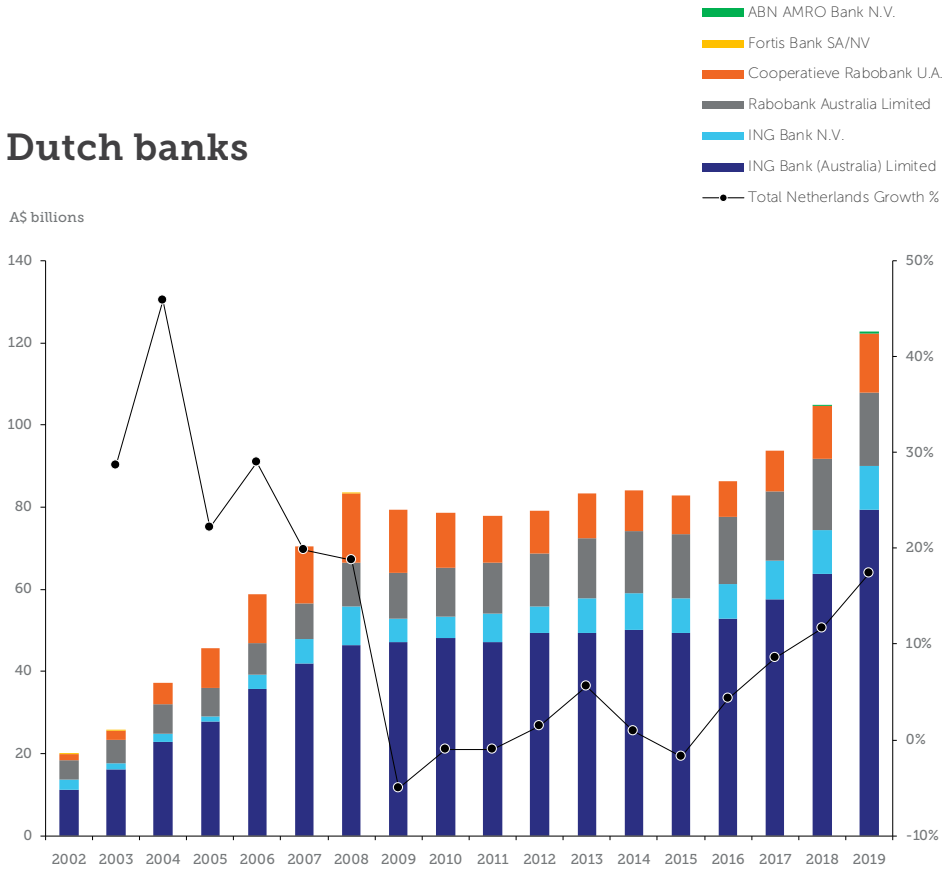


French banks

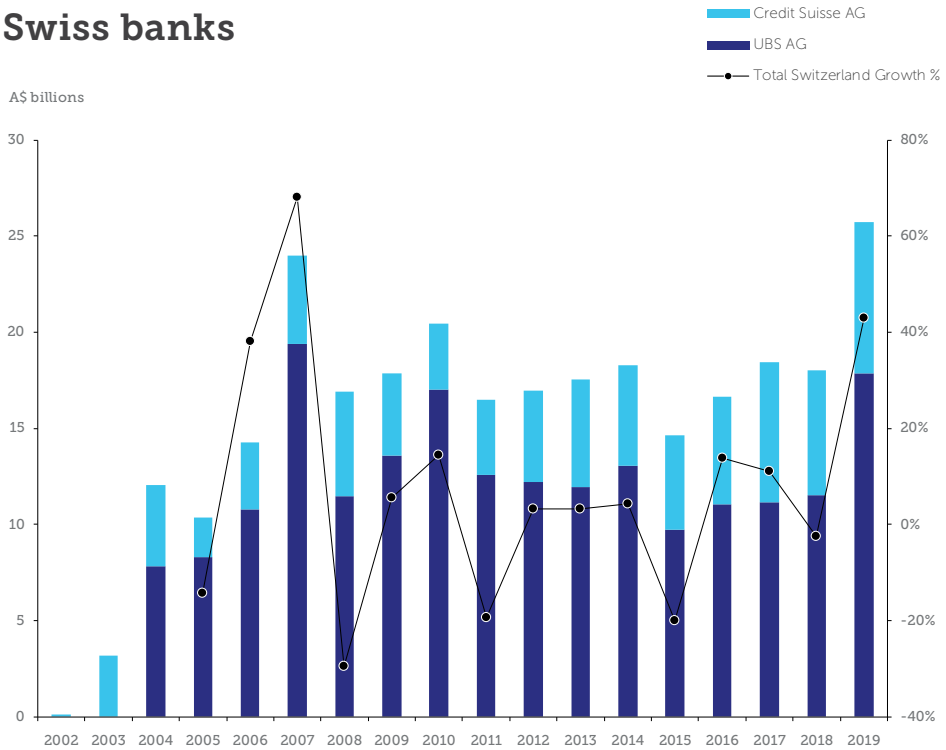


Netherlands and Switzerland

Dutch banks



Swiss banks

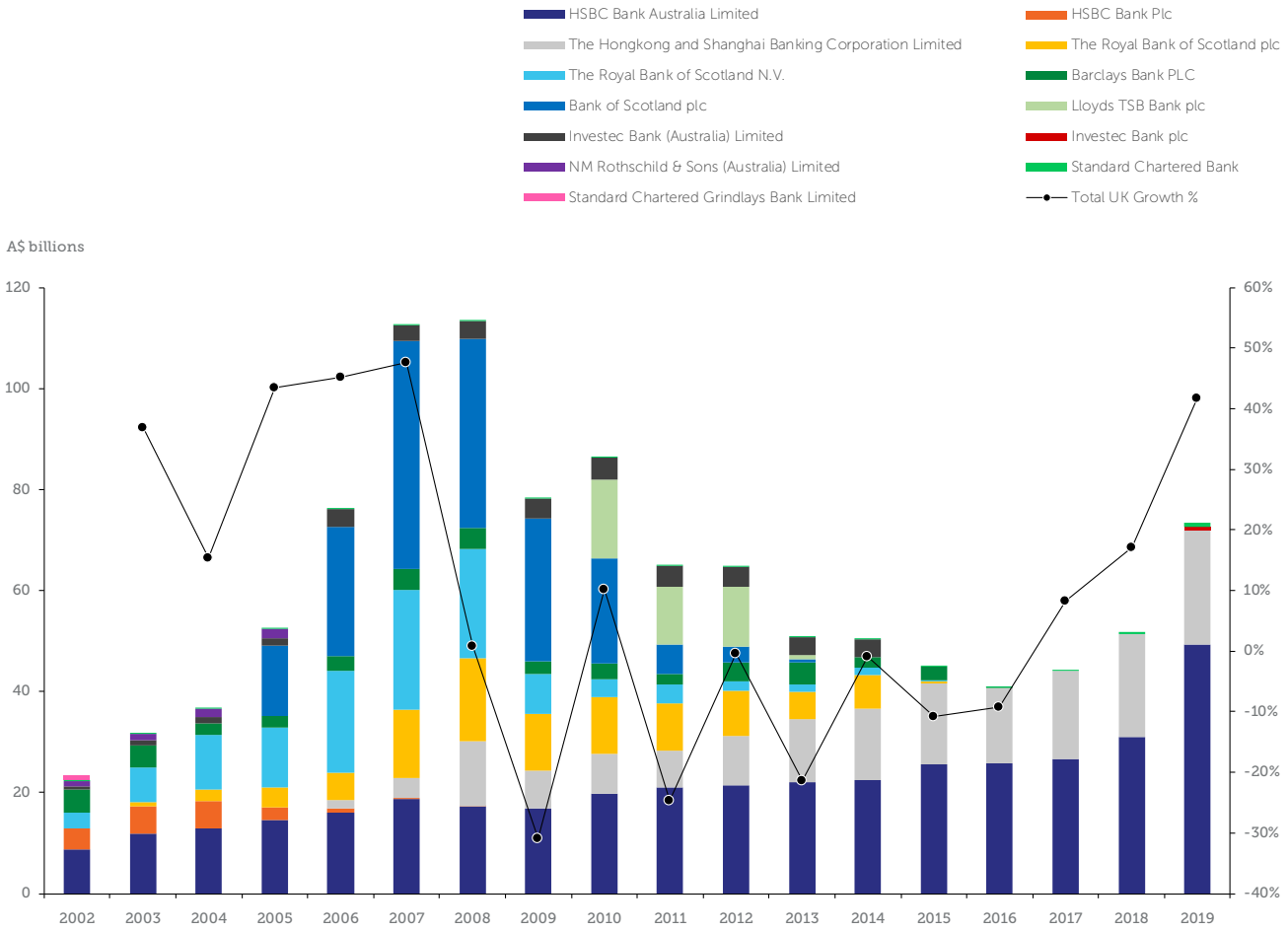


UK banks

European banks were the fastest growing in Australian in 2019, and banks from the United Kingdom – which grew by 42% – played a major part in that. With a new degree of confidence following the UK election and the certainty of Brexit, investors started to reengage with the market, looking further afield than Europe. With a positive exchange rate due to the weak Australian dollar and prospects across a wide range of industries, Australian assets were an attractive option.

The end of 2019 saw major UK-based funds taking interest in Australian targets, and the increasing bank activity reflected that interest.

While the UK started to boom in January and February of 2020, the global COVID-19 pandemic has slowed the market right down. However, we anticipate that longer term, the opportunities will still be there. Capital-heavy private equity funds have been looking for stability to invest. Once the market settles, we are likely to see a flurry of activity as funds look to invest in businesses – in Australia and all over the world – that require capital injections.



Key findings: Asia

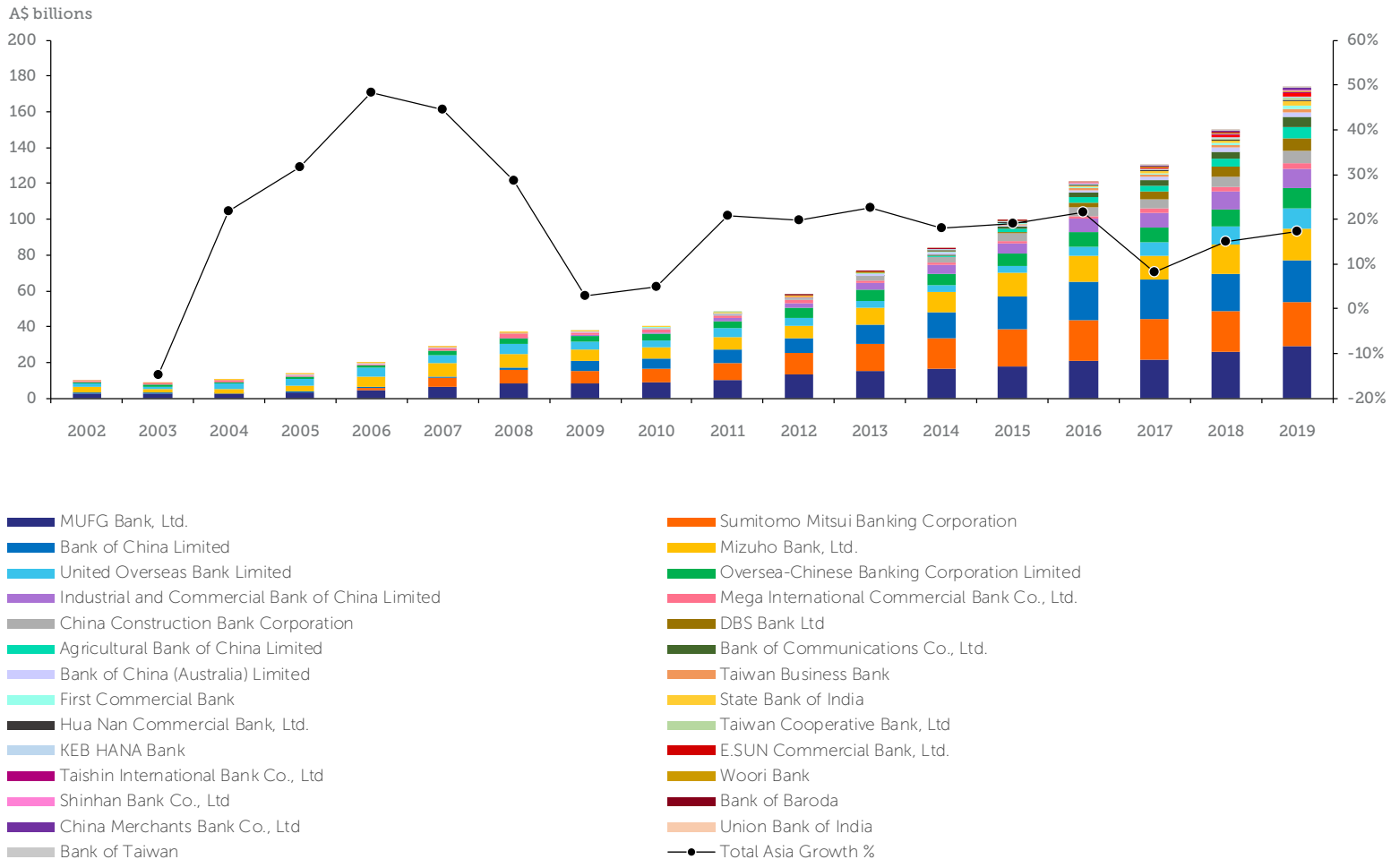
Asia continued its strong growth, with all Asian countries growing resident assets at effectively double digit growth rates.

2019 saw 28 Asian banks operating in Australia, which was unchanged on last year. Of individual banks, China Everbright bank was the fastest growing, increasing resident assets by almost 12 times. The Bank of Taiwan grew by 2.3 times, while State Bank of India almost doubled resident assets in Australia.

Asian Banks:
Total resident asset value and growth

Asian banks grew resident Australian assets by $25.8 billion in aggregate, the equivalent of 17%.

Of the Asian banks, Japanese banks are the largest in Australia, followed by Chinese banks. MUFG Bank is the largest in Australia, followed by SMBC and Bank of China. Mizuho Bank from Japan is the fourth largest, followed by two Singaporean banks, UOB and OCBC.



Mainland China

Bank of China remains the largest Chinese bank by resident Australian assets. Its percentage growth relative to other Chinese banks in Australia has slowed in recent years, but that comes off a higher base – so Bank of China still has the fastest growth by dollar value of resident assets in the region.

The top three Chinese banks by Australian resident asset growth in percentage terms are China Everbright Bank, China Merchants Bank, and Agricultural Bank of China. The two newest entrants, China Merchants Bank and China Everbright Bank, grew substantially. Although their growth comes off a lower base, the growth rates show their committed approach to the Australian market is taking root. They have also had success in growing resident assets. Notwithstanding the current uncertainty and major global challenges, we expect that long term, this trend will continue based on the trends of their market peers at similar stages in market presence.

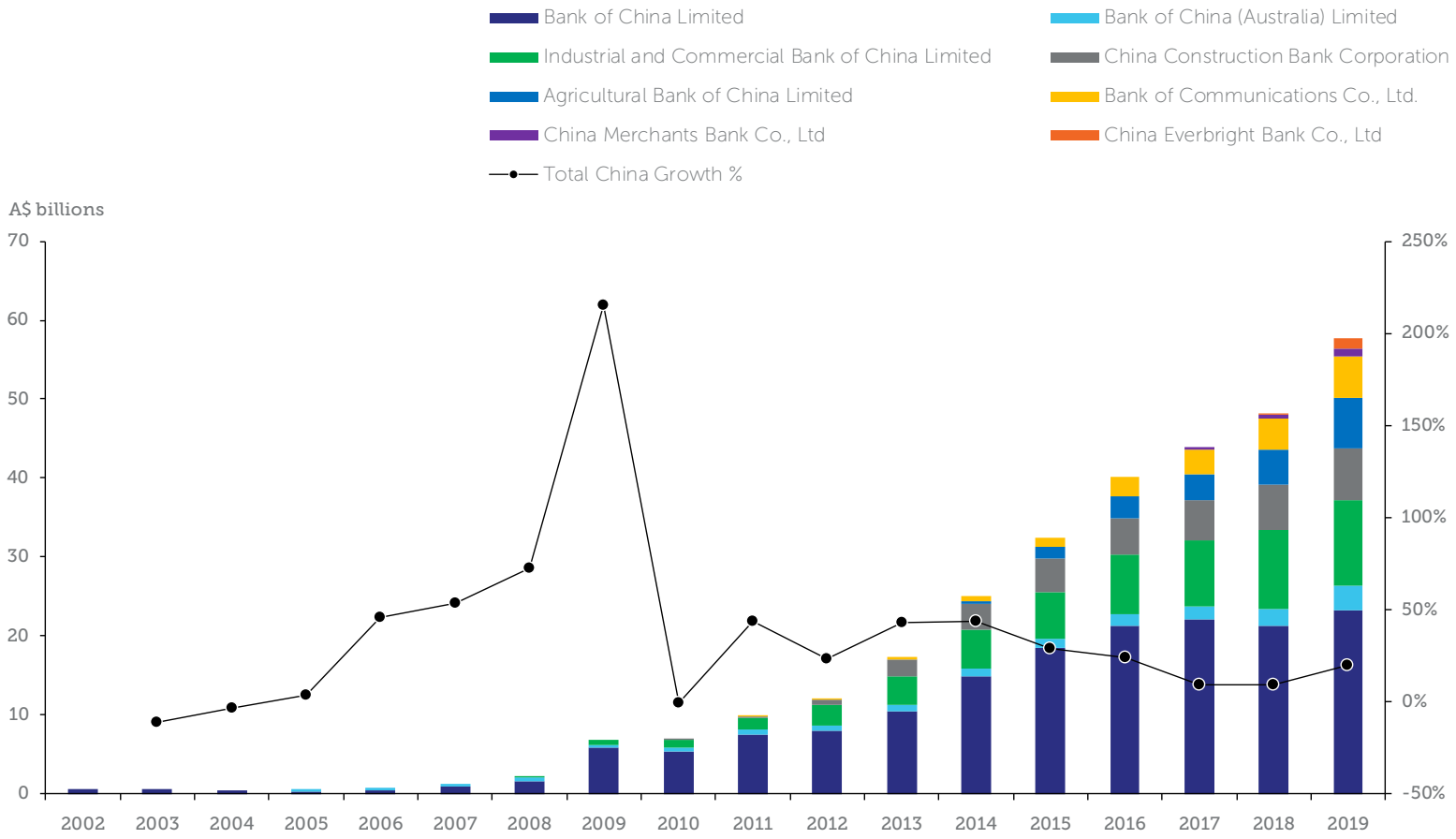
In 2019, the overall story for the mainland Chinese banks appeared to be one of continued measured growth among established players and continued searches for growth among newer market entrants.

As with previous years, the data reinforces the view that Australia and China have relatively complementary economies.

We still expect the trend and approach of China's banks to follow their clients, which includes ongoing investment in Australia and a continued interest in industries such as minerals and resources, education, agritech, biomedicine and health. However, the outbreak of COVID-19 and China's anticipated 14th five year plan will shape – and possibly change – these trends.

> In 2019, the overall story for the mainland Chinese banks appeared to be one of continued measured growth among established players and continued searches for growth among newer market entrants.

Mainland China (cont.)



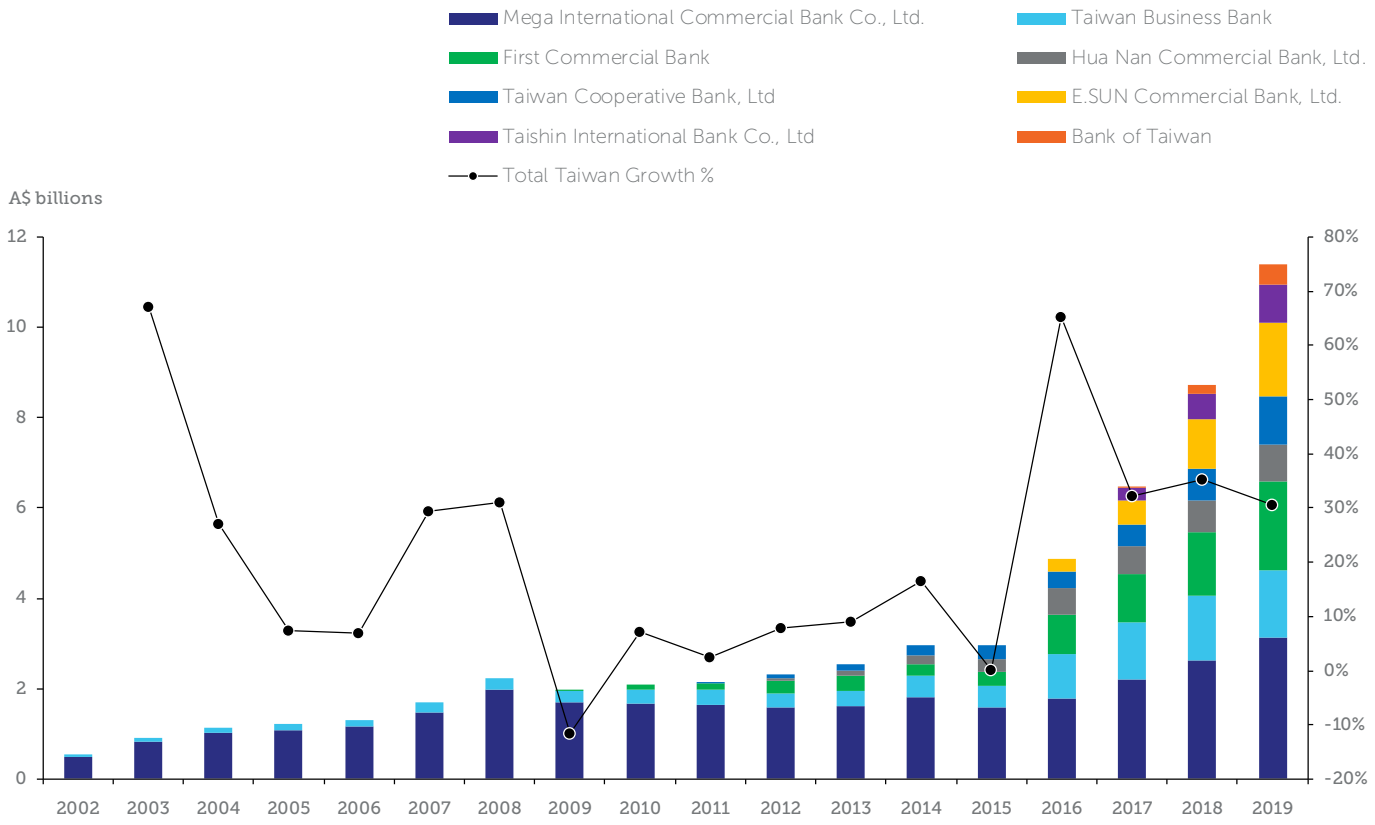
Taiwan

Under the principle of one country, two systems, Taiwanese banks are subject to entirely different governance and regulation to their mainland Chinese counterparts. In aggregate, Taiwan's banks now have $11.4 billion of resident Australian assets, up 30.7% over the past year.

Mega International Commercial Bank remains the largest Taiwanese bank by resident assets in Australia; and the third fastest growing in the region in dollar terms, however it was the second slowest growing in percentage terms.

The top three Taiwanese banks by percentage growth in Australian resident assets were Bank of Taiwan (which is also the smallest by resident Australian assets), E. Sun Commercial Bank and Taiwan Cooperative Bank.

The Taiwanese banks' presence in Australia remains an area of healthy growth to be watched, albeit on a smaller scale to mainland China.



Japan

Japanese bank activity in Australia continued to go from strength to strength in 2019. MUFG remains Japan's largest bank in Australia and grew its resident Australian assets by 14% or $3.6 billion to $29.3 billion last year. Both SMBC and Mizuho Bank also strengthened their presence with $24 billion and $17.7 billion in resident assets respectively. This increased by $1.4 billion and $1.2 billion over the past year, equivalent to increases of 6.4% and 7.3%. For MUFG and SMBC, this now places them fifth and sixth respectively in loan portfolio size in Australia, only behind Australia's 'big four' banks and ahead of other significant banks in Australia such as Bank of China and Rabobank.

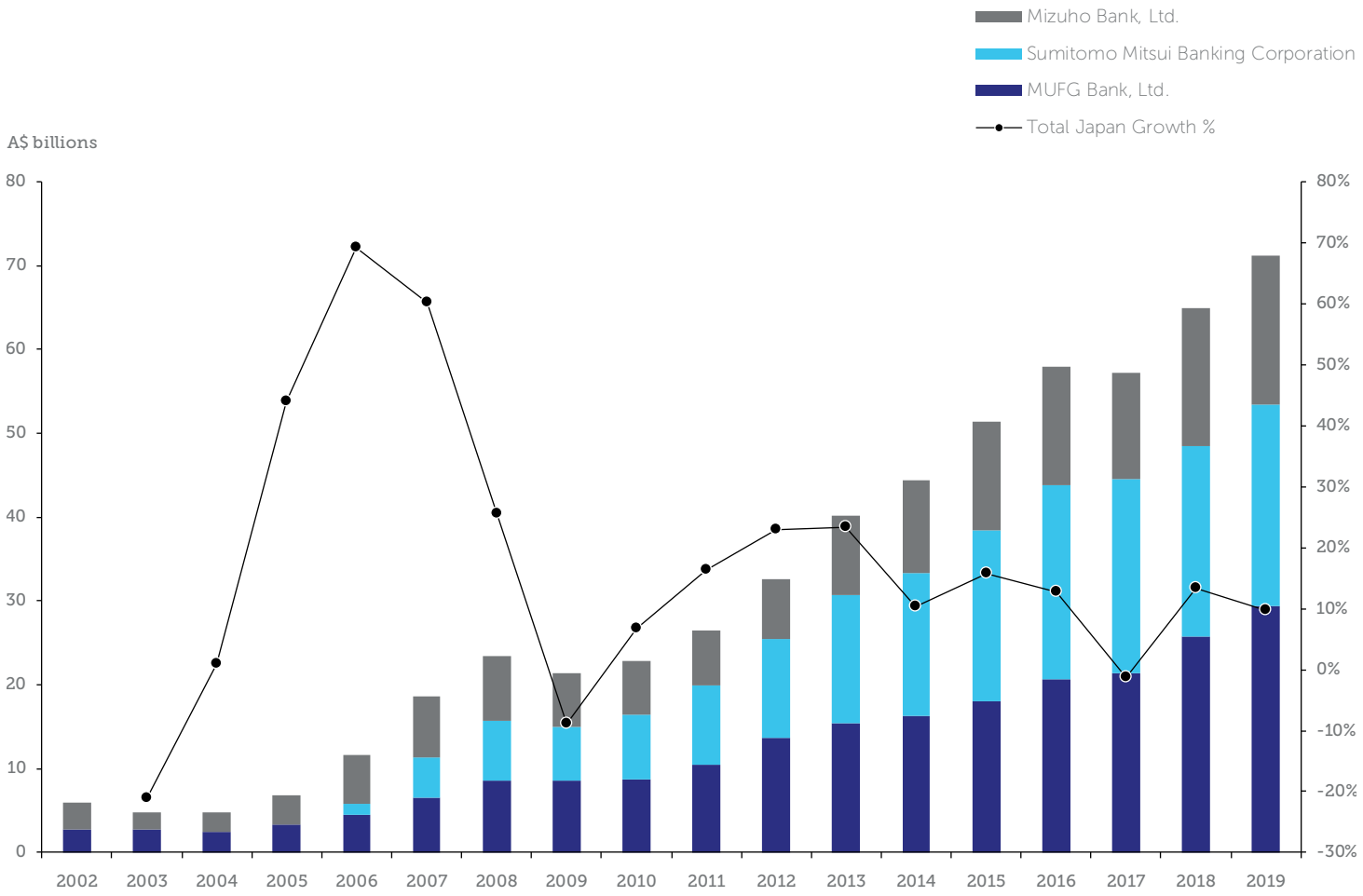
SMBC's exposure is likely to grow in Australia following their commitment to the NSW Government in respect of the Western Sydney Airport and Western Sydney Aerotropolis, Australia's largest single infrastructure project. This is expected to commence operations in 2026.

Western Sydney Airport and Western Sydney Aerotropolis and the broader significant infrastructure pipeline in Australia has also recently attracted Sumitomo Mitsui Trust Bank (SMTB) to the Australian market in September 2019.

The continued surge in Japanese bank activity in Australia reflects the broader economic trends in Japan. The Japanese economy, like all major economies at present, is under pressure from the global headwinds that COVID-19 presents, notwithstanding a massive US$120 billion stimulus package announced in December 2019. Coupled with a decreasing Japanese population and the Bank of Japan's inability to reach its 2% inflation targets, these factors are driving Japan's mega banks offshore for growth opportunities together with the remainder of Japan Inc. Australia is capturing significant amounts of Japanese capital and is now the second most favoured destination for Japanese investment, only behind the United States. In 2019, Japanese corporate investment in Australia soared to a record $26 billion headlined by the A$16 billion purchase of Carlton & United Breweries by Asahi.

Finally, despite Japan's continued reliance on coal as part of its energy mix, the global push toward a decarbonised economy is gaining some traction in Japan. Certain Japanese banks have recently announced moves to no longer support certain coal-fired generation projects. SMBC and Mizuho have both announced they will no longer finance high carbon emitting coal-fired generation projects and MUFG has confirmed it will no longer finance new coal-fired power generation projects.

Japan (cont.)


Mizuho Bank, Ltd.
Sumitomo Mitsui Banking Corporation
MUFG Bank, Ltd.
Total Japan Growth %
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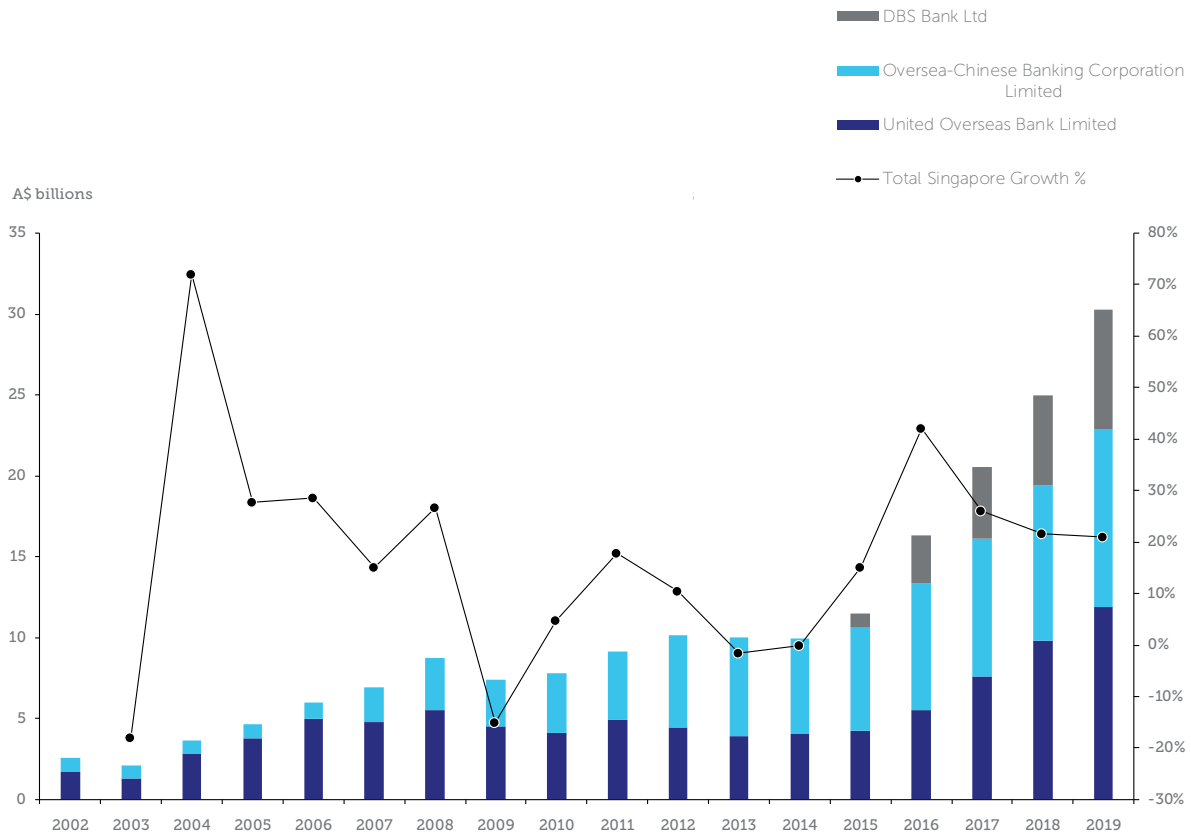
Singapore

Singapore's three banks present in Australia have been growing steadily, and as a percentage of total growth, have flattened out and are steady.

While interest from Singaporean investors remains strong, decision-making in regards to those investments is more cautious and it is taking longer to get relevant approvals to proceed. 2019 still saw a number of existing investors in Australia building on their assets, albeit at a steadier rate.

Anecdotally, there are stories of significant capital flows from Hong Kong into Singapore, which may present an opportunity in the future. However, precisely where those funds are flowing is not yet evident.

At the end of 2019 and through the beginning of 2020, there were a number of enquiries from Singapore regarding potential investments around assets in Australia. As has been the case for some time, most investments from Singapore relate to property assets in diverse industries, particularly using Real Estate Investment Trusts. These ranged from commercial properties and office buildings to aged care facilities. There has also been recent interest in the hospitality sector. Student accommodation and retail assets have been particularly attractive. While retail has been generally identified as a weakening sector in Australia, Singaporean companies are still seeing great opportunity there – not necessarily in major capital cities, but in sub regional areas. For example, in 2019, SPH REIT Management jointly acquired Figtree Grove Shopping Centre in Wollongong, NSW.



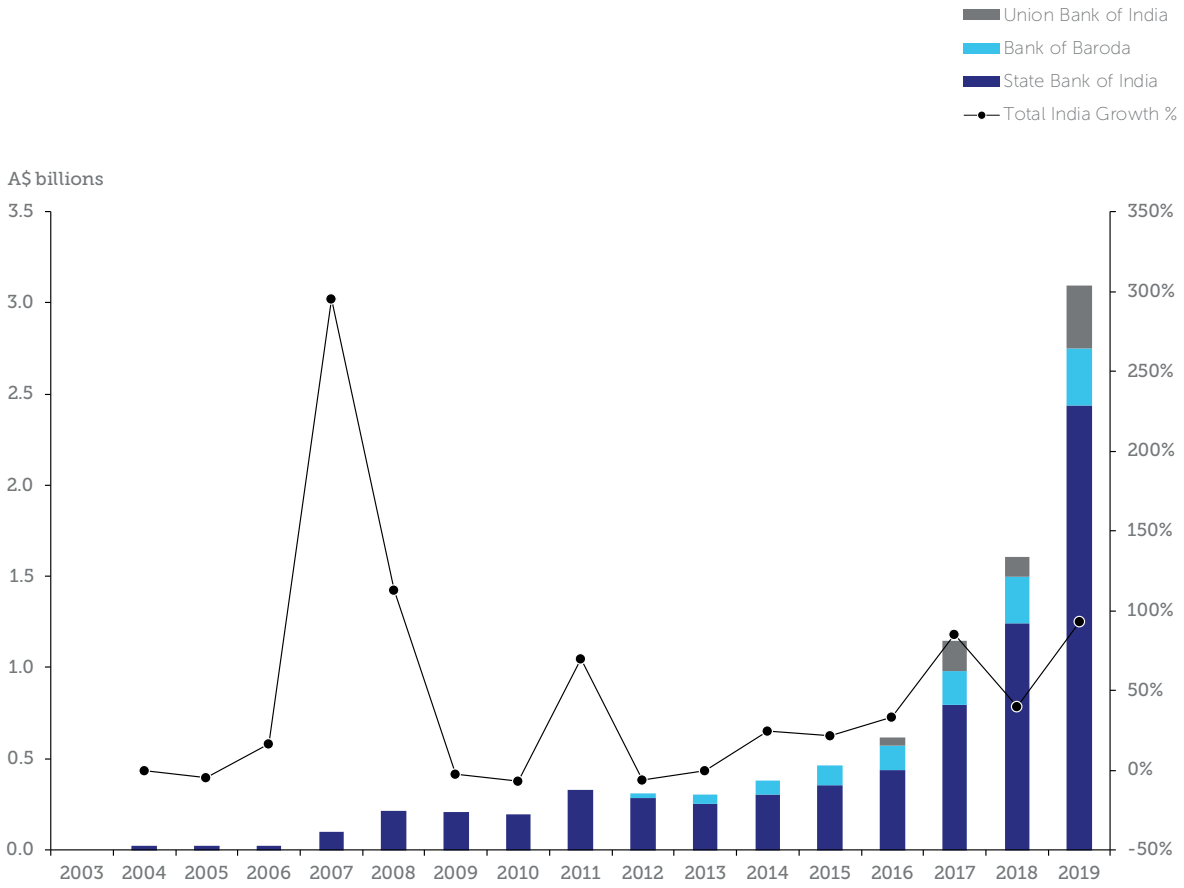
India

Australia is viewed as a relatively small but priority market for Indian banks. In the future, we are likely to see an increase in their footprint in Australia – albeit from a low starting base – for a number of reasons.

Investors are looking to capitalise on opportunities presented by a secure environment and a relatively healthy (though currently challenged) economy, while banks are looking to provide expert transactional facilities, particularly remittances, to the growing Indian diaspora and to position themselves for anticipated two-way trade growth between the two countries.

State Bank of India (SBI) recently established a branch in Melbourne with some immediate success. Significantly, total resident assets held by Indian banks grew by 100% during the 12 month period to 31 December 2019, and 300% over the last 24 months. Growth has predominantly been fuelled by Australian companies doing business domestically in the telecom, retail, food and beverage, packaging, entertainment, healthcare, agriculture and mining industries. This group accounts for approximately 80% of resident assets as well as growth. Other growth has come from Australian and Australian based Indian companies - also domestically – but who are also doing business in India.

These are the result of three factors: an increase in capacity and capability, continued improvement in service levels and the fallout for Australian major financial institutions reputationally as a result of the 2018 Financial Services Royal Commission.



South Korea

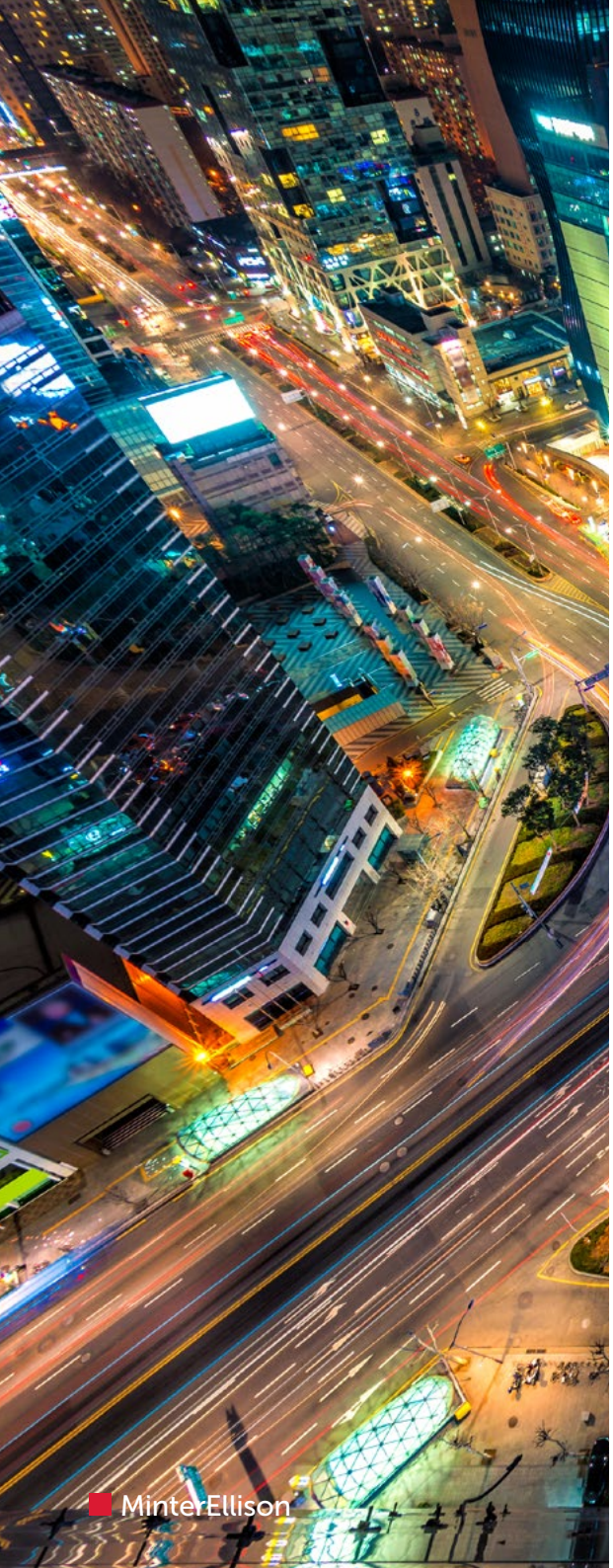
South Korea's banks continued to actively look overseas for opportunities and faster profit growth, given their domestic market no longer offered the revenues and growth potential it once did.

However, the presence of major Korean banks operating in Australia (the likes of Woori Bank, Shinhan Bank and KEB Hana Bank) have gone relatively unnoticed as they have not been overtly aggressive in their approach to penetrate the Australian market. Korean banks' desire for international growth has been focused on the South-East Asian region, opting to be well-established locally and in other Asian countries before widening their investment reach. While South Korea is well-positioned to do so, success in Australia would require strong brand recognition as this would subsequently attract customers and investment opportunities. This has proved increasingly challenging as many of Korea's financial services and offerings have been localised, influencing both consumers and investors to opt for familiarity over new business models.

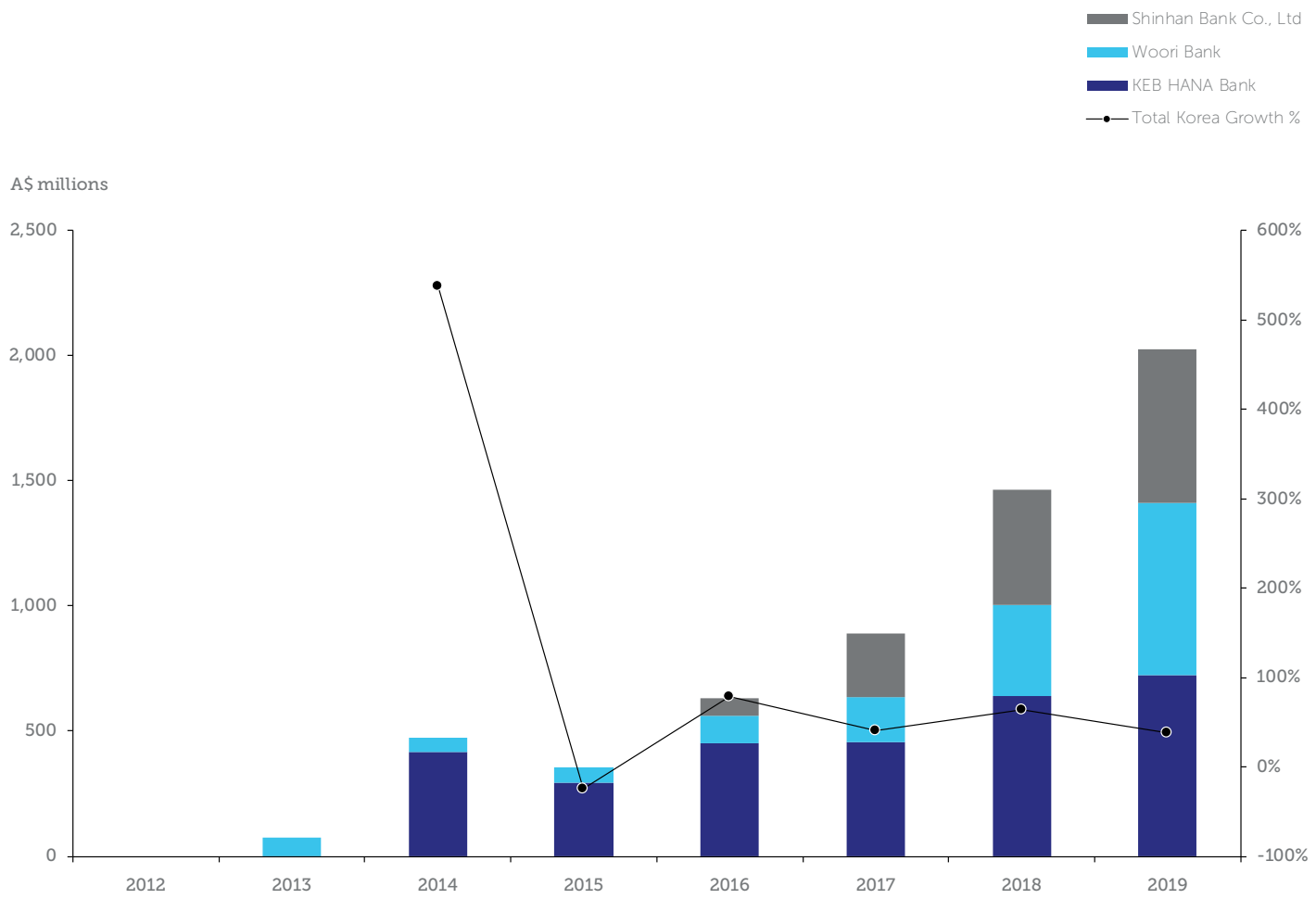
Despite this, Korean banks recognise the significance of international expansion and embracing new technologies in order to thrive in a future filled with increased competition and volatility in an unpredictable market. The increasing presence of Korean corporations investing and operating in Australia has incentivised banks to follow. In September 2019, NongHyup Bank expressed its intention to expand into Australia to assist with the financing of state-run infrastructure and agricultural projects, in addition to enhancing financing and investment banking services.

Recently, Korea's banking industry embraced the power of digital innovation with the launch of Open Banking services in December 2019, as well as the establishment of two internet only banks, Kakaobank and K Bank in 2017. This could present untapped opportunities for both countries to co-operate and mutually benefit by penetrating the digital banking market.

While potential for the growth of Korean banks in the Australian banking sector remains strong, the current global challenges surrounding the outbreak of the COVID-19 pandemic has caused a significant downturn in spending and investment. Inevitably, this is producing limited scope for new Korean investments and will continue to do so until economies stabilise.



South Korea (cont.)



Key findings: North America

North American banks are the smallest foreign region by resident Australian assets. However, they grew by 17.7% over the past year to $103.9 billion, over $100 billion for the first time.

There are 11 North American banks operating in Australia (although this double counts banks operating under multiple licences, such as Citibank).

Canadian banks in percentage terms grew much faster than US banks, with growth over the past year of 25.2% compared to 16.3%. However the larger existing onshore presence of US banks saw them increase the dollar value of resident Australian assets by 3.5 times the increase of Canadian banks.

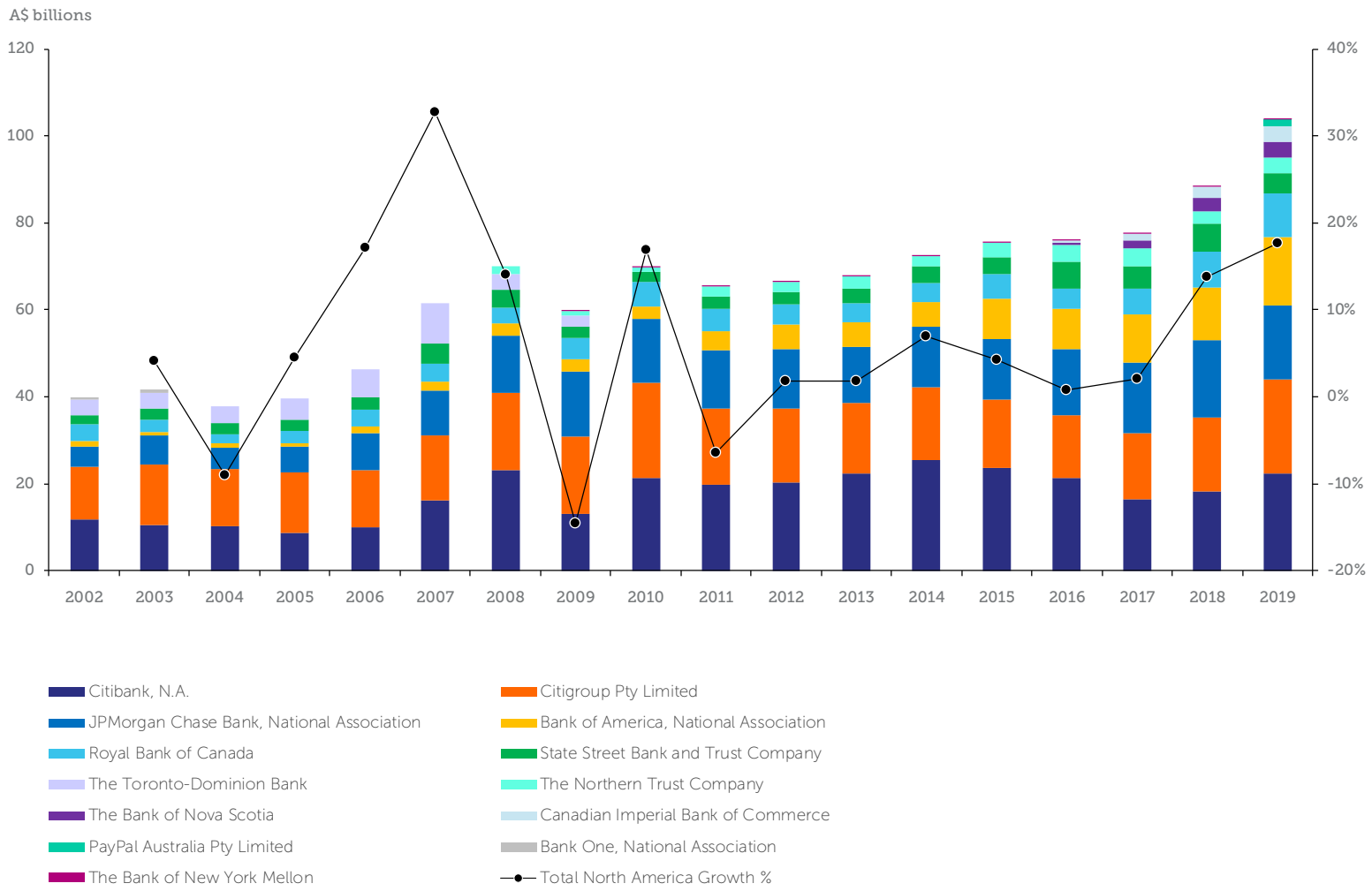
Of individual banks, CIBC was the fastest growing, increasing resident assets by 39.2% or just over $1 billion, from a relatively small base.

JP Morgan and State Street both contracted resident Australian assets over the past year.

Key findings: North America (cont.)

North American banks grew resident Australian assets by $15.6 billion in aggregate, the equivalent of 17.7%. US banks have just over five times the resident Australian assets of Canadian banks.

The major US banks dominate the North American banks with residents in Australia, led by Citibank, JP Morgan and Bank of America.



United States of America

Investment by US banks in Australian assets increased materially throughout 2019, with assets under management growing by 16.8% to $86.7 billion. The significant increase was due to a combination of factors including a continuing search for yield globally. Australia provided a relatively safe and reliable regulatory and political environment. US banks have also continued to capitalise on opportunities arising from the withdrawal from certain market segments of domestic Australian lenders in the wake of the Financial Services Royal Commission.

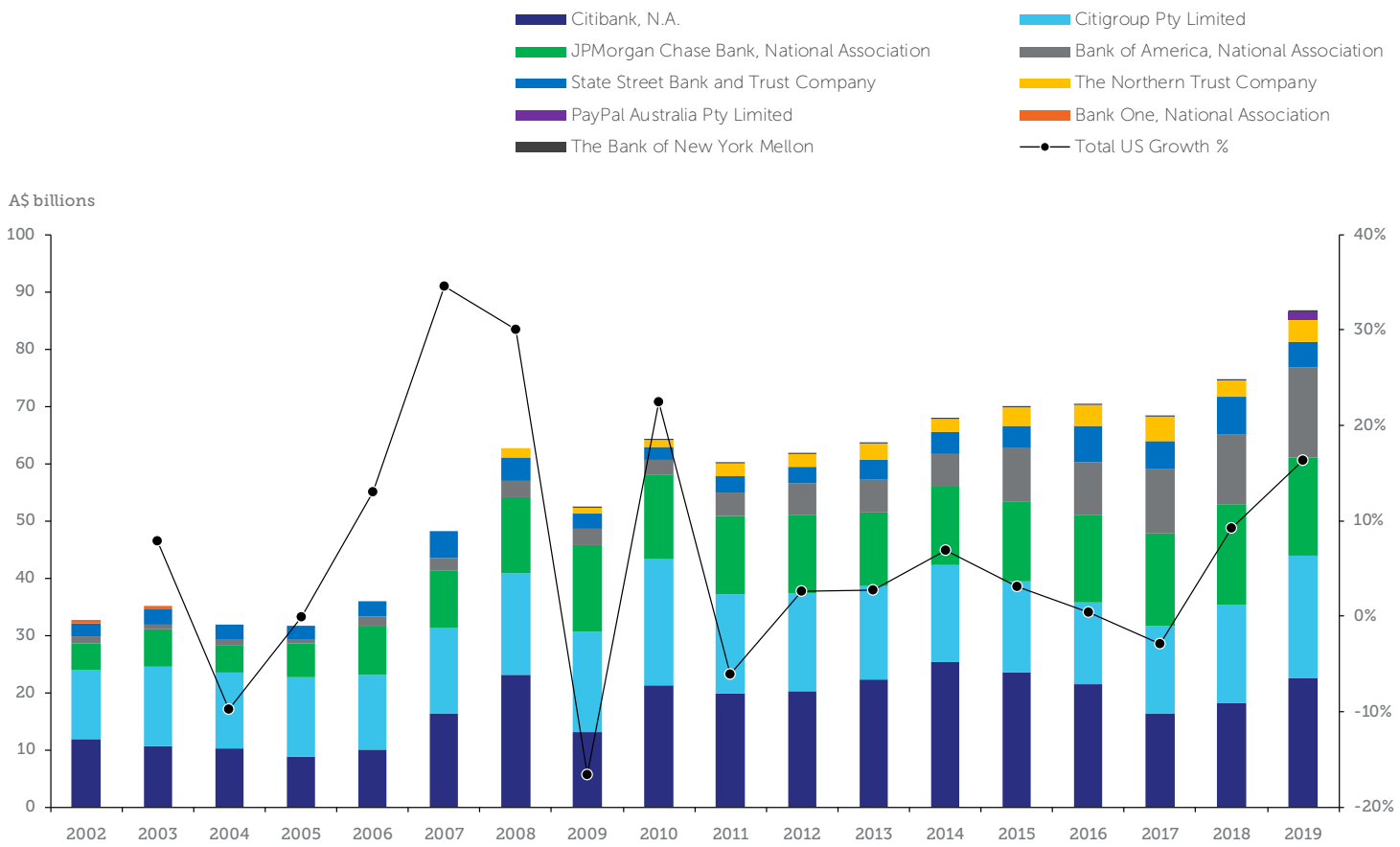
Citibank continues to lead in Australia having built up A$44 billion in assets since becoming one of the first foreign banks to be granted a banking licence in the mid-1980s. In addition to its retail business, in 2019 it added a commercial division with its own balance sheet, targeting Australian companies operating in both domestic and international markets. While Goldman Sachs continues to be active in leveraged finance, the Jefferies Group and smaller US mutual trusts and insurance companies were also lending into the Australian market for the first time.

While US banks continue to trail European banks in terms of their presence and investment in Australia, Bank of America Merrill Lynch and JP Morgan demonstrated an increasingly active interest in real estate, technology and infrastructure sectors throughout 2019.

There was also growth in the use of financial products more commonly found in the developed US and Asian markets (including reverse factoring financing and Term Loan B facilities), highlighting the increasing risk appetite of US banks operating in Australia.

With continued weakness in the Australian dollar and Australian banks focusing on their primary business of domestic mortgages, US banks are likely to continue to increase their presence and capital deployment in Australia long term. This will be impacted by the uncertainty created by COVID-19, though when markets return to some normality, the disruption may provide additional opportunity for US banks with capital to deploy. There is also likely to be renewed investment in green and sustainable financing and impact funding as the global business community and lenders become increasingly aware of the financial impacts of sustainable investing – though due to current events, this may not be a focus in 2020.

United States of America (cont.)

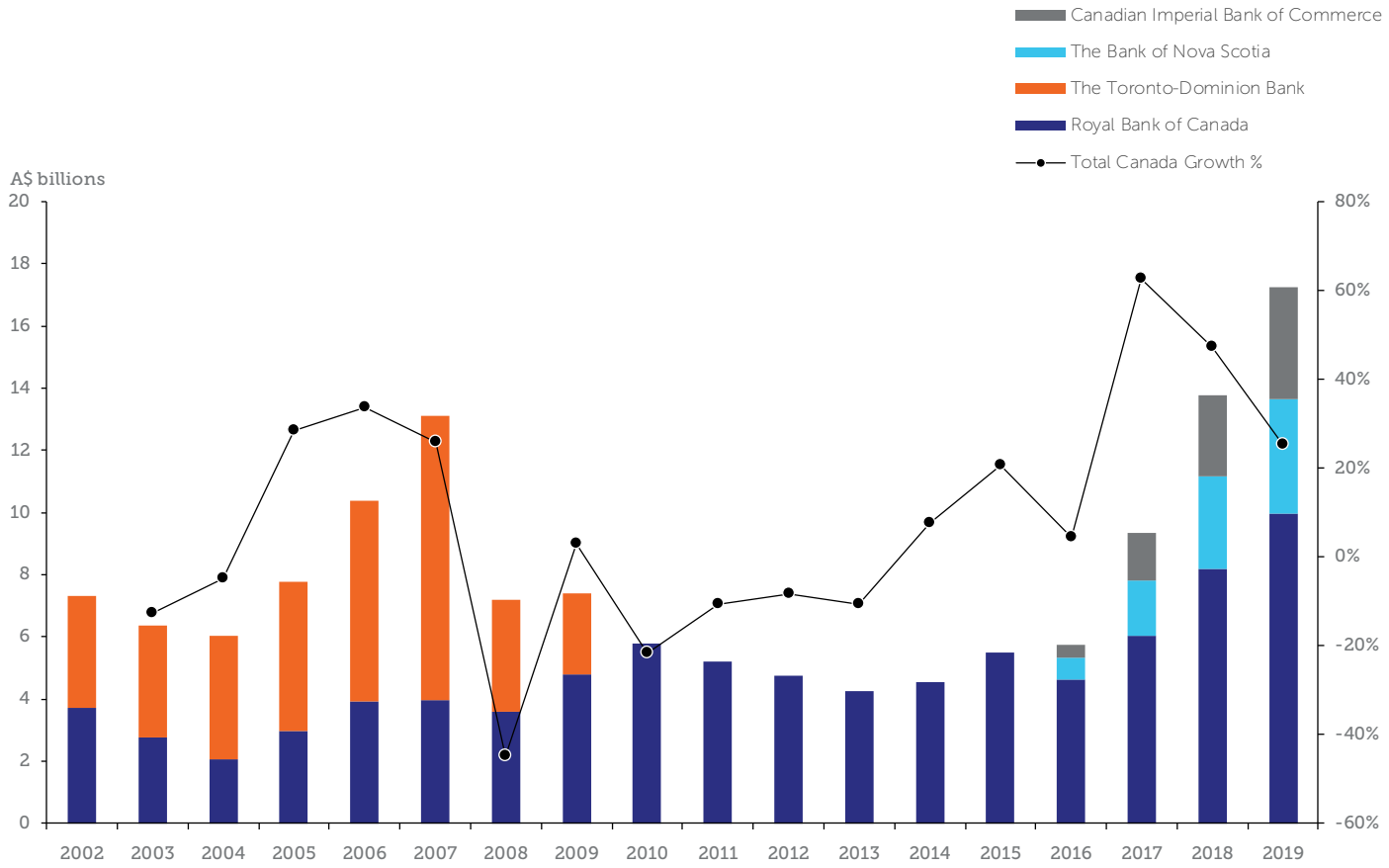


Canada

Canadian investment in Australia continued to be driven by large pension funds. Sectors of particular interest were infrastructure, including PPPs, universities, education and transport, as well as real estate assets.

Royal Bank of Canada continued to be the largest Canadian bank in the Australian market in 2019, with its $10 billion of resident Australian assets that made up over half of the total Canadian banks' resident Australian assets of $17.2 billion. This is despite it selling its Australian asset servicing business to Citi Australia in December.

CIBC was the fastest growing Canadian bank, increasing resident assets by 39.2% or $1 billion.



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