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The Blenheim Report: The Banking Numbers

March 2015

BANKING ($M) – Results for (Qtr) 3 / (Half Yr) 6 months ended 31 December 2014 OR (FY) 12 months ended 30 September 2014

Company/ Division, Mths in Reporting Period	Revenue – Current[1]	Revenue – PCP[2]	Cash Earnings – Current	Cash Earnings – PCP	NPAT – Current	NPAT – PCP	Cost to income ratio – Current %	Cost to income ratio – PCP %	NIM – Current %	NIM – PCP %	CET1 Ratio[3] - Current %	CET1 Ratio – PCP %	ROE – Current %	ROE – PCP %	Basic EPS – Current (cents)	Basic EPS – PCP (cents)	Dividend – Current (cents)	Dividend – PCP (cents)
AMP Bank Division (12mths)	246	219	91[4]	83			30.3	29.6	1.41	1.39	9.3	8.7	10.8[5]	8.5	30.3	23.2	26.0	23.0
ANZ – qtrly update (3mths)			1,790	1,730	1,650	1,650					8.4	7.9						
ANZ (12mths)	35,251	33,909	7,117	6,492	7,271	6,310	44.7	44.9	2.13	2.22	8.8	8.5	15.4	15.3	267.1	232.7	178.0	164.0
Australia	8,228[6]	7,867			3,048	2,858	37.2	37.7	2.51	2.52								
New Zealand	2,511	2,208			1,170	1,060	41.1	43.5	2.48	2.49			15.9	14.3				
Global Wealth	1,744	1,510			525	471	58.8	62.6	n/a	n/a								
International & Institutional	7,015	6,564			2,691	2,432	45.8	45.4	1.49	1.61								
Bank of Queensland (12mths)	2,289.8	2,460.2	301.2	250.9	260.5	185.8	50.0	54.4	1.82	1.69	8.63	8.63	9.0	7.0	77.4	57.6	66.0	58.0
Bendigo & Adelaide (6mths)			217.9	185.9	227.3	180.7	55.6	55.6	2.24	2.23	8.14	7.86	9.47	8.44	49.7	43.0	33.0	31.0
CBA (6mths)	22,849	22,287	4,623	4,268	4,535	4,207	42.2	42.9	2.12	2.14	9.2	8.5	18.6[7]	18.7	284.1	263.9	198.0	183.0
Retail			1,992	1,784			34.5	36.1										
Business & Private			743	686			38.2	38.5										
Institutional Banking & Markets			653	670			33.1	33.2										
Wealth Management			347	393			65.7	65.3										
New Zealand			435	355			40.4	42.6										
Bankwest			378	350			43.5	44.7										
International Financial Services & Other			75	30			n/a	n/a										
NAB – qtrly update			1,650	1,560	1,800	1,400					8.74	7.64[8]						

BANKING ($M) – Results for (Qtr) 3 / (Half Yr) 6 months ended 31 December 2014 OR (FY) 12 months ended 30 September 2014																			
Company/ Division, Mths in Reporting Period	Revenue – Current[1]	Revenue – PCP[2]	Cash Earnings – Current	Cash Earnings – PCP	NPAT – Current	NPAT – PCP	Cost to income ratio – Current %	Cost to income ratio – PCP %	NIM – Current %	NIM – PCP %	CET1 Ratio[3] - Current %	CET1 Ratio – PCP %	ROE – Current %	ROE – PCP %	Basic EPS – Current (cents)	Basic EPS – PCP (cents)	Dividend – Current (cents)	Dividend – PCP (cents)
(3mths)																		
NAB (12mths)	45,340	49,168	5,184	5,747	5,295	5,355	53.0	43.7	1.94	2.03	8.63	8.43	11.8	14.1	222.1	225.9	198.0	190.0
Australian Banking	12,917	13,097	4,947	4,942			40.8	38.8										
NAB Wealth			365	322			66.0	69.3										
NZ Banking (NZ$)	2,003	1,965	738	649			40.2	40.3										
UK Banking			284	124			70.8	73.1										
UK Commercial Real Estate			42	(375)														
Suncorp Bank Division (6mths)	1,461[9]	1,513			176	105	52.2	59.6	1.86	1.66	8.82	8.25	9.4[10]	7.9	49.35	42.88	38.0	35.0
Westpac (12mths)	38,643	38,783	7,628	7,063	7,561	6,751	42.9	42.9	2.08	2.14	8.97	9.10	16.27	15.22	243.7	218.3	182.0	174.0
Australian Financial Services[11]			5,057	4,478														
Westpac Institutional Bank	3,161	3,263	1,468	1,635														
New Zealand (NZ$)			864	770														

1 Current reporting period

2 Previous corresponding period (3/6mths ended 31 December 2013 OR 12mths ended 31 December 2013)

3 Common equity Tier 1 ratio (APRA Basel III)

4 BU operating earnings for AMP Bank

5 ROE, EPS & Dividend figures for AMP Group

6 ANZ Segment Revenue includes external interest income, less external interest expense and adjustment for intersegment interest, plus net interest income, other external operating income and share of associates' profit

[7] ROE, EPS & Dividend figures are "cash basis" for CBA

[8] CET1 PCP is as at 30 September 2014 for NAB 3mth update

[9] Revenue figure is for Suncorp Bank interest income only

[10] ROE, EPS & Dividend figures for Suncorp Group

[11] Australian Financial Services includes Westpac Retail & Business Banking, St George Banking Group & BT Financial Group

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PROFIT GUIDANCE

23 FEBRUARY 2015
The Australian
Westpac takes $125m revenue hit in accounting change

Westpac is the latest victim of a new accounting treatment for the fair value of derivatives and will absorb a $125 million revenue hit in its 2015 half-year result. The change is in line with emerging industry practice, with ANZ Bank's institutional business reporting weaker trading income, down from $600m a year ago to $555m, in last week's first-quarter update. This followed the introduction of a so-called funding valuation adjustment (FVA) to mark-to-market derivatives in financial 2013. National Australia Bank introduced the FVA in the second half of last financial year, but it is unclear whether Commonwealth Bank had taken the same step.

Westpac, unlike ANZ, does not release a first-quarter update. It announced the new treatment on Friday as part of its December 2014 Pillar 3 report, which includes the latest information on capital ratios, asset quality and funding and liquidity. "The initial application of FVA is estimated to have a one-off negative impact of $125m pretax on revenue in the first half of 2015," the bank said. "This item will reduce trading income and be reflected in the results of the (institutional bank)."

In its Pillar 3 disclosure, Westpac also revealed tier-one capital ratio fell from 9 per cent at September last year to 8.4 per cent at year's end. It said this was consistent with normal quarterly movements and followed payment of the final 2014 dividend, which eroded tier-one capital by 73 basis points. The bank's preferred capital range is unchanged at 8.75 per cent to 9.25 per cent.

Source: http://www.theaustralian.com.au/business/companies/westpac-takes-125m-revenue-hit-in-accounting-change/story-fn91v9q3-1227234556891

17 FEBRUARY 2015
news.com.au
ANZ's profit disappoints investors

ANZ has started 2015 on a disappointing note, with its first quarter results generating concerns about the outlook for Australia's third largest bank. THE bank lifted its cash profit three per cent to $1.8 billion during the first three months of its 2015 financial year, while net profit was flat at $1.65 billion. But investors were disappointed by a bigger-than-expected fall in the bank's net interest margin, as well as a mixed performance from its markets business.

CLSA's equity analyst Brian Johnson said bank-watchers would lower their full year earnings expectations for ANZ in the wake of the result. "It's a disappointing result on the revenue side and it's a worse-than-peer result on the net interest margin result and the financial markets trading result is somewhat weaker," he told AAP. "It's a very low quality result and people will be downgrading their earnings forecasts on the back of it."

ANZ shares sold off in response to the result, sliding 88 cents, or 2.5 per cent, to $34.99.

But ANZ chief executive Mike Smith said the result was a solid start to the bank's financial year in difficult trading conditions, with strong performances across its Australian, New Zealand and Asian divisions. "Overall, ANZ is performing broadly in line with our expectations," he said. "Our super regional strategy continues to provide us with growth options and we will also ensure our cloth is cut to suit the conditions."

The group's net interest margin – the profit it makes on loans – slipped six basis points during the quarter. By comparison, the Commonwealth Bank's margin slipped two basis points during its first half, while National Australia Bank kept its margin flat. ANZ attributed the slide to the impact of a weaker Australian dollar, plus the weak performance of its global markets division. But OptionsXpress Mr Le Brun said the margin slide was also likely to be a reflection of tough competition for home loans among Australian banks. "It really is a symptom of the extremely fierce competition in the home loan division," he said.

Source: http://www.news.com.au/finance/business/anz-posts-179b-dec-qtr-profit/story-e6frfkur-1227222186670

17 FEBRUARY 2015
Yahoo!7 Finance
Market pulled down by two major banks

The share market is lower as Commonwealth Bank lost value after paying a dividend and ANZ's trading update disappointing investors. Commonwealth Bank was down about 2.5 per cent after paying its half year dividend to shareholders, which typically results in a fall in share price. "It's paying out cash to shareholders, so that's taking money out of the market," CommSec market analyst Juliana Roadley said.

ANZ's quarterly update, which showed another rise in cash profit but a fall in the profitability of its lending, was also weighing on investor's minds, she said. "The result wasn't that bad, but one thing that we have seen from most of the banks that have reported so far is a concern about their net interest margins," Ms Roadley said.

Source: https://au.finance.yahoo.com/news/market-pulled-down-two-major-012512109.html

16 FEBRUARY 2015
ABC
Bendigo Bank profit of $228m boosted by bad debt fix

Australia's fifth-largest bank, the Bendigo and Adelaide Bank, has boosted its profit by 11 per cent on the back of falling bad debts and its acquisition of the Rural Finance Corporation of Victoria. The company posted a net first half profit of $227.9million, up from $180.7 million in the previous corresponding period. Cash earnings – which strips out one-off items – were also up around 11 per cent to $217.9 million. Loan impairments shrank by $79.1 million, from $336.5 million to $257.4 million over the past year. Revenue growth was largely supported by a $24 million contribution from the Rural Finance Corporation of Victoria acquisition, which was purchased from the Victorian Government last year for $1.8 billion.

Bendigo and Adelaide Bank chief executive officer Mike Hirst said the result was driven by maintaining net interest margins and balance sheet growth. "Whilst demand for housing loans is solid, we are seeing an increase in customers paying down their debt across all portfolios," Mr Hirst noted.

The bank also boosted its balance sheet with a key measure, the Common Equity Tier 1 capital (CET1) ratio, increasing from 7.9 per cent to 8.1 per cent. The CET1 ratio is designed to measure how robust a bank's finances are and whether it holds enough capital.

Mr Hirst also took a pot shot at the banking majors, saying the recommendations for change from the David Murray-led Financial Services Inquiry remained clear. "The inquiry recognises the environment has changed for many reasons and they've taken a balanced approach in identifying the key issues, including the uneven playing field tilted in favour of larger players," he said.

Source: http://www.abc.net.au/news/2015-02-16/bad-debt-fix-boosts-bendigo-bank-profit/6116420

11 FEBRUARY 2015
The Australian
CBA boosts profit 8pc, lifts payout

COMMONWEALTH Bank chief Ian Narev has warned weak confidence was posing a “significant economic threat” and called for businesses to be given greater certainty, as he handed down a fresh record interim profit of $4.6 billion. While not specifically mentioning the chaos in Canberra that came to a head this week with a defeated spill motion to remove the Prime Minister, Mr Narev took a swipe at the lack of a “coherent long-term plan” for the nation. He added global volatility was also weighing on confidence, “particularly the impact of lower commodity prices on national revenue”.

The comments came as CBA reported an 8 per cent rise in cash profit to $4.62bn for the six months to December 31, slightly above expectations. The nation’s biggest lender declared a fully franked of $1.98, about in line with analysts’ forecasts, to be paid on April 2. In early trade, CBA shares were up 6c to $92.65 as analysts mostly cheered the result.

“This result is what the market was looking for after a strong share price run up leading into today. But with a share price now in excess of $90, is there enough fuel left in the tank to continue this stellar run?” said Citi analyst Craig Williams.

Deutsche Bank analyst James Freeman added CBA’s slightly better than expected result was driven by lower bad debts and higher trading income, “ which are inherently more volatile and lower quality earnings drivers”. “With the market still chasing yield, CBA’s dividend strong and its capital position very strong it is difficult to see this result cause major underperformance, however with the valuation already rich we struggle to see a catalyst from this result for longer-term outperformance,” he said.

Omkar Joshi, analyst at Watermark Funds Management, added the decision to preserve capital in the DRP showed “the board is increasing their focus on capital”.

CBA revealed its caution on capital levels after the Murray inquiry called for banks to be “unquestionably strong”, saying it would conserve cash by issuing shares for the dividend reinvestment plan and there would be no discount, rather than buy the stock back on-market as in previous periods. The bank’s closely watched common equity tier one capital ratio rose 70 basis points on the prior 12 months to 9.2 per cent, well above the required 8 per cent by January.

But the David Murray-led inquiry called for banks to have even higher capital levels, including through setting aside more capital to write mortgages, known as higher “risk weights”. As the biggest mortgage lender, CBA is heavily exposed should the regulator proceed with the recommendations laid out buy (sic) the inquiry, which the government is consulting on until the end of next month.

Revealing the intense competition in the $1.3 trillion mortgage market, CBA’s net interest margin — a key driver of profitability — fell 2 basis points to 2.12 per cent. Revenue increased 5 per cent in “subdued market conditions”, potentially signalling growing pressure on the banks.

The bank’s return on equity came in at 18.6 per cent — just below expectations — while its bad debt charge improved to 14 basis points of average gross loans. But analysts are increasingly concerned the banks’ bad debt charges could head higher from record low levels. While the Reserve Bank’s rate cut this month will help customers, the resources sector is under significant stress and parts of the housing market like Sydney are frothy.

Yesterday, HSBC economists warned “the risk of a housing bubble is increasing” and that “when rates do eventually rise, there is now a high risk that Sydney will see price falls”. Bendigo and Adelaide Bank reports interim results on Monday, while the remaining big four have September 30 financial years and won’t report until late April and early May.

Source: http://www.theaustralian.com.au/business/financial-services/cba-boosts-profit-8pc-lifts-payout/story-fn91wd6x-1227215538359

5 FEBRUARY 2015
The Sydney Morning Herald
NAB posts $1.65b quarterly earnings, cuts home loan rates

The absence of nasty surprises in National Australia Bank's trading update helped catapult the share price to a seven-year high on Thursday as investors applauded the turnaround led by chief executive Andrew Thorburn. Yet NAB's first quarter results also revealed its key business banking franchise remains under intense pressure as competition eats into profit margins. Analysts said the clean result bodes well for a sale this year of NAB's Clydesdale and Yorkshire banks in Britain, after investors have suffered from years of write-downs as the banks were slugged with misconduct charges and hit by turmoil in UK property markets.

But Mr Thorburn, who has been in the top job for six months, has pledged to extract NAB from Britain to focus on core operations in Australia and New Zealand. "For the first time in a long time, NAB's trading update was absent of any negative surprises around the UK. It was a clean earnings result, which is a positive for NAB, and the 'no surprise' nature of it lays the path for further asset restructuring later this year," said Credit Suisse analyst Jarrod Martin.

NAB's stock initially fell by 1 per cent as it reported unaudited cash earnings of $1.65 billion for the December quarter, up 6 per cent on the prior period and in line with consensus. One trader said the market was initially miffed about the lack of detail about the timing of asset sales in Britain.

NAB is the largest lender to business in Australia; 28 per cent of its total loans are to companies. But competitors, especially ANZ Banking Group, are targeting the corporate market given business credit growth is expected to pick up in the coming years at a faster rate than mortgages. NAB said business lending volumes had improved. However, its group net interest margin was "slightly lower ... primarily relating to business lending competition", although the update did not quantify this.

"While the improvement in our core business banking franchise will take time, volume growth is now around [average] and we are well advanced on the hiring of additional business bankers. However, we continue to see intense competition for business lending," Mr Thorburn said.

Mark Nathan, a fund manager at Arnhem Investment Management, said NAB was working hard to defend market share in its core business franchise. "Competition is intense because everyone is competing for limited credit growth in the marketplace," he said. "There has been a shift over the last six months from wanting to hold margin to wanting to hold share. There is a realisation this is a competitive space, and once you lose a client they are hard to win back. So it's better to weather the storm now and keep the customer, which will help future profitability." Mr Nathan said a key risk when banks are chasing market share is that lending terms and conditions slip, "but let's hope the banks have learned from previous missteps, and there's nothing to suggest that is happening today".

NAB's revenue grew by 2 per cent in the quarter (after gains from the sale of UK loans are excluded) but expenses were up 4 per cent. But analysts don't expect expense growth to continue at this level given salary increases at NAB go through in the first quarter. The level of bad and doubtful debts was stable and Mr Thorburn said "significant improvements in asset quality over the quarter are pleasing and reflect both the benign operating environment and the initiatives undertaken over recent years to improve our risk profile".

Source: http://www.smh.com.au/business/banking-and-finance/nab-posts-165b-quarterly-earnings-cuts-home-loan-rates-20150205-13698w.html

19 FEBRUARY 2015
ABC
AMP profit jumps 32pc to $884m

Major wealth manager AMP has boosted its full year profit by 32 per cent to $884 million thanks to strong growth across all its key businesses. Underlying profit – which strips out one off, non-recurring items – was up 23 per cent to $1,045 million. The net profit was pulled down by restructuring costs of around $100 million and heritage costs relating to the AXA takeover. All AMP's major divisions reported solid double-digit earnings growth.

Source: http://www.abc.net.au/news/2015-02-19/amp-profit-jumps-32pc-to-884m-dollars/6145318

18 FEBRUARY 2015
Sydney Morning Herald
AMP net profit jumps 32%, dividend up

AMP posted a 32 per cent rise in full-year net profits to $884 million and boosted its dividend by 17 per cent to 13.5¢ per share, thanks to a recovery in its life insurance division. The group's underlying profit rose 23 per cent to $1.045 billion, just below the $1.05 billion forecast by Deutsche Bank. AMP, which posted two profit downgrades in 2013 because of its troubled life insurance division, netted $188 million in operating earnings across its wealth protection or life insurance arm – a significant improvement from the $64 million of 2013.

AMP, which has funds management business ventures in China, also managed to dial down its costs last year. The group's cost-to-income ratio hovered at 44.8 per cent in 2014, down from 49.4 per cent a year earlier. The wealth management business, which represents a large chunk of AMP's revenue, produced cashflow of $2.3 billion last year – up $115 million from the prior year. The group's assets under management also rose 9 per cent to $109.5 billion during the period against a relatively flat market.

Source: http://www.smh.com.au/business/banking-and-finance/amp-net-profit-jumps-32-dividend-up-20150219-13hpau.html

11 FEBRUARY 2015
Courier Mail
Suncorp lifts profits but culls growth forecasts; Snowball smothers talk his departure is trigger for splitting conglomerate

INSURANCE-banking giant Suncorp has posted bigger profits but warned growth is slowing faster than anticipated. The warning helped push down shares 42c to $14 at Brisbane-based Suncorp, whose brands include AAMI and Apia. It came as chief executive officer Patrick Snowball downplayed speculation his departure would trigger a breakup of the financial conglomerate. "My successor is being selected by the board to continue the one company, many brands strategy … to avoid doubt, it means Suncorp will continue to be a diversified financial services institution."

Suncorp posted half-year net profits of $631 million, up 15 per cent on the prior corresponding period. The general insurance arm fed the bulk of earnings, but the bank and life insurance arms also improved. But analysts quizzed a higher-than anticipated releases of insurance reserves, which boosted profits. Other one-off boosts included $19 million flowing from a successfully resolved legal bank dispute.

Source: http://www.couriermail.com.au/business/suncorp-lifts-profits-but-culls-growth-forecasts-snowball-smothers-talk-his-departure-is-trigger-for-splitting-conglomerate/story-fnihsps3-1227215825580

3 NOVEMBER 2014
news.com.au
Westpac posts 12 per cent profit jump to $7.56 billion

AUSTRALIAN banking giant Westpac on Monday posted a 12 per cent jump in full-year net profit to $7.56 billion, driven by growth in lending volumes and customer deposits. The result in the 12 months to September 30 compared to $6.82 billion the previous year, with chief executive Gail Kelly hailing it as “high quality” at a time of slower global growth.

Cash earnings — the measure more closely watched by analysts, which strips out volatile items — were up eight per cent at Aus$7.63 billion, slightly above expectations.

The result follows a bumper annual net profit last week for ANZ Bank, up 15 per cent to $7.3 billion, although National Australia Bank’s yearly profit shrunk 1.1 per cent to $5.3 billion due to hefty UK writedowns.

With the nation’s biggest lender, Commonwealth Bank, posting a 13 per cent jump in full-year net profit to a record $8.63 billion in August, their collective profits soared to some $28 billion for 2014, despite a slowing economy. It makes Australia’s banking sector one of the worlds most successful, benefiting from falling bad debts and cost-cutting.

IG Markets’ chief strategist Chris Weston said Westpac was the standout. “Cash earnings grew 8.0 per cent and are very modestly above expectations, while we saw a sizeable improvement in return on equity, with its net interest margins beating forecast,” he said. “Gail Kelly was upbeat on the company’s prospects. The one disappointment may be the slightly below-par final dividend, but all-in-all the asset quality is improving and you can see why Westpac is the best performing bank in the ASX 200.” Revenue jumped seven per cent on the previous year to $19.94 billion. The company announced a final dividend of 92 cents, taking its annual pay-out to shareholders to $1.82 per share, joining the other big banks in boosting rewards for investors.

Westpac, the country’s oldest bank and second largest by market capitalisation, said all divisions performed well over the year.

“We have delivered on improved growth and returns, while maintaining our disciplines of strength and productivity that have become hallmarks of Westpac,” said Kelly.

She said lending, supported by low interest rates, grew eight per cent and deposits were up seven per cent, while customer numbers rose at their fastest pace in four years.

“Housing credit growth has increased over 2014 and we expect growth at similar levels to continue through 2015, driven by strong demand and continued low interest rates,” said Kelly.

While businesses remain cautious, there were signs of improving prospects for non-mining investment and a continued moderate pick-up in business credit growth was expected, she added.

“These results demonstrate that our business is performing well with strong momentum,” said Kelly. “We believe we will continue to deliver strong outcomes for our customers and our shareholders in full-year 2015.”

Source: http://www.news.com.au/finance/business/westpac-posts-12-per-cent-profit-jump-to-756-billion/story-fnkjidjt-1227110575641 blenheim partners

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