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2021  
Foreign Bank Tracker





# Creating value from capital flow >

Welcome to the sixth edition of our Foreign Bank Tracker, which analyses capital flow trends into Australia via foreign banks. Informed by the Australian Prudential Regulation Authority (APRA) statistics, and our own experiences with clients across the globe, our report provides market analysis and predictions around ongoing foreign investment patterns into Australia.

In 2020, major events threatened the investment landscape throughout the world. And yet, in spite of all the turmoil, foreign banks continued their expansion into Australia.



**John Elias**  
Lead Partner,  
Foreign Bank Tracker



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## This year's report highlights several key trends:

While growth was slower than in previous years, foreign banks continued to increase their presence in Australia.



North American banks grew resident Australian assets by 26%



Asian banks grew by 12%



European banks grew by 7%

While overall this is a little slower than in previous years, the growth patterns are promising. The figures are all the more impressive when one considers the 2020 events including investments stalling, deals falling through

and the Foreign Investment Review Board (FIRB) lowering the threshold to zero for FIRB scrutiny.

While economies around the world were impacted by a number of factors largely

driven by the COVID-19 pandemic – lockdowns and the economic slowdown, travel disruptions and cashflow volatility – long term prospects are positive as banks find themselves in relatively stable positions.

**As global economies shift to 'recovery mode', we anticipate more opportunities and increased foreign bank growth.**

As 2021 continues, we're seeing growing confidence in the market, driven by the vaccine rollout and economies being reopened. In 2020, businesses were focused mainly on survival. Now momentum is building as businesses start to recover and repay loans to banks, governments provide incentives for business spending and growth, and funds with capital to spend are looking for opportunities to invest.

**Foreign banks' growing presence in Australia reflects that overall long term confidence.**

Looking ahead, we're likely to continue seeing some volatility as markets around the world shift and recover from the economic slowdown and market uncertainty – and, at different paces. Overall, however, the foreign bank activity paints a positive picture of capital flow into Australia. With increased government stimulus, customers embracing digital solutions and Australia offering a relatively stable market, we have high confidence there will be plenty of opportunities ahead.



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## Key highlights

### Two new banks

Both European:

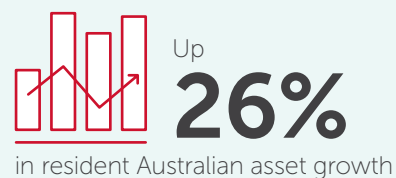


Transferwise (HQ UK); granted a (restricted) banking license in November 20



Intesa Sanpaolo SPA (Italy)

### North America Fastest growing region in 2020.



US Banks:  
**27%**



Canadian:  
**19%**

### Asia:

Asian Bank growth  
slowed from

**17%**



to

**12%**

Taiwanese  
banks grew

**17%**



Chinese banks  
dropped from

**20%**

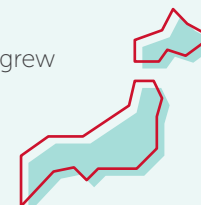


to

**13%**

Japanese banks grew

**12%**

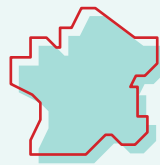




## Europe:



Grew resident Australian assets by  
**7%** the weakest growth  
since 2017.



The exception is with France  
– with French banks recording  
**41%** growth.

## Relatively subdued growth



United Kingdom  
**5%**



Germany  
**3%**



Switzerland  
**1%**



The Netherlands  
**8%**



## The Global Picture

### Resident Assets by Region



#### 1. Europe



#### 2. Asia



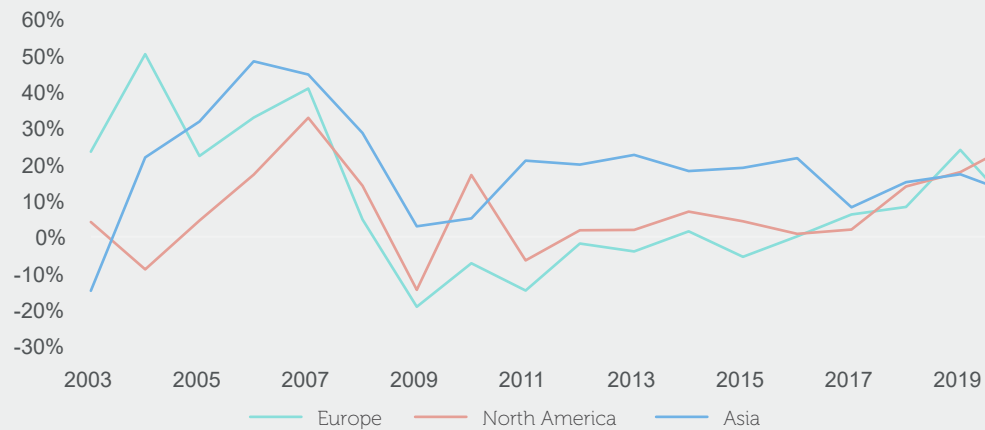
#### 3. North America

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

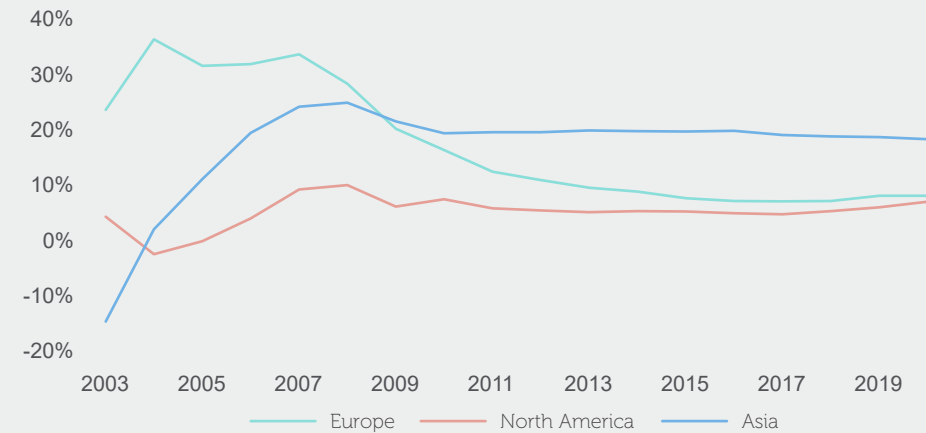
- Fastest growing foreign banks fairly evenly spread between the different regions: three from Europe, three from North America, and four from Asia.
- Banks in top 10 had a sizeable presence in Australia - just two having less than \$1bn in assets.
- Growing presence of large foreign trust banks: Northern Trust, State Street and BNP Paribas are three of the four largest banks in the top 10 fastest growing banks
- Society Generale and Paypal both made the top 10 fastest growing foreign banks in their second year in APRA's data, and neither are the smallest two banks in the top 10.



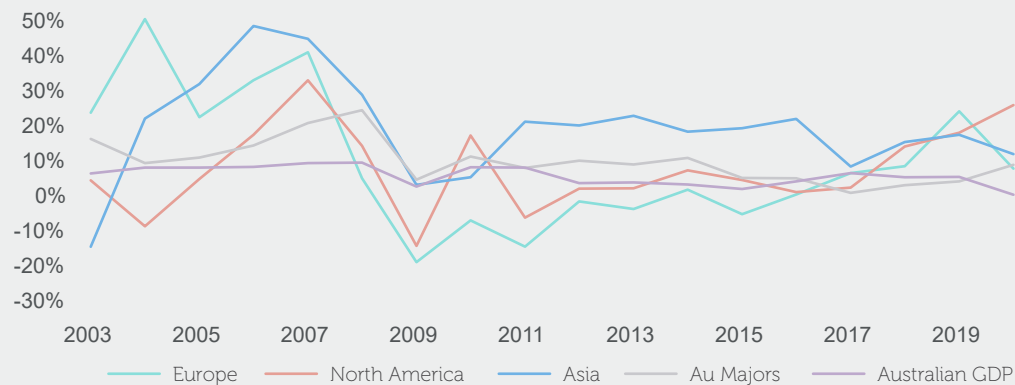
### Total Resident Assets Held by Foreign Banks in Australia – growth rates



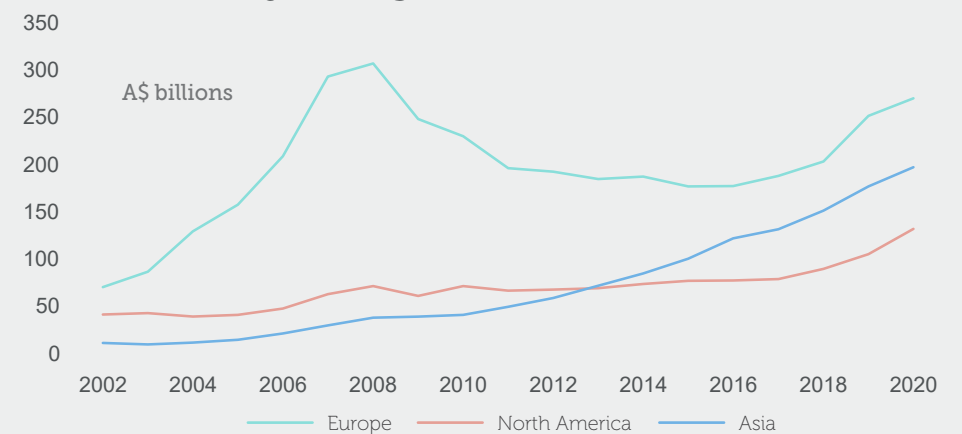
### Total Resident Assets Held by Foreign Banks in Australia CAGR since 2002



### Total Resident Assets Held by Banks in Australia – growth rates



### Total Resident Assets Held by Foreign Banks in Australia



## Key Findings: Europe ›

There are now 19 European banks operating in Australia. 2020 saw two new entrants: TransferWise Australia (a subsidiary of the UK headquartered TransferWise) and Intesa Sanpaolo SPA from Italy.



## Key Findings: Europe

French banks in aggregate recorded the fastest growth rate of 41%, driven by strong growth from both Société Générale and BNP Paribas. In contrast, Swiss banks were in aggregate the slowest growing at just 0.7%, with growth by

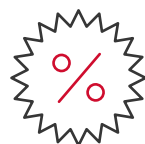
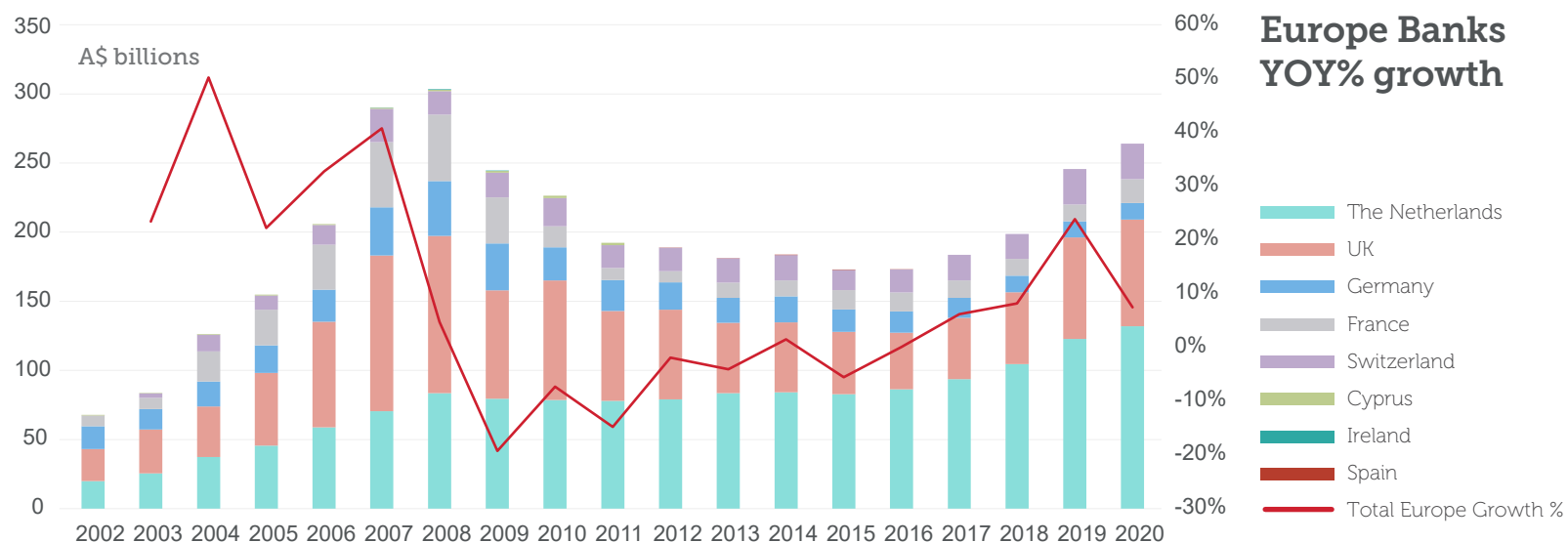
UBS almost completely offset by a contraction in assets from Credit Suisse.

Société Générale was the fastest growing bank, increasing in size by approximately 3¾x, off a small base after reopening in

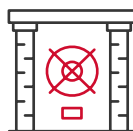
Australia in 2019 following a six-year absence. BNP Paribas, ABN Amro, Standard Chartered and Investec Bank all grew Australian assets by over 20% in 2020.

Credit Suisse, Cooperative Rabobank and the HSBC all

contracted resident Australian assets over the past year; however it is worth noting that for two of these three banks they have additional locally licenced entities which grew.



European banks grew resident Australian assets by \$18.6bn in aggregate, the equivalent of 7%.

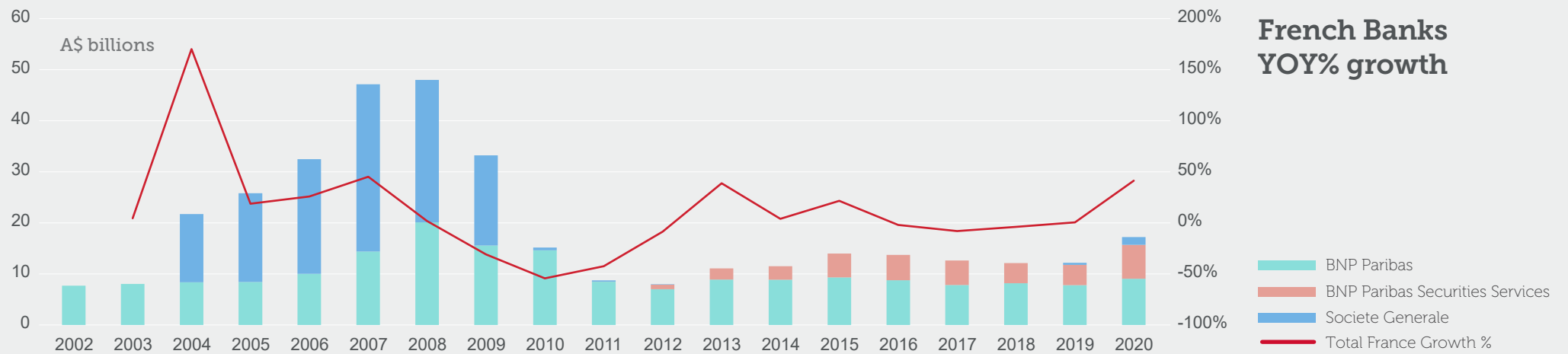
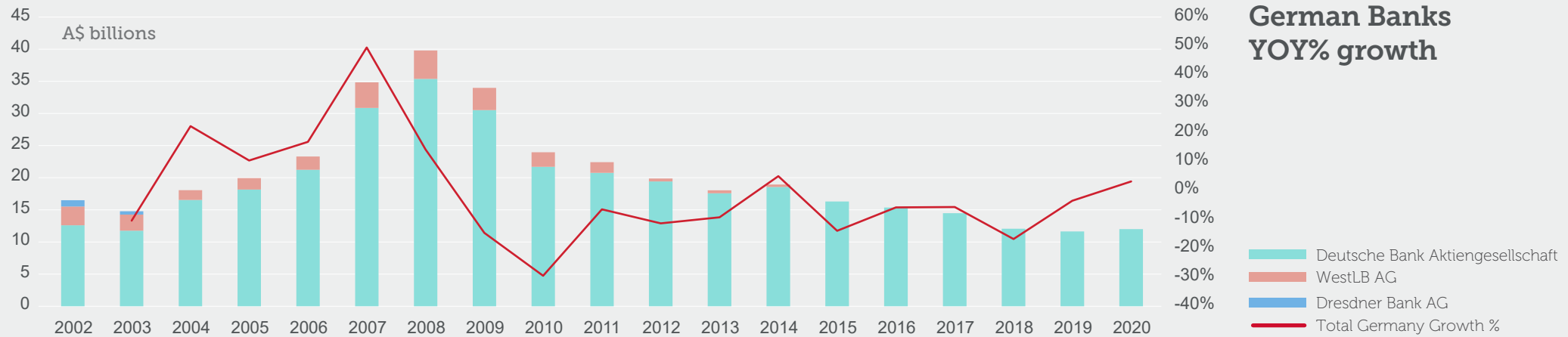


Dutch banks are the largest in Australia (mainly ING but also Rabobank), followed by British banks (mainly HSBC).



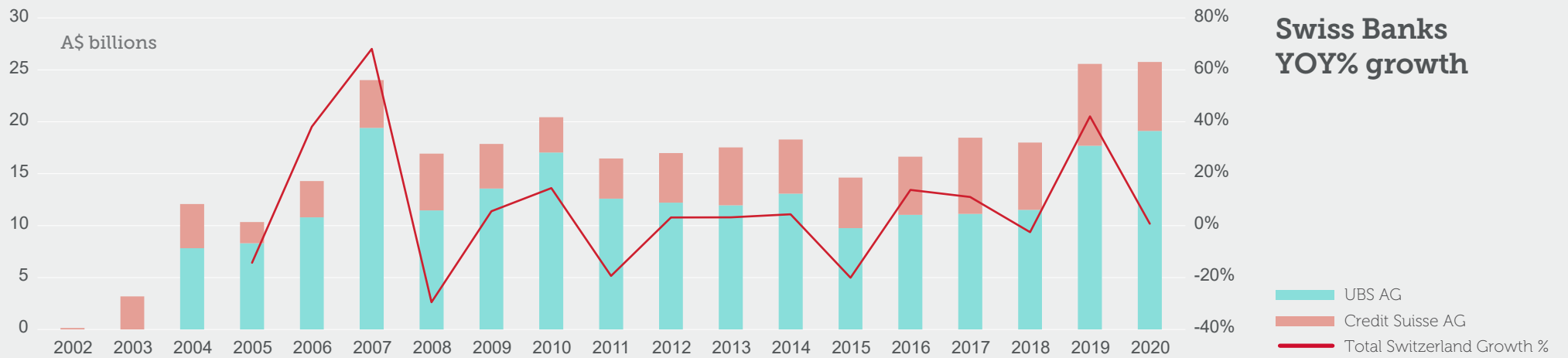
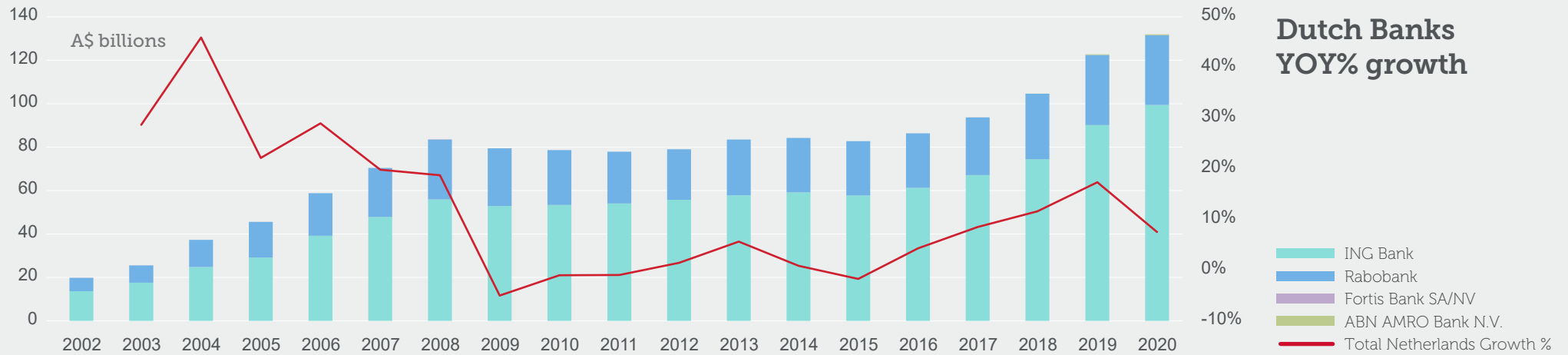
ING Bank (Australia) is the largest European bank in Australia, followed by HSBC Bank Australia, Rabobank and UBS.

## Germany and France





## The Netherlands and Switzerland



## UK Banks

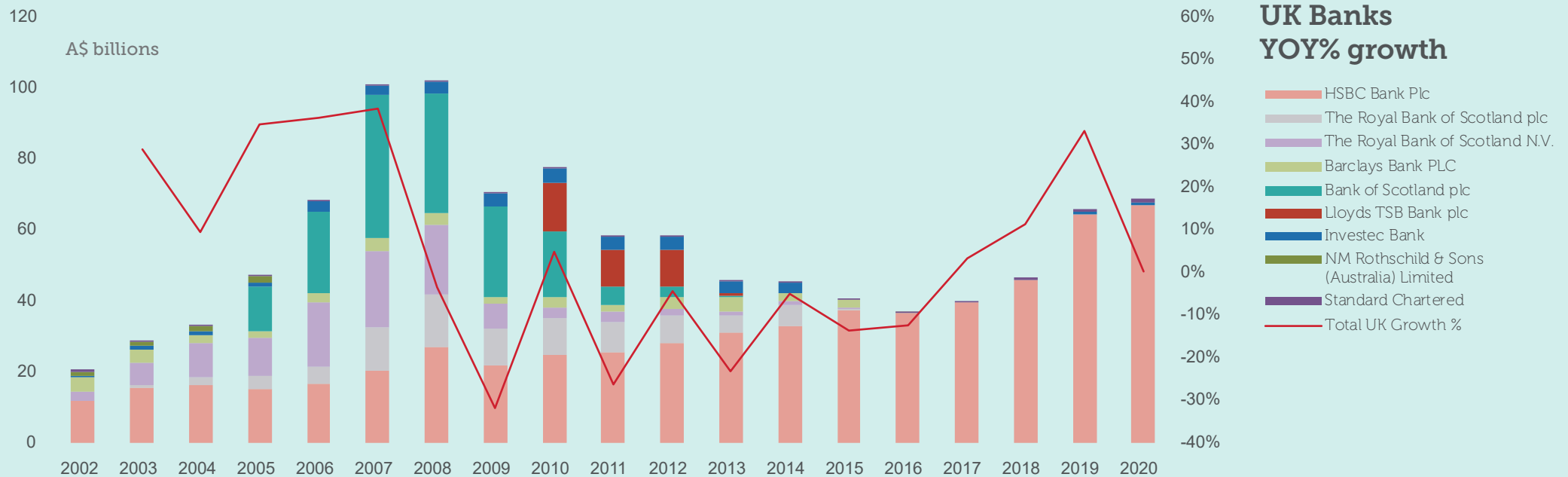
In the UK, 2020 had been the year everyone was waiting for – with Brexit coming to an end and the UK elections recently taking place, investors were looking forward to a period of stability.

Unfortunately COVID-19 meant that the market halted again. We saw fairly weak growth in UK-based banks, and a drop in the total UK growth percentage. However, 2020 saw the entry of a new bank, TransferWise Australia, which is a subsidiary of the UK headquartered TransferWise.

And while the first half of 2020 saw a slowdown in market activity, by June it had picked back up. We still saw interest in Australian targets. While deals were significantly slower to close, activity was still taking place, particularly towards the end of the year.

As global economies start to recover from lockdown periods, businesses are starting to repay loans again, which will assist banks in maintaining their capital adequacy thresholds. Private equity funds are holding onto a significant amount of capital, and are looking for opportunities to invest.

With growing confidence in the UK as a result of the COVID-19 vaccine rollout and the UK government's budget measures to stimulate spending and growth, we're anticipating a boom of market activity – and Australia remains an attractive location for investment.









## Key Findings: Asia ›

Asian banks grew resident Australian assets by \$20.4 billion in aggregate, the equivalent of 12%. While the growth rate slowed, Asian foreign bank growth appears to be a trend set to continue. 2020 saw a lag in capital investment and deals from Asian investors as short term, lockdowns paused economic activity earlier in the year, but the end of the year saw deals picking back up.



North Asian countries who are major trading partners of Australia, namely China, Japan and also Taiwan, recorded double digit growth.



Bank of Baroda from India was the fastest growing Asian bank, more than doubling resident assets – though from a low base.



China Everbright increased resident assets by over 80%, and Bank of Communications increased resident assets by over 50%.

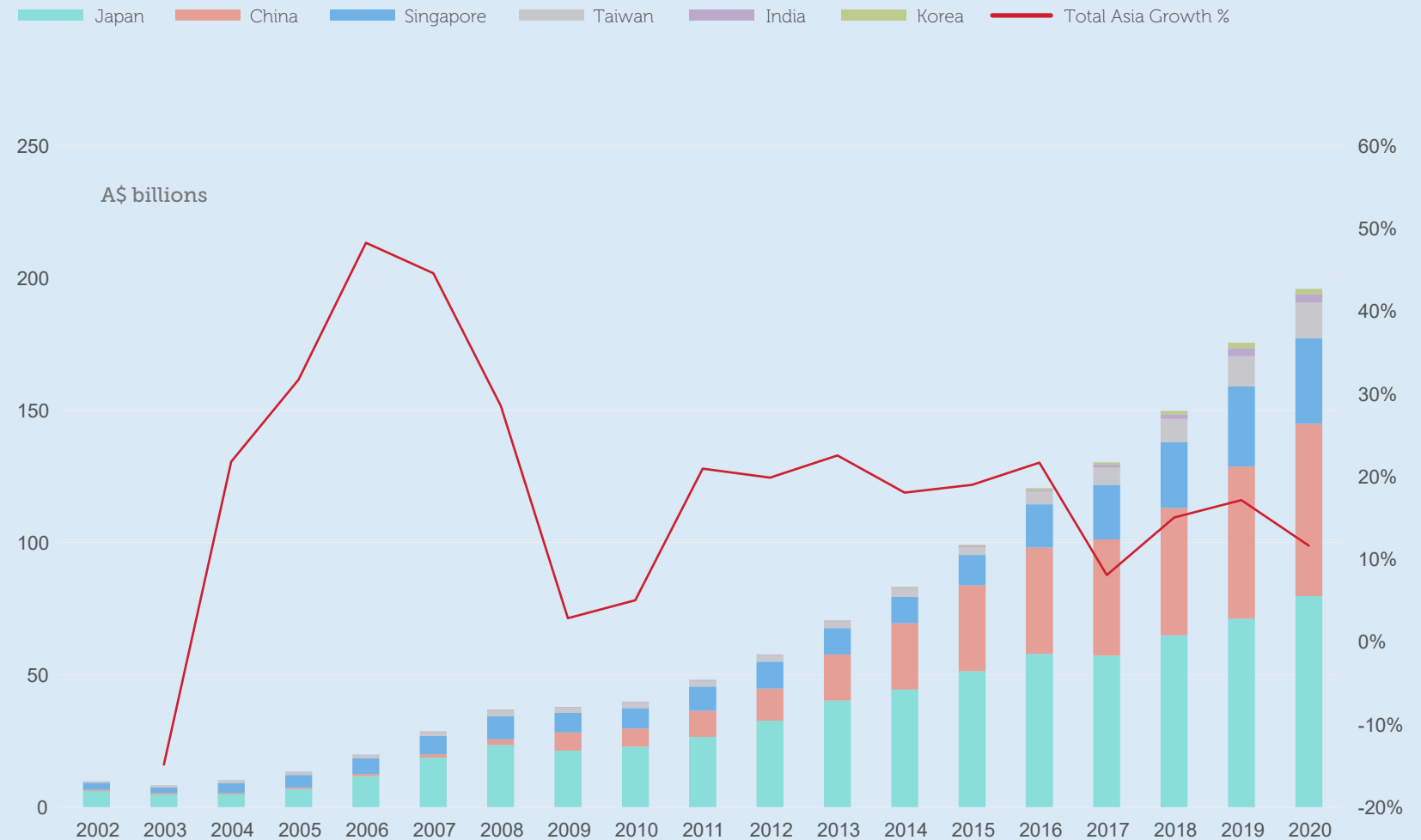


## Key Findings: Asia

- There are 28 Asian banks operating in Australia - unchanged since last year.
- Japanese banks have the largest regional presence in Australia, followed by Chinese banks.
- MUFG (Japan) is the largest in Australia. SMBC (Japan) is second largest, followed by Bank of China (China).
- Mizuho Bank (Japan) is the fourth largest bank followed by UOB (Singapore), ICBC (China) and OCBC (Singapore).

## Asian Banks: Total Resident Asset Value and growth

### Asian Banks YOY% growth





## Mainland China

The overall story for the mainland Chinese banks appears to be one of continued, measured growth among larger established players and continued searches for growth among newer, smaller, market entrants.

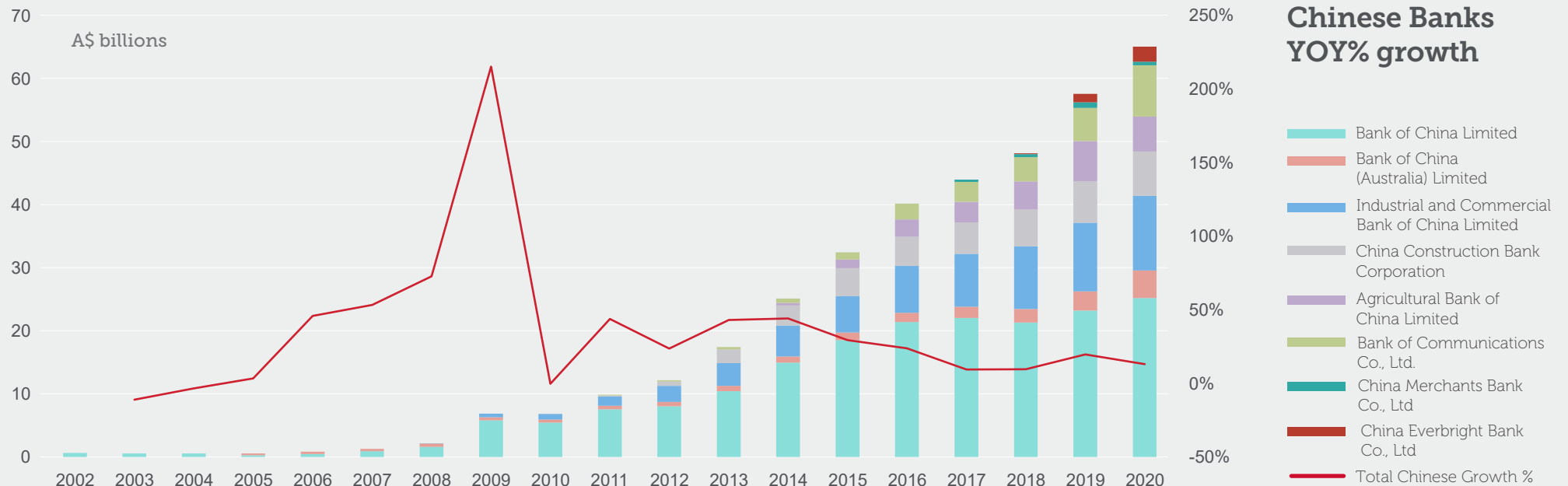
Bank of China remains the largest Chinese bank by resident Australian assets. Its percentage growth relative to other Chinese banks in Australia has slowed in recent years, allowing China Everbright and Bank of Communications to pass it as the fastest growing Chinese bank in Australia.

The top 3 Chinese banks by Australian resident asset growth in percentage terms are China Everbright Bank, Bank of Communications and Bank of China.

We continue to expect the trend and approach of China's banks to follow their clients, which includes ongoing investment in

Australia and continued interest in renewable energy and energy storage. This reflects a goal recently set by the Chinese government to achieve carbon peak by 2030, and carbon neutrality by 2060. We also expect a continued interest in industries such as minerals and resources, education, agtech, biomedicine and health.

The ongoing impact of COVID-19 and China's 14th five year plan will, however, shape these trends.



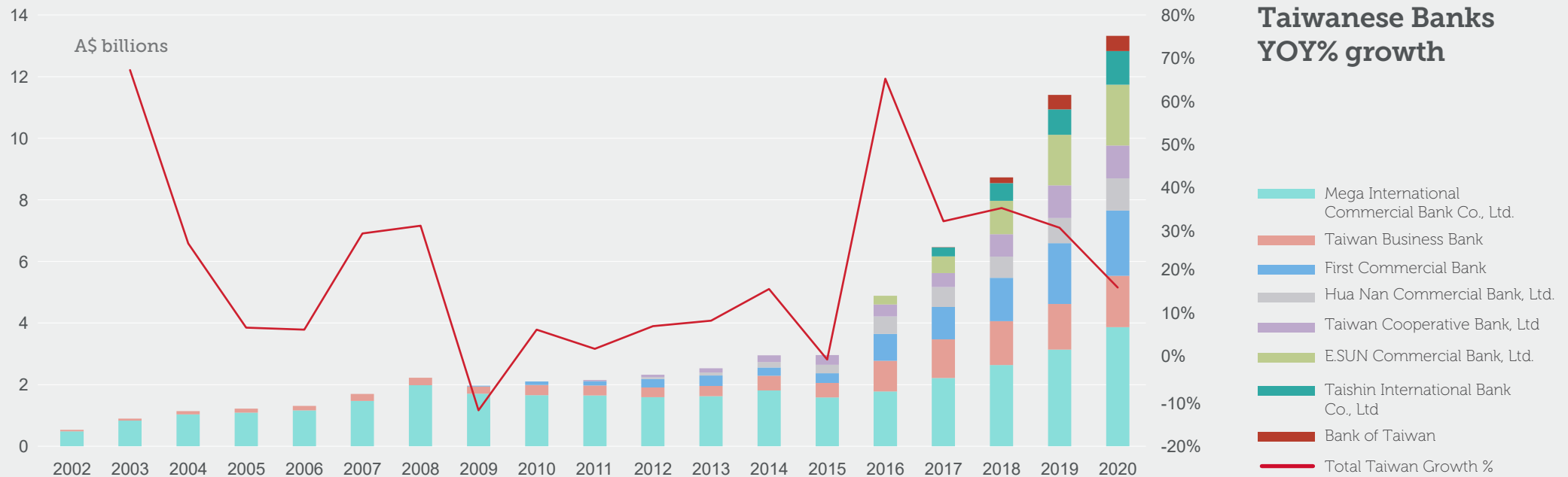
## Taiwan

In aggregate, Taiwan's banks now have \$13.3bn of resident Australian assets, up 17% over the past year.

Mega International Commercial Bank remains the largest Taiwanese bank by resident assets in Australia.

The top three Taiwanese banks by percentage growth in Australian resident assets were Taishin International Bank, Hua Nan Commercial Bank and Mega International Commercial 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 continues to go from strength to strength. MUFG remains Japan's largest bank in Australia and grew its resident Australian assets by 5% or \$1.3bn to \$30.7bn last year.**

Both SMBC and Mizuho Bank also strengthened their presence with \$29.3bn and \$19.8bn in resident assets respectively, increasing by \$5.2bn and \$2.1bn respectively over the past year, equivalent to increases of 22% and 12%. This places all three of these Japanese banks within the top 10 foreign banks by resident assets in Australia.

Consistent with SMBC's strong 22% growth in 2020, we expect SMBC's exposure to grow in Australia in the short-to-medium term following their commitment to the NSW Government in respect of the Western Sydney Airport and Western Sydney Aerotropolis, Australia's largest single infrastructure project which is expected to commence operations in 2026.

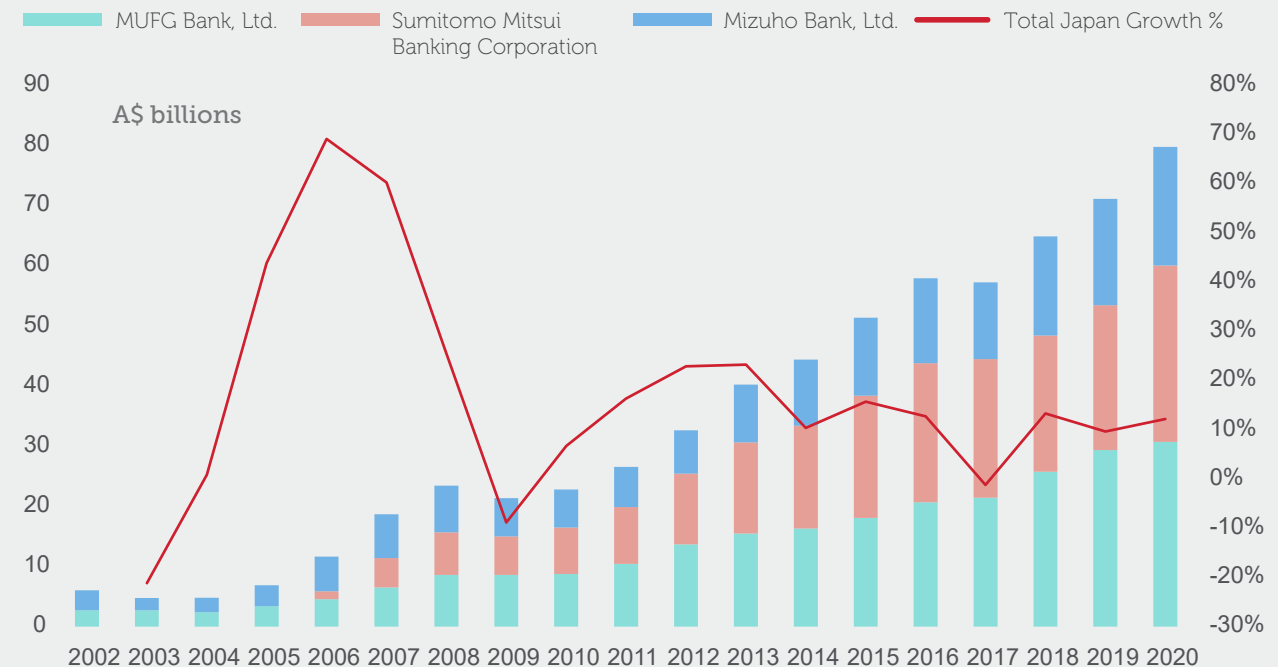
The continued double-digit growth in Japanese bank assets in Australia reflects the broader economic trends in Japan. The Japanese economy, like all major economies at present, is under pressure from the global headwinds that COVID-19 presents. Coupled with a decreasing Japanese population and the Bank 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.

Finally, the decision by the Japanese Government to become carbon neutral by 2050 is a significant policy announcement that will further accelerate the trends we have been seeing in the Japanese market in recent years towards the adoption of domestic renewable energy.

Marubeni, Sumitomo and ITOCHU have committed to no longer participate in new coal-fired power plants whilst Mizuho Financial Group has halted all new financing for such projects and aims to reduce outstanding credit for such projects to zero by 2040. Conversely, each of

MUFG, SMBC and Mizuho Bank have all recently announced new investments funds that will focus on both domestic and overseas renewable energy assets and incorporate environmental, social and governance factors into their investment decisions.

### Japanese Banks YOY% growth





## Singapore

**Throughout 2020, overall growth from Singapore's three banks present in Australia continued – although their growth rate has decreased from previous years.**

Being a relatively small, but highly developed and sophisticated country with strong economic foundations, Singapore was able to swiftly react to the economic challenges of the COVID-19 pandemic via a range of stimulus measures, ranging from the Stabilization and Support Package to various employment related, sector specific and general economic stimulus measures. While Singapore's GDP contracted in 2020, the year ended on a generally optimistic note as the economy shrank less than expected.

Against this backdrop, Australia has remained an attractive investment destination for public and private Singaporean investors. With a view towards long term opportunities, Australia is generally seen by Singaporean investors as a close, safe and stable jurisdiction.

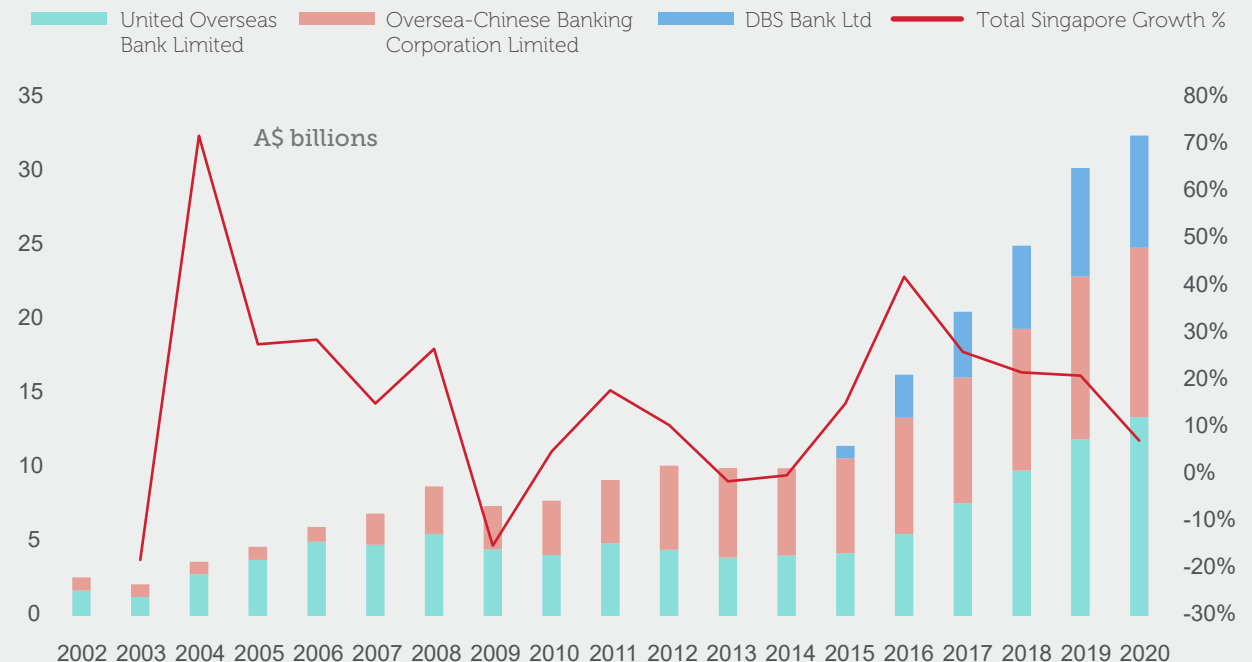
Real estate, infrastructure and education have always been key areas of interest for Singaporean investors. We also saw increased interest in technology and agriculture assets during 2020. The Australia-Singapore Digital Economy Agreement (DEA) entered into force on 8 December 2020. The DEA aims to facilitate more digital trade opportunities through cross-border data flows, developing standards for open banking and encouraging collaboration between FinTech and RegTech enterprises, which could see increased interest and activity in the technology space.

Through its 2021 budget, Singapore has indicated that it will continue to support the recovery from the COVID-19 pandemic, but at the same time, position itself for future growth.

There is a continued emphasis on positioning Singapore as a global node of technology, innovation and enterprise, and placing Singaporean firms at the intersection of key global

chains in the region. This should translate into an increasing number of commercial and economic links between Singapore and Australia in the coming years.

### Singaporean Banks YOY% growth



## Asia

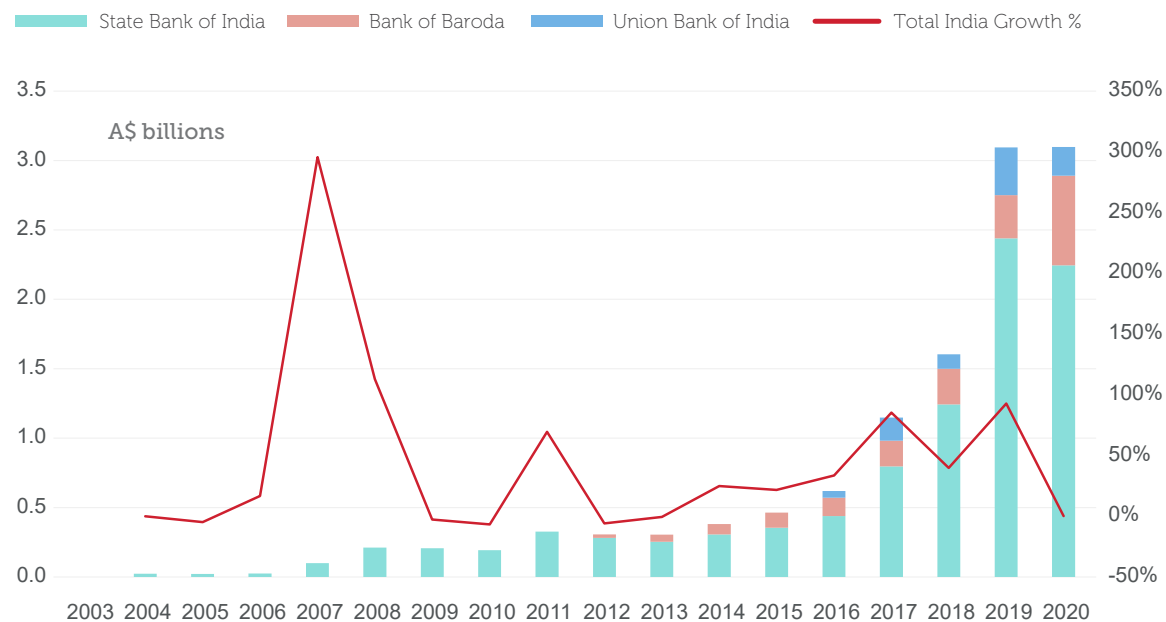
### India

COVID 19 and its downstream impact on supply chain and other activities, had a profound impact on capital flows and business volumes of Indian banks operating in Australia. Exposure to corporates, particularly in relation to working capital and resident assets declined during the year. So too did trade finance volumes which were down by approximately 15 – 20 %, year on year.

Corporate clients generally deferred their debt raising plans during the difficult and uncertain COVID impacted year, and in common with Australian banks, Indian banks were kept busy extending all necessary support to their corporate clients to weather the impact of the pandemic. This included extending liquidity mismatch support, waivers of covenants and deferral of fees and interest charges.

The pick up in the Australian economy in recent months and the generally more upbeat environment is reflected in an uptick in more recent activity. Indian banks expect that 2021 will see a return of their business activity to pre-COVID levels and growth momentum will be regained.

### Indian Banks YOY% growth



## South Korea

**The COVID-19 pandemic has caused global economic disruption resulting in a major slowdown in Korean export and domestic consumption.**

With Korea's GDP experiencing the steepest decline since the Asian Financial Crisis in 1998, it appears that the nation's potential for penetrating the Australian banking sector, which was well on track, is now deprioritised as the focus has become keeping the momentum in local economic recovery.

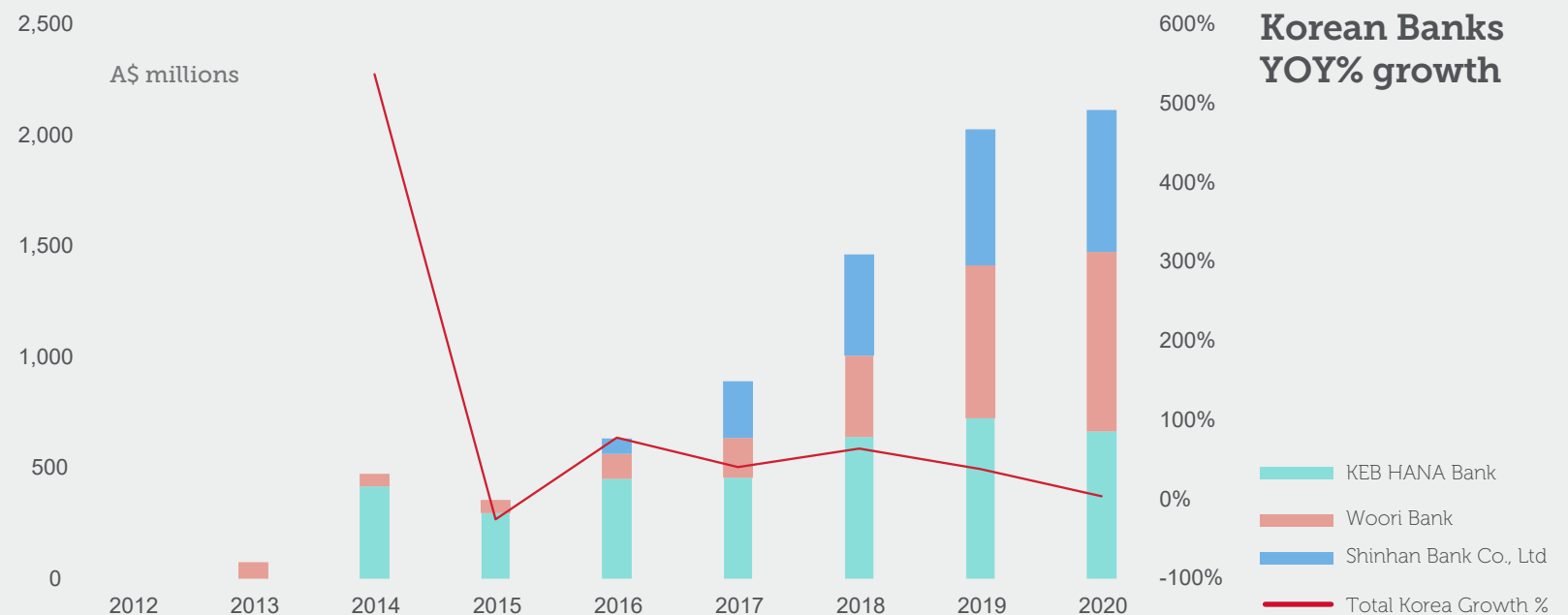
While activity in the Australia-Korea banking sector remained sluggish, 2020 still witnessed a number of meaningful investments. The major Korean banks such as Korea Development Bank, Woori Bank and Shinhan Bank issued

kangaroo bonds in the amount of \$500 million, \$400 million and \$400 million respectively, in an effort to provide loans to South Korean companies impacted by the coronavirus and to finance eco-friendly projects. Korea's attraction towards renewables remained steady with one of Korea's major financial players, Hana Financial Investment, sealing its \$199 million acquisition, development

and project financing of the 162MW Columboola solar farm in Queensland. Additionally in February 2020, the Reserve Bank of Australia renewed the bilateral local currency swap agreement with the Bank of Korea which is reflective of the commitment towards bilateral trade notwithstanding a period of financial uncertainties.

Once COVID-19 is contained and we reach a post pandemic recovery, greater consideration should be given to Korea's new and emerging digital banking market which now coexists with traditional banking. Internet-only banking is on the rise and has gained widespread attraction particularly from retail customers. Notably, Korea's mobile-only bank, Kakaobank (which is

due to IPO later this year) has around 13.6 million users and is commended for its speed, contactless service and low interest rates. Accordingly, the opportunities in Australia look fruitful once both economies walk the road to recovery with many speculating that the era of Korea's digital banking to be just the beginning of the nation's surge in technology investment.





## Key Findings: North America ›

While North American banks are the smallest foreign region by resident Australian assets, they grew the fastest of the three global regions over the past year - by 26% or \$26.6bn to \$130.6bn.

There are 11 North American banks operating in Australia.







## Key Findings: North America

**In percentage terms, the larger US banks grew faster than Canadian banks, with growth over the past year of 27% vs 19% - which when expressed in terms of dollars growth in resident assets is even more pronounced: \$23.4bn vs \$3.3bn.**

Of individual banks, the Northern Trust was the fastest growing, increasing resident assets by over three times, an increase of over \$8.1bn in resident assets, followed by State Street, Paypal, and JP Morgan, which all recorded over 30% growth in resident assets.

Bank of America and Bank of New York Mellon both contracted resident Australian assets over the past year.

In summary:

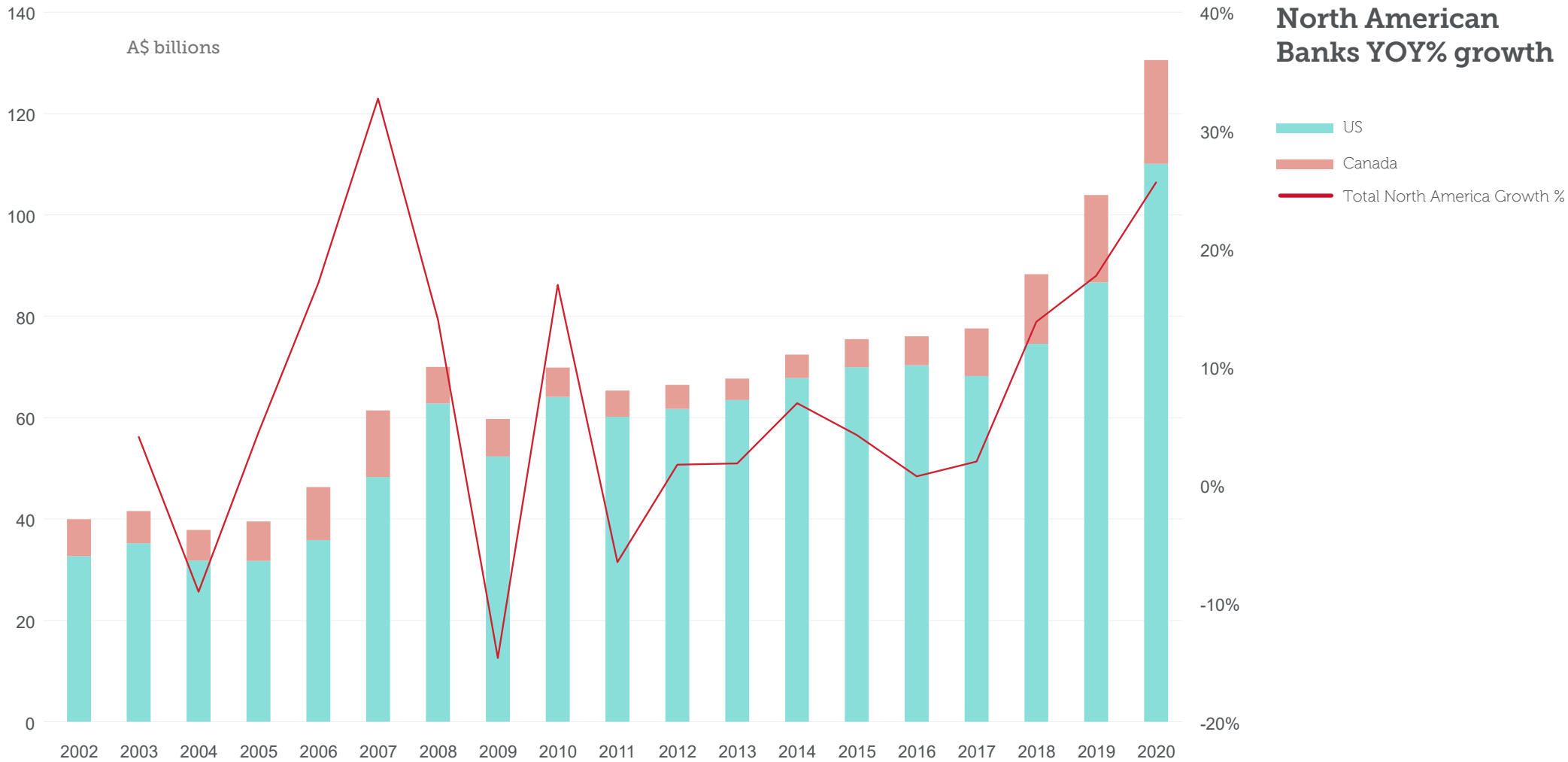
- North American banks grew resident Australian assets by 26% or \$26.6bn to \$130.6bn in aggregate.
- US banks have over five times the resident Australian assets of Canadian banks.
- The major US banks dominate the North American banks with residents in Australia, led by Citibank, JP Morgan and Bank of America, with North American trust banks such as Northern Trust, State Street continuing to grow strongly too.



**North American banks grew resident Australian assets**

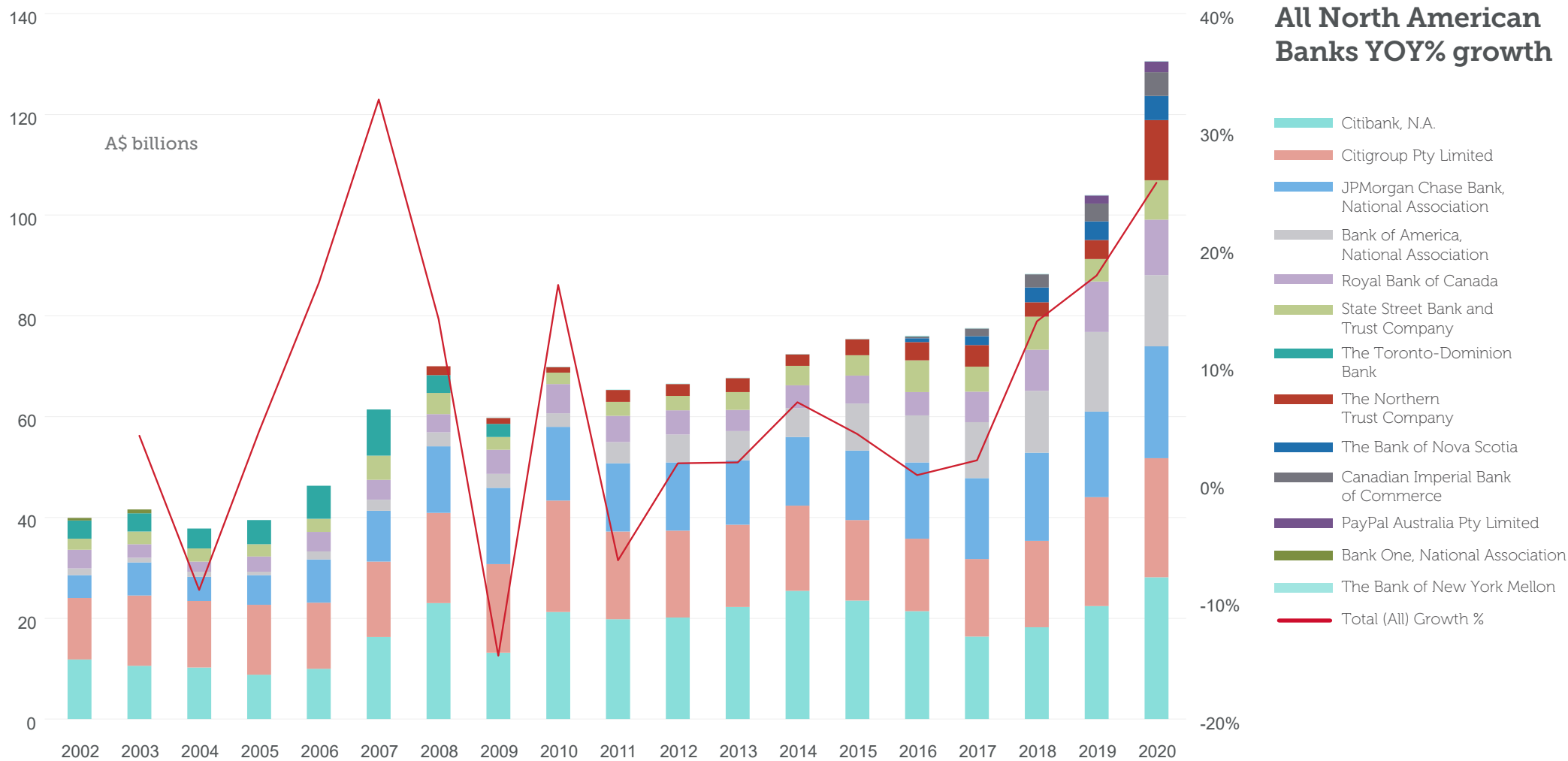
**by 26%**  
**or \$26.6bn to \$130.6bn in aggregate."**

North America



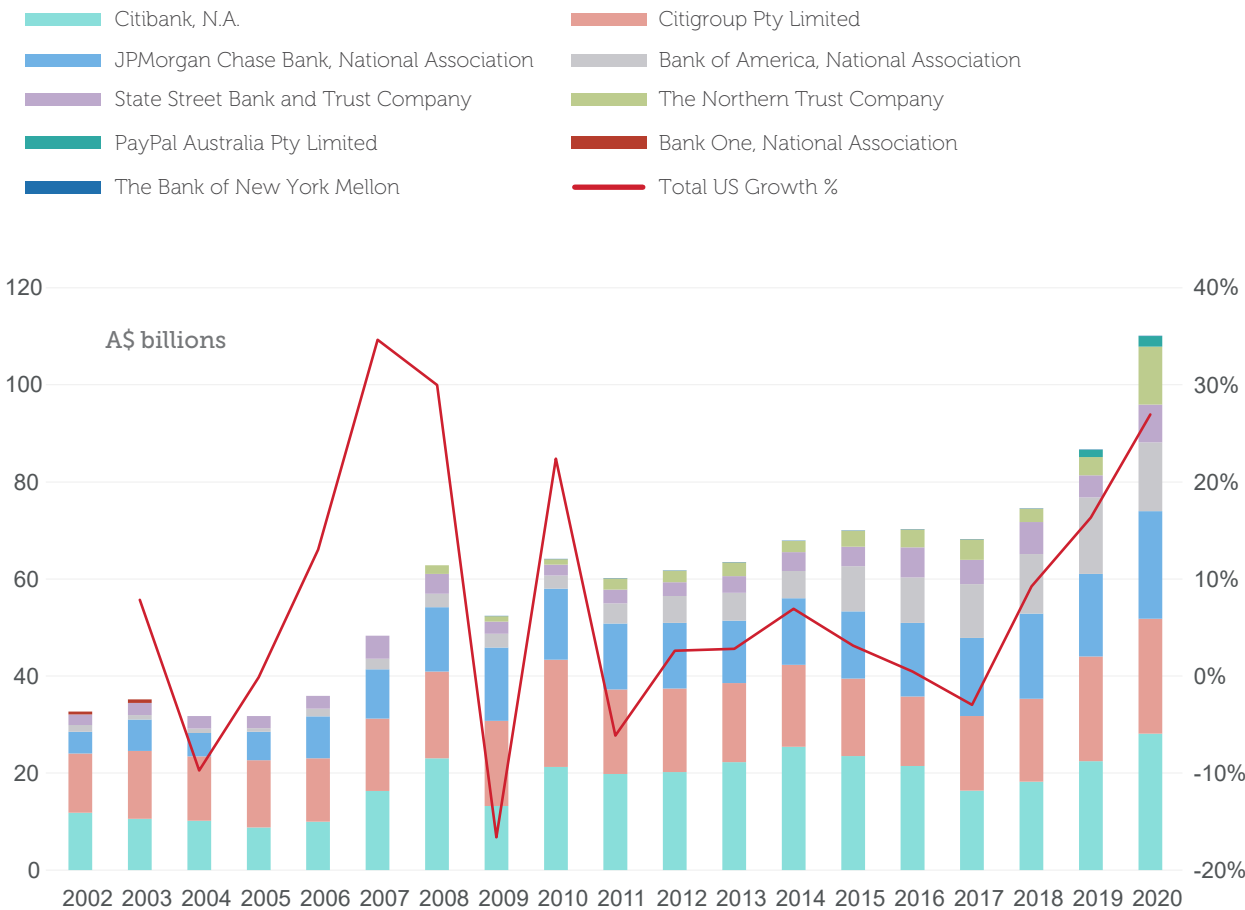


North America



## North America

### US Banks YOY% growth



**North America was the fastest growing region for overseas banks in Australia in 2020, growing resident Australian assets by 26%.**

US banks have over five times the resident Australian assets of Canadian banks.

Citibank's dominant presence in terms of US bank assets located in Australia has been reduced since the Global Financial Crisis and no longer accounts for the majority of US bank Australian resident assets. Alternative financial services companies have seen significant growth, including Northern Trust who have made a conscious decision to increase their presence and take on competitors in Australia, with a particular focus on asset management.

While there was a concern that US banks may have withdrawn from overseas markets to focus on domestic priorities in 2020 due to the pandemic, this has not been the case. In fact, activity and assets grew at a steady rate as it became evident that the pandemic would not evolve into a financial crisis.

Non-traditional banks such as Paypal also increased their presence and activity in Australia, competing with non-bank financial services. American Express also expanded into Australia to compete with established banks, launching its small business lending offering – its first market for this outside of the US.

With banks and consumers across the world embracing online banking like never before, US banks pushing towards digital transformation are continuing to lead the world in digital and mobile banking. We're seeing technologies such as artificial intelligence, robotic process automation and other disruptive banking technologies starting to gain traction – and the US is leading the way.

## Canada

Similar to banks from several Asian countries, there are three Canadian banks with resident Australian assets.

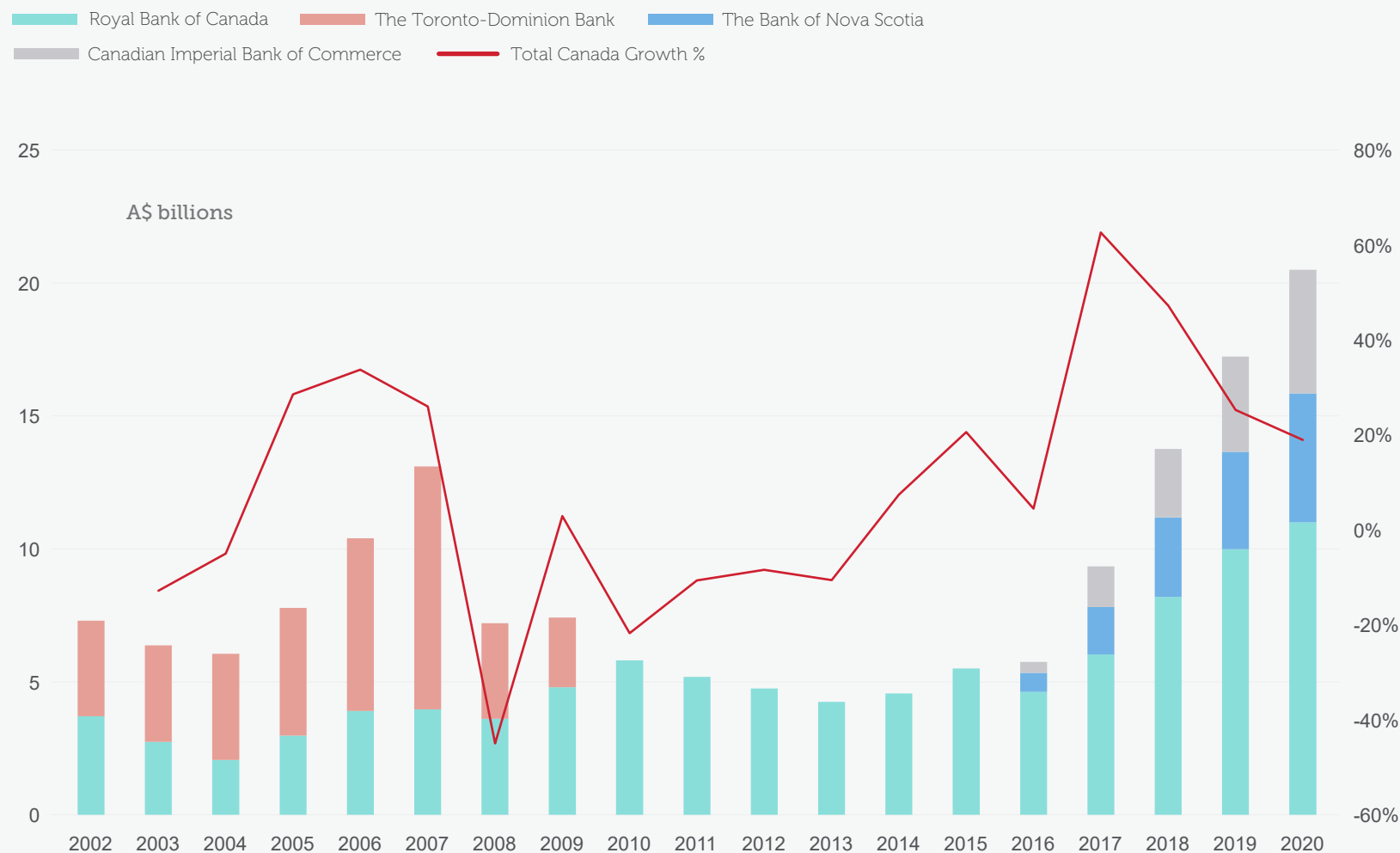
The largest of these is Royal Bank of Canada, with \$11.0bn of resident Australian assets, just over half of the total Canadian banks' resident Australian assets of \$20.5bn.

It was the slowest growing Canadian bank by resident Australian assets in percentage terms, with other Canadian banks outgrowing it in both percentage and dollar terms, although there was not too much difference in dollar terms, with all Canadian banks growing resident assets between \$1.0bn and \$1.2bn.

The Bank of Nova Scotia was the fastest growing Canadian bank, increasing resident assets by 33% or \$1.2bn.

We anticipate further Canadian bank growth in Australia in the coming years, reflecting broader macro-economic shifts.

### Canadian Banks YOY% growth







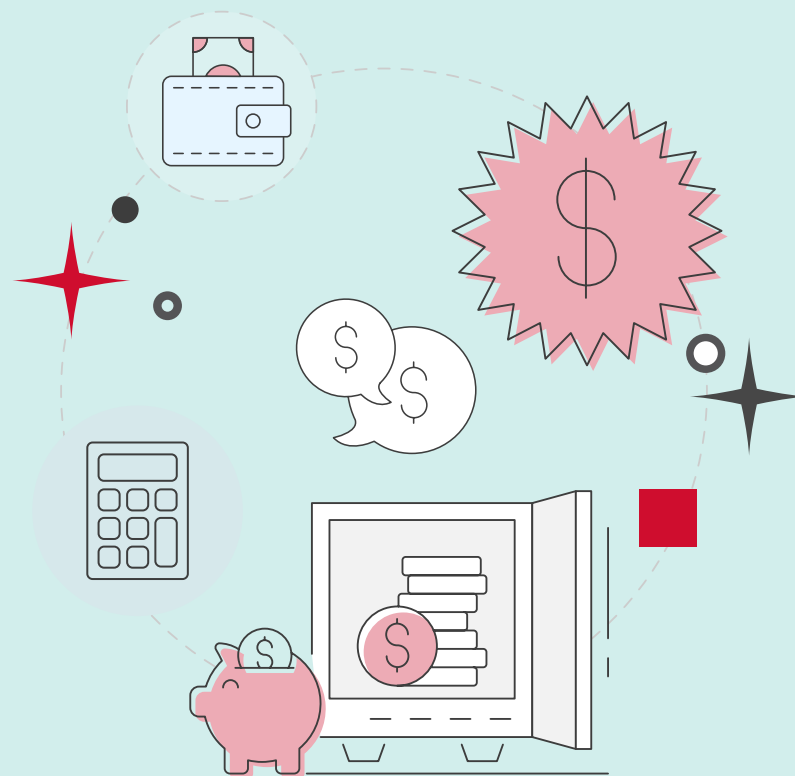
## Conclusion

**The data we explored in this report around foreign bank activity and capital flow paints a far more positive picture than many had anticipated throughout 2020.**

While foreign bank growth wasn't as strong as it had been in previous years, we observed that in many cases, market activity paused for a period of time – but it restarted before the end of the year.

Now banks find themselves in a fortunate situation, with money to invest and opportunities to explore.

Compared to other markets, Australia has been relatively stable throughout 2020 and is an increasingly attractive investment destination.



There are challenges – travel restrictions, regulatory hurdles including FIRB and ACCC requirements and managing multiple state jurisdictions, for example. However, the results are extremely rewarding – and foreign banks' continued growth reflects that optimism.

Our multidisciplinary, international team at MinterEllison can help you navigate the challenges and take advantage of the opportunities with investing in Australia.

Contact us for a tailored discussion of your interest.

## About this report

MinterEllison's sixth edition Foreign Bank Tracker provides insights and key trends on the growth of resident assets held by foreign branch and subsidiary banks in Australia.

Our insights are based on data from the Australian Prudential Regulatory Authority (APRA) which assess the size of foreign bank loan books across three regions – Asia, Europe and US/ Canada. The data analysed in this report is current to 31 December 2020.

- "Resident assets" refers to all assets on the banks' domestic books. Unless otherwise stated, the statistics analysed relate to the operations/transactions conducted with residents that are recorded on the domestic books of licensed banks.
- The term "Total resident assets" has been used throughout this report. It refers to all assets on the banks' domestic books that are due from residents. To put simply, it shows the value of assets the foreign banks hold in Australia.
- The Domestic books of a bank has the following scope:
  - includes operations/ transactions booked or recorded inside Australia;
  - does not consolidate Australian or offshore controlled entities;
  - includes transactions of Australian-based offshore banking units;
  - excludes transactions of overseas-based offshore banking units;
  - excludes offshore branches; and
  - excludes transactions, assets and liabilities with offshore branches.



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