IDENTIFY

ENGAGE

CREATE

2023 Foreign Bank Tracker

MinterEllison

Welcome to the 2023 Foreign Bank Tracker (FBT)

›

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

In 2022, global banks faced the headwinds of a lingering pandemic, an ongoing large-scale ground war in eastern Europe, economies and businesses facing supply chain disruptions, a return of inflation levels unseen for decades in most developed nations, and the structural jolt of rising interest rates and quantitative tightening by major central banks globally. In a deliberate shock to the Australian economy and banking sector, 2022 saw an aggregate rise in the RBAs target cash rate of 3% over 8 consecutive monthly rate decisions from May to December.

Since this monetary tightening (with more in 2023), we have seen a significant banking crisis morph into a major market issue. Will the banking crisis become a solvency crisis in 2023? A key theme this year is focused on how regions and banks respond to these conditions, and adjustments made in exposure to Australia as operations and risk exposures are reviewed. We certainly live in interesting times!

To produce the FBT, we drew on the Australian Prudential Regulation Authority (APRA) monthly banking statistics, focusing on the reporting of banks' total resident assets. The report continues to reveal interesting patterns of capital investing into Australia. Indeed, this latest edition shows a continued expansion of foreign banks in our Australian domestic marketplace. The key inferences which we have drawn from the publication include:

Infrastructure pipeline attracting new entrants

APRA granted banking licences to two new foreign banks in 2022: Korea's NongHyup Bank and France's Crédit Agricole. Both banks have a history of specialisation in energy, infrastructure and project financing, with Crédit Agricole operating investment banking services in Australia since the early 1970s, and seeking to expand their service capacity; and NongHyup Bank opening the wider organisation's first Australian branch in Sydney, aiming to work closely with Investment NSW to participate in infrastructure investment opportunities.

John Elias
Lead Partner,
Foreign Bank Tracker

"A key theme this year is focused on how regions and banks respond to these conditions, and adjustments made in exposure to Australia as operations and risk exposures are reviewed."

[1] NH Bank to open Sydney branch in Q3 this year (koreatimes.co.kr)

Continued Asian outperformance

Over the past 2 decades, Asian-based foreign banks have maintained a 17% compound annual growth rate in resident assets held, and now account for 35% of all assets held by foreign banks in Australia, up from 8% in 2002 and 18% in 2012. Banks from Japan, China, Singapore and Taiwan have been the largest contributors to growth by weight. However more recently India and Korea domiciled banks have contributed higher growth rates as a number of new participants have entered the market, albeit accelerating off low bases.

In 2022, the largest contributors to resident assets growth by dollar value were Bank of China Group and the Japanese megabanks – MUFG Bank, Sumitomo Mitsui Banking Corporation and Mizuho Bank. India-based banks demonstrated the highest year-on-year resident assets growth rate of 22.3%, closely followed by Singapore at 21.4%.

Sharp North American countertrend

In 2022, the total resident assets held by North American banks contracted by 13.7%, ending 11 years of positive year-on-year growth rates. This is a notable shift considering the four most recent years had double-digit growth rates.

This was largely a result of the sale of Citigroup's Australian consumer banking division to Australia's National Australia Bank. However, after adjusting for Citi, the aggregation of the remaining North American participants' assets still contracted by 1%. This was led by reductions in the resident assets held by State Steet Bank and Trust Company, The Northern Trust Company and JPMorgan Chase.

European and UK banks with domestic subsidiaries dominate

European and UK banks still hold 45% of all resident assets held by foreign banks, down from 63% in 2002 and 61% in 2012. The largest European banks by resident assets, ING (Netherlands) with A$110 billion after a 3.1% year-on-year growth and HSBC (UK) with A$88 billion after a 15.8% year-on-year growth, are still, by far, the largest foreign participants in the Australian banking sector (greater than double resident assets held by the largest North American bank JP Morgan, and the largest Asian participant MUFG, and next largest Europeans).

Crédit Agricole was the second largest European growth driver by value of resident assets held, notably in its first year of operations, growing its assets to nearly A$6 billion in 2022. This was supported by strong growth from other large European participants Rabobank (Netherlands) and Deutsche Bank (Germany).

ING, HSBC and Rabobank are all foreign subsidiaries with extensive local operations in separate entities from their foreign parents. ING and HSBC focus heavily on the retail market, whereas Rabobank is predominantly agribusiness focused, while also building a strong online retail deposit base (formerly known as RaboDirect).

The other smaller subsidiaries with foreign parents are Bank of Sydney, a subsidiary of Bank of Beirut (Lebanon) and Arab Bank Australia, a subsidiary of Arab Bank plc (Jordan).

Crédit Agricole following a well-worn path

Crédit Agricole has mirrored the progression of previous investment banks operating in Australia, aiming to offer greater services to their corporate and institutional clients through a banking licence.

In 2021 Barclays was granted an Australian banking licence, after reopening in the country as a corporate and investment bank from 2018, and also operating through their strategic investment in Barrenjoey Capital Partners.

Total resident assets held by North American banks contracted by 13.7%, ending 11 years of positive year-on-year growth rates.

Contents

"A forward issue for Australia will be whether any of the banks react as they have done previously in slow economic conditions and repatriate capital back to their home jurisdictions for a period of time – perhaps a few years. If so, this is likely not a reflection on the confidence foreign banks have in Australia as a safe haven for investors, but more due to a strategy to have tighter control over capital while there is global market stress."

John Elias
Lead Partner, Foreign Bank Tracker

Summary

Two new foreign banks

- French bank Crédit Agricole was awarded a banking licence in January. The business' Corporate and Investment banking arm has operated in financial services in Australia since the early 1970s, with particular focus on project, real estate and acquisition finance sectors.
- In August, South Korea's NongHyup Bank, a subsidiary of NongHyup Financial Group, was awarded an Australian banking licence.

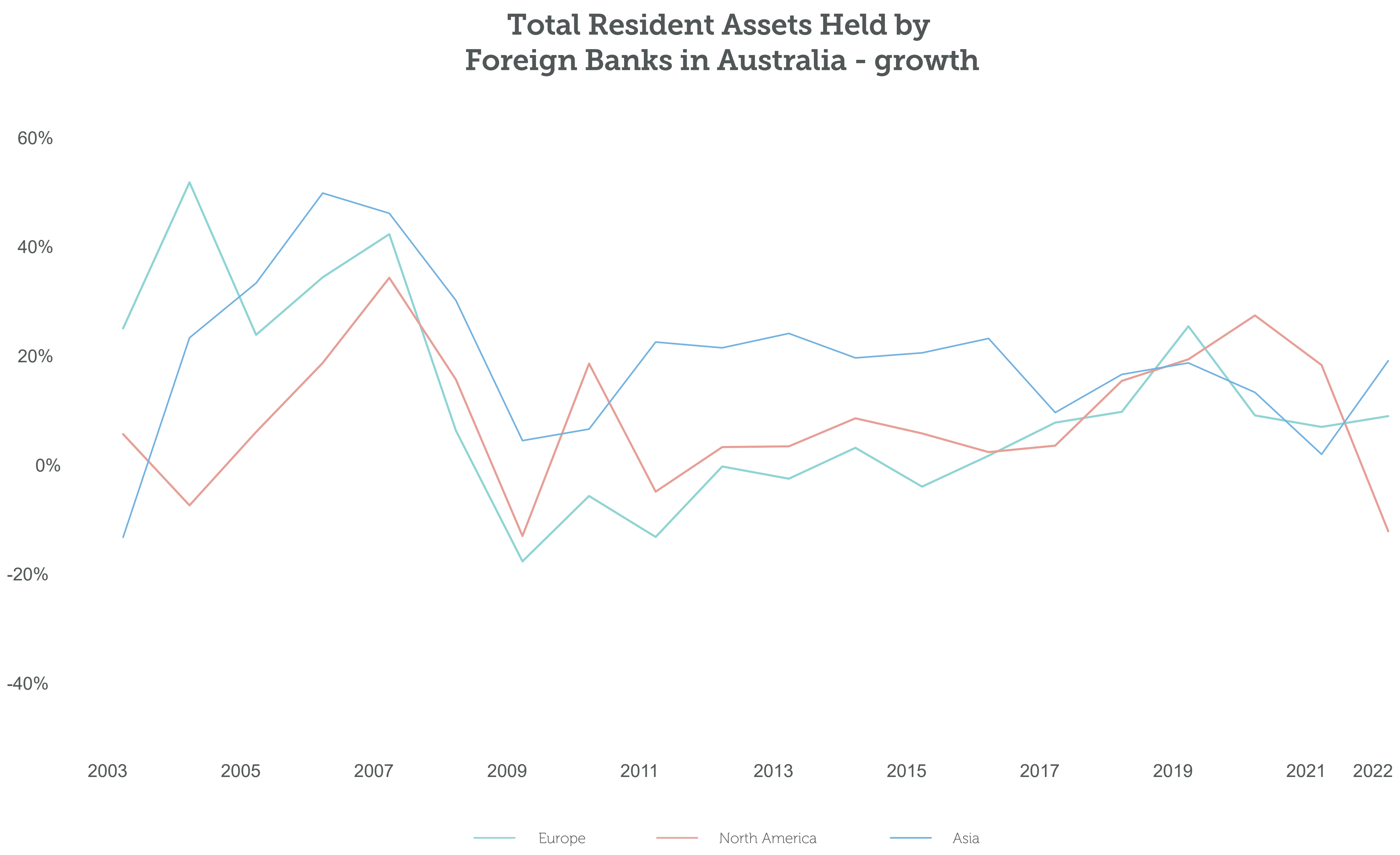
Foreign banks handing back licences

- Citigroup Pty Limited's (USA) banking licences were withdrawn following their sale to National Australia bank in June 2022. Citibank still maintains a branch in Australia.
- BNP Paribas Securities Services's licence (France) was withdrawn at request of the organisation due to restructuring in October 2022. BNP Paribas, a related entity, remained an authorised deposit taking institution.
- APRA has made no announcements regarding the banking licence status of ABN AMRO Bank N.V. (Netherlands). However the organisation in 2022 held no resident assets and has cancelled their Australian Business Number. We have removed ABN AMRO Bank N.V. from this year's report.

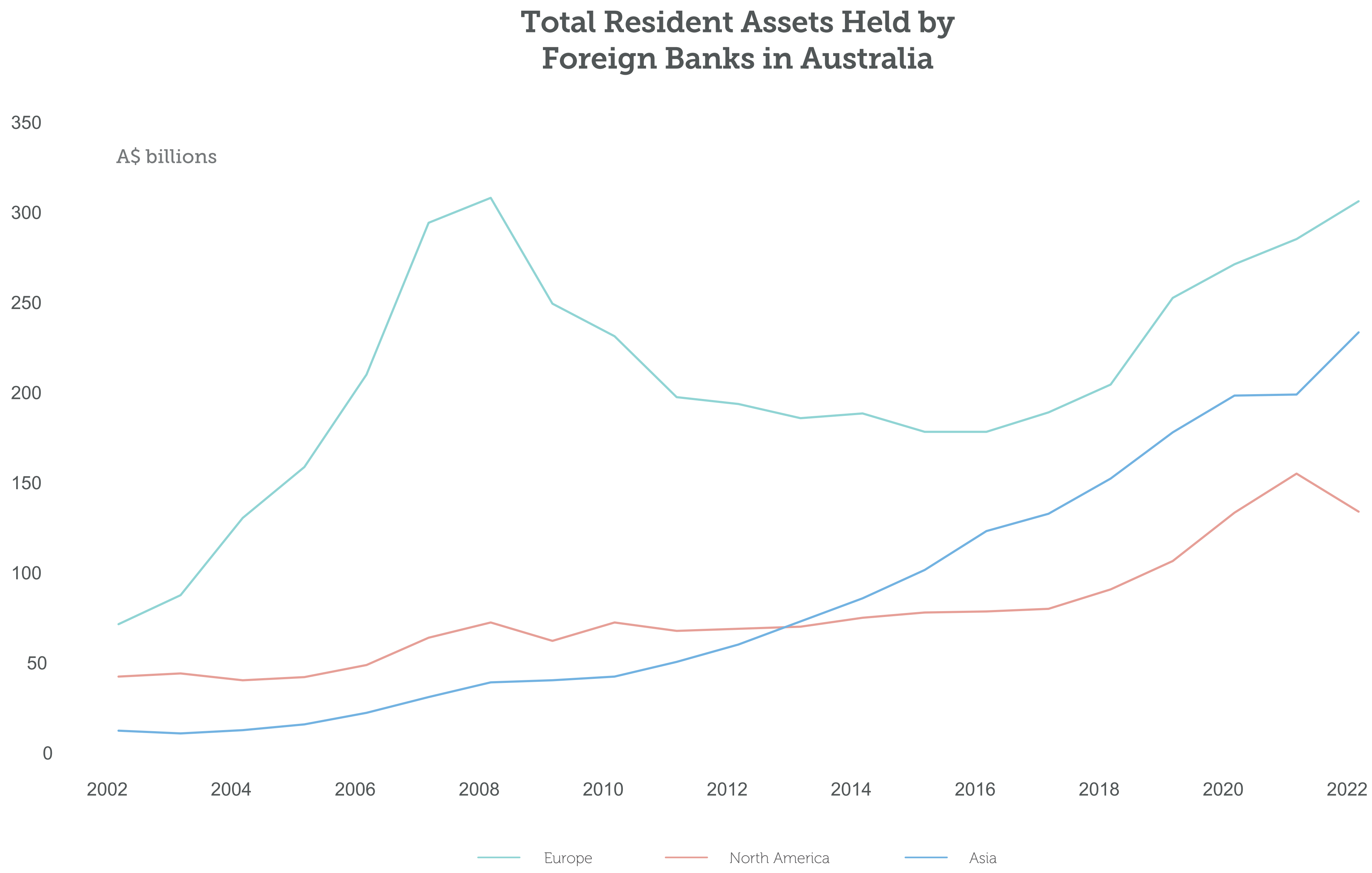
North America slows, Europe grows and Asia accelerates

- In the wider picture, except for the US and Swiss banks, at an aggregate level all other countries with foreign banks operating in Australia experienced growth.

The global picture

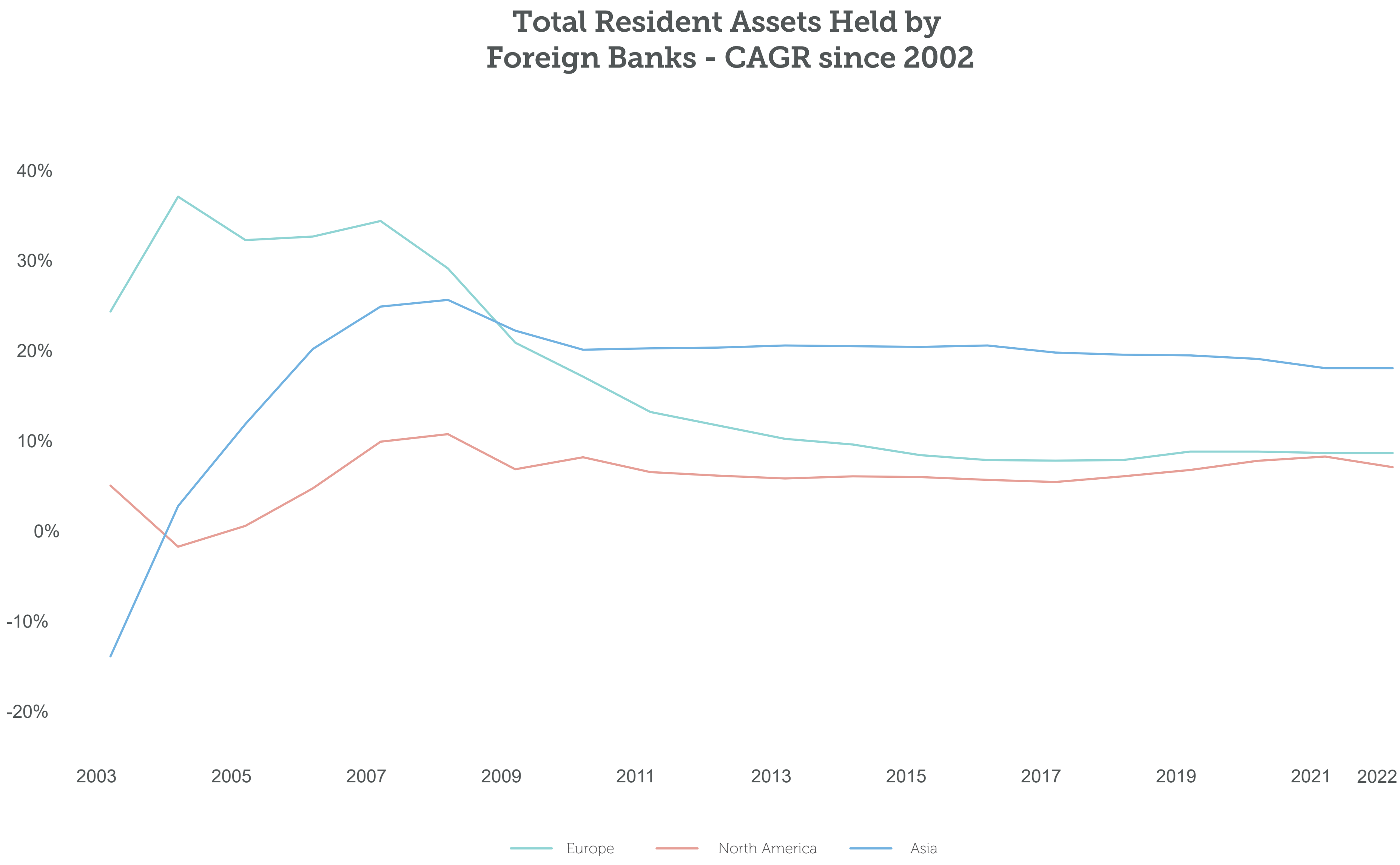


The global picture

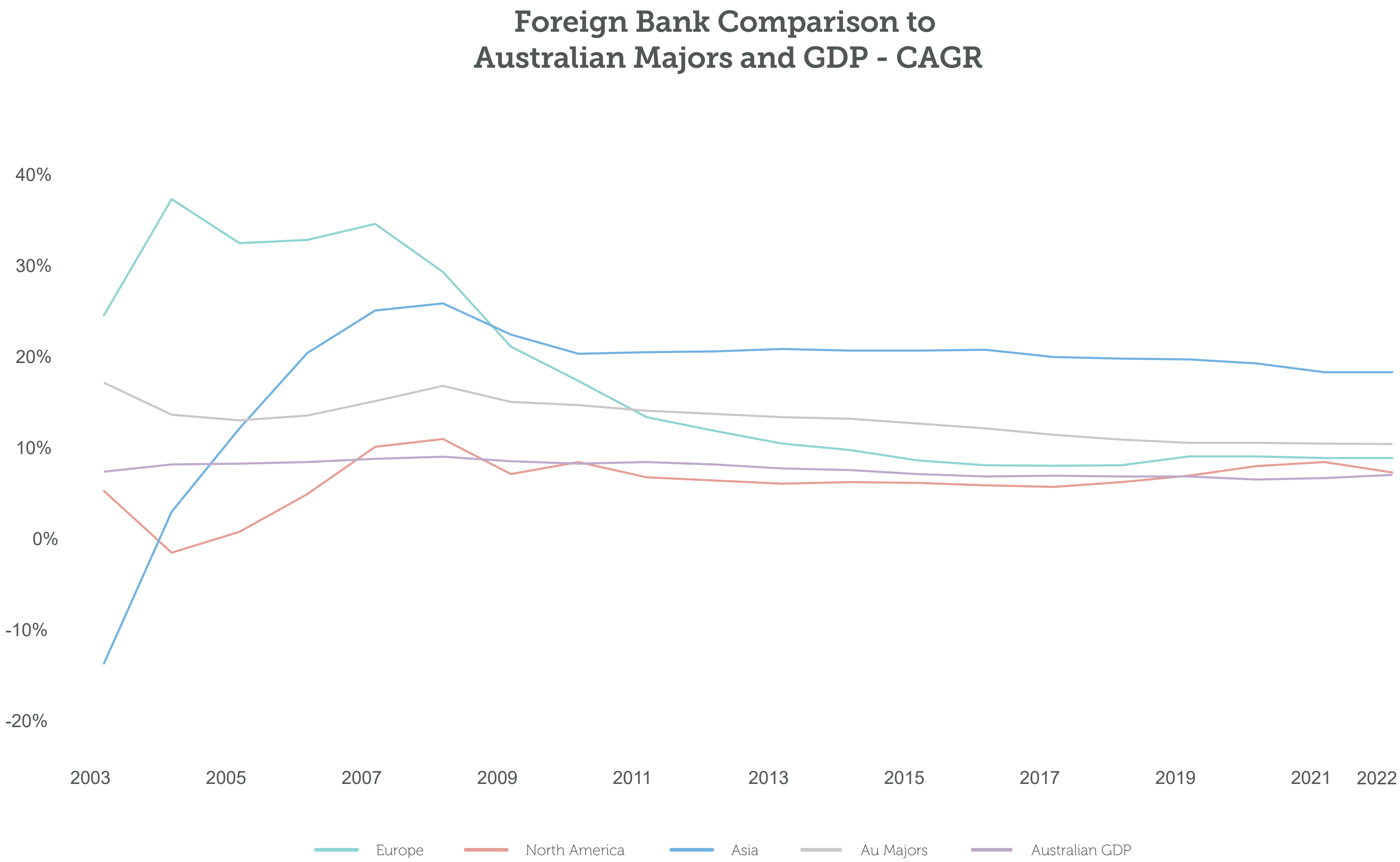


The global picture

The global picture

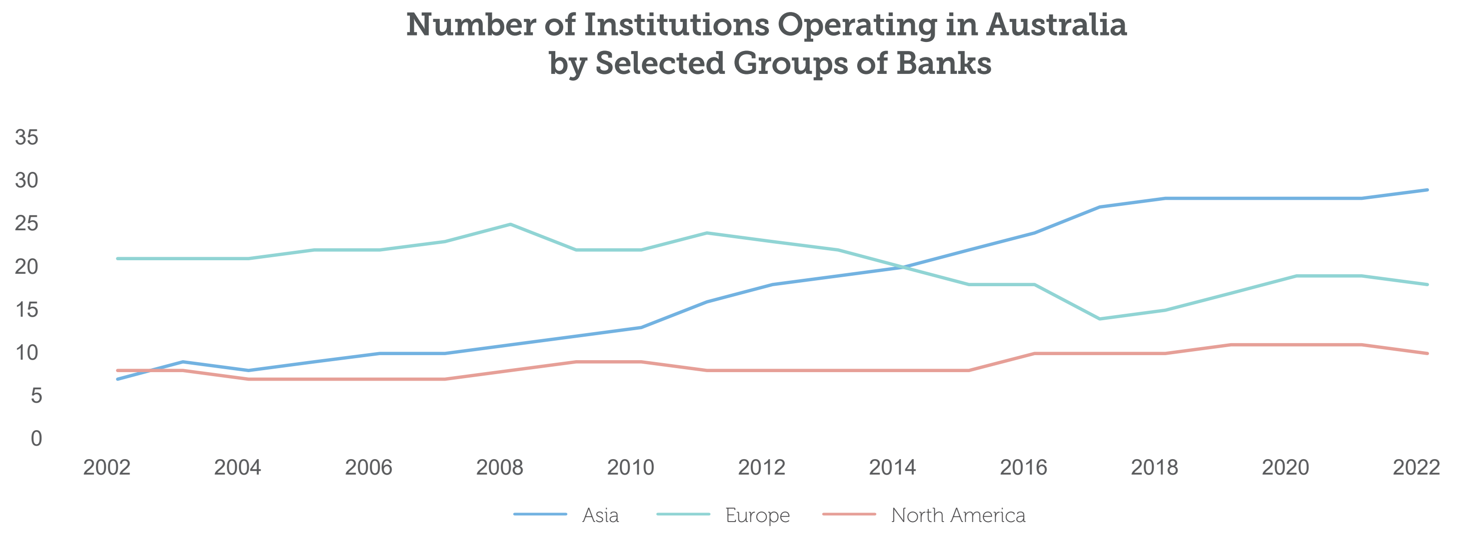


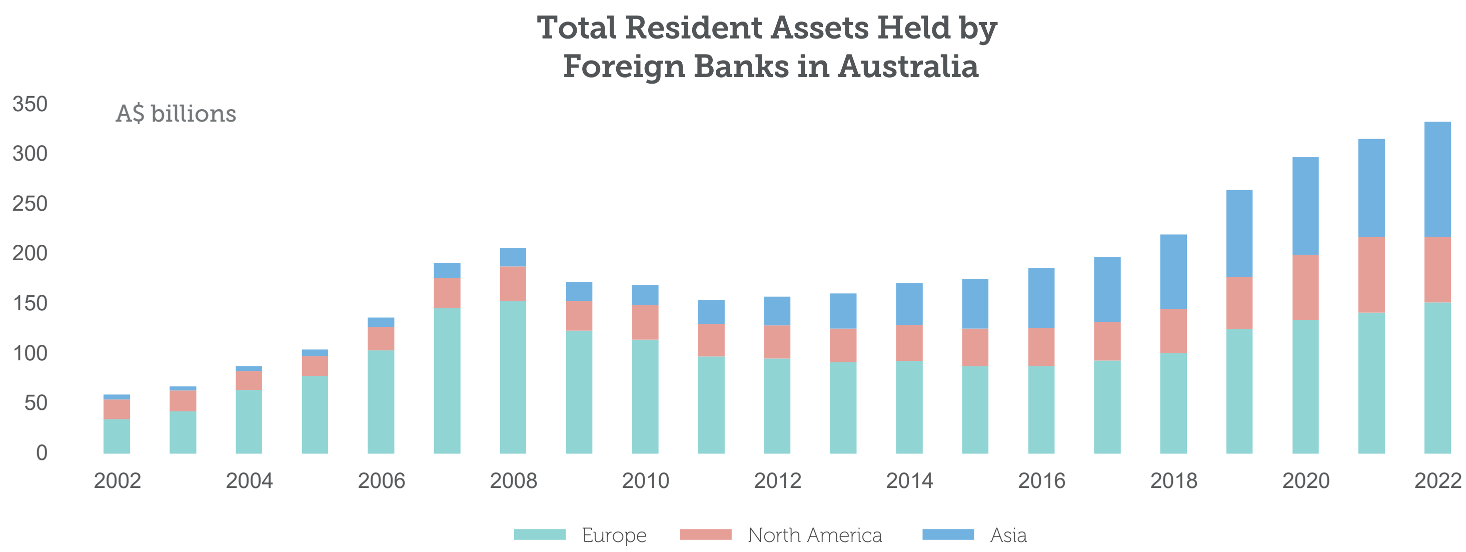
The global picture



The global picture

Foreign Bank resident assets



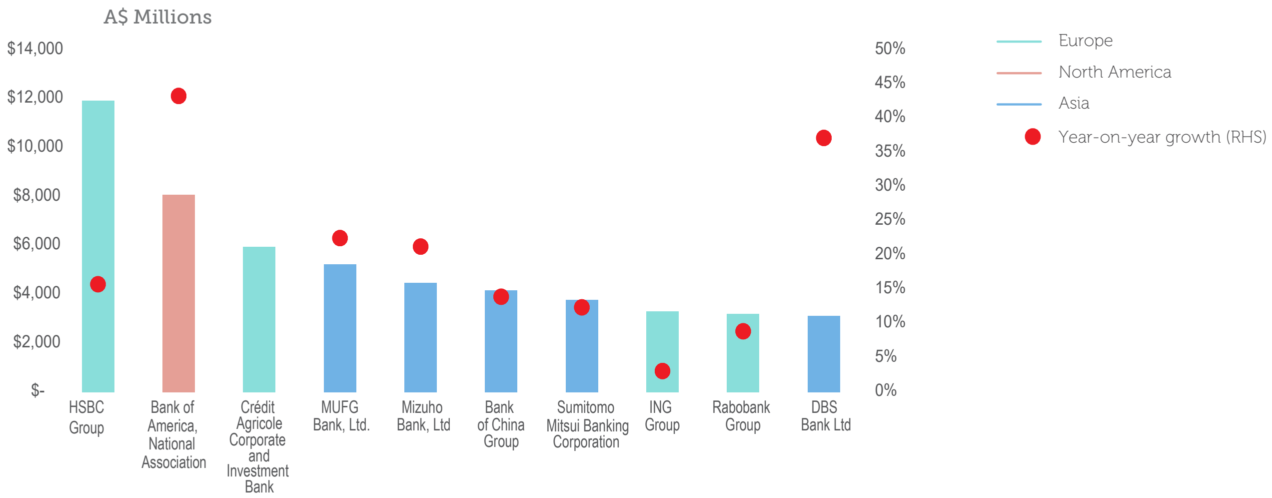


The 10 fastest growing foreign banks in Australia all grew their holdings of total resident assets by more than 24% in 2022, with the top 5 all growing by more than 43%, and the top 3 growing faster than 60%. 6 out of the group, including ranks 1 and 2, were headquartered in Asia, 3 from Europe and 1 from North America. Of note this year is the domination of a diverse group of Asian banks from China, India, Singapore and Taiwan.

Although demonstrating high growth, most of the group have relatively small market presence with 8 out of 10 having under approximately A$5b in resident assets or less, the exceptions being Bank of America, National Association (USA) ranked 5, and DBS Bank Ltd (Singapore) ranked 7. Both of these are also represented in the chart on the following page, which contains the top 10 foreign banks by dollar value of year-on-year growth of resident assets held.

The global picture

Top 10 foreign banks for resident asset growth by $ value



Top 8 foreign banks for resident asset contraction by $ value

Bank of America's (USA) growth rate of 43%, is the leader of the select group, and the only bank representing North America in the top 10 for resident assets growth by dollar value (In fact, it was the only US based bank to expand its Australian resident assets in 2022). Four banks, including ranks 1 and 3, were European.

The aggregate growth of these 10 largest banks represented in the chart at left is A$53.2bn. This represents 153% of the A$34.7bn of total resident asset growth by foreign banks in Australia, or once the -A$20bn represented by Citigroup's asset sale to NAB is added back to determine underlying growth, 97% of the underlying growth, with the remaining 43 operational foreign banks accounting for A$1.5bn of the underlying growth, or just 3%.

In total, 41 banks made a positive contribution to growth of resident assets held by foreign banks, and 12 banks holdings contracted. The largest 8 declines are displayed in the chart on the bottom left, the remaining 4 banks changes are insignificant with asset reductions of under A$50m each. Of the banks listed, 4 are headquartered in the USA, 2 are Swiss, and 1 each for China and France.

Key findings:

Europe and the UK

Europe and the UK

As a region, Europe and the UK have had accelerated growth year on year, with an increase in resident assets of 7.4% (which is 2.1% higher than the previous year). European and UK banks hold 46% of all foreign-held resident assets and 6% of total resident assets (including those held in Australian banks). Notably, European and UK banks increased their resident Australian assets by A$20.9bn over the previous 12 months.

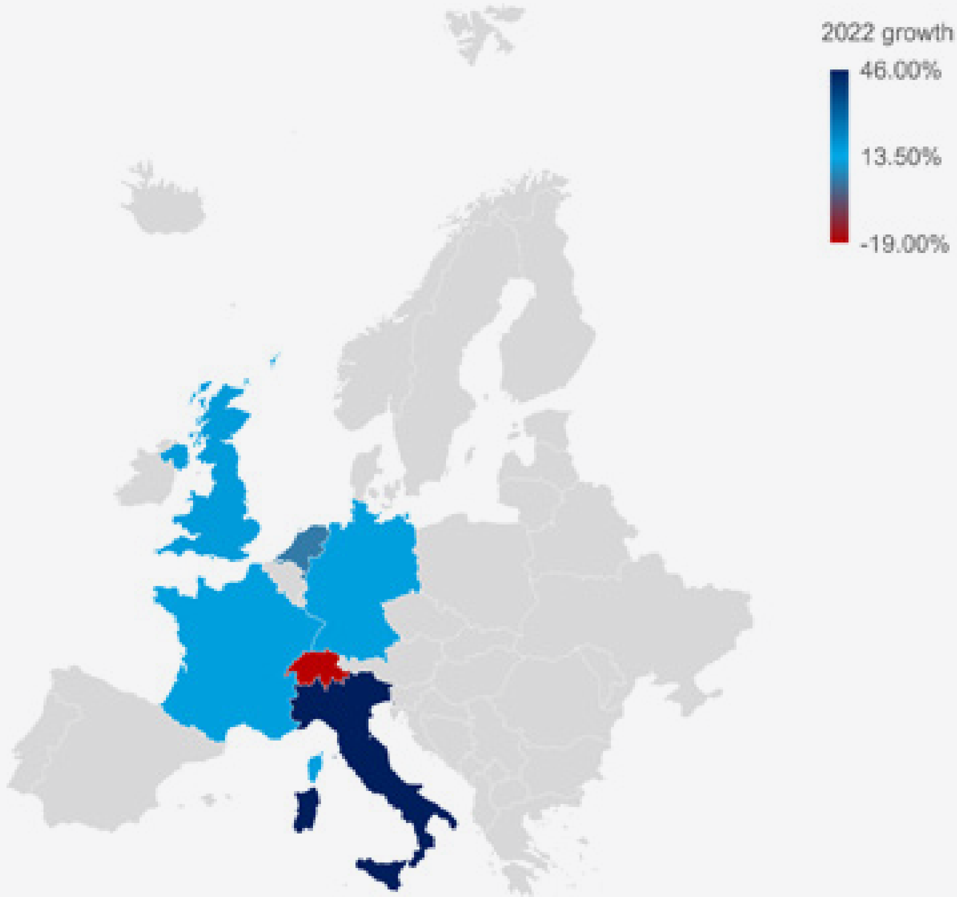
There are 15 European bank groups operating in Australia. This does not double count banks operating under multiple licences such as ING, Rabobank, Investec, BNP Paribas and HSBC. Interestingly, there has been no increase in the number of such institutions since 2022, with the exit of ABN AMRO Bank N.V. (Netherlands) offset by the entry of Crédit Agricole Corporate and Investment Bank into the Australian market. However, overall, the number of banking licences for European and UK banks has reduced from 19 to 18, as the licence for BNP Paribas (France) ADI was withdrawn at its own request following an internal restructuring of the institution in October 2022. It is noted that BNP Paribas has remained an authorised deposit taking institution.

At the country level the UK, French and German banks all recorded significant growth at rates above 15%, which resulted in the 7.4% growth rate for the region overall. It should be noted that the regional growth rate was held back by a 19% contraction from Swiss banks, namely UBS AG and Credit Suisse.

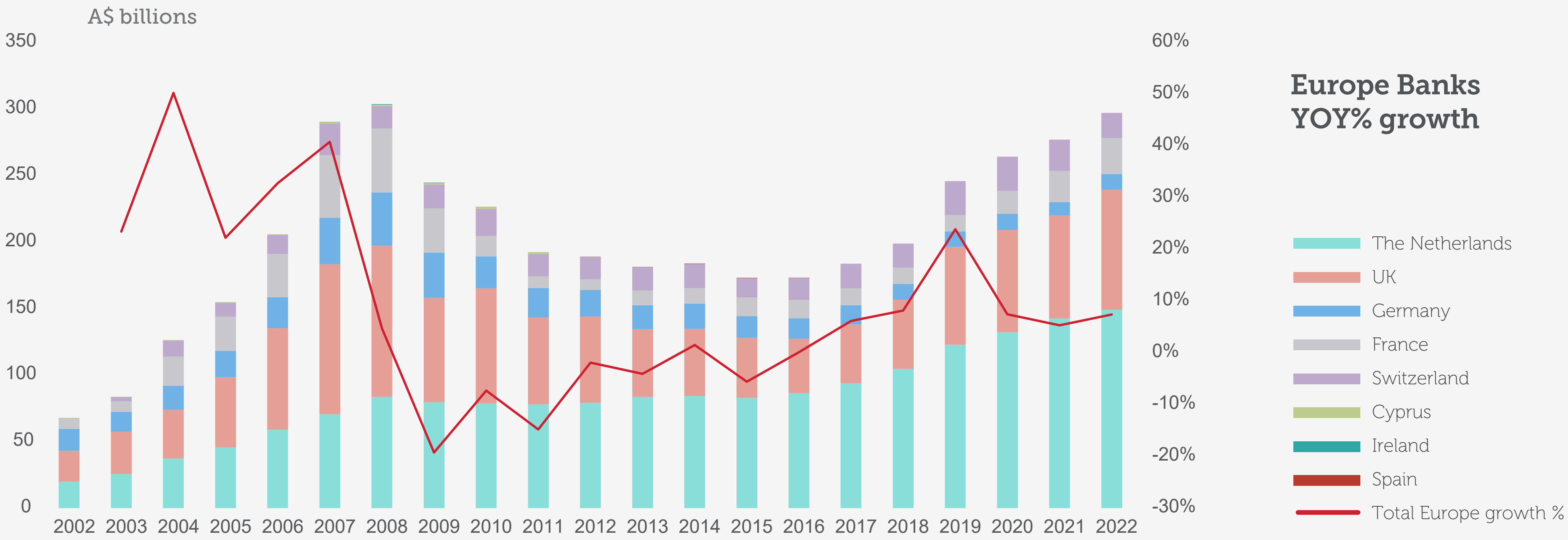
The fastest growing banks in the region by resident assets held were the Standard Chartered Group (UK), Intesa Sanpaolo SPA (Italy) and Wise Australia Pty Ltd (UK), at 41%, 46% and 61% respectively.

The largest growth by dollar value of resident assets held came from the following institutions: HSBC Group (UK), Crédit Agricole (France), notably in its maiden year of Australian operations, ING Group (Netherlands), and Rabobank (Netherlands).

2022 growth rates by country for European banks in Australia



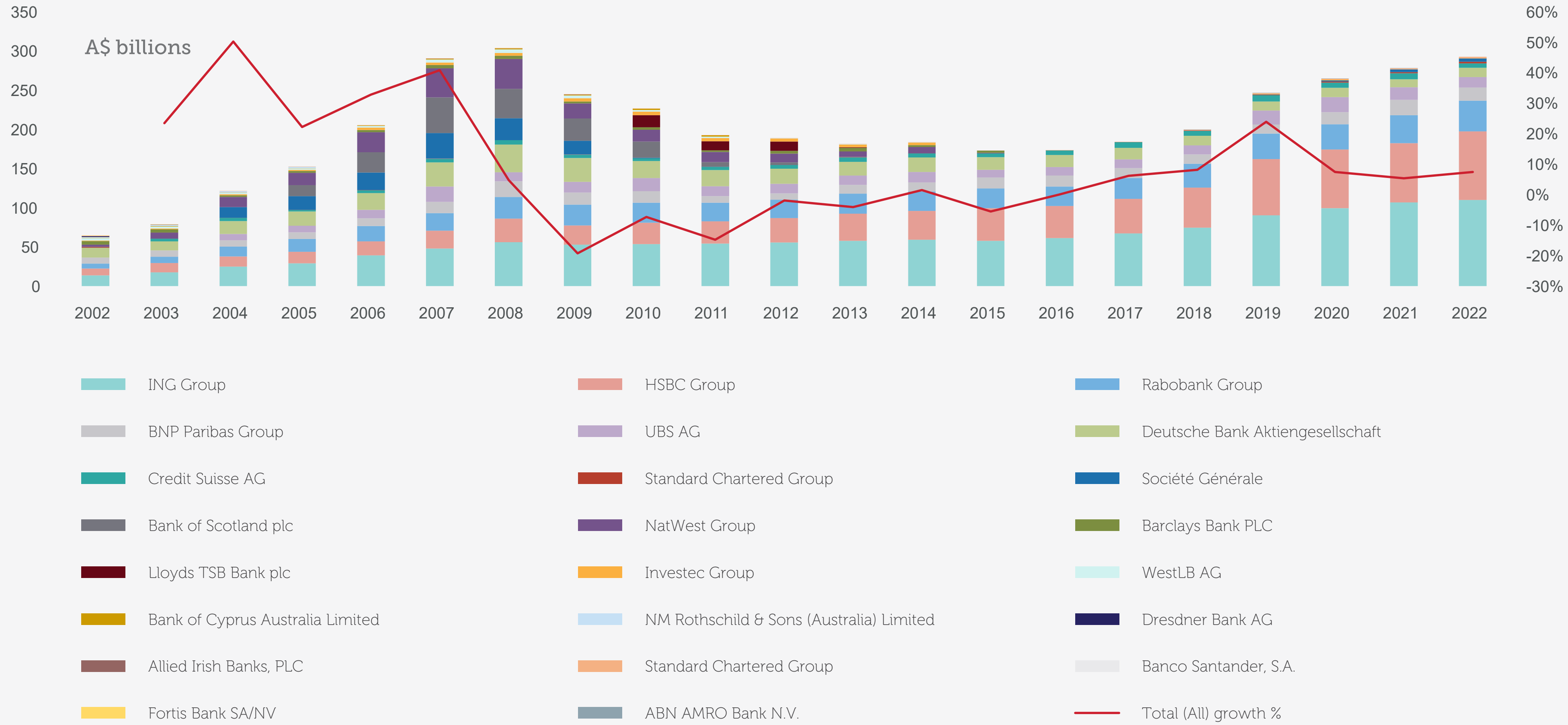
Europe and the UK



Dutch banks are the largest by European country in Australia (mainly ING but also Rabobank), followed by British banks (mainly HSBC). French, German and Swiss banks also have sizeable operations in Australia.

Europe and the UK

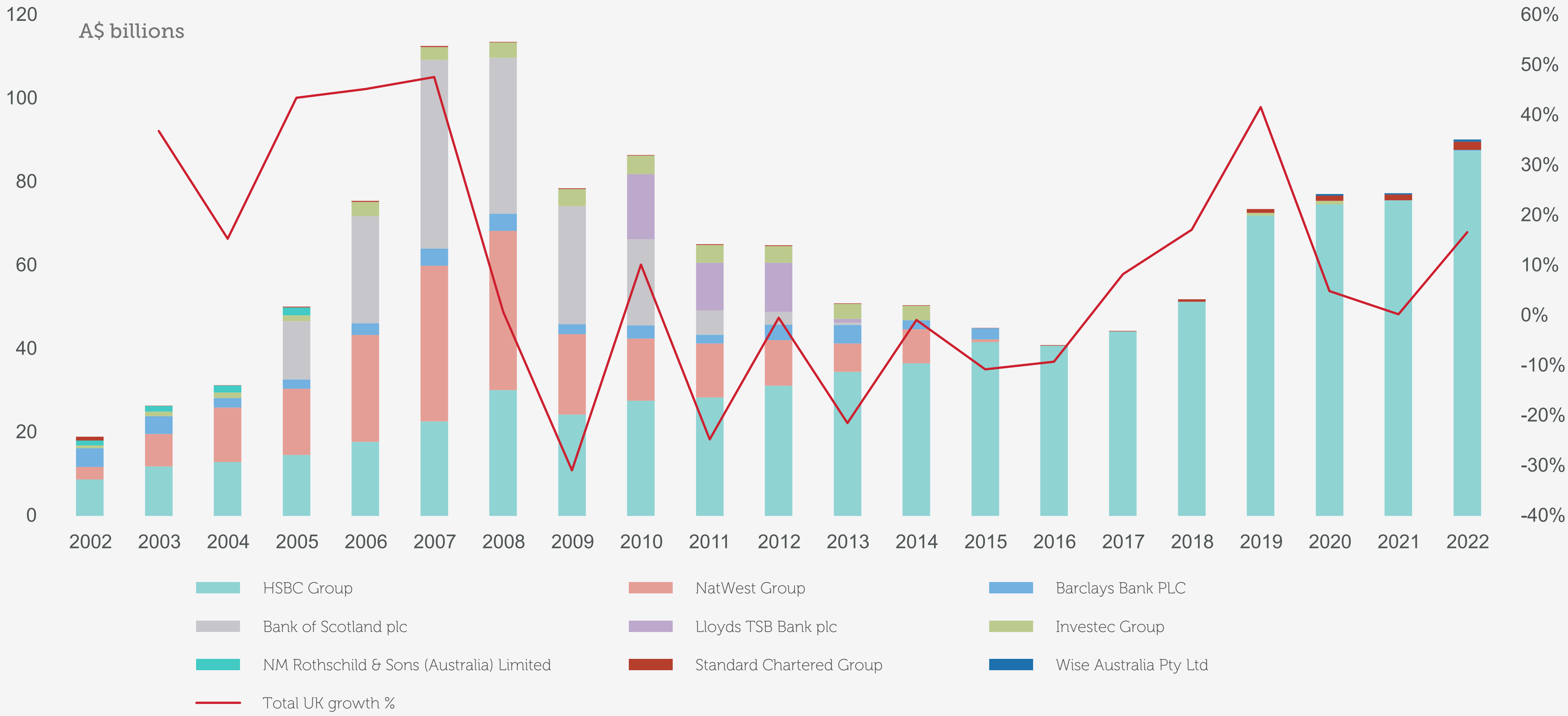
European banks



ING Group is the largest European banking group in Australia, followed by HSBC Group, Rabobank Group, BNP Paribas Group, UBS and Deutsche Bank.

United Kingdom

UK banks



United Kingdom

As with the rest of Europe, the UK also had accelerated growth year on year with an increase in resident assets, held by UK-headquartered operations to 16.6%.

The aggregate performance of UK banks in Australia is largely tied to the performance of HSBC due to the scale of its Australian operations. In Australia, HSBC has the second largest holding of resident assets by a foreign bank (after the ING Group) and the 10th largest holding overall (if Australian banks are included). In 2022 HSBC held A$88bn in resident assets, accounting for 97% of all resident assets held by UK banks. It's worth highlighting that HSBC's global operations in recent years have undergone a restructuring to shift focus towards core markets in Asia and reallocation of resources previously attributed to North America and Europe. As Australia is HSBC's fourth largest market by customers in Asia, behind Hong Kong, mainland China and Singapore, it is likely to have benefited from greater corporate focus in 2022.

The residual growth recognised by UK banks is attributed to the three other banks operating in Australia – Standard Chartered Group, Barclays Bank and Wise Australia, each of which grew resident assets held rapidly in 2022, although from small bases.

Standard Chartered Group grew their resident asset holding 41% and Wise Australia grew their resident asset holding 61%.

Barclays was granted an Australian banking licence in 2021 following its re-entry into the Australian market as a corporate and investment bank in 2018. In 2020 Barclays announced its strategic 18.2% founding investment in Barrenjoey Capital Partners.

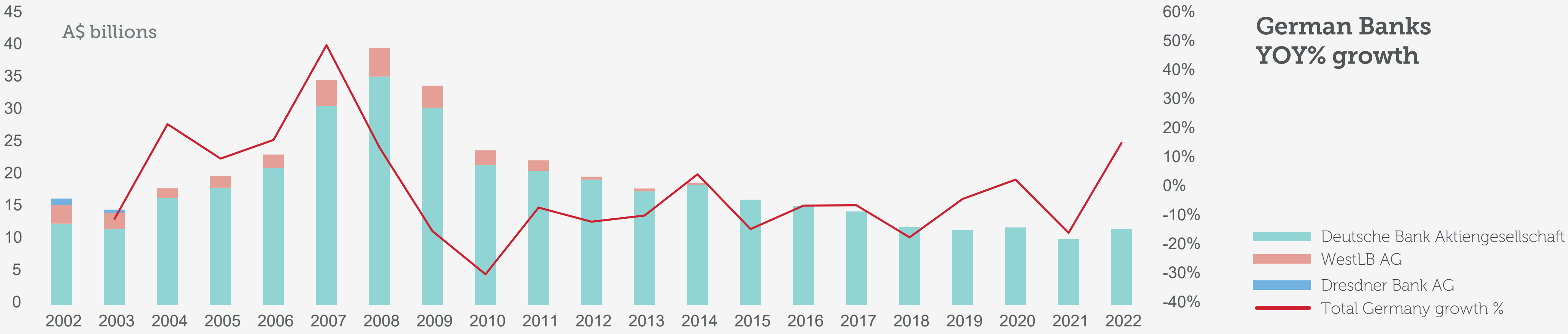
As an authorised deposit taking institution, Barclays has been able to support both its own and Barrenjoey Capital Partners' expansion of their respective corporate lending and capital markets operations with access to greater liquidity and funding services. In May 2022 Barclays announced the signing of a cooperation agreement, making available significant balance sheet capacity for Barrenjoey to support its clients, as well as a further A$75m capital injection to accelerate and develop operations.[2]

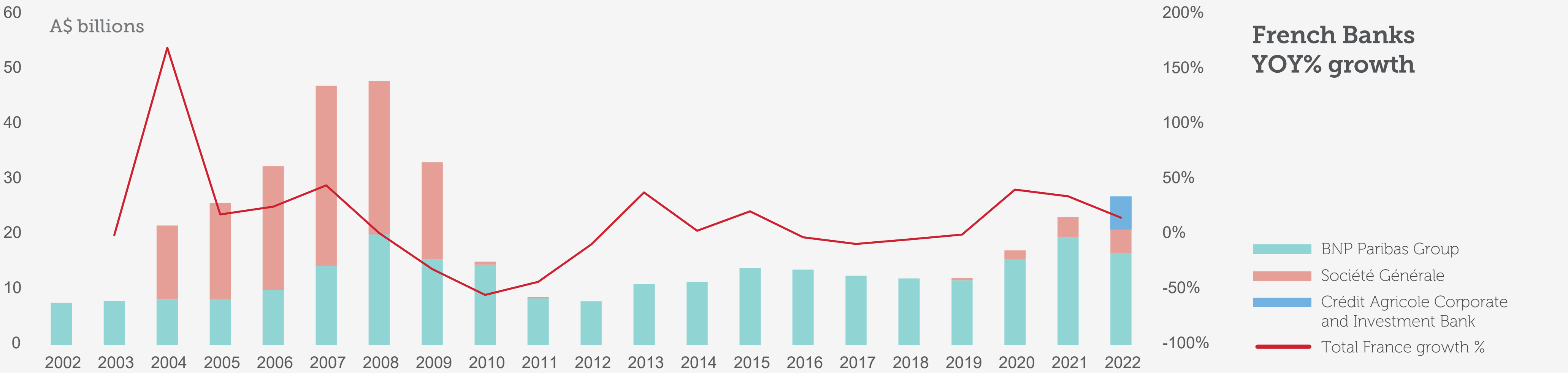
Wise Australia's (formerly Transfer Wise) core offering is international money transfers. Its growth in Australia, after launching in 2020, has coincided with a broader withdrawal of retail foreign exchange services by several major domestic banks. Since its launch, Wise has amassed A$0.5bn in resident assets.

In September 2021, Wise Australia was approved as a participant and shareholder in the New Payments Platform (NPP), a scheme which facilitates real time payments. This has allowed the bank to eliminate the need to engage domestic banks to move customers money and further reduce fees on transfers, which may have in part contributed to the rapid growth they have experienced.

[2] Barclays strengthens strategic partnership with Barrenjoey Capital Partners (home.barclays)

Germany and France

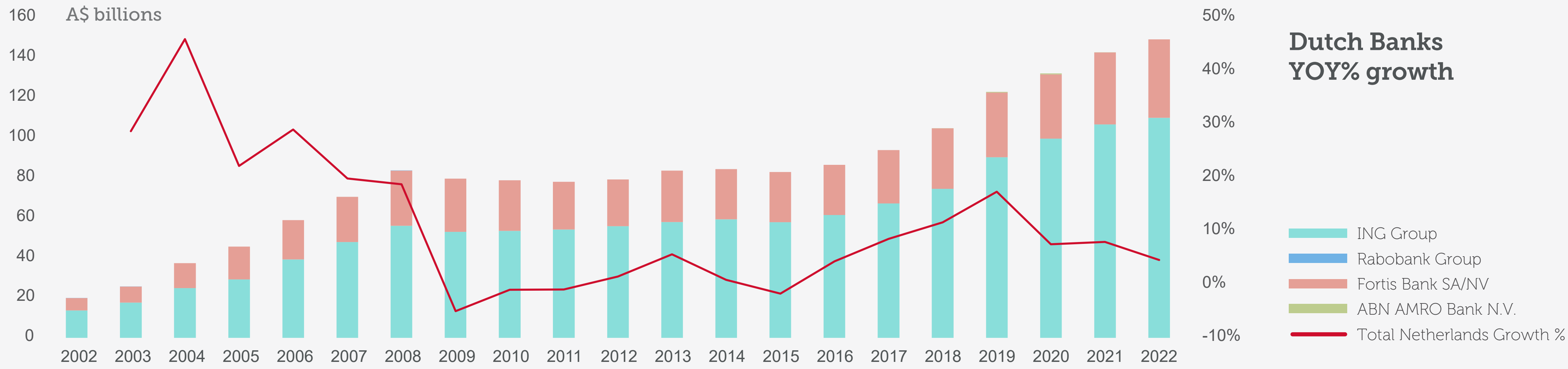


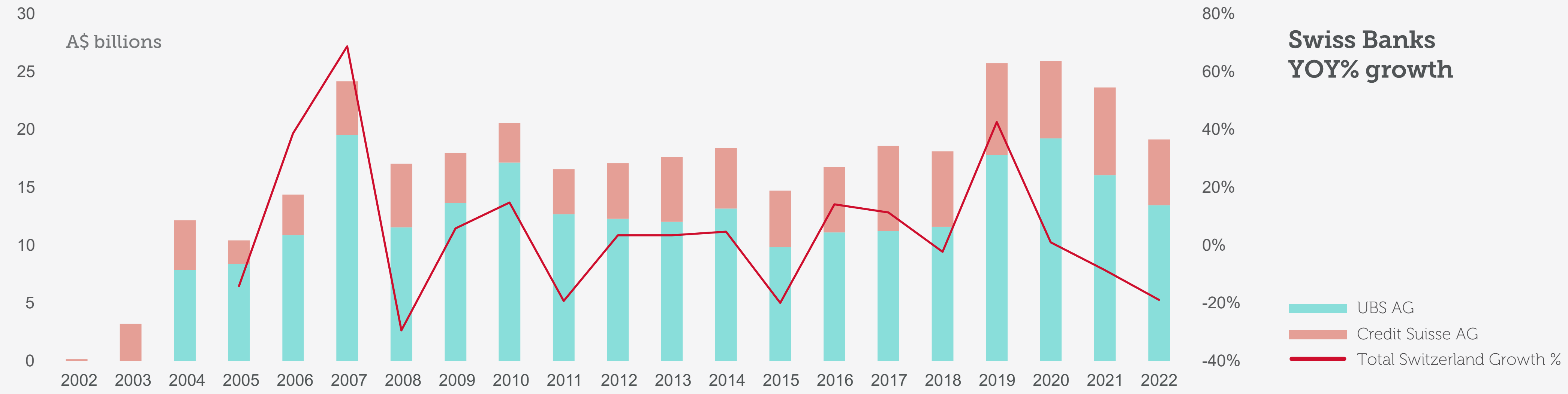


Notwithstanding the addition of Crédit Agricole Corporate and Investment Bank, the aggregate resident assets held by French banks in Australia reduced, led by a -14.4% contraction in the assets of BNP Paribas Group.

Société Générale grew resident assets 15.3% in 2022, although this had little effect on regional movements due to its small base. Since the institution's relaunch in Australia in 2019, it has grown resident assets held by approximately tenfold to A$4.2bn in resident assets.

Netherlands and Switzerland





Swiss banks have continued to withdraw from and reduce their presence in the Australian market since their peak of resident assets growth in 2019. From 2021 to 2022, there has been contraction of -8.8% and -19.0% respectively. In particular, UBS and Credit Suisse have significantly contributed to this trend, with each contracting 16.2% and 24.9% respectively during the last 12 months.

Key findings:
Asia

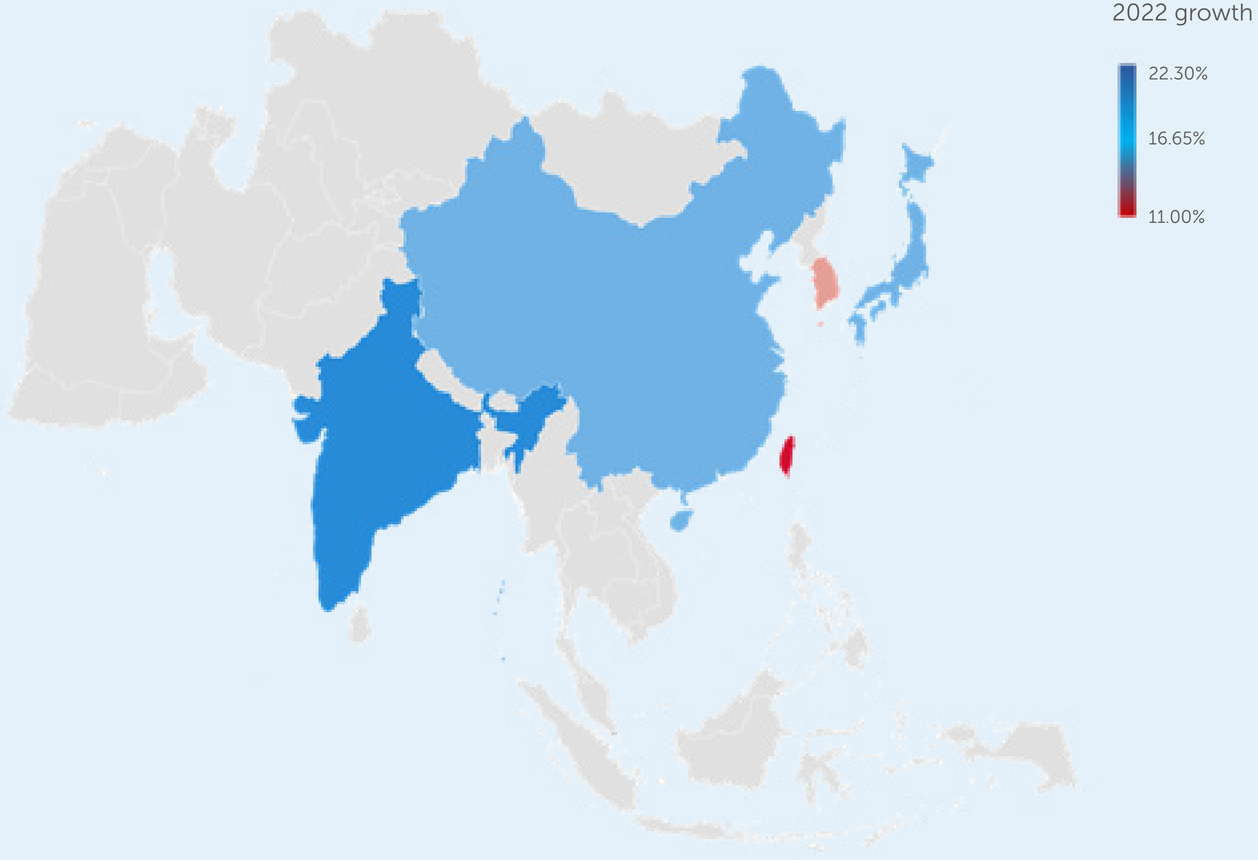
Asia

Banks with headquarters in the Asian region delivered a sharp acceleration in growth of resident assets in 2022 after a relatively flat 2021. In 2022, resident assets held by Asian banks grew by over A$34.4bn or the equivalent of 17.5%.

By count, 29 banking licences are held by Asian banking organisations operating in Australia. This is up from 7 in 2002 and 18 in 2012. As well as having the highest number of banks, in 2022 the region also saw the highest residential assets growth, A$34.5bn, and the highest growth rate, 18%, of regions mentioned in this report. Since 2002 the region has grown resident assets at 17% CAGR, far more than Europe at 8% and North American at 6%. Although Europe still holds the largest portion of foreign held resident assets, Asia now holds 35%, up from 18% in 2012 and 6% in 2002.

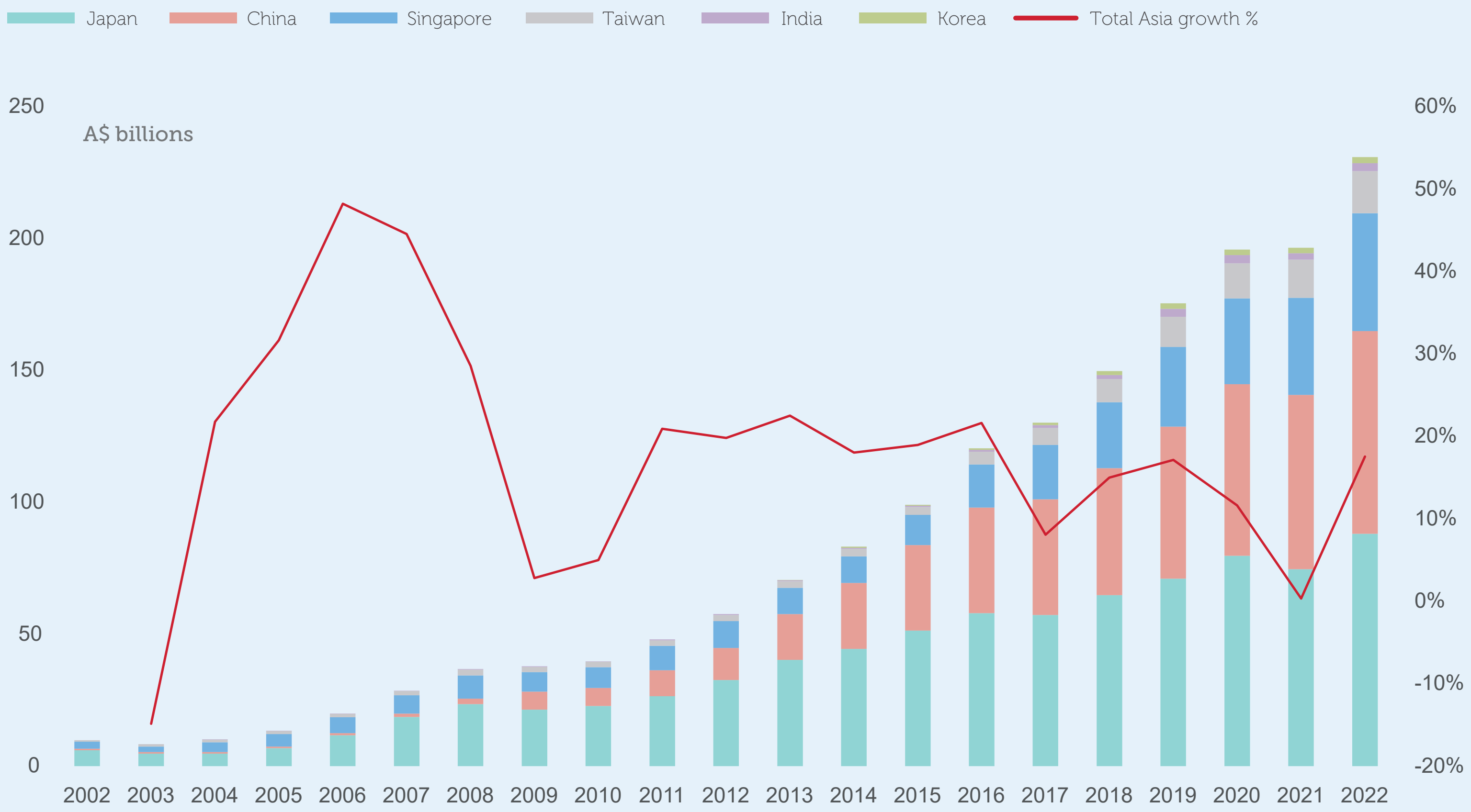
As well as residents asset growth, the other key continuing trend in this region is increasing diversification of these assets across the sector. Although growing assets from A$6bn to A$88bn over the past 20 years, Japanese banks in Australia have gone backwards in the share of Asian-held foreign assets, from 62% to 38% in the same period. This is largely driven by the growth of China-based banks (mainly Bank of China Group, but also Industrial and Commercial Bank Corporation).

2022 growth rates for Asian banks in Australia



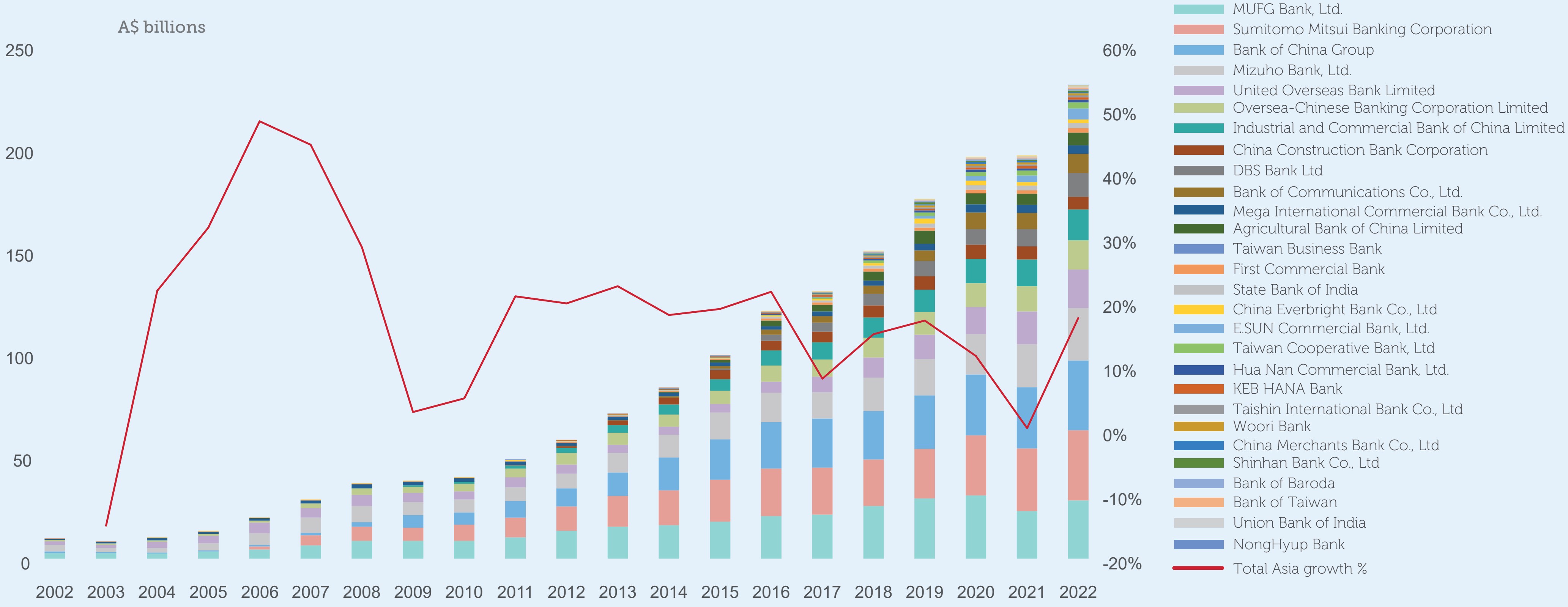
Asia

Asian Banks Total Resident Asset Value and growth



Asia

Asian Banks YOY% growth



On an individual bank level the largest holders of resident assets (all with over A$10bn) were the Japanese megabanks – MUFG Bank, Sumitomo Mitsui Banking Corporation and Mizuho Bank, Chinese state-owned Bank of China Group and Industrial and Commercial Bank of China Limited; and the three major Singaporean banking groups DBS Bank, United Overseas Bank Limited and Oversea-Chinese Banking Corporation Limited.

China

Chinese banks grew resident assets held by 16.1% in 2022, accelerating from the base of 1.2% in 2021.

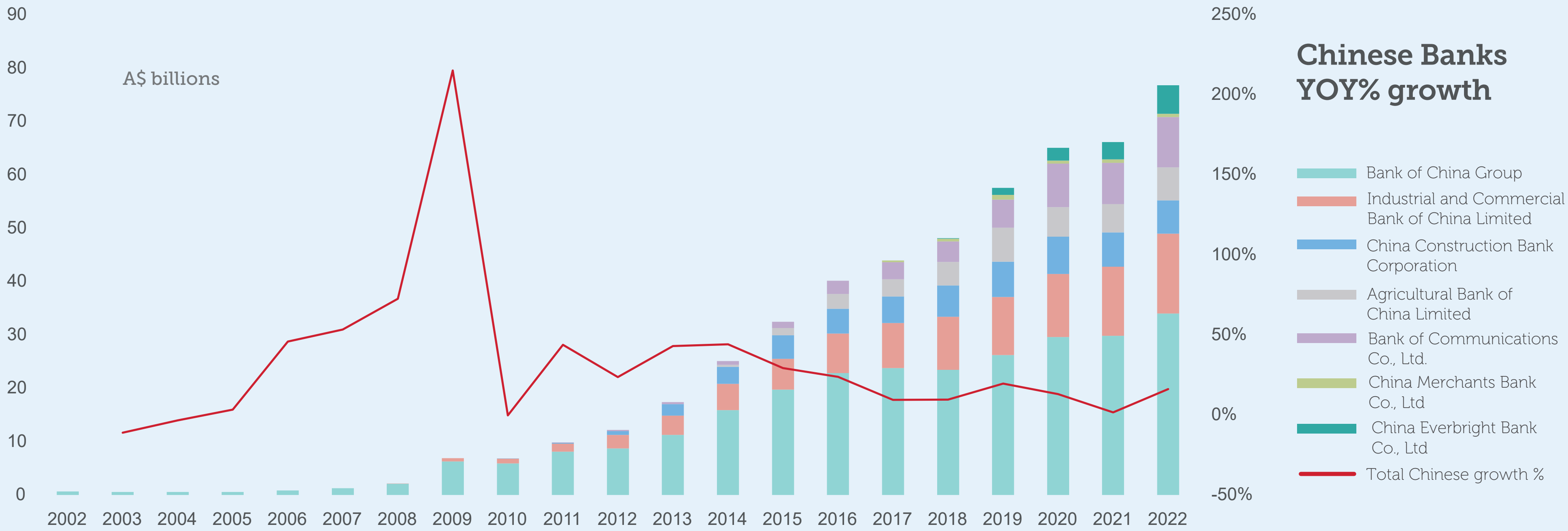
There are now a total of 7 Chinese banks operating in the Australian market, including 6 with over A$5 billion in resident assets and 2 with over A$10 billion resident assets. Bank of China remains the largest Chinese bank by Australian resident assets, holding A$34.0bn in resident assets, although its percentage growth relative to other Chinese banks in Australia has slowed in recent years. China Everbright is again the fastest growing Chinese bank in Australia for a fourth year in a row – with growth of 66.4% in 2022. The top 3 Chinese banking groups by Australian resident asset growth in percentage terms were China Everbright Bank, Bank of Communications and Agricultural Bank of China.

In April 2022 S&P ranked The Industrial and Commercial Bank of China, the China Construction Bank, Agricultural Bank of China and Bank of China as 1, 2, 3 and 4 respectively in their list of banks by global asset value, with the four state-owned banks each holding over US$4,200bn (A$6,100bn) in assets globally. Their combined Australian operations represented approximately 0.25% of their total assets in 2022.[3]

The overall 2022 growth in Chinese banking operations in the Australian market is reflective of the close economic ties between Australia and its largest trading partner, and is remarkable given this growth occurred amid ongoing trade restrictions placed on a range of Australian commodities.

The 2022 growth also occurred in a period where the Chinese aggregate economic output grew by 3%, its lowest rate in nearly four decades, a result of strict zero-covid policies. Entering 2023, these policies have been starting to be withdrawn and the Chinese economy is in the process of "reopening". Confronting shifting demand patterns in core domestic markets for Chinese banks may be a catalyst for their reassessment of foreign, including Australian, operations in the near future.

3 The world's 100 largest banks, 2022 | S&P Global Market Intelligence (spglobal.com)

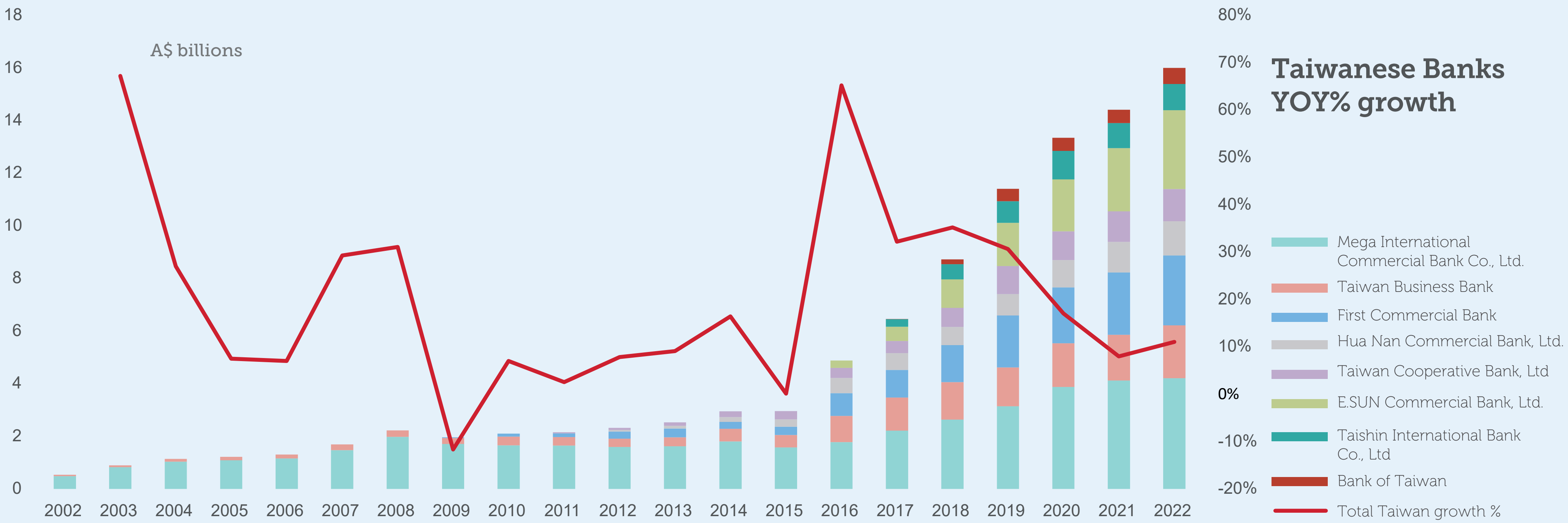


Taiwan

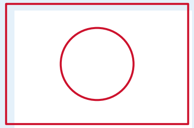
In aggregate, Taiwan's banks now have A$16.0bn of Australian resident assets, up 11.0% over the past year. Mega International Commercial Bank remains the largest Taiwanese bank by resident assets in Australia. All 8 Taiwanese banks operating in Australia experienced growth in resident assets with the fastest growing E.SUN Commercial Bank at 24.4%, Bank of Taiwan at 21.8% and Taiwan Business Bank at 15.4%. E.SUN Commercial Bank also experienced the largest growth by asset value, increasing by A$587m, to A$3.0bn.

An ongoing trend in Taiwanese banks operating in Australia is the dispersion of growth across the collection of banks. Since 2019, 6 Taiwanese banks have entered the Australian market (joining the incumbent Mega International Commercial bank and Taiwan Business Bank), all of which have experienced rapid growth in resident assets with aggregate assets held to date of A$16bn, a multiple of approximately 8 times 2009 levels.

However, the largest bank by resident assets, Mega International Commercial bank, grew by just 2.1% in 2022 to A$4.2bn in assets, down from 6% growth in 2021 and 23% growth in 2020. If the trends continue from 2022, we are likely to see E.SUN Commercial Bank overtake Mega International Commercial bank within 2 years.



Japan



All three Japanese "megabanks", MUFG Bank (MUFG), Sumitomo Mitsui Banking Corporation (SMBC) and Mizuho Bank (Mizuho), remain within the top 10 foreign banks by resident assets in Australia. In aggregate the three Japanese megabanks grew resident assets by 18.1% year-on-year after contracting in 2021. MUFG experienced the fastest resident assets growth at 22.5%, followed by Mizuho at 21.3% and finally SMBC at 12.4%.

All three banks have been very active participants in Australia's funding landscape in recent years with the current focuses being Australia's infrastructure sector, renewables projects and the push into energy transition related projects. Like the Australian and Japanese governments respectively, these banks are all also keenly focused on decarbonisation and each has committed to achieve net zero in its financing and investment portfolio by 2050. This focus is already playing out in their recent Australian funding activities.

In terms of recent activities, MUFG is one of the principal financiers of Canberra Metro and the Royal North Shore Hospital PPP. It has also joined the Global CCS Institute, an international think tank established by the Australian Government for the promotion of carbon capture and storage technology, and is a funding participant for the Clean Energy Finance Corporation. In addition, in 2022, Sydney Airport became the first client of MUFG's Green Deposit Framework in Australia, under which MUFG uses deposits from its clients to fund environmentally friendly projects. Finally, MUFG is also considering more innovative ways for its customers to participate in Australia's growing startup landscape. In February 2023, MUFG announced that it had entered into a memorandum of understanding (MoU) with Artesian Venture Partners, which can provide MUFG's corporate customers with opportunities to invest in startups in Australia.

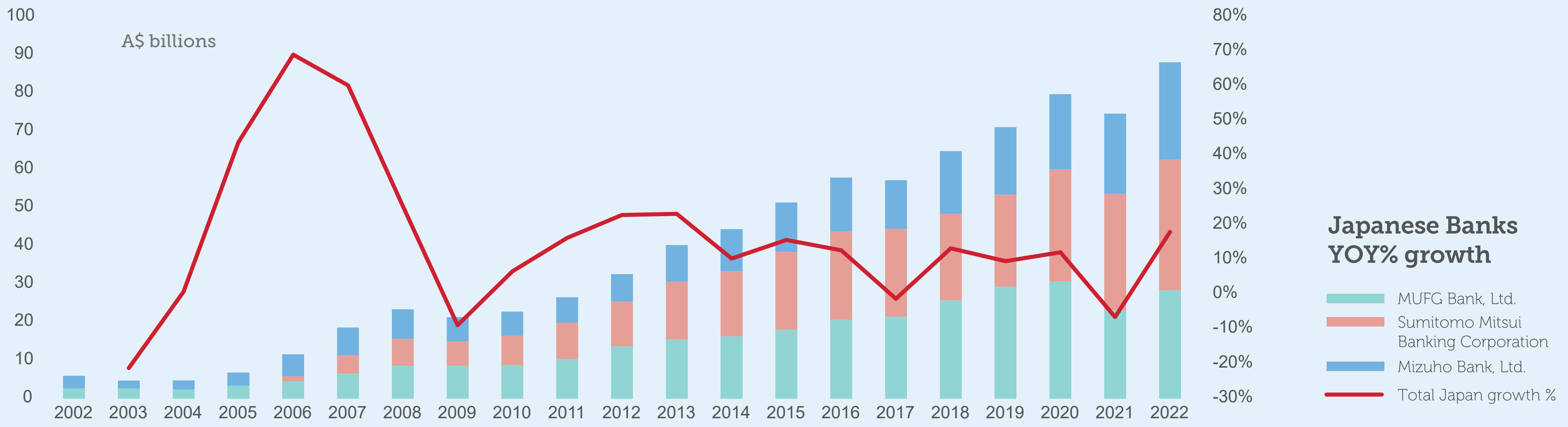
SMBC has also been active across a number of recent high profile green projects. These include financing X-ELIO's 200 MW Blue Grass Solar Farm in Queensland, acting as financial advisor for the A$600m waste to energy facility of Australian Paper and SUEZ in Victoria, and providing funding to Neoen for the construction of the Goyder South Wind Farm in South Australia.

Mizuho is also following the decarbonisation trend with project financing to the Golden Plains Wind Farm in Victoria and to two Lightsource bp greenfield solar projects in New South Wales and Victoria. Interestingly, Mizuho has also recently announced in March 2023 that it would invest US$5m of its own balance sheet in MCi Carbon, a clean energy Australian startup developing carbon capture and utilisation technology.

As foreshadowed in our 2022 Foreign Bank Tracker, the re-opening of the Sydney office of the Japan Bank for International Cooperation (JBIC) has already resulted in JBIC being active in the Australian funding market. Of note it has provided finance to the Barossa gas project which has JERA as a participant, and to the Edenvale solar project which is jointly owned by Sojitz and ENEOS. JBIC has also entered into MoUs with Australian gas giants, Woodside and Santos, as well as the West Australian Government to jointly pursue stable energy supply and decarbonisation projects in Australia.

It is likely that all three Japanese megabanks will continue to grow their resident asset holdings in Australia over the short term given Australia's strong pipeline of infrastructure projects and the continued push to decarbonise our respective economies in each country.

Japan



A$ billions
100
90
80
70
60
50
40
30
20
10
0
80%
70%
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Japanese Banks YOY% growth
MUFG Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Mizuho Bank, Ltd.
Total Japan growth %

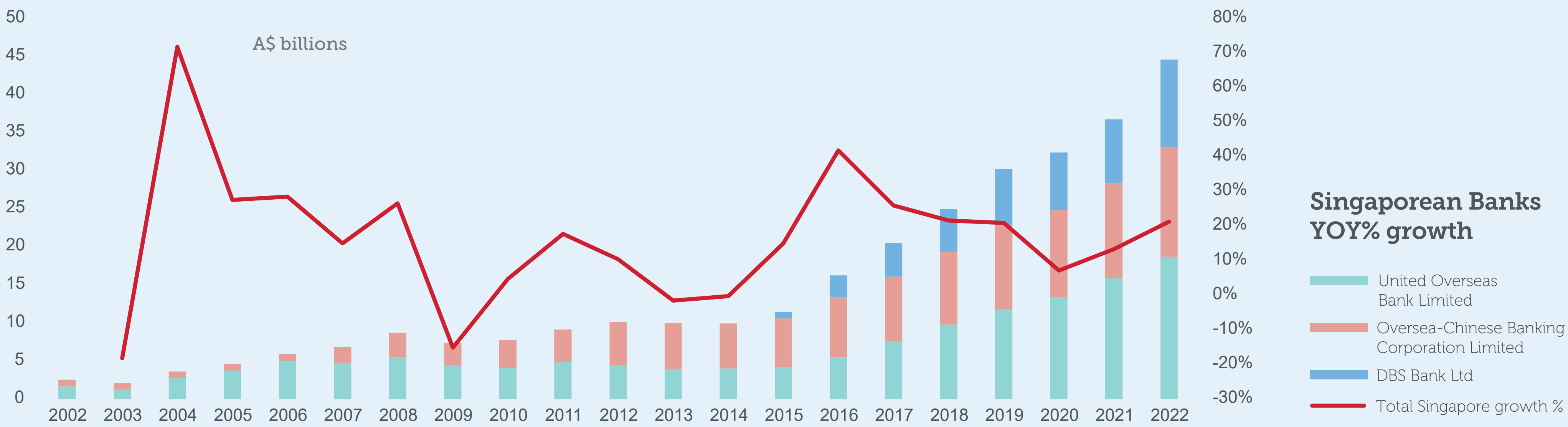
Singapore

The three Singapore banking groups that are present in Australia have been experiencing steady growth in recent times, which continued in 2022.

Despite heightened volatility in global financial markets, Singapore's banking system remains robust. United Overseas Bank, Oversea-Chinese Banking Corporation and DBS Bank (collectively known as the 'Big 3' in Singapore) grew by an aggregate of 21.4%. DBS Bank, in particular, experienced a significant 37.2% year-on-year growth in resident assets held.

All three Singaporean banks hold substantial resident assets in the Australian market, with over A$10bn each. Among foreign and domestic banks operating in Australia, United Overseas Bank ranks as the 21st largest ADI by resident assets; Oversea-Chinese Banking Corporation ranks 26th, and DBS Bank ranks 33rd.

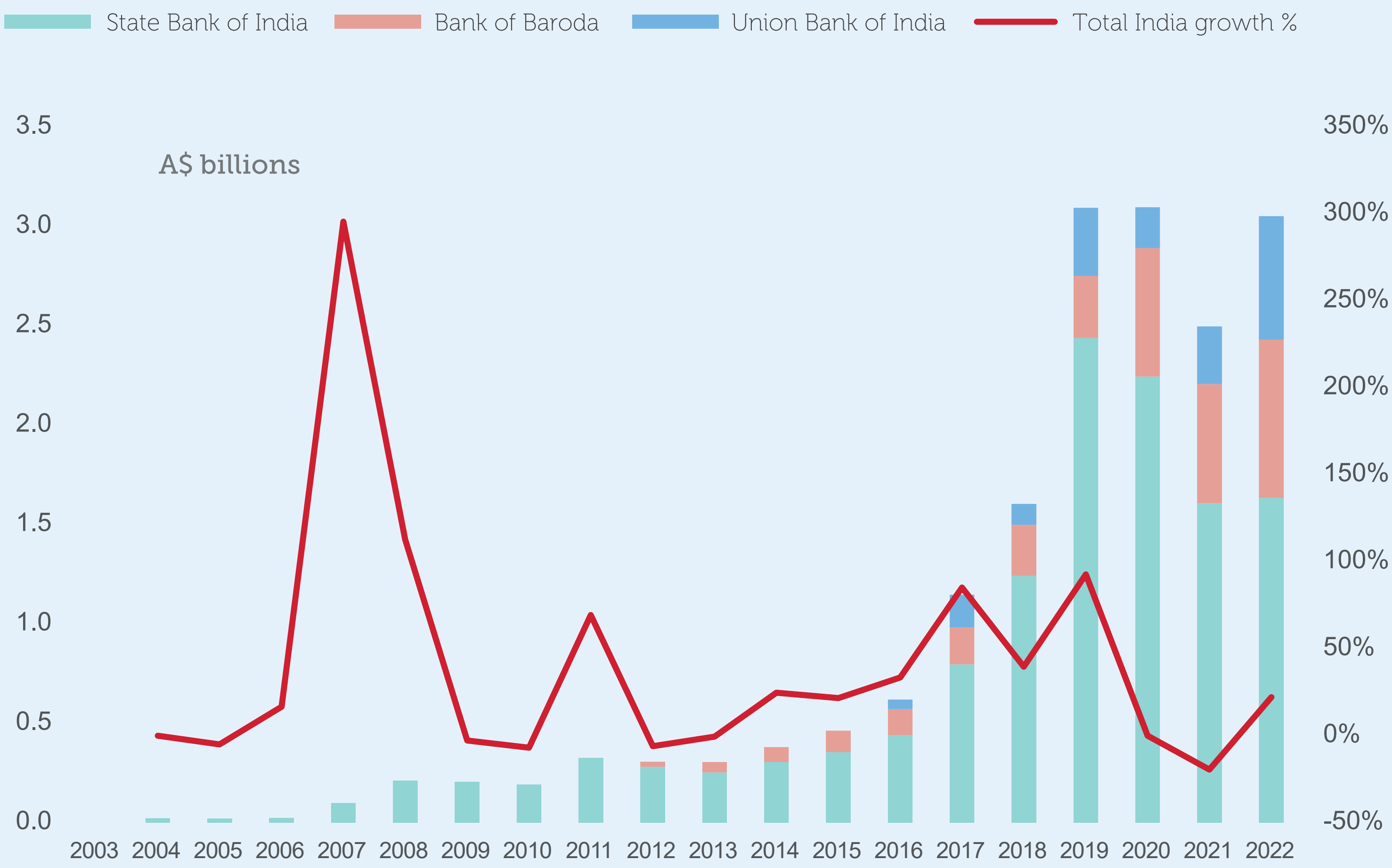
Australia remains an attractive destination for Singaporean investors, with a number of prominent investments in the real estate sector. This includes the acquisition of Rydges North Sydney and Sofitel Brisbane by Singaporean investors. Singaporean sovereign wealth fund GIC also acquired a 49.9% stake in an Australian student housing portfolio for A$568 million. Additionally, GIC recently opened its Sydney office and indicated a commitment to deepen its investment activities in Australia. The continued (and in some cases, expanded) presence of Singaporean entities operating in Australia will play a role in sustaining the steady growth in resident assets held by Singaporean banks in Australia.



India

India currently has 3 banks operating in Australia: State Bank of India, Union Bank of India and Bank of Baroda. 2022 saw another trend inflection for State Bank of India, which has the largest presence of all Indian banks. After strongly growing since 2013, it then experienced a steep contraction in 2020 and 2021, and then in 2022 the bank remained stable year on year, at A$1.6bn in resident assets held (growing by only 0.05%).

Indian Banks YOY% growth

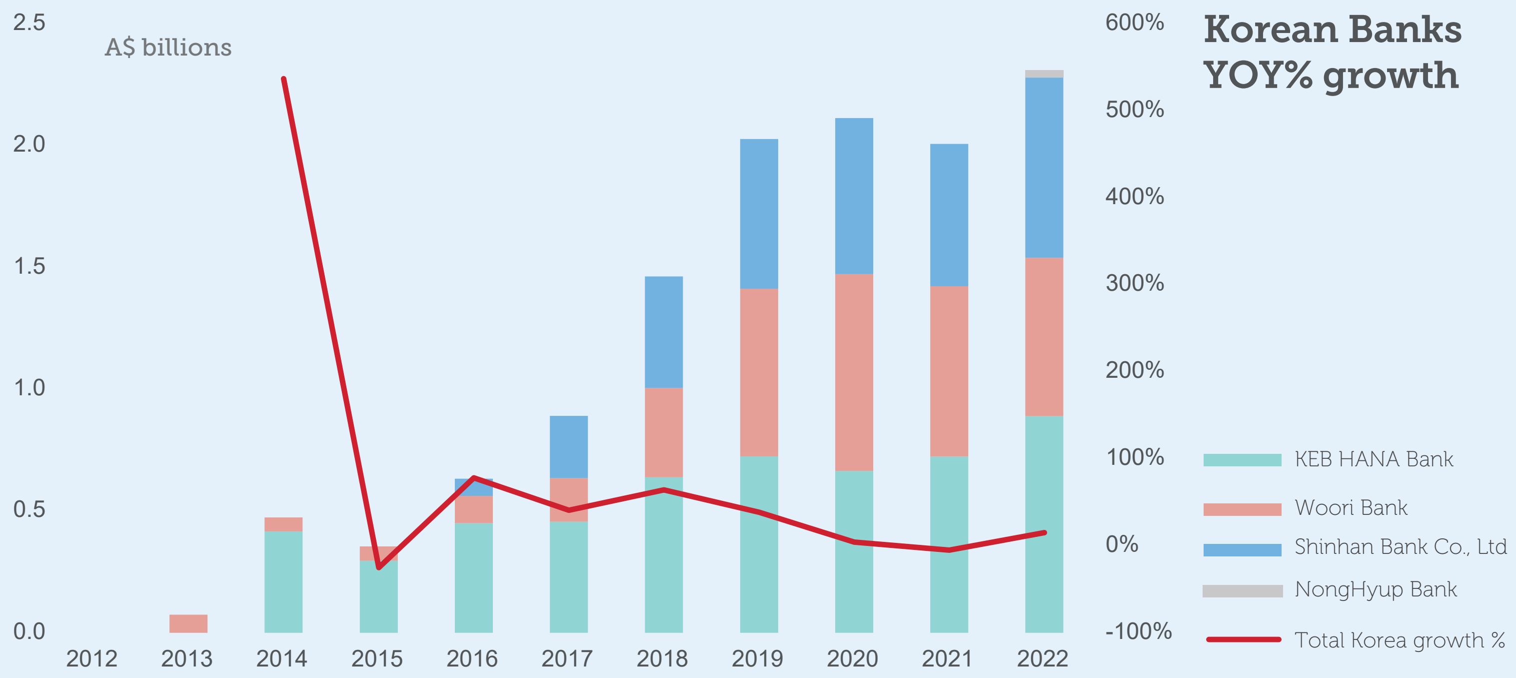


South Korea

Despite the headwinds in the form of the pandemic and geopolitical events (e.g. the Russia-Ukraine war), South Korea is slowly continuing its economic rebound. It is worth noting that despite the aforementioned headwinds, as of 2023, Korea ranked as the tenth biggest economy in the world for three straight years and continues to hold the position of being Australia's fourth-largest two way trading partner.

Since being elected, President Yoon has continued to demonstrate his commitment to drive South Korea's transition away from fossil fuels and consequently, the renewable and green energy source remains a key focus area for the East-Asian country. This presents a significant opportunity to take advantage of the complementarities offered between the two nations, with Korea looking to Australia as not only a source of hydrogen and critical minerals required for batteries but also for new green products such as clean ammonia and steel intermediates, and Australia looking to Korea as a source of world-leading technology like fuel cells and as a source of the capital needed to help launch various energy projects off the ground. In 2022, the two countries have progressed well in respect of this significant alignment of interests by generating a number of bilateral business outcomes in the energy sector.

There were two new foreign banks entering Australia in 2022 – one from France (Crédit Agricole) and the other from South Korea



when in August 2022 NongHyup Bank, a subsidiary of NongHyup Financial Group, was awarded an Australian banking licence. NongHyup Bank is an agricultural bank headquartered in Seoul, which will seek to be involved in financing state-run infrastructure and agricultural projects. The bank may also consider entering the investment banking sector in Australia.

NongHyup joins three other Korean banks that have entered the Australian market in the last 10 years. These are (based on year of banking licence grant): Woori Bank in 2012; KEB HANA Bank in 2013 and Shinhan bank in 2016.

In 2022, the country aggregate grew its Australian resident assets by 15.1%, the highest growth since 2019 reflecting an attractive destination for South Korean capital. The largest contributions to this growth of 15.1% were: A$166m of resident assets growth by KEB HANA Bank and A$155m of resident assets growth by Shinhan Bank, which are equivalent to respectively 23.0% and 26.6% of the total growth during the year. This is a sharp contrast to 2021 which showed a contraction of 5.1% from 2020.

At an aggregate level, Korean banks hold a relatively small portion of total resident assets with A$2.3bn, however it should be noted that this has been accumulated in the relatively short periods of time these banks have been active in Australia.

Key findings: North America

North America

In 2022 the total Australian resident assets held by North American banks contracted by 13.7%, ending 11 years of positive growth rates. This is a notable shift considering the four most recent years posted double-digit resident asset growth rates.

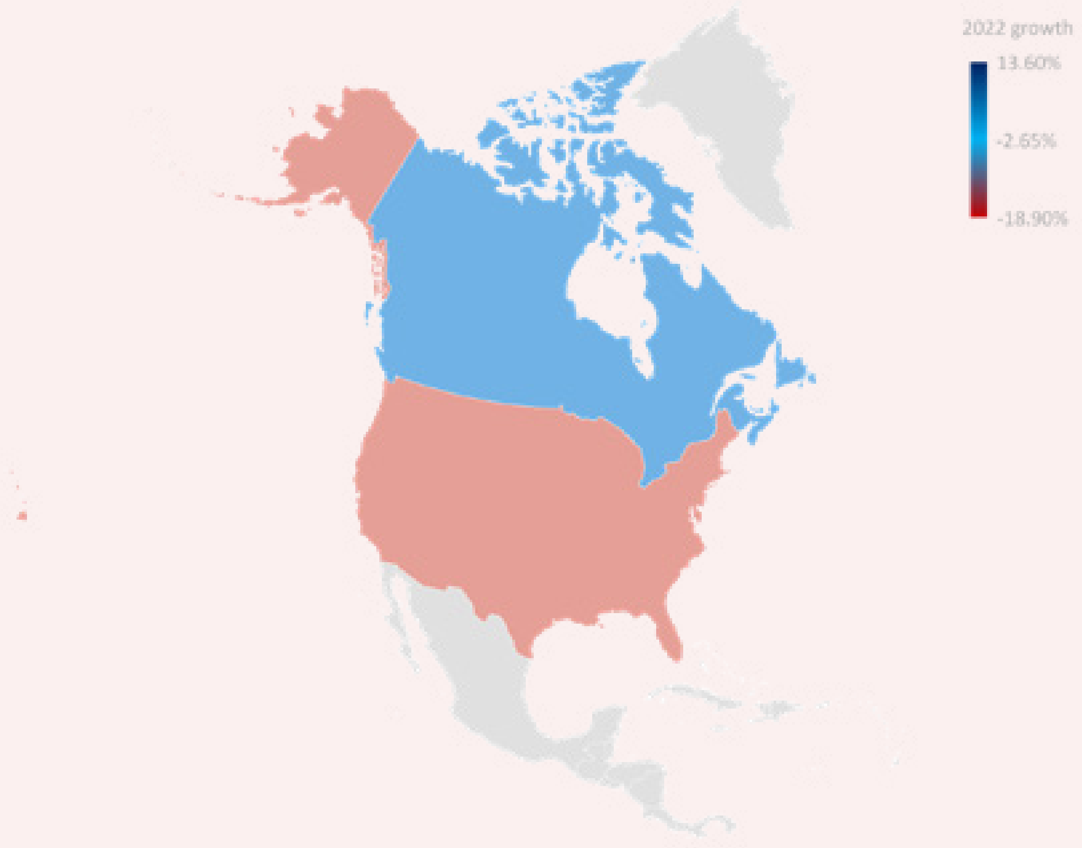
This was largely a result of the sale of Citigroup's Australian consumer banking division to Australia's National Australia Bank, however after controlling for Citi, the aggregation of the remaining North American participants' assets contracted by 1%. This was led by reductions in the assets of State Steet Bank and Trust Company, The Northern Trust Company and JPMorgan Chase Bank, National Association.

There are 10 North American banking groups operating in Australia, which remains constant year-on-year. However, as noted, a segment of Citigroup which held its own banking licence exited the sector.

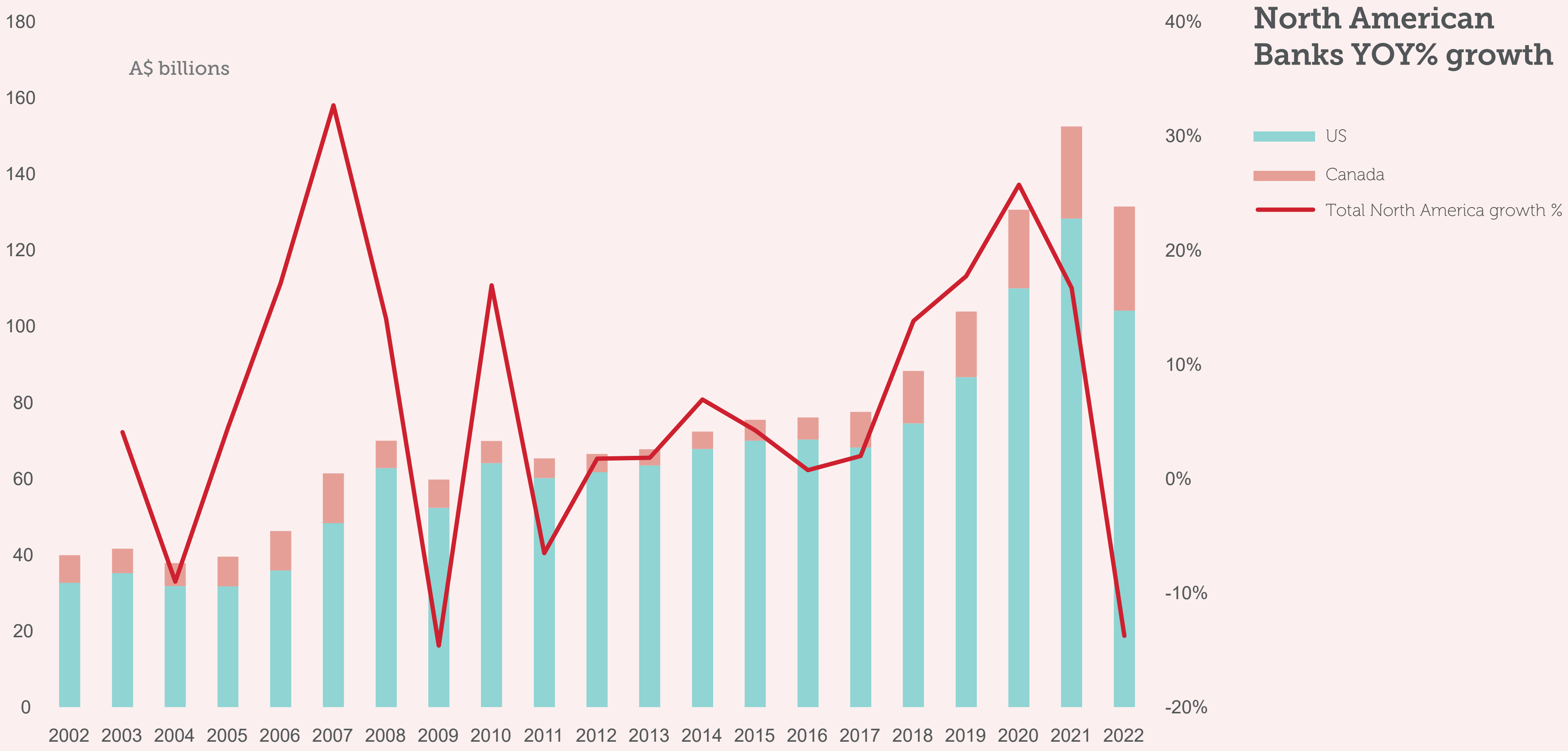
Following the Citi divestment, JP Morgan is the now largest US operation in Australia by resident assets with A$37.5bn in resident assets, followed by Bank of America with A$26.7bn in resident assets, closely followed by the remaining Citigroup held resident assets with A$26.2bn. Royal Bank of Canada is the fourth, and the largest Canadian bank with A$15.0bn in resident assets. The remaining 6 have combined resident assets of A$18.8bn.

With further volatility in the North American bank sector at the start of this year, we expect North American banks assets to continue to contract as they focus on their domestic footprints.

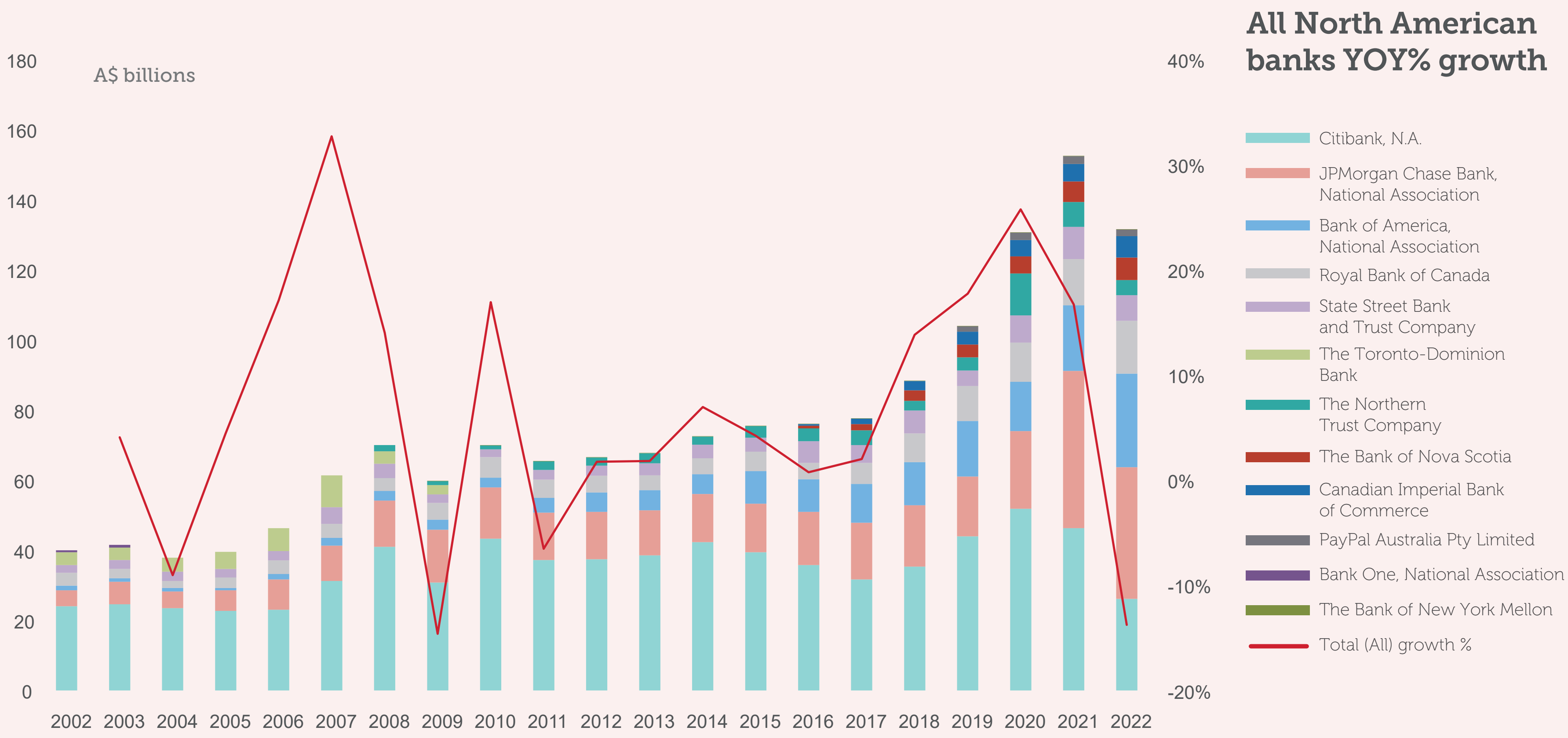
2022 growth rates by country for North American banks in Australia



North America



North America



US banks hold 79.1% of North American held resident assets. After the Netherlands, the US ranks second for resident assets held by foreign country banks.

USA

Excluding Bank of America, all other US banks reduced exposure to Australian resident assets. The aggregate decline was 18.9%, excluding Bank of America – the only bank to grow assets, the aggregate decline was 29.5%. the equivalent of A$32.2bn in assets.

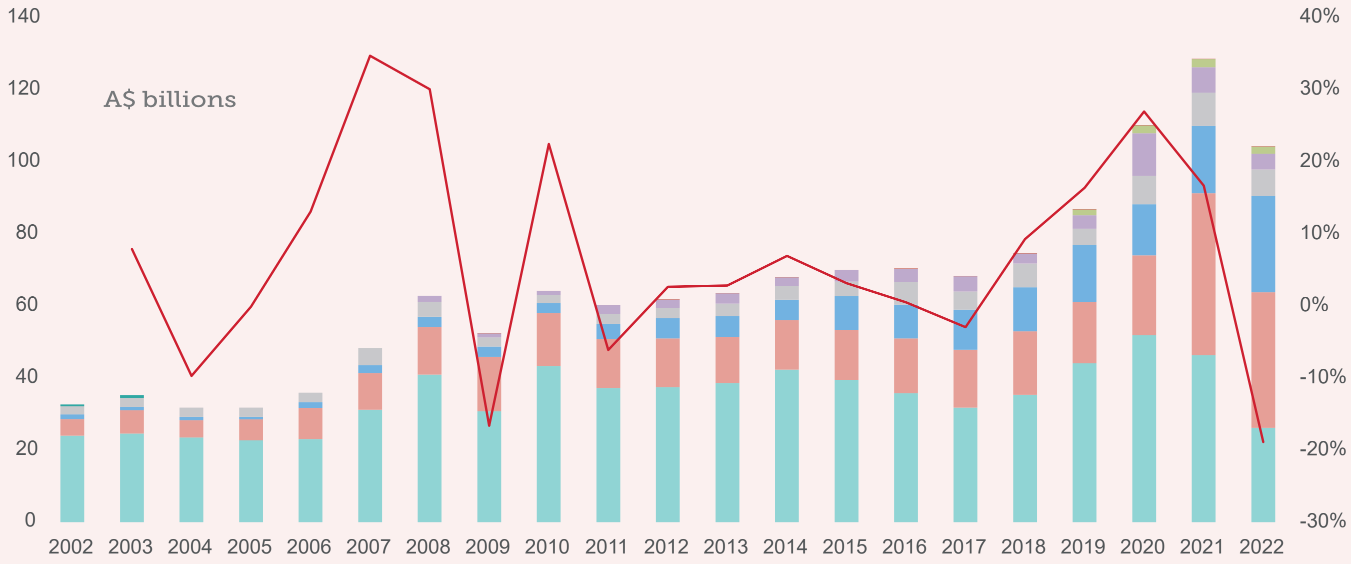
JP Morgan Chase Bank is the 12th largest ADI by resident assets (including domestic institutions) with A$37.5bn. Bank of America is the 17th and Citi is the 18th, both of comparable size to domestic AMP Bank.

As part of a global strategic divesture from consumer banking across Asia, Europe, the Middle East and Africa, Citi sold its Australian consumer banking division to NAB for A$1.2 billion following an auction process. The sale was symptomatic of a renewed focus of the major US banks on their domestic business as interest rates increased domestically and the economy faced increased volatility.

The deal was not opposed by the ACCC, on the ruling that the transaction would not substantially lessen competition for consumers, given Citi's consumer division was a substantial issuer of credit card products this is where competition issues were most likely to appear.[4]

The remaining Citi operations hold A$26bn of resident assets in 2022. In 2021, prior to the sale, Citi was the largest North American Bank with A$46bn, and the 12th largest in Australia including domestic institutions.

[4] National Australia Bank Limited - Citigroup Pty Limited's Australian consumer business (Citigroup Consumer Business) | ACCC



US banks YOY% growth

Canada

In contrast to the broad decline in US banks, excluding Bank of America, all Canadian banks grew their Australian resident asset holdings. The aggregate growth was A$3.3bn, the equivalent of 13.6%. On an individual bank level, Canadian Imperial Bank grew resident assets held by 21%, Royal Bank of Canada grew resident assets held by 13.1% and Bank of Nova Scotia grew resident assets held by 8.3%.

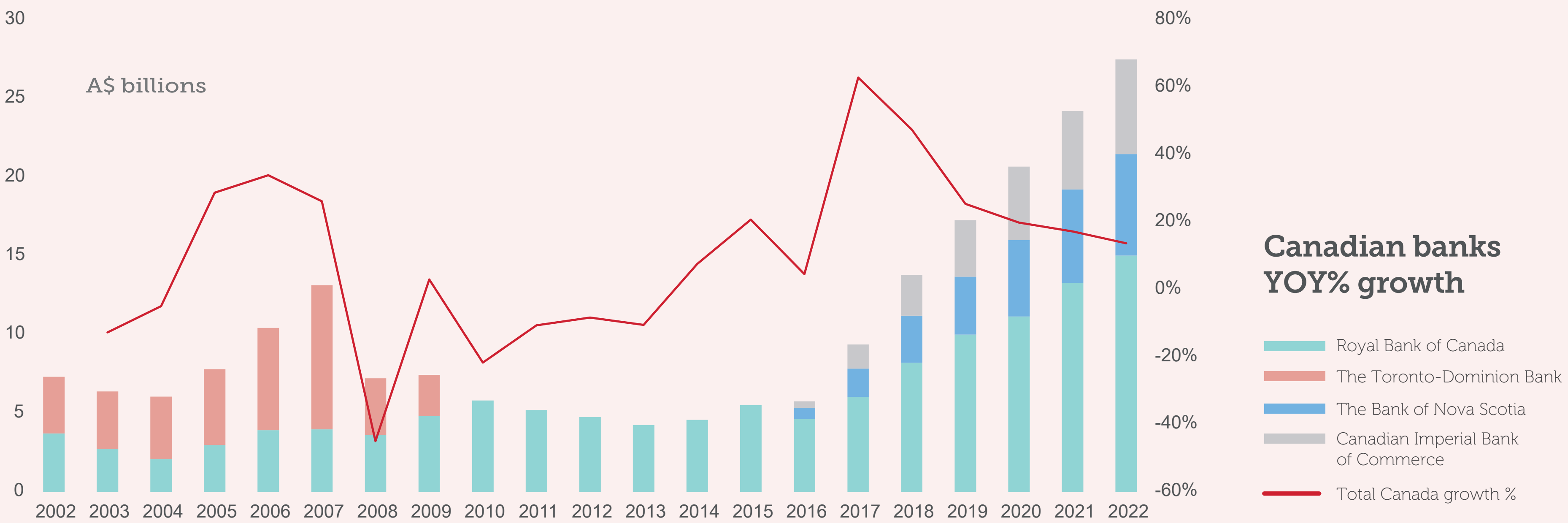
Royal Bank of Canada is the 23rd largest authorised deposit-taking institution by resident assets (including domestic institutions) with A$14.9bn, for context marginally greater than the domestic Judo Bank.

2022 globally was busy year for Canadian banks who are active in Australia, growing inorganically in other markets with Toronto Dominion Bank announcing a A$13.4bn acquisition of First Horizon (a regional US bank based in Tennessee), the Royal Bank of Canada purchasing HSBC's Canadian operations and The Bank of Nova Scotia acquiring Scotiabank in Chile.

[5] https://www.sec.gov/Archives/edgar/data/36966/000093041322000362/c103141_ex99-1.htm

[6] The Bank of Nova Scotia to increase ownership stake in Scotiabank Chile to 99.8% - Feb 28, 2022 (investorroom.com)

[7] HSBC agrees to sell business in Canada for CA$13.5bn | HSBC news | HSBC Holdings plc



Conclusion

MinterEllison's Foreign Bank Tracker (FBT) continues to reveal interesting patterns of capital investing into Australia, with the latest edition showing a continued expansion of foreign banks in our domestic marketplace despite a challenging macroeconomic backdrop.

Foreign bank activity often acts as a proxy for offshore investment trends because the foreign banks generally follow their customers into jurisdictions. MinterEllison partner, John Elias said, "foreign banks have shown their confidence in Australia with strong investment during 2022, which is impressive given the challenging global conditions".

"Capital flows are continuing into Australia, and while the mix is changing slightly, overall, they are consistently strong, which speaks to Australia's strength as an attractive destination for capital," he added.

In 2022, global banks faced the headwinds of a lingering pandemic, an ongoing large scale ground war in eastern Europe, economies and businesses facing supply chain disruptions, a return of inflation levels unseen for decades in most developed nations, and the structural jolt of rising interest rates and quantitative tightening by major central banks globally. In a deliberate shock to the Australian economy and banking sector, 2022 saw an aggregate rise in the RBAs target cash rate of 3.1% (at Dec 2022) over eight consecutive monthly rate decisions from May to December.

"While the full impact on foreign bank activity will be revealed during 2023, we anticipate the flow of credit will be increasingly constrained, given the significant increases in cost of capital," said Elias.

North America slows, Europe grows, and Asia accelerates

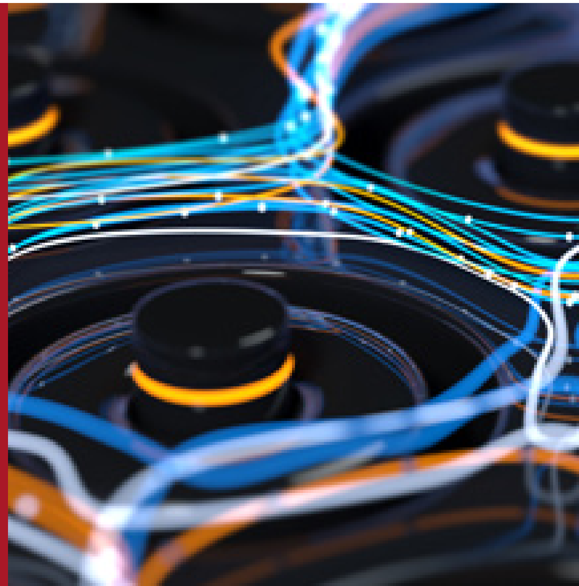
The wider picture at an aggregate level show that all countries with foreign banks operating in Australia (except for the USA and Swiss) experienced growth.

The 10 fastest growing foreign banks in Australia all grew their holdings of total resident assets by more than 24% in 2022. The top five each grew by more than 43%, and the top three grew faster than 60%. Six out of the group, including the top two ranked banks, are headquartered in Asia, three from Europe and one from North America. Of note this year is the domination of a diverse group of Asian banks, from China, Japan, Singapore, and South Korea.

Although demonstrating high growth, most of that group have relatively small market presence with 8 out of 10 having approximately A$5b in resident assets or less, the exceptions being Bank of America (USA) which is ranked 5, and DBS (Singapore) ranked 7.

Continued Asian outperformance

Over the past two decades, Asian based foreign banks have maintained a 17% compound annual growth rate in resident assets held, and now account for 35% of all assets held by foreign banks in Australia, up from 8% in 2002 and 18% in 2012. 29 banking licences are held by Asian banking organisations operating in Australia. This is up from seven in 2002 and 18 in 2012.



"

While the full impact on foreign bank activity will be revealed during 2023, we anticipate the flow of credit will be increasingly constrained, given the significant increases in cost of capital."

John Elias
Lead Partner,
Foreign Bank Tracker

Conclusion

"The overall 2022 growth in Chinese banks' operations in the Australian market is reflective of the close economic ties between Australia and its largest trading partner, despite ongoing challenges in respect of Australian trade," said Elias.

Sharp North American countertrend

In 2022 the total resident assets held by North American banks contracted by 13%, ending 11 years positive year-on-year growth rate. This is a notable shift considering the four most recent years had double-digit growth rates, and was largely a result of the sale of Citigroup's Australian consumer banking division to National Australia Bank. However, after adjusting for Citi group, the aggregation of the remaining North American participants assets still contracted slightly.

European banks with domestic subsidiaries dominate European banks hold 46% of all resident assets held by foreign banks – however this is down from 63% in 2002 and 61% in 2012. The largest European banks by resident assets, ING (Netherlands) which held assets valued at $110 billion after 3.1% year-on-year growth, and HSBC with $88 billion after a 15% year-on-year growth, are still by far the largest foreign participants in the Australian banking sector. There are 15 European banks operating in Australia.

"A forward issue for Australia will be whether any of the banks react as they have done previously in slow economic conditions and repatriate capital back to their home jurisdictions for a period of time – perhaps a few years. If so, this is likely not a reflection on the confidence foreign banks have in Australia as a safe haven for investors, but more due to a strategy to have tighter control over capital while there is global market stress," said Elias.

Contact

John Elias
Lead Partner,
Foreign Bank Tracker
+61 2 9921 4115
john.elias@minterellison.com

Michael Lawson
Financial Services Industry Lead
+61 2 9921 4554
michael.lawson@minterellison.com

Europe and the UK

Nicola Marley, Partner
+44 (0) 207 429 2786

North America

USA
Jeremy Blackshaw,
Managing Partner
Capital Markets
and Corporate
+61 3 8608 2922

Geoff Earl,
Partner
+61 3 8608 2531

Canada
Brendan Clark,
Managing Partner International
+61 7 3119 6455

Asia

Mainland China
Bi Chen, Partner
+86 10 6535 3477

South Korea
Tom Shon, Partner
+61 2 9921 4214

Japan
Geread Dooley, Partner
+61 2 9921 4081

Singapore
Jeremy Blackshaw,
Managing Partner
Capital Markets
and Corporate
+61 3 8608 2922

Steven Wang,
Partner
+61 3 8608 2901

IDENTIFY

ENGAGE

CREATE

Informed by statistics from the Australian Prudential Regulation Authority and our market experience with global and domestic clients, this report not only reveals current trends – it also provides predictions about future capital flow investment into Australia. Despite another year of great disruption, our 2023 report shows foreign banks continuing to expand their Australian presence.

John Elias
Lead Partner, Foreign Bank Tracker

E john.elias@minterellison.com
P +61 2 9921 4115