

## OECD AND SALOMON BROTHERS DATA

1. The Salomon Brothers publication "Bank Annual" has provided various aggregate profit and loss statistics for the global operations of a small number of large banks in 10 countries since 1980.<sup>1</sup> For Australia, the data cover the four major banks; for Japan, a handful of large "city banks"; for the UK, the four large clearing banks and one Scottish bank; for the US, a small number of money centre banks.
2. The OECD publication "Profitability of Banks" provides aggregate profit and loss statements and balance sheets for banks in 21 OECD countries. Data on Australia first appeared in the 1991 issue, which contained data for 1981 to 1989. The data for Australia cover the domestic banks plus the overseas branch operations of all banks operating in Australia (excluding non-bank subsidiaries). The coverage of banks in other countries varies according to the availability of data.
3. Both sets of data are inadequate for the purposes of making international comparisons of interest margins. Definitions are not consistent and measurements are not standardised across countries; for many countries global, rather than domestic, data are used.<sup>2</sup>
4. The following charts show selected measures of margins and profitability from the OECD<sup>3</sup> and Salomon data. Chart A1, using OECD figures<sup>4</sup> shows net interest margins in Australia are on a par with the UK and US, but lower than Italy and Spain. Chart A2 based on Salomon data places Australia a little above the UK and US, but again below Spain. Both charts show net interest margins in Australia above those in Germany, France, Switzerland and Japan. The OECD provides a clue to partly explain these differences; in European countries, particularly France, banks have a substantial portion of their assets in interbank loans and, as the interbank loans are made at very fine spreads, they act to narrow measured margins for these countries overall.

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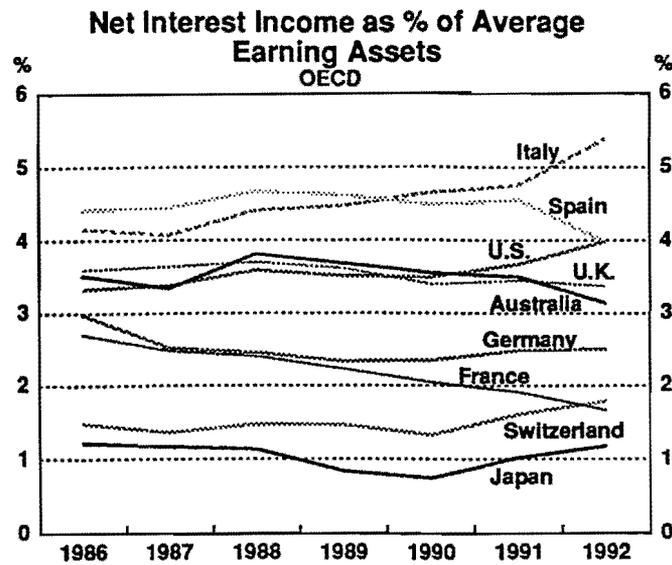
<sup>1</sup> These international comparisons have been dropped from the 1994 edition of "Bank Annual".

<sup>2</sup> It should be noted also that data initially published for Australia by the OECD contained figures for net interest income and charges to profit for bad debts which were incorrect. More recent editions have corrected these errors, but only back to 1986. The 1993 edition of the Salomon publication also contains errors in the measure of net interest income to average earning assets for Italy; Salomon Brothers have supplied the Bank with corrected data, which are used in this study.

<sup>3</sup> Based on data for all banks in Australia and "large commercial" or "commercial banks" in other countries.

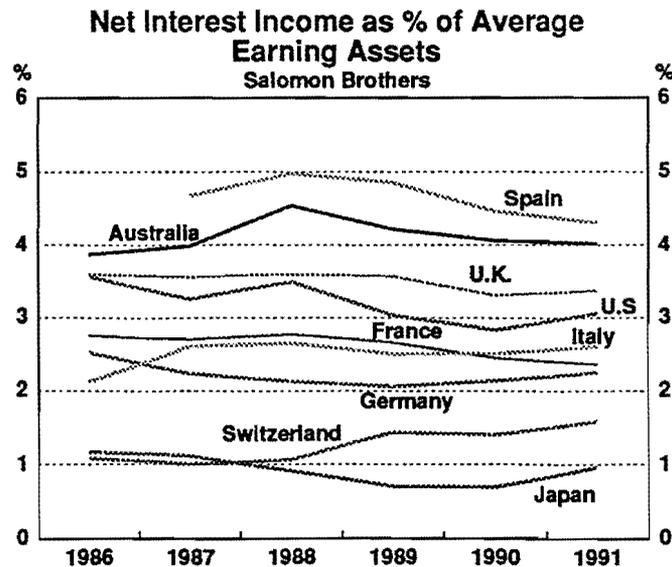
<sup>4</sup> The OECD do not publish data on interest margins as such. Instead, they publish a range of profit and loss and balance sheet data from which interest margins can be calculated.

Chart A1



Source: Bank profitability, OECD, Paris, 1994

Chart A2



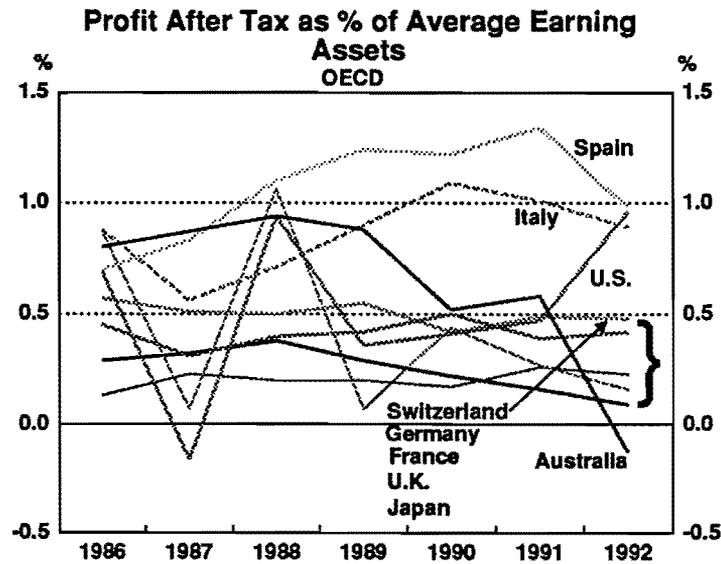
Source: Bank Annual, 1993 Edition,  
Salomon Brothers and Salomon Brothers

5. As can be seen from the charts, there are differences in the measures of margins for most countries. These result in part from differences in the sample of banks; for example, for their US sample, Salomon Brothers use the big money centre banks such as Citibank, Bank of New York, and Bankers Trust whereas the OECD charts have wider coverage, being for large US commercial banks. As noted earlier, Salomon use the four major banks for their Australian sample while the OECD uses all banks. US money centre banks, which are large internationally

operating banks servicing mainly professional money and securities markets, are hardly an appropriate basis for comparisons with Australian banks, which are retail-oriented with a large, widespread customer base.

6. The OECD and Salomon publications provide data on bank profitability as well as on interest margins. Charts A3 and A4 show the ratio of profit after tax and provisions to average earning assets taken from the two sources.<sup>5</sup> The figures are volatile, and rankings of countries change from year to year. OECD data suggest a middle ranking for Australian banks in recent years, below Spain and Italy, and at the top end of other OECD countries which are closely bunched; profitability fell to the bottom of the range in 1992, however. The Salomon's data suggest profitability of banks in Australia is second only to Spain and clearly above other OECD countries.

Chart A3



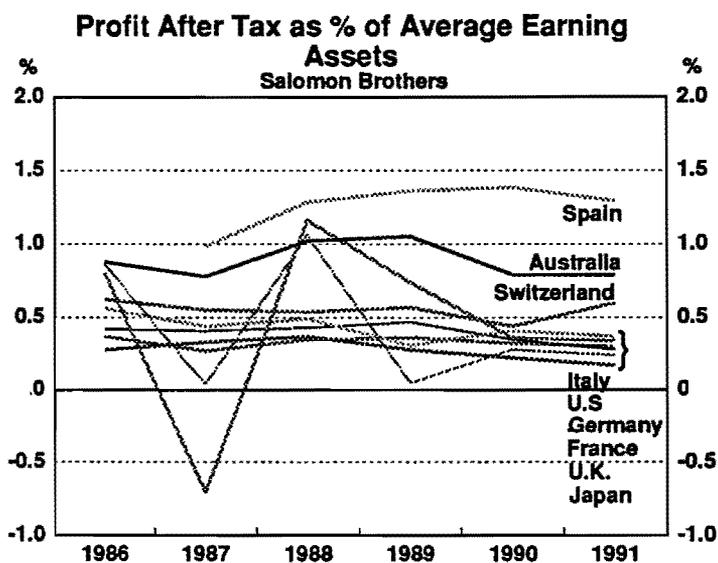
Source: Bank Profitability, OECD, Paris, 1994

7. A clearer guide to underlying profitability is provided by removing the effects of provisions and tax, as these vary considerably from year to year. In addition, comparative returns are better judged in relation to shareholders' funds. Only the OECD provide such data, which are shown in Chart A5<sup>6</sup> Australia is ranked lower on this measure, with profitability above only Spain and Japan in recent years, reflecting the fact that Australian banks generally have higher capital ratios compared to banks in some other countries.

<sup>5</sup> A more appropriate measure would be the ratio of profit to average total assets, but this cannot be calculated from the data published by the two sources.

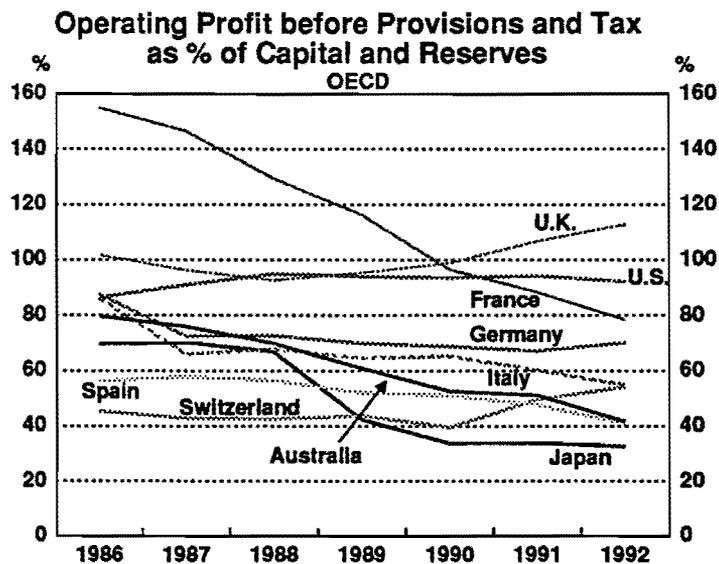
<sup>6</sup> The item used as the denominator is "capital and reserves". This is not quite the same as shareholders' funds because it includes subordinated debt on which interest, rather than dividends, is paid.

Chart A4



Source: Bank Annual, 1993 Edition, Salomon Brothers and Salomon Brothers

Chart A5



Source: Bank Profitability, OECD, Paris, 1994