

Media Release

Spotlight Reveals Business Banking Backdrop on the Improve

(13 January 2014 – Australia) Five out of ten Australian businesses are anticipating a positive change in their business backdrop in the next six months, while another one in five are anticipating no change.

The results come from research across a structured national sample of 1011 Australian businesses spanning the SME, Corporate and Institutional segments executed in November as part of the East & Partners and Macquarie Bank Spotlight series.

Asked to describe their outlook for the next six months, with the two extremes being an “extreme negative deterioration” to a “company transforming improvement” in business conditions, the biggest response across the board was for a “Slight Positive” improvement in outlook in 2014, nominated by 20.1 percent of all businesses.

20.3 percent expect either a “large” or “significant” positive increase.

On the negative side, only 6.7 percent expect an “extreme negative deterioration,” while 11.7 percent expect a “large” deterioration.

The research also reveals a wide disparity in sentiment between large and small businesses, with smaller businesses much more pessimistic. Just over two out of ten Institutional businesses are expecting negative change, compared with four out of ten SME and Corporate businesses.

The latest Spotlight research also analyses Australian business views on which bank they believed is positioning itself to benefit the most from improving business sentiment.

NAB is seen as the bank competing most aggressively for more business overall, nominated by 15.7 percent of businesses ahead of ANZ (15.3 percent), Westpac (10.3 percent) and CBA (10.6 percent).

Despite attempts at winning the business of the highest number of SME and Corporate sized businesses, NAB is dwarfed by ANZ’s push for a greater share of Institutional business banking market share. NAB approached 17.1 percent of Australia’s largest enterprises, significantly less than ANZ’s more aggressive advances towards 29.5 percent of institutional sized businesses.

Bank Approaches to Businesses

| | % of Businesses Competitively Positioned | | | |
|------|--|-----------------------|---------------------------|----------------------------|
| | SME (N: 545) | Corporate (N: 249) | Institutional (N: 217) | Total Market (N: 1,011) |
| ANZ | 6.1 | 23.3 | 29.5 | 15.3 |
| CBA | 4.4 | 16.5 | 19.4 | 10.6 |
| NAB | 10.3 | 26.5 | 17.1 | 15.7 |
| WBC | 7.3 | 12.9 | 16.1 | 10.6 |
| None | 67.3 | 12.9 | 14.7 | 42.7 |

Source: East & Partners & Macquarie Spotlight Series, 8th Release

Competition between Australian banks centres upon price, in particular ANZ and NAB where 51.0 percent and 58.5 percent respectively of businesses contacted by the bank indicate the approach was price led. 67.5 percent of SME businesses report that no bank is currently competing for their business, in contrast to 12.9 percent of corporates and 14.7 percent of the top 500 companies by revenue.

NAB and ANZ are competing the most vigorously on price whereas competitive propositions being experienced by customers from Westpac and CBA are reported to be more product and service featured.

The research indicates that a recovery in business lending is well underway, driven 'bottom up' by SME borrowing demand. Despite a slump in mining sector investment, business borrowing intentions are improving.

CBA and NAB customers are the most bullish when it comes to future borrowing increases, however businesses broadly appear to be more positive relative to the beginning of 2013. Over half of all businesses expect an improvement in conditions, compared to a mere 17 percent at the start of the year.

Senior Markets Analyst Martin Smith finds that the notion of the 'honey moon' effect stemming from a change in government has not already begun to wane, with a greater willingness of Big Four banks to lend proving a boon to ongoing growth and stability.

"Despite NAB angling the most aggressively at the SME and corporate segments, ANZ emerges as the most aggressive competitor for institutional business. 29.7 percent of institutions nominate ANZ as the most competitive, compared to CBA with 19.4 percent."

"Notably, over half of Australia's businesses believe an end to the mining boom will not impact their ongoing prosperity, a view especially strong amongst smaller businesses. Less than 14.1 percent of SME's have any direct connection to raw materials and mining services demand and supply adjustments."

About the East & Partners and Macquarie Spotlight Series

This represents the eighth note of the Macquarie and East & Partners “Spotlight” series on Business Banking. The intention of the program is to:

- Build a joint research program that connects predictive measures of banking performance
- Link East & Partners demand side content with observable business outcomes, individually by bank and/or sector
- Deliver strong insight in to the often opaque segment of business banking at a sector and on an individual bank basis

This issue refreshes our business banking earnings scorecard as well as looking at what is required to get businesses to further invest, the impact of the mining slowdown on business and the current competitive intensity across the sector. East & Partners is Asia-Pacific’s leading specialist business banking market research and analysis firm. East & Partners deliver both bespoke and multi-client research programs and consulting services to client banks and financial services providers across the Institutional, Corporate, SME, Business, Investment and Financial services markets. East & Partners takes a true “bottom up” approach interviewing over 30,000 Institutional, Corporate, SME, Business, Investment and Financial services organisations every year.

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