

Profitable Banks are Good Banks!

Record profits produced by Australia's large banks are having a surprising effect on business' perceptions, despite experiencing increasing fees and regular repricing. Micro businesses and SME's over the last few years have had their credit repriced by their primary banks on average 1.8 times at an average rate increase of 5.1 percent relative to the OCR.

Surely then, when the banks post record profits one would expect small business customers to be less than impressed. However, this does not seem to be the case – indeed new research clearly says the opposite! Strong bank profits are being seen as a good thing by small business.

During and since the Global Financial Crisis (GFC), businesses, especially at the smaller end of town, have found it a challenge gaining access to credit at what they see as reasonable prices. They have had to provide more security for their loans, many of them even having to commit the family home and covenants have been tightened.

Throughout this period these businesses have not been shy about voicing their discontent at what they have experienced as unfair and harsh treatment by banks they had once viewed as 'partners' in their business. This experience has led to static product and service buying.

Why do commercial clients think bank super profits are good? Especially when they in essence, are large contributors to these profits. Possible explanations of this apparently contradictory view could be customer assumptions around:

- Bigger profits generate lower prices...eventually
- Profitable banks are more likely to stay in business
- Business customers see strong banks being good for everyone and the economy at large

Only time will tell if business customer perceptions of the super profits being generated by Australia's Big Four banks really do have a positive effect on bank reputation in the long term or if customers are simply hoping such profits may eventually flow through to their bank relationships.

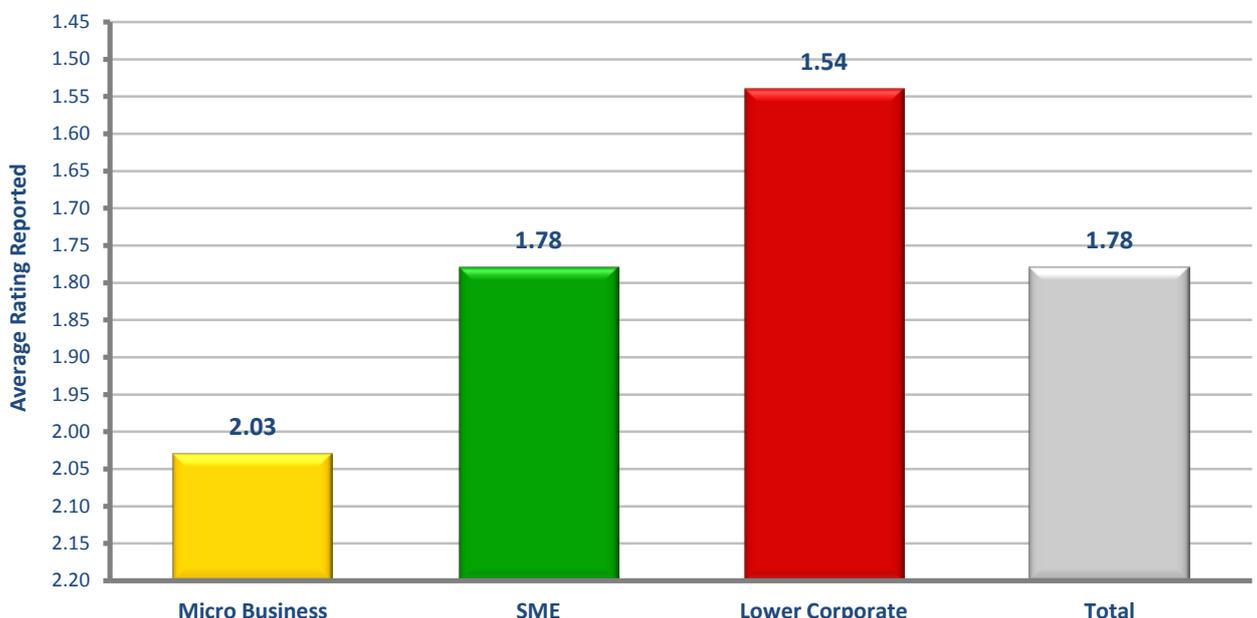
Source:

East & Partners Business Banking Sentiment Index (BBSI)
November 2011

Market Segments:

- Micro Businesses - A\$1-5 million turnover enterprises
- SMEs - A\$5-20 million turnover enterprises
- Mid Corporate - A\$20-100 million turnover enterprises

Strong Bank Profits = Positive Customer Perceptions



On a scale of 1 -5 (1=positively, 5=negatively), how strongly does a bank's profits affect your perception of that bank?