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APRA – Bank Dividends

# APRA – Bank Dividend Payments

Some of you may have read media regarding the threat to the payment of bank dividends. This is not because the banks don't have the profits or reserves to pay dividends but has to do with the protection of bank capital should there be a rise in loan defaults. Already banks are suspending loan repayments for 6 months for clients that qualify.

APRA has asked the Banks and Insurers to not return capital to shareholders and consider reducing or **deferring** their dividends. This is a lighter touch than in Europe and NZ, where dividends have been banned.

On a positive note, S&P has maintained the Bank's senior AA- credit rating.

Some of our clients relying on dividend income from the banks MAY be affected in the short term. The emphasis being on the short term. On the flip side, it could be a positive, down-the-track, as it may prevent the need for an equity capital raise to top-up capital.

It all comes down to the banks funding of loan impairment. Currently bank loan impairments are very low however, we know higher loan impairments are coming but no one has any idea of how big the problem will be. Much depends on how long the lock-down period goes on for.

*Put simply, banks may reduce or suspend dividend payments in the short term to assist in accounting for their increase in loan defaults on their balance sheet. Nothing is in writing and no decisions have been made by bank boards. APRA has just asked the banks to consider their position. There is certainly more negative media than positive media surrounding this topic however, I will remind you all that during the depths of the GFC, banks continued to pay dividends.*

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