

Press Release

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2013 toughest year for banks' performance since 2008; Hong Kong banks strongest despite drop in overall strength score

- Bank of China (Hong Kong) tops AB500 Strongest Banks ranking
- Asia Pacific banking industry's overall balance sheet growth slowed
- Increase in non-performing loans signals weaker credit conditions

Singapore, 30 September 2014 - Bank of China (Hong Kong) possessed the strongest balance sheet, based on the performance in fiscal year 2013. It marks the fourth consecutive year that a Hong Kong-based bank tops the annual ranking of strongest banks in the Asia Pacific region. The territory's banking sector demonstrates continued resilience amid concerns over exposure to China.

Bank of China (Hong Kong) tops AB500 Strongest Banks ranking

We see the continuing strength of Hong-Kong-based banks as they occupy the top four strongest banks ranking. This year, Standard Chartered Bank (Hong Kong), HSBC and Hang Seng Bank – the strongest banks in the region for the past three years – held second, third and fourth positions, respectively.

Bank of China (Hong Kong) had the strongest bank balance sheet this year, on the back of stronger asset and profit growth, even as it maintained a high level of capital adequacy, asset quality and liquidity. The bank managed to keep cost-to-income ratio low at 30% and achieved a 17% growth in operating profit to \$3.5 billion in FY 2013.

Despite concerns about exposure to China, Hong Kong's banks remain well-capitalised, liquid and resilient to potential spikes in non-performing loans (NPLs). The active intervention of the China Banking Regulatory Commission (CBRC) and Hong Kong Monetary Authority (HKMA) is expected to ensure continued stability of both markets over the longer term.

Asia Pacific banking industry's overall balance sheet growth slowed

The Asia Pacific region's banking sector failed to sustain growth seen in FY2012 and the downward momentum has continued into FY2013 with few signs of improvement. The decline in both score of strongest bank from 4.19 to 4.15 and average score of 500 largest banks from 2.49 to 2.42 suggests that overall financial performance of banks in the region weakened in FY2013.

The banking sector of Singapore and Hong Kong remain top two strongest, while South Korea had the lowest score, with a drop from the 19.8 a year earlier, down to 1.73. Banks in

Australia, Japan and Macau scored better this year, while banks in China, Indonesia and Sri Lanka fell.

Based on the asset-weighted average figures of top 500 banks, average assets grew by 10.2%, compared to 11.6% in last year's evaluation. Loans and deposits also had a slower pace of growth in 2013. Among all countries, the Philippines achieved the highest balance sheet growth, with assets, loans and deposits up by 31%, 25% and 38%, respectively.

Income growth was much weaker than the year earlier, with a decline in average total operating income growth rate to 12% from 25%. South Korean banks recorded a drop in operating income and net profit by 14.7% and 27.7%, respectively. Asset quality of banks remains a key risk. More than half of countries in the region experienced higher bank NPL ratios in 2013.

Bank of China (Hong Kong) leaped to top spot from 6th position in last year's evaluation

Figure 1. AB500 strongest banks by balance sheet in the Asia Pacific region 2014

Country	Rank	Bank	Scale	Balance sheet growth	Risk profile	Profitability	Asset quality	Liquidity	Total Score
		Weightage	17.5%	5.0%	25.0%	32.5%	15.0%	5.0%	100.0%
		Max Score	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Hong Kong	1	Bank of China (Hong Kong)	5.0	2.3	4.0	3.7	5.0	4.0	4.15
Hong Kong	2	Standard Chartered Bank (Hong Kong)	5.0	2.3	4.6	3.8	3.8	3.5	4.11
Hong Kong	3	HSBC	5.0	2.8	4.3	3.4	4.3	4.0	4.04
Hong Kong	4	Hang Seng Bank	5.0	1.8	4.0	3.4	5.0	3.5	3.99
China	5	China Construction Bank Corporation	4.5	2.5	3.8	3.5	4.8	4.0	3.91
China	6	Industrial & Commercial Bank of China	4.5	2.3	3.8	3.4	4.8	4.0	3.86
China	7	Bank of China	4.5	2.5	3.5	3.5	4.8	4.0	3.84
Macau	7	Industrial & Commercial Bank of China (Macau)	4.5	4.5	3.2	3.4	5.0	3.5	3.84
China	9	Agricultural Bank of China	4.5	2.3	4.2	3.0	4.5	4.0	3.80
Singapore	10	DBS Group	5.0	4.0	3.3	3.0	4.5	3.0	3.69
Hong Kong	10	Industrial & Commercial Bank of China (Asia)	4.5	4.8	2.3	3.5	5.0	4.0	3.69
Brunei	14	Bank Islam Brunei Darussalam	4.5	2.3	5.0	3.1	3.0	0.0	3.61
The Philippine	15	BDO Unibank	2.0	4.5	4.0	3.9	3.8	4.0	3.60
Malaysia	17	Maybank	5.0	3.0	2.8	3.2	4.5	3.0	3.58
Japan	25	Sumitomo Mitsui Financial Group	4.5	2.0	3.7	3.5	2.8	2.5	3.48
Thailand	26	Siam Commercial Bank	3.5	2.8	2.5	4.0	4.3	2.5	3.45
Indonesia	75	Bank Central Asia	0.0	3.5	3.6	3.4	5.0	4.0	3.14
Australia	77	Westpac Banking Corporation	5.0	1.8	1.4	3.1	4.8	2.0	3.13
Taiwan	81	Cathay United Bank	2.0	1.0	4.1	3.1	3.3	3.5	3.10
New Zealand	95	ANZ Bank New Zealand	5.0	1.8	1.4	2.8	4.5	2.5	3.04
Sri Lanka	109	Commercial Bank of Ceylon	1.0	2.8	3.6	3.2	4.3	2.0	2.99
India	126	HDFC Bank	0.0	4.8	3.0	3.8	4.0	2.0	2.94
Pakistan	138	MCB Bank	0.0	2.3	5.0	3.2	2.8	1.5	2.90
Bangladesh	147	Janata Bank	0.5	1.8	4.0	4.2	2.3	0.0	2.88
South Korea	226	Shinhan Financial Group	4.0	0.8	1.4	1.8	4.5	3.0	2.50
Vietnam	230	Military Commercial Joint Stock Bank	0.0	3.5	2.7	2.8	3.8	3.5	2.49

Source: Asian Banker Research

Increase in non-performing loans signals weaker credit conditions

“2013 marks the start of a credit cycle reversal as the amount of bad debt that banks have on their books has started to increase after many years of decline and is expected to worsen in the year ahead.” said Foo Boon Ping, managing editor, The Asian Banker. The continuing slowdown in regional economic growth combined with the potential bursting of credit bubbles built up during the period of aggressive loan growth in the last few years will no doubt exacerbate the situation.

Bad debt numbers in China have witnessed an increase after almost half a decade of continuous decline since 2008. The increase in non-performing loans (NPL) towards the end of 2013 is the first sign of worsening credit conditions in the country. In recent days, some of the country’s largest banks have also started to increase their capital-raising activities to buttress reserves. Over the longer terms, this should put the Chinese banking sector on a firmer footing.

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