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## Press Release

### **Bank of China (Hong Kong) emerges as the strongest bank in Hong Kong and Asia Pacific, despite substantial pressure on banks in the region to maintain profitability**

- Bank of China (Hong Kong) remains the strongest bank in Hong Kong and Asia Pacific in 2017
- Despite the strength of their balance sheets, Asia Pacific banks continue to face massive challenges in growing profits, a conundrum created by modern capital rules
- Overall asset quality of Asia Pacific banks deteriorated marginally in 2016, adding pressures to profitability

Toronto, Canada, 17<sup>th</sup> October 2017 - In general, the Asia Pacific banking sector delivered better results in this year's the Asian Banker 500 (AB500) Strongest Banks by Balance Sheet evaluation, which is the most comprehensive annual evaluation that captures the quality and sustainability of the balance sheets of the banks in the region.

Bank of China (Hong Kong) continues to top the Strongest Banks by Balance Sheet ranking in Asia Pacific in 2017, based on a very detailed and transparent scorecard that ranks commercial banks on six areas of balance sheet financial performance; namely the ability to scale, balance sheet growth, risk profile, profitability, asset quality and liquidity. The bank, along with other strongest banks in the region, was recognised at the AB500 Strongest Banks by Balance Sheet ceremony held in conjunction with the annual SWIFT organised SIBOS convention in Toronto, Canada.

### **Bank of China (Hong Kong) continues to be the strongest bank in Asia Pacific in 2017**

The bank maintained strong capital and liquidity positions and sound asset quality, and also recorded improved balance sheet growth and better profitability, although the strong net profit growth was buoyed by a one-off gain generated from the disposal of its interest in Nanyang Commercial Bank. With the strength score increasing from 4.14 in the previous year's evaluation to 4.46 this year, the bank once again topped the annual ranking of AB500 Strongest Banks by Balance Sheet.

The 500 largest banks in the region achieved higher weighted average strength score at 3.17 out of 5.00, compared with 3.10 in last year's evaluation. The higher average regional strength score is primarily driven by better performance in the areas of balance sheet growth, risk profile and liquidity. All markets across the region witnessed improvement in their average strength score, with the exception of Australia, Bangladesh and New Zealand. The average strength scores for banks in Australia and New Zealand were lowered from 3.32 and 3.35 in 2015 to 3.19 and 3.28 in 2016, respectively.

Apart from six Hong Kong banks, the top 20 strongest banks in the Asia Pacific region also included four Chinese banks, three Singapore banks, two Macau banks, one Brunei bank,

one Japanese bank, one Malaysian bank, one Taiwanese bank, and one Thai bank. Banks in Hong Kong and Singapore continued to achieve the highest weighted average strength score, at 3.89 and 3.67 respectively, except for Brunei and Cambodia, which have only one bank on the list. On the contrary, Bangladesh and India recorded the lowest average strength score, below 2.5.

### Downward pressure on profitability

The Asia Pacific banking industry experienced weakened profitability in the financial year 2016, with the weighted average return on equity (ROE) of all the 500 banks moderating to 10.7% in 2016 from 12.1% a year earlier. Narrowed net interest margins, higher loan impairment charges combined with increased regulatory capital requirements were the main drag on profitability.

Banks' ROE has been under downward pressures since the implementation of Basel capital requirements, although their capital and liquidity positions have strengthened. Most regulators in the region have imposed strict capital and liquidity requirements in line with Basel rules. In response to the increased requirements, banks have continued to raise their levels of capitalisation during 2016, resulting in the further decline in banks' ROE. Banks also become more conservative in their lending, in order to meet the higher regulatory requirements. The trends are expected to continue into the foreseeable future.

Figure 1. AB500 strongest banks by balance sheet in the Asia Pacific region 2017

Rank	Bank	Country	Score
1	Bank of China (Hong Kong)	Hong Kong	4.46
2	Industrial & Commercial Bank of China (Macau)	Macau	4.18
3	HSBC	Hong Kong	4.08
4	Bank of Taiwan	Taiwan	3.94
5	Bank of China	China	3.88
5	Hang Seng Bank	Hong Kong	3.88
7	Industrial & Commercial Bank of China	China	3.84
8	OCBC Bank	Singapore	3.83
9	Standard Chartered Bank (Hong Kong)	Hong Kong	3.78
10	China Construction Bank Corporation	China	3.76
11	Agricultural Bank of China	China	3.75
12	United Overseas Bank	Singapore	3.73
13	Industrial & Commercial Bank of China (Asia)	Hong Kong	3.71
14	DBS Group	Singapore	3.69
14	Bank Islam Brunei Darussalam	Brunei	3.69
16	Sumitomo Mitsui Financial Group	Japan	3.65

16	Public Bank	Malaysia	3.65
16	China Construction Bank (Asia)	Hong Kong	3.65
19	Tai Fung Bank	Macau	3.61
20	Kasikornbank	Thailand	3.58

Source: Asian Banker Research

Among all 20 economies we covered in the study, New Zealand and Australia saw their average ROE and return on assets (ROA) decline the most. Australian banks' average ROE fell to 10.2% from 14.9 in the previous year. The average ROE of New Zealand banks was down from 18.1% in 2015 to 13.0% in 2016, which was still one of the highest in the region though. In addition to the reasons mentioned above, the non-interest income of New Zealand banks also shrank, and their average non-interest income to total income ratio fell to 21.4% in 2016 from 23.9 in the previous year.

On the contrary, the average ROE and ROA went up in India and Vietnam. The average ROE and ROA of Indian banks were still one of the lowest in the region, despite the slight improvement. Vietnamese banks continued to see strong income growth thanks to the government's efforts to strengthen their banking system through banking reforms over the past few years.

### **Slight deterioration in overall asset quality**

The overall asset quality of banks in the region weakened marginally in 2016, which also had a negative influence on banks' profitability. The 500 banks in the region saw the weighted average gross non-performing loans (NPL) ratio inch up to 1.8% from 1.7% a year ago and the weighted average provision coverage ratio fall slightly from 129% in the previous year to 127%. Bangladesh, India and Pakistan continued to be the countries with the highest average NPL ratios in the region, while Australia, New Zealand and Macau maintained the average NPL ratios of less than 0.5.

The Indian banking sector continued to suffer from the mounting bad debts. Banks' profitability and capitalisation were considerably affected. The average NPL ratio deteriorated to 9.1% from 7.5% recorded in the previous year, and the average provision coverage ratio also went down to 47.6% from 52%.

Chinese banks are also facing increasingly higher potential asset quality risks as they continued to record strong loan growth, although the average NPL ratio of Chinese banks held relatively steady in 2016. Chinese banks accelerated bad debt write-offs and transfers to third-party asset managers, and also tried to deal with bad debt through other methods, such as the issuance of asset-backed securities products with bad loans as underlying assets.

The overall asset quality of the Asia Pacific banking sector is manageable, given the generally sound loss absorption buffers. However, concerns over asset quality remains, further adding pressures to profitability.

## **The Strongest Banks 2017 (based on balance sheet strength)**

### **About the programme**

The Asian Banker Strongest Banks is an annual assessment of the financial and business performance of the commercial banking industry in the Asia Pacific region. The assessment ranks the top performing banks in each country by strength, an evaluation that is based on a belief that a strong bank demonstrates long-term profitability from its core businesses.

The scope of coverage for The Asian Banker Strongest Banks comprises of both the mature markets and the most promising emerging markets in Asia Pacific. The focus of the assessment is on commercial banks and financial holding companies with a significant proportion of activity in commercial banking. The assessment does not include central banks, policy banks or finance companies.

The winners are determined using a scorecard approach based on six crucial performance indicators rated on a scale of 0-5: Scale, Balance sheet growth, Risk profile, Profitability, Asset quality and Liquidity.

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