

CHINESE BANKS ARE FEELING THE PINCH ... WITHOUT QUESTION

For the most part, banks, having been given licences to operate in the People's Republic of China (PRC), might well be obliquely directed by certain high-ranking, senior members of State-run, corporate entities, those entities, having controlling equity stakes in the banks, but losses are still losses and reduced margins with regard to interest income, no matter how one cuts it, have to be swallowed whole by the managements of those banks.

And, if the managements of certain banks cannot hack it, well, this medium leaves the resultant punishment to the imagination of Subscribers.

Since November 2014, The People's Bank of China (), which is The Central Bank of the PRC, has reduced interest rates by about 140 basis points.

But these rate cuts have done little to stop the rot – which was the initiate objective.

In fact, the rate cuts might well have exacerbated many of the problem situations, those already identified and those, looming on the economic horizons.

Looking back over the past year, it could well be held that the rate cuts have caused a great deal more harm than good.

In addition to the lack of acceptable success of the actions of the PRC's Central Bank in trying to stimulate the economy by deploying its existing weaponry at its disposal, reducing interest rates, being the weapon of choice over the past year or so, it is, now, historical fact that the quality of certain assets, held by many a PRC bank, has tended to have deteriorated, in some cases, the deterioration, being very material.

Also, the economic slowdown in the country over the past 12 months or so – and more evidence of the continued economic slowdown is being made known, almost weekly, these days – has resulted in banks' credit costs rising, substantially.

This situation is bound to hit the banks' Bottom Lines, if not immediately, then, in the very near future.

Studying the Third Quarter Results of the PRC's four dominant lenders gives one more than an inkling of the current situation at these very important and influential banks, notwithstanding the sparseness of the intelligence that is parcelled out to equity holders.

Agricultural Bank of China Ltd

Of the four dominant banks of the PRC, Agricultural Bank of China Ltd () focuses, specifically, on doing business in the rural areas of the country.

As such, one has to appreciate that the quality of many of the loans, afforded to borrowers in rural PRC, are unlikely to be of similar quality as one would expect of those comparable loans, afforded to entities in the major cities of the country.

Loan defaults, having originated in rural PRC, historically far outnumber loan defaults in urban PRC.

With regard to Non-Performing Loans, one notes that rural PRC borrowers tend to default more readily than Non-Performing Loans, afforded to borrowers in urban PRC.

On October 23, 2015, Agricultural Bank of China Ltd announced its Third Quarter Results.

This banking group is listed on The Shanghai Stock Exchange (Stock Code: 601288) and The Stock Exchange of Hongkong Ltd (Stock Code: 1288).

The Ministry of Finance of the Government of the PRC owns not less than 39.21 percent of this bank's Issued and Fully Paid-Up Share Capital.

In addition, Central Huijin Investment Ltd (), a PRC-based, investment company, wholly owned by the PRC Government, is the holder of 40.41 percent of the Issued Share Capital of this bank.

Thus, the PRC Government has a 79.62-percent, firm hold on this bank.

The Net Profit Attributable to Shareholders of Agricultural Bank of China in respect of the three months, ended September 30, 2015, came in at 153,210,000,000 renminbi, an increase of about 0.51 percent, compared with the Net Profit Attributable to Shareholders logged in as at September 30, 2014.

At Page Eight of this report, one reads:

'For the nine months ended 30 September 2015, the Group achieved an operating income of RMB410,144 million, representing an increase of 3.64% over the same period of 2014. Net interest income amounted to RMB328,740 million, representing an increase of 3.44% over the same period of 2014. Net fee and commission income amounted to RMB66,612 million, representing an increase of 1.05% over the same period of 2014, mainly due to the increases in agency commissions, bank card fees and electronic banking service fees.'

'Operating expenses amounted to RMB155,763 million, representing an increase of 1.50% over the same period of 2014. Cost-to-income ratio ... amounted to 30.40%, representing a decrease of 0.40 percentage point over the same period of 2014. Impairment losses on assets amounted to RMB57,365 million, representing an increase of RMB12,344 million over the same period of 2014. The impairment losses on loans amounted to RMB57,210 million.'

Then, at Page Nine, one learns:

'Assets quality

'At 30 September 2015, non-performing loans amounted to RMB179,158 million, representing an increase of RMB54,188 million compared to the end of 2014. Non-performing loan ratio was 2.02%, representing an increase of 0.48 percentage point compared to the end of 2014. Allowance to non-performing loans was 218.30%, representing a decrease of 68.23 percentage points compared to the end of 2014.'

'County Area Banking Business

'At 30 September 2015, total loans and advances to customers of County Area Banking Business amounted to RMB2,850,904 million, representing an increase of RMB199,258 million or 7.51% compared to the end of 2014. Deposits from customers of County Area Banking Business amounted to RMB5,762,251 million, representing an increase of RMB449,678 million or 8.46% compared to the end of 2014.'

'Non-performing loan ratio of County Area Banking Business amounted to 2.51%, representing an increase of 0.69 percentage point compared to the end of 2014. Allowance to non-performing loans was 217.00%, representing a decrease of 81.52 percentage points'

compared to the end of 2014.'

Clearly, borrowers of rural PRC are suffering financial problems, causing them to find it increasingly difficult to meet their financial obligations to their lenders; and, so, these problems are having a decided deleterious effect on this bank.

China Construction Bank Corporation

On October 29, 2015, China Construction Bank Corporation () released its Third Quarter Report for the period, ended September 30, 2015.

This bank is listed on The Shanghai Stock Exchange (Stock Code: 601939) and on The Stock Exchange of Hongkong Ltd (Stock Code: 939).

Central Huijin Investment Ltd owns, beneficially, 57.31 percent of the entire Issued and Fully Paid-Up Share Capital of China Construction Bank Corporation.

The Net Profit Attributable to Shareholders in respect of the Third Quarter came in at 191,557,000,000 renminbi, an increase of about 0.66 percent, compared with the similar period for the Financial Year, ended December 31, 2014.

At Page Five of this Report, one reads:

'Compared to the end of last year, the non-performing loans increased by RMB36,800 million to RMB149,971 million in accordance with the five-category loan classification standard. The non-performing loan ratio was 1.45%, up by 0.26 percentage points over the end of last year. The ratio of allowances to non-performing loans was 178.99%, down by 43.34 percentage points over the end of last year.'

'Total liabilities of the Group stood at RMB16,946,975 million, an increase of RMB1,454,730 million or 9.39% over the end of last year.'

Then, at Page Nine, one discovers that 'Impairment Losses' in respect of the nine months, ended September 30, 2015, stood at 64.12 billion renminbi, a 62.65-percent increase, compared with the nine months, ended September 30, 2014.

The bank said, in regard to the 2015 Impairment Losses:

'More allowance for impairment losses on loans were made considering the impact of the overall economic situation on credit assets quality.'

Industrial and Commercial Bank of China Ltd

Industrial and Commercial Bank of China Ltd () (ICBC) is listed on The Shanghai Stock Exchange (Stock Code: 601398) and The Stock Exchange of Hongkong Ltd (Stock Code: 1398).

The Ministry of Finance of the PRC Government owns, beneficially, 34.60 percent of this bank's Issued and Fully Paid-Up Share Capital and Central Huijin Investment Ltd owns exactly 35 percent of the entire Issued Share Capital.

Thus, the PRC Government, directly, owns 69.60 percent of the Issued Share Capital.

On October 30, 2015, the bank released its Results for the nine months to September 30, 2015.

For the first nine months of the bank's Financial Year, Management reported a Net Profit Attributable to Shareholders of 221,761,000,000 renminbi.

This Result was an increase, Year-On-Year, of about 0.59 percent.

With regard to ‘*Impairment Losses*’, for the nine months to September 30, 2015, they were in the books of the bank at 61,253,000,000 renminbi.

Those impairment losses represented an increase, Year-On-Year, of about 90.07 percent.

In respect of Non-Performing Loans, as at September 30, 2015, the amount of such loans, determined as being outstanding, as at September 30, 2015, was 171,408,000,000 renminbi.

Allowance for Non-Performing Loans stood at 157.63 percent, one is told at Page Eight of this Report.

Bank of China Ltd

On October 29, 2015, Bank of China Ltd () released its Third Quarter Results in respect of the nine months to September 30, 2015.

This bank is listed on The Shanghai Stock Exchange (Stock Code: 601988) and The Stock Exchange of Hongkong Ltd (Stock Code: 3988).

Central Huijin Investment Ltd is the beneficial owner of 64.63 percent of the Issued and Fully Paid-Up Share Capital of the bank.

For the first nine months of its Financial Year, the bank recorded a Net Profit Attributable to Shareholders of 131,545,000,000 renminbi, an increase of about 0.31 percent, compared with the Net Profit Attributable to Shareholders with regard to the 2014 Financial Year, ended September 30, 2014.

Earnings Per Share fell 4.21 percent to 0.43 renminbi with reference to the Earnings Per Share of 0.45 renminbi, diluted, logged in on September 30, 2014.

At Page 5 of this Report, under the heading of ‘*Summary Of Analysis On Overall Operating Activities*’, it is stated:

‘During the first three quarters of 2015, the Group achieved a profit for the period of RMB137.874 billion and a profit attributable to equity holders of the Bank of RMB131.545 billion, an increase of 0.79% and 0.31% respectively compared with the same period of 2014. Return on average total assets (ROA) was 1.15%, a decrease of 0.09 percentage point compared with the same period of 2014, and return on average equity (ROE) was 15.02%, a decrease of 3.01 percentage points compared with the same period of 2014.’

Then, under the heading of ‘*The principal components of the Group’s consolidated income statement for the nine-month period ended 30 September 2015 were as follows*’:

- ‘1. The Group’s net interest income amounted to RMB246.280 billion, representing an increase of RMB7.505 billion or 3.14% compared with the same period of 2014. The net interest margin was 2.14%, a decrease of 0.12 percentage point compared with the same period of 2014 ...*
- ‘4. The Group’s impairment losses on assets amounted to RMB44.893 billion, an increase of RMB5.815 billion or 14.88% compared with the same period of 2014. The Group reported non-performing loans totalling RMB129.072 billion, and the ratio of non-performing loans to total loans was 1.43%. The ratio of allowance for loan impairment losses to non-performing loans was 153.72%.’*

Turning to the Consolidated Income Statement, at Page 10 of this Report, one discovers that ‘*Impairment Losses on Assets*’ amounted to 44,893,000,000 renminbi, an increase of 14.88 percent, exactly, compared

with the like period in 2014.

It is appreciated that the above, four major PRC banks, have only given shareholders a tiny ‘*taste*’ of the situations at these huge banks.

But that which is given tends to paint a very clear scenario.

For the full picture, of course, one will have to wait for some time in the middle of next year.

It is almost a guarantee, as things stand, today, that the worst is yet to come.

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