

Bank of China fourth quarter profits up on lower provisions
Malaysian Insider
26 March, 2014

Bank of China (BoC) posted today an 11% increase in fourth-quarter net profits, beating estimates, as China's fourth-largest lender shrugged off concerns about rising bad loans and cut provisions.

A slowing economy and the debt overhang from the massive credit-fuelled stimulus that policymakers launched in response to the 2008 financial crisis are stoking concern about an increase in loan defaults in China.

In a sign of confidence in its asset book, BoC's bad loan provisions dropped 15.7% year-on-year in the fourth-quarter, compared to a 2.8% year-on-year increase in the previous quarter.

This decline helped boost net profits to 36.7 billion yuan (RM19.51 billion) in the same period from 33.1 billion yuan in the same 2012 period, according to Reuters calculations based on full-year profit. For 2013, BoC's net profit rose 12.5% to 156.9 billion yuan from 139.4 billion yuan a year earlier.

The lower provisions contrast with second-largest lender, the Agricultural Bank of China, which on Tuesday posted its slowest profit growth in 2013 since it became listed due to higher bad loan hedging.

"The bank set clear priorities in a bid to comprehensively tighten risk control, paying particular attention to key fields including overcapacity industries, local government financial vehicles and real estate," BoC president Chen Siqing in the earnings statement.

BoC's non-performing loan ratio was flat at 0.96% at end-December compared to end-September. The share of special mention loans, which measure loans not yet classified as non-performing but under pressure, fell by half a percentage point.

The bank's loan-loss coverage ratio - which measures the ratio of provisions to total loans - dipped to 2.21% at end-December from 2.23% at end-June.

That suggests the decision to reduce provisions caused it to sacrifice some degree of prudence in favour of reporting stronger headline growth.

BoC, however, appears well positioned to absorb losses if bad loans rise, as its tier-one capital ratio rose strongly to 9.7% from 9.52% at the end of the third quarter.

Cost control was another source of strength for the bank. Operating expenses rose by only 7.9% for the full year, down from a gain of 11.6% through the first six months.

Net interest income increased by 10.4% in 2013, while gains in net fees and commissions rose 17.4%.

The bank's net interest margin was 2.24% at the end of the fourth quarter, from 2.22% at the end of the previous quarter. Analysts say tighter credit conditions in the fourth quarter

supported bank margins by increasing their bargaining power to demand higher interest rates from borrowers.

BoC is the second of China's big four banks to report its earnings so far. Its Hong Kong shares closed 2.5% ahead of the results announcement. – Reuters, March 26, 2014

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