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ICBC, Construction Bank Post Largest Profits on Economic Rally
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By Bloomberg News

April 30 (Bloomberg) -- Industrial & Commercial Bank of China Ltd. and China Construction Bank Corp. posted the largest first-quarter profits among the world's banks, powered by the fastest economic growth in three years.

ICBC, the world's biggest lender by market value, said net income climbed 18 percent to 41.55 billion yuan (\$6.1 billion) in the three months ended March 31, while Construction Bank's profit increased 34 percent to 35.2 billion yuan, according to the Beijing-based companies' filings to the Hong Kong stock exchange yesterday.

ICBC and Construction Bank, emerging from the financial crisis to become the world's two most profitable lenders, boosted provisions for bad loans as the Chinese government tries to curb speculation in property. The banks' shares have fallen this year even as the economy grew, reflecting investor concern that their record lending in 2009 will lead to more bad loans.

"The earnings this year are strong, but a decrease in bad loans and bad-loan ratios won't continue like this after the fast credit expansion last year," said Leo Gao, who helps oversee about \$600 million at APS Asset Management Ltd. in Shanghai. "Looking into the long term, there will be some problems with the banks" as monetary policy tightens, he said.

ICBC shares have dropped 12 percent this year in Hong Kong, making it the worst performer in the Hang Seng Finance Index, which has retreated 8.6 percent since Dec. 31. Construction Bank has declined 7.7 percent in the same period.

Growth Quickens

China's four largest publicly traded banks need at least 480 billion yuan of additional capital to fund loan growth and comply with regulatory requirements for financial strength over the next five years, ICBC President Yang Kaisheng wrote in an article published in the 21st Century Business Herald in April.

ICBC, Bank of China Ltd. and Bank of Communications Co. have announced plans to raise 107 billion yuan by selling bonds and shares this year. Construction Bank said yesterday it plans to raise as much as 75 billion yuan in a rights offering in Shanghai and Hong Kong.

ICBC boosted the provision coverage ratio to 180 percent while Construction Bank increased the ratio to 192 percent, compared with the 150 percent required by the nation's banking regulator. The proportion of non-performing loans at both banks dropped to 1.35 percent.

The biggest challenge to "the industry right now is whether the government can manage asset bubbles without tightening too much and hurting the economy," said Li Ming, a portfolio manager at Dacheng Fund Management Co., which oversees about \$15 billion in Shenzhen. China's economic growth accelerated to 11.9 percent in the first quarter, the fastest pace in almost three years.

New Loans

The government this month told banks to stop loans for third-home purchases in cities with excessive price gains, and raised mortgage rates and down-payment ratios for second homes.

Deutsche Bank AG economist Jun Ma called the measures the "most draconian" in history and said they may trigger a 20 percent drop in home prices.

"I do see more downside for the Chinese banks," Andy Mantel, managing director of Pacific Sun Investment Ltd., said in a Bloomberg Television interview yesterday. "Loan books will be slowing down tremendously in the next two years."

ICBC advanced about 334 billion yuan of new loans in the first quarter, while Construction Bank offered 240 billion yuan of new credit in the period. Their capital adequacy ratio fell to 11.98 percent and 11.44 percent respectively as of March 31, still above the minimum requirement of 11.5 percent for large state-owned lenders.

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