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ICBC Fourth-Quarter Profit Advances 33% as Loan Margin Expands 2011-03-30 09:21:29.465 GMT

By Bloomberg News

March 30 (Bloomberg) -- Industrial & Commercial Bank of China Ltd., the world's largest lender by market value, posted a 33 percent gain in fourth-quarter profit as wider loan margins allowed Chinese banks to overcome a slowdown in credit growth.

Net income climbed to 37.9 billion yuan (\$5.8 billion) in the quarter ended Dec. 31, based on figures released by the Beijing-based bank today. That exceeded the 36.6 billion yuan average estimate of 19 analysts surveyed by Bloomberg.

ICBC, whose full-year profit of \$25.2 billion was more than a third bigger than that of JPMorgan Chase & Co., and rivals including Bank of China Ltd. benefited from widening margins on loans, which account for the bulk of their earnings. China's bank regulator said yesterday it will keep restraining lending this year, forcing lenders to slow expansion plans.

"Margin expansion will be more evident as an earnings driver this year," said Xie Aihong, a Beijing-based analyst at Rising Securities Co., before the earnings were announced. "But banking shares may still underperform because their operating conditions deteriorate as the government keeps tightening."

ICBC's net interest margin, a measure of the profitability of loans, widened to 2.44 percent last year from 2.26 percent in 2009.

Smaller rival Bank of Communications Co., the nation's fifth-largest, today posted a 34 percent increase in fourth-quarter profit to 9.5 billion yuan, exceeding the average analyst estimate by 12 percent. The lender's net interest margin expanded 16 basis points to 2.46 percent in 2010. A basis point is 0.01 percentage point.

Valuation

The country's five biggest lenders -- ICBC, China Construction Bank Corp., Bank of China, Agricultural Bank of China Ltd. and BoCom -- boosted combined profit 29 percent last year to a record 515.1 billion yuan, according to the China Banking Regulatory Commission.

Shares of ICBC have risen 10 percent in Hong Kong this year, after dropping 8.4 percent in 2010 on concern that the quality of loans to property projects and local governments will worsen. The stock trades at 9.6 times forecast 2011 earnings, near the cheapest level in two years, data compiled by Bloomberg show.

ICBC advanced 1.06 trillion yuan of new loans last year, taking the outstanding amount to 6.79 trillion yuan. The growth rate slowed from 25 percent in 2009. President Yang Kaisheng said this month that growth will continue to slow this year.

ICBC's net interest income rose 24 percent to 303.75 billion yuan last year. Net fee and commission income from products and services such as credit cards, wealth management and insurance sales jumped 32 percent to 72.8 billion yuan, the bank said.

Rate Increases

An unprecedented \$2.7 trillion of loans extended by domestic banks in the past two years has driven inflation to near a two-year high and fanned concerns that a property bubble will form and eventually deflate. China faces a 60 percent risk of a banking crisis should a property bubble burst, according to Fitch Ratings.

The People's Bank of China has raised interest rates three times since October and pushed up the ratio of deposits banks must set aside as reserves to 20 percent for the country's biggest lenders, the highest in at least two decades.

Along with interest rate increases, China in January raised the minimum down payment for second-home purchases, told local governments to set price targets on new properties, and introduced taxes for homes in the cities of Shanghai and Chongqing.

The country's real estate market has defied the curbs as home sale values rose 26 percent in the first two months this year, according to China's statistics bureau.

ICBC said it set aside 28 billion yuan against potential soured debts last year, up from 23 billion yuan a year earlier. The lender's bad loans stood at 73.24 billion yuan on Dec. 31, down 3 percent from three months earlier. ICBC said it plans to keep the non-performing ratio below 1.1 percent this year.

The bank plans to increase assets by 1.5 trillion yuan this year and total liabilities by 1.4 trillion yuan, according to today's statement.

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