

Bank of China (3988 HK)

FUNDAMENTAL VIEW ¹

As of 24 May 2024

- The Bank of China (BCHINA; ratings: A1(neg)/A(stb)/A(neg)) is one of the Big 4 banks in China. Its subsidiary, BOC Hong Kong, is one of the major banks in HK.
- BCHINA's systemic importance is enhanced by the leading role it plays in China's international trade and investment and strong government links.
- BCHINA's capital standing and reserve cover are a little weaker than ICBCAS and CCB, but the Big 4 banks have generally been managed more prudently compared to the smaller and more aggressive joint stock banks.

RISKS & CATALYSTS

As of 24 May 2024

- China's sovereign ratings (A1(neg)/A+(stb)/A+(neg)) are a key factor behind BCHINA's credit standing.
- BCHINA is managed on commercial terms, but fulfilling the government's socioeconomic objectives may at times override profitability considerations and require the bank to perform "national service". We would not regard such actions as credit-negative as they reflect close government links that also underpin the bank's credit standing.
- BCHINA's overseas footprint has to some extent offset the onshore NIM pressure and led to a stabler NIM compared to peers in FY23. However, its NIM will also be under pressure in FY24 as peak NIMs have largely been hit overseas.
- As a G-SIB, BCHINA has a substantial TLAC shortfall to meet by 1 January 2025 and 1 January 2028. It has announced plans to issue RMB 150 bn of TLAC notes.

CREDIT QUALITY SCORE (CQS)²

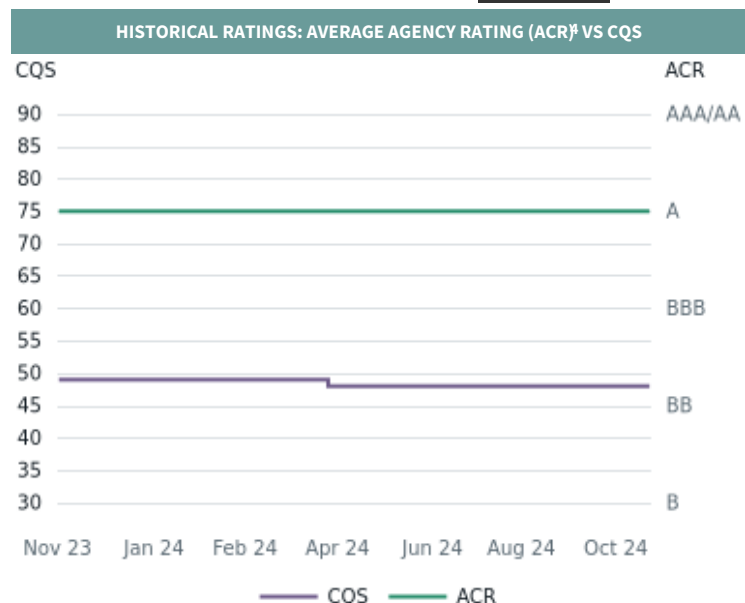
As of 16 Oct 2024

CURRENT CQS

48

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE



KEY METRICS

As of 24 May 2024

RMB BN	FY20	FY21	FY22	FY23	1Q24
PPP ROA	1.55%	1.48%	1.39%	1.31%	1.29%
Credit Costs	0.87%	0.70%	0.63%	0.57%	0.68%
Reported ROA	0.87%	0.89%	0.85%	0.80%	0.73%
Reported ROE	10.6%	11.3%	10.8%	10.1%	9.9%
Total Equity/Total Assets	8.4%	8.3%	8.4%	8.1%	7.9%
CET1 Ratio	11.3%	11.3%	11.8%	11.6%	12.0%
NPL Ratio	1.46%	1.33%	1.32%	1.27%	1.24%
Loan-Deposit Ratio	84%	87%	87%	87%	87%

Credit costs are calculated using provisions divided by average loans

BUSINESS DESCRIPTION

As of 24 May 2024

- While its origins date back to China's last imperial dynasty, BCHINA was formally established in 1912 and has played the role of China's international bank for more than a century. Its operations outside mainland China include its 66.06%-owned subsidiary Bank of China (HK).
- After 1949, BCHINA became a state entity but was focused on FX and financing of foreign trade. It was set on a path of commercialisation in 1994 but only became a corporate entity in 2003 prior to its listings in HK and Shanghai in 2006. BCHINA is controlled by the government via a 64.13% stake held by Central Huijin.
- BCHINA was effectively insolvent in the late 1990s and the removal of NPLs to an AMC in 1999 did not fully deal with its legacy bad loans. In 2003, the bank received another \$22.5 bn capital injection, paving the way for BOC's HK listing in 2006.
- BCHINA is a G-SIB with a capital surcharge of 1.5%. BOCHK is a D-SIB in HK and is the holding company for all of BCHINA's Southeast Asian operations excluding Singapore.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown as for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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