Asia-Pacific Banking Outlook 2019—Headwinds Are Picking Up

December 4, 2018

CONTACTS

Gavin Gunning
Melbourne
+61-3-9631-2092
gavin.gunning@spglobal.com

Ryoji Yoshizawa
Tokyo
+81-3-4550-8453
ryoji.yoshizawa@spglobal.com

Geeta Chugh
Mumbai
+91-22-3342-1910
geeta.chugh@spglobal.com

Harry Hu
Hong Kong
+852-2533-3571
harry.hu@spglobal.com

Vera Chaplin
Melbourne
+61-3-9631-2058
vera.chaplin@spglobal.com

RESEARCH CONTRIBUTOR

Priyal Shah, CFA
Mumbai
Asia-Pacific Banking:
2018 BICRA Timeline

2019 is shaping up as a more difficult year for the region's banks. The majority of our outlooks on Asia-Pacific banks are currently stable (see graphic on page 2), and our base case is that the banks will most likely weather the more difficult credit conditions at their current rating levels. We see little rating upside during 2019 but some notable downside risks that potentially could affect ratings. While we expect that most banks can contend with a moderate and gradual negative turn in the credit cycle at current rating levels, a significant and abrupt credit cycle downturn would likely result in negative ratings momentum for some Asia-Pacific banks.

For High Debt And High Asset Prices Set The Scene For A Cyclical Downturn

Many Asia-Pacific banking jurisdictions are at, or slightly past the peak, of what has been an extraordinarily long credit cycle. China has been on a very strong credit growth path since the Global Financial Crisis when it put together a Chinese renminbi (RMB) 4 trillion stimulation package to support its economy; and Australia has, rather astonishingly, not had an economic recession for 27 years. More generally, the effects of the global financial crisis beginning in 2008 were more muted in the Asia-Pacific region than in the U.S. or Western Europe.
A combination of high debt and high asset prices that has evolved over much of the Asia-Pacific region during a protracted period of low interest rates is a natural red flag for the future credit standing of Asia-Pacific banks. Strong growth in debt across the region has manifested in many forms. Household debt is high in some jurisdictions, including Australia, New Zealand, Korea, Malaysia, Singapore, and Thailand, while growth in corporate sector debt has been strong in China.

Property is a continuing key risk factor across numerous jurisdictions in Asia-Pacific - including China, Hong Kong, Australia and New Zealand – even if concerns have ameliorated, to some extent recently, in some markets.

A key factor that could undermine ratings is if there were a sharper or more significant or prolonged correction in asset prices than we currently envisage—in particular if accompanied by other negative developments such as a meaningful pullback in market liquidity.

**Heightened Market Risks**

Exacerbating risks leading into 2019 is that markets have become more volatile during the fourth quarter of 2018; and that we expect this trend will continue. The existing environment of depreciating domestic currencies—most notably affecting India and Indonesia in Asia-Pacific—and skittish bond markets, as well as expectations for higher interest rates and more difficult financing conditions in 2019, are likely to pose additional risks and further challenges for Asia-Pacific banks.

**Pre-Positioning Ahead of Potential Financial System Stress**

The Asia-Pacific region reflects a diverse range of banking risks across the 20 jurisdictions where we assess banks (see chart 1). Unless a significant and abrupt negative step change in credit should occur—which is plausible but currently outside our base case—we retain our view that most Asia-Pacific bank ratings are likely to remain stable during 2019. In part, this is due to our prepositioning of ratings that has already occurred for the negative turn in the credit cycle that we believe will ultimately be inevitable. Over the past two years, we have progressively made numerous negative adjustments to our banking industry country risk assessments and ratings in major markets, mainly reflecting our view that the relentless buildup of economic imbalances or impending future higher credit risks in the economy will eventually take their toll on bank credit quality. These negative adjustments include those in New Zealand (August 2016), India (November 2016), Australia (May 2017), and China (September 2017).
Meanwhile, we retain our negative view of industry risk in the highly competitive and low profitability Japanese banking sector; and harbor lingering concerns regarding the potential for very high house prices in Hong Kong to hurt banking sector credit quality notwithstanding that these risks have eased, to some extent, in recent months.

**Asia-Pacific Banks In Reasonable Shape, By International Standards**

Heading into stronger headwinds, asset quality in the Asia-Pacific region compares more favorably than other regions on some metrics and as indicated by the ratio of nonperforming assets (NPA) to gross loans for banks in the global top 200 (see chart 2). Differences across regions primarily reflect variability in the stage of the credit cycle—Western European NPA metrics experiencing a long, slow recovery from the aftermath of the global financial crisis that began in 2008 and that crystallized in peak NPAs in 2013. Also noted is that slower charge-off practices in some Western European markets lead to an optically higher structural NPA ratio, even in good economic times. We believe that Asia-Pacific NPA metrics have some prospects for deterioration from their current strong levels as the credit cycle turns.
Profitability for Asia-Pacific banks in the global top 200 is slightly better than global averages (see chart 3).

**Chart 2
Nonperforming Assets For Asia-Pacific Banks In Global Top 200: Compares Favorably**

Source: S&P Global Ratings. The graph shows the average ratio of nonperforming assets to gross loans by region for banks within the Global Top 200 that have a Stand Alone Credit Profile assessment in the 'a' category.

**Chart 3
Return On Assets For Asia-Pacific Banks In Global Top 200: Slightly Better Than Peer Averages**

Source: S&P Global Ratings. The graph shows the average core earnings to average adjusted assets by region for banks within the Global Top 200 that have a Stand Alone Credit Profile assessment in the 'a' category.
Asia-Pacific Banking Outlook 2019 — Headwinds Are Picking Up

Cold Wind Blowing – Downside Risks Not To Be Underestimated

While our base case is for relative ratings stability in 2019, downside risks cannot be discounted or underestimated. A number of worrisome regional risks are at the centerpiece of our forward view and any meaningful escalation concerning these risks will likely contribute to negative ratings momentum for banks.

In addition to banks having to contend with heightened market risks leading into 2019 - including more volatile commodity, currency, equity and property prices - we are concerned with worsening corporate refinancing risks and the spillover effect on banks from the U.S.-China strategic confrontation. Risks associated with China’s leverage, as well as technology disruption and cyber security, remain elevated but are relatively unchanged over recent months leading into 2019.

Asset Quality Should Remain Broadly Intact In Most Jurisdictions Throughout 2019

Our base case for 2019 is that nonperforming asset (NPA) ratios should remain relatively stable, by international standards, in particular across many of the developed markets in Asia-Pacific, including Singapore, Hong Kong, Japan, South Korea, Australia, New Zealand and Taiwan (see chart 4).

In some other jurisdictions, NPAs will remain much higher—notably India (see chart 5). Meanwhile, the asset quality outlook for 2019 for most countries in Southeast Asia is relatively stable.

While most Asia-Pacific banks can withstand some diminution in asset quality ratios during 2019 with no negative adjustment to ratings, a negative step change in credit because of an escalation on downside risks will contribute to negative rating changes.

Chart 4
Domestic Non Performing Assets (% of Domestic Loans): Developed Countries

Asset quality in India compares much less favorably than regional averages, and we see no meaningful change in this regard as likely during 2019. In India, we believe that banking reforms initiated by the government will eventually strengthen the banks but there will be significant challenges for banks along this pathway. We note that higher resolution of NPLs is expected in 2019 under the new Indian bankruptcy law, and while we expect the banking sector’s performance to gradually recover from about 2020 this could be delayed if currency depreciation or finance company liquidity issues impact the banking sector.

In China, we expect asset quality to slightly worsen over the next two years due to tighter lending conditions under financial and corporate sector deleveraging policies, corporates refinancing at higher interest rates, and more stringent rules on nonperforming loan recognition. Our outlook for problem loans in China takes into account special mention loans as well as nonperforming loans (see chart 6).
Asia-Pacific Banking Outlook 2019 — Headwinds Are Picking Up

RAC Ratios For The World’s Top 100 Rated Banks
Trend By Country Or Region

Relatively Stable Outlook For Capital and Earnings

Our earnings and capital outlook for banks in many Asia-Pacific jurisdictions remains broadly supportive of ratings at current levels. Generally mirroring our expectations for global banking trends ex-Asia Pacific, we expect risk-adjusted capital ratios of systemically important Asia-Pacific Banks to remain relatively stable in 2019 (see table 2, Issuer Credit Ratings And Component Scores; and chart 7, first published in our commentary “Top 100 Banks: Banks Are On Track To Withstand A Credit Cycle Turn,” Oct. 2, 2018). We currently expect rigidity in our assessments of most banks’ capital and earnings prospects during 2019, underpinned mainly by banks’ reasonably sound internal capital generation prospects.

Government Support Likely To Continue

We retain our view that systemically important private-sector banks should continue to benefit from government support in most jurisdictions during 2019. We note that government support remains high in Asia-Pacific compared with banks in other regions in particular North America and Western Europe (see chart 8). We fully anticipate, however, that rating adjustments for Asia-Pacific banks will occur—as has already occurred in Western Europe and the U.S.—should banks transition to alternate resolution and crisis management frameworks that offer less support than government support.

Chart 8
Government Support Is High In Asia-Pacific Compared With Other Regions

Source: S&P Global Ratings; Data as of November 22, 2018
Key takeaways

− A weakening in government support remains a possibility, but we see a recent regulatory proposal on increasing banks’ loss-absorbing capacity as an indication that support is likely to remain high.
− Economic imbalances remain elevated. However, low credit growth and small falls in house prices in the past year suggest that risks related to a sharp correction in property prices are potentially receding.
− Earnings growth likely to be subdued due to pressures on interest margins and lending growth, and possible costs emerging from the Royal Commission.

Key risks

Disorderly correction in property prices. Australian banks remain vulnerable to a large and rapid fall in property prices, in the context of high private-sector debt and tightening U.S. interest rates. A sharp correction, if accompanied by broader macroeconomic weakening, would very likely hurt the banks.

Potential for weakening in government supportiveness. Our outlooks on the major banks and Macquarie Bank remain negative reflecting potential for weakening in government supportiveness toward systemically important banks in the country. At the same time, based on a recent regulatory proposal to strengthen the banks’ loss absorbing capacity, we consider that pressures on supportiveness are receding.

Key assumptions

Property price correction will remain orderly. We see low credit growth and small falls in house prices in Melbourne and Sydney in the past year, combined with low loan arrears and credit losses, as an indication that an orderly unwinding of imbalances is in progress. Based on our forecast for continued good economic growth, immigration-driven population growth, low unemployment, and low interest rates, we consider that a disorderly fall in property prices remains unlikely.

Earnings growth likely to remain subdued. We expect the banks’ interest margins are likely to come under pressure due to an uptick in dollar funding costs, given the major banks are materially dependent on offshore borrowing. Earnings growth will remain under pressure also due to costs emerging from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, relatively subdued credit growth, and likely restraint by banks in pricing up mortgages despite an increase in funding costs.

What to look for over the next year

Regulatory changes to increase banks’ loss-absorbing capacity. The bank regulator is likely to finalize the standards for increasing banks’ loss absorbing capacity in 2019. If the regulatory proposal is implemented as presented and there are no additional significant developments indicative of a weakening government tendency to support banks, we are likely to revise our outlooks on the four major Australian banks and Macquarie Bank to stable from currently negative.

Final Royal Commission Report due by February 2019. Recommendations by the Royal Commission, and the response by the authorities and the financial institutions have the potential to significantly alter the banks’ business models. Further legal and compliance burdens could emerge but the governance, accountability, and culture should also strengthen as a result.

Household, business, and investor confidence in the face of falling property prices. Despite ongoing falls in property prices in Sydney and Melbourne, our forecast for GDP growth and unemployment remains benign. We will look for any signals indicating a trend toward significant weakening in household, business, and investor confidence, which—amid a property price correction—could be a precursor to economic and financial system distress.
Bangladesh

Asset Quality And Capital Issues Weigh On Banking Sector

Key takeaways

- Healthy economic prospects provide relatively efficient banks with growth opportunity.
- Banks operating in Bangladesh continue to face substantial credit risks, with weak foreclosure laws and underwriting standards and client concentration leading to sizable stressed assets in the banking industry.
- Profitability to remain modest due to weak earnings at state-owned banks, high industry fragmentation, and net interest margin pressures due to rise in cost of funding.

Key risks

Asset quality challenges. The country's banking industry faces structural asset quality challenges due to relaxed lending standards and weak foreclosure laws. The forbearance to allow rescheduling of loans also weakens credit discipline. The industry has a high level of stressed assets (nonperforming and restructured loans ratio of 19% for 2017). Nonperforming loans have continued to increase in the first half of 2018.

Weak industry profitability and capitalization in some instances. Bangladesh's banking sector has a fragmented industry structure with more than 50 banks; and the industry continues to see new entrants. This fragmentation lowers economic efficiencies and leads to modest profitability for the industry (return on assets 0.7% in calendar 2017). While the country is implementing Basel III norms, in recent years, some banks in Bangladesh struggle to meet the minimum thresholds of capital.

Key assumptions

Macroeconomic conditions remain steady for now. Bangladesh's consistent economic growth trajectory and strong donor support will continue to raise average income and broadly sustain the country's external profile over the next 12 months.

Weak asset quality to persist. We expect that some banks in Bangladesh will continue to face asset quality challenges, with sizable reported nonperforming loans, in addition to a high level of restructured loans.

What to look for over the next year

Credit growth. Credit growth is likely to slow in the next 12 months from a 19% peak in late 2017; it has fallen to 14%-15% in recent months. The central bank is trying to reduce credit growth by asking banks to bring their advance-to-deposit ratios to 83.5% by March 2019. There has also been some moral suasion for banks to lower lending rates. However, borrowers are likely to adopt a wait-and-watch approach before the impending national elections.

Financial sector reforms. The banking industry needs substantial reforms to restore its health. These include better risk management and governance at banks, improved regulatory oversight and foreclosure laws, addressing weakness in state-owned banks, a mechanism to reduce the number of weak banks in the system, and developing the country's bond markets (currently hindered by large-scale issuance of small savings instruments like national savings certificates). However, the execution of these reforms will likely be gradual, as will be the benefits.
Asia-Pacific Banking Outlook 2019 — Headwinds Are Picking Up

Brunei
Operating Environment Likely To Fluctuate With Energy Prices

Key takeaways
- Brunei’s fiscal and economic performance to fluctuate as oil prices recover.
- We anticipate a pickup in credit growth, though lending opportunities remain limited in Brunei.
- Bank profitability to remain steady with lending rate caps on several categories being lifted, and higher global interest rates.

Key risks
Highly concentrated loan books. Brunei does not have a large, diversified privately owned corporate sector and hence banks have single-name concentrations. The banks have sizable exposure to risky sectors like personal loans, commercial property, and construction. Retail borrowers in Brunei can have high leverage in some instances.

High vulnerability to energy prices. Borrowers’ high reliance on government and the oil and gas sector via employment or business contracts amplifies the Brunei banking sector’s susceptibility to a deterioration in energy prices.

Key assumptions
Macroeconomic conditions remain steady. Brunei’s oil and gas industry accounts for more than half of the country’s GDP and more than two-thirds of government revenues. We expect the end of maintenance works at oil and gas fields to ease pressure on Brunei’s fiscal and economic performance. Policymakers have made progress in improving business conditions to attract foreign direct investment, and support small and midsize enterprises to broaden the economy.

Government remains supportive and funding robust. We expect that there will remain a high likelihood that the government would provide timely and sufficient extraordinary support to major local banks if needed. Brunei banks enjoy robust liquidity given the country’s government and related enterprises have strong surpluses, while lending opportunities are limited.

What to look for over the next year
Steady credit growth We expect loan books will expand by mid-single digits in 2019. The bulk of the growth is likely to come from wholesale customers as the government looks to diversify the economy and support local firms through contracts from government-linked companies and foreign direct investment projects. Retail activity is likely to remain constrained by total debt service ratio (TDSR) regulations implemented in 2015. For banks in Brunei, TDSRs should not exceed 60% of net monthly income for customers that have incomes between Brunei dollar (BN$) 1,750-BN$10,000, though this can be relaxed up to 70% for borrowers to accommodate home purchases.

Profitability to be stable. Bank profitability is likely to be steady over the next 12-18 months. We anticipate margins will improve slightly because lending rates on various lending products have been deregulated and global interest rates are inching up. That said, runaway increases are unlikely given limited lending opportunities in the country. We expect range-bound credit costs as economic activity is picking up following the increase in oil prices.

Financial Sector Reforms. We expect banks to start using a recently launched credit scoring system via the credit bureau to enhance underwriting standards. Some progress is being made toward creating bond markets and a stock exchange to create alternative funding routes.
Cambodia
High Growth Likely To Ease Over Time

Key takeaways

- Banks exposed to correction in real estate and construction sectors.
- Trigger of a correction would likely come from change in foreign investor sentiment, particularly from China.
- Regulatory measures expected to improve financial resilience.

Key risks

A sharp correction in construction and property segments. A sharp correction in property prices could put considerable pressure on the financial sector given increasing exposure to real estate related activities. An increasing supply of condominiums, retail, and office space will be a headwind to price appreciation. We believe a correction would be triggered by reduced foreign investment, particularly from China, similar to what occurred in 2008 with Korean investors.

Continued growth in the number of financial institutions. An ongoing increase in the number of financial institutions is a risk given we believe the market is already overserved. The capital brought by these institutions stimulates credit growth, which is already very high, and could further pressure system margins and underwriting standards. High credit growth could also stretch system liquidity, particularly amongst microfinance institutions, which are heavily reliant on foreign wholesale funding.

Key assumptions

Macroeconomic conditions remain steady. We expect GDP growth to remain steady and accompanied by modest inflation over the short term, while real GDP tempers over the medium term. Cambodia could benefit from a relocation of Chinese manufacturing in response to the ongoing U.S.-China trade spat. However, there are uncertainties about whether the U.S. and EU will reduce preferential trade access with Cambodia due to concerns about its recent general election. We expect credit growth to remain strong despite a marginal dip experienced in the first half of 2018 due to election uncertainties.

What to look for over the next year

Improving regulatory regime. Several macroprudential norms including capital conservation buffers, liquidity management frameworks, and improvements in banks’ loan classification and revisions to provisioning rules are important updates being implemented to strengthen the country’s regulatory framework.

Uptick in nonperforming loans ratio. We expect nonperforming loan (NPL) ratios to increase due to changes to the regulatory classification of loans. Strong credit growth and fierce competition in the market will likely keep NPL ratios low given the ability of customers to refinance and the denominator effect of high credit growth.

Local currency deposit campaigns ramping up. To promote the use of the local currency, the central bank has made it mandatory for banks and financial institutions to have at least 10% of their loans in local currency by the end of 2019. The lack of demand for riel-based loans is the main impediment to the system achieving this target on time, leading institutions to discount rates of interest. In our view, banks with a large branch network in rural areas have a significant advantage in achieving this target given greater customer appetite to use local currency for transactions.
China
Risk Of Full-Blown Trade War Weighs On China Banking Outlook

Key takeaways
- U.S.-China trade spat threatens corporate health and asset quality.
- Accommodative monetary policy to support loan growth amid rising economic uncertainty.
- Banks set to upgrade, innovate, and adjust to constantly evolving digital landscape.

Key risks
Full-blown trade dispute with U.S. and potential spillover. The ongoing trade dispute with the U.S. has the potential to spill over into finance, investment, and business confidence. If the dispute drags on, it would pose a significant risk to corporate financial health and add pressure to the banking system’s asset quality and profitability. In our view, the Chinese commercial banking system’s ratio of problem loans (nonperforming loans and special mentioned loans) are likely to increase. The nonperforming loan ratio (3Q2018:1.87%) and the special mentioned loan ratio (3Q2018:3.25%) as well as overdue loans ratio are likely to rise as the trade dispute drags on. Banks would need to write off or dispose of problem loans actively to keep them at a manageable level.

High private sector indebtedness. China’s high private sector indebtedness and elevated property prices pose risks, particularly in the event of an economic downturn. The housing price rises have moderated in major cities as well as lower tier cities. The weaker economic fundamentals and reduction in cash compensation to residents in shantytown redevelopment in lower tier cities made the pressure on new home price more noticeable. Rising household income and urbanization temper the risks of a sharp decline in property prices. Also, relatively low borrowing costs ease the debt-servicing capacity of borrowers.

Key assumptions
Macroeconomic conditions remain stable. We expect China’s real GDP growth rate to be around 6.3% in 2019 and inflation to remain low around 2.0%-2.5% in the next two years. An upward trend in credit growth is likely remain in line with nominal GDP growth despite deceleration in the past year. We expect asset quality to slightly worsen over the next two years due to tighter lending conditions under financial and corporate sector deleveraging policies, corporates refinancing at higher interest rates, and more stringent rules on nonperforming loan recognition.

What to look for over the next year
Banks set to upgrade, innovate, and adjust to constantly evolving digital landscape. S&P Global Ratings believes most banks will adjust to digital disruption by upgrading and innovating. However, fintech will also leave behind less willing or less resourced banks. Smaller banks may cede underwriting control on consumer loans to their fintech partners. However, what remains to be seen is how the consumer-credit cycle affects loans based on these new tools.

Flat growth in wealth management products. We expect flat growth in wealth management products (WMPs) this year as banks transition their portfolios ahead of new asset management rules to be implemented in 2020. The new rules are expected to eliminate implicit support for WMPs, though at this stage we still see some challenges around investor expectations and general market acceptance. Nonetheless, we view the concerted regulatory effort as credit positive.

Accommodative monetary policy stance to support banks. In our view, monetary policy will remain accommodative to support loan growth in targeted economic segments amid rising economic uncertainty, and to offset stress from financial deleveraging. While deleveraging is causing funding and capital stress for smaller banks, the country’s larger banks are well positioned to supply credit to key sectors.
Asia-Pacific Banking Outlook 2019 — Headwinds Are Picking Up

Hong Kong
Moderating Property Prices To Temper Economic Risk

Key takeaways
- Moderating property prices and slowing private sector leverage are likely to temper rising economic imbalances in Hong Kong.
- Banks will likely manage risks associated with economic uncertainties around U.S.-China trade tensions and rising interest rates.
- We expect broadly stable financial performance backed by increased net interest margins and moderating loan growth.

Key risks
U.S.-China trade conflict. We believe further escalation in the U.S.-China trade spat could extend beyond the currently seen second order impact on Hong Kong banks. With most banks having limited direct exposure to the U.S.-China trade corridor, the impact so far has remained limited to a slowdown in revenues mainly emanating from trade finance activities.

Volatile property prices. A sharp real-estate price correction coupled with rising interest rates and unemployment rates, could lead to a rapid accumulation of credit costs. That said, we anticipate that property prices will decline modestly by 5%-10% in 2019. A shortage of housing supply relative to demand and room for the government to introduce relaxation measures should prevent a steep drop in property prices.

Key assumptions
Mild pressure on macroeconomic conditions. We expect Hong Kong’s GDP to come under moderate downward pressure (estimated 3.3% in 2019 vs 3.8% in 2018) and unemployment to remain broadly stable. We expect growth in private sector credit in Hong Kong to moderate over the next one to two years and be closer to the long-term average of about 5%.

Net interest margins. We expect Hong Kong to tighten its monetary stance in lockstep with the U.S. Fed rate in 2019. This could translate into a meaningful improvement of 10bps-15bps in Hong Kong bank’s average net interest margins, providing banks more cushion to absorb credit losses.

What to look for over the next year
Government’s willingness to support banks following LAC rules implementation. Once loss absorbing capacity rules are implemented on Dec. 14, 2018, we expect to view Hong Kong banks as operating under an effective resolution framework and having additional loss-absorbing capacity. We could see a range of timelines for Hong Kong banks to meet these requirements based on their systemic importance and coordination with parent bank regulators. At the same time, we will also review the government’s willingness to support systemically important private sector banks, although we do not expect any diminishing of this willingness.

Smart banking push. We expect to see some increased activity in the Fintech space as Hong Kong banks continue to invest to cater to an increasingly tech savvy customer base. Key initiatives have included the rollout of faster retail payment services, open Application Programming Interfaces, and setting up of trade finance platforms. With the virtual banking licenses, we could see smaller entrants in the market. We anticipate these developments could increase competition and at the same time provide opportunities for smaller banks to rationalize branches and focus more on a virtual presence in efforts to improve efficiencies.

Country:
Hong Kong

<table>
<thead>
<tr>
<th>Comparator</th>
<th>2017A</th>
<th>2018E</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Growth</td>
<td>16.08%</td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>NPL Ratio</td>
<td>0.70%</td>
<td>0.70%</td>
<td>0.70%</td>
</tr>
<tr>
<td>RoAA</td>
<td>0.83%</td>
<td>1.05%</td>
<td>1.10%</td>
</tr>
</tbody>
</table>
India
Capital Demand From Public Banks Remains As NPL Cycle Nears End

Key takeaways
- The elevated NPL formation cycle in India is nearing an end, although reducing NPL stock hinges on the insolvency resolution process
- Public sector banks heavily reliant on government infusions to provide for bad loans
- Oil prices, domestic financial conditions, and the election calendar will be key in 2019

Key risks

**Weak asset quality and strained capital buffers.** We believe the NPL recognition process is at its tail end. However, weak operating income at several public sector banks will make them reliant on government capital infusions for the next 12-15 months. Timely and sufficient infusions are critical for these banks to tide over the provisioning hump.

**Market volatility.** Currency depreciation in the wake of the U.S. rate tightening cycle and steep rise in oil prices a few months back lifted domestic funding costs. Also, tight liquidity conditions following the default of IL&FS created short-term liability refinancing stress for nonbank finance companies.

Oil prices have declined sharply recently, benchmark government security yields have retreated, and the central bank has conducted open market operations; hence, liquidity stress is easing gradually. However, we are cautious on market volatility developments that could have broader economic effects on financial conditions and Indian borrowers resulting in second-order impacts on bank asset quality. In addition, the country faces elections in some states followed by general elections in the first half of 2019.

As such, we see the direct impact of rupee depreciation on Indian banks as limited, given their foreign currency assets and liabilities positions are largely matched and their reliance on external funding is limited.

Key assumptions

**Stable macroeconomic conditions.** We expect healthy GDP growth of over 7% in fiscal 2019 and inflation to remain below 5%.

**Government remains supportive.** We expect the government of India to remain supportive of public sector banks, as reflected in its ongoing recapitalization plan.

What to look for over the next year

**Resolution of bad loans.** Around a quarter of industry NPLs (in Reserve Bank of India’s list 1 and 2) are undergoing resolution under bankruptcy proceedings. A sizable amount of these are scheduled to be resolved in fiscal 2020.

**Profitability improves.** We expect profitability of the sector to remain muted, albeit better than the current fiscal year. This is likely to be led by large corporate-focused banks with strong liability franchises and stronger preprovision operating profits. The net profits of these banks are likely to increase on the back of an improvement in net interest margins and reduced credit costs. Several public sector banks are still likely to struggle, though.

**Reforms and mergers.** In our view, the public sector banking universe is ripe for consolidation, improvements in risk management and governance, and upgrades to human resourcing skills and incentive structures.
Indonesia
Strong Earnings And Good Capital Buffers Amid Skittish External Factors

Key takeaways
- Indonesia’s status as a commodity exporter and capital importer makes it vulnerable to external shocks.
- Fallout from currency volatility could have second-order impact on banks.
- We believe Indonesia’s banks, particularly the large and state-owned commercial banks, have good capital buffers and are well positioned to manage these pressures.

Key risks

Heightened currency volatility. Indonesia is vulnerable to currency devaluation given its status as a commodity exporter and capital importer. Indonesia’s banks do not have material net open foreign exchange positions, and are unlikely to be directly affected by currency fluctuation. They could, however, experience second-order impact via their loans to exposed corporates. We note that rupiah devaluation was more severe during the 2013 “Taper Tantrum,” and Indonesia banks emerged relatively unscathed at that time. That said, if devaluations deepen and rate hikes continue, this might stress their financial profiles.

Risks to economic growth. The immediate risk to Indonesia’s growth path comes from potential sharp reversals of capital flows. Besides foreign funds financing the modest current account deficit, many Indonesian corporates anecdotally have sizeable unhedged foreign currency exposures as well, making their profits and capital expenditure plans vulnerable to sharp rupiah depreciation.

Key assumptions

Steady economic growth. We expect Indonesia’s economic growth to be moderately strong with GDP growth of 5.2% in 2018 and 5.5% in 2019. The recovery in commodity prices and improving infrastructure is expected to help deliver stronger economic growth. In the near term, credit growth is likely to remain moderate at around 8%-10%. However, weaker-than-expected economic growth could cause a deterioration in asset quality, particularly against a backdrop of monetary policy tightening globally.

What to look for over the next year

Election spending and household consumption to propel growth. We continue to expect GDP growth to be slightly above 5% in 2018, with a gradual uptrend toward 5.5% over the next two years or so as private consumption and investment adjust further to the push for greater tax compliance. However, high base effects in infrastructure spending as well as likely increases in administered prices after next year’s elections will hamper growth.

Profitability to be driven by credit cost control. Indonesian banks have comparatively high credit costs compared with regional peers. We expect to see continuing moderation in credit costs for 2018 and 2019, with forecast credit costs averaging 150 basis points (bps) to 200 bps (as a percentage of loans) for rated banks, compared with a peak of 225 bps in 2016. Credit costs peaked in 2016 and have been falling since 2017 as commodity prices recover. However, the new IFRS 9 accounting standards could derail the downtrend in provisioning costs upon their implementation in 2020.
Japan
Banks Look Overseas In Hunt For Higher Yields

Key takeaways

− Declining loss absorption capacity poses risks particularly if accompanied with an economic slowdown.
− Tougher road ahead for regional banks as operating conditions remain bleak.
− Japanese banks playing catch-up with FinTech.

Key risks

Declining loss absorption capacity. Low interest rates over the last few years have led to a continuous contraction in net interest margins. We believe a persistence in declining profitability will pose a risk to the stability of Japan’s banking system. To counter headwinds in the domestic market, and while regulators guide banks to restrain their risk appetites, banks are increasingly interested in riskier overseas markets and resorting to exposures with risk profiles more aggressive than their traditional areas of business. This is likely to push up credit costs and limit the loss-absorbing capacities of the banks if accompanied by an economic slowdown.

Funding profile. While core deposits form a significant portion of Japanese banks’ funding profile, we are cautious toward banks’ weaker foreign currency funding profiles amid a backdrop of increasing overseas exposure in its lending portfolio. Tightening monetary policy stances in major advanced economies and increasing foreign currency funding costs could also further exacerbate pressure on overseas lending portfolio income.

Key assumptions

Macroeconomic conditions remain stable. We expect Japan’s economic growth to remain broadly stable in 2019. We expect real GDP growth of 1.2% in 2019, inflation to remain weak, albeit picking up, and unemployment to remain low at 2.7%. We expect credit losses to remain stable, supported by restrained risk appetite and the current business environment.

What to look for over the next year

Tougher road ahead for regional banks. We do not see strong signs of recovery in the regional banking sector, which accounts for about 40% of the domestic market. The negative interest rate environment and delayed restructuring by regional banks are likely to keep profitability flat, and increasing risk appetite for investment on securities will erode their risk-return profiles, in our opinion.

Overseas ventures to support core profitability. We expect Japanese major banks to continue to offset shrinking net interest income with low credit costs and business diversification. Increasing bottom line contribution from overseas portfolio especially from the emerging Asian markets could also increase associated risks and erode capital.

Japanese banks playing catchup with FinTech players. Japanese banks’ slow-mover attitude toward innovation and adoption of Fintech is likely to crimp growth prospects, especially in overseas markets where competitive dynamics are constantly evolving. That said, megabanks have begun to pick up pace and are continuously collaborating with other tech-industry entities to gain presence in this new field.
## Korea

### Key takeaways
- Gradual improvement in net interest margins will provide more cushion for Korean banks.
- Heavy household debt could pose significant risk to Korea’s banking system.
- A resolution regime that includes a bail-in of senior creditors may result in downgrades.

### Key risks
**High household leverage.** Korea’s exports could weaken if the ongoing U.S.-China trade spat escalates and causes a significant dip in global demand. Weaker exports could pressure growth in domestic demand and lead to smaller gains in household income. If coupled with a spike in interest rates, such weak economic conditions could push up credit costs for the banking system, noting Korea’s high household indebtedness. That said, regulators have taken various steps to rein in household debt, including DSR requirements this October. Previous efforts to reduce risks include a structural shift toward more amortizing and fixed-rate loans in the residential mortgage market.

**New resolution regime development.** The transition to new crisis management and resolution frameworks could negatively affect Korean bank ratings in 2019. Under the current framework, Korean regulators could put insolvent banks through a resolution process, and the bail-in of senior creditors is not an option. A resolution regime that includes the bail-in of senior creditors could prompt us to review the Korean government’s willingness to support the banking sector, leading to negative rating actions on systemically important banks.

### Key assumptions
**Macroeconomic conditions remain under modest pressure.** We expect the Korean economy will hold up relatively well, with modest growth prospects despite some global economic uncertainties including the U.S.-China trade conflict and tightening monetary policy in the U.S. We estimate Korean GDP growth of 2.6% in 2019 compared with 2.7% in 2018 and unemployment to remain stable at 3.8% in 2019.

**NIMs to gradually improve.** We anticipate Korean banks’ net interest margins will continue to rise, securing more cushion to absorb losses, amid rising interest rates. This is despite intensifying competition in the domestic deposit market, including internet banks. The Bank of Korea has been tightening its monetary policy since November 2017 when it raised the policy rate 25 basis points.

### What to look for over the next year
**Sustainability of profitability.** We expect Korean banks’ profitability to be broadly stable or slightly improve in 2019 on the back of a modest uptick in net interest margins offset by mild upward pressure on credit costs. Asset quality may face some challenges from auto, shipbuilding and shipping industries, as these industries continue to face stiff competition. Weaker domestic housing demand could put some negative pressure on construction and property developers including real-estate project financing loans.

**Overseas business expansion.** Saturated domestic market conditions will likely continue to lead banks to pursue overseas expansion, particularly in Southeast Asia, where Korean exporters have production bases. Given the challenging outlook in the region, we expect the pace of expansion is likely to be gradual and not lead to excessive pressure on capitalization.

**More internet banks to come.** More internet banks will likely come into play in coming years supported by easing regulatory hurdles; this could intensify competition. But we do not expect any material impact to the overall banking system given its relatively small size and short track-record in managing credit risks.

### Country: Korea

<table>
<thead>
<tr>
<th>Loan Growth</th>
<th>2018E</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.52%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NPL Ratio</th>
<th>2018E</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.30%</td>
<td>1.30%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RoAA</th>
<th>2017A</th>
<th>2018E</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.51%</td>
<td>0.55%</td>
<td>0.58%</td>
</tr>
</tbody>
</table>

---

spglobal.com/ratingsdirect

December 4, 2018
Malaysia
Bank Fundamentals Are Healthy Despite Lackluster Operating Conditions

Key takeaways

– Cost discipline and non-interest income diversification remain critical amid difficult lending environment.
– Sector-wide credit growth is expected to stay muted with low single digit growth of 3%-5% in the next 12 months.
– Export-oriented economy susceptible to escalation in U.S.-China trade spat.

Key risks

**High private sector indebtedness.** While we expect overall credit risk to remain manageable, given Malaysia’s high private-sector credit levels relative to income, risks could rise in the event of an economic downturn. That said, the relative financial strength of the Malaysian household and corporate sector and healthy debt servicing ratios temper this risk.

**Export-oriented economy susceptible to escalation in U.S.-China trade spat.** Intensifying U.S.-China trade spat, against a backdrop of Malaysia’s open economy status with one of the highest proportion of exports to GDP globally, poses risks. Although this is not our base case, a deceleration in export trade volumes may lead to a downtrend in public investment and consumption. Policy uncertainties under the new government only add to business reluctance to increase capex investment.

Key assumptions

**Macroeconomic conditions remain steady.** We expect GDP growth to be around 5.0% for the next 12 months and inflation to recover slightly but in general to remain low. In our forecast, Bank Negara Malaysia is likely to hike its overnight policy rate at least once (25 bps) in 2019. Key downside risks to our base-case credit loss estimates are a sharp increase in interest and unemployment rates. This could increase the risk of a significant rise in banks’ credit losses and an abrupt deleveraging of the household sector, especially if it coincides with an economic slowdown.

What to look for over the next year

**Modest credit growth prospects.** The relatively high indebtedness of Malaysia’s corporate and household sectors, together with policy uncertainties under the new government, such as the cancellation or deferral of several large infrastructure projects, will continue to weigh on the market’s credit appetite and banking sector’s loan growth in 2019, in our view. As such, we expect low single digit growth of 3%-5% for the next 12 months.

**Competitive pressures to underwhelm bottomline growth.** Competitive pressure is likely to remain in the home market, as reflected in decreasing margins and earnings metrics in the recent past. We expect deposit rate competition to weigh on the potential upside to net interest margins arising from increasing policy rates. While the implementation of MFRS 9 brings more volatility to credit costs, it is our base case that overall credit costs will weaken marginally in 2019. We expect Malaysian banks to continue focusing on risk management and cost discipline over the next two years to counter challenging operating conditions.

**Asset quality to deteriorate marginally albeit from a low base.** The asset quality of Malaysian banks could deteriorate modestly due to slower economic growth amid domestic policy uncertainty and external trade risk. The impact, however, would be manageable, given that nonperforming loans are well provided for and are increasing from a low base.
Mongolia
Economic Recovery Buoys Bank Lending

Key takeaways

- Banks rush to lend to counter the impact of low asset yields amid a powerful economic recovery.
- The narrowing differential between interest rates in the U.S. and Mongolia, owing to divergent monetary policies, could exacerbate currency volatility.
- Loan loss provisioning requirements set to remain elevated as cracks in loan books come to the fore.

Key risks

Currency volatility. Capital outflows from emerging markets have led to choppy currency movements, and the narrowing differential between interest rates in the U.S. and Mongolia, owing to their divergent monetary policies, could exacerbate this volatility. Significant volatility would raise the risk of a second-order impact on banks arising from the added pressure of a decline in repayment capacity for corporates. This vulnerability is further entrenched by the Mongolian banking system’s considerable exposure to foreign currency loans.

Vulnerable to commodity cycles. The Mongolian economy’s considerable dependence on commodities poses risks especially during times of heightened volatility in global markets and a possible slump in prices.

Key assumptions

Macroeconomic conditions remain stable. We expect Mongolia’s economy to gather pace in 2019 and real GDP growth rate to average 5.6% annually through 2021 on the continued expansion of production from large resource projects, robust growth in investment and consumption, and favorable commodity prices. We expect credit losses to increase only moderately. However, there is a risk of rising inflation and its subsequent effect on the banking system.

What to look for over the next year

Upswing in loan growth. We expect loose monetary policy and the economic recovery to fuel credit growth, particularly in the consumer lending segment, in 2019. Improving private consumption and a pickup in coal exports will bode well for bank lending appetite. We expect mega government projects, which are still in development phases, to further bolster growth prospects. That said, we are cautious toward the risks associated with these projects.

Credit costs to rise. We expect the pace of bad loan formation may increase marginally in the next year on the back of faster loan growth and greater recognition from asset quality reviews. Nonetheless, increasing economic activity and recovering commodity prices temper this risk.

Central bank to institute reforms. As a part of demonstrating its commitment to the IMF’s Extended Fund Facility, the central bank, in collaboration with various other agencies, has undertaken asset quality reviews, developed a recapitalization plan for Mongolian banks, NPL management, and resolution strategies. Should these plans gain ground, bank profiles may strengthen.
New Zealand
Easing Housing-Related Imbalances, But Vulnerable To External Shocks

Key takeaways
- Housing related imbalances remain elevated, but risks are moderating.
- Spillover effects from Royal Commission inquiry on Australian banks on their New Zealand subsidiaries.
- Dairy sector indebtedness levels and asset quality pressures moderating.

Key risks

High household debt and elevated asset prices. High property prices coupled with high household debt are key risk factors, especially amidst rising interest rates. Although the property price cool-off in the last year-and-a-half is encouraging, the risk of a sharp correction remains elevated owing to the historical buildup and is likely to have negative second order impacts on banks.

High vulnerability to external shocks. Risks around New Zealand bank funding profiles’ significant dependence on offshore short-term borrowing stand amplified against a backdrop of tightening monetary policy across major global economies and continuing depreciation of the New Zealand dollar.

Key assumptions

New Zealand bank subsidiaries to remain core to its Australian parent. We envisage no change in the major four New Zealand bank subsidiaries’ strategic importance to the group strategy of their Australian parent as well as ownership structure by the parent.

No change in Total Loss Absorption Capital framework. While New Zealand was one of the pioneers in implementing a resolution framework, systemically important New Zealand banks have not been required to build substantial buffers of junior liabilities that would be used to recapitalize a bank in the unlikely event it were to fail. We expect no change in policy stance in the short to medium term and in consequence, the extant resolution framework does not result in additional loss-absorbing capacity (ALAC) uplift for New Zealand banks.

What to look for over the next year

Easing lending restrictions. We expect the Reserve Bank of New Zealand (RBNZ) to continue to take small steps toward easing lending restriction on the back of a sustained decline in housing market risks over the next year (macroprudential restrictions were introduced in 2013 on the back of inflating asset prices). In November 2018, RBNZ again slightly relaxed loan-to-value (LVR) guidelines. In the year ahead, we foresee that government policy initiatives may also contribute to the continued slowdown. That said, we expect banks to tread with caution.

Spillover effects of ongoing Royal Commission inquiry into Australian parent banks. The New Zealand counterparts of the Australian major banks are unlikely to come out unscathed in the event of any material findings from the ongoing Royal Commission, the final report of which is due in March 2019. We expect legal and compliance burdens emanating from the ongoing Royal Commission inquiry on the Australian banking industry to heighten and subsequently act as catalyst for strengthening various facets of governance, accountability, and culture, which may also impact the New Zealand counterparts of the Australian majors.

Dairy farms asset quality shaping up. Agriculture sector asset quality concerns are abating as dairy prices show signs of stabilizing and farmers shift focus toward balance sheet repair.

Tightening capital adequacy regulatory framework. In early 2017, the RBNZ initiated a review of capital requirements and progressed it during the course of the year. We expect the regulations concerning the calculation of qualifying capital and risk-weighted assets to tighten.
Papua New Guinea
Roadblocks On The Path To Economic Growth

Key takeaways
- Increasing fiscal deficits amidst weak economic growth.
- Weakness in commodity prices may crimp recovery prospects.
- Increasing nonperforming loans.

Key risks

Ballooning government debt and fiscal deficit. Headwinds from lower-than-expected tax collection and natural disasters have hit government revenue in recent years and led to a rise in fiscal deficit. While a ramp-up in LNG production may provide some respite, any further bout of weak global energy prices, if accompanied by modest near-term growth prospects, would slow improvement in Papua New Guinea’s (PNG) external position.

Subdued Credit growth. Reduced government spending and an ongoing foreign exchange crunch are likely to crimp domestic credit growth.

High sensitivity to external influences. PNG’s considerably high reliance on commodity exports and external capital flows is a risk, especially in the context of the escalating U.S.-China trade spat.

Key assumptions

No further deterioration in the sovereign credit profile. Our issuer rating on PNG-based Bank of South-Pacific is constrained by the sovereign rating on PNG because of its high concentration in its domestic home market and its high exposure of government and central bank debt. Our sovereign outlook on PNG is stable.

What to look for over the next year

Decision-making on foreign-financed projects. Impending decisions on foreign-financed projects, including ExxonMobil and additional LNG projects, are expected to conclude in the next year. These will be key enablers in the domestic economy’s growth trajectory.

A downbeat corporate outlook. Reduced government spending and weakness in commodity prices contribute to a bleaker corporate outlook. This will result in credit pressures remaining elevated for corporates and increasing for some small and midsize enterprises and personal customers. Against this challenging economic backdrop, we expect domestic nonperforming loans to increase in the next two years.

Potential regulatory reforms. We expect some headway in reforms to make prudential oversight more uniform with global standards in the medium term, although we see complete adoption as unlikely. The development of supervisory practices is likely to be an immediate priority for the prudential regulator.
Philippines
Stable Credit Fundamentals Amid Favorable Macroeconomic Sentiment

Key takeaways
- A government infrastructure push could have a multiplier effect on the economy.
- Inflation risks to rise amid a weaker peso and import-driven infrastructure push.
- Tax reform package ambiguity to weigh on growth in foreign direct investment.

Key risks

Currency volatility. While the banking industry’s foreign currency exposure is low (direct lending as well as external debt of corporates), a sustained depreciation in the peso could contribute to increasing inflation and consequently temper real economic growth. Peso devaluation was mainly triggered by a ramp-up of imports from the government’s ambitious infrastructure plans before the currency sell down in emerging markets.

Increasing interest rates to counter inflationary pressure. Inflationary pressures have prompted the government to hike rates by 175 basis points in 2018 to date. Sharp spikes in interest rates would increase debt-servicing burdens, and could lead to higher nonperforming loans particularly for highly indebted borrowers. That said, both household and corporate leverage are at modest levels, and interest rates are rising from a historically low base.

Uncertainty of FDI inflows. Ambiguity of tax reform package may weaken inflows of foreign direct investment into the country and more so during times of skittish investor behavior observed recently toward emerging markets. Investors have moved to a wait-and-see mode in anticipation of clarity of formal policies. The Tax Reform for Attracting Better and High-quality Opportunities (TRABAHO) bill proposes to cut the corporate income tax rate gradually to 20% until 2029 via a two-percentage-point reduction every year starting 2021.

Key assumptions

Macroeconomic conditions remain favorable. We expect robust economic growth to remain supportive of the domestic credit environment. However, persistent increases in interest rates may begin to affect credit growth as well as the debt repayment capacity of borrowers, particularly those belonging to smaller, low-income groups.

What to look for over the next year

Momentum in credit growth likely to temper. We expect corporate and household loan demand of around 14%-15% in 2019, tempered slightly by a 175 basis-point increase in policy rates in 2018 to date. However, the current administration’s "Build, Build, Build" scheme may provide further boost to infrastructure spending in the country and aid credit growth via the multiplier effect until the end of the president’s term in 2022.

Asset quality risks to be manageable. Currency volatility could increase corporate credit risks for the banking system especially for sectors like construction and transportation with dollar inputs and local currency revenues. We expect the impact of currency volatility, higher inflation, and slower credit growth to be manageable for the banking system given banks’ good capital buffers and coverage ratios.

Country:
Philippines

Loan Growth
18.32% 15.00% 15.00%

NPL Ratio
3.50% 3.50% 3.50%

RoAA
1.17% 1.18% 1.20%
Singapore
Banks Remain Resilient Amidst Ongoing Trade Tensions

**Key takeaways**
- Sound fundamentals supported by recovering commodity prices, and Singapore’s robust economic cycle.
- Uncertainty from ongoing trade spat to weigh on Singapore’s export-dependent economy.
- Increased investment to enhance FinTech proficiencies driving operating efficiencies.

**Key risks**

**Deterioration in global trade conditions.** Intensifying protectionist rhetoric globally poses risks for Singapore, given its open economy with one of the highest proportion of exports to GDP globally. While U.S. trade tariffs are unlikely to have a direct impact on Singapore’s exports, they would have feed-through effects through the global supply chain. Singapore banks also have material exposure toward the Greater China region.

**Elevated property prices.** Property prices remain high with property-related borrowing constituting a significant proportion of household debt. Repayment risk for banks could increase, particularly related to borrowers in lower-income segments, if interest rates rise significantly. The government has effectively utilized property-cooling measures to rein in property prices. We believe credit risks remain controlled under our base case assumption of gradual interest rate hikes and full employment conditions.

**Key assumptions**

**Global macroeconomic conditions remain steady.** While our outlook for macroeconomic conditions is relatively stable, given Singapore’s high export-dependence and financial center role, we see risks with regard to weaker-than-expected growth in its key trading partner economies as well as Singapore banks’ increasing exposure to vulnerable regional and emerging markets.

**Government remains supportive.** Singapore’s resolution scheme for financial institutions reflects a circumspect approach to bail-ins. However, implementation of a resolution framework if it allows the bail-in of senior debt or a total loss-absorbing capacity framework could trigger downward pressure on our ratings for Singapore banks.

**What to look for over the next year**

**Property-cooling measures may temper credit growth.** With the central bank’s toughening measures to cool the property market, subsequent deceleration in new loan origination from retail property purchasers as well as developers is likely to impact credit growth in the longer term.

**Consistent earnings delivery.** Increasing interest margins, robust growth in wealth management products, and stable asset quality will be key levers driving Singapore banks’ profitability in 2019.

**FinTech frontrunners.** We expect Singapore banks to continually increase investment in financial technologies and collaborate with other market players to enhance their digital capabilities in their core domestic and regional markets. Banks have made considerable headway in the past few quarters with the introduction of a ‘robo-investing’ platform, artificial intelligence units, a drive toward cashless transactions, and launching a digital bank to touch-base with a growing tech-savvy customer base. Innovation, particularly in the transaction and payment space, is likely to gain traction 2019.
Sri Lanka
Fractious Political Backdrop And Slower Economic Growth Cloud Bank Credit Profiles

Key Takeaways

- We expect the operating environment for financial institutions in Sri Lanka to remain challenging in 2019.
- Stress in the sovereign’s external position and slower-than-expected economic growth is likely to hurt asset quality and profitability.
- Cracks in funding profile likely to come to the fore if political turmoil escalates or prolongs.

Key risks

**Challenging Operating environment.** Slower-than-expected GDP growth amid a period of sustained, excessive loan growth has led to a challenging operating environment and heightened credit risk in the banking system. Recent weakened external position of the sovereign adds to our concerns.

**Currency depreciation.** The banking sector’s direct exposure to exchange rate risks should be limited because of a moderate aggregate net open position. However, the exposure of banks to indirect foreign exchange risk through lending in foreign currencies to their customers could be a potential source of foreign exchange risk, especially given the sharp depreciation witnessed by emerging market currencies, including that of Sri Lanka.

**Increasing nonbank linkages.** Interconnectedness of the nonbanking sector, which is battling with capital-deficiency and weak performance, is a potential source of vulnerability for the banking system in the country.

Key Assumptions

**No further escalation in the political situation.** If the political turmoil escalates or prolongs, uncertainty could spread to the banking sector and cause funding stress/liquidity outflows.

What to look for over the next year

**Asset quality woes to persist.** Slower-than-expected GDP growth, a depreciating rupee, and rising interest rates have partly contributed to the steep rise in nonperforming loans ratio. Against a backdrop of heightening economic risks, we expect NPLs to rise further to 4.5%-5% in the next 12-18 months, higher than our previous expectations.

**Reform agenda losing steam.** An increase in political uncertainty in the recent past has overshadowed the course of the reform agenda under the IMF program for the country. In our view, a fractious policymaking environment may persist for some time, which could slow the legislative process for reform measures further.

**Funding pressures intensifying.** Refinancing external debt against the backdrop of weakening sovereign credit profile could exacerbate funding pressures for the banks. We expect that spikes in external financing costs for the sovereign could lead to an increase in credit spreads for the banks in the country. That said, banks’ steady core customer deposits, although inadequate, may temper these risks.
Taiwan
Bank Profitability Moderate Amid Modest Economic Growth Prospects

Key takeaways
- Taiwan’s export-oriented economy vulnerable to escalation in U.S.-China trade tensions.
- Overseas expansion attributable to ‘New Southbound’ policy to spur top line, despite overall low-single-digit growth.
- Low interest rate environment and intense competition weigh on bottom line growth.

Key risks
Deterioration in global trade conditions. Intensifying protectionist rhetoric globally poses risks for Taiwan, given its high reliance on exports. While we believe U.S. trade tariffs are unlikely to have a direct impact on exports, they could have feed-through effects via Taiwanese corporates’ exposures toward the Greater China region. A higher-than-expected and prolonged deceleration in the Chinese economy could potentially crimp Taiwan’s growth trajectory.

Strained relations with China. Geopolitical uncertainties have risen modestly in the past year as the relationship between Taiwan and China continues to cool.

Key assumptions
Macroeconomic conditions remain steady. We expect macroeconomic conditions in Taiwan to remain relatively stable supported by steady growth in GDP at around 2.5% in 2019. Credit losses may increase marginally due to global and regional (including China) economic volatility given the export-oriented nature of the country’s economy. Local property prices are likely to remain largely unchanged with a low risk of a sharp correction over the next year, given relatively low interest rates and benign economic environment in Taiwan.

What to look for over the next year
ASEAN markets to spur topline. We expect the Taiwan government’s ‘New Southbound’ policy to bode well for the bank’s topline and could result in overseas loan growth, particularly in the ASEAN region, outpacing growth in the domestic market in 2019. As a result, we expect overall loan growth to be moderate at about 3.5%-4% in 2019. China exposure is unlikely to increase significantly amid continued overhang of trade tensions in the Chinese economy. Nonetheless, we expect potential risks associated with rising overseas exposure to be manageable supported by prudent expansion strategies and adequate risk controls.

Growth in bottom line to remain challenged. We expect potential policy rate hikes in 2019 to fuel a modest upside in net interest margins but overall profitability to remain constrained on the back of intense market competition and a fragmented local market. The sector’s profitability will remain moderate with a return on average assets at about 0.6%. We expect the consolidation process to be slow moving despite regulatory incentives proposed recently.

FinTech initiatives gathering pace. While digitization efforts by Taiwan banks have lagged peers in Asia-Pacific in the past few years, we believe encouragement from regulators in the recent past as well as a ramp-up in investment size in the FinTech space is likely to bring new competitive dynamics to the banking system over the longer run. That said, the expansion is unlikely to have a material impact on the stronghold of brick-and-mortar banks in the next two years.
Thailand
Thai Banks Gear Up For A Changing Operating Landscape

Key Takeaways

− The Bank of Thailand is expected to kick off policy rate hikes in 2019.
− Infrastructure spending rate hinges upon the outcome of general elections slated for 2019.

Key risks

Elevated private sector indebtedness amid backdrop of increasing policy rates. Thailand’s high household leverage and SME sector exposures pose risks particularly in the context of a potential increase in interest rates coupled with the country’s low income levels. Healthy economic performance has not filtered down to certain SME segments, particularly those not plugged into the export value chain; some SMEs are not internally competitive. We expect reduction in household debt to be short-lived.

Export-oriented economy susceptible to escalation in trade tensions. Downside risk for Thailand’s tourism and export-oriented economy could heighten in the face of the escalating U.S.-China trade spat. Capital outflows from emerging markets and resultant currency volatility have exacerbated these risks.

Key Assumptions

Economic recovery stays on track. We expect the economy to perform well in 2019, with Thailand’s real GDP growing at 3.8%-4.1%, although the recovery is not likely to be broad based. The overall level of imbalances and economic risks will remain broadly in line with those in the past two years. This, in our view, should lead to gradual improvement in the banking system’s asset quality.

What to look for over the next year

Policy rate hikes to kick off. Against the backdrop of monetary policy tightening in major advanced economies, we expect the Bank of Thailand (BOT) to reverse its prolonged period of accommodative policy. This should bode well for Thai banks’ interest margins in 2019 particularly for the larger players. Our base case is one of gradual and manageable rate hikes.

Housing segment to lose steam. While household and private sector loan growth may remain lackluster, infrastructure spending may set the pace for loan growth. The outcome of the general election, slated for early 2019, will be a key determinant of the quantum of government spending on public projects. In response to weakening lending standards and uptick in housing nonperforming loans, BOT announced wide-ranging measures to tighten lending for residential property and dissuade speculative buying for new mortgages.

Digitalization gaining ground. We expect Thai banks to continually progress investments in financial technologies and collaborate to enhance digital competence in their core domestic markets despite industry-wide digital fee waivers dampening noninterest income growth. Banks have made considerable headway in the past few quarters with the testing of blockchain technology, reducing branch networks, and increasing cashless payment platforms. The central bank, in collaboration with eight domestic banks, is expected to test a prototype of a digital currency created for interbank transfers in the first quarter of next year.

Delay in implementing TFRS9. Thai banks will have ample headroom to evenly shore up loan loss reserves and Tier 1 capital resulting from the implementation of TFRS 9 slated for Jan. 1, 2020. Thai banks have sizable stage 2 loans in the form of restructured loans and special mentioned loans. That said, Thai banks maintain good NPL provision coverage (of 120%-140%).
Asia-Pacific Banking Outlook 2019 — Headwinds Are Picking Up

Vietnam
Upbeat Earnings Prospects But Divergent Capital Trends

Key Takeaways

- Strong economy to help banks post credit growth in the mid to high teens and reduce legacy bad loans.
- Profitability likely to improve marginally on the back of better net interest margins, noninterest income, and stable credit costs.
- Banks need to replenish capital given brisk loan growth and potential Basel II implementation.

Key Risks

**Thinning capital buffers.** Given that loan growth is brisk and profitability modest in an international context, capitalization levels continue to deteriorate in Vietnam for several major banks.

**Tighter liquidity and potentially higher interest rates.** Increasing loan-to-deposit ratios at banks could lead to somewhat higher lending rates in a deviation from the trend of the past few years.

**Elevated private sector debt.** While asset quality should remain benign, banks need to watch out for seasoning of loan books given loan growth in the high teens in the past three to four years and Vietnam’s high private sector debt, particularly in the context of the country’s low income levels.

Key Assumptions

**Favorable growth prospects.** Vietnam’s growth prospects remain steady, supported by good performance in the sizable foreign-owned and export-focused manufacturing sector. At this juncture, we see challenges to world trade growth pose some risks to Vietnam’s exports, but this will be less significant than the impact on other ASEAN economies given Vietnam’s relatively weaker integration into China’s supply chains.

What to look for over the next year

**Capital raising activities.** Banks in Vietnam need to build capital buffers given their brisk loan growth, modest profitability, and sizable dividend payouts in some instances. The regulator is also aiming to implement Basel II standards in Vietnam fully by 2020, hence the banks will need to provide capital for operational and market risk. Some private sector banks have taken advantage of the current benign operating conditions to raise capital and buttress their balance sheets; however, several majority state owned banks have weak capitalization. Of interest will be capital raising plans in 2019, which banks will mainly target toward foreign strategic and financial investors.

**Healthy profitability trend.** We expect banks’ net interest margins to improve on the back of somewhat higher rates, an increase of retail loans in the credit mix, and increasing loan-to-deposit ratios. Noninterest income is likely to grow robustly due to healthy export-led trade finance and foreign-exchange income, third party-product distribution fees, and card fees. Credit costs should remain range bound.

**Credit growth trend.** Indebtedness in Vietnam is increasing. Nominal GDP has expanded at 9% on average over the past five years versus credit growth of 16%. Vietnam’s debt to GDP levels are higher than peers’ with similar wealth levels. The central bank is trying to reduce credit flows to sectors like property, securities, and consumption loans.

---

[Table and diagrams related to loan growth, NPL ratio, and RoAA are included here.]

---

spglobal.com/ratingsdirect

December 4, 2018 29
### BICRA Summary Table

<table>
<thead>
<tr>
<th>Country</th>
<th>BICRA Group</th>
<th>Economic risk trend</th>
<th>Industry risk trend</th>
<th>Economic Resilience</th>
<th>Economic Imbalances</th>
<th>Credit risk in the economy</th>
<th>Institutional framework</th>
<th>Competitive dynamics</th>
<th>Systemwide funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>3</td>
<td>Positive</td>
<td>Stable</td>
<td>VL</td>
<td>VH</td>
<td>L</td>
<td>L</td>
<td>L</td>
<td>I</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>8</td>
<td>Stable</td>
<td>Stable</td>
<td>VH</td>
<td>L</td>
<td>EH</td>
<td>EH</td>
<td>VH</td>
<td>I</td>
</tr>
<tr>
<td>Brunei</td>
<td>6</td>
<td>Stable</td>
<td>Stable</td>
<td>I</td>
<td>L</td>
<td>H</td>
<td>EH</td>
<td>I</td>
<td>L</td>
</tr>
<tr>
<td>Cambodia</td>
<td>9</td>
<td>Negative</td>
<td>Stable</td>
<td>EH</td>
<td>I</td>
<td>EH</td>
<td>EH</td>
<td>H</td>
<td>VH</td>
</tr>
<tr>
<td>China</td>
<td>6</td>
<td>Stable</td>
<td>Stable</td>
<td>I</td>
<td>H</td>
<td>VH</td>
<td>H</td>
<td>H</td>
<td>VL</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2</td>
<td>Stable</td>
<td>Negative</td>
<td>L</td>
<td>V</td>
<td>L</td>
<td>I</td>
<td>I</td>
<td>VL</td>
</tr>
<tr>
<td>India</td>
<td>5</td>
<td>Stable</td>
<td>Stable</td>
<td>H</td>
<td>L</td>
<td>VH</td>
<td>H</td>
<td>H</td>
<td>L</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7</td>
<td>Stable</td>
<td>Stable</td>
<td>VH</td>
<td>L</td>
<td>V</td>
<td>VH</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>Stable</td>
<td>Negative</td>
<td>L</td>
<td>V</td>
<td>L</td>
<td>I</td>
<td>I</td>
<td>VL</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
<td>Stable</td>
<td>Stable</td>
<td>L</td>
<td>VL</td>
<td>L</td>
<td>H</td>
<td>I</td>
<td>L</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
<td>Stable</td>
<td>Stable</td>
<td>H</td>
<td>L</td>
<td>H</td>
<td>I</td>
<td>I</td>
<td>L</td>
</tr>
<tr>
<td>Mongolia</td>
<td>9</td>
<td>Stable</td>
<td>Positive</td>
<td>H</td>
<td>VH</td>
<td>EH</td>
<td>EH</td>
<td>H</td>
<td>VH</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4</td>
<td>Positive</td>
<td>Stable</td>
<td>VL</td>
<td>VH</td>
<td>L</td>
<td>I</td>
<td>I</td>
<td>L</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>9</td>
<td>Negative</td>
<td>Stable</td>
<td>EH</td>
<td>H</td>
<td>VH</td>
<td>VH</td>
<td>H</td>
<td>VH</td>
</tr>
<tr>
<td>Philippines</td>
<td>6</td>
<td>Stable</td>
<td>Stable</td>
<td>VH</td>
<td>L</td>
<td>H</td>
<td>VH</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>Stable</td>
<td>Stable</td>
<td>VL</td>
<td>I</td>
<td>I</td>
<td>VH</td>
<td>VL</td>
<td>L</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>8</td>
<td>Stable</td>
<td>Stable</td>
<td>VH</td>
<td>H</td>
<td>VH</td>
<td>VH</td>
<td>H</td>
<td>VH</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4</td>
<td>Stable</td>
<td>Stable</td>
<td>I</td>
<td>L</td>
<td>I</td>
<td>VH</td>
<td>VL</td>
<td>L</td>
</tr>
<tr>
<td>Thailand</td>
<td>6</td>
<td>Stable</td>
<td>Stable</td>
<td>H</td>
<td>I</td>
<td>VH</td>
<td>I</td>
<td>I</td>
<td>H</td>
</tr>
<tr>
<td>Vietnam</td>
<td>9</td>
<td>Stable</td>
<td>Stable</td>
<td>VH</td>
<td>H</td>
<td>EH</td>
<td>EH</td>
<td>VH</td>
<td>I</td>
</tr>
</tbody>
</table>

**Source:** S&P Global Ratings; Data as of November 22, 2018.

Copyright © 2018 by Standard & Poor’s Financial Services LLC. All rights reserved.
### Issuer Credit Ratings And Component Scores For The Top 60 Asia-Pacific Banks

<table>
<thead>
<tr>
<th>Institution</th>
<th>Opco L-T ICR/outlook</th>
<th>Anchor</th>
<th>Business position</th>
<th>Capital and earnings</th>
<th>Risk position</th>
<th>Funding and liquidity</th>
<th>UGCP or SACP</th>
<th>Type of Support</th>
<th>No. of notches of support</th>
<th>Additional factor adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia and New Zealand Banking Group Ltd.</td>
<td>AA-/Negative</td>
<td>bbb-</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Commonwealth Bank of Australia</td>
<td>AA-/Negative</td>
<td>bbb-</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Macquarie Bank Ltd.</td>
<td>A/Negative</td>
<td>bbb+</td>
<td>Adequate</td>
<td>Strong</td>
<td>Moderate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>National Australia Bank Ltd.</td>
<td>AA-/Negative</td>
<td>bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Westpac Banking Corp.</td>
<td>AA-/Negative</td>
<td>bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural Bank of China Ltd.</td>
<td>A/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>bbb</td>
<td>GRE</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Bank of China Ltd.</td>
<td>A/Stable</td>
<td>bbb-</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>bbb+</td>
<td>GRE</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Bank of Communications Co. Ltd.</td>
<td>A-/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Adquate</td>
<td>bbb-</td>
<td>GRE</td>
<td>3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>China CITIC Bank Co. Ltd.</td>
<td>BBB+/Stable</td>
<td>bbb+</td>
<td>Adequate</td>
<td>Weak</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bb</td>
<td>Group</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>China Construction Bank Corp.</td>
<td>A/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>bbb</td>
<td>GRE</td>
<td>3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>China Merchants Bank Co. Ltd.</td>
<td>BBB+/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Moderate</td>
<td>Strong</td>
<td>Above Avg/Adquate</td>
<td>bbb</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>China Minsheng Banking Corp. Ltd.</td>
<td>BBB-/Stable</td>
<td>bbb+</td>
<td>Adequate</td>
<td>Weak</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Industrial and Commercial Bank of China Ltd.</td>
<td>A/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>bbb</td>
<td>GRE</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Postal Savings Bank Of China Co. Ltd.</td>
<td>A/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Moderate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>bbb</td>
<td>GRE</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Shanghai Pudong Development Bank Co. Ltd.</td>
<td>BBB/Stable</td>
<td>bbb+</td>
<td>Adequate</td>
<td>Weak</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bb</td>
<td>GRE</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Shanghai Rural Commercial Bank Co. Ltd.</td>
<td>BBB/Stable</td>
<td>bbb+</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Adequate</td>
<td>Avg/Strong</td>
<td>bbb+</td>
<td>GRE</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of China (Hong Kong) Ltd.</td>
<td>A+/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a+</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>-1</td>
</tr>
<tr>
<td>Standard Chartered Bank (Hong Kong) Ltd.</td>
<td>A+/Stable</td>
<td>a-</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>The Bank of East Asia Limited</td>
<td>A-/Stable</td>
<td>bbb+</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>The Hongkong and Shanghai Banking Corp. Ltd.</td>
<td>AA-/Stable</td>
<td>bbb+</td>
<td>Strong</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a+</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Axis Bank Ltd.</td>
<td>BBB-/Stable</td>
<td>bbb-</td>
<td>Strong</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Avg/Adequate</td>
<td>bbb-</td>
<td>None</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bank of India</td>
<td>BB+/Stable</td>
<td>bbb-</td>
<td>Strong</td>
<td>Moderate</td>
<td>Weak</td>
<td>Avg/Strong</td>
<td>bb</td>
<td>GRE</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>HDFC Bank Ltd.</td>
<td>BBB-/Stable</td>
<td>bbb-</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>bbb+</td>
<td>None</td>
<td>0</td>
<td>-2</td>
<td></td>
</tr>
<tr>
<td>ICICI Bank Ltd.</td>
<td>BBB-/Stable</td>
<td>bbb-</td>
<td>Strong</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Avg/Adequate</td>
<td>bbb-</td>
<td>None</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>BBB-/Stable</td>
<td>bbb-</td>
<td>Strong</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Above Avg/Strong</td>
<td>bbb-</td>
<td>None</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PTBank Mandiri (Persero)</td>
<td>BB+/Stable</td>
<td>bb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Above Avg/Strong</td>
<td>bb+</td>
<td>None</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PT Bank Rakyat Indonesia (Persero) Tbk.</td>
<td>BB+/Positive</td>
<td>bb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Above Avg/Strong</td>
<td>bb+</td>
<td>None</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
## Issuer Credit Ratings And Component Scores For The Top 60 Asia-Pacific Banks (Continued)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Opco L-T ICR/outlook</th>
<th>Anchor</th>
<th>Business position</th>
<th>Capital and earnings</th>
<th>Risk position</th>
<th>Funding and liquidity</th>
<th>UGCP or SACP</th>
<th>Type of Support</th>
<th>No. of notches of support</th>
<th>Additional factor adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chiba Bank Ltd.</td>
<td>A/Stable a-</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Strong</td>
<td>Avg/Strong</td>
<td>a</td>
<td>None</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial Group Inc.§</td>
<td>A/Positive bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Mizuho Financial Group Inc.§</td>
<td>A/Stable bbb+</td>
<td>Strong</td>
<td>Moderate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Nomura Holdings Inc.§</td>
<td>A/Negative a-</td>
<td>Moderate</td>
<td>Strong</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Norinchukin Bank</td>
<td>A/Stable bbb+</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Resona Bank Ltd.</td>
<td>A/Stable a-</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Shinrin Central Bank</td>
<td>A/Stable a-</td>
<td>Adequate</td>
<td>Strong</td>
<td>Adequate</td>
<td>Avg/Strong</td>
<td>a</td>
<td>None</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Shizuoka Bank Ltd.</td>
<td>A/Stable a-</td>
<td>Adequate</td>
<td>Strong</td>
<td>Adequate</td>
<td>Avg/Strong</td>
<td>a</td>
<td>None</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sumitomo Mitsui Financial Group Inc.§</td>
<td>A/Positive bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sumitomo Mitsui Trust Holdings§</td>
<td>A/Stable bbb+</td>
<td>Strong</td>
<td>Moderate</td>
<td>Strong</td>
<td>Avg/Strong</td>
<td>a</td>
<td>None</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Korea</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Bank of Korea</td>
<td>AA-/Stable bbb+</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>GRE</td>
<td>4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>KEB Hana Bank</td>
<td>A+/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Kookmin Bank</td>
<td>A+/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Korea Development Bank§</td>
<td>AA/Stable bbb+</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Weak</td>
<td>Below Avg/Adequate</td>
<td>bb--</td>
<td>GRE</td>
<td>10</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Nonghyup Bank</td>
<td>A+/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Above Avg/Adequate</td>
<td>bbb+</td>
<td>GRE</td>
<td>3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Shinhan Bank</td>
<td>A+/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Woori Bank</td>
<td>A/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Bank Bhd.</td>
<td>A-/Stable bbb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Strong</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>None</td>
<td>0</td>
<td>-1</td>
<td></td>
</tr>
<tr>
<td>Malayan Banking Bhd.</td>
<td>A-/Stable bbb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>None</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIMB Bank Bhd.</td>
<td>A-/Stable bbb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a-</td>
<td>None</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ANZ Bank New Zealand Ltd.</td>
<td>AA-/Negative bbb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Group</td>
<td>4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>ASB Bank Ltd.</td>
<td>AA-/Negative bbb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Group</td>
<td>4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Bank of New Zealand</td>
<td>AA-/Negative bbb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Group</td>
<td>4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Westpac New Zealand Ltd.</td>
<td>AA-/Negative bbb</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bbb+</td>
<td>Group</td>
<td>4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Singapore</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DBS Bank Ltd.</td>
<td>AA-/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Oversea-Chinese Banking Corp. Ltd.</td>
<td>AA-/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>United Overseas Bank Ltd.</td>
<td>AA-/Stable bbb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>a</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Taiwan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CTBC Bank Co. Ltd.</td>
<td>A/Stable bbb</td>
<td>Strong</td>
<td>Strong</td>
<td>Adequate</td>
<td>Avg/Strong</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Mega International Commercial Bank Co. Ltd.</td>
<td>A/Stable bbb</td>
<td>Strong</td>
<td>Strong</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>a-</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
Table 2

Issuer Credit Ratings And Component Scores For The Top 60 Asia-Pacific Banks (Continued)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Opco L-T ICR/outlook</th>
<th>Anchor</th>
<th>Business position</th>
<th>Capital and earnings</th>
<th>Risk position</th>
<th>Funding and liquidity</th>
<th>UGCP or SACP</th>
<th>Type of Support</th>
<th>No. of notches of support</th>
<th>Additional factor adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangkok Bank Public Co. Ltd.</td>
<td>BBB+/Stable bb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Above Avg/Strong</td>
<td>bbb</td>
<td>Sys. Imp.</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>KASIKORNBANK PCL</td>
<td>BBB+/Stable bb+</td>
<td>Strong</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Avg/Strong</td>
<td>bbb-</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Krung Thai Bank Public Co. Ltd.</td>
<td>BBB/Stable bb+</td>
<td>Adequate</td>
<td>Moderate</td>
<td>Adequate</td>
<td>Avg/Adequate</td>
<td>bb+</td>
<td>Sys. Imp.</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Source: S&P Global Ratings; Data in table 2 is as of November 22, 2018. Type of Support column: “None” includes some banks where ratings uplift because of support factors may be possible but none is currently included. (For example, this column includes some systemically important banks where systemic importance results in no rating uplift). §Holding company; the rating reflects that on the main operating company. ICR—Issuer credit rating. GRE—Government-related entity. SACP—Stand-alone credit profile. Sys. Imp.—Systemically important. ALAC—Additional loss-absorbing capacity. UGCP—Unsupported group credit profile. N/A—Not applicable. Sov—Capped by Sovereign Rating. ¶This ICR applies to the Foreign Currency Rating only.

Note:

Domestic nonperforming assets (% of domestic loans) is as published in Banking Risk Indicators commentary published approximately quarterly. Domestic nonperforming assets (% of domestic loans) is the sum of problematic exposures (including loans and foreclosed assets) due by resident private and public borrowers to a country’s resident financial institutions, expressed as a percent of total loans granted to domestic private and public borrowers. The definition of problematic exposures varies from country to country. The general standard is that exposures past due for more than 90 days are classified as nonperforming. In some jurisdictions this also includes exposures that are up to date in their payment obligations but that run the risk of becoming delinquent. Performing restructured loans are only included in a few countries. For a number of countries, nonperforming assets of domestic exposures alone are not available. In such cases we therefore use the aggregate of nonperforming assets and loans, both variables including domestic and foreign exposures.

Related Research

- Asia-Pacific Credit Outlook 2019: Cold Wind Blowing, Dec. 3, 2018
- Global Banks 2019 Outlook: Bracing For More Volatility, Dec. 3, 2018
- Credit Conditions Asia-Pacific: Cold Wind Blowing, Nov. 29, 2018
- Banking Risk Indicators: October 2018 Update, Oct. 30, 2018
- Asia-Pacific Financial Institutions Monitor 4Q 2018: On The Lookup For Market-Induced Credit Risk, Oct. 18, 2018
- Top 60 Asia-Pacific Banks: Nice Views From The Peak Before The Credit Cycle Turns, July 30, 2018
- Bailout Not Bail-In: The More Likely Savior In Asia-Pacific’s Next Banking Resurrection, March 1, 2018