Asia-Pacific Banking Country Snapshots

Government Support Buttresses Bank Ratings

S&P Global
Ratings

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October 31, 2024

This report does not constitute a rating action

Key Takeaways

The outlooks on most Asia-Pacific bank ratings remain stable, supported by our anticipation of strong government backing for most systemically important banks.

In Vietnam, the impact of a recent typhoon will likely strain the profitability of domestic banks, and we believe Thai banks will weather flood-related damage.

Hong Kong banks face high vacancy rates in office space and a spillover of weak sentiment from mainland China's property downturn.

Key Risks

Property sector stress worsens

Economic downside risks intensify

High corporate and government sector leverage

Digitalization, climate change, and cyber to challenge banks' business models

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Property Is The Biggest Risk To Financial Institutions Ratings In 2024

Commercial property risks weigh on banks

- Downside commercial property risks could hurt banks' asset quality, particularly in China and Vietnam.

- Commercial real estate in Hong Kong is under pressure, with high vacancy rates.
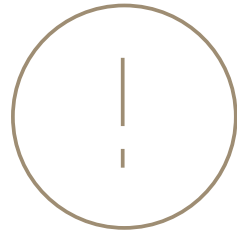
Some NBFIs are more highly exposed than banks

- China's state-owned AMCs face further impairment losses in 2024 but government support remains strong.

- Korean nonbanks may see rising credit risks from real estate project financing.

Residential borrowers grapple with higher interest rates

- Household debt funding for residential mortgages is high in Korea, Australia, and New Zealand.

- Banks' asset quality in these jurisdictions remains resilient.

Buffers alleviate concerns

- Profitability and capitalization prospects are sound for most institutions.

- A downside scenario hitting property outside our current base case would test rating outlooks.

NBFI--Nonbank financial institutions, AMC--Asset management companies.

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CRE | Still Rising Credit Risk, But Exposures Are Manageable For Most

- We estimate that major banks in advanced Asia-Pacific economies can comfortably absorb a hypothetical additional 200 basis points in credit losses on CRE exposures.

- This is in addition to our current base case credit losses across their entire loan portfolios (including CRE).
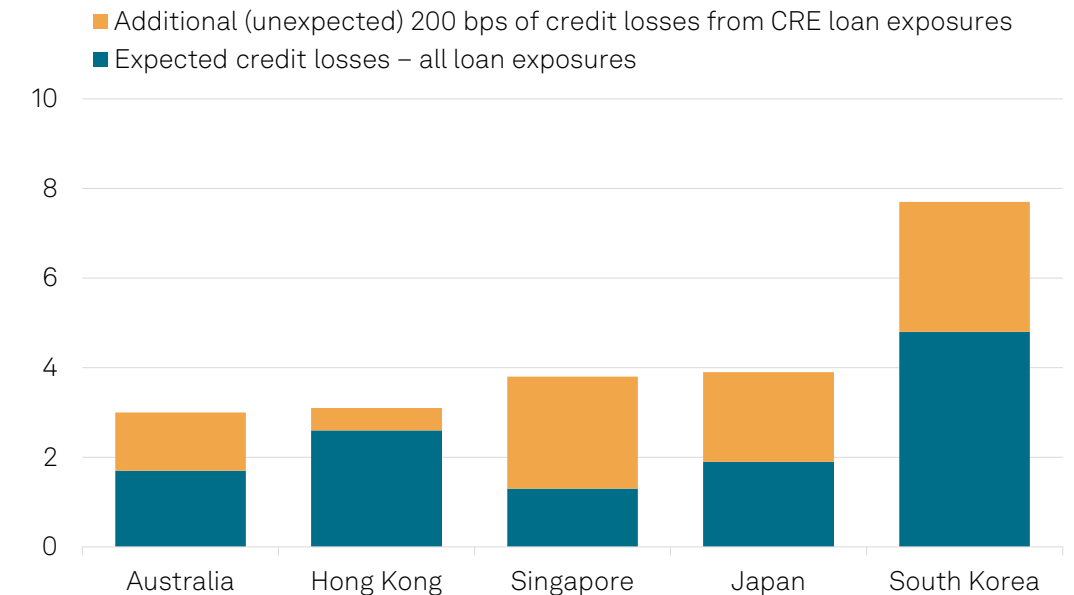
Banks have manageable CRE exposures...
(%)
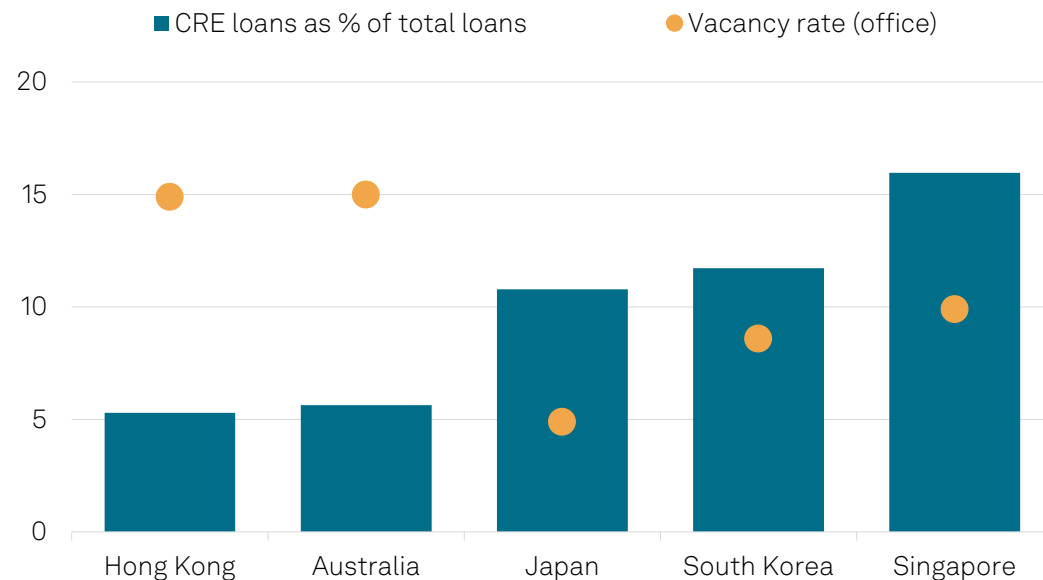
Data is for 2023 actuals. Commercial property includes income-producing commercial real estate and excludes construction. The chart includes systemically-important banks for each country as a proxy for system data. CRE--Commercial real estate. Source: S&P Global Ratings.

...Even if CRE losses are 200 bps worse than we expect
Credit losses as a percentage of total adjusted capital (%)

Data is 2024 forecasts. Commercial property includes income-producing commercial real estate and excludes construction. The chart includes systemically-important banks for each country as a proxy for system data. CRE--Commercial real estate. Source: S&P Global Ratings.

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Ratings Resilient, Outlook Stable As Risks Lurk

Asia-Pacific banks | Rating distribution
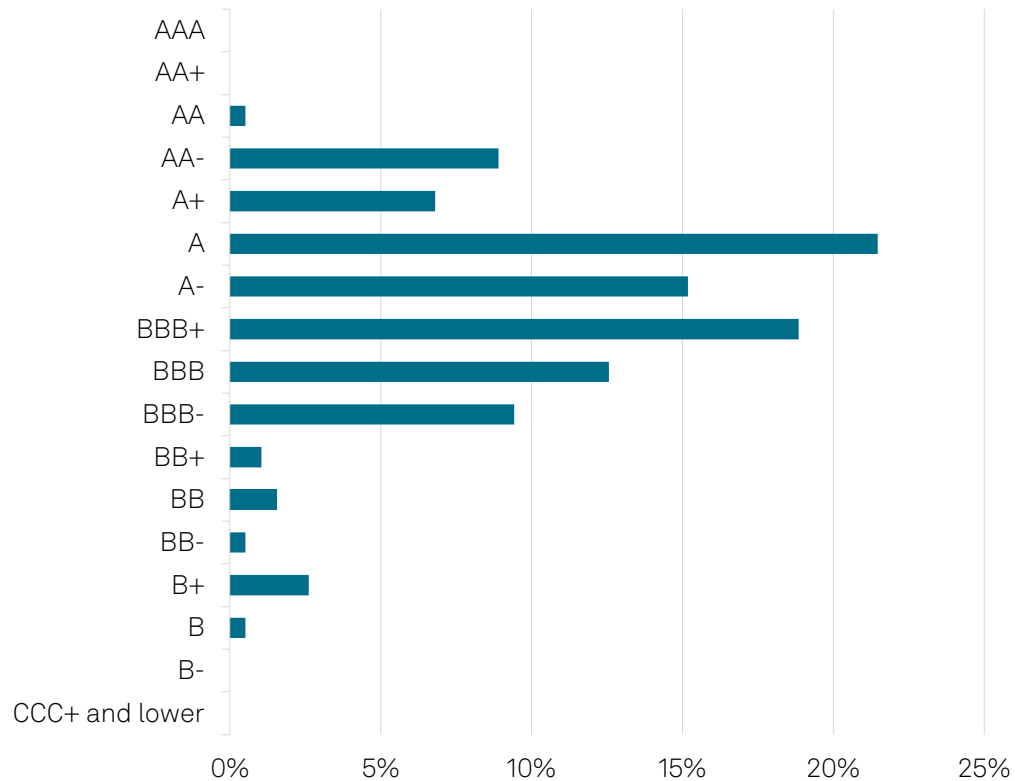
Asia-Pacific banks | Outlook distribution

Legend: ■ WatchNegative ■ Negative ■ Stable ■ WatchDeveloping ■ Positive
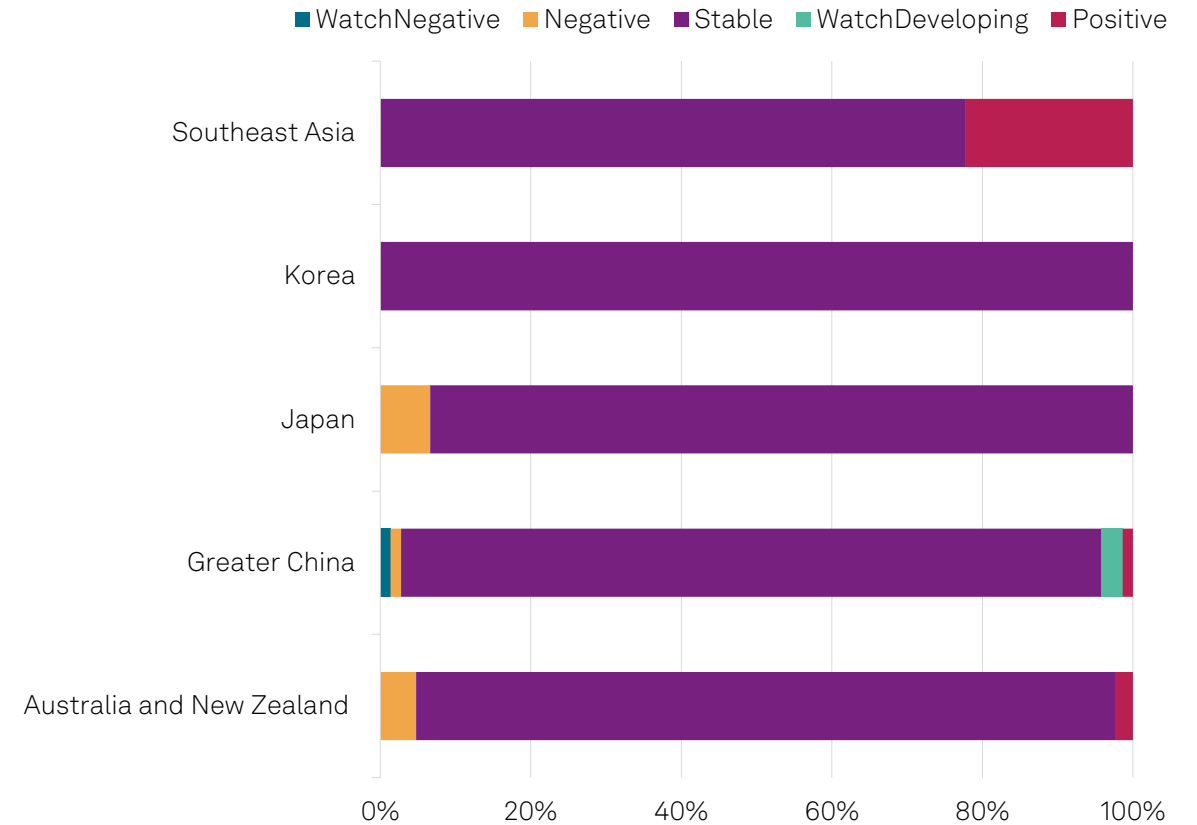
Data as of October 17, 2024. Source: S&P Global Ratings.

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Stable Trends Prevail For Most Countries

Change: ○→ Negative ←○ Positive   **Trend:** ● Stable ●→ Negative ←● Positive

Economic risk and industry risk scores are on a scale from 1 to 10, with 1 representing the lowest-risk and 10 the highest-risk. Data as of October 18, 2024. Source: S&P Global Ratings.
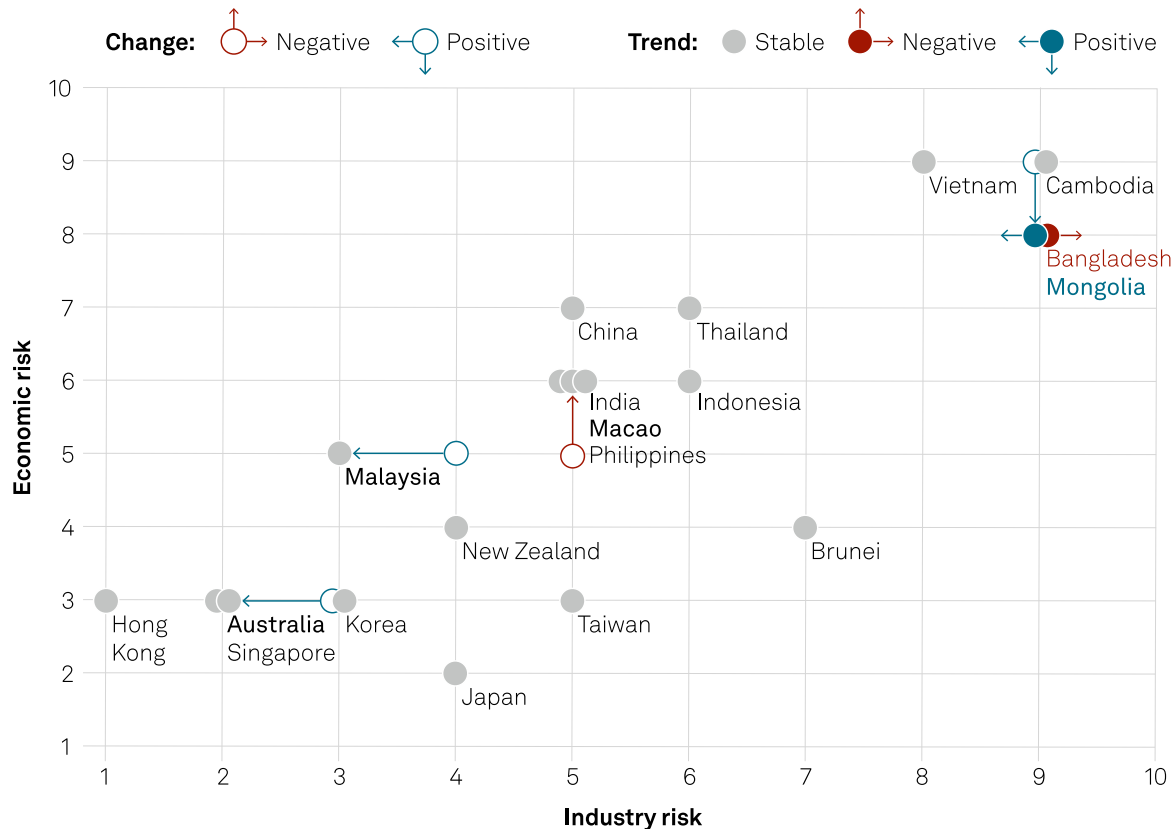
Banking Industry Country Risk Assessment (BICRA) changes in 2024:

Mongolia: We revised our economic risk to '8', from '9', and some scores on economic risk-related factors. We also revised the industry risk trend to positive from stable (October 2024).

Malaysia: We revised our industry risk to '3' from '4'. We also revised some scores on industry risk-related factors (September 2024).

Macao Special Administrative Region: We revised our economic risk score to '6' from '5' (May 2024).

Australia: BICRA Group to '2' from '3'; industry risk trend to stable from positive and industry risk score to '2' from '3' (April 2024).

Macao Special Administrative Region: Assigned to BICRA Group '5' (January 2024).

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Banking Industry Country Risks | The Strong, The Weak And The In Between

Country	BICRA Group	Economic risk trend	Industry risk trend	Economic resilience	Economic imbalances	Credit risk in the economy	Institutional framework	Competitive dynamics	Systemwide funding
Australia	2	Stable	Stable	VL	H	L	VL	L	I
Bangladesh	9	Stable	Negative	VH	I	EH	EH	EH	I
Brunei	6	Stable	Stable	I	L	H	EH	I	L
Cambodia	9	Stable	Stable	VH	H	EH	EH	H	VH
China	6	Stable	Stable	I	H	VH	H	H	VL
Hong Kong	2	Stable	Stable	L	I	I	VL	L	VL
India	5	Stable	Stable	H	L	VH	H	H	L
Indonesia	6	Stable	Stable	H	L	VH	H	H	I
Japan	3	Stable	Stable	L	VL	I	I	H	VL
Korea	3	Stable	Stable	L	L	I	I	I	L
Macao	5	Stable	Stable	I	H	H	VH	I	L
Malaysia	4	Stable	Stable	H	L	H	I	I	L
Mongolia	9	Stable	Positive	H	H	EH	EH	H	VH
New Zealand	4	Stable	Stable	VL	H	I	I	L	H
Philippines	5	Stable	Stable	VH	L	H	H	I	I
Singapore	2	Stable	Stable	VL	I	I	VL	L	L
Taiwan	4	Stable	Stable	L	L	I	I	VH	VL
Thailand	7	Stable	Stable	H	H	VH	VH	H	L
Vietnam	9	Stable	Stable	VH	H	EH	EH	VH	I

Positive economic or industry risk trend	Stable economic or industry risk trend	Negative economic or industry risk trend

Very low risk (VL)	Low risk (L)	Intermediate risk (I)	High risk (H)	Very high risk (VH)	Extremely high risk (EH)

The table presents S&P Global Ratings' views about key risks and risk trends for banking sectors in Asia-Pacific countries where we rate banks.

For more detailed information, please refer to the latest Banking Industry Country Risks Assessment (BICRA) on a given country.

According to our methodology, BICRAs fall into groups from '1' to '10', ranging from what we view as the lowest-risk banking systems (group '1') to the highest-risk (group '10').

Data as of October 18, 2024.

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Country Snapshots

Select banking jurisdictions in the Asia-Pacific region

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Australia| Low Unemployment Should Shield Against Credit Losses

Nico DeLange

Nico.delange@spglobal.com

Economic growth to be modest
Real GDP growth (%)
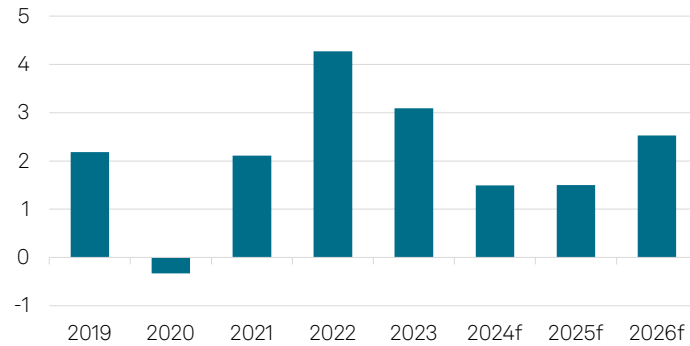
Banks' credit losses should remain low
Credit losses as a % of total loans
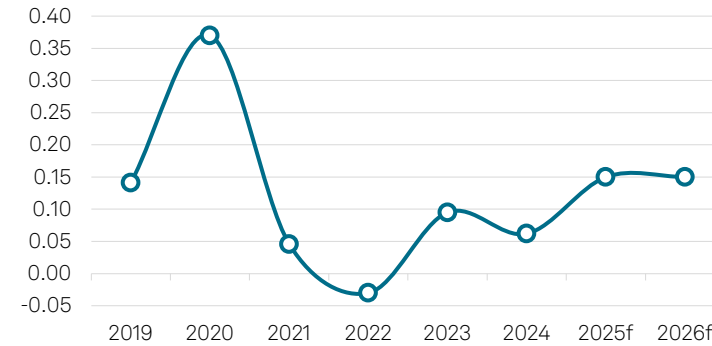
We expect earnings to stay strong
Return on average assets (%)
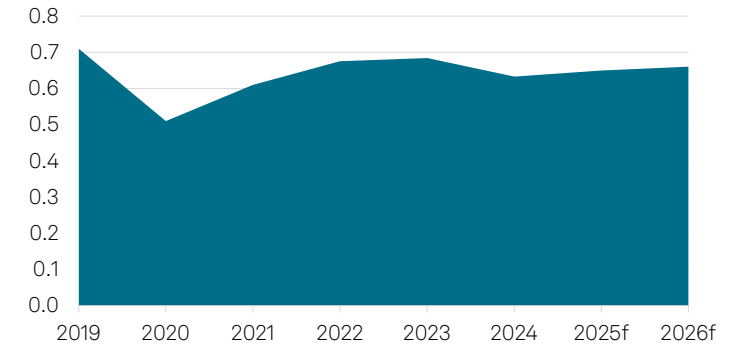
Modest growth in house prices
Annual change in key index for national residential house prices (%)
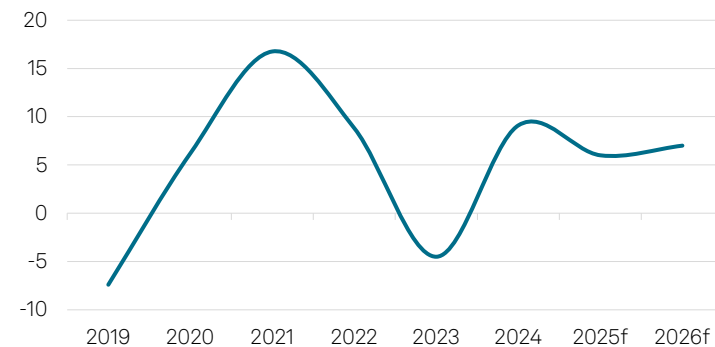
Low unemployment rate
Unemployment rate (%)
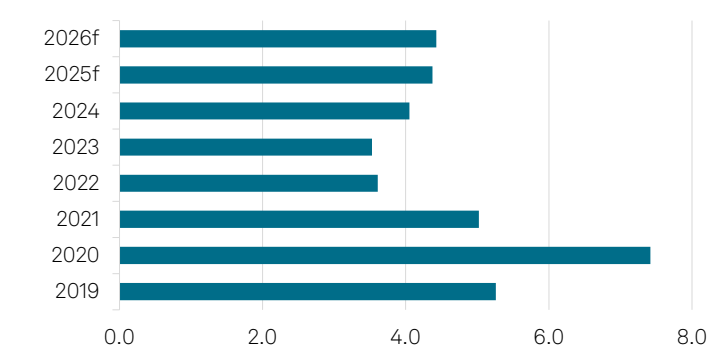
Reliance on net external borrowings is sizable
Net banking sector external debt as % of systemwide domestic loans
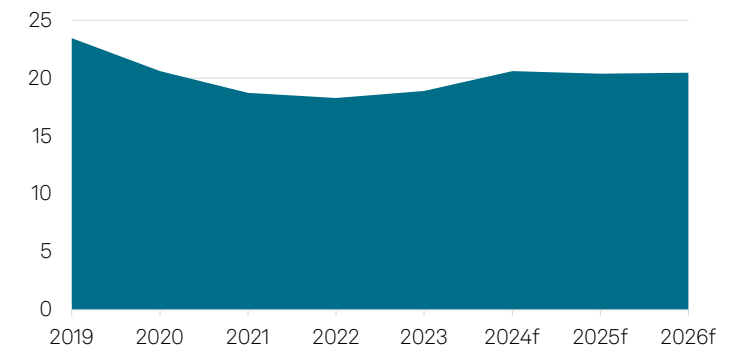
Figures as of fiscal year ending June. f--Forecast. Source: S&P Global Ratings.

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China | Uneven Recovery Pressures Chinese Banks

Ming Tan
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Economic recovery uneven amid modest policy support
Real GDP growth (%)
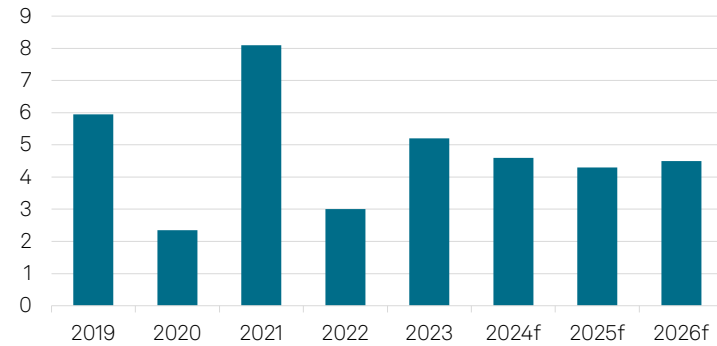
Commercial banks to see slightly higher credit costs
Credit costs as % of average loans
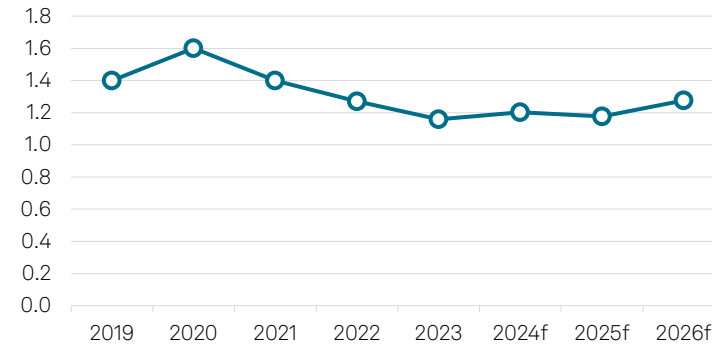
Policy and funding support smaller companies
Micro and small enterprises -- NPL ratio (%)
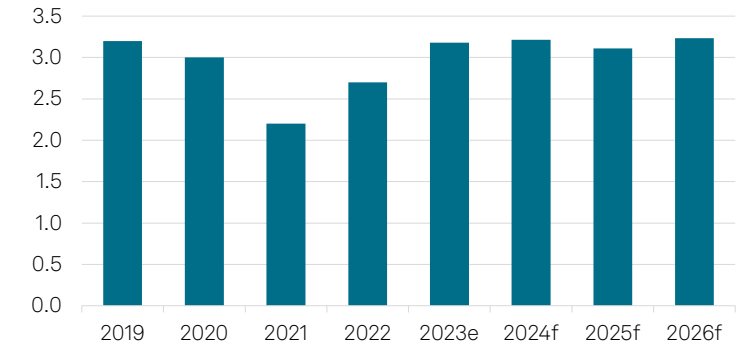
Delay in recovery in real estate loan quality
Property development loan growth (%)
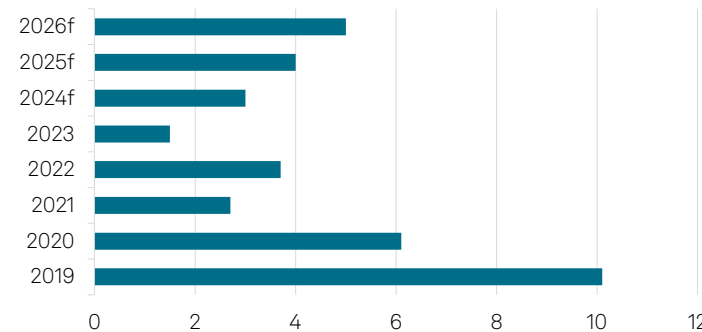
Profitability to remain pressured
Return on average assets (%)
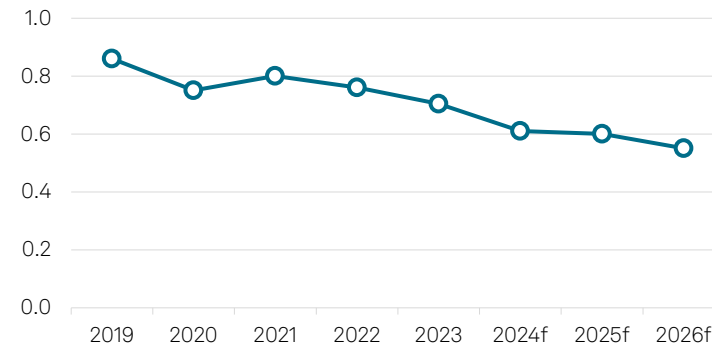
Strong customer deposit base
Domestic loans as a % of systemwide domestic core customer deposits
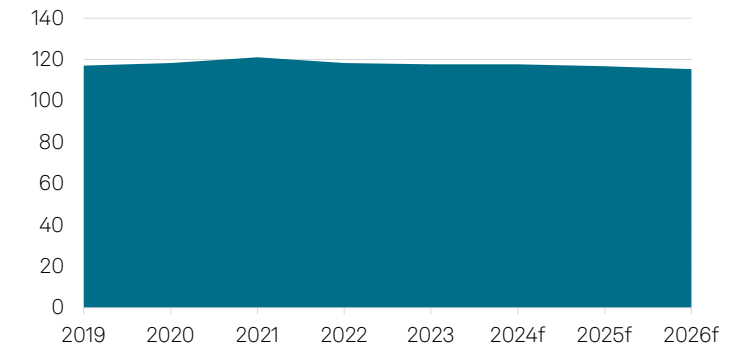
Data as of year ended December. e-Estimate. f--Forecast. NPL--Nonperforming loans. Source: S&P Global Ratings.

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Hong Kong SAR | Major Hong Kong Banks Can Manage Commercial Real Estate Risk

Shinoy Varghese
shinoy.varghese1@spglobal.com

Economic growth to moderate
Real GDP growth (%)
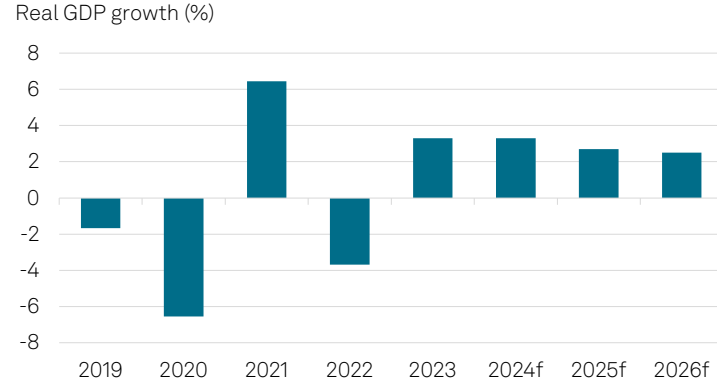
Hong Kong banks' CRE related provisions to remain contained
Credit losses as a % of total loans
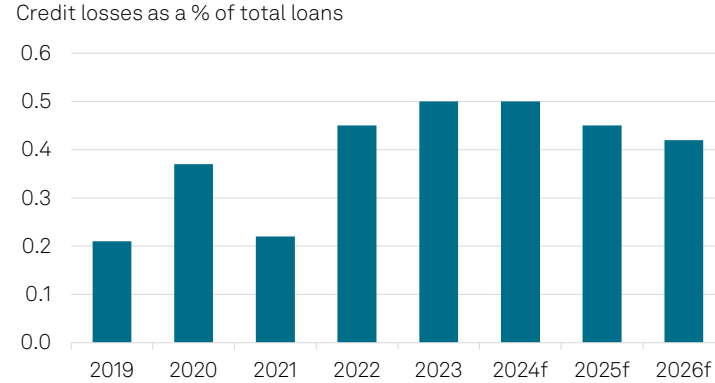
Profitability to decline in 2025 with a visible dip in NIM
Return on average assets (%)
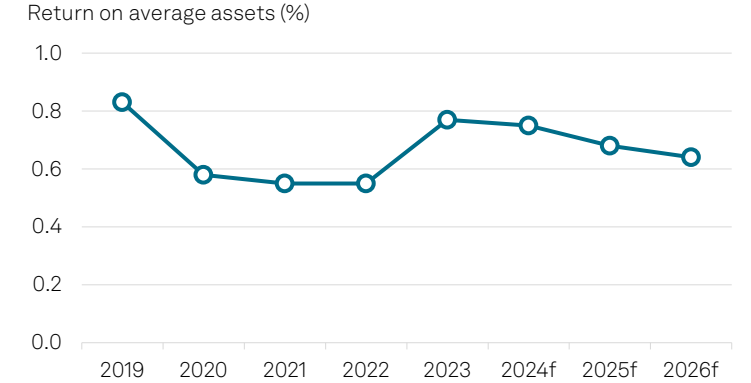
Residential housing prices to remain flattish in 2025
Annual change in key index for national residential house prices (%)
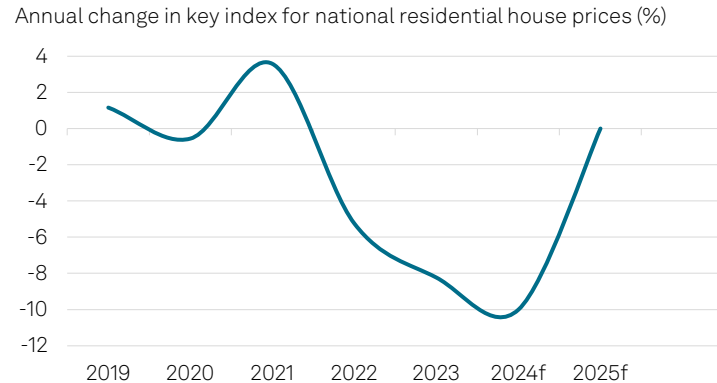
Strong capitalization through the cycles
Tier 1 capital ratio (%)
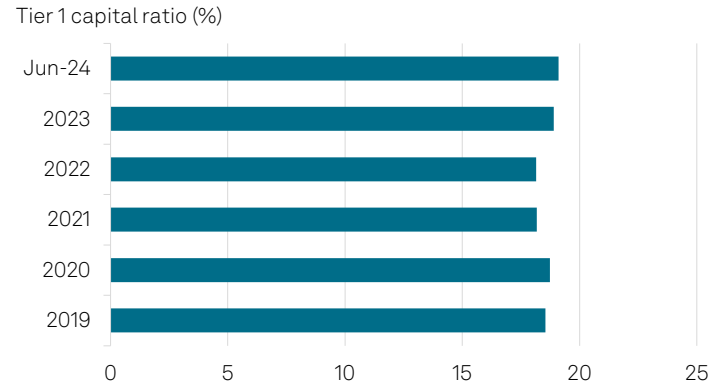
Solid customer deposits remain a key support
Systemwide loans as a % of systemwide core customer deposits
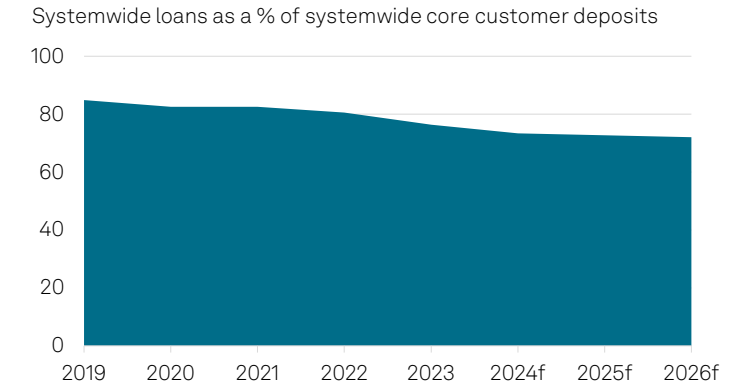
Data as of year ended December. CRE--Commercial real estate. NIM--Net interest margin. e--Estimate. f--Forecast. Sources: Hong Kong Monetary Authority. S&P Global Ratings.

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India | Structural Improvements, Solid GDP Enhance System Resilience

Deepali V Seth Chhabria

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Economic growth momentum to continue

Real GDP growth (%)
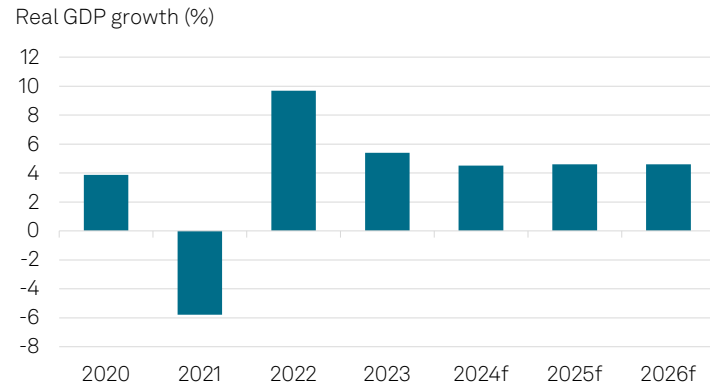
Sharp rise in LDR to cast shadow on future credit growth

Loans-to-deposits ratio (%)
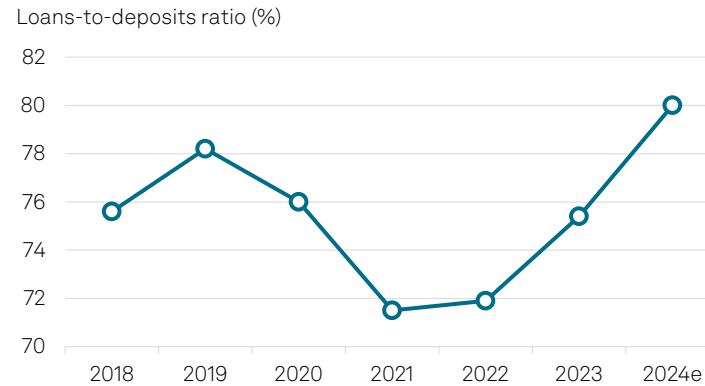
Credit losses to inch up slightly from cyclical low

Credit losses as a % of total loans
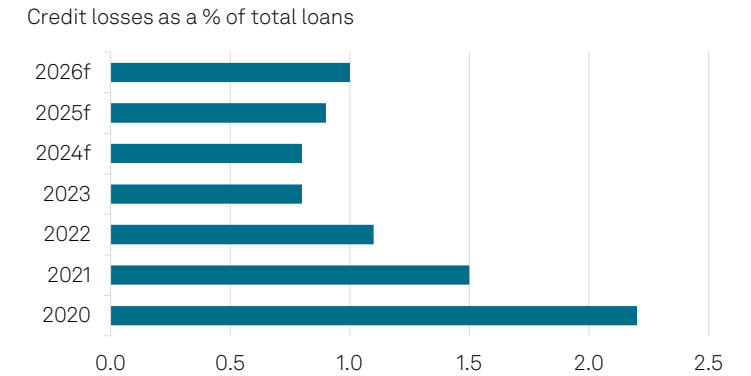
Asset quality to continue to improve

Nonperforming assets as a % of systemwide loans
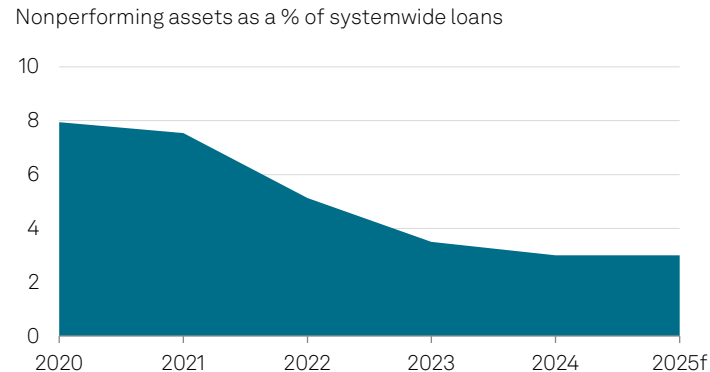
Delinquencies in the retail segment rising from a low base

90+ days past due (%) June 2024 vs. March 2023
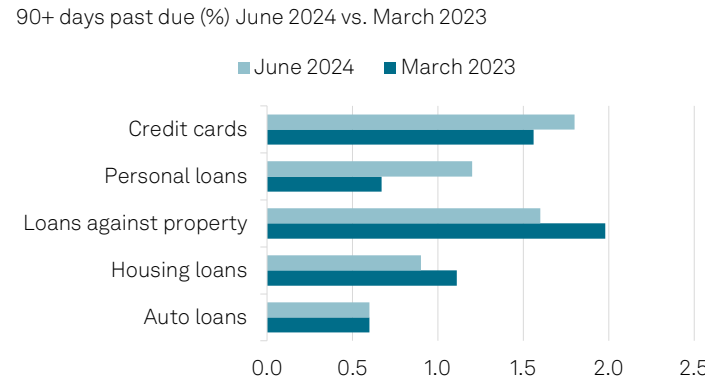
Returns have peaked and are likely to moderate slightly

Return on average assets (%)
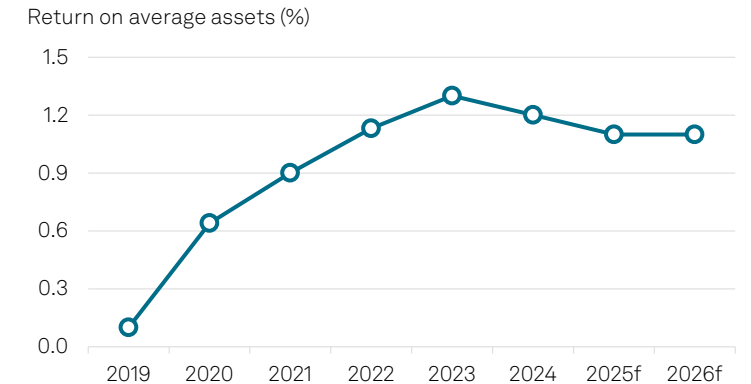
Figures as of fiscal year ending March. Nonperforming assets includes nonperforming loans (NPL) and standard restructured loans. LDR--Loans-to-deposits ratio. Sources: Reserve Bank of India. Company financials. TransUnion CIBIL. S&P Global Ratings estimates.

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Indonesia | Good Economic Growth Prospects To Bolster Banks

Ivan Tan

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Economic growth is a boost
Real GDP growth (%)
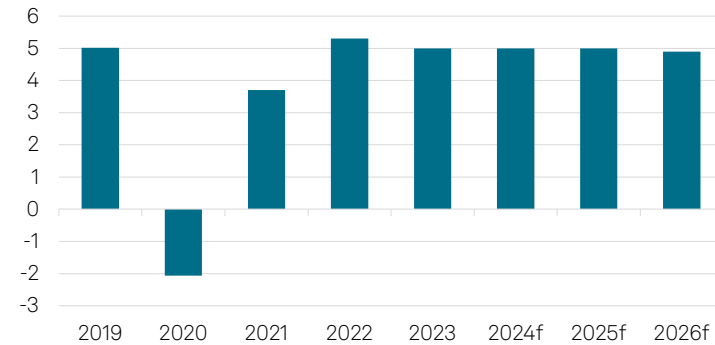
Credit costs should remain under control
Credit losses % of total loans
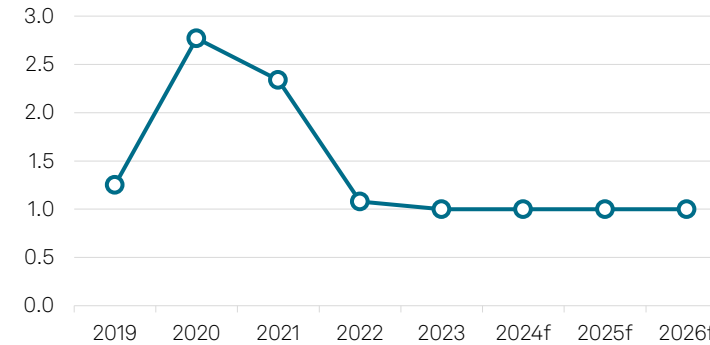
Manageable impact on NPA from orderly expiry of restructuring scheme
Nonperforming assets as a % of systemwide loans
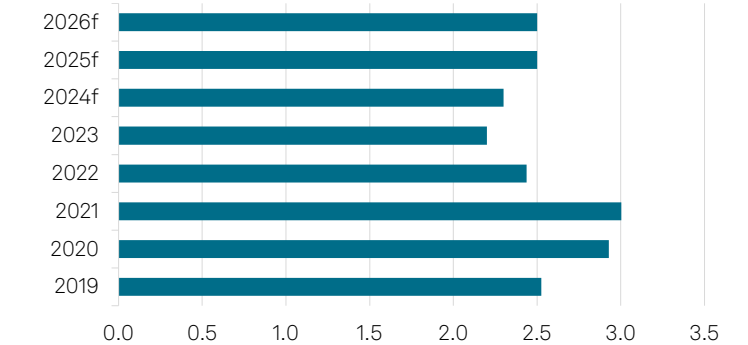
NIMs to compress but remain manageable
Net interest income to average earning assets (%)
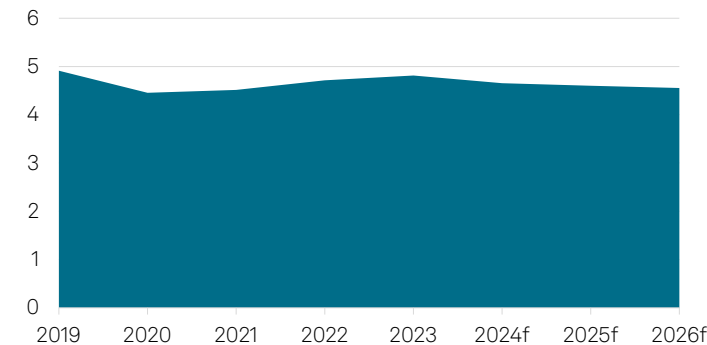
Strong capital buffers
Tier 1 capital ratio (%)
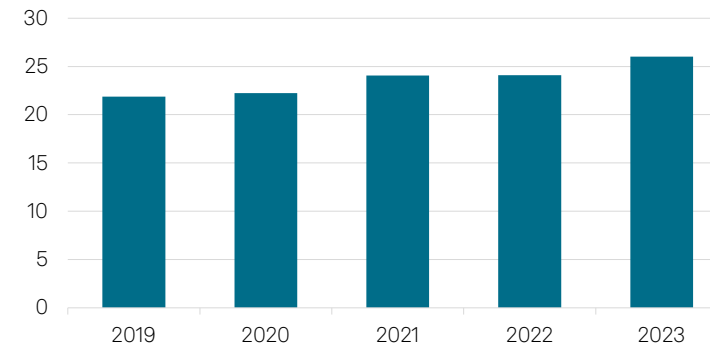
Strong funding support from customer deposits
Loans-to-deposits ratio (%)
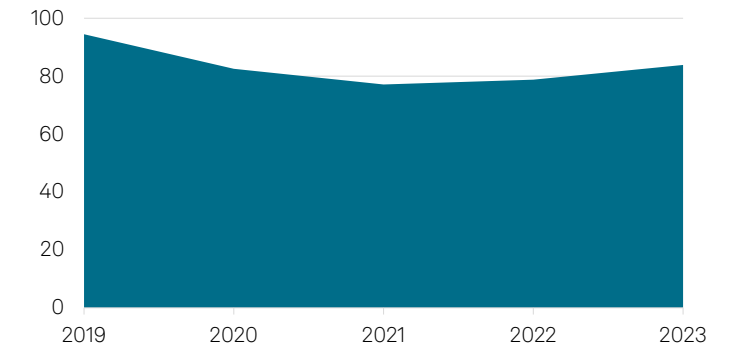
Data as of year ended December. e--Estimate. f--Forecast. NIM--Net interest margin. NPL--Nonperforming loans. Sources: OJK. S&P Global Ratings.

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Japan | Stronger Tailwind for Banks

Kensuke Sugihara

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Domestic-oriented economy will continue to grow
Real GDP growth (%)
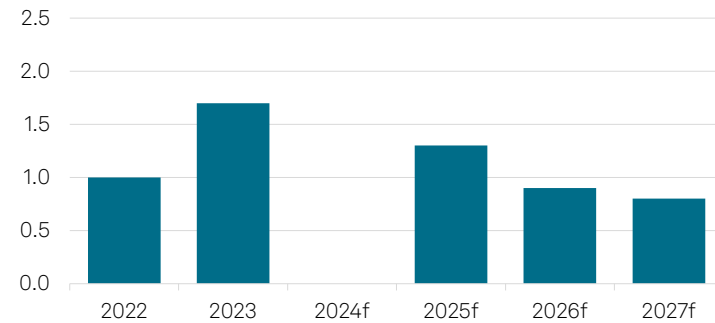
We expect the rise of policy interest rate to be low and slow
Policy rates (year-end) (%)
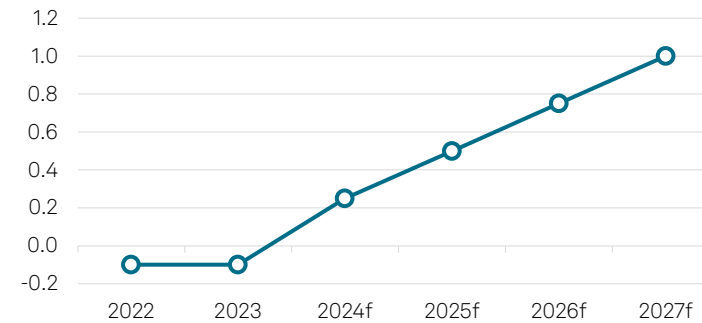
Domestic banks prepare for rate hikes and tapering
Domestic banks' holding of JGBs and Zaito-bonds at FY end (JPY tril.)
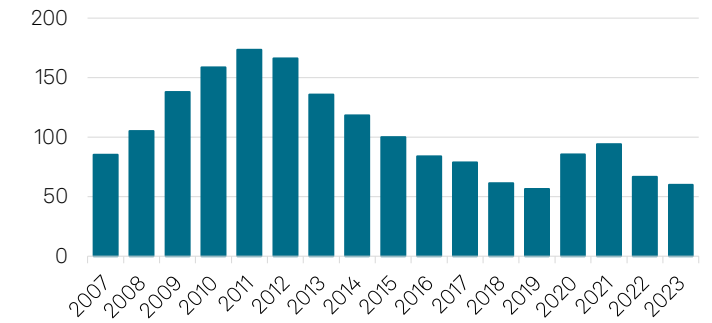
Banks secure interest margins over its deposits
Banks' interest rates on deposits vs JGB yield curve(%)
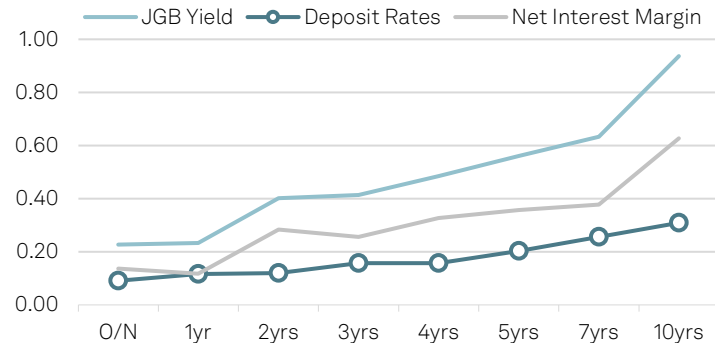
Deposits still occupy majority of household's financial assets
Household deposits and other financial assets (year-end; JPY tril.)
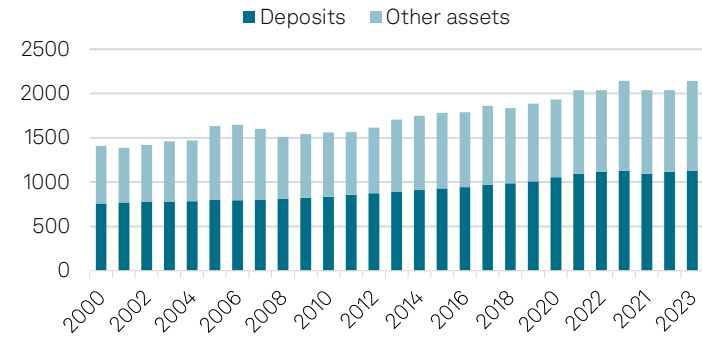
Stable deposit base a key strength for the banking system
Domestic loans as a % of systemwide domestic core customer deposits
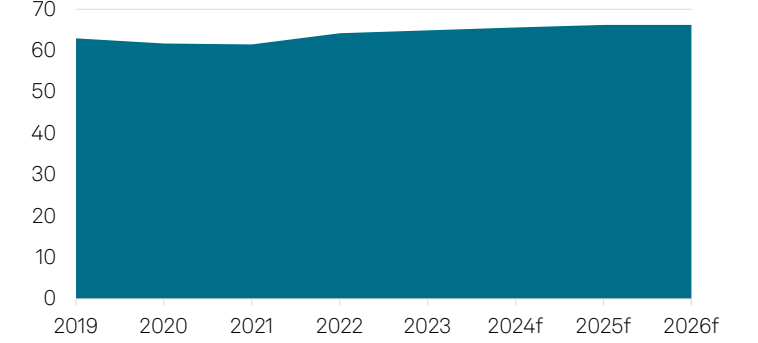
Data as of fiscal year ended March. Top-10 indicates top ten banks and so on for others. AFS--Available for sale. BoJ--Bank of Japan. e--Estimate. f--Forecast. Sources: Bank financial disclosures. Bank of Japan. S&P Global Ratings.

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Korea | Banks To Remain Focused On Risk Control

Daehyun Kim
daehyun.kim@spglobal.com

Korea's steady economic growth prospect
Real GDP growth (%)
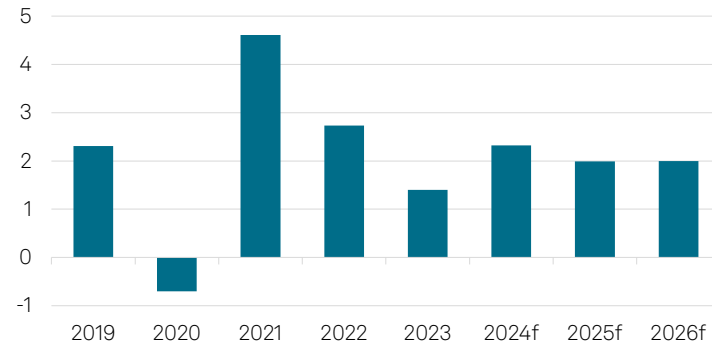
Loan growth to stay moderate
Loan growth (%)
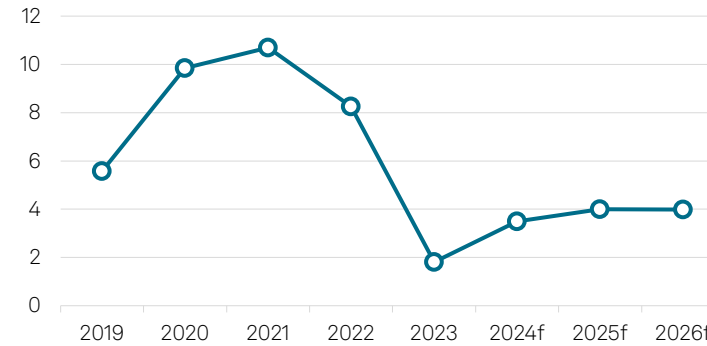
Private-sector leverage is high
Total private sector debt as a % of GDP
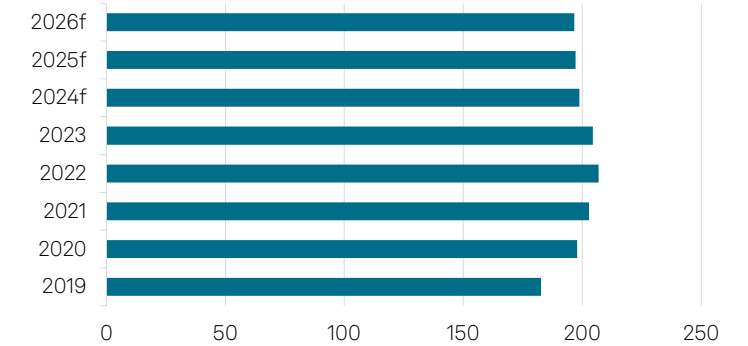
Higher credit risks from nonbank deposit-taking institutions
Nonperforming assets as a % of systemwide loans
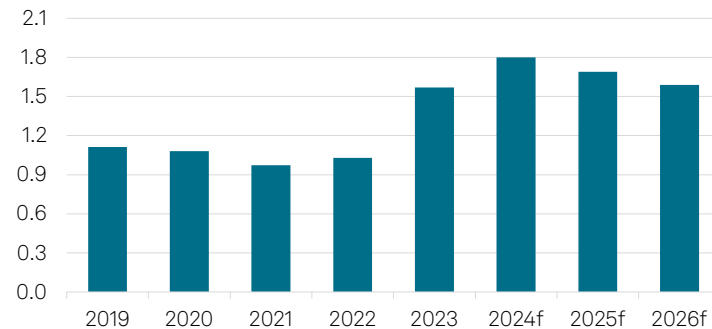
Largely stable profitability
Return on average assets (%)
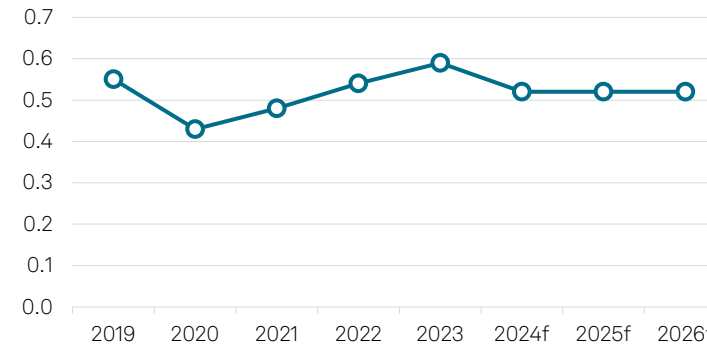
Stable funding backed by customer deposits
Domestic loans as a % of systemwide domestic core customer deposits

Data as of year ended December. f--Forecast. Source: S&P Global Ratings.

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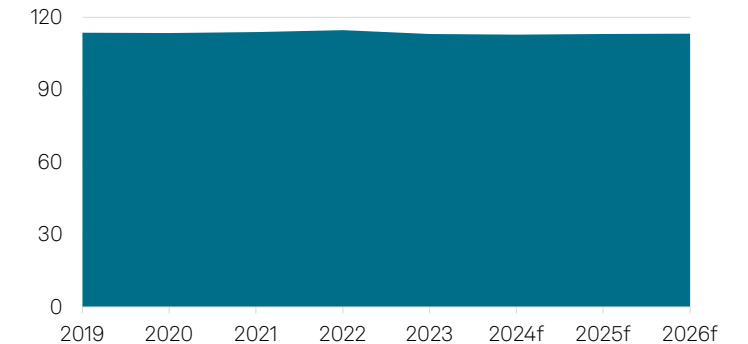
Malaysia | Banks Likely To Stand Firm Against Headwinds

Nikita Anand

nikita.anand@spglobal.com

Economic conditions will improve
Real GDP growth (%)
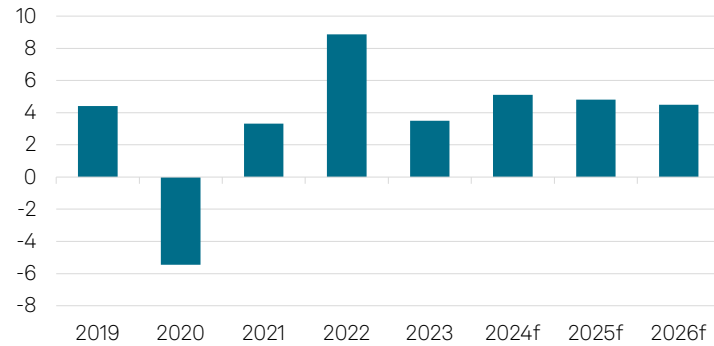
Credit growth will pick up
Loan growth (%)
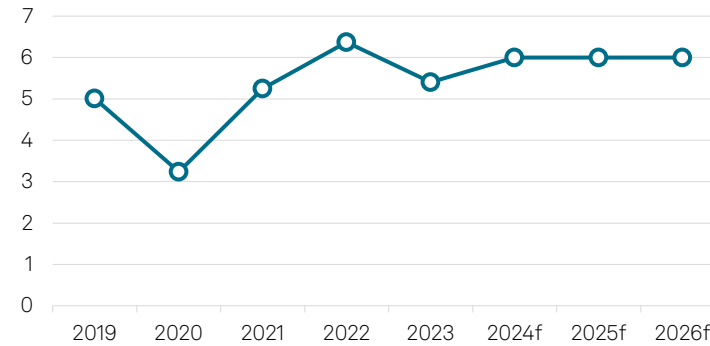
Asset quality deterioration manageable
Nonperforming assets as a % of systemwide loans
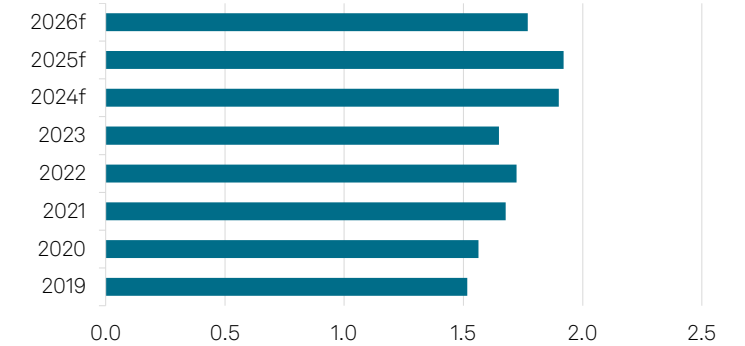
Solid capitalization could offset asset quality pressure
Tier 1 capital ratio (%)
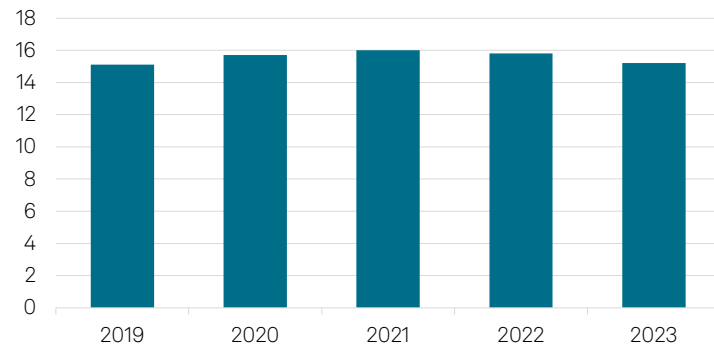
High household leverage poses risk
Household debt as a % of GDP
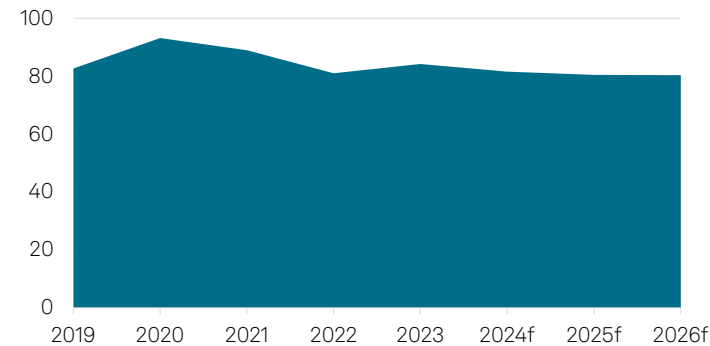
Earnings will stay flattish
Return on average assets (%)
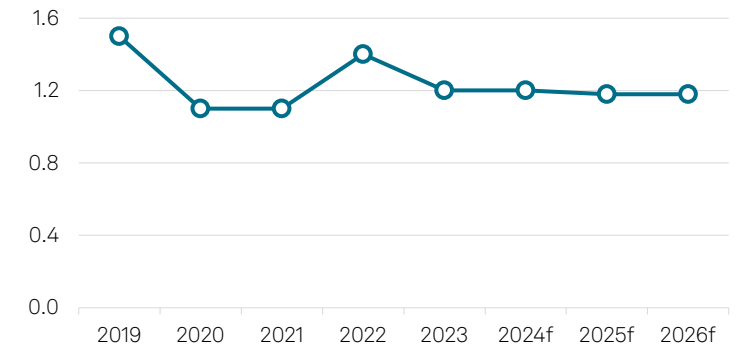
Data as of year ended December. e--Estimate. f--Forecast. Sources: BNM, S&P Global Ratings.

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New Zealand | Central Bank Easing To Support House Price Growth

Lisa Barrett
lisa.barrett@spglobal.com

Economic growth to remain below trend in 2025
Real GDP growth (%)
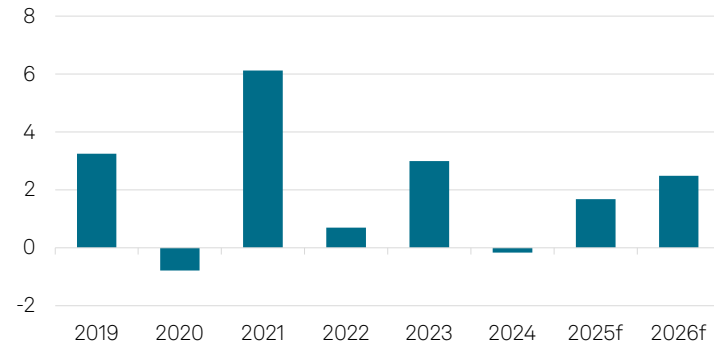
Banks maintain profitability
Return on average assets (%)
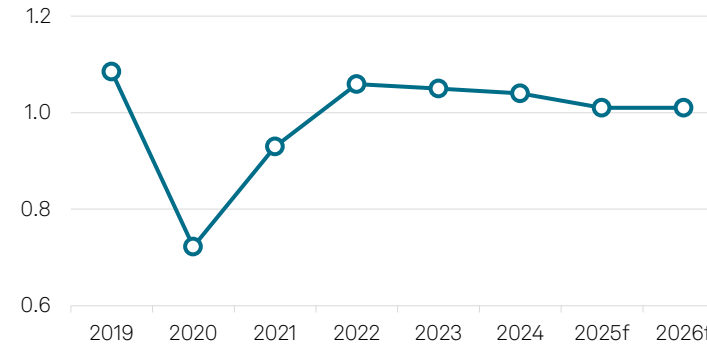
Credit losses to remain low
Credit losses as a % of total loans
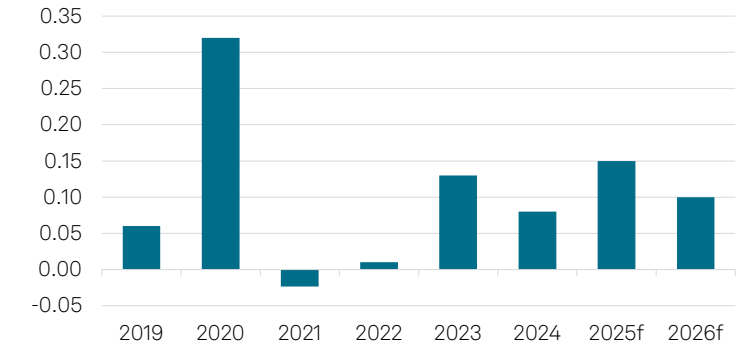
High household indebtedness
Household debt as % of GDP
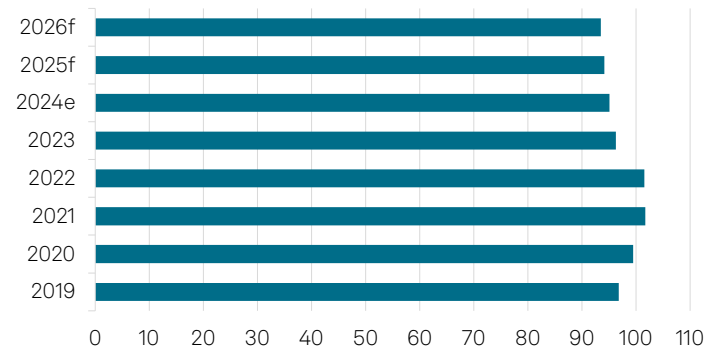
House price growth to remain muted in 2025
Annual change in key index for national residential house prices (%)
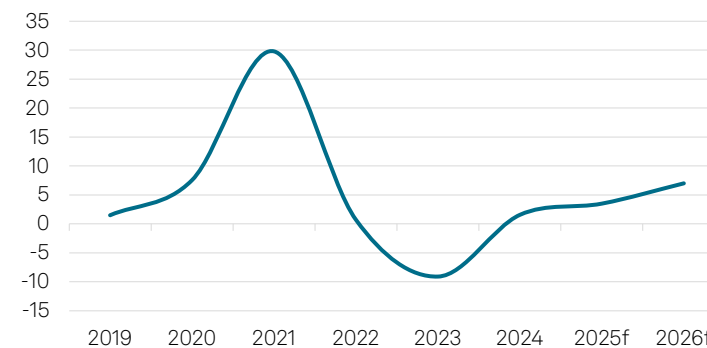
High net external borrowings and limited customer deposits
Net banking sector external debt as a % of systemwide domestic loans
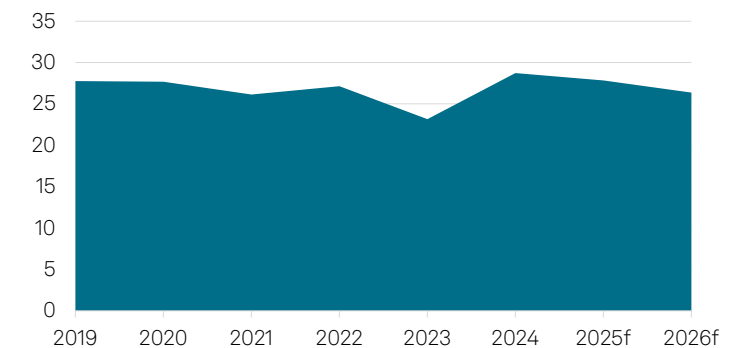
Data as of fiscal year ended June. e– Estimate, f--Forecast. Source: S&P Global Ratings.

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Philippines | Interest Rate Cuts To Boost Loan Growth, Compress Yields

Nikita Anand

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Economic growth will improve
Real GDP growth (%)
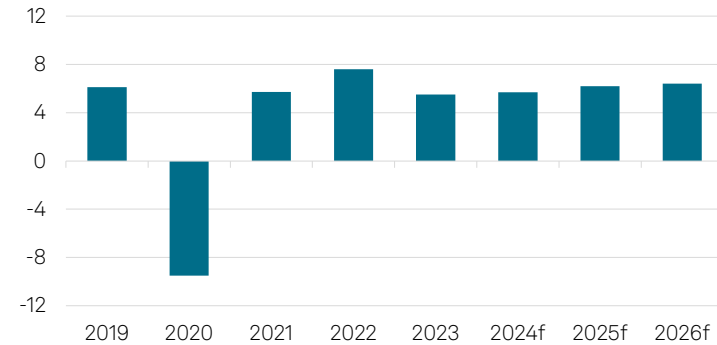
Credit losses will stay near pre-pandemic levels
Credit losses as % of total loans
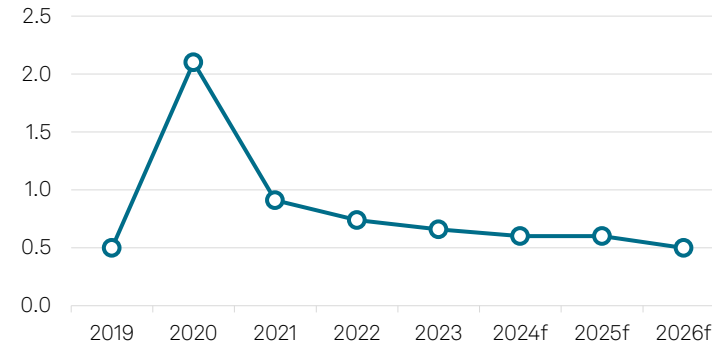
Return on assets has peaked and will gradually decline
Return on average assets (%)
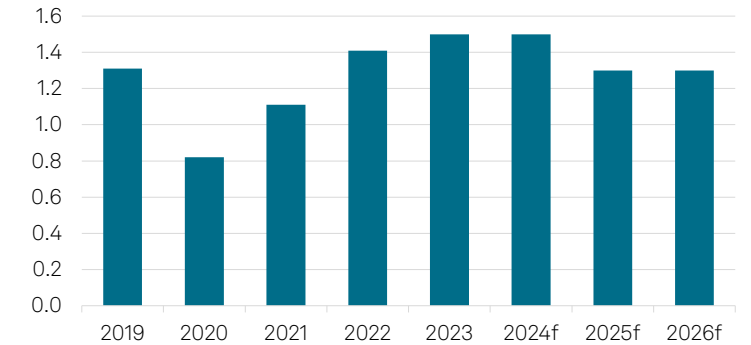
Banks maintain good capital buffers
Common equity tier 1 ratio (%)
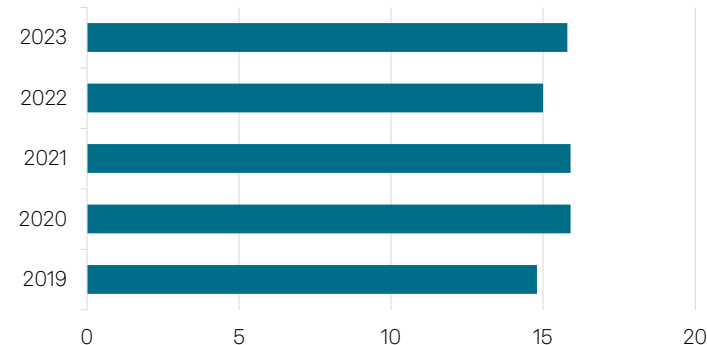
Downside risk of a fallout in property markets remains high

- Real estate construction and development loans as a % of total loans
- CRE vacancy rates (%)
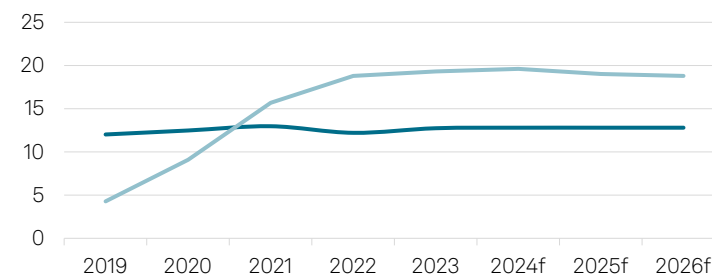
Loans to deposit ratio will moderate from strong levels
Domestic loans as a % of domestic core customer deposits
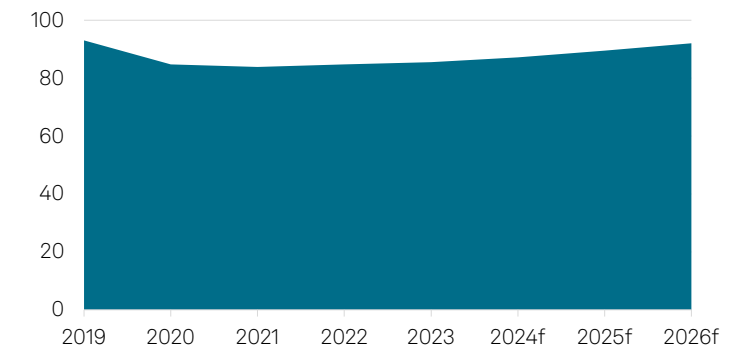
Data as of year ended December. CRE vacancy rate is data for office vacancy rate in metro Manila. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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Singapore | The Fed Pivot Will Change Dynamics For The Country's Banks

Ivan Tan
ivan.tan@spglobal.com

Domestic market recovery will buffer against external stress
Real GDP growth (%)
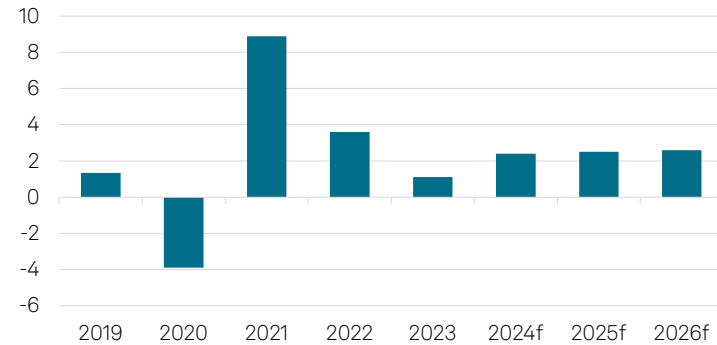
Loan growth will likely pick up
Loan growth (%)
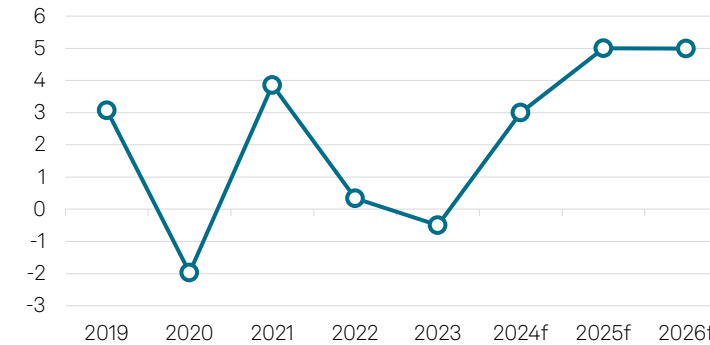
Net interest margins have peaked, some moderation expected
Net interest income to average earning assets (%)
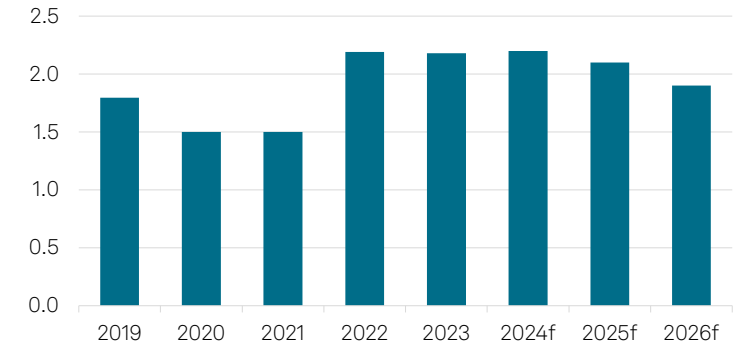
Asset quality should remain resilient
Nonperforming assets as a % of systemwide loans
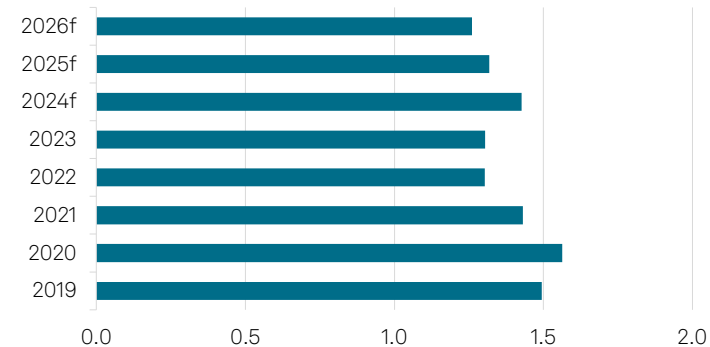
Credit costs to remain manageable
Credit losses as a % of total loans
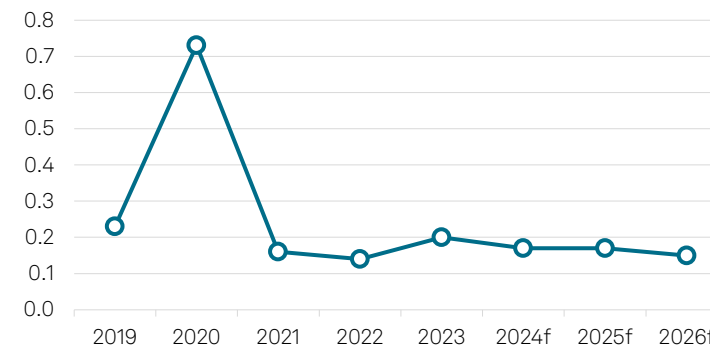
Stable customer deposits underpin funding
Domestic loans as a % of systemwide domestic core customer deposits
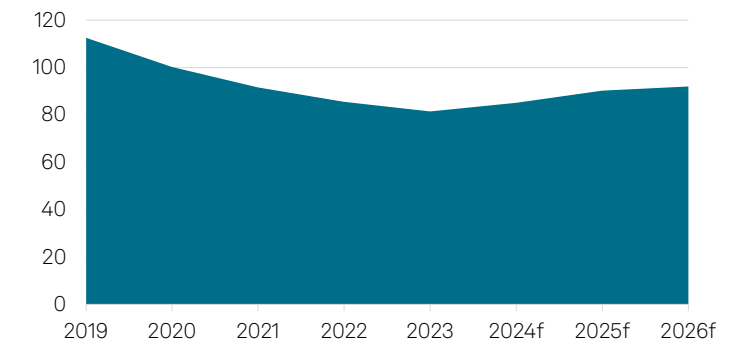
Data as of year ended December. Loan growth data for 2021 is based on our internal estimates and rated bank data. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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Taiwan | Solid Capitalization Can Absorb Volatility

Yuhan Lan

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Better economic growth prospects in 2024

Real GDP growth (%)
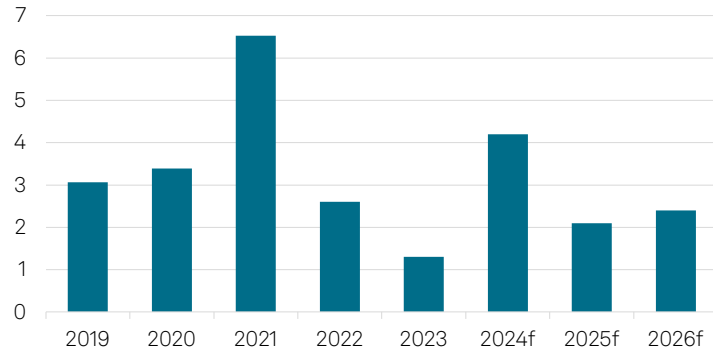
Credit costs to remain elevated

Credit losses as a % of total loans
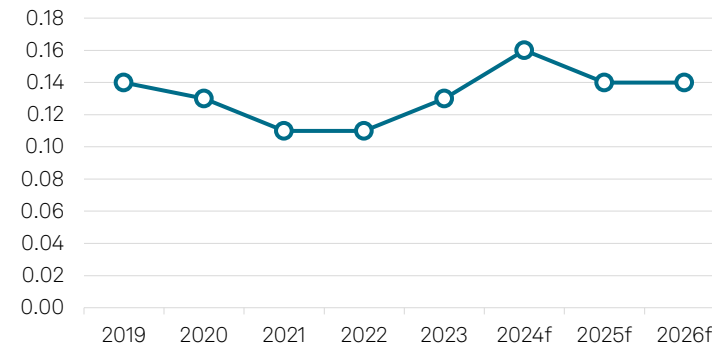
Loan moratorium expiration may push banks' NPA recognition

Nonperforming assets as a % of systemwide loans
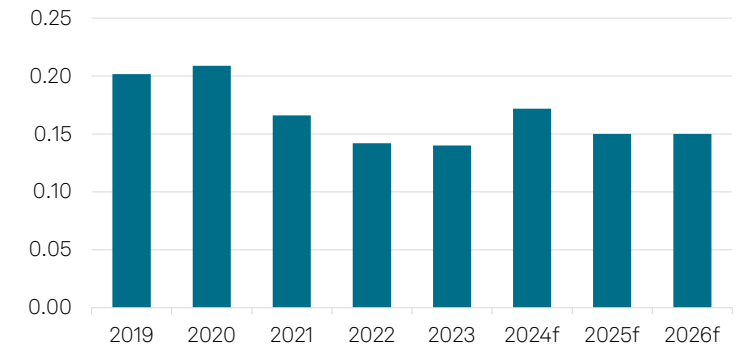
Real estate prices to grow by mid single digit in 2024

Annual change in key index for national residential house prices (%)
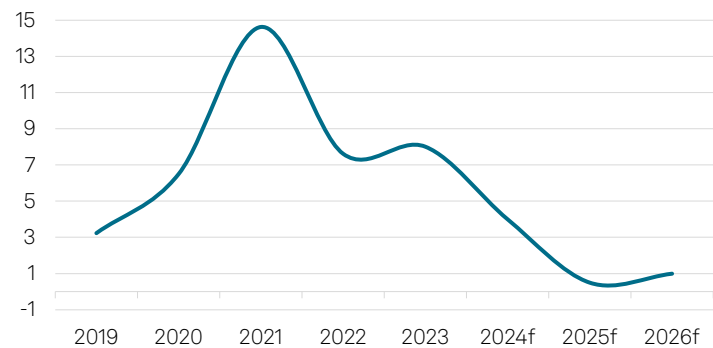
Banks' capitalization to remain solid

Tier 1 capital ratio (%)
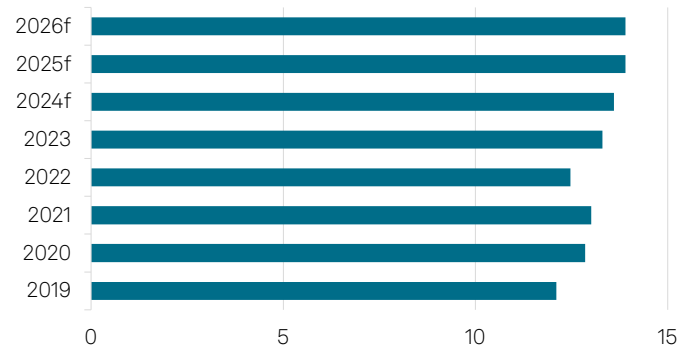
Household deposits predominantly fund deposit base

Household deposits as a % of systemwide deposits
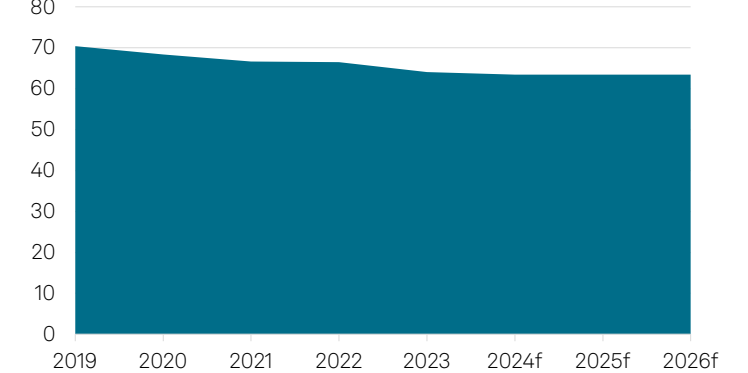
Data as of year ended December. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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Thailand | Elevated Credit Costs To Continue Weighing On Thai Banks

Deepali V Seth Chhabria

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Economic recovery remains weak and uneven
Real GDP growth (%)
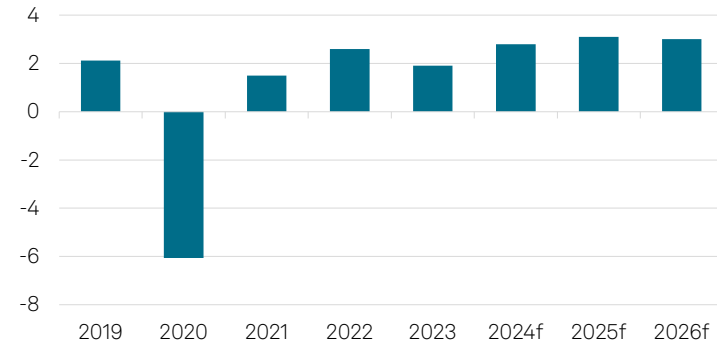
Tourist arrivals are recovering fast, but spending lags
Tourist arrivals ('000s)
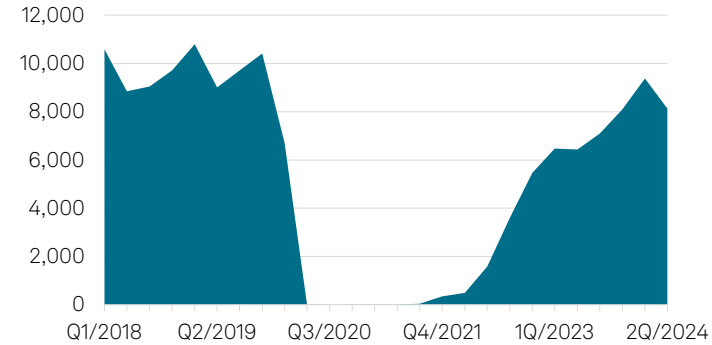
Rising Stage 2 loans reflect high credit risk in the system
As a % of systemwide loans
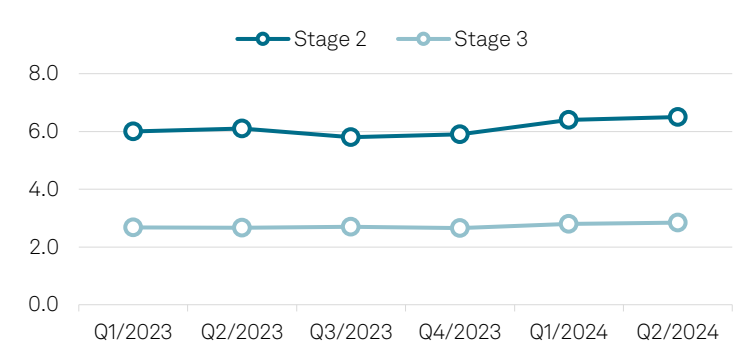
Households have high leverage
Household debt as % of GDP 2023
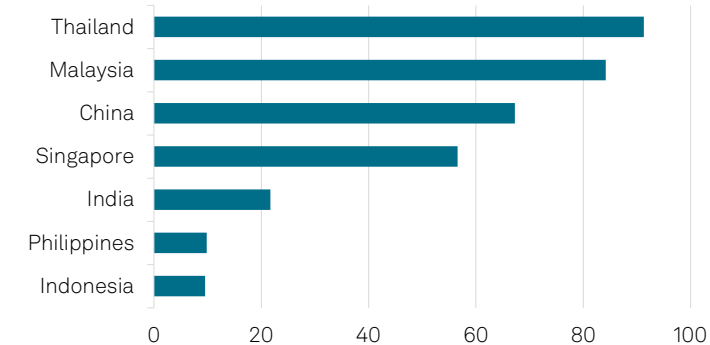
High provisioning coverage provides downside protection
Loan loss reserves / nonperforming loans (%)
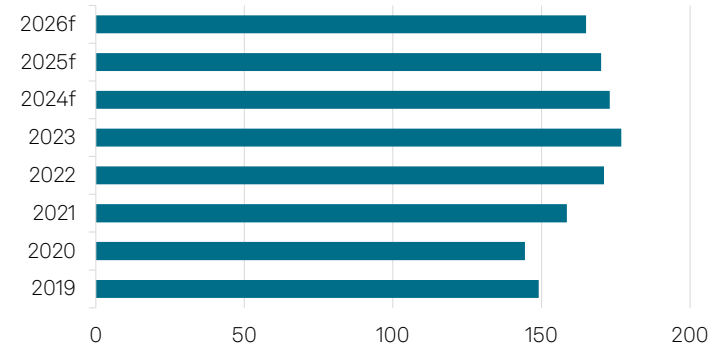
Strong capitalization offers some cushion
Total capital ratio (%)
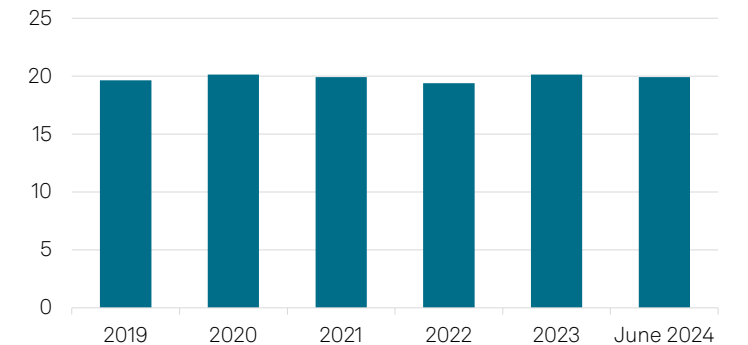
Data as of period ended December. f--Forecast. Source: S&P Global Ratings.

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Vietnam | On A Gradual Path To Recovery

Sue Ong

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FDI and recovering domestic demand to buttress GDP growth
Real GDP growth (%)
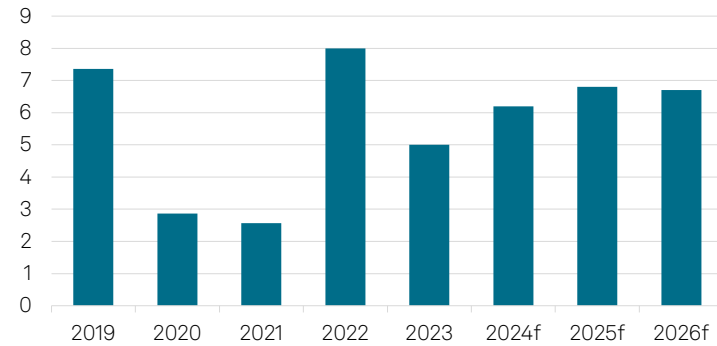
Rising indebtedness continues to pose a risk
Total private sector debt as % of GDP
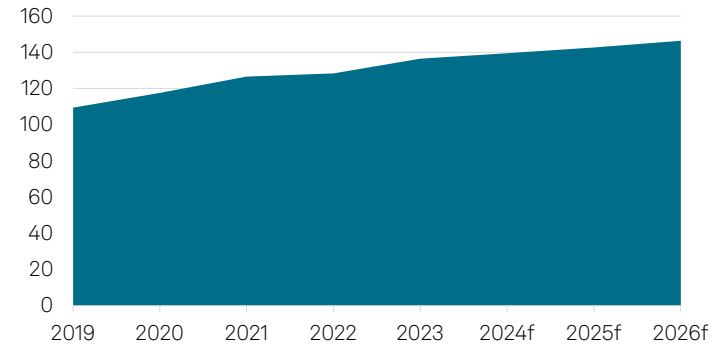
Higher property sales should ease asset-quality pain
Aggregate Vietnam property pre-sales (VND tril.)
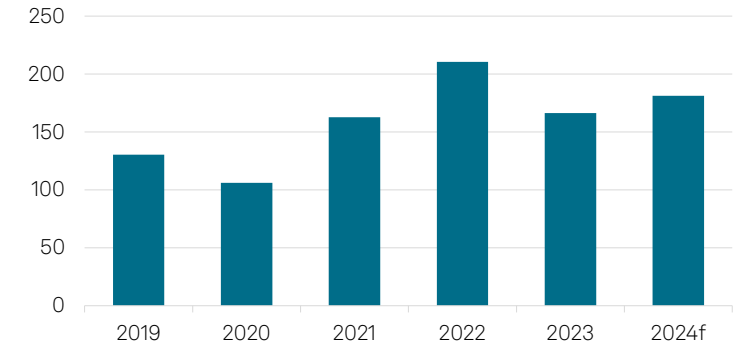
We expect credit costs to remain elevated
Credit losses as % of total loans
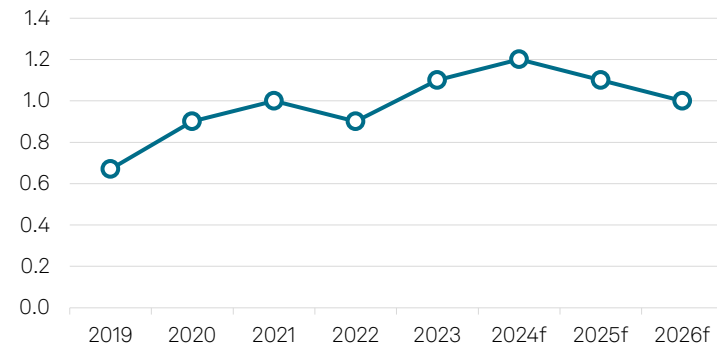
Nonperforming assets are likely to stay elevated
Nonperforming assets as a % of systemwide loans
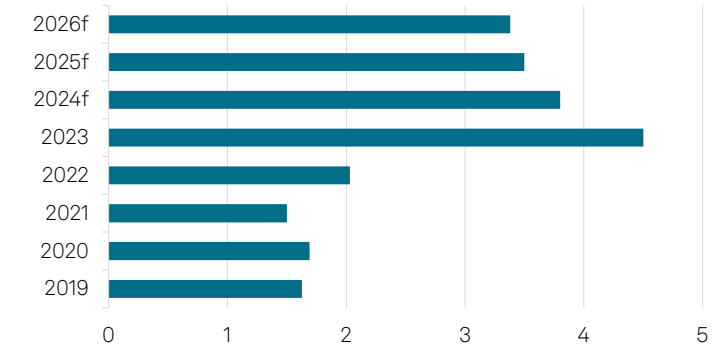
Returns on assets to remain stable
Return on average assets (%)
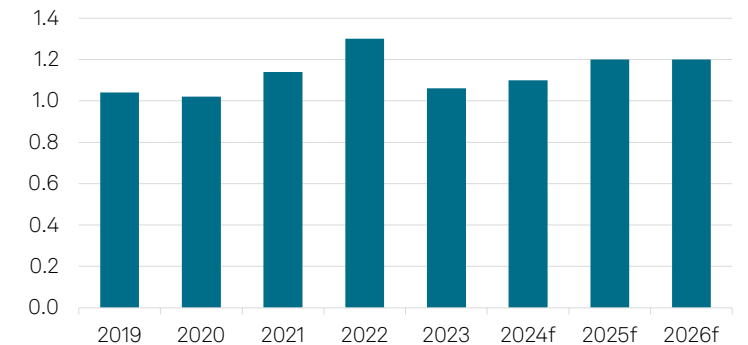
Data as of year ended December 2023. Actual and forecast aggregate presales cover two Vietnam developers--Vinhomes Joint Stock Co. and No Va Land Investment Group Corp. FDI--Foreign direct investment. E--Estimate. f--Forecast. VND--Vietnamese dong. Sources: Company disclosures. S&P Global Ratings.

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