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CHINESE BANKS DOMINATE, WHILE AMERICANS HAVE HIGHER RETURNS

Says The Banker's Top 1000 World Banks ranking 2019

1 July 2019: China has the world's largest banks but America's are much more efficient, according to The Banker's latest ranking of the Top 1000 World Banks. But if US president Donald Trump is successful in opening up China's markets the situation could go into reverse, says The Banker's editor Brian Caplen.

"Free and open markets encourage banks to be more efficient. A more closed system in China with greater state involvement is less effective in driving efficiency," says Mr Caplen. "So if president Trump is successful in opening China's market, it will improve the country's banks."

Chinese banks hold the top four places in the ranking whereas US banks place fifth to eighth (see Table 1). China's banks are the world's largest ranked by Tier 1 capital and make the highest profits, but America's are 40% more efficient in their use of assets. America's banks have a higher return on both assets and capital than Chinese banks (see Table 2).

Globally, banks had their best year ever despite all the challenges of tighter regulation, higher capital requirements, competition from fintechs and low interest rates in Europe and the US. Total pre-tax profits for the Top 1000 World Banks were \$1,135bn, more than 10 times higher than back in 2009 when the financial crisis hit results (see Table 3).

Banks in Europe's problem countries – Italy, Greece, Portugal and Spain – made some improvements by reducing the number of bad loans, with Greek and Portuguese banks drastically reducing their losses and Spanish banks increasing their profits.

British banks defied the Brexit gloom and increased their profits by one third, but they are still chasing French banks which chalked up higher profits and a higher return on capital. The one British bank in the top 10, HSBC, rose one place to ninth despite a slight fall in capital.

In Asia, Vietnamese banks grew their profits by a third but India's banks saw their profits fall 44% as the restructuring of the banking sector continued.

Japanese banks had a poor year with profits down 30% and very low returns on assets and capital. Japan's largest bank, Mitsubishi UFJ, fell one place to tenth in the ranking.

Some countries were hit by economic turmoil and a falling currency, such as Argentina where the banks shrank their balance sheets by one fifth and profits fell 10%, and Turkey where assets fell by 15% and profits by 22%. Mexican banks defied Trump's sabre rattling about trade and migration by growing their capital by 18% and their profits by 16%.

America's banks may deliver better returns than China's, but both pale in comparison with banks in central Asia with a return on capital of 23% and African banks with 20% (see Table 4). Low banking levels in emerging markets allow banks to grow their profits much quicker than in more advanced countries.

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Table 1

TOP 10 WORLD BANKS				
Rank	Previous	Bank	Country	Tier 1 capital \$bn
1	1	ICBC	China	338
2	2	China Construction Bank	China	287
3	4	Agricultural Bank of China	China	243
4	3	Bank of China	China	230
5	5	JP Morgan Chase	US	209
6	6	Bank of America	US	189
7	7	Wells Fargo	US	168
8	8	Citigroup	US	158
9	10	HSBC	UK	147
10	9	Mitsubishi UFJ	Japan	146

Source: www.thebankerdatabase.com

Table 2

BANK RATIOS COMPARED			
Country	Number of banks	Return on assets	Return on capital
China	136	0.89	12
US	169	1.24	14.5
Japan	87	0.22	4.26
UK	25	0.42	8
Germany	25	0.09	2

Source: www.thebankerdatabase.com

Table 3

GLOBAL PROFITS (\$BN)		
2019	2018	2009
1135	1112	115

Source: www.thebankerdatabase.com

Table 4

RETURN ON CAPITAL BY REGION	
Region	Return on capital
Central Asia	23%
Africa	20%
Caribbean	19%
South America	18%
Central America	17%
CEE	16%
North America	15%
Middle East	13%
Asia	10%
Europe	8%

Source: www.thebankerdatabase.com

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The Banker is the world's premier banking and finance resource, providing global financial intelligence since 1926.

The Banker is the key source of data and analysis for the industry. The Banker's Top 1000 World Banks ranking has been setting the industry benchmark since 1970, providing comprehensive intelligence about the health and wealth of the banking sector. To find out more visit www.thebanker.com/top1000worldbanks.

Brian Caplen has been a financial and business journalist for more than 25 years. He has worked in Hong Kong and the Middle East and reported from all over the world. He joined The Banker in 2000 and became editor in 2003.

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