

Analysis of China Construction Bank on Loan Management

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ABSTRACT. *China Construction Bank is a large state-owned bank. Its main business areas include corporate banking, personal banking and capital business. It has branches and subsidiaries in 29 countries and regions. This paper aims at analyzing the efficiency of loan management of China Construction Bank through loss rate, rate of return on interest bearing assets, cost of interest bearing expenses, NPL of loans and distribution of the loans.*

KEYWORD: *Bank loan management; Comparative analysis; Commercial bank*

1. Introduction

Although with the relaxation of the monetary authorities to control securities investment business and the increase in the types of financial derivatives, which cause the proportion of securities investment income and off-balance-sheet business income in total revenue in the commercial bank to increase, loans are still dominant in the assets of the bank. In particular, loans are always the most important and stable profitable assets in the domestic application of commercial Banks in various countries. Moreover, loans are often used as important means and play a significant role in the expansion of other businesses, including deposit business, intermediate business and off-balance sheet business. From the perspective of society, bank loan is one of the main sources of commercial credit, national credit and consumer credit. Industry, agriculture, commerce, real estate and other industries cannot develop without the support of bank loans, especially China's large and medium-sized state-owned enterprises. In recent years, a large number of "three capital" enterprises with rapid development and great market competitiveness are also actively seeking credit support from Banks. All walks of life want bank credit, and bank credit is limited. To put the limited funds in the most reasonable and optimized way to bring the limited funds into full play in the development of the national economy and bring profits to the Banks requires the scientific management of the use of credit funds. The management of credit loans in commercial Banks is mainly to determine and adjust the scale and structure of loans scientifically and reasonably by formulating correct and effective loan policies, strengthening credit analysis, auditing loan strictly, improving the quality of loans, controlling credit risks, effectively supervising the use of loans and collecting the principal and interest of

loans on time. On the premise of maintaining appropriate liquidity and safe recovery of loans, we should price the loans reasonably and strive for higher yields and better social benefits.

2. Analysis of the statements

2.1 Earnings spread and the sources of interest income

	2018			2017		
	Average balance	Interest income/expense	Average yield/cost rate (%)	Average balance	Interest income/expense	Average yield/cost rate (%)
Asset						
Total amount of loans and advances issued	13,071,979	566,942	4.34	12,332,949	515,427	4.18
Financial investment	4,595,289	172,147	3.75	4,567,181	170,713	3.74
Deposit in the central bank	2,543,067	38,892	1.53	2,847,380	43,027	1.51
Deposit of interbank funds and withdrawal of funds	717,699	23,996	3.34	578,376	15,279	2.64
Purchase of repo financial asset	316,993	9,049	2.85	191,028	5,708	2.99
Total interest-bearing assets	21,245,027	811,026	3.82	20,516,914	750,154	3.66
Total impairment provision	(384,314)			(304,369)		
Non-interest-bearing assets	2,037,521			1,895,179		
Total assets	22,898,234	811,026		22,107,724	750,154	
Liabilities						
Deposits	16,711,441	232,877	1.39	16,037,819	213,313	1.33
Depositing and withdrawing funds from Banks and other financial institutions	1,840,607	50,125	2.72	1,875,668	46,621	2.49
Debt securities issued	682,886	24,735	3.62	539,251	19,887	3.69
Borrow from the central bank	488,340	15,671	3.21	484,099	14,486	2.99
Sale of repo financial asset	46,654	1,340	2.87	101,842	3,391	3.33
Total interest-bearing liabilities	19,769,928	324,748	1.64	19,038,679	297,698	1.56
Non-interest-bearing liabilities	1,293,641			1,383,210		
The total amount of liabilities	21,063,569	324,748		20,421,889	297,698	
Net interest income		486,278			452,456	
Earnings spread			2.18			2.10
Net interest yield			2.31			2.21

In 2018, China Construction Bank realized interest income of 811.026 billion yuan, an increase of 60.872 billion yuan or 8.11% over the previous year.

Among them, interest income from loans and advances, interest income from financial investment, interest income from deposits with the central bank and deposit of interbank funds and withdrawal of funds accounted for 69.90%, 21.23%, 4.80%

and 2.96% respectively. Influenced by the targeted RRR cut by the central bank, the bank optimized the balance sheet structure, strengthened asset-liability pricing management and successfully increased the rate of return on interest-bearing assets, though at the meantime, the cost rate on interest-bearing liabilities increased, the degree of that increase was smaller than that of interest-bearing assets, leading earnings spread to increase by 2.31% to 2.18%, which means China Construction Bank's ability to earn profit enhanced.

2.2 Distribution of the loans

Interest income from loans and advances						
	2018			2017		
	Average balance	Interest income	Average return	Average balance	Interest income	Average return
Company loans and advances	6,559,434	284,346	4.33	6,291,705	267,676	4.25
short-term loan	2,165,102	92,314	4.26	2,314,327	95,743	4.14
Medium & Long-term Loans	4,394,332	192,032	4.37	3,977,378	171,933	4.32
Personal loans and advances	5,167,810	236,588	4.58	4,537,703	202,473	4.46
short-term loan	472,760	22,724	4.81	378,095	16,927	4.48
Medium & Long-term Loans	4,695,050	213,864	4.56	4,159,608	185,546	4.46
note discount	137,720	4,972	3.61	214,118	6,894	3.22
Overseas subsidiaries	1,207,015	41,036	3.40	1,289,423	38,384	2.98
Total amount of loans and advances issued	13,071,979	566,942	4.34	12,332,949	515,427	4.18

Interest income from loans and advances totaled 566.942 billion yuan, an increase of 51.55 billion yuan or 9.99% over the previous year.

The average balance and rate of return of corporate loans and advances as well as personal loans and advances have increased, driving the issuance of loans and advances in interest income growth.

Loans distributed by China Construction Bank are mainly Medium & Long-term Loans, however something strange appeared on this table, the average return on short-term loan of personal loans and advances is larger than that on medium & Long-term Loans, short-term loans means lower probability of default and it can help a bank to maintain adequate liquidity, so usually it is more expensive to lend longer. Also, comparing with the shorter term loan of company, it seems that the average return on shorter term loan of personal is abnormally high. There are two reasonable explanations for this, the first one is that the bank mispriced the interest rate, the second one is that the loss rate of medium & Long-term Loans of personal loans and advances is so high that it deducts the profit created by the higher lend rate. For a large bank like China Construction Bank, the first scenario is quite unlikely to happen, and we will find that it is because of the second reason that such a strange situation appears.

2.3 Loan distribution by five levels

	2018/12/31		2017/12/31	
normal	13,157,944	95.46	12,345,554	95.67
watchful	387,430	2.81	365,596	2.83
Subprime	81,432	0.59	72,919	0.57
suspicious	93,270	0.68	97,522	0.76
loss	26,179	0.19	21,850	0.17
accrued interest	36,798	0.27	NA	NA
Total amount of loans and advances issued	13,783,053	100.00	12,903,441	100.00
Non-performing loan amount	200,881		192,291	
NPL Ratio		1.46		1.49

In 2018, China Construction Bank strictly managed risks, improved the initiative of credit risk management, and strived to optimize and improve the credit structure.

Credit mechanism process, asset quality remained stable and improved. As at December 31, 2018, the balance of non-performing loans was 200.881 billion yuan, an increase of 8.59 billion yuan over the previous year. The non-performing loan ratio was 1.46%, down 0.03 percentage points from the previous year. Watchful loans accounted for 2.81%, down 0.02 percentage points from the previous year. The NPL ratio is below the average of the banks that are of similar size and type, for example, ICBC (1.55%), ABC (1.81%), CCB did well in improve the quality of the loan.

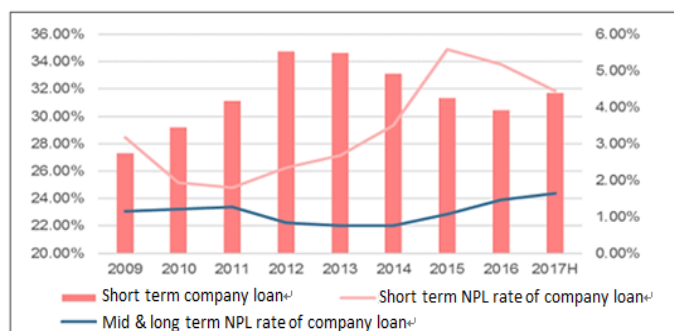
2.4 Distribution of loans and non-performing loans by product type

	2018/12/31			2017/12/31		
	loan amount	NPL amount	NPL rate	loan amount	NPL amount	NPL rate
Company loans and advances	6,497,678	169,248	2.60	6,443,524	166,044	2.58
Short-term loan	2,000,945	73,974	3.70	2,050,273	80,638	3.93
Medium & Long-term Loans	4,496,733	95,274	2.12	4,393,251	85,406	1.94
Personal loans and advances	5,839,803	24,076	0.41	5,193,853	21,811	0.42
Individual housing loan	4,753,595	11,414	0.24	4,213,067	10,199	0.24
Credit Card Loans	651,389	6,387	0.98	563,613	5,039	0.89
Individual consumption loan	210,125	2,302	1.10	192,652	1,386	0.72
Personal aid loan	37,287	1,391	3.73	36,376	1,620	4.45
Other Loans	187,407	2,582	1.38	188,145	3,567	1.90
Notes discounted	308,368	-	-	122,495	-	-
Overseas and subsidiaries	1,100,406	7,557	0.69	1,143,569	4,436	0.39
Accrued interest	36,798	-	-	NA	NA	NA
Total	13,783,053	200,881	1.46	12,903,441	192,291	1.49

The subject that has the highest NPL rate is personal aid loan, which is part of the personal loans and advances and usually a medium term loan, so this can partly explain why medium & Long-term Loans earn less rate than short-term loan.

The NPL rate of short-term loan is high, however this influence little about gains

in short-term loan of personal loans and advances because those who default on short term loan are mainly companies.



The NPL rate of short-term loan of the company is much higher than that of the average NPL rate of short-term loan, which indicates that those who default on short term loan are mainly companies, thus illustrating that the NPL rate of short-term loan of personal is low, lower than that of the NPL rate of medium & Long-term Loans of personal.

More efforts should be made by CCB to optimize the structure of company loans.

2.5 Loans and non-performing loans by industry

	loan amount	Percent age of total (%)	NPL amount	NPL ratio (%)	loan amount	Percent age of total (%)	NPL amount	NPL ratio (%)
Corporate loan	6,497,678	47.14	169,248	2.60	6,443,524	49.94	166,044	2.58
Transportation, warehousing and postal services	1,307,712	9.48	16,033	1.23	1,304,691	10.11	13,806	1.06
Manufacturing industry	1,092,369	7.92	79,422	7.27	1,178,373	9.13	75,000	6.36
Leasing and Business Service	962,465	6.98	4,647	0.48	913,395	7.08	3,282	0.36
Include: business services	928,327	6.74	4,338	0.47	819,916	6.35	2,998	0.37
Electricity, heat, gas and water								
Production and supply industry	803,746	5.83	9,075	1.13	822,782	6.38	4,210	0.51
Wholesale and retail	373,246	2.71	26,064	6.98	436,275	3.38	33,564	7.69
Real estate	510,045	3.70	8,505	1.67	414,867	3.22	9,236	2.23
Water Conservancy, environment and public facilities management	390,220	2.83	2,390	0.61	378,620	2.93	778	0.21
Construction industry	281,932	2.05	5,907	2.10	252,989	1.96	6,549	2.59
Mining industry	222,771	1.62	11,281	5.06	222,694	1.73	11,625	5.22
Include: oil and natural gas exploitation industry	3,231	0.02	90	2.79	6,199	0.05		-
Education	64,212	0.47	397	0.62	67,471	0.52	412	0.61

Information transmission, software and information technology services	53,230	0.39	410	0.77	41,510	0.32	394	0.95
Include: telecommunications, radio and television and satellite transmission industry	26,382	0.19	38	0.14	25,245	0.20	8	0.03
Other	435,730	3.16	5,117	1.17	409,857	3.18	7,188	1.75
Personal loan	5,839,803	42.37	24,076	0.41	5,193,853	40.25	21,811	0.42
Notes discounted	308,368	2.24	-	-	122,495	0.95	-	-
Overseas and subsidiaries	1,100,406	7.98	7,557	0.69	1,143,569	8.86	4,436	0.39
Accrued interest	36,798	0.27	-	-	NA	NA	NA	NA

The non-performing loan ratio of infrastructure-related industries was kept at a low level; Non-performing loans in the manufacturing sector raised 91 basis points. The amount and ratio of non-performing loans in the wholesale and retail industry decreased. The NPL ratio of personal loan dropped one basis point.

The NPL ratios in wholesale and retail, mining industry, and manufacturing industry are much higher than those of other industries, CCB should consider reduce the loan given to these three industries, or ask for more valuable collateral when making loans to them. This is especially true for manufacturing industry, which has a high percentage of total loan and the highest NPL rate in 2018.

2.6 Loan concentration

	2018	2017	2016
Single largest customer loan ratio (%)	2.95	4.27	4.03
Loan ratio of top 10 customers (%)	13.05	13.90	13.37

Single largest customer loan ratio is significantly lower than the required 10% and loan ratio of top 10 customers is significantly lower than the required 50%.

	Industry	Amount	Percentage of total loan (%)
Client A	Transportation, warehousing and postal services	69,391	0.50
Client B	Public administration, social security and social organization	45,923	0.33
Client C	Transportation, warehousing and postal services	35,149	0.26
Client D	Financial industry	28,000	0.20
Client E	Transportation, warehousing and postal services	26,090	0.19
Client F	Transportation, warehousing and postal services	22,844	0.17
Client G	Transportation, warehousing and postal services	22,388	0.16
Client H	Transportation, warehousing and postal services	19,924	0.15
Client I	Transportation, warehousing and postal services	19,759	0.14
Client J	Power, heat, gas and water production and supply industries	16,948	0.12
Total		306,416	2.22

It is surprising that there are 7 out of 10 major borrowers are from the same industry, transportation, warehousing and postal services, this may be a bad sign since if there is some big systematic risk in that industry, and then the bank will face

the situation of a great loss.

3. Suggestions

3.1 Change the loan structure

The NPL ratios in wholesale and retail, mining industry, and manufacturing industry are much higher than those of other industries, CCB should consider reduce the loan given to these three industries, or ask for more valuable collateral when making loans to them.

CCB should also diversify their loan; the portion given to transportation, warehousing and postal services is a bit too high, which may make the bank vulnerable to negative changes in that industry.

3.2 Tighter personal credit checks before making a loan

The default rate of personal medium & Long-term Loan is abnormally higher than that of others, when making a loan, the bank should check the default probability of a certain potential client, if he or she have a high default probability, then the bank had better do not grant him or her the loan or require higher yield as a compensation. It's not just a case of saying; employees should be trained to identify which clients to accept.

Reference

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