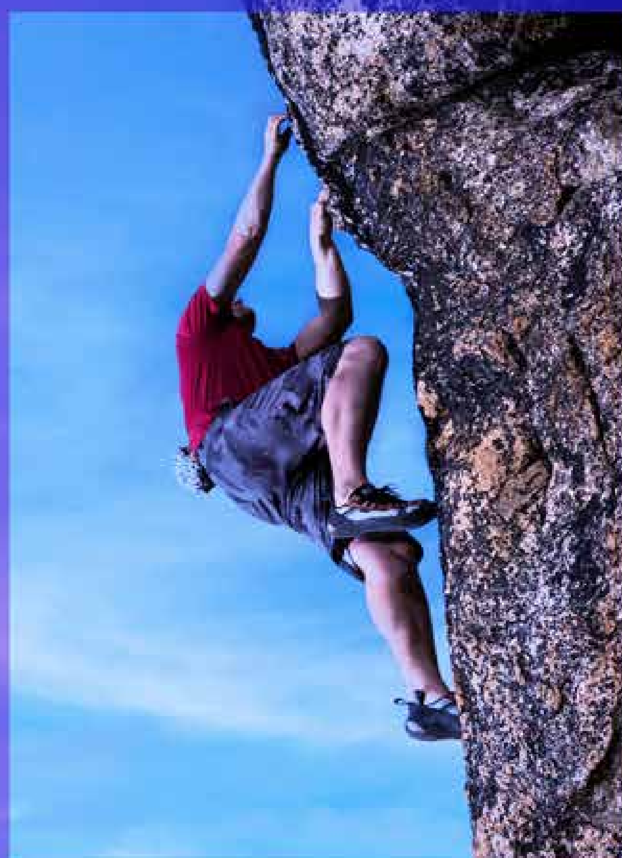
Innovating in Pursuit of New Heights

Chinese Mainland Banking Survey 2023
Summary



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Foreword

Tony Cheung

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Since the beginning of 2023, we have seen choppy waters around the world, including a global energy crisis, rising inflation, geopolitical tensions, and uncertain economic prospects in China and overseas. Banks around the world are also facing these challenges. In this context, one important factor that bank executives should consider is whether their banks are developing and implementing strategies that will help them navigate turbulence and quickly adapt.

Fortunately, in general, we see positive signs in the domestic banking sector's 2023 Q1 operating indicators, which show that the sector has maintained a high growth rate in scale and steadily recovered its profitability, while demonstrating sound asset quality and capital adequacy. Under the guidance of the 20th National Congress of the Communist Party of China, the path for social and economic development in China is clearer, and the environment will be more conducive to the steady development of the banking industry. Nonetheless, going forward, macroeconomic uncertainty and instability are expected to persist, and banks will be subject to more stringent regulation, which will present challenges in terms of short-term performance, long-term operating capabilities, the need to cope with future market and policy changes, and efforts to unlock new paths for development.

In this report, we provide a general summary of the opportunities and challenges facing China's banking sector in the new era from a macro perspective. In the coming years, we hope that banks will cultivate future-proof business and development models that focus on creating value, improving operational resilience, and responding effectively to risks. By following this path, they will be able to successfully adapt in a changing world and climb to new heights of prosperity.

Thomas Chan

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The world is undergoing profound changes of a scale unseen in a century. The economic and financial sectors are seeing rising global resource allocation costs, tightening liquidity, pressing financial risks and other new challenges.

In this context, China's banking industry has shown strong resilience, underpinned by the determination and skill of the country's financial regulators. According to the requirements and expectations for financial regulation in the 14th Five-Year Plan and the Long-Range Objectives Through the Year 2035, enhanced financial risk management has been made the top priority for the banking industry.

On 18 May 2023, the National Administration of Financial Regulation (NAFR) was officially set up, marking a new milestone in financial regulation. In 2023, banking regulation is expected to continue to be stringent, and regulatory policies will continue to encourage commercial banks to expand support for small and micro enterprises, technological innovation, green development and other sectors, with a view to forming a virtuous cycle between financial services and the real economy.

While preparing the 2023 Survey Report, we learned that decision-makers in the sector are pursuing comprehensive risk management, refined management, and integrated management of risks from various dimensions. They are also implementing the new requirements for differentiated regulation, refined measurement, inclusive orientation and digital transformation in order to adhere to China's New Capital Regulations and align with Basel III. Against this backdrop, we held in-depth, forward-looking discussions in an effort to provide analysis that will help the industry explore new opportunities in digitalised and intelligent risk management.

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In recent years, financial regulators and the former China Banking and Insurance Regulatory Commission (CBIRC) have released a number of new regulatory policies, including guiding opinions on the Fintech Development Plan and digital transformation. Under these policies, commercial banks are gradually deepening their digital transformation, and focusing their attention on the integration of financial services, business operations, digitalisation, technology-driven initiatives and data empowerment.

However, these tasks are easier said than done. Going forward, we need to ask ourselves, how can traditional business models and management models be comprehensively upgraded to promote the transformation of industrial finance and green finance? How can digitalisation strategies be implemented to enable multi-dimensional innovation in bank products, services, business models, risk control and other areas, and how can we measure productivity management capabilities? How can banks focus on data governance, anti-money laundering (AML) management, business and finance integration, organisational change and talent training, customer experience optimisation, and business scenario innovation to achieve bank value growth? How should rural banks improve their corporate governance, internal control, and liquidity risk management and control in the rapidly changing market? These questions are all transformational pain points that banks are finding ways to break through during this critical moment of reform.

The report to the 20th National Congress of the Communist Party of China mapped out the development blueprint for the country. The banking sector should seize strategic opportunities and the development window to deepen the transformation of technology and finance; upgrade inclusive finance, green finance and wealth finance; promote in-depth digital development; and facilitate the comprehensive and high-quality growth of the financial service ecosystem.

This report is the 17th annual survey that KPMG has published for China's banking industry. This edition provides analysis of China's economic and financial conditions, a review of banking development and its outlook going forward, interpretation of regulatory policies, analysis of important topics, and banks' performance data. Amid rising uncertainties in the industry, we have invited experts from KPMG China's various banking service lines to analyse important issues in depth and provide insights into development trends. Our discussions focus on topics such as digital transformation, sustainability, risk management, data-driven initiatives, and management compliance. From industry best practices and tech development trends, to business scenario innovation, we have shared our exclusive insights into the industry's current situation, and provided ideas for innovative solutions.

I would like to thank my colleagues who actively participated in our discussions and contributed to the report's publication. We have also illustrated and analysed the individual operating indicators of 150 listed and non-listed commercial banks in 2022, and analysed their scale of business, profitability, asset quality, capital adequacy and other key indicators in depth to provide a valuable reference for decision-making.

Going forward, as professional service providers, we hope to initiate brainstorming sessions in the industry, integrating resources and views from various sources and across different dimensions. We look forward to holding discussions with industry peers on how breakthroughs can be made in banking business development, with a view to helping the industry make progress and achieve long-term stability and prosperity.

01 Overview

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Economic and financial review and outlook

China needs more economic growth momentum in the early stage of the recovery

In 2022, China's economy grew at a slower pace under the weight of multiple pressures posed by the macroeconomic downturn during the year, and the impact of some of these challenges is still being felt.

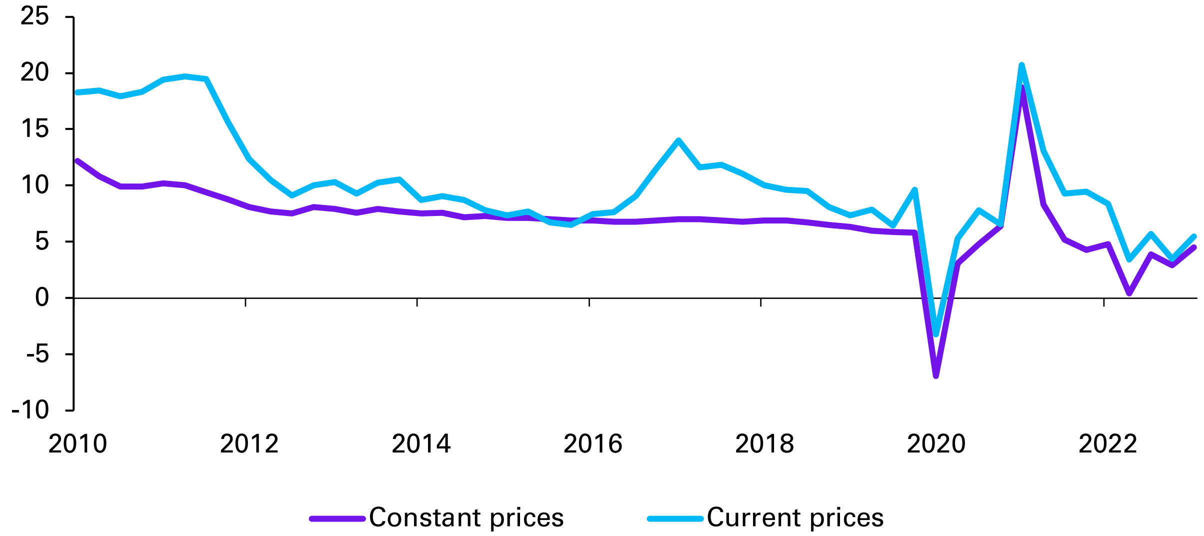
First, the continued spread of COVID-19 is still having an impact on China's economy and society. Second, the real estate market is still soft. In 2022, real estate investment declined for the first time annually, falling 10% year-on-year (YOY) and cutting annual GDP growth by 1.7 percentage points. Third, the Federal Reserve (Fed)'s rate hikes have triggered substantial fluctuations in the global economy and financial markets. To stabilise economic growth, China has taken measures to relax its monetary policy, including cutting interest rates and the required reserve ratio (RRR). In 2022, the widening gap in monetary policy between China and the US increased volatility in China's financial market and impacted the exchange rate and cross-border capital flows. Fourth, geopolitical uncertainty has been intensifying. The Russia-Ukraine conflict has exacerbated global inflation, and trade tensions between China and the US have become the new normal. These challenges combined during the year to deliver a substantial drag on China's GDP, which recorded moderate growth of 3.0% in 2022.

China started 2023 with steady economic momentum in the wake of the relaxation of epidemic prevention and control measures. The strong recovery of the service industry, better-than-expected growth in exports and the rebounding real estate industry jumpstarted the economy in 2023 Q1. China notched YOY growth of 4.5% in 2023 Q1, 1.6 percentage points higher than in 2022 Q4.

However, we should bear in mind that China's economy is still at the early stage of recovery. Consumers still need to regain their confidence in private enterprises; and as we observed unbalanced growth across various industries, the foundation of the economic recovery needs to be strengthened. For example, services grew faster than industries, while large corporates performed better than small- and medium-sized enterprises (SMEs). Going forward, the complex international landscape coupled with the downturn in the global economy will likely slacken China's export growth. Macroeconomic policies are expected to remain robust in the near future in an effort to fully tap domestic demand and stabilise economic growth.

As employment improves, more supporting policies are introduced and consumption scenarios increase, we expect consumer spending to grow, investment growth to stabilise, and industrial transformation upgrading to continue. These trends should help drive economic momentum, and the lower base in 2022 should also help buoy YOY growth figures for the year. Overall, we expect China's economy to expand by 5.7% in 2023.

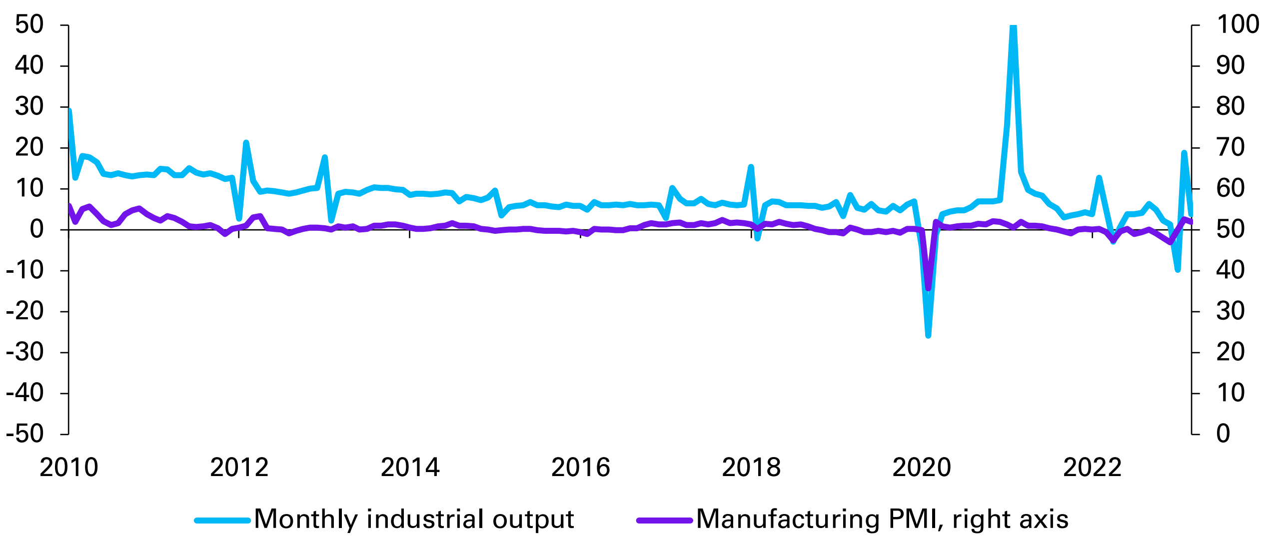
Figure 1 Quarterly GDP growth (%)



Source: Wind and KPMG analysis

Under the lingering impact of epidemic prevention and control measures in 2022, industrial production has remained weak due to shortened time spent on production, greater pressure on supply chains and lukewarm market demand. Since January 2023, stabilising policies have helped revitalise market demand and strengthen industry and supply chains. Industrial production has been steadily returning to normal, with industrial output at China's major industrial companies growing 3.0% YOY in 2023 Q1, up 0.2 percentage points from 2022 Q4 (Figure 2). However, the recovery in industrial production has been weaker than that seen in services, as output growth of the latter recorded more significant YOY growth of 5.4% in 2023 Q1, up 3.1 percentage points from 2022 Q4. Relatively high inventory levels, the shrinking profitability of industrial enterprises and the global economic slowdown have all contributed to stagnant foreign demand and the dampening of industrial production. China's Manufacturing Purchasing Managers Index (PMI) and capacity utilisation rate both recently fell. These latest figures confirm that China's economy is still at the early stage of recovery and that more momentum is needed to boost industrial production.

Figure 2 Industrial output and manufacturing PMI



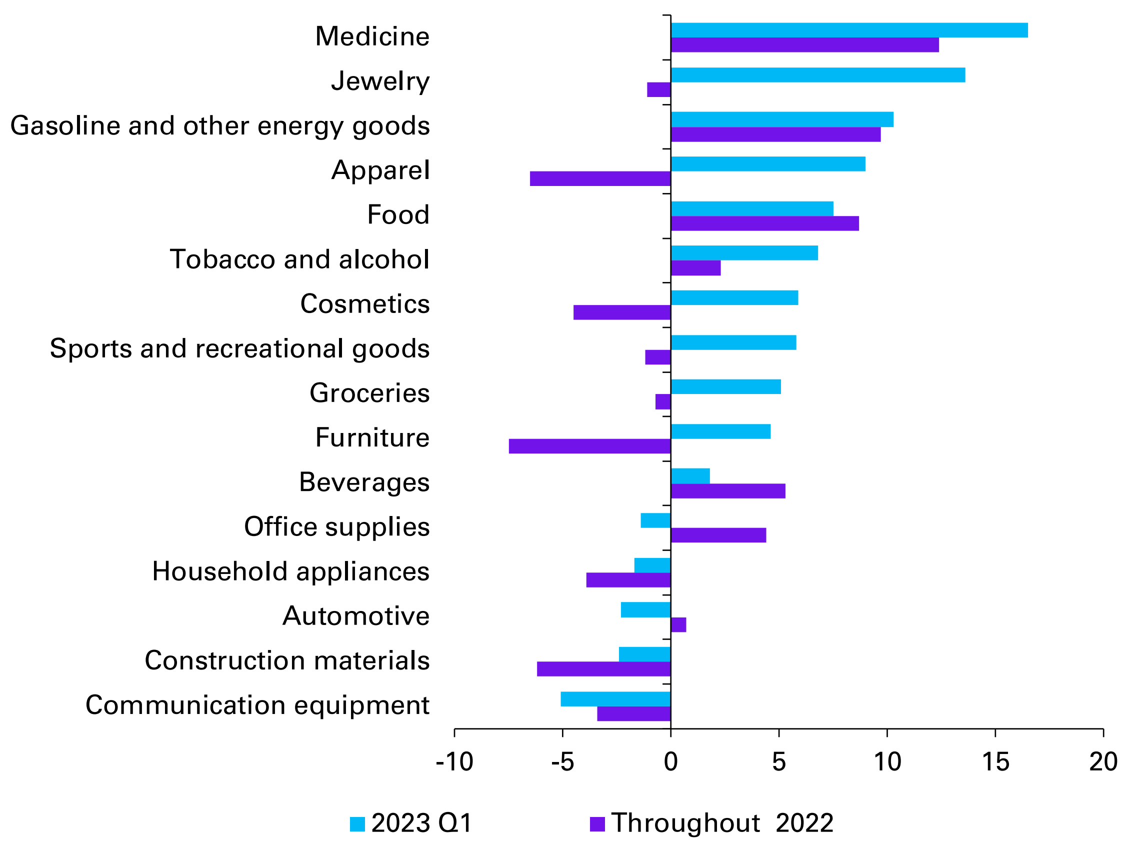
Source: Wind and KPMG analysis

Analysis from the three demand perspectives of consumption, investment and foreign trade:

As a major driver of economic development in China, consumer spending contributes the most to economic growth. Due to the epidemic and related control policies, total retail sales of consumer goods decreased 0.2% YOY in 2022, which was notably lower than average growth prior to COVID-19. In terms of consumer goods, in 2022, sales of household goods and daily necessities boomed in light of the decline in spending on contact-based offline services due to the impact of the epidemic. Since the beginning of 2023, the overall consumption recovery has been solid, as final consumer spending in 2023 Q1 drove economic growth by 3%, representing 66.6% of total economic growth. With the lifting of consumption restrictions and the implementation of policies to encourage consumer spending, retail sales of jewellery, apparel, tobacco and alcohol, cosmetics, sports and recreational goods, and other consumer goods that involve offline social activities grew faster than in the previous year (Figure 3). As catering, tourism and other services gained momentum during the recovery, they became a more significant driver of economic growth.

Despite these upward trends, consumption still has a long way to go before it returns to normal. Automotive and housing consumption in particular are in need of a boost. According to the Urban Depositor Survey conducted by the People's Bank of China (PBOC) in Q1, 18.8% of people were inclined to invest more in 2023 Q1, up from 15.5% in 2022 Q4. Meanwhile, the percentage of people inclined to consume more increased only moderately, indicating the various degrees of recovery in residents' willingness to invest and consume. As employment gradually picks up, more policies to encourage consumption become effective and consumption scenarios increase, residents' purchasing power and willingness to consume are expected to grow, and we expect more residents to channel their savings to the consumer and investment sectors as the financial market improves.

Figure 3 YOY growth in retail sales of consumer goods of companies above the designated size (%)



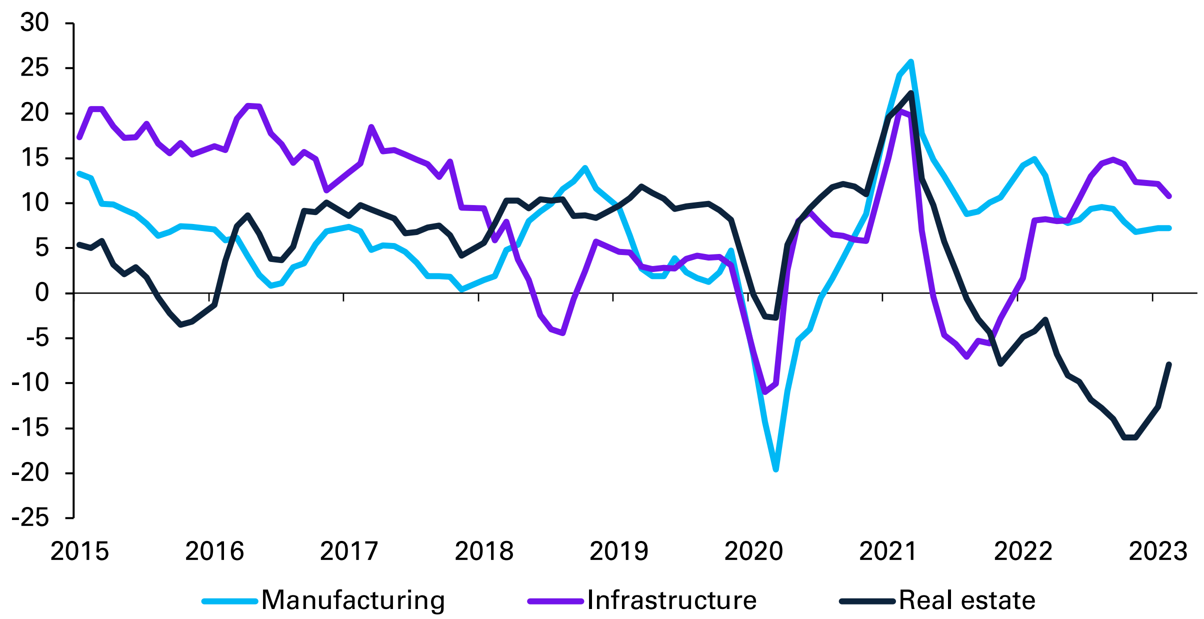
Source: Wind and KPMG analysis

Among the three pillars of investment—manufacturing, infrastructure and real estate—manufacturing and infrastructure investments sustained a steady recovery in 2023 Q1. Meanwhile, as the policy of "ensuring building delivery and stabilising people's livelihood" takes effect, the downward trend in real estate investment appears to have levelled off (Figure 4). In 2023, manufacturing investment has maintained a steady recovery. First, the general recovery of economic activities, the prosperity seen in emerging industries, and other factors have supported the expansion of manufacturing investment. Second, strong export activity in 2023 Q1 also boosted manufacturing investment. In particular, robust exports of new energy vehicles and other electromechanical and high-tech products have encouraged enterprises to expand their capital expenditure. Third, supportive policies continued to guide the manufacturing industry in its pursuit of high-quality development, while also boosting investment confidence. Macroeconomic policies have also been stepped up to ensure that infrastructure investment continues to expand and stabilise economic growth.

Due to tighter cash flows and negative market sentiment, real estate investment has still not pulled out of the downturn that began in 2022, during which time investment in real estate development on a national basis notched a YOY decline of 10%, the first decline investment in real estate development in its history. Since the second half of 2022, the government has introduced an array of policies to stabilise the market from both the demand side and supply side. Recently, policies to "ensure building delivery and stabilise people's livelihood" have been made more vigorous, and in 2023 Q1, building area completed increased by 14.7% YOY. However, during the same period, new construction starts by surface area tumbled 19.2% compared to 2022 Q1 figures.

In 2023 Q1, total real estate development investment amounted to RMB 2.5 trillion, representing a YOY decline of 5.8%, and confirming that the real estate market is still adjusting and recovering. On the other hand, real estate sales figures presented a sunnier picture, largely because rigid demand that was delayed and accumulated last year due to the impact of the epidemic, as well as demand for improved housing, was tapped in 2023 Q1. Combined with the continuous easing of real estate control policies, total commercial housing area sold on a national basis reached 300 million square metres in 2023 Q1, representing a YOY growth reduced by 1.8%, which was a significantly slower decline compared to the figure recorded at the end of 2022. As a leading indicator of the real estate market, strong sales will have a positive impact on new construction starts by surface area and investment for some time to come, and for this reason we expect to see a modest recovery in the real estate market for the rest of the year.

Figure 4 Monthly moving weighted average fixed asset investment by sector (%)



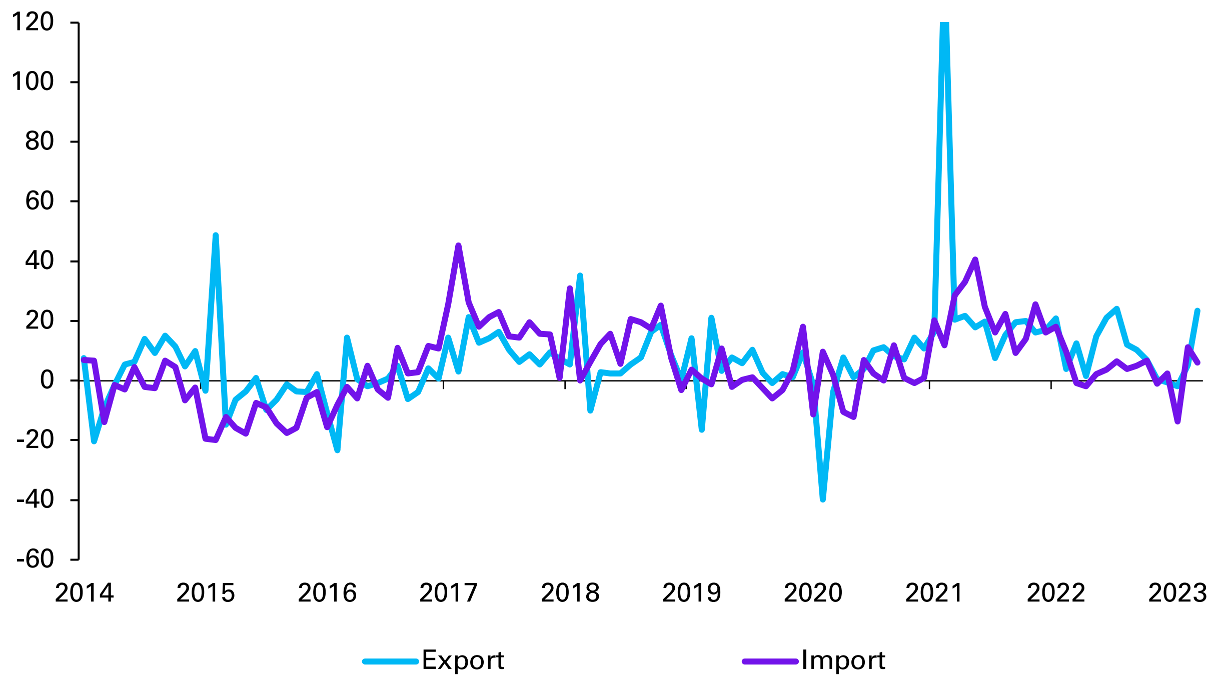
Source: Wind and KPMG analysis

Amid the implementation of different policies for epidemic prevention and relief within and outside China over the last three years, China has seized the opportunity brought by increased foreign demand by leveraging its complete supply chain and manufacturing advantages, and as a result, the country has seen substantial growth in exports, which have become the main engine driving China's economic growth.

From 2022 Q1 to Q3, the cumulative YOY contribution of net exports to GDP exceeded 30%, the highest figure recorded in the past two decades. Foreign demand, however, was sluggish in 2022 Q4, as the global economy took a turn for the worse. In 2023 Q1, China registered rapid growth of 8.5% in exports, which was significantly higher than the 0.9% figure recorded for the first two months. The quarterly figure jumped mainly because YOY monthly growth reached 23.4% in March, much higher than expectations (Figure 5). China's export figures show that the country's export structure is upgrading, as commodities for export are shifting towards those produced by high-end manufacturing and equipment manufacturing. In particular, high-tech flagship exports include electric vehicles, lithium-ion batteries and solar batteries, with total exports of these three products surging by 66.9% in 2023 Q1, representing a YOY increase of RMB 100 billion and driving overall export growth by 2%. In short, new commodities are playing an increasingly important role in promoting China's exports. Despite stagnant demand in developed economies, China's exports to countries participating in the Belt and Road initiative, members of the Regional Comprehensive Economic Partnership (RCEP), and other emerging markets are still soaring. China's exports to ASEAN members rose by 28% YOY in 2023 Q1, with March exports in particular hitting a monthly record high of RMB 385.2 billion.

Going forward, we expect to see strong export growth in 2023 Q2 due to the relatively lower base in 2022 Q2. However, China's exports will still face a certain degree of pressure in the second half of 2023 as rising inflation in developed economies and heightened banking risk in Europe and the US dampen prospects for global economic growth.

Figure 5 Monthly import and export activity (%)

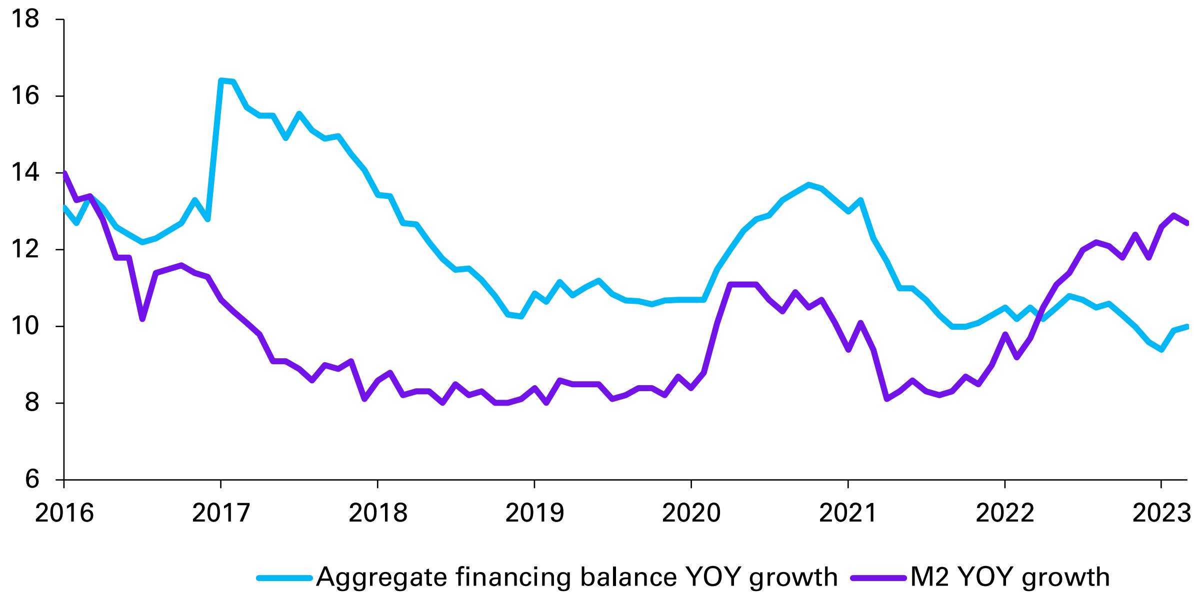


Source: Wind and KPMG analysis

According to financial data, the total monetary supply and credit supply increased within a reasonable range in 2022, as the balance of the broad measure of money supply (M2) reached RMB 266.4 trillion, representing YOY growth of 11.8%. Aggregate financing reached RMB 32 trillion in 2022, which reflected a modest increase of RMB 668.9 billion from 2021. The increase in aggregate financing moderated in 2022 to a YOY growth rate of 9.6% under the combined impact of multiple factors, including epidemic control measures, the lukewarm capital market, and a lower risk appetite among investors. In 2023 Q1, aggregate financing amounted to RMB 14.5 trillion, representing an increase of RMB 2.5 trillion or 10% compared to 2022 Q1. Aggregate financing regained its momentum in 2023 Q1 as the economy returned to normal in the wake of the epidemic, enterprises accelerated resumption of work and production, and market demand for financing increased in February and March (Figure 6).

In terms of monetary supply, M2 increased by 12.7% YOY in Q1, which can be attributed to three factors. First, revived credit expansion in 2023 Q1 magnified the deposit multiplier effect. Second, funds from treasury products such as wealth management were returned to banks as risk appetites in the real economy dampened. And third, funds were released from the RRR cut, in combination with the introduction of fiscal policy support. Each of these factors helped drive an increase in the broad measure of the money supply.

Figure 6 Aggregate financing balance and M2 growth (%)



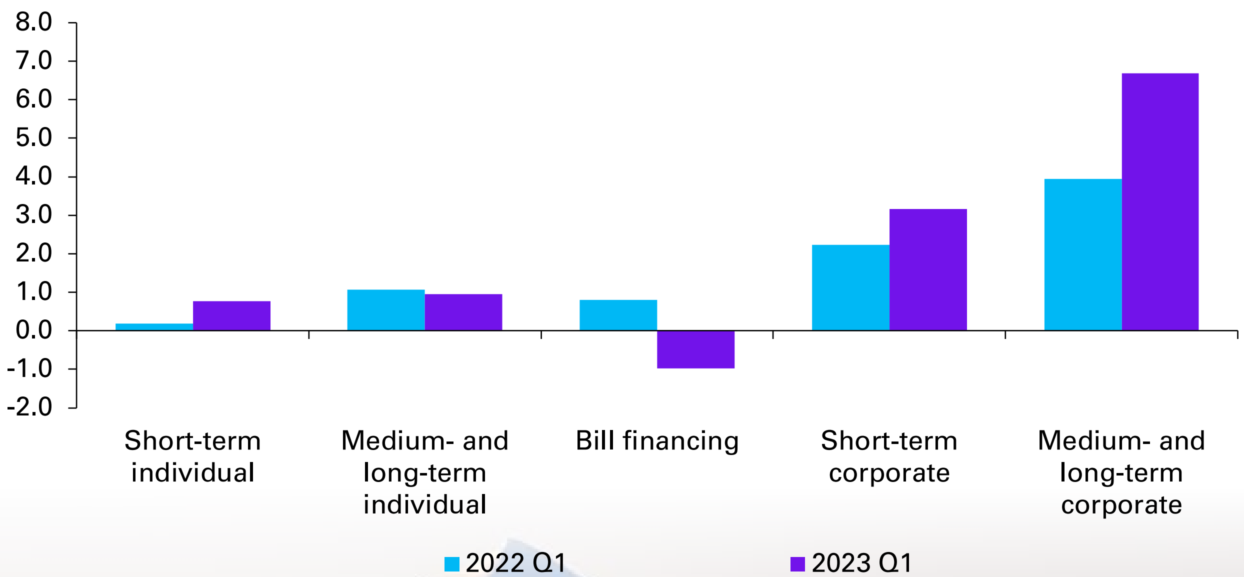
Source: Wind and KPMG analysis

RMB loans are a major contributor to aggregate financing. Total new RMB loans at the end of 2023 Q1 amounted to RMB 10.7 trillion, representing YOY growth of RMB 230 milion and accounting for 74% of new aggregate financing. According to the PBOC quarterly survey in 2023 Q1, the bank loan demand index rose from 59.5% in 2022 Q4 to 78.4% in 2023 Q1, representing YOY growth of 6.1% and marking a record high YOY growth rate over the last decade.

Structurally, loans granted in 2023 Q1 were still focused on corporates at the expense of individuals. In Q1, medium- and long-term corporate loans shot up, recording a substantial YOY increase of RMB 2.7 trillion (Figure 7), as banks were encouraged by policy guidance to increase credit support for infrastructure, manufacturing and real estate development, with an extra boost from the sustained economic recovery. At the end of March, the balance of medium- and long-term manufacturing loans had grown by 41.2% YOY, while medium- and long-term infrastructure loans had increased by 15.2% YOY, both outperforming loan growth in all other sectors. Short-term corporate loans have also been growing, with new loans as at the end of March amounting to RMB 1 trillion, as they acted as a substitute for bill financing.

In terms of personal lending, medium- and long-term personal loans remained sluggish amid the depressed real estate market. With the lifting of epidemic prevention measures at the end of 2022, the recovery of service and consumer spending stimulated growth in personal consumption and short-term loans. The financial system has also been bolstering key areas of the real economy by offering effective support to small and micro enterprises and owner-operator businesses. In Q1, the scale of personal business loans swelled as a result of lower interest rates. On the whole, short-term personal loans in 2023 Q1 amounted to about RMB 770 billion, reflecting growth of RMB 570 billion compared to 2022 Q1.

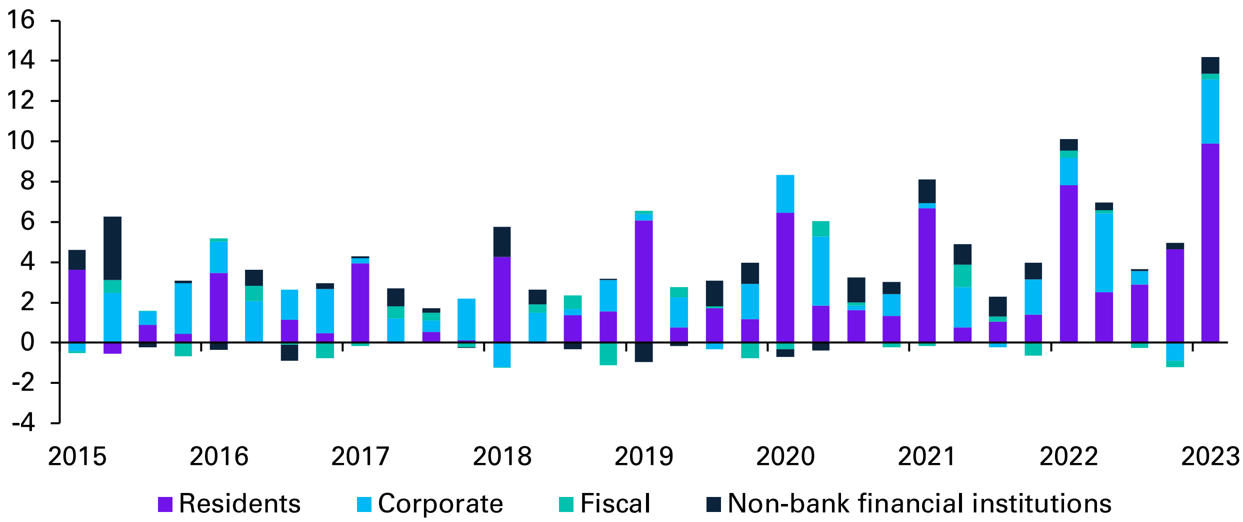
Figure 7 Structure of RMB loans (RMB trillions)



Source: Wind and KPMG analysis

Overall, new RMB deposits stood at RMB 15.4 trillion at the end of 2023 Q1, representing YOY growth of RMB 4.5 trillion. Specifically, new residents' deposits increased by RMB 9.9 trillion, reflecting a YOY increase of RMB 2 trillion (Figure 8). Usually, enterprises pay salaries, rewards and bonuses on the eve of the Spring Festival, providing an important source of new deposits in January. On the other hand, amid the disappointing performance of both the stock and real estate markets, residents have generally been saving more and approaching investments more conservatively. Notably, residents' new deposits increased by about RMB 205.1 billion YOY in March, in contrast to the sharp increase of RMB 1.8 trillion in the previous two months. Going forward, we expect a certain amount of savings to be channelled to the consumption and investment sectors as precautionary savings are spent in light of improving economic fundamentals. In addition, deposits of non-financial enterprises increased by RMB 3.18 trillion in 2023 Q1, indicating that corporate loan demand has continuously grown.

Figure 8 Quarterly new RMB loans granted by financial institutions by sector (RMB trillions)



Source: Wind and KPMG analysis

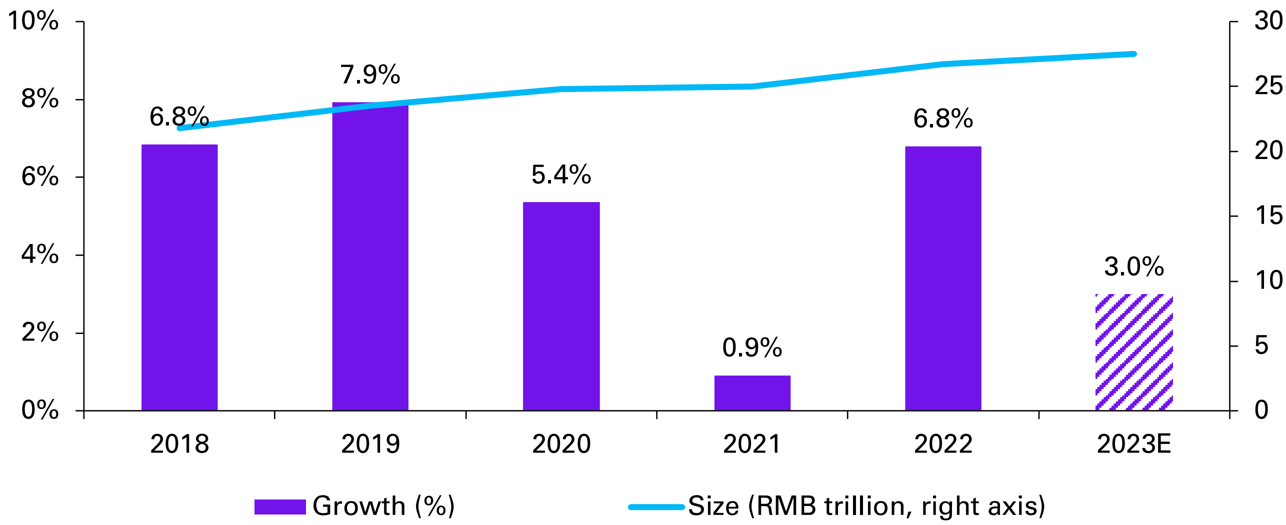
Effective macroeconomic policies continue to stabilise growth

To promote the overall recovery, macroeconomic policies have been introduced to ensure the stable growth of the economy. According to the meeting of the Political Bureau of the Communist Party of China Central Committee on 28 April 2023, pressures from demand contraction, supply shocks and weakening expectations were being alleviated and the economy was recovering, although endogenous momentum and demand might not be as strong as expected. The key to the sustainability of the economic recovery lies in the restoration and expansion of demand; consistent, stable and targeted macroeconomic policy is also important. Fiscal policy should be proactive and strengthen performance, while monetary policy should be prudent, precise and robust. Coordinated and aligned policies will act together to promote demands.

Proactive fiscal policy aims for "greater intensity" and "enhanced performance." Focusing on quantity, "greater intensity" ensures a certain scale of fiscal expenditure, an appropriately expansionary fiscal policy, and steady growth through special bonds, fiscal interest subsidies and other tools. Focusing on quality, "enhanced performance" refers to improving the efficiency of expenditures and achieving better policy results while increasing fiscal support. In 2023, local governments in China plan to issue RMB 3.8 trillion in special bonds, up RMB 150 billion from 2022, to maintain the scale of government investment and appropriately expand the scope of sectors in which special bond funds can be invested and used as project capital.

Total government expenditure is budgeted to be RMB 27.5 trillion in 2023, representing YOY growth of 3% (Figure 9). At the end of March, government expenditure stood at RMB 6.8 trillion, reflecting YOY growth of 6.8% and accounting for 24.7% of the 2023 budget. The growth in government expenditure in Q1 was 0.9% faster than that in 2022 Q1. The protection of people's livelihood was still the main focus of government expenditure, accounting for 42% of the total. We should point out that local governments have been facing increasing pressure in making debt interest payments. Debt interest payments amounted to RMB 230.9 billion in 2023 Q1, representing YOY growth of 15.9%. In this context, local governments need to further optimise the structure of their debt maturities, reduce their interest payment burden, curb new debts and repay existing ones.

Figure 9 National general public budget expenditure



Source: Ministry of Finance and KPMG analysis

In the context of monetary policy, in 2023 Q1, China adhered to a policy of prioritising economic stability while pursuing progress. Going forward, the country will continue to provide robust support for key areas from both a volume and structural perspective. In terms of volume, on 17 March, the PBOC announced that it was cutting the RRR by 25 basis points for all banks, to replenish banks' medium- and long-term liquidity and reinforce the foundation of the economic recovery. Structurally, the PBOC continued to use structural monetary policy tools to encourage financial institutions to strengthen financial services for inclusive finance, technological SMEs and technological innovation sectors and to boost the country's economic growth potential. At the end of March 2023, the PBOC was using 17 structural monetary policy tools, which carried a balance of RMB 6.8 trillion, up RMB 400 billion from the balance at the end of 2022.

Since the beginning of 2023, The banking sectors in the US and Europe have come under increased pressure due to rising interest rates and interest rate risk is now people's top concern. China has implemented a highly autonomous monetary policy over the last few years, which has resulted in relatively stable interest rates and controllable overall risk. Going forward, the PBOC will continue enacting a robust monetary policy to ensure that monetary and credit growth are steady and interest rates are appropriate, and the central bank still has the option to cut the RRR and interest rates in the future if needed. Meanwhile, the PBOC will continue to fully leverage the guiding role of structural monetary policy tools and channel more financial resources to key areas such as private small and micro enterprises, technological innovation and green development. Last year, policy-based financial instruments effectively supported the expansion of infrastructure investment and helped stabilise the economy, and had the effect of driving employment and promoting consumer spending. This year, the PBOC will continue to increase the use of policy-based financial instruments to support fiscal expenditure and stimulate effective investment.

2

2022 review and 2023 outlook for the banking industry

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2022 review of the banking industry

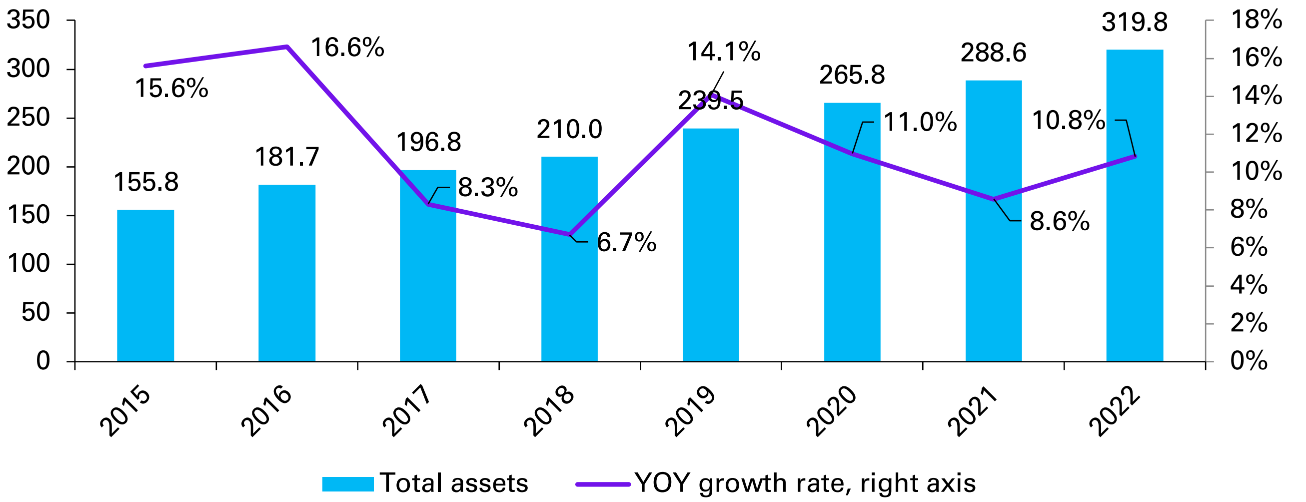
Since 2022, the PBOC and CBIRC have implemented an array of State Council policies and follow-up measures in order to stabilise the economy; and banking and insurance institutions have been encouraged to continuously improve the quality and efficiency of services provided to the real economy, and specifically to boost support for key areas such as small and micro enterprises. While steadily strengthening financial services, China's banking industry has achieved steady growth in total assets, and kept key operating and risk indicators within a reasonable range.

Asset perspective

Total assets grow at a faster pace

At the end of 2022, total assets of commercial banks stood at RMB 319.8 trillion, up 10.8% YOY, which was 2.2 percentage points faster than the growth rate at the end of 2021. After sluggish asset growth in 2020 and 2021, commercial banks' total assets are now growing at a brisker pace (Figure 1).

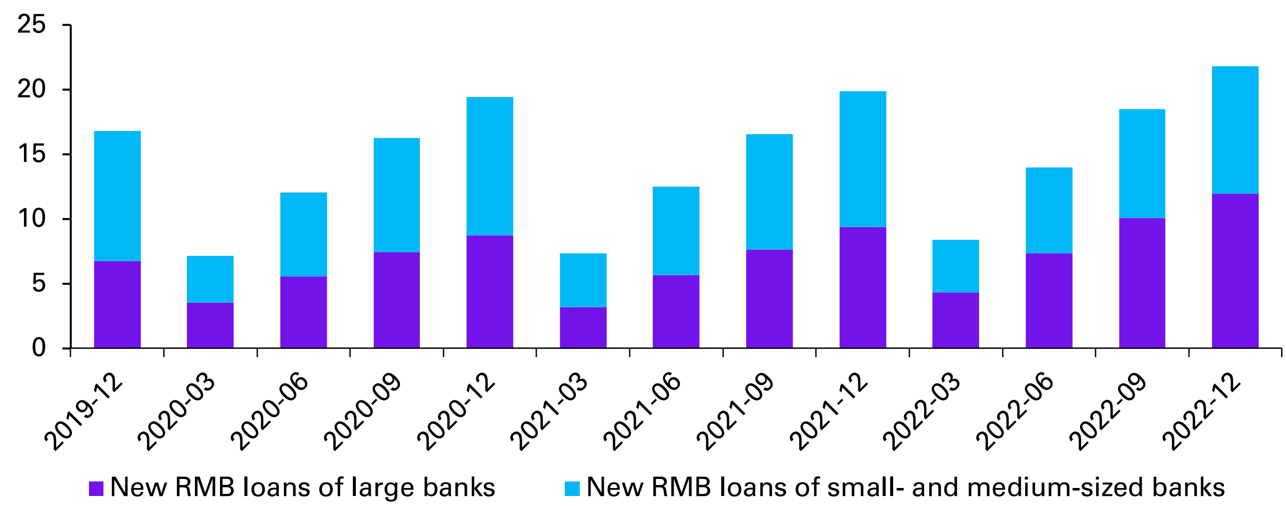
Figure 1 Commercial banks' total assets (RMB trillions)



Source: Wind and KPMG analysis

The rapid expansion of commercial banks' total assets was mainly driven by an upswing in bank loans. The PBOC's statistics show that, at the end of 2022, total accumulated new RMB loans of financial institutions stood at RMB 21.3 trillion, representing an increase of RMB 1.4 trillion or 7% YOY. Specifically, new RMB loans issued by large Chinese-funded banks[1] reached RMB 11.9 trillion in 2022, representing a YOY increase of 27%; while new RMB loans granted by small- and medium-sized Chinese-funded banks[2] amounted to RMB 9.9 trillion in 2022, representing a YOY decrease of 6% (Figure 2).

Figure 2 Quarterly new RMB loans of large and small- and medium-sized banks (RMB trillions)



Source: Wind and KPMG analysis

[1] Banks with total assets in domestic and foreign currencies of over RMB 2 trillion (total assets in domestic and foreign currencies of financial institutions as at the end of 2008), which includes Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Agricultural Bank of China (ABC), Bank of China (BOC), China Development Bank (CDB), Bank of Communications (BoCom) and Postal Savings Bank of China (PSBC). Source of definition: People's Bank of China

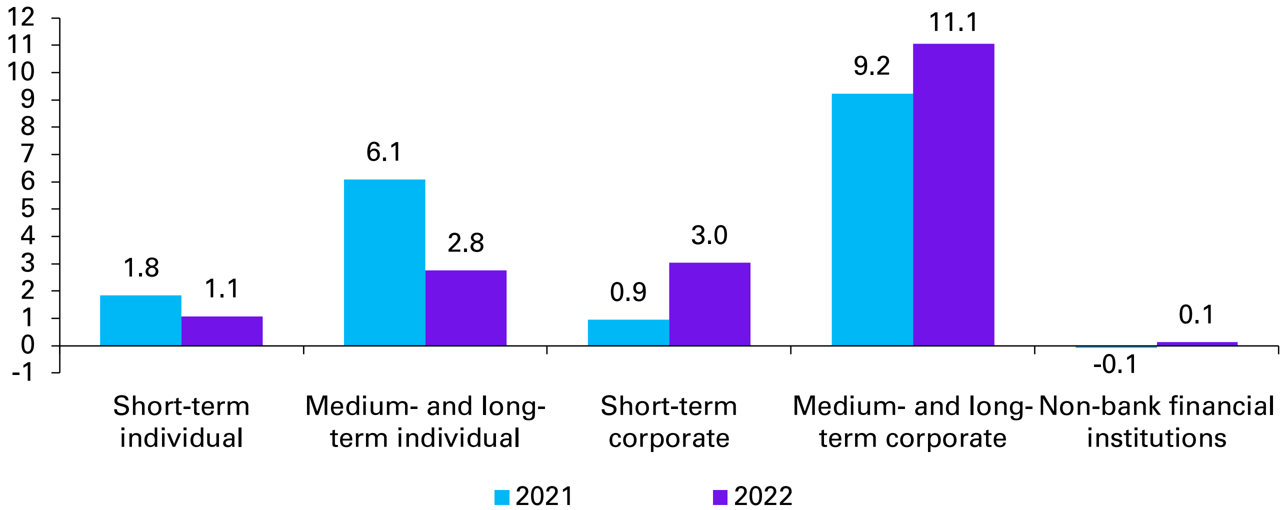
[2] Cross-provincial banks with total assets in domestic and foreign currencies of under RMB 2 trillion (total assets in domestic and foreign currencies of financial institutions as at the end of 2008). Source of definition: People's Bank of China

Loans in 2022 were channeled to corporates at the expense of individuals

From a sectoral perspective, in 2022, loans were focused on corporates at the expense of individuals (Figure 3). In 2022, total medium- and long-term corporate loans stood at RMB 11.1 trillion, which was RMB 2 trillion or 20% higher than in 2021. Meanwhile, total short-term corporate loans amounted to RMB 3 trillion, representing a whopping increase of RMB 2.1 trillion or 220% from 2021. Due to strengthened monetary policy guidance in 2022 and the continuous optimisation of the credit structure, key areas such as manufacturing, infrastructure, real estate, and small and micro enterprises gained more support.

In the context of individuals, in 2022, total medium- and long-term personal loans stood at RMB 2.8 trillion, plunging RMB 3.3 trillion or 55% from 2021. Most medium- and long-term personal loans are real estate loans, which remained sluggish in 2022 amid the depressed real estate market and epidemic prevention and control measures. Meanwhile, total short-term personal loans in 2022 amounted to RMB 1.1 trillion, tumbling RMB 700 billion or 41% from 2021. Short-term personal loans are mainly related to consumption, and for that reason they were more vulnerable to the impact of the epidemic in 2022. During the year, consumers were less willing to spend, and the demand for consumer credit fell as income and income expectations went down. In 2023, as more policies encouraging domestic consumption and demand are introduced, combined with the restoration of people's confidence and the increase in income brought by the economic recovery, personal loans are expected to resume their upward trend.

Figure 3 Composition of new RMB loans (RMB trillions)



Source: Wind and KPMG analysis

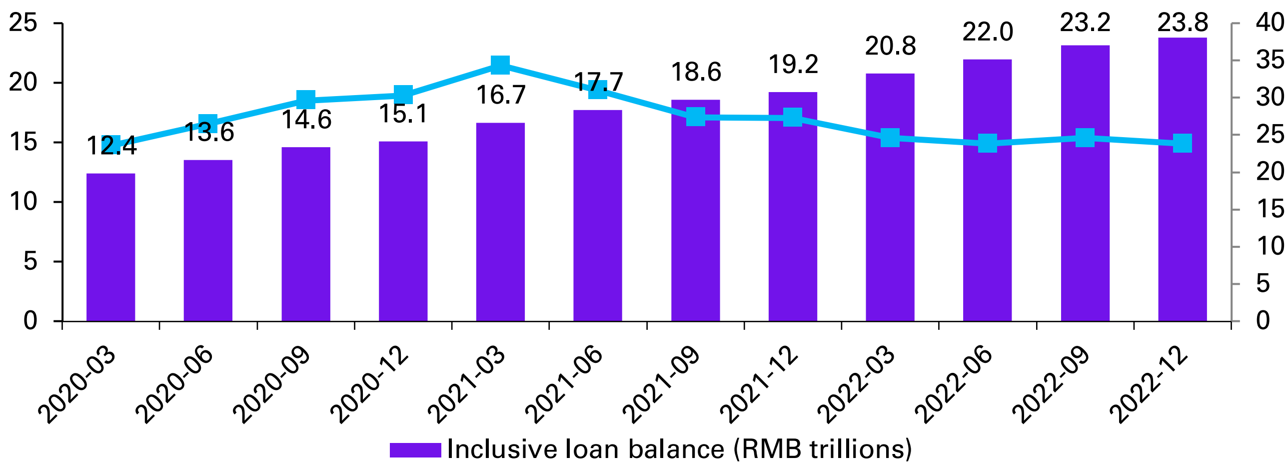
Manufacturing loans, inclusive loans granted to small and micro enterprises, and green loans maintained strong YOY growth, and growth in real estate loans is expected to recede

Structurally, financial institutions are stepping up support for the real economy and optimising the credit structure, resulting in strong YOY growth in manufacturing loans, inclusive loans granted to small and micro enterprises, and green loans.

At the end of 2022, the balance of medium- and long-term manufacturing loans grew 36.7% YOY, which was 26 percentage points higher than the growth rate for all other loans.

Interest rates on inclusive loans granted by financial institutions to small and micro enterprises have been falling, and the balance of these loans at the end of 2022 exceeded RMB 23 trillion, representing YOY growth of 23.8%, which was 12.7 percentage points higher than the growth rate for all other loans. In 2022, new inclusive loans amounted to RMB 4.6 trillion, up RMB 440 billion YOY. Among the total balance, inclusive loans granted by large commercial banks made up the lion's share at RMB 8.6 trillion, accounting for 37.42% of such loans issued by the banking industry. In terms of the other three types of financial institutions, rural financial institutions accounted for 30.6% of inclusive loans granted to small and micro enterprises, joint-stock commercial banks accounted for 17.6%, and city commercial banks accounted for 14.4% (Figure 4).

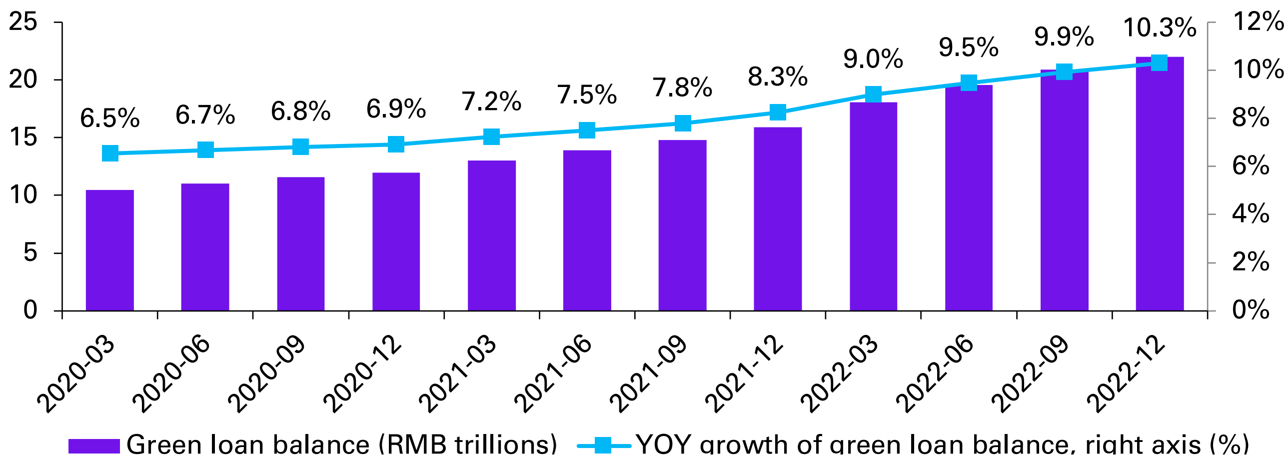
Figure 4 Quarterly balance of inclusive RMB loans granted by financial institutions to small and micro enterprises



Source: Wind and KPMG analysis

In February 2022, a plan to advance the standardisation of the financial sector during the 14th Five-Year Plan period (2021-2025) was promulgated in an effort to accelerate improvements to the green finance system and better use financial instruments to advance the high-quality development of green finance. At the end of 2022, the balance of green loans stood at RMB 22 trillion, representing YOY growth of 38.5%, which was 28.1 percentage points higher than the growth rate for all other loans. In 2022, new green loans amounted to RMB 6 trillion (Figure 5). The PBOC's statistics show that, during 2022, loans granted to projects that will directly and indirectly reduce emissions amounted to RMB 8.6 trillion and RMB 6.1 trillion respectively, together accounting for 66.7% of total green loans.

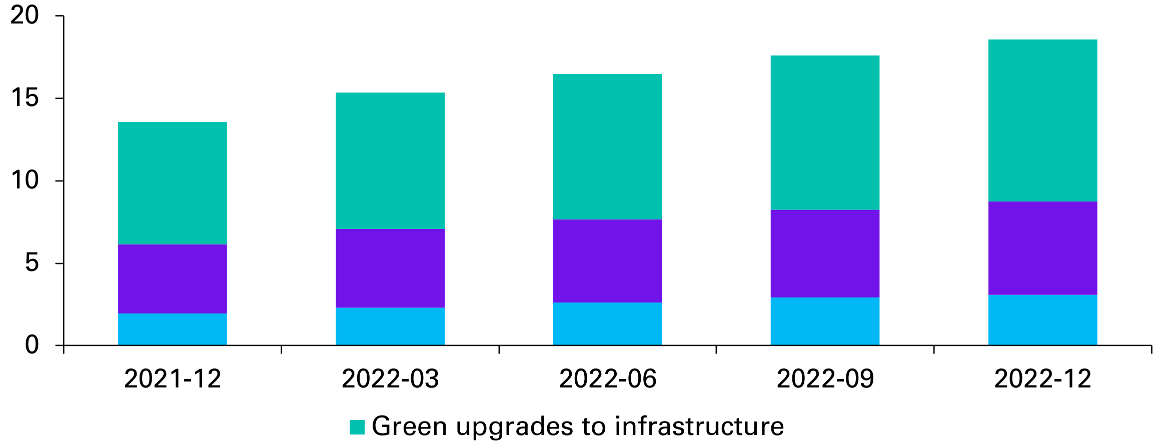
Figure 5 Quarterly balance and proportion of green loans



Source: Wind and KPMG analysis

At the end of 2022, the balances of loans granted for green upgrades to infrastructure, the clean energy sector, and the energy conservation and environmental protection sector stood at RMB 9.8 trillion, RMB 5.7 trillion and RMB 3.1 trillion, representing YOY growth rates of 32.8%, 34.9% and 59.1% respectively (Figure 6).

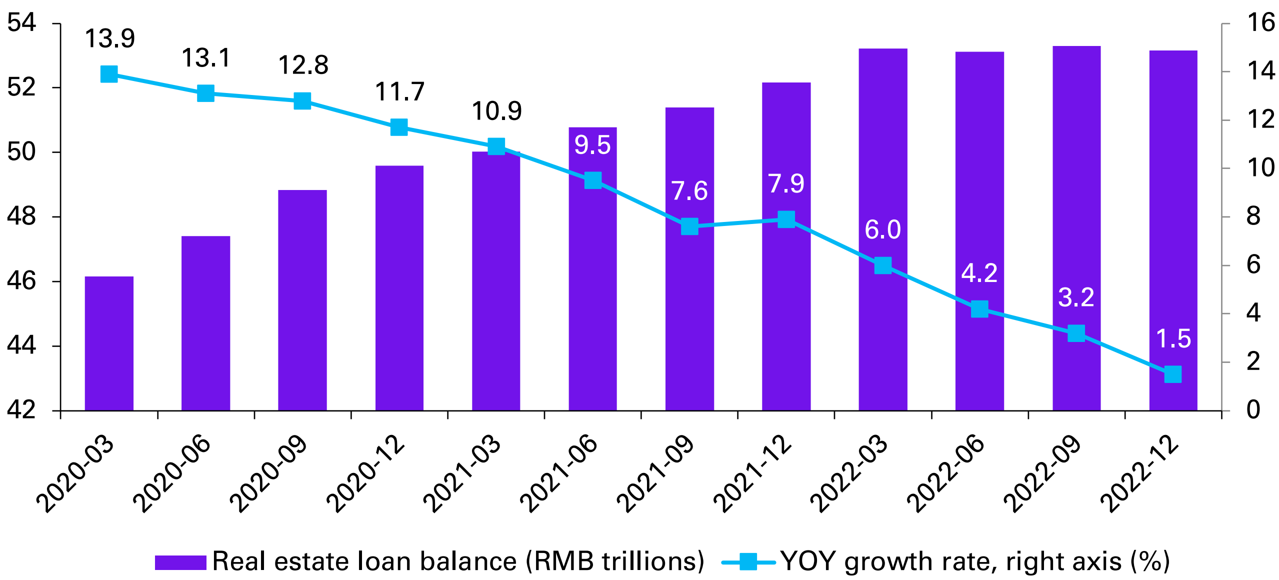
Figure 6 Composition of China's green loan balance in 2022 (RMB trillions)



Source: Wind and KPMG analysis

At the end of 2022, the balance of real estate loans amounted to RMB 53.2 trillion, representing YOY growth of 1.5%, which was 6.4 percentage points lower than the growth rate at the end of 2021 (Figure 7). In the face of various unexpected factors in 2022, including falling market sales, debt defaults of private real estate companies, and increasing numbers of lots going unsold at land auctions, the real estate market was sluggish, and real estate companies saw declining sales across the industry. Against this backdrop, relaxation and optimisation policies were introduced throughout the year, and the central and local governments reiterated their support for "meeting rigid demand for housing and the demand for improved housing." At the end of 2022, the "16-point Plan" was issued to support the "three arrows" of real estate financing, although property buyers are still cautious at present as their confidence has not yet been restored in this uncertain market.

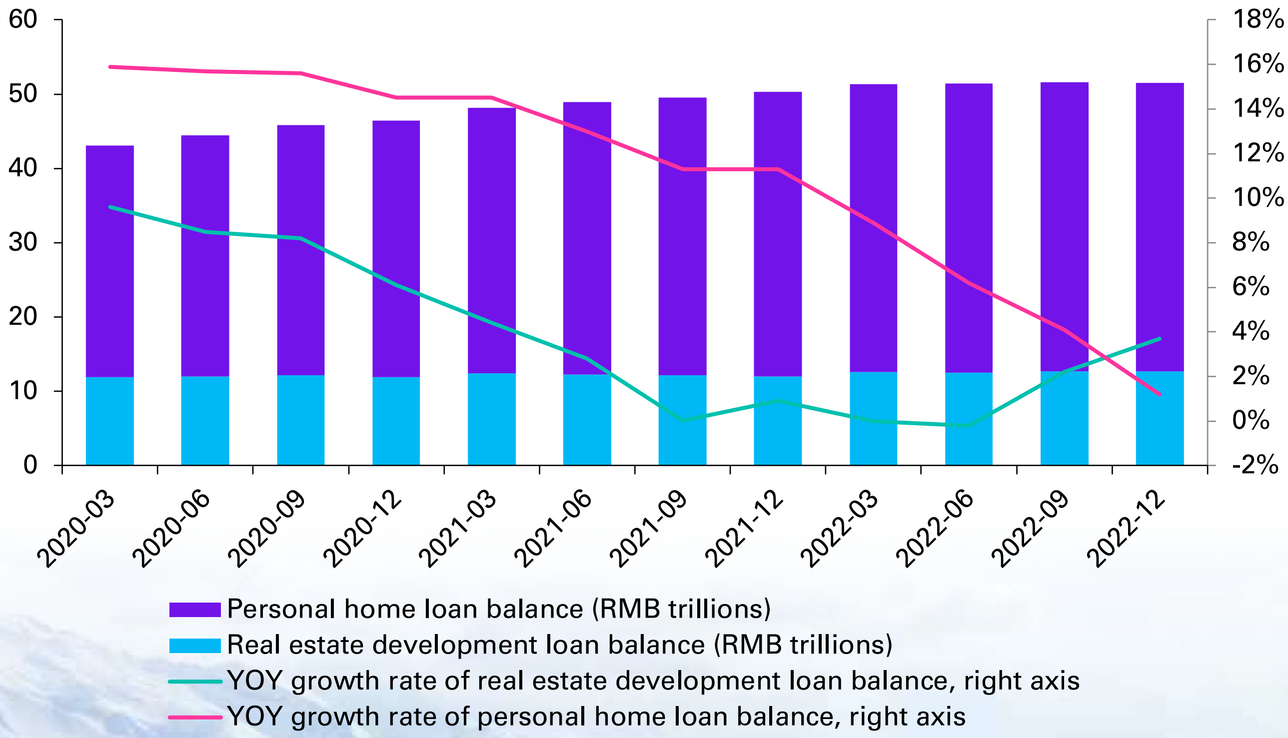
Figure 7 Quarterly balance and YOY growth rate of real estate loans



Source: Wind and KPMG analysis

Specifically, real estate loans represent either real estate development loans or personal home loans. Real estate loans overall saw only a slight uptick in 2022, mainly due to the slower growth of personal home loans. The balance of real estate development loans at the end of 2022 stood at RMB 12.7 trillion, representing YOY growth of 3.7%. This growth rate was 1.5 percentage points higher than the growth at the end of 2022 Q3, and 2.8 percentage points higher than the growth rate at the end of 2021. Meanwhile, at the 2022 year-end, the balance of personal home loans stood at RMB 38.8 trillion, representing YOY growth of 1.2%, which was 10 percentage points lower than the growth rate at the end of 2021 (Figure 8). As at the end of 2022, the PBOC had set aside RMB 200 billion in structured credit tools to ensure building delivery; and in January 2023, it was announced that the lower limit of interest rates on the first personal loan to purchase commercial housing will be abolished in phases. These measures should help restore people's willingness to purchase properties. Ultimately, the recovery of the real estate market relies on sustained improvements in people's confidence and incomes. Therefore, in 2023, policymaking for this industry will focus on boosting property buyers' confidence, and stabilising property prices and expectations.

Figure 8 Quarterly balance of real estate development and individual housing loans

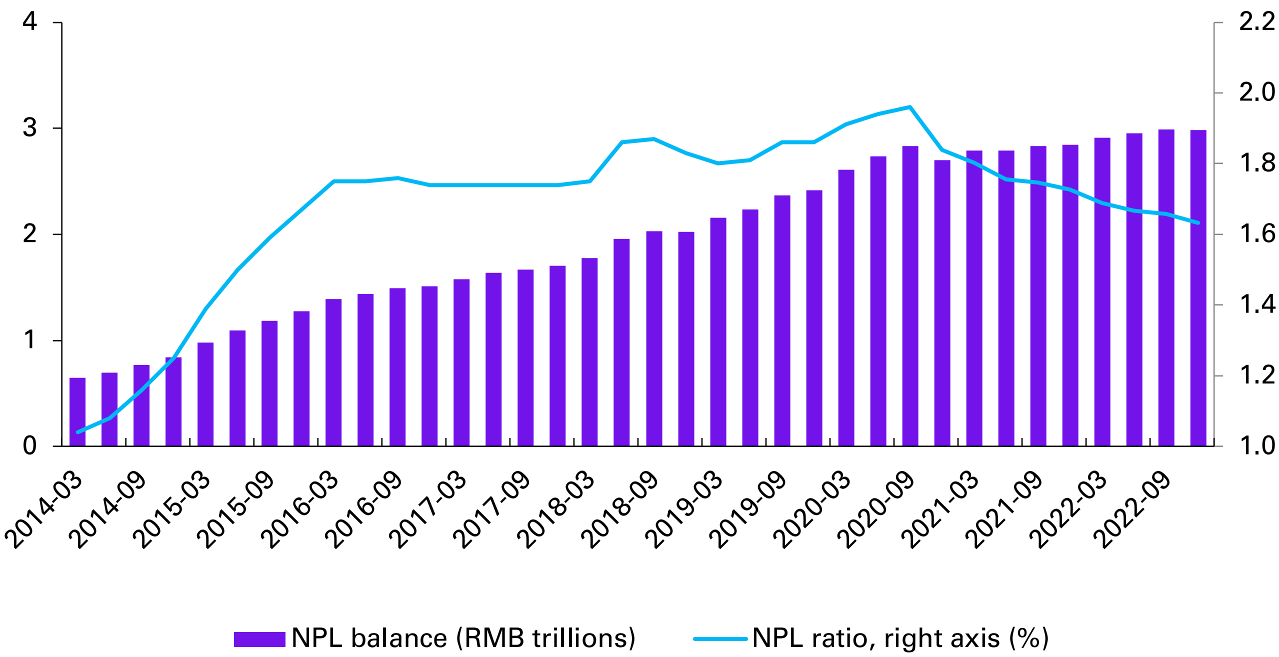


Source: Wind and KPMG analysis

The overall non-performing loan (NPL) ratio of banks declines, and risk mitigation capabilities remain reasonable

At the end of 2022, the total balance of commercial banks' NPLs stood at RMB 2.98 trillion, representing a slower quarter-on-quarter (QOQ) growth of 4.8%, and continuing a mildly upward trend. Rises in the industry's total NPL balance have been subdued in recent years, with non-performing assets climbing at a slower rate than asset growth, indicating a marked improvement in asset quality. The overall NPL ratio of commercial banks at the end of December 2022 stood at 1.63%, representing a YOY decline of 10 basis points and marking nine consecutive quarters of declines (Figure 9).

Figure 9 Quarterly balance and ratio of non-performing loans of commercial banks

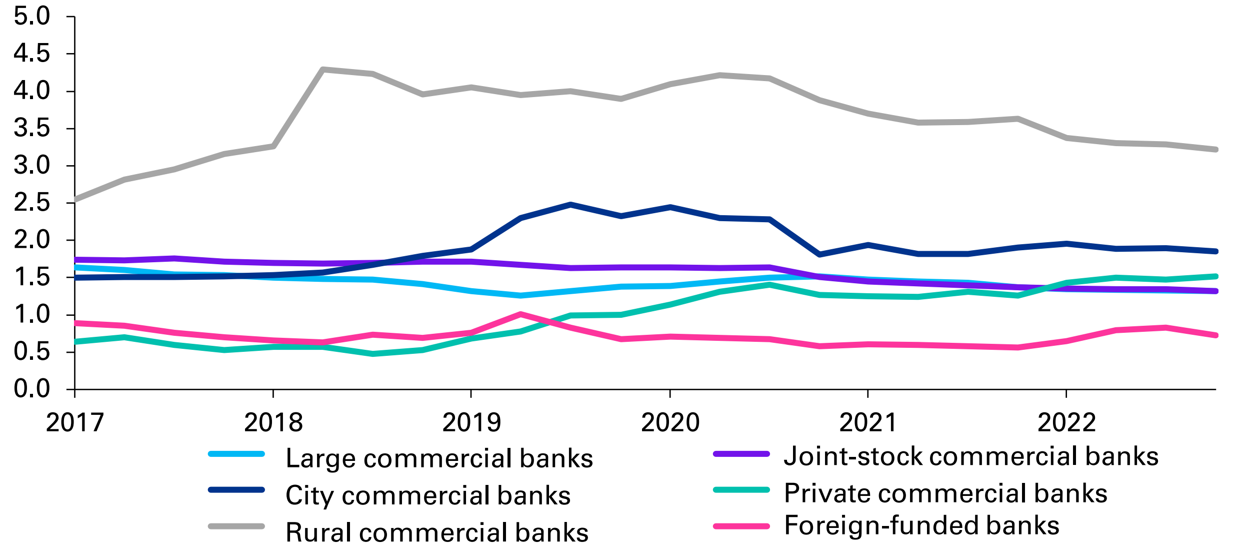


Source: Wind and KPMG analysis

Among the different types of banks, large commercial banks[3] and joint-stock commercial banks have maintained relatively low NPL ratios. Conversely, the NPL ratios of city commercial banks and rural commercial banks have stayed relatively high. In 2022, large commercial banks and joint-stock commercial banks maintained NPL ratios of 1.31% and 1.32% respectively, representing YOY declines of 0.06 percentage points and 0.05 percentage points. The NPL ratio of city commercial banks fell by 0.05 percentage points YOY to 1.85%; while that of rural commercial banks dipped 0.41 percentage points YOY to 3.22% (Figure 10). Rural commercial banks effectively curbed their NPL ratio by stepping up loan write-offs in 2022, although they still need to continue working to lower their relatively high NPL ratio of more than 3% in the wake of a historical rise in NPLs. In recent years, the banking industry has been urged by the CBIRC to step up efforts to dispose of NPLs. As a result, over RMB 3 trillion in NPLs have been disposed of annually for consecutive years, reflecting the write off of a significant portion of the industry's total NPL balance. Meanwhile, banks have been stepping up support for the real economy, and the overall NPL ratio has been declining as newly granted loans increase faster than the growth of new NPLs.

[3] According to the List of Banking Financial Institutions released by the CBIRC, the six large commercial banks are ICBC, CCB, ABC, BOC, BoCom and PSBC. PSBC has been included among the six large commercial banks since 2019

Figure 10 Quarterly non-performing loan ratios of different commercial banks (%)



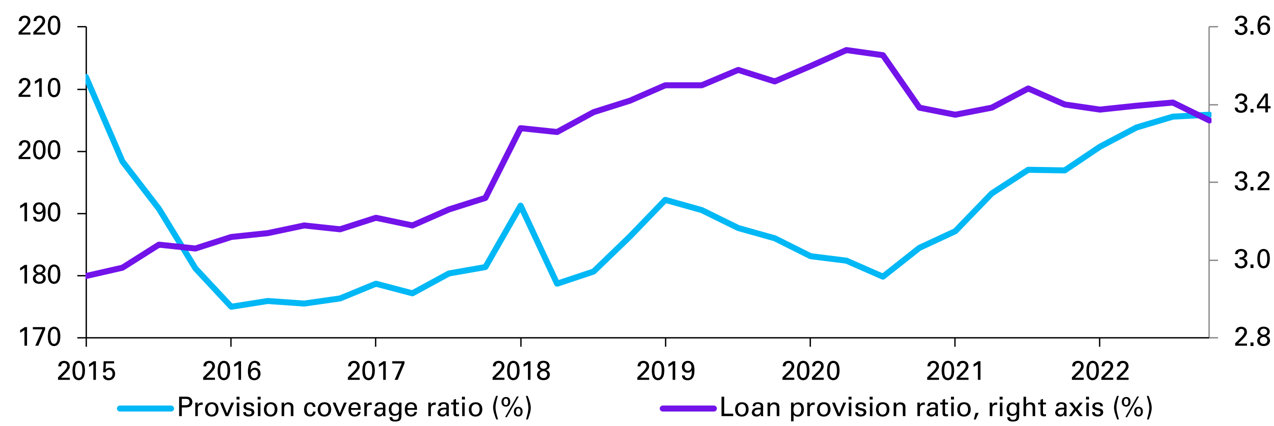
Source: Wind and KPMG analysis

The overall provision coverage ratio at the end of 2022 stood at 205.8%, up 8.9% from the end of 2021. This ratio has risen for nine consecutive quarters, signifying that commercial banks have strengthened their risk mitigation capabilities to a reasonable level (Figure 11).

Since the end of 2021, the provision coverage ratios of the various types of banks have increased to different extents. At the end of 2022, the provision coverage ratio of large commercial banks reached 245%, representing an increase of 6 percentage points from the end of 2021, while the ratio of joint-stock commercial banks stood at 214%, up 8 percentage points YOY. City and rural commercial banks posted provision coverage ratios of 192% and 143% respectively at the end of 2022, representing YOY growth of 3 and 14 percentage points respectively.

In view of the orderly economic recovery that has taken place since the beginning of 2023, some leading commercial banks might reduce their provisioning rate as part of their strategies to return to normal. By reducing their provisioning rates, banks can offer more support for the real economy and also maintain adequate growth in net profitability. However, for certain rural commercial banks with weaker risk mitigation capabilities, their ability to withstand risks is still a concern.

Figure 11 Quarterly loan provision ratios and provision coverage ratios of commercial banks

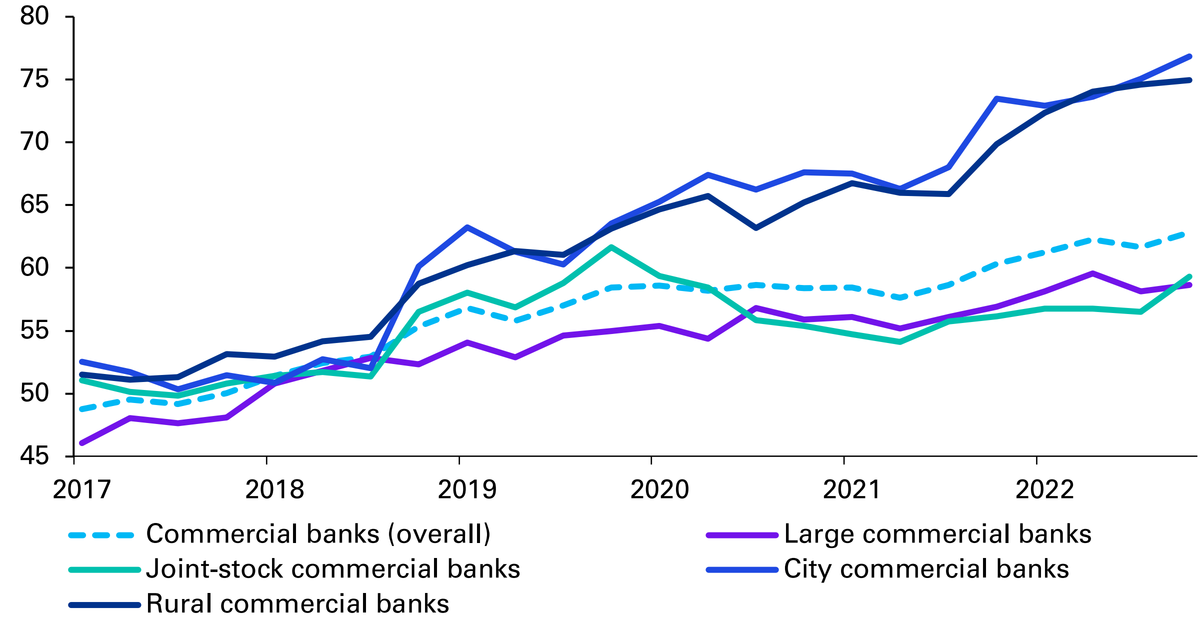


Source: Wind and KPMG analysis

Liquidity steadily improves

At the end of December 2022, the overall liquidity ratio of commercial banks stood at 62.9%, 2.6 percentage points higher QOQ, demonstrating a general trend of steady improvement. The liquidity ratios of large commercial banks, joint-stock commercial banks, city commercial banks, and rural commercial banks rose by 1.7%, 3.1%, 3.3% and 5.1% YOY respectively, indicating varying marginal improvements (Figure 12).

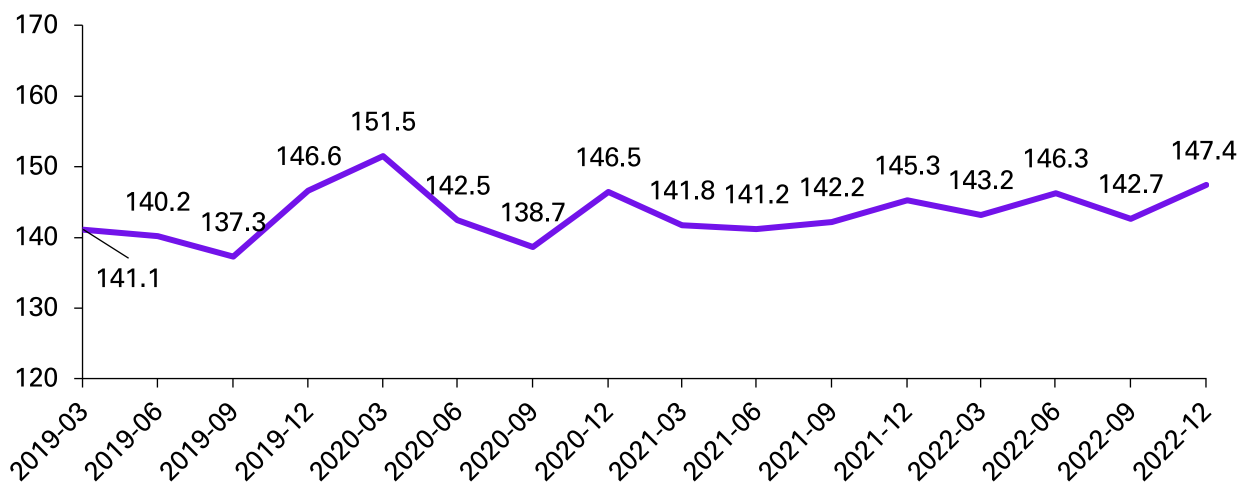
Figure 12 Quarterly liquidity ratios of commercial banks (%)



Source: Wind and KPMG analysis

A liquidity coverage ratio refers to the ratio of high-quality liquid asset reserves to net fund outflows in the next 30 days. The overall liquidity coverage ratio in the industry was 147.4% at the end of 2022, up 2 percentage points YOY, and higher than the regulatory indicator of 100% specified in the *Administrative Measures on Liquidity Risk of Commercial Banks* (Figure 13).

Figure 13 Quarterly liquidity coverage ratios of commercial banks (%)

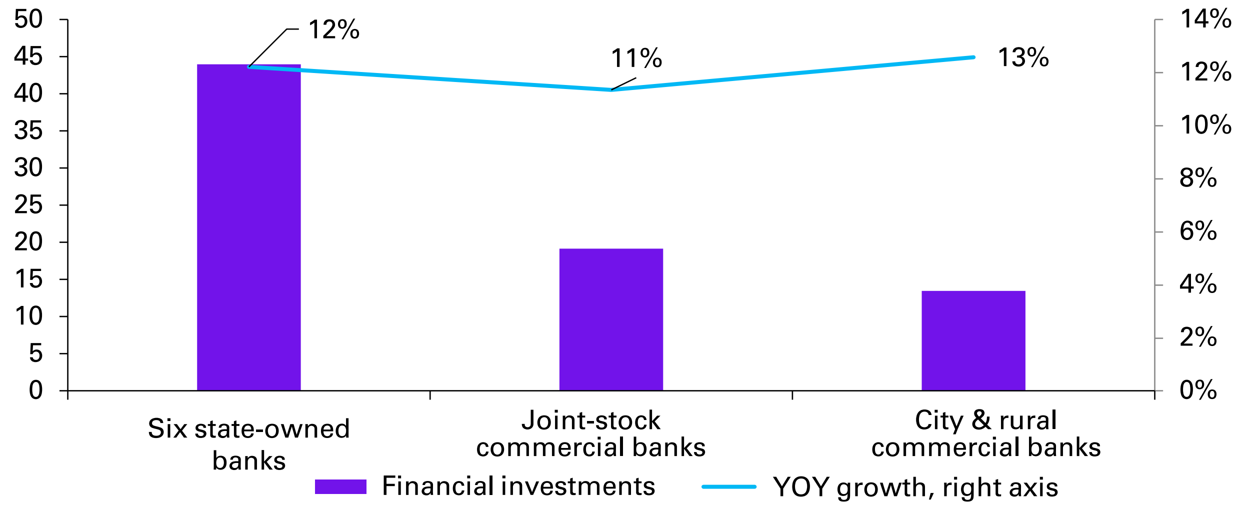


Source: Wind and KPMG analysis

The expansion in financial investments accelerates, with government bonds accounting for nearly 70% of financial investments

Financial investments account for the second largest component of commercial banks' assets after loans. In 2022, the financial investments of 59 listed commercial banks (including the six state-owned commercial banks and joint-stock commercial banks) accounted for a total balance of RMB 76.7 trillion, representing YOY growth of RMB 8.3 trillion or 12.1% (Figure 14). To support the economic recovery in 2022 and the development of the real economy, banks purchased treasury bonds and local bonds and engaged in other financial investments, causing the industry's financial investments to expand by 4.1 percentage points YOY. At the end of 2022, the six state-owned commercial banks, which have played a pivotal role in expanding the sector's financial investments, had a balance of financial investments amounting to RMB 44.0 trillion, up 12.2% YOY; joint-stock commercial banks' financial investments stood at RMB 19.2 trillion, up 11.4% YOY; and city commercial banks and rural commercial banks' financial investments amounted to RMB 13.5 trillion, up 12.6% YOY.

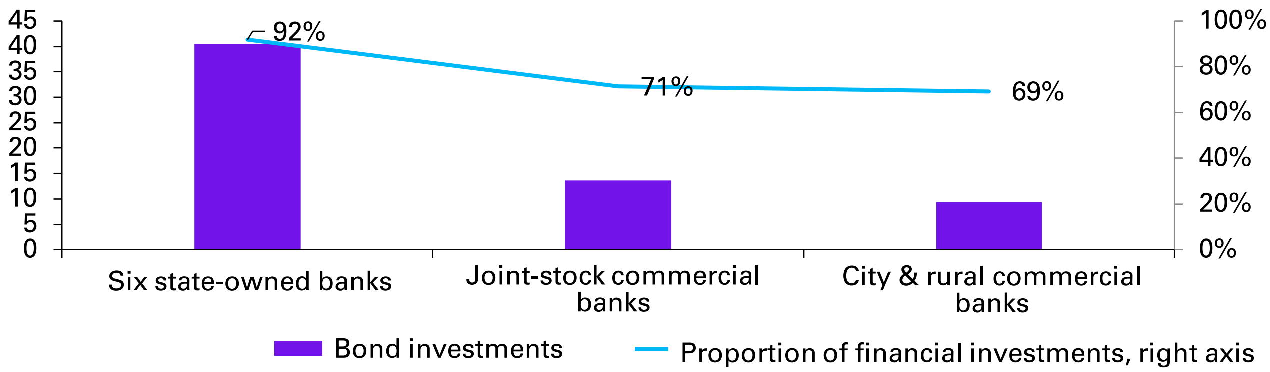
Figure 14 Financial investments of listed banks (RMB trillions, %)



Source: Summarised findings from listed banks' 2022 annual reports, and KPMG analysis

Commercial banks are facing stringent investing requirements due to regulations that aim to ensure the strength of their operations. In this context, bonds have become an attractive option for commercial banks' financial investments due to their stable returns, strong liquidity and massive circulation. Among the 59 listed banks, bond investments reached RMB 63.4 trillion in 2022, accounting for 83% of financial investments, up 2 percentage points YOY (Figure 15). Specifically, bond investments of the six state-owned commercial banks stood at RMB 40.4 trillion, accounting for 92% of the banks' financial investments; bond investments of joint-stock commercial banks stood at RMB 13.7 trillion, accounting for 71% of the banks' financial investments; and bond investments of city commercial banks and rural commercial banks stood at RMB 9.4 trillion, accounting for 69% of the banks' financial investments, up 5 percentage points YOY. Based on these figures, we can see that the six state-owned banks are relatively prudent in their financial investments, as more than 90% of their financial investments were bonds; but only about 60% of city and rural commercial banks' financial investments were bonds as they focus more on equity-related products.

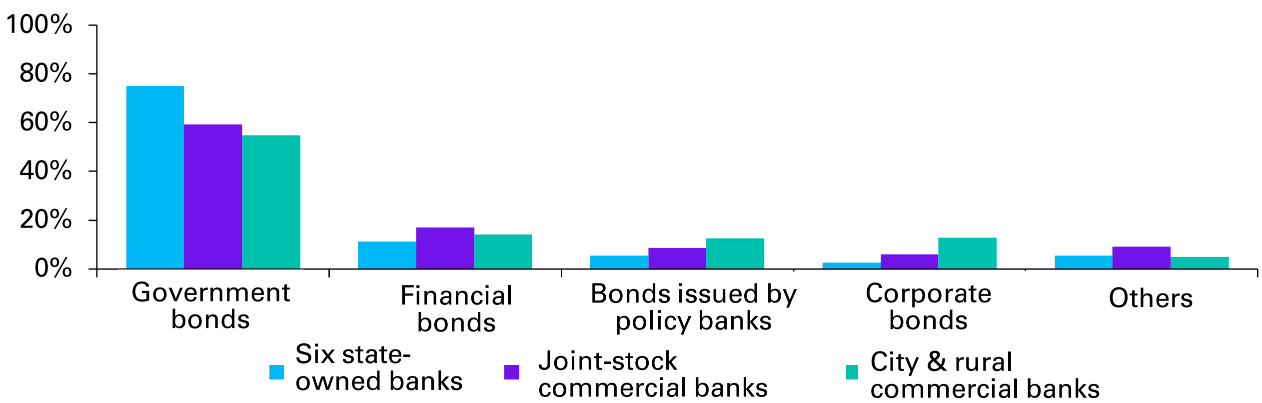
Figure 15 Bond investment structure of listed banks (RMB trillions, %)



Source: Summarised findings from listed banks' 2022 annual reports, and KPMG analysis

Commercial banks mainly invest in government bonds, policy bank bonds, financial bonds and corporate bonds. Most commercial banks prefer government bonds, as evidenced by the fact that government bonds held by the 59 listed banks amounted to RMB 43.7 trillion in 2022, or 69% of their total bond investments, up 5 percentage points YOY (Figure 16). Coming in second, financial bonds held by the 59 listed banks amounted to RMB 8.2 trillion in 2022, accounting for 13% of all bond investments. In third, policy bank bonds held by the 59 listed banks stood at RMB 4.6 trillion, accounting for 7% of their bond investments. Lastly, corporate bonds held by the 59 listed banks amounted to RMB 3.1 trillion, or 5% of their bond investments, the least among all bond investments. The biggest investors in government bonds were the six state-owned commercial banks, while city commercial banks and rural commercial banks were the largest investors in financial bonds, policy bank bonds and corporate bonds.

Figure 16 Bond investment structure of listed banks (RMB trillions, %)



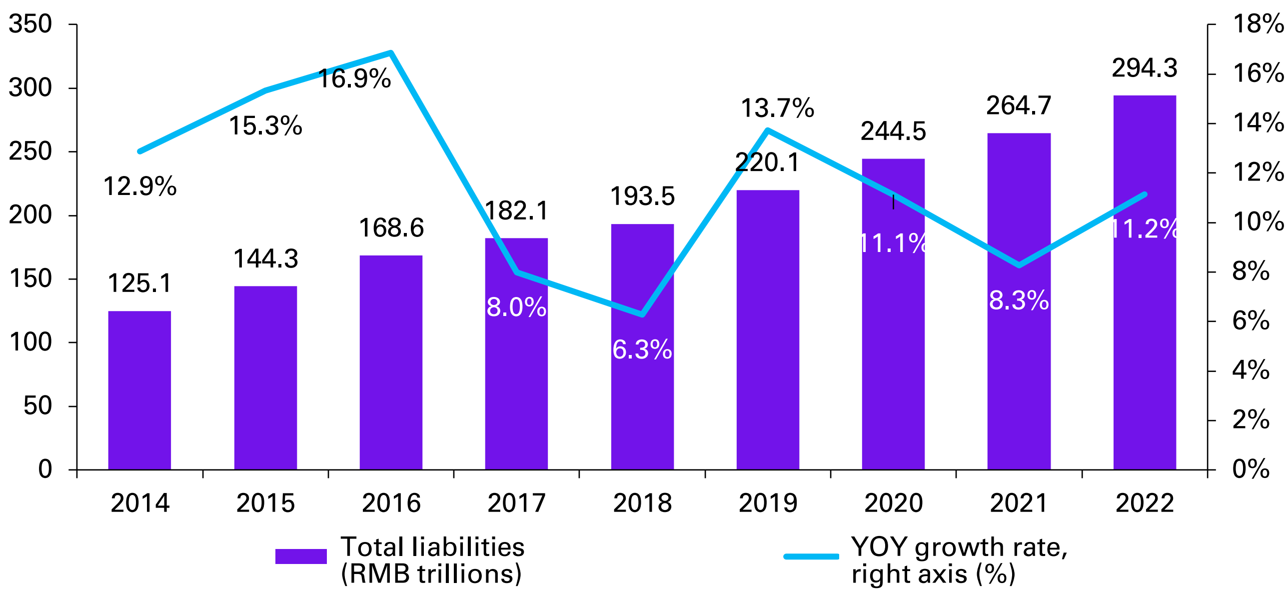
Source: Summarised findings from listed banks' 2022 annual reports, and KPMG analysis

Liability perspective

Total liabilities expand as YOY growth steepens

In 2022, the PBOC adopted policy tools to support the development of the real economy, such as cutting interest rates and the RRR to maintain reasonably abundant liquidity. Meanwhile, in the face of capital market volatility, poor returns on funds and wealth management products, and a lower risk appetite among consumers, bank deposits have been quickly increasing. At the end of 2022, total liabilities of commercial banks amounted to RMB 294.3 trillion, up RMB 29.5 trillion or 11.2% YOY, which was 2.8 percentage points higher than the growth rate in 2021 (Figure 17).

Figure 17 Total liabilities and liability growth rates of listed banks



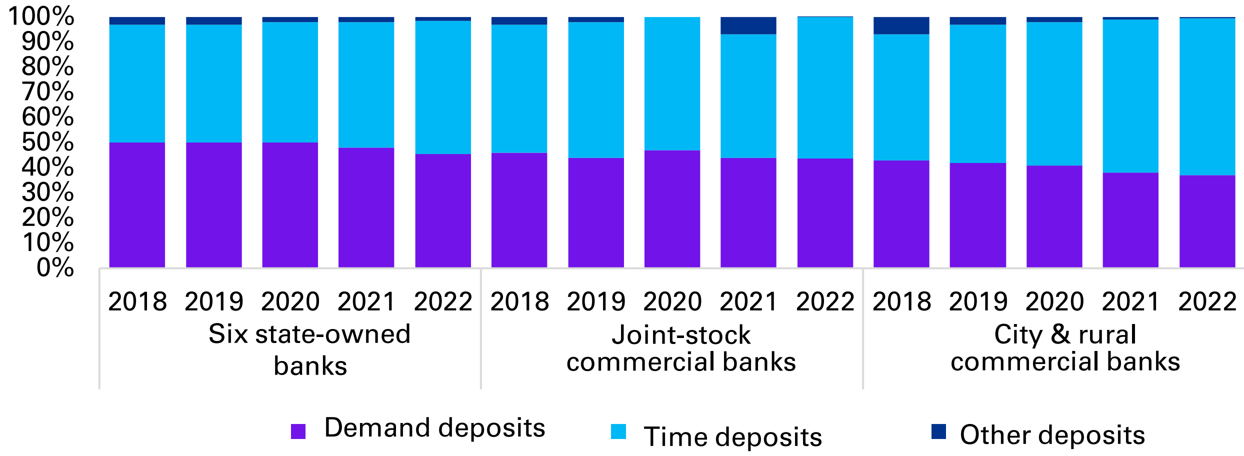
Source: Wind and KPMG analysis

Both time deposits and personal deposits are rising as a share of commercial banks' total deposits

Deposit maturity structures differ vastly between the different types of commercial banks. For example, demand deposits and time deposits at the six state-owned banks accounted for 46% and 53% of their total deposits respectively at the end of 2022. In other words, there was a difference of 7 percentage points between the two, compared with a difference of 2 percentage points in 2021, demonstrating a growing inclination toward time deposits. On the other hand, at the joint-stock commercial banks, city commercial banks and rural commercial banks, time deposits accounted for a markedly higher share than that of demand deposits, and the gap has widened over time. Specifically, at the end of 2022, the share of time deposits at joint-stock commercial banks was 13 percentage points higher than that of demand deposits; and in the case of city commercial banks and rural commercial banks, this difference reached 25 percentage points (Figure 18).

Recent statistics show that listed commercial banks have seen a structural increase in time deposits in general. From 2018 to 2022, the demand deposits of the six state-owned banks decreased by 4 percentage points, but time deposits increased by 6 percentage points. During that time, the share of demand deposits at joint-stock commercial banks dipped from 46% to 44%, while the share of time deposits rose from 51% to 56%. City commercial banks and rural commercial banks have experienced a similar trend. The proportion of time deposits at these banks jumped 12 percentage points from 50% in 2018 to 62% in 2022, while the proportion accounted for by both demand deposits and other deposits[4] has been falling. At city commercial banks and rural commercial banks, many depositors have converted their funds from demand deposits to time deposits, so these banks are facing greater pressure in controlling the cost of interest-bearing deposits.

Figure 18 Deposit maturity structure of listed banks

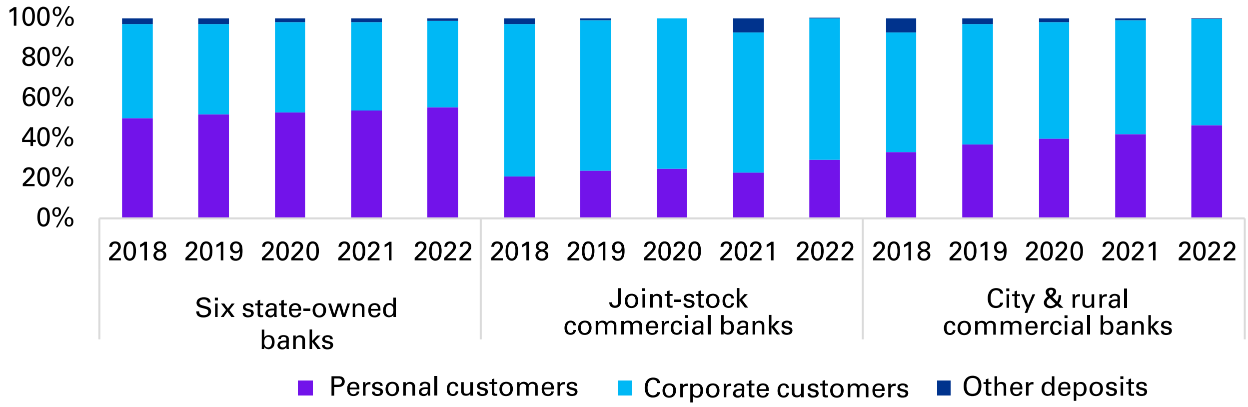


Source: Wind and KPMG analysis

The combined impact of the epidemic, the real estate downturn, weakening expectations among consumers, uncertain income prospects and capital market volatility has made individuals more inclined toward precautionary savings, which has given rise to a huge amount of excess deposits. In 2022, personal customer deposits accounted for 49% of the 59 listed commercial banks' total deposits, up 2 percentage points YOY. Meanwhile, personal customer deposits and corporate customer deposits at the six state-owned banks accounted for 56% and 43% of total deposits respectively, with the share of personal customer deposits climbing each year—from 50% in 2018 to 56% in 2022. Comparatively, joint-stock commercial banks had a higher proportion of corporate customer deposits than the six state-owned banks and city commercial banks and rural commercial banks. However, banks' customer portfolios were less diversified in 2022, and personal customer deposits as a share of all customers increased by 6% YOY. In 2022, personal customers accounted for 47% of city commercial banks and rural commercial banks' total deposits, 14 percentage points higher than at the end of 2018. In recent years, city commercial banks and rural commercial banks have vigorously developed personal customer business; and as a result, the scale of personal customer deposits at these banks skyrocketed by 81% from 2018 to 2022 (Figure 19).

[4] According to banks' annual reports, other deposits, including structured deposits, margin deposits, credit card deposits, outward remittances and remittances outstanding, account for an insignificant proportion of commercial banks' total deposits

Figure 19 Proportion of personal and corporate deposits of listed commercial banks



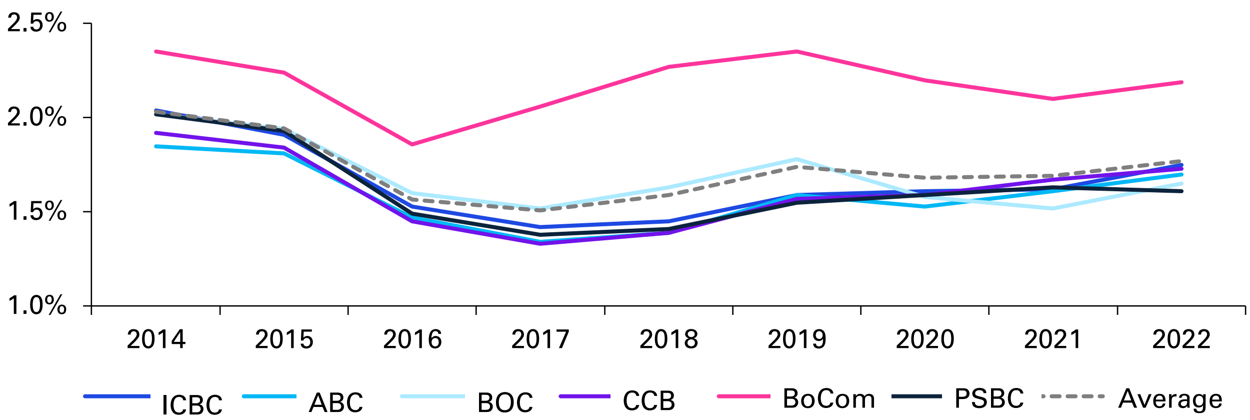
Source: Wind and KPMG analysis

The overall cost of interest-bearing deposits at the six state-owned banks notches a small uptick, and policies to cut deposit interest rates are announced

The average cost of interest-bearing deposits at the six state-owned commercial banks stood at 1.77% at the end of 2022, up 0.08 percentage points YOY and demonstrating a generally upward trend. Except for PSBC, which notched a trivial decrease of 0.02 percentage points, the remaining five banks all saw increases in the cost of interest-bearing deposits, with Industrial and Commercial Bank of China (ICBC) and Bank of China (BOC) recording the largest increases (Figure 20).

Higher costs on interest-bearing deposits mean heavier debt costs and squeezed profitability, which is not conducive to the steady operation of banks. Since 2022, regulators have been promoting the use of the bond market interest rate (the yield on China's 10-year government bond) and loan market interest rate (the 1-year loan prime rate (LPR)) as the basis for banks to price their deposit interest. At the same time, regulators have been lowering interest rates for time deposits, call deposits, agreement deposits and other demand deposit equivalents to alleviate the burden of deposit liabilities on banks. To comply with policy requirements and meet their own operational needs, in 2022, commercial banks saw two rounds of interest rate cuts—one in April and another from September to October. Since the beginning of 2023, a number of banks have cut their deposit interest rates, and the cost of interest-bearing deposits is expected to drop further this year.

Figure 20 Cost of interest-bearing deposits of the six state-owned commercial banks



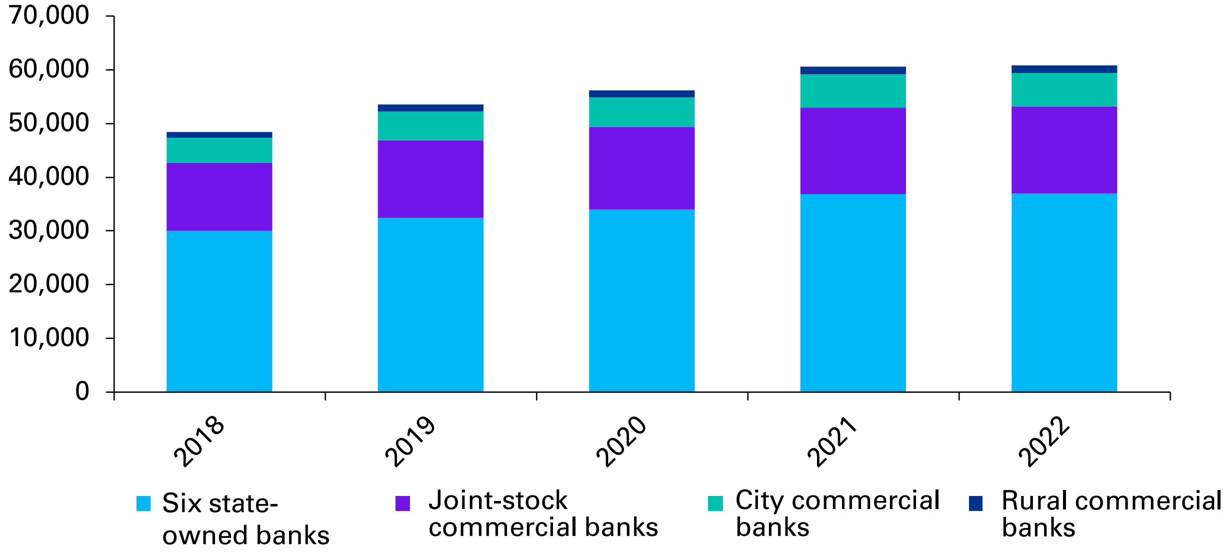
Source: The six state-owned commercial banks' annual reports from 2014-2022, and KPMG analysis

Profit perspective

Operating income growth reaches a multi-year low

In 2022, the 59 listed banks generated operating income of RMB 6,084.8 billion, representing YOY growth of 0.5%, a record low in recent years (Figure 21). Under the combined impact of the epidemic, soft economic growth and new asset management regulations, banks experienced a new normal in which their operating incomes grew at a medium to low pace instead of at double-digit rates. Operating income growth among the different types of banks has slowed by varying extents over the past few years. The six state-owned banks' growth fell the least, as their operating income growth dropped by 7.6 percentage points from 7.9% in 2019 to 0.3% in 2022. Next, joint-stock commercial banks' operating income growth tumbled by 14 percentage points from 14.2% in 2019 to 0.2% in 2022. Finally, city commercial banks recorded the largest slump, as their operating income growth fell by 14.8 percentage points from 17.5% in 2019 to 2.7% in 2022. City commercial banks' operating incomes are highly volatile due to their regional nature and scale limitations.

Figure 21 Operating incomes of listed banks (RMB 100 millions)

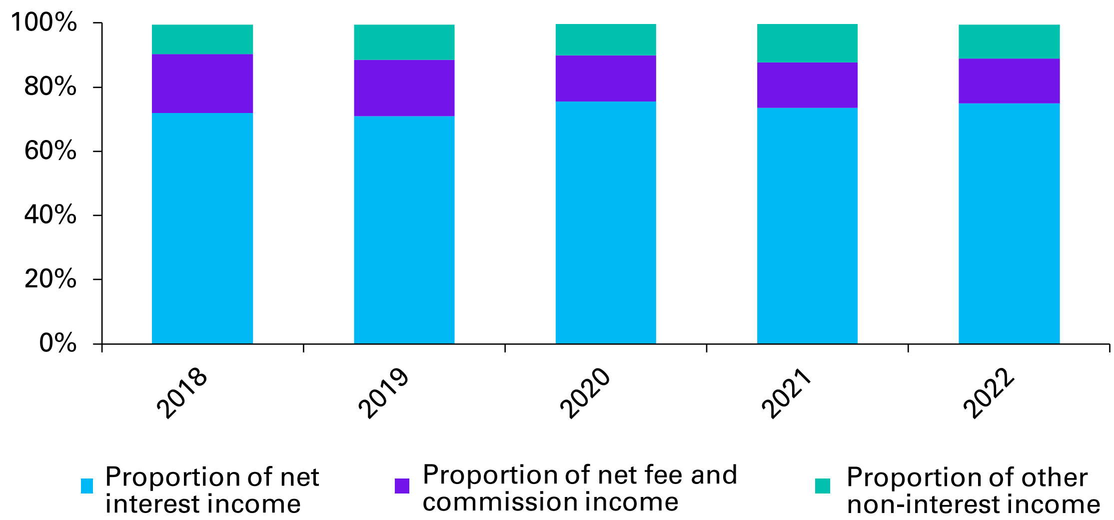


Source: Wind and KPMG analysis

Banks' operating incomes comprise three components: net interest income, net fee and commission income, and other non-interest income. In 2022, the 59 listed banks derived RMB 4,564.5 billion, or 75.0% of their operating income, from net interest income; RMB 838.2 billion, or 13.8%, from net fee and commission income; and RMB 654.1 billion, or 10.7%, from other non-interest income (Figure 22). Banks generate most of their operating income from net interest income, and net interest income as a share of total operating income has climbed from 71.8% in 2018 to 75.0% in 2022. Meanwhile, under the combined impact of regulatory rectifications of non-standard wealth management products and capital market volatility, net fee and commission income as a share of operating income shrank from 18.3% in 2018 to 13.8% in 2022.

In recent years, commercial banks in Europe and the US have been developing and increasing the share of their intermediary business. From 2018 to 2021, fee and commission income as a share of the operating income of systematically important banks under the direct supervision of the European Central Bank (ECB) generally rose, and the average proportion of fee and commission income to operating income of the more than 100 systematically important banks in Europe amounted to 32% in 2018 and 29% in 2019, before climbing to 33% in 2021 after two consecutive years of growth. From 2018 to 2021, the intermediary business of commercial banks in the US expanded both in terms of scale and proportion. In the US, in 2021, annual non-interest income accounted for 36.3% of operating income, up 2.5 percentage points from the proportion in 2018[5]. The high-quality development of intermediary business is a litmus test for a commercial bank's capabilities in financial services and product innovation, and also a lever for asset-light transformation. Based on the development journey of international commercial banks' intermediary business and the asset-light transformation needs of commercial banks in China, domestic banks are seeing significant potential to develop their own intermediary business.

Figure 22 Components of listed banks' operating income (%)



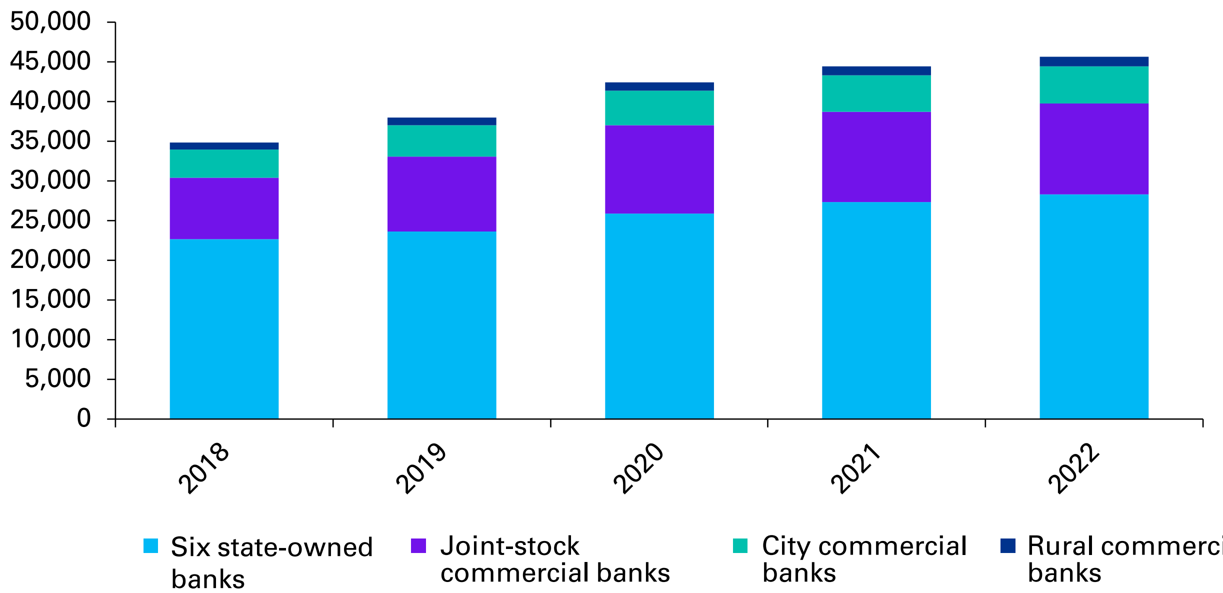
Source: Wind and KPMG analysis

[5] China Banking Association, China Banking Intermediary Business Development Report and Selected Innovation Cases (《中国银行业中间业务发展报告暨创新案例选编（2022）》), 12 January 2023, https://www.china-cba.net/Index/show/catid/14/id/41637.html

Net interest income sees positive YOY growth, maintaining its 70% share of overall operating income

Net interest income is the major source from which banks derive their operating income. In recent years, net interest income as a proportion of listed banks' operating income has increased steadily from 71.8% in 2018 to 75.0% in 2022. Facing narrowing net interest margins in 2022, banks responded by increasing the volume of granted loans to make up for the narrowing margins. In 2022, the net interest income of the 59 listed banks rose to RMB 4,564.5 billion, marking a 2.7% increase YOY. All listed banks apart from the joint-stock commercial banks saw modest growth in their net interest income. The six state-owned banks achieved YOY growth of 3.7% or RMB 100.6 billion in net interest income; city commercial banks saw YOY growth of 2.7% or RMB 12.4 billion in net interest income; and rural commercial banks notched YOY growth of 1.7% or RMB 2 billion in net interest income (Figure 23). Going forward, commercial banks will face capital restrictions and profitability pressure after adopting the traditional model of credit expansion in the previous year, as the financial sector refocuses on its original core business, financial regulation tightens and net interest margins narrow. In this context, commercial banks need to accelerate their business transformation and develop high-quality intermediary business to enhance their financial service and product innovation capabilities, and their support for the real economy.

Figure 23 Net interest income of listed banks (RMB 100 millions)



Source: Wind and KPMG analysis

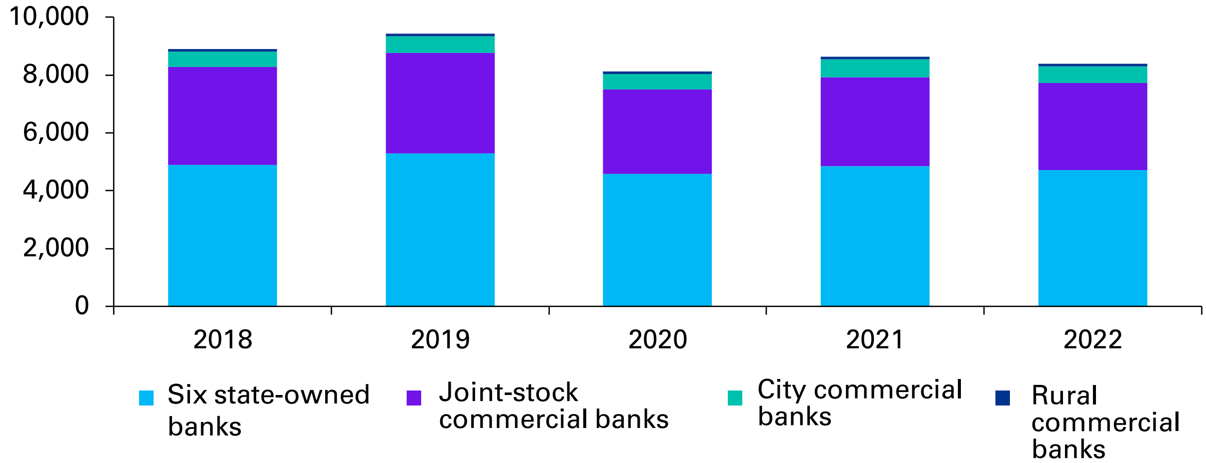
Wealth management business faces pressure as intermediary business contracts

Banks' intermediary business has been facing unprecedented challenges amid the COVID-19 epidemic, macroeconomic complexities and tightening financial regulation; and as a result, listed banks' fee and commission income has generally contracted.

As new asset management regulations were introduced, combined with capital market volatility and the pressure to cut fees and charges, net fee and commission income trended downward in 2021 and 2022, and the scale of intermediary business contracted in 2022.

In 2022, the 59 listed banks generated RMB 838.2 billion in net fee and commission income, representing a YOY decline of 2.9%. The six state-owned banks recorded net fee and commission income of RMB 472 billion, down 2.9% YOY; net fee and commission income of rural commercial banks plunged by 13% YOY to RMB 7.4 billion, the deepest fall among all banks; while that of joint-stock commercial banks dipped by 1.8% YOY to RMB 300.1 billion (Figure 24).

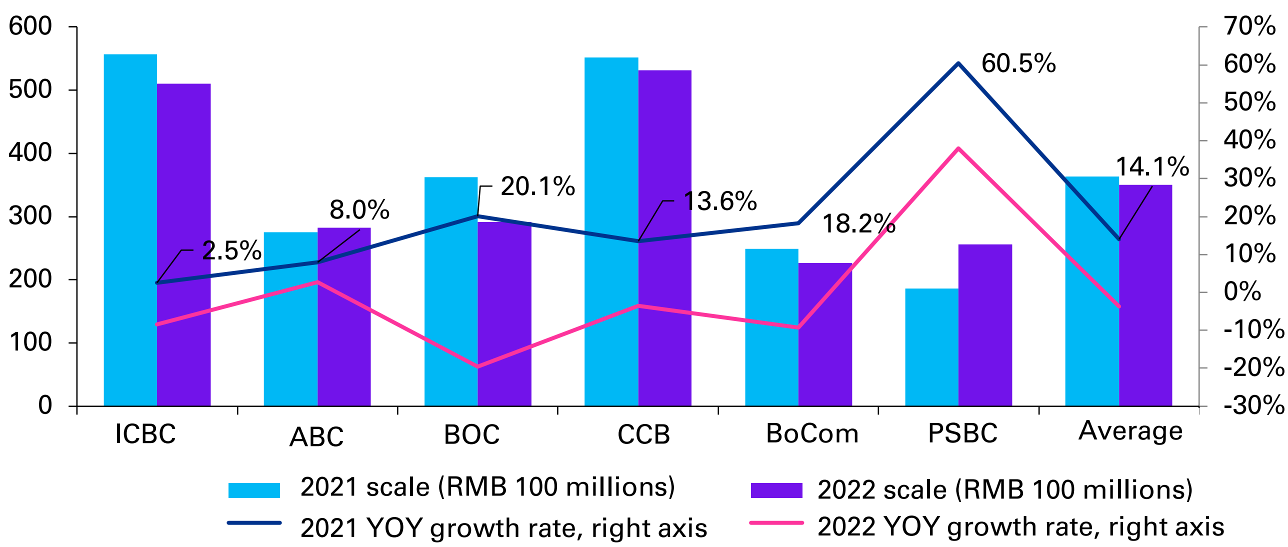
Figure 24 Net fee and commission income of listed banks (RMB 100 millions)



Source: Wind and KPMG analysis

Commercial banks' comprehensive wealth management business, including agency, wealth management, asset management and custodian business, is vulnerable to capital market volatility. As a result, income derived from comprehensive wealth management business by leading commercial banks, including the six state-owned banks, has been declining. In 2022, the six state-owned banks generated RMB 209.8 billion from agency and custodian business, representing a YOY decline of 4% (Figure 25). The agency and custodian business of all banks, except for PSBC and ABC, deteriorated to different extents[6].

Figure 25 Scale and growth rate of the six state-owned banks' wealth management, agency and custodian business



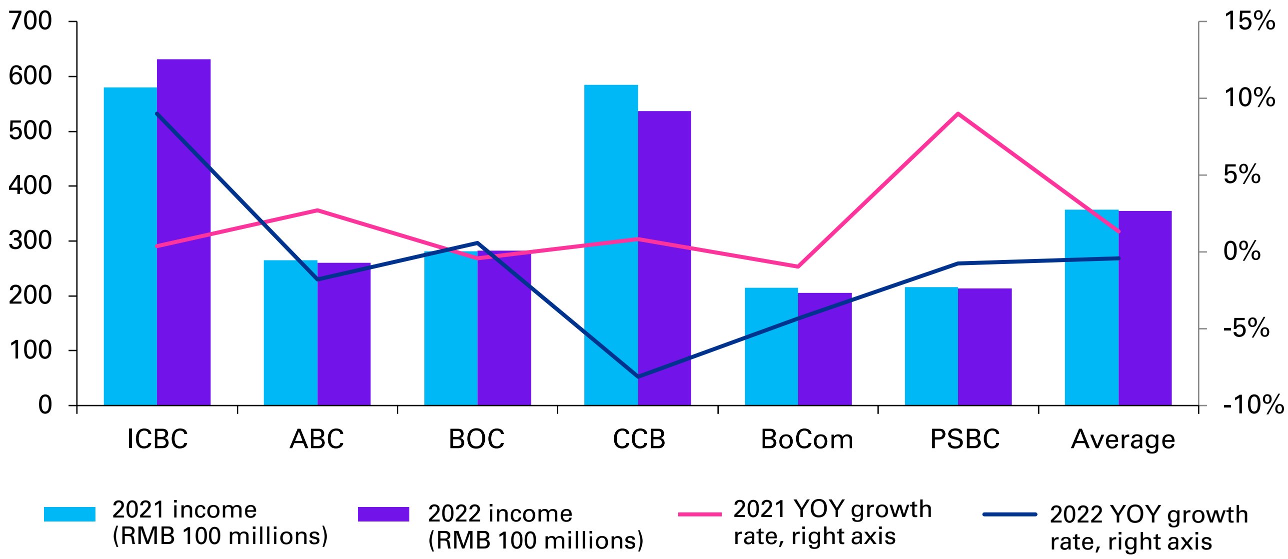
Source: The six state-owned commercial banks' 2022 annual reports, and KPMG analysis

[6] Certain banks do not disclose separate figures for wealth management business and instead include it within agency business

2022 saw a resurgence of the epidemic, setbacks in residents' income growth, and weakened consumer spending, which had a dampening effect on income from card settlement business, which is directly related to consumer spending. In the previous year, enterprises were pessimistic about the future and more conservative in their investments; and their demand for card, settlement and clearing services declined accordingly. Meanwhile, policies encouraging commercial banks to support the real economy have been introduced to steadily reduce enterprises' financing costs and individuals' consumer credit costs. The PBOC, CBIRC and other regulators issued policies to urge commercial banks to cut fees and charges, and commercial banks are encouraged to offer further discounts or fee waivers to small and micro enterprises and other groups targeted for assistance. In 2022, the economic downturn in combination with fee-cutting policies dragged on commercial banks' settlement fee income.

In 2022, the six state-owned banks' income from card, settlement and clearing business fell 0.4% YOY to RMB 213.1 billion. Specifically, ICBC and BOC saw income growth in their card, settlement and clearing business, but the other banks' incomes declined to different extents. During the year, ICBC recorded RMB 63.2 billion in income from card, settlement and clearing business, representing YOY growth of 9.0%, which was the highest among the six state-owned banks (Figure 26).

Figure 26 Income and growth rate of the six state-owned banks' card, settlement and clearing business

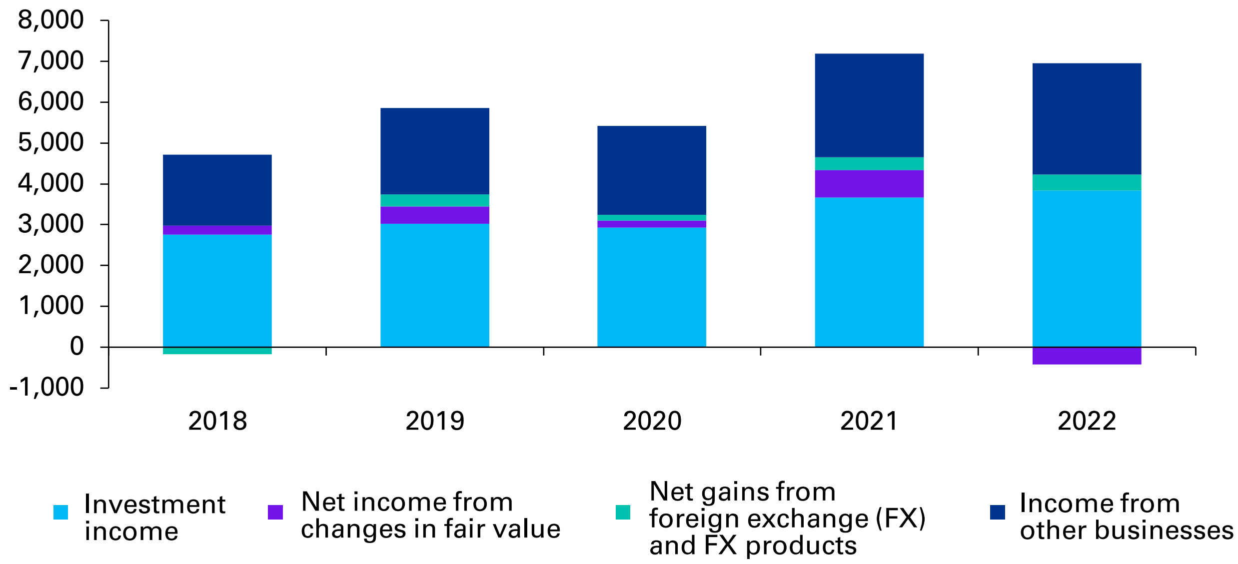


Source: The six state-owned commercial banks' 2022 annual reports, and KPMG analysis

Other non-interest income stabilises as a share of operating income, although income falls in 2022

In 2022, other non-interest income as a proportion of overall operating income remained relatively stable at around 10%. Other non-interest income streams mainly include investment income, net income from changes in fair value, net income from exchange and exchange rate products, and other non-operating income. These incomes tend to be more sensitive to capital market volatility, fluctuations in RMB exchange rates and other factors. In 2022, other non-interest income of the 59 listed commercial banks decreased by 9.0% YOY to RMB 654.1 billion (Figure 27). Investment income accounted for 58.7% of this total at RMB 384.2 billion; net income from changes in fair value stood at RMB -42 billion, the first loss in five years; net income from exchange and exchange rate products accounted for 6.0% at RMB 39 billion; and other non-operating income accounted for 41.7% at RMB 272.8 billion.

Figure 27 Other non-interest income of listed banks (RMB 100 millions)

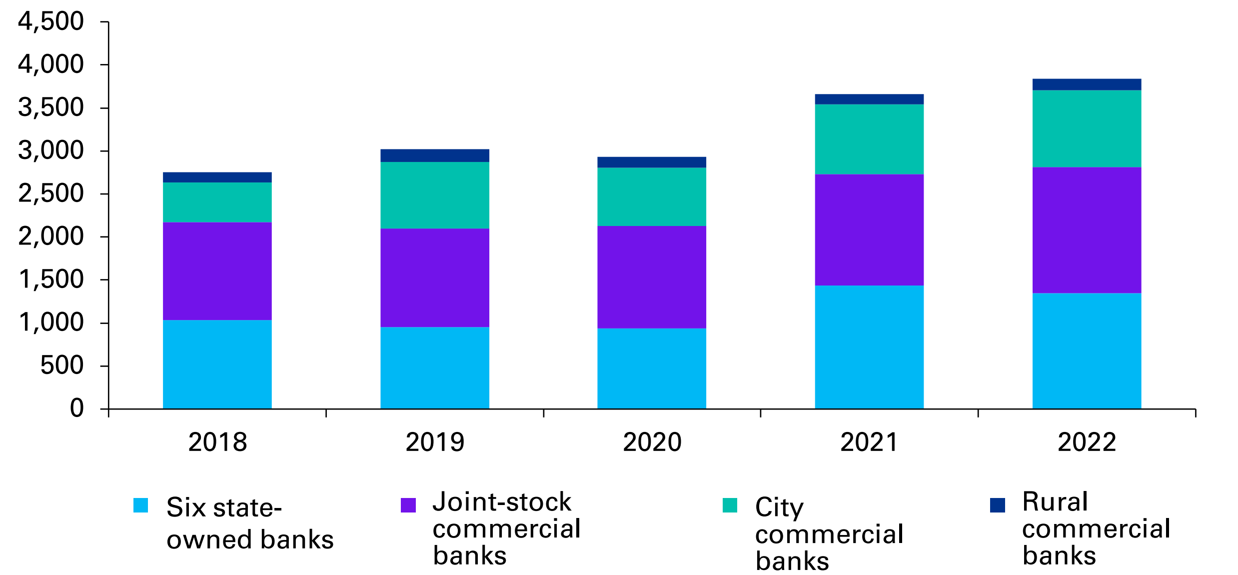


Source: Wind and KPMG analysis

Joint-stock commercial banks and city commercial banks see the highest YOY growth in investment income

In 2022, investment income of the 59 listed commercial banks stood at RMB 384.2 billion, representing YOY growth of 4.9% or RMB 18 billion (Figure 28). Listed banks differed vastly in their investment income performance. Investment income among the six state-owned banks declined, but joint-stock commercial banks, city commercial banks and rural commercial banks registered varying degrees of investment income growth. Among the different types of banks, joint-stock commercial banks notched the highest YOY growth in investment income at 13%. City commercial banks also outperformed their peers as their investment income climbed 10% YOY, nearly doubling their income in 2018.

Figure 28 Investment income of listed banks (RMB 100 millions)

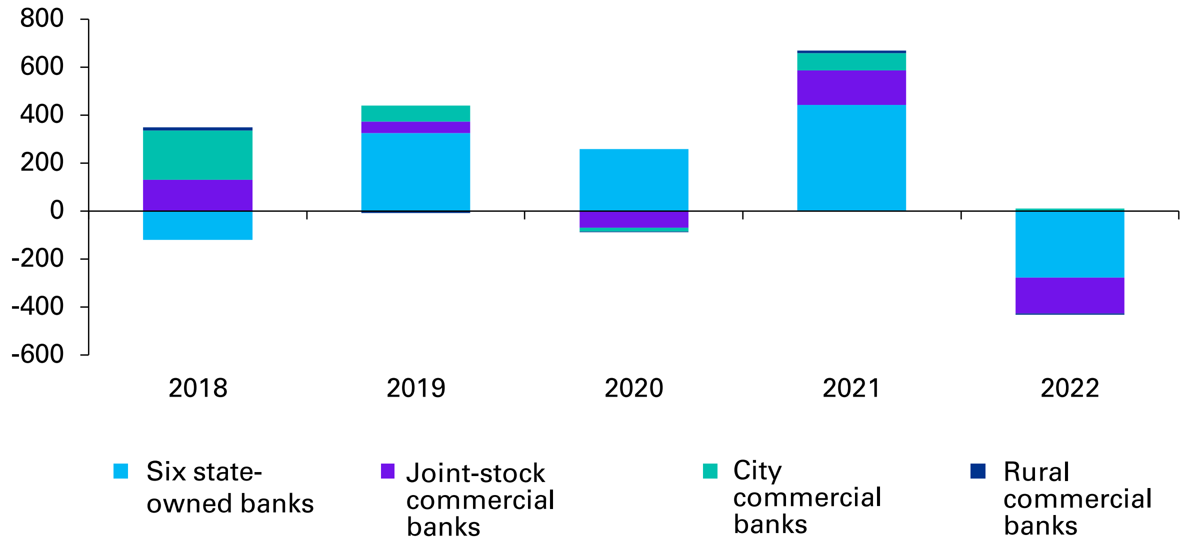


Source: Wind and KPMG analysis

Capital market volatility drives negative changes in fair value

In 2022, net income from changes in fair value stood at RMB -42 billion, the first loss since 2018, as listed banks incurred floating losses in financial investments (Figure 29). The volatility of the stock and debt markets in 2022 impacted the valuation of equity instruments and triggered unrealised losses for bond investments, which led to net losses from changes in fair value. Specifically, changes in fair value at the six state-owned banks plunged by 163% or RMB 72.1 billion YOY to RMB -27.9 billion; joint-stock commercial banks notched the most significant YOY decline of 204%, as their changes in fair value fell to RMB -14.8 billion; and city commercial banks recorded RMB 1.1 billion in changes in fair value, representing a somewhat milder YOY decrease of 85%. The changes in fair value generally had a negative impact on listed banks, but some of them were quick to seize opportunities presented by capital market trends and fluctuations, and a few even generated floating profits in financial investments. Going forward, banks should strive to exercise better judgement of macroeconomic developments and capital markets in China and abroad, raise their awareness in investment risk management, and strengthen their financial investment capabilities.

Figure 29 Changes in fair value of listed banks (RMB 100 millions)

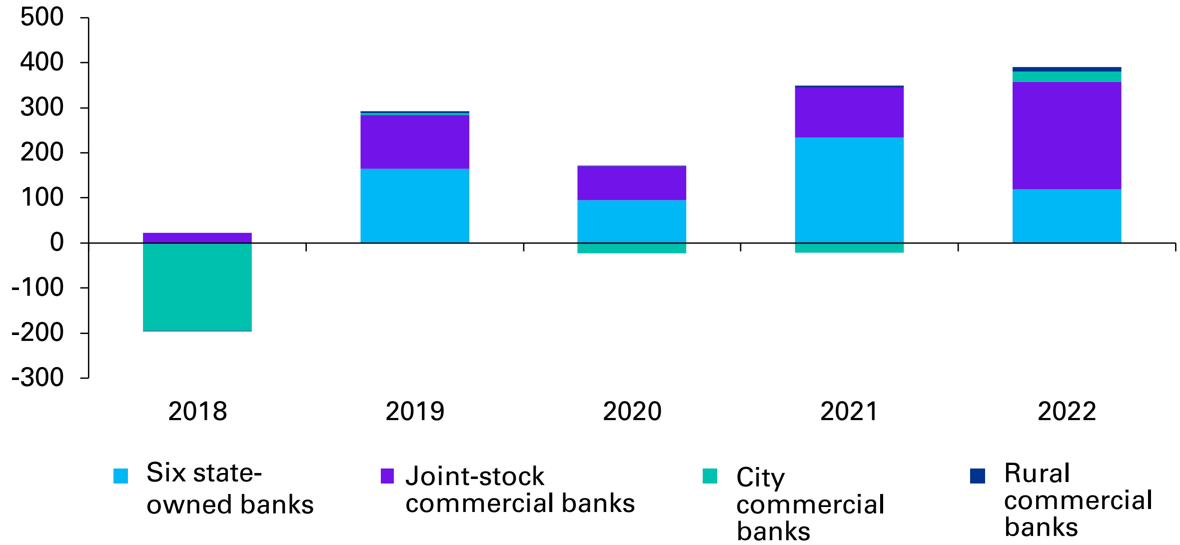


Source: Wind and KPMG analysis

Net gains from FX and FX products record remarkable YOY growth, with joint-stock commercial banks doubling their figures

In 2022, net gains from FX and FX products of the 59 listed commercial banks increased YOY by 19% to RMB 39 billion (Figure 30). Net gains from FX and FX products at the six state-owned banks were robust, although lower than in 2021. Joint-stock commercial banks, city commercial banks and rural commercial banks all achieved growth in net gains from FX and FX products. Specifically, in 2022, city commercial banks turned net losses in the previous year into net gains from FX and FX products, posting whopping YOY growth of 205%. Meanwhile, joint-stock commercial banks doubled their net gains, and rural commercial banks notched impressive YOY growth of 94%.

Figure 30 Net gains from FX and FX products of listed banks (RMB 100 millions)

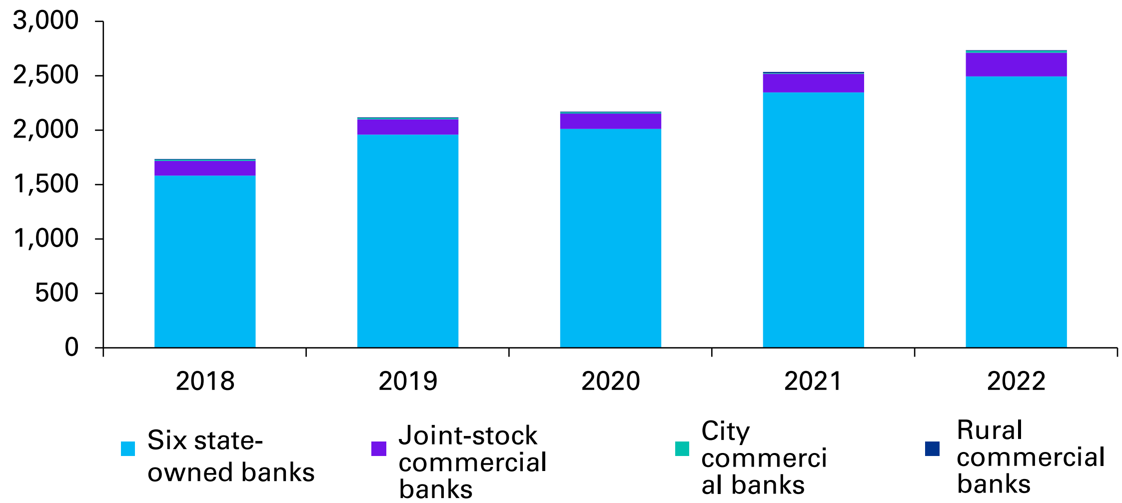


Source: Wind and KPMG analysis

Income from other business rises, with joint-stock commercial banks recording double-digit growth

In 2022, income from other business of listed commercial banks increased 8% YOY to RMB 272.9 billion (Figure 31). All banks except for rural commercial banks achieved YOY growth in income from other business. Specifically, income from other business at the six state-owned banks increased 6% YOY to RMB 249.4 billion; that of joint-stock commercial banks climbed 27% YOY to RMB 21.6 billion; and that of city commercial banks rocketed 68% YOY to RMB 1.6 billion. Conversely, income from other business of rural commercial banks tumbled by 57% or RMB 380 million YOY after rising to RMB 660 million in 2021 from RMB 370 million in the prior year.

Figure 31 Distribution of listed banks' income from other business (RMB 100 millions)

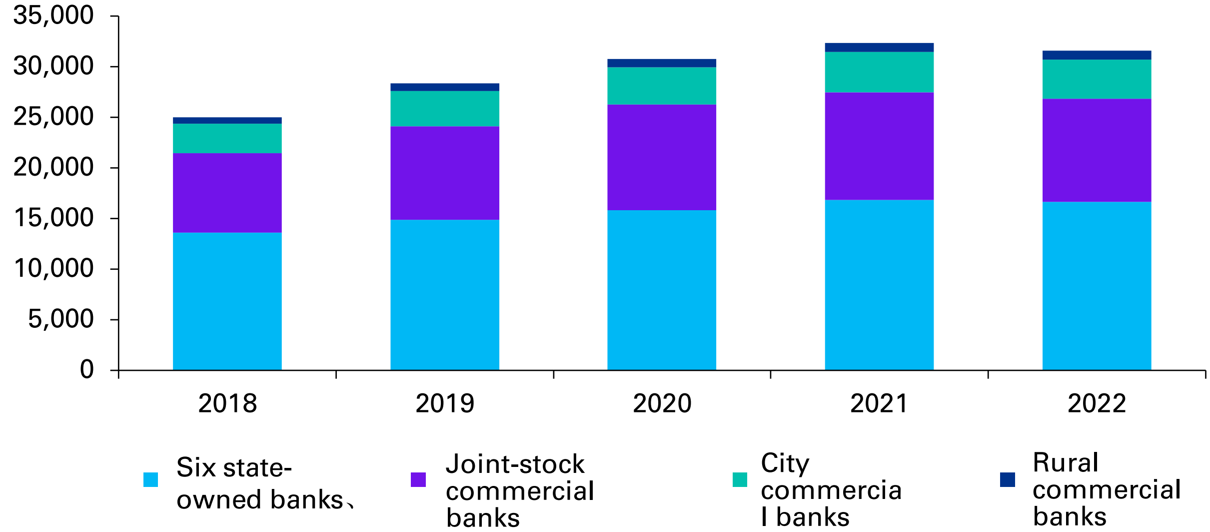


Source: Wind and KPMG analysis

Operating expenses fall due to a contraction in impairment losses, with the six state-owned banks seeing the smallest decline among all banks

In recent years, the operating expenses of the 59 listed banks generally trended upward, rising from RMB 2,501.7 billion in 2018 to RMB 3,234.4 billion in 2021, with city commercial banks' operating expenses growing the fastest during that period at a rate of 32.6%, although their annual operating expenses are still the lowest among the four. In 2022, driven by a contraction in impairment losses, general operating expenses of all banks started to fall. Operating expenses of listed banks declined by 2.5% YOY to RMB 3,154.1 billion. Specifically, joint-stock commercial banks notched the deepest YOY fall in operating expenses at 4.2%, and city commercial banks came in second with a drop of 3.6% YOY. While operating expenses at the six state-owned banks account for more than half of the total operating expenses of Chinese listed banks, their expenses recorded only a mild slide of 1.1% YOY in 2022 (Figure 32).

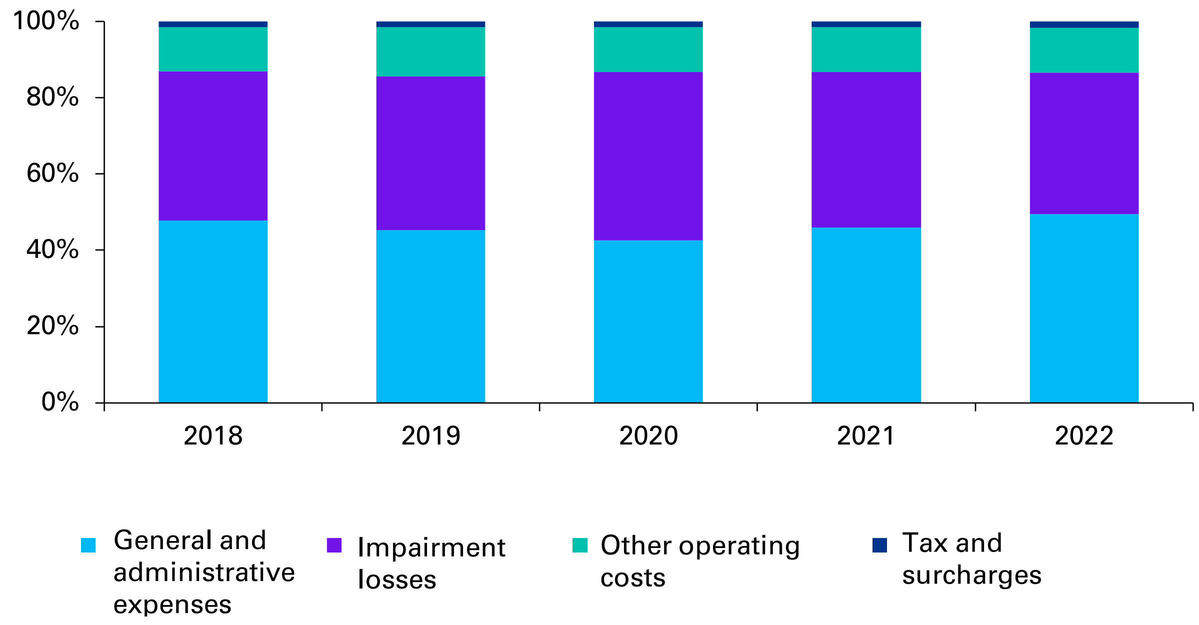
Figure 32 Operating expenses of listed banks (RMB 100 millions)



Source: Wind and KPMG analysis

Banks' operating expenses mainly comprise general and administrative expenses, impairment losses, tax and surcharges, and other operating costs. General and administrative expenses and impairment losses are the two major components of operating expenses, together accounting for nearly 90% of operating expenses. They are also the most volatile components. Tax and surcharges and other operating costs, both of which are relatively stable, account for approximately 2% and 12% of operating expenses respectively. In 2022, general and administrative expenses accounted for 49% of listed banks' operating expenses, up 3% YOY; impairment losses accounted for 37%, down 4% YOY; and the proportions of tax and surcharges and other operating costs remained unchanged (Figure 33).

Figure 33 Components of listed banks' operating expenses (%)

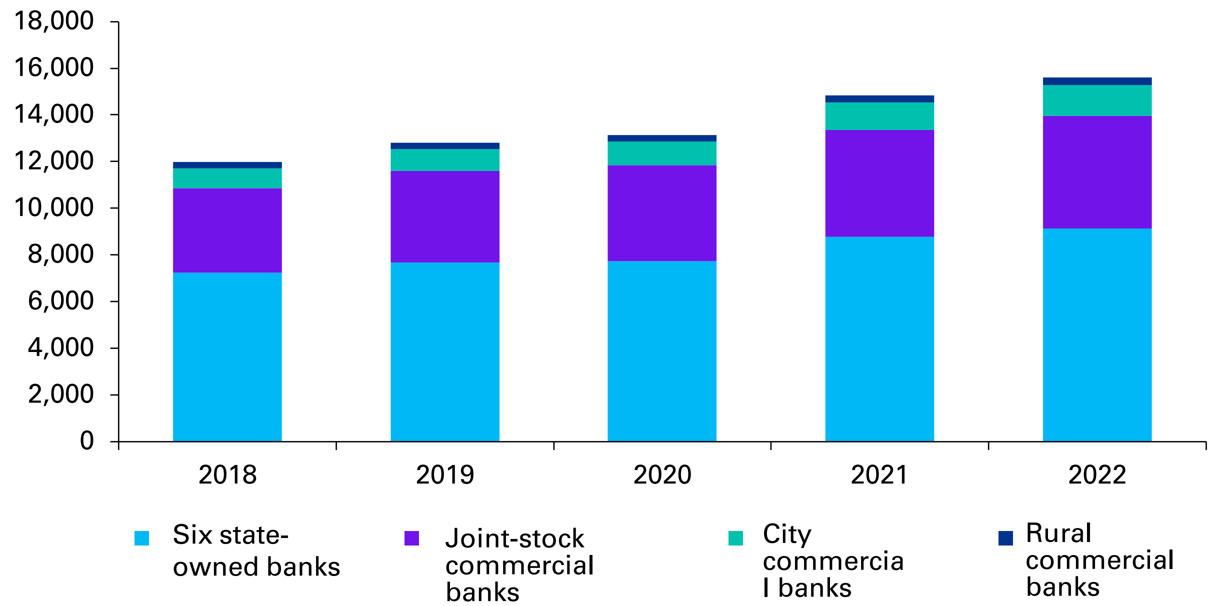


Source: Wind and KPMG analysis

General and administrative expenses are still increasing, although at a slower pace

Banks' general and administrative expenses have been rising in recent years, and they maintained their upward trend in 2022, as general and administrative expenses of the 59 listed commercial banks totaled RMB 1,559.7 billion, up 5.1% YOY. Amid the economic downturn, banks' operations are facing growing pressure, and most banks have adopted the time-tested strategies of lowering costs, raising efficiency and exploring new sources of income. These efforts helped slow the annual increase in general and administrative expenses, with YOY growth falling by 7.9 percentage points in 2022 compared to the prior year. Specifically, in 2022, general and administrative expenses at the six state-owned banks amounted to RMB 913.7 billion, up 4% YOY, the lowest increase among the different types of banks. Those of joint-stock commercial banks amounted to RMB 482.8 billion, up 6% YOY. Finally, city commercial banks saw the largest increase in general and administrative expenses, as theirs climbed to RMB 131.3 billion in 2022, marking a 10% YOY increase (Figure 34).

Figure 34 General and administrative expenses of listed banks (RMB 100 millions)

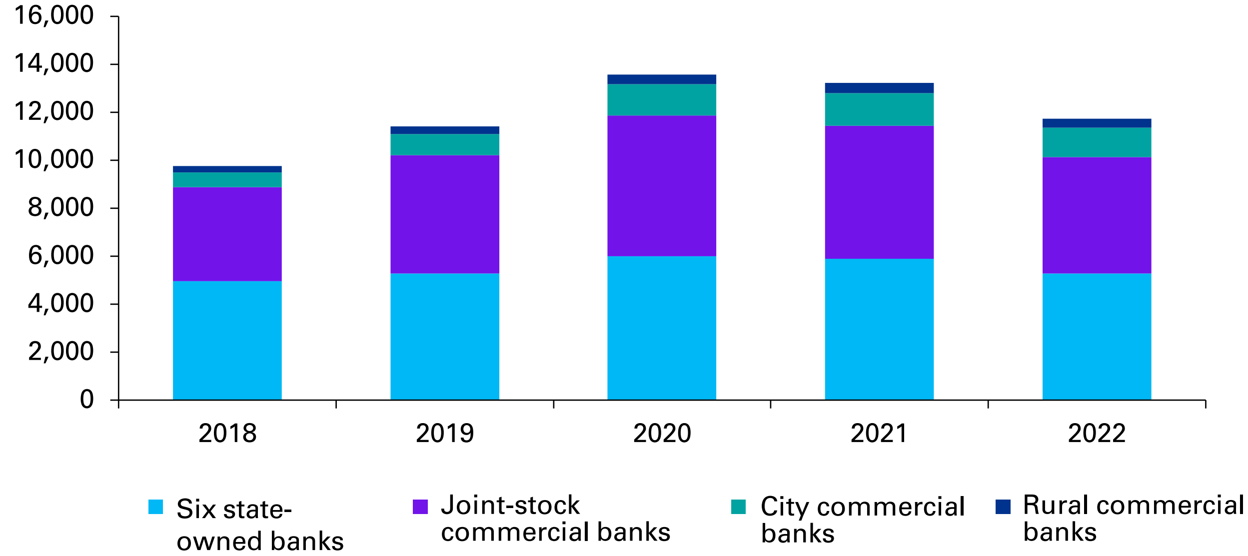


Source: Wind and KPMG analysis

Rural commercial banks see the biggest decline in impairment losses, as the overall contraction in impairment losses continues

Compared to general and administrative costs, impairment losses tend to fluctuate more. In recent years, listed banks' impairment losses have mostly climbed, reaching a 5-year peak in 2020 before falling. As at the end of 2022, banks' overall provision coverage ratio reached 205.8%. This higher provisioning, which is an indicator of stronger risk mitigation, may have resulted from banks' response to the uncertain internal and external economic environment, their adoption of more prudent practices, and greater efforts to dispose of non-performing assets to reduce provisions for credit impairment losses. In 2022, impairment losses of listed banks declined by 11% YOY to RMB 1,172.8 billion. Specifically, rural commercial banks saw the steepest YOY decline at 14%; followed by a YOY decline of 13% among joint-stock commercial banks. Next, impairment losses among the six state-owned banks fell by 10% YOY to RMB 529.4 billion; while that of city commercial banks dropped by 8.7% YOY to RMB 123 billion (Figure 35).

Figure 35 Impairment losses of listed banks (RMB 100 millions)

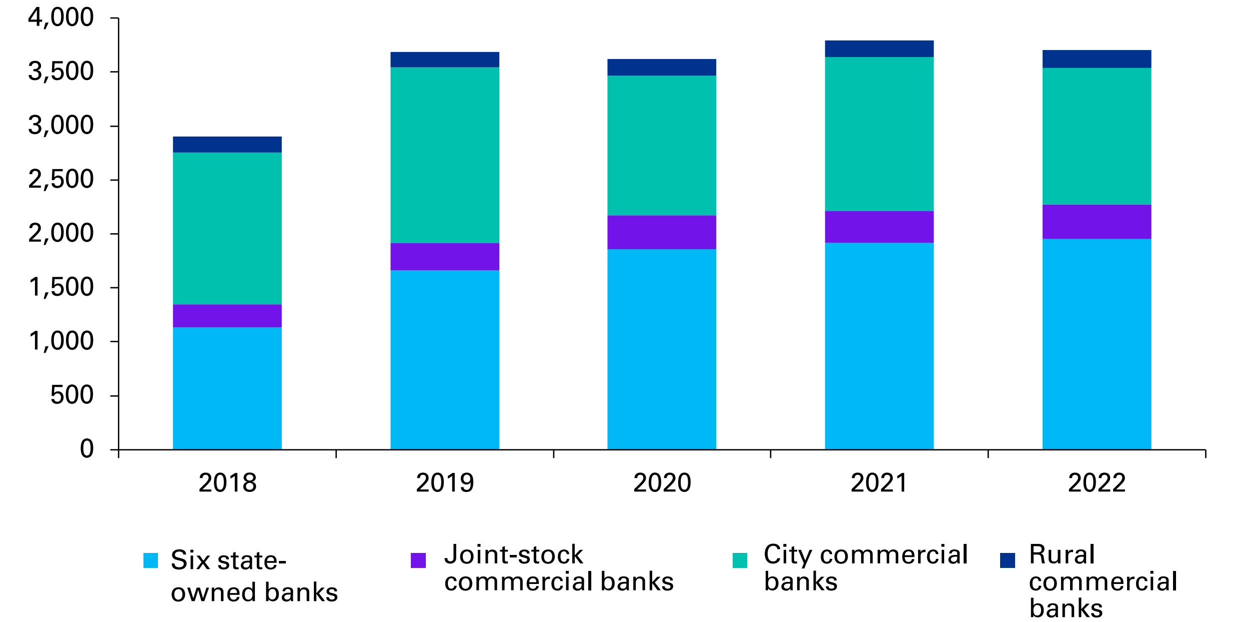


Source: Wind and KPMG analysis

Other operating expenses see slight increases, except for at city commercial banks

Banks' other operating expenses have stabilised at around 12% of total operating expenses. In 2022, other operating expenses of listed banks declined by 2.4% YOY to RMB 370.4 billion. Except for city commercial banks, which managed to reduce other operating expenses, the other three types of commercial banks saw various increases in other operating expenses. Specifically, city commercial banks managed to reduce other operating expenses by 11.0% YOY to RMB 126.4 billion. Meanwhile, other operating expenses at the six state-owned banks slightly increased by 1.7% YOY to RMB 195.2 billion in 2022; while those of joint-stock commercial banks and rural commercial banks rose by 7.5% and 7% YOY respectively (Figure 36).

Figure 36 Other operating expenses of listed banks (RMB 100 millions)

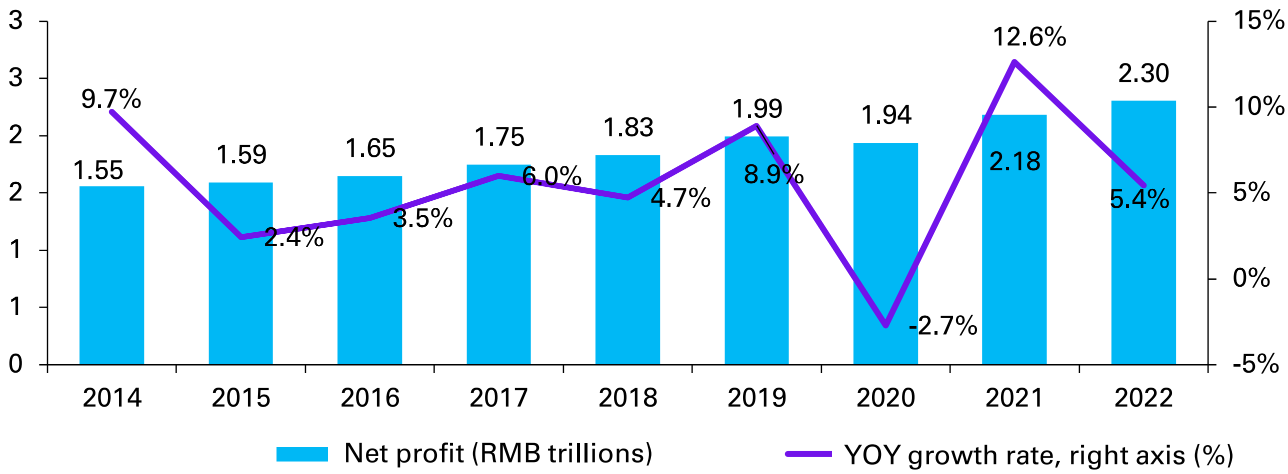


Source: Wind and KPMG analysis

Net profit growth slows for most commercial banks, while rural commercial banks' net profits decline

In 2022, China faced internal challenges from recurring COVID-19 outbreaks and adjustments in the real estate market, as well as external uncertainties such as rising inflation, the Fed's rate hikes and geopolitical tensions, all of which combined to deliver a drag on economic growth. Amid the slowdown, commercial banks were operating in a harsh environment; and dwindling operating income, narrowing interest margins and slower growth in non-interest income impacted commercial banks' net profits. In 2022, commercial banks' net profits totaled RMB 2.30 trillion, representing YOY growth of 5.4%, which was 7.2 percentage points lower than the growth seen in 2021 (Figure 37).

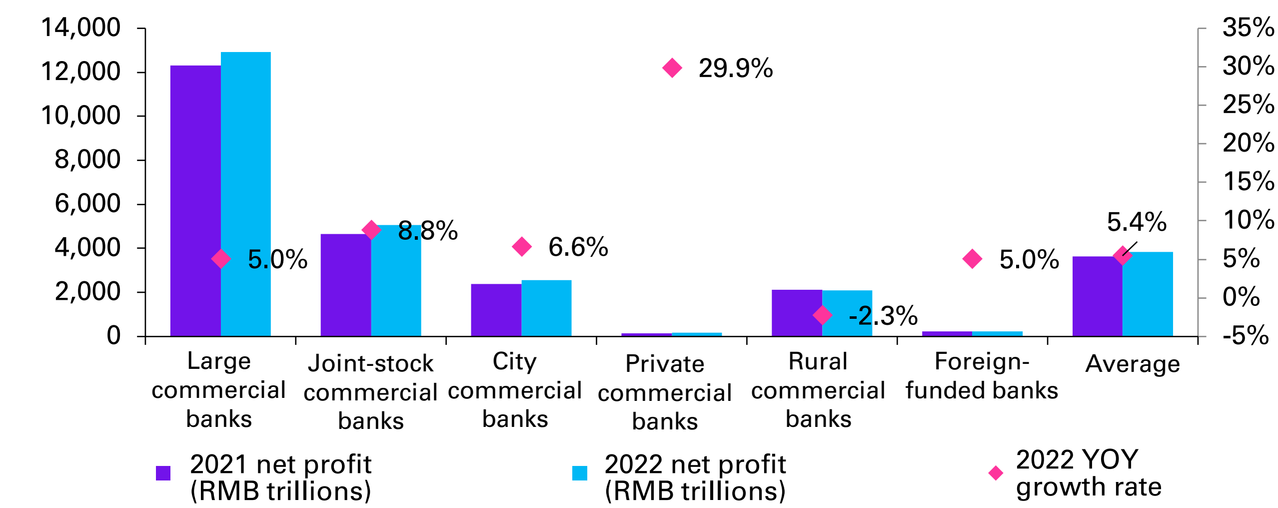
Figure 37 Net profits and growth rates of listed banks



Source: Wind and KPMG analysis

Structurally, in 2022, the net profits of different commercial banks registered varying degrees of decline. Large commercial banks, joint-stock commercial banks and city commercial banks saw their net profit growth fall from double-digit rates to the single digits; while that of rural commercial banks fell from YOY growth of 9.1% in 2021 to a YOY decline of 2.3% in 2022. Due to the relatively low 2022 base, private commercial banks maintained higher growth in net profits, although their YOY growth still tumbled from 47.1% in 2021 to 29.9% in 2022. Similarly, net profit growth of foreign-funded banks dove 20 percentage points from 24.8% in 2021 to 5% in 2022 (Figure 38).

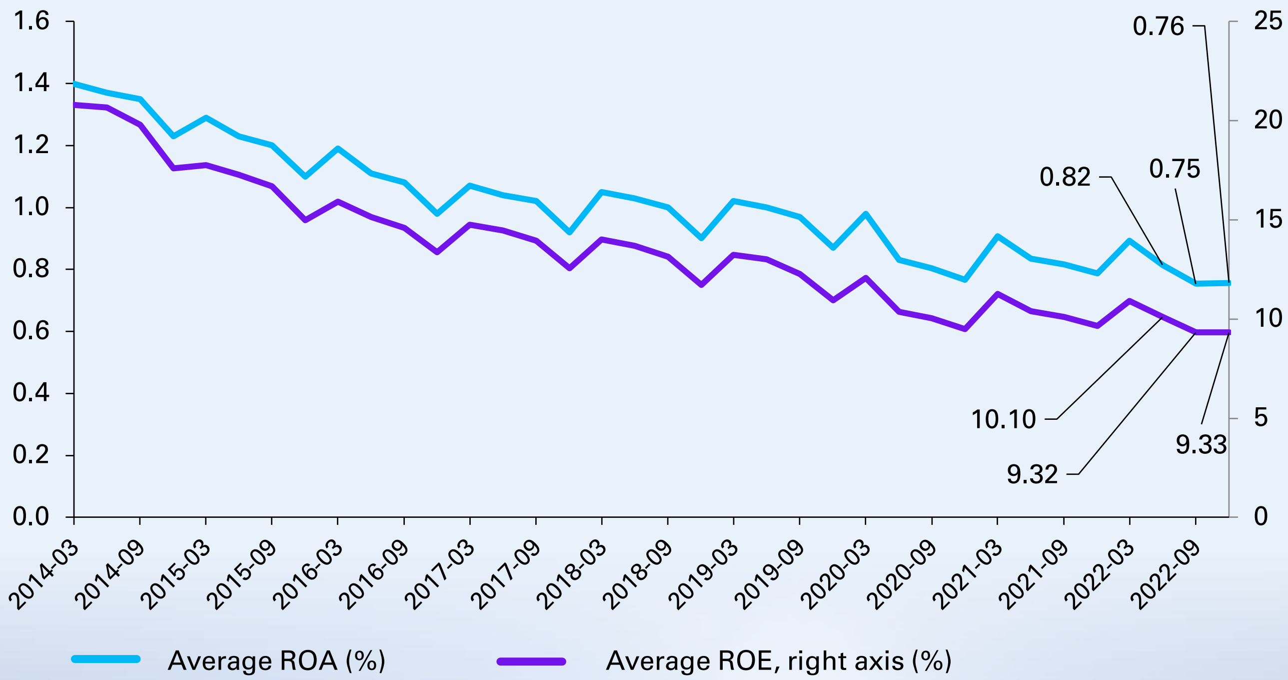
Figure 38 Net profits and YOY growth rates of different commercial banks



Source: Wind and KPMG analysis

In 2022, both average return on assets (ROA) and average return on equity (ROE) decreased compared to 2021. As the denominator in these formulas, in 2022, total assets experienced strong growth, rising 11% YOY; but growth in net profits, as the numerator, slowed down, weakening the performance of commercial banks. In 2022, commercial banks' ROA fell by 0.03 percentage points from 0.79% in 2021 to 0.76%; while ROE decreased by 0.3 percentage points from 9.6% in 2021 to 9.3% in 2022 (Figure 39).

Figure 39 Average quarterly ROA and average quarterly ROE of listed banks



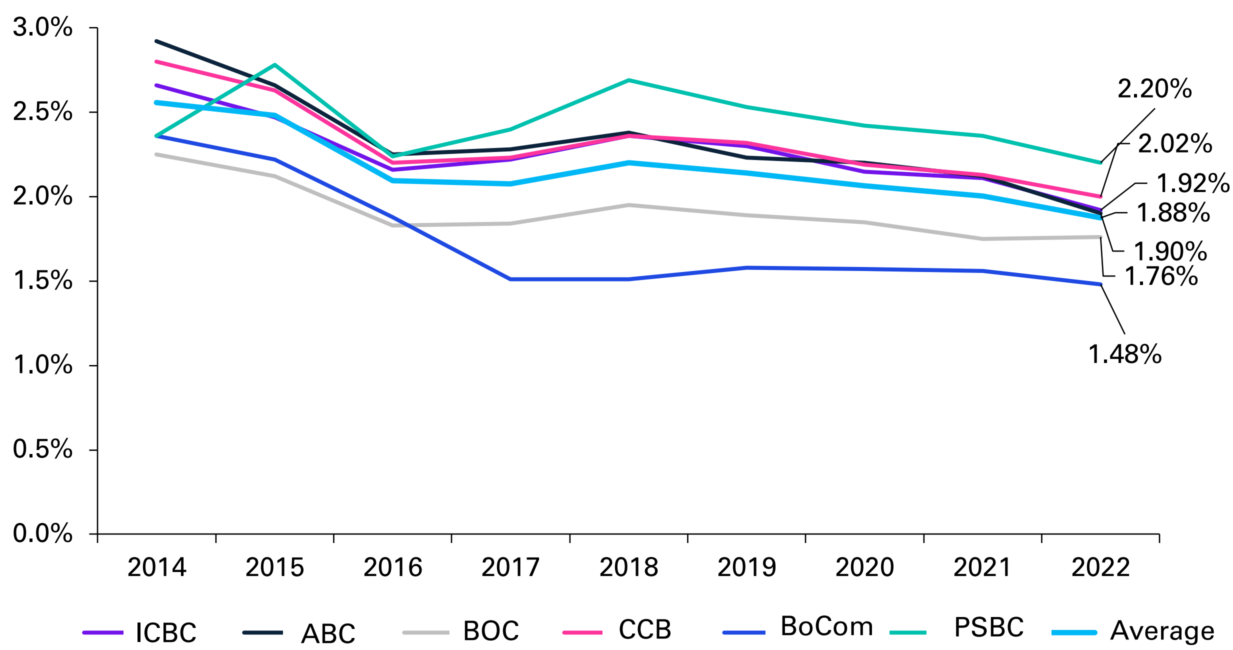
Source: Wind and KPMG analysis

The net interest margins of China's six state-owned banks are narrowing

In 2022, net interest margins narrowed due to interest rate cuts on loans, weak demand for corporate financing and relatively rigid cost of interest-bearing deposits. As part of banks' efforts to support the real economy, loan prime rates were cut, pushing down the loan yield ratio. The PBOC's statistics show that the weighted average interest rate of new corporate loans in 2022 stood at 4.17%, down 34 basis points YOY[7]. Weaker demand for corporate financing also impacted banks. According to Wind, major industrial enterprises saw their profits fall by 4% YOY in 2022. This dwindling corporate profitability dampened corporates' appetite for investment, which had the knock-on effect of reducing demand for financing. Finally, the cost of interest-bearing deposits is relatively rigid. Amid the weaker macroeconomic environment and drastic adjustments in the capital market, corporate and retail customers had smaller risk appetites along with a stronger preference for placing time deposits, which resulted in the cost of interest-bearing deposits becoming more rigid.

In 2022, the average net interest margin of the six state-owned banks hit a multi-year low of 1.88%. Except for BOC, whose net interest margin edged up by 0.01 percentage points YOY, the six state-owned banks' net interest margins all decreased slightly during the year. Among the six state-owned banks, ABC saw the largest YOY decline, as its net interest margin fell by 0.22 percentage points from 2.12% in 2021 to 1.90%. In the next biggest decline, ICBC's net interest margin dropped by 0.19 percentage points from 2.11% in 2021 to 1.92 percentage points in 2022. Next, PSBC's margin decreased by 0.16 percentage points from 2.36% to 2.20%, and CCB's fell 0.11 percentage points from 2.13% to 2.02%. Finally, BoCom's net interest margin declined by 0.08 percentage points from 1.56% in 2021 to 1.48% in 2022 (Figure 40).

Figure 40 Net interest margins of China's six state-owned commercial banks (%)



Source: The six state-owned commercial banks' 2022 annual reports, and KPMG analysis

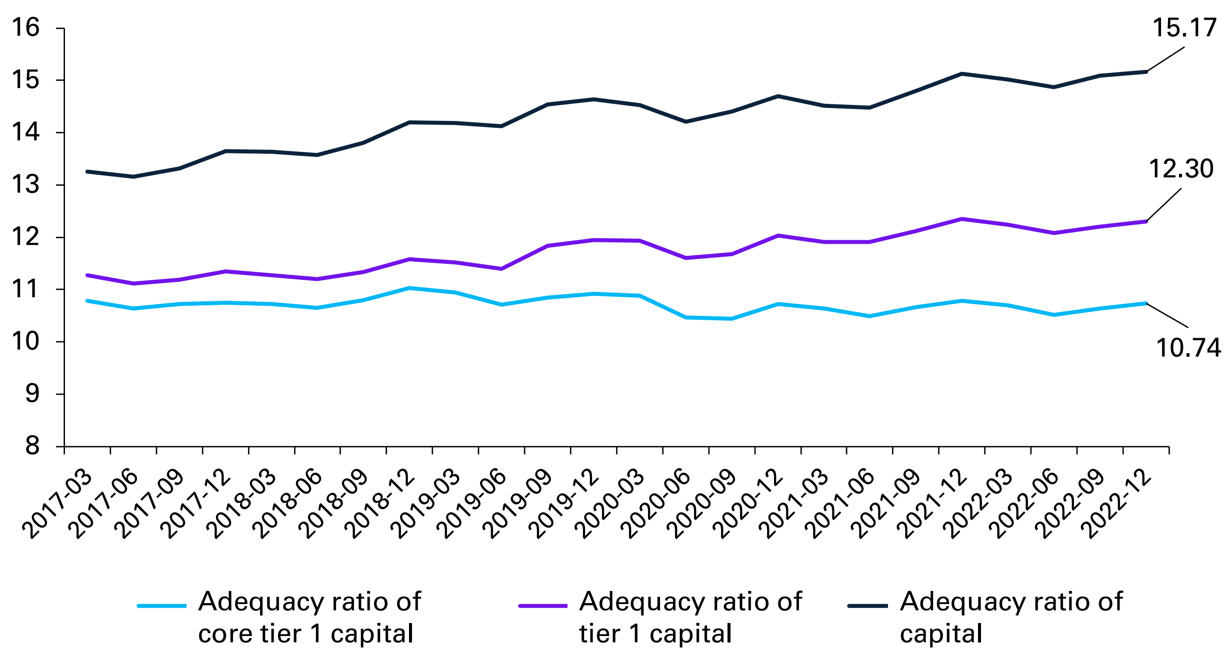
[7] PBOC: the weighted average interest rate of new corporate loans in 2022 stood at 4.17%, down 34 basis points YOY (人民银行：2022年新发放企业贷款加权平均利率为4.17% 比上年低34个基点), Shanghai Securities News, 13 January 2023, https://news.cnstock.com/news,bwkx-202301-5005816.htm

Capital side

Capital adequacy has increased steadily

In recent years, the capital adequacy ratio of commercial banks has steadily increased, and this trend continued in 2022, with the ratio rising from 15.13% at the end of 2021 to a historical high of 15.17% at the end of 2022 (Figure 41). However, the profit growth of commercial banks was outpaced by their scale growth, resulting in poor replenishment of their core tier 1 capital and specifically a decrease in the adequacy of core tier 1 capital by 0.05% from the end of 2021.

Figure 41 Quarterly capital adequacy ratios of commercial banks (%)

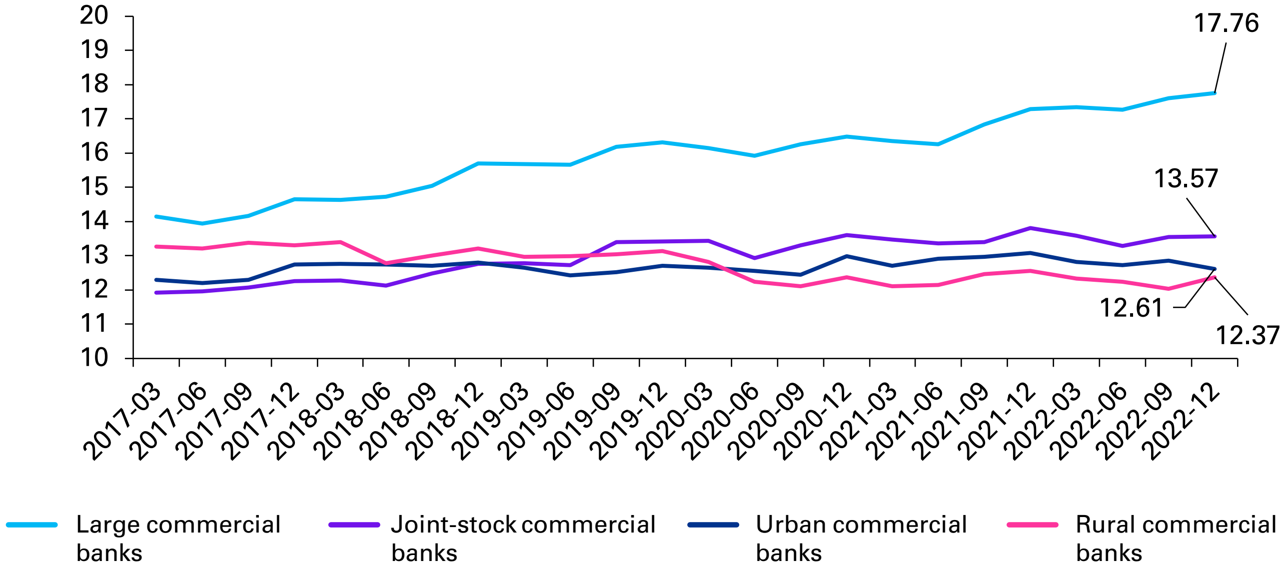


Source: Wind and KPMG analysis

The gap between large and small- and medium-sized commercial banks has widened

During 2022, the capital adequacy ratio of large commercial banks increased by 0.47 percentage points to a record high of 17.76%; the capital adequacy ratio of joint-stock commercial banks decreased by 0.24 percentage points to 13.57%; the capital adequacy ratio of urban commercial banks fell 0.46 percentage points to 12.61%; and the capital adequacy ratio of rural commercial banks dropped 0.18 percentage points to 12.37% (Figure 42). At the end of 2022, the capital adequacy ratio of large commercial banks was higher than that of joint-stock commercial banks, urban commercial banks and rural commercial banks by 4.19, 5.15 and 5.39 percentage points respectively, while these gaps stood at 2.39, 1.90 and 1.35 percentage points respectively at the end of 2017. In the past few years, the capital adequacy ratio gap between large commercial banks and small- and medium-sized banks has widened even further, demonstrating the phenomenon of "the strongest becoming stronger."

Figure 42 Capital adequacy ratios of different commercial banks



Source: Wind and KPMG analysis

2023 outlook for the banking industry

Trend 1 Promoting the high-quality growth of the real economy is the priority for the banking industry

The report to the 20th National Congress of the Communist Party of China emphasised that the country is focussing on developing its real economy. 2023 marks the first year in which the country will implement the spirit of the 20th National Congress of the Communist Party of China. As part of this effort, the banking industry has been tasked with prioritising greater support for the high-quality growth of the real economy.

For financial service providers, the main targets of credit support continue to be the manufacturing sector, technological innovation enterprises, and green development. Meanwhile, as the real estate sector serves as an important pillar of China's economy, financial institutions should make every effort to help the sector “ensure the delivery of stalled housing projects, safeguard people's livelihood, and maintain stability," and support the sector in pursuing a sustainable development model.

Medium- and long-term loans to the manufacturing industry have continued to grow rapidly, and supply and demand of financing are better aligned to drive technological innovations

Manufacturing represents a major part of China's economy. With its long value chain, extensive connectivity, and strong economic drivers, it plays a leading and supporting role in the modern economic system. The report to the 20th National Congress of the Communist Party of China vows to "concentrate on developing China’s real economy, promote new patterns of industrialisation, and build strength in manufacturing, quality delivery, aerospace, transportation, cyberspace, and digitalisation.” This year's government work report also highlights the task of focussing on the manufacturing industry while developing the real economy, ensuring the stability of the industrial economy, and maintaining the weight of the manufacturing industry.

In July 2022, the general office of the CBIRC issued the *Notice of the CBIRC General Office on Further Promoting Financial Services for the High-quality Development of the Manufacturing Industry*, which clearly requires maintaining rapid growth in the granting of medium and long-term loans to the manufacturing industry. With the support of these policies, the credit structure of manufacturing enterprises continued to improve in 2022, contributing to a downtick in their comprehensive financing costs. The balance of medium- and long-term loans to the manufacturing industry rose by 36.7% during the year, which was 26 percentage points higher than the growth in overall loans.

While helping the manufacturing industry boost its strength and scale, the banking sector should also focus on constantly innovating financial products and services and adapting financial service models to the transformation and development needs of the manufacturing industry, so as to drive high-end, intelligent, and green manufacturing and enable the steady optimisation of the structure of the manufacturing industry. High-end manufacturing is a critical driver for the high-quality growth of the real economy. In order to develop high-end manufacturing and accelerate the transformation and upgrading of the manufacturing industry, China needs to make technological innovations and crack technological "bottlenecks.” Unfortunately, the traditional credit model of banks can hardly address the funding needs for technological innovations, as such innovations often require extensive investments and present uncertainties in terms of investment returns, while banks usually require pledged assets and timely repayment of loans in full. Therefore, the banking industry should continue to innovate services such as intellectual property-backed financing as well as equity and debt investment, and leverage various methods, including those involving bonds and equity, to more properly align the supply of financing with the demand for technological innovation and provide robust support for the resolution of bottlenecks in key technologies.

Greater green finance opportunities arise with the emergence of carbon emission reduction tools

Green finance is not only an important driving force for high-quality economic and social development, but also an inevitable path for the transformation and development of the financial industry. China’s *2023 Government Work Report* calls for promoting green growth and improving supporting policies and financial instruments.

In 2021, the PBOC launched a carbon emission reduction support tool, which is a monetary policy instrument that is designed to drive the country's "dual carbon goals." It allows the central bank to provide low-cost funds to qualified financial institutions, which can then offer preferential interest rate loans for projects that help significantly reduce carbon emissions in the three key areas of clean energy, energy conservation and environmental protection, and carbon emission reduction technology. By the end of 2022, the tool had been used to grant a total of RMB 300 billion in refinancing to commercial banks, enabling the banks to grant carbon emission reduction loans of more than RMB 510 billion and reducing emissions by over 100 million tons of carbon dioxide equivalent in 2022.[8] At the beginning of 2023, the PBOC announced that it would continue implementing the tool until the end of 2024, and it expanded the tool’s coverage to certain locally incorporated financial institutions and foreign-funded financial institutions.

The extension of the tool and the expansion of its coverage are expected to create two positive impacts. First, as a wider variety of banking entities gain access to the tool, funds will be provided to more energy enterprises and emission reduction projects. For example, many carbon- and emission-intensive enterprises are important clients of urban and rural commercial banks and these banks, after becoming qualified for the tool, will use it and enhance its benefits. Second, taking in more foreign-funded financial institutions will diversify the sources of funding and targets of investment, helping develop China's green finance initiatives in an international context.

Since carbon emission reduction involves carbon verification, information disclosure, and other tasks, banks should gain a proper understanding of relevant industries and develop substantial capabilities to verify carbon information disclosures and manage related projects. In particular, small- and medium-sized banks should strengthen their capabilities in these areas, so as to capitalise on the preferential policy.

Four measures have been taken to enable the real estate industry to transition smoothly to a new development model

At their working meeting in early 2023, the PBOC and CBIRC stressed that normal operations between the financial and real estate sectors should be ensured by upholding the "housing is for living, not for speculation” principle, implementing the 16 measures listed in the *Notice on Offering Financial Support for the Stable and Sustainable Development of the Real Estate Market*, and introducing city-specific credit policies. Through these efforts, the real estate sector should be able to smoothly transition to a new development model.

The meeting proposed four actions, which include "activating assets," “continuing to resolve debts," “replenishing equity," and "boosting confidence,” with a view to extending and supplementing the "three arrows” real estate financing policy introduced at the end of 2022. Specifically, "activating assets" refers to stabilising asset prices, which requires a combination of financial approaches, such as incremental financing, restructuring, and mergers and acquisitions, to liquidate land reserves. On 24 March, the National Development and Reform Commission (NDRC) and the China Securities Regulatory Commission (CSRC) issued the *Notice on Regulated and Efficient Applications for and Recommendations of Real Estate Investment Trust (REIT) Projects in the Infrastructure Field*. In order to broaden the coverage of this trial effort, public REIT projects may also cover consumer infrastructure. Such projects are also expected to be launched for commercial real estate and market-oriented long-term rental housing.

“Continuing to resolve debts" corresponds to the “first and second arrows” stipulated in the real estate financing policy, meaning that financial institutions should continue to grant loans, reasonably extend the maturity of certain bonds, and avoid completely withdrawing or cutting off loans. “Replenishing equity" maps to the “third arrow” stipulated in the real estate financing policy, which refers to providing equity capital to outstanding real estate enterprises through equity financing and other means in order to improve their financing structure. "Boosting confidence" mainly involves raising consumer confidence in the market and the delivery of housing, as well as the confidence of financial institutions in the sales of housing.

[8] “Refinancing over RMB 300 Billion through the Carbon Emission Reduction Support Tool,” *China Energy News*, 13 February 2023, http://paper.people.com.cn/zgnyb/html/2023-02/13/content_25966053.htm

Trend 2 With downside pressure on net interest margin remains, concerted efforts are needed to stabilise the fundamentally important net interest income

In 2022, China faced significant downside pressure on its economy and successively launched policies to encourage financial institutions to surrender part of their profits to boost the real economy. According to data from the PBOC, the weighted average interest rate of new corporate loans in 2022 was 4.2%, a year-on-year decrease of 0.34%. In addition, the risk appetite of residents and enterprises decreased significantly, resulting in a surge of deposits and an obvious preference for time deposits, and therefore banks' costs on the liability side went up to a certain extent. In 2022, the net interest margin of banks dropped significantly, by 0.14, 0.14, 0.24 and 0.23 percentage points for large state-owned banks, joint-stock banks, urban commercial banks, and rural commercial banks respectively.

Due to factors such as the declining LPR and market interest rate, the net interest margin of commercial banks continued to shrink, although the trend was less pronounced among China's six largest state-owned banks. Therefore, how to stabilise the fundamentally important interest income is key to the asset and liability management of commercial banks. In the face of declining net interest margin, commercial banks should focus their asset and liability management efforts on exploring and creating value. They should enhance the three core functions of treasury management, asset and liability allocation strategy, and interest rate risk management, and slow down the decline of net interest margins using three approaches. First, the banks should continue to adjust and optimise their asset structure, raise the proportion of assets that generate a higher yield, and reduce the proportion of other assets. Second, they should strengthen their management of the cost of interest-bearing deposits, raise the proportion of low-cost funds for corporate and personal banking, and proactively reduce long-term time deposits. Third, banks should more proactively manage interest rate risks, better forecast the market interest rate, and plan, adjust, and control their asset and liability portfolios in a forward-looking manner. Banks can also try using interest rate derivatives to hedge interest rate risks if conditions permit.

Trend 3 Commercial banks' intermediary business struggled last year but is expected to stabilise this year

Last year, income growth in commercial banks' intermediary business was sluggish. However, these business lines, such as settlement and wealth management, are expected to pick up momentum again in 2023 with the recovery of the economy and capital market.

On one hand, income growth from settlement and clearing is expected to rebound. From the Central Economic Working Conference at the end of last year to the "Two Sessions" this March, policymakers have put stabilising growth at the top of their agendas. Underpinned by favourable policies and more optimistic market expectations, in the first quarter of 2023, production demand started trending upward; the overall price level stabilised; and the economy gradually regained speed. The economy is expected to grow by more than 5% over the entire year. The economic recovery is contributing to higher residential income and consumer spending, boosting entrepreneurial confidence, and encouraging enterprises to increase investments and expand operations, which is creating demand for settlement, clearing and other services.

On the other hand, certain other business lines, such as wealth management and agency business, are expected to stabilise. As residents gradually shift their focus from real estate assets to financial assets, and the new wealth management regulations and capital market reform continue to be implemented, the equity investment market is gaining traction. The accelerated economic recovery may provide a boost to the equity market and bond market, as residents purchase wealth management products from commercial banks with some of the savings they have accumulated since the COVID-19 outbreak. At the same time, the progress being made by China's private pension pilot programme is giving new impetus to the wealth management business of commercial banks. Also, in order to compensate for falling net interest margins, commercial banks are actively exploring non-interest business; shifting their strategic focus to wealth management, agency services, and other related business; strengthening customer insights; improving customer experience; flexibly designing differentiated products; creating open product and service pipelines; and actively driving innovation in wealth management products and services. Although many wealth management products dropped below their offering prices and wealth management redemptions surged last year, banks are likely to see a rebound in the wealth management market this year. The latest monitoring data released by PYSTANDARD shows that a total of 7,197 new wealth management products were issued in the first quarter of 2023, 742 more than in the previous quarter, and the average annualised yield reached 5.24%, up 783 basis points from the previous quarter.9

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[9] With the impact of the price deficit fading, banks are seeing a rising wealth management market again in the first quarter, *Economic Information Daily*, 20 April 2023, https://xhpfmapi.xinhuaxmt.com/vh512/share/11469140

Trend 4 The financial regulation system is being reshaped, and banks are facing upgraded capital regulations

The report to the 20th National Congress of the Communist Party of China emphasised that the country is focussing on developing its real economy. 2023 marks the first year in which the country will implement the spirit of the 20th National Congress of the Communist Party of China. As part of this effort, the banking industry has been tasked with prioritising greater support for the high-quality growth of the real economy.

For financial service providers, the main targets of credit support continue to be the manufacturing sector, technological innovation enterprises, and green development. Meanwhile, as the real estate sector serves as an important pillar of China's economy, financial institutions should make every effort to help the sector “ensure the delivery of stalled housing projects, safeguard people's livelihood, and maintain stability," and support the sector in pursuing a sustainable development model.

Medium- and long-term loans to the manufacturing industry have continued to grow rapidly, and supply and demand of financing are better aligned to drive technological innovations

Manufacturing represents a major part of China's economy. With its long value chain, extensive connectivity, and strong economic drivers, it plays a leading and supporting role in the modern economic system. The report to the 20th National Congress of the Communist Party of China vows to "concentrate on developing China’s real economy, promote new patterns of industrialisation, and build strength in manufacturing, quality delivery, aerospace, transportation, cyberspace, and digitalisation.” This year's government work report also highlights the task of focussing on the manufacturing industry while developing the real economy, ensuring the stability of the industrial economy, and maintaining the weight of the manufacturing industry.

In July 2022, the general office of the CBIRC issued the *Notice of the CBIRC General Office on Further Promoting Financial Services for the High-quality Development of the Manufacturing Industry*, which clearly requires maintaining rapid growth in the granting of medium and long-term loans to the manufacturing industry. With the support of these policies, the credit structure of manufacturing enterprises continued to improve in 2022, contributing to a downtick in their comprehensive financing costs. The balance of medium- and long-term loans to the manufacturing industry rose by 36.7% during the year, which was 26 percentage points higher than the growth in overall loans.

While helping the manufacturing industry boost its strength and scale, the banking sector should also focus on constantly innovating financial products and services and adapting financial service models to the transformation and development needs of the manufacturing industry, so as to drive high-end, intelligent, and green manufacturing and enable the steady optimisation of the structure of the manufacturing industry. High-end manufacturing is a critical driver for the high-quality growth of the real economy. In order to develop high-end manufacturing and accelerate the transformation and upgrading of the manufacturing industry, China needs to make technological innovations and crack technological "bottlenecks.” Unfortunately, the traditional credit model of banks can hardly address the funding needs for technological innovations, as such innovations often require extensive investments and present uncertainties in terms of investment returns, while banks usually require pledged assets and timely repayment of loans in full. Therefore, the banking industry should continue to innovate services such as intellectual property-backed financing as well as equity and debt investment, and leverage various methods, including those involving bonds and equity, to more properly align the supply of financing with the demand for technological innovation and provide robust support for the resolution of bottlenecks in key technologies.

Greater green finance opportunities arise with the emergence of carbon emission reduction tools

Green finance is not only an important driving force for high-quality economic and social development, but also an inevitable path for the transformation and development of the financial industry. China’s *2023 Government Work Report* calls for promoting green growth and improving supporting policies and financial instruments.

Trend 5 Commercial banks continue to be polarised in terms of capital adequacy ratios

Over the past few years, China's commercial banks have improved their overall capital adequacy ratio, but they are still facing a prominent structural problem in this regard, and the gap between different types of commercial banks has widened. The capital adequacy ratio of large commercial banks has increased steadily for several reasons. First, regulators have been subjecting systemically important banks to stiff capital replenishment requirements. The Additional Regulatory Rules for Systemically Important Banks (for Trial Implementation) effective from the end of 2021 stipulates, "Systemically important banks shall meet certain capital requirements in addition to the minimum capital requirements, reserve capital requirements and counter-cyclical capital requirements." At present, there are 19 systemically important banks in China, including the six large state-owned banks. These banks have improved their capital adequacy in various ways to meet the regulatory requirements. Second, apart from replenishing capital through earnings retention, large commercial banks have explored external capital replenishment channels and have continued to pursue capital tool innovations, so as to optimise their capital structure and properly control capital costs. These efforts have resulted in a capital adequacy ratio that is significantly higher than that of other types of banks.

At the same time, small- and medium-sized banks have limited access to capital replenishment channels and are therefore facing significant pressure. First, sluggish net profit growth has rendered them unable to replenish capital through earnings retention. In 2022, the net profit growth of urban and rural commercial banks slowed due to narrowing net interest margins, accelerating credit risk, and other issues. Specifically, the net profit growth of urban commercial banks dropped by half, while rural commercial banks recorded negative net profit growth. Second, limited external capital replenishment channels are available to small- and medium-sized banks. Compared with large commercial banks, small- and medium-sized banks are subject to greater risks, and their perpetual bonds and tier 2 capital bonds are not very attractive to investors. In 2022, the total amount of perpetual bonds issued by small- and medium-sized banks decreased significantly. Specifically, perpetual bonds issued by urban commercial banks declined 52% to RMB 66.1 billion, and perpetual bonds issued by rural commercial banks plunged 75% to RMB 4.5 billion. Meanwhile, although the total amount of tier 2 capital bonds issued by small- and medium-sized banks grew 59% year-on-year, rural commercial banks registered only a 12% increase. Third, the rapid growth of risk assets has led to higher requirements for capital replenishment. The risk assets to which urban and rural commercial banks are exposed include real estate assets; and for this reason, the plummet of the real estate market has been a drag on small- and medium-sized banks, resulting in an increase in risk-weighted assets and capital replenishment needs.

Compared with large commercial banks, small- and medium-sized banks are struggling in the face of limited internal and external capital replenishment channels, and their capital replenishment pressure is persistent. Therefore, going forward, the gap in capital adequacy ratios between the two types of banks is expected to widen.

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3

Tightened Regulatory Policies to Maintain Stability More Effectively

Regulatory updates

Recently, China has continued its financial regulation reform by issuing new regulations and policies that reflect three focuses.

First, the country is improving the top-level design of financial regulations. By enacting the Financial Stability Law and reforming financial regulatory bodies, China aims to create an integrated regulatory system that promotes concerted efforts and coordination between multidisciplinary financial business and discipline-specific regulation.

Second, the country is attaching importance to both behavioural supervision and prudential supervision, and focusing on the governance and management of financial institutions. To this end, it has strengthened the penetration management of shareholder qualifications and the supervision of shareholder behaviours for financial institutions, and issued various business supervision policies to clearly define the responsibilities of directors, supervisors, and executives, with a view to encouraging financial institutions to improve corporate governance. Meanwhile, China has put forward detailed management requirements in business supervision policies concerning mechanisms, processes, tools, and methods; and regulators are pursuing “accountability for violations" and "supervision and inspection" to step up behavioural restrictions in operational and management activities and ensure that employees meet their responsibilities and abide by codes of conduct.

Third, the country is strictly adhering to the mission of maintaining financial stability, ensuring financial support for the real economy, driving the financial sector to dutifully boost economic development, and actively responding to new challenges arising from the rapid emergence of new technologies and changes in global financial dynamics.

The State Council unveils a new financial regulatory reform plan

On 16 March 2023, the Central Committee of the Communist Party of China and the State Council issued the Reform Plan for Party and State Institutions, which calls for an extensive reform of China's financial regulation system to ensure comprehensive supervision of all types of financial activities, reduce regulatory arbitrage between regulators, regions, and central and local functions, and improve the performance and efficiency of financial regulation.

At the top level of financial regulation, the Central Financial Commission and the Central Financial Work Commission have been established. They are responsible for creating a top-level design to facilitate financial stability and development, strengthening overall regulatory coordination, driving overall regulation, and supervising the implementation of regulations, as well as contemplating and reviewing major policies and issues. The core role they play reflects the central leadership of the CPC Central Committee over the country’s financial work.

At the intermediate level of financial regulation, NAFR, which has been established on the basis of the CBIRC, has taken over daily supervision of financial holding companies and other financial groups, as well as financial consumer protection, from the PBOC, and it has also taken over investor protection duties from the CSRC. As part of China's new financial regulation system, the PBOC focuses on monetary policy and macro-prudential supervision. Meanwhile, NAFR is responsible for supervising the financial industry (except for the securities sector), and it is also charged with strengthening institutional supervision and behavioural supervision, coordinating efforts to protect the rights and interests of financial consumers, enhancing risk management, prevention, and resolution, and investigating and handling violations of laws and regulations. Finally, the CSRC is tasked with supervising the capital market. These changes aim to clarify the responsibilities of the central bank and financial supervision departments, and separate macro-economic control from financial regulation. They are also designed to integrate regulatory contents and functions, with a view to easing the conflict between regulatory functions, reducing regulatory blind spots and overlaps, ensuring a consistent regulatory mindset, and implementing functional supervision.

At the regional level of financial regulation, a financial regulation system has also been established that tasks the local offices of central financial management departments with playing a major role in maintaining regional financial stability. This initiative aims to coordinate and optimise the setup and power of the local offices, while fortifying the responsibilities of regional financial regulators, especially their responsibility for supervising local financial organisations.

This reform of the financial regulation system is gradually shaping a "three levels + two functions” regulatory framework (where the “two functions” refer to the prudential supervision function and behavioural supervision function at the intermediate level) in China to enable necessary coordination between macro-prudential supervision, micro-prudential supervision, and behavioural supervision, and ultimately forge a financial system that provides a strong tailwind for the real economy. This framework will help strengthen the governance of key areas and targets that are exposed to systemic financial risks, and play a critical role in preventing such risks.

The central bank solicits public opinions on the Financial Stability Law

In order to prevent and mitigate financial risks, implement the decisions and arrangements for improving the rule of law in finance, and establish a long-term mechanism for maintaining financial stability, the PBOC, the NDRC, the Ministry of Justice, the Ministry of Finance, the CBIRC, the CSRC, and the State Administration of Foreign Exchange (SAFE) jointly drafted the Financial Stability Law of the People's Republic of China, and solicited public opinions through the National People's Congress on 30 December 2022. The Financial Stability Law, which will serve as a complement to the Law of the People's Republic of China on the People's Bank of China, the Commercial Banking Law, the Securities Law, the Social Security Law, and other basic financial laws, will put in place institutional arrangements for the prevention, mitigation, and handling of financial risks, so as to create an effective, authoritative, coordinated and robust working mechanism for financial stability.

In terms of financial risk prevention, the draft emphasises the responsibilities of financial institutions as well as their major shareholders and actual controllers, and the regulatory responsibilities of local governments and financial supervision departments, so as to drive prevention, early detection and mitigation of financial risks.

In terms of financial risk mitigation, the draft stipulates that financial institutions should bear the main responsibility for risk mitigation. If a risk such as unexpected fluctuations in regulatory indicators arises, they should take the initiative to implement risk mitigation measures, improve corporate governance and internal control, and pursue accountability. In addition, the draft states that local governments and financial supervision departments should step up efforts to strictly discharge their regulatory responsibilities.

In terms of financial risk handling, the draft proposes establishing a financial stability guarantee fund to boost the role played by the national planning and coordination mechanism for financial stability and development. It also proposes establishing a market-oriented, rule-of-law mechanism to clarify the sources and use arrangements of funds for financial risk handling, improve related measures and tools, and protect the legal rights and interests of market participants.

The Financial Stability Law will provide solid institutional support for the stability of financial institutions, the financial market, and the financial transmission mechanism; help China’s financial system better address risks and serve the real economy; and prevent local risks from evolving into systemic risks. In short, the law will enable the country to hold the bottom line of “no systemic financial risks” and drive the stable and sustainable development of China's financial market.

The CBIRC defines the regulatory rating system for branches of foreign banks

In December 2022, the CBIRC issued the *Measures for the Comprehensive Regulatory Rating of Branches of Foreign Banks (for Trial Implementation)* to provide principled provisions on the main rules, elements, basic procedures, and use of results of regulatory ratings for branches of foreign banks. Regulatory ratings represent a core off-site supervisory measure. The regulatory rating system for branches of foreign banks includes the following improvements:

- **Adjusts the weights of the four rating elements.** It sets the weights for the four rating elements of risk management, operational control, compliance, and asset quality to 40%, 30%, 20% and 10% respectively, so as to increase the importance of "compliance" in regulatory ratings;
- **Optimises the definition of special adjustment items.** In addition to the provision that states, “Points are deducted from the score of a foreign bank’s branch if the branch is involved in major violations of laws and regulations, major cases, or major risk events,” special items include "serious defects in operations and management" and "sharp increases in risk due to business strategy adjustments." These changes are intended to improve the effectiveness of the rating system and provide more discretion to regulators;
- **Improves the classification system.** With reference to the *Measures for the Regulatory Rating of Commercial Banks*, it defines more grades and score ranges for the comprehensive regulatory rating of branches of foreign banks to ensure regulatory consistency.

The release and implementation of the *Measures for the Comprehensive Regulatory Rating of Branches of Foreign Banks (for Trial Implementation)* provides an institutional guarantee for strengthening the regulation of branches of foreign banks and fully leveraging the role of regulatory ratings. These regulations are designed to properly allocate regulatory resources and improve the country’s regulatory capabilities. In addition, they will serve as an effective set of guidelines for branches of foreign banks in their efforts to improve their risk management systems and enhance risk governance.

The CBIRC expands regulation and assessment of the corporate governance of banking and insurance institutions

In order to drive the corporate governance of banking and insurance institutions and improve the quality and effectiveness of corporate governance regulation and assessment, the CBIRC has revised the *Measures on Regulation and Assessment of Corporate Governance of Banks and Insurance Organisations (for Trial Implementation)* issued in 2019. While retaining the original assessment mechanism and system, the new version undertakes the following:

- **Expands the objects of assessment.** Apart from commercial banks and commercial insurance companies, the regulation and assessment of corporate governance also covers non-banking financial institutions, including rural cooperative banks, financial asset management companies, financial leasing companies, finance companies of enterprise groups, automotive finance companies, consumer finance companies, and money brokerage companies;

- **Optimises the assessment mechanism and allocates assessment resources according to classification results.** In principle, banking and insurance institutions should conduct assessments at least once a year. However, institutions that have received a “good” or better assessment result may conduct assessments slightly less often. Regulatory assessments are carried out both off-site and on-site, and on-site assessments should achieve full coverage every three years;

- **Improves the assessment indicators.** The new version further addresses issues such as illegal interventions by major shareholders and insider control by enhancing certain key indicators, including those related to CPC leadership, shareholder equity, related-party transactions, and nominations of and performance of duties by directors, supervisors, and executives. It also establishes a dynamic indicator adjustment mechanism, optimises the indicator weights, reduces the number of indicators, and highlights the key focuses of corporate governance regulation;

- **Promotes the application of results.** In addition to requiring the implementation of regulatory measures according to assessment results, the new version further promotes the responsibilities of regulators and institutions. Banking and insurance institutions that have received a D rating or below are considered key objects of regulation, and they are tasked with carrying out early intervention and timely rectification of major potential corporate governance risks to prevent escalation.

Assessing the corporate governance of banking and insurance institutions based on the relevant corporate governance standards and requirements issued by regulators will help further promote “delicate, strict, and comprehensive” corporate governance regulation principles, encourage various types of financial institutions to improve their corporate governance, and drive governance bodies to more effectively perform their duties.

The CBIRC optimises the joint credit granting mechanism

In order to steer banking financial institutions toward better credit granting management, improve the relationship between banks and enterprises, and optimise the allocation of credit resources, the CBIRC issued the *Notice on Further Improving the Joint Credit Granting Pilot Programme* on 3 March 2023, with a view to fine-tuning the joint credit granting mechanism. Specifically, it requires:

- **Expansion of the scope of the pilot programme.** Based on multiple factors, it encourages qualified banking financial institutions to adopt the joint credit granting mechanism to cover enterprises that meet the basic conditions. The institutions can establish such a mechanism with shortlisted enterprises and prudently assess their credit needs, so as to grant them a proper amount of credit;

- **Strict discharge of the duties of leading banks.** In enhancing joint credit granting, the leading banks should define complete and clear rules of procedure and workflows, share enterprise information, organise participating banks to perform joint assessments for credit granting, identify potential risks, and raise risk alerts;

- **Greater risk prevention and control.** It calls on banks to expend greater effort on information sharing, risk monitoring and early warning, and asset quality monitoring; improve credit management processes and risk handling plans; and perform independent review procedures rather than solely relying on the risk control standards of other banks;

- **Pursuit of accountability for performance of duties.** The Notice urges banks to incorporate joint credit granting into their credit management systems, strengthen related performance appraisals, and seek accountability for violations of laws and regulations.

Joint credit granting helps effectively control credit concentration risks arising from multiple banks providing credit to a single enterprise, curb multi-source financing and excessive financing, and prevent major credit risks. The Notice, which includes additional requirements for certain key issues, will enable the joint credit granting mechanism to play a bigger part in building a sound long-term relationship between banks and enterprises and optimising the allocation of financial resources. It should also strengthen the risk control measures of banking financial institutions and help them strike a balance between serving the real economy and preventing and controlling financial risks.

The CBIRC and PBOC will release new capital regulations to tighten supervision

On 18 February 2023, the CBIRC and PBOC turned to the public for opinions on the revised *Administrative Measures on the Capital of Commercial Banks (Exposure Draft)* (the "New Capital Regulations"). The New Capital Regulations are set to become effective on 1 January 2024, which will mark the full implementation of the final edition of Basel III in China. Compared with the 2012 version, the New Capital Regulations will subject commercial banks to:

- **Updated capital measurement methods.** In order to reduce the difference between the measurement results of risk weighted assets generated by the advanced capital measurement methods of different banks, the New Capital Regulations include a capital "bottom line" to limit the extent to which banks that use the internal model method can reduce the capital requirements for measuring credit risk and market risk. The new regulations also require the implementation of a (new) standard measurement method for operational risk regulatory capital, so as to improve the comparability of risk weighted assets and capital adequacy ratios;

- **Transformation of operating and management models.** The New Capital Regulations change the risk weights and set parameter "bottom lines," which affects risk exposure, costs, and accessibility of capital in specific business areas, and requires changes in the operating and management models for those areas;

- **Expansion of the data collection scope.** For commercial banks, the new capital measurement method is accompanied by higher requirements on the collection, processing, measurement, and disclosure of business data, including customer information, debt information, mortgage and pledge information, industry data such as information about national economy industries, information about enterprise classification, and standards for risk exposure classification, as well as internal management data such as operational risk loss data;

- **Upgrading of capital measurement systems.** In order to improve data quality, the new regulations put forward higher requirements for capital measurement systems. These requirements cover the collection of data, measurement of regulatory capital and risk weighted assets, construction of a data mart for risk weighted assets, and interconnectivity with frontend business systems;

- **Transformation of risk management models.** The Pillar II provisions on supervisory review and the Pillar III provisions on information disclosure standards and contents indicate that regulators are paying close attention to comprehensive risk management and internal capital adequacy assessment processes. In this context, commercial banks should improve their internal capital adequacy assessment processes from six aspects—risk governance, comprehensive risk management, stress testing, capital management, information system construction, and assessment report analysis—and establish an information disclosure system that aligns with the requirements for differentiated capital regulation, so as to provide more transparent and comparable Pillar III disclosure information.

The New Capital Regulations will contribute to the development of a differentiated capital regulation system that matches capital regulation and information disclosure with the asset scale and business complexity of banks. The revision of risk weighted asset measurement rules, which covers the credit risk weights method, internal ratings method, standardised approach for market risk, internal model method, and standardised approach for operational risk, will also increase risk sensitivity in capital measurement.

The CBIRC updates the risk classification standards for financial assets

Credit risk represents the most prominent risk in China's banking industry, and it cannot be effectively prevented and controlled without a well-established risk classification system. In order to adapt to changes in the asset structure of commercial banks and address challenges in risk classification, on 11 February 2023, the CBIRC and PBOC jointly issued the *Measures for the Risk Classification of Financial Assets by Commercial Banks*. Effective 1 July 2023, the Measures require commercial banks to carry out risk classification for all their on-balance-sheet and off-balance-sheet financial assets bearing credit risks, based on the principle of "authenticity, timeliness, prudence, and independence." The Measures:

- **Expand risk classification coverage from loans to all financial assets bearing credit risk;**
- **Define five categories of financial assets,** set the standard for distinguishing between retail assets and non-retail assets, and put forward detailed requirements concerning specific situations such as overdue debts, asset impairment, debt evasion and abolition, and other issues such as adjustment of financial assets to a higher category, enterprise mergers and acquisitions, asset management, and asset securitisation;
- **Put forward risk classification requirements for restructured assets.** The Measures provide more detailed definitions, recognition criteria, and exit criteria for restructured assets, clarify classification requirements for restructured assets in different circumstances, and set an observation period for restructured assets;
- **Strengthen classified risk management for banks.** The Measures are designed to encourage commercial banks to improve their management structure for classified risk, formulate classified risk management policies, clarify classification methods, processes, and frequencies, put in place well-established information systems, and strengthen monitoring and analysis, information disclosure, and document management;
- **Specify regulatory and management requirements.** The Measures require regulators to supervise, inspect, and evaluate commercial banks' performance in classified risk management, and implement regulatory measures and administrative penalties for violations.

The *Measures for the Risk Classification of Financial Assets by Commercial Banks* align with the *Prudential Treatment of Problem Assets* issued by the Basel Committee, with a view to encouraging commercial banks to identify and assess credit risks in a more prudent, timely and complete manner. Commercial banks should comprehensively comb through their risk classifications for financial assets, establish a proper classified risk management structure, improve their classified risk management policies, optimise the functions of their information systems, and strengthen monitoring, analysis, and information disclosure, with the overall goal of effectively improving classified risk management.

The CBIRC issues the first regulations for various custody products

In recent years, commercial banks have been providing a wide variety of custody services for different financial products, while also proactively pursuing innovation and expanding their scale of business in this sector. These positive developments have also given rise to challenges, including information system risks, operational risks, compliance risks, and reputational risks. On 29 December 2022, the CBIRC issued the *Measures for the Supervision and Administration of Custody Services of Commercial Banks (Exposure Draft)* to further clarify basic business rules, strengthen fundamental requirements, and put forward more detailed management standards for key activities. The Measures mainly:

- **Clarify the relevant concepts and basic principles for custody services of commercial banks.** In providing the services, commercial banks serve as independent third-party custodians of various asset management products, social security funds, pensions, and insurance funds. To ensure the independence of assets under custody, commercial banks should follow the principles of good faith, due diligence, independent prudence, and risk separation in carrying out these services;

- **Specify the basic requirements that commercial banks should comply with in order to deliver custody services,** including signing custody contracts and executing fund transfer orders in accordance with laws and regulations; deploying sound cybersecurity protection measures to effectively defend against network attacks; implementing proper business continuity plans and emergency plans; and developing the capability to safely obtain custody-related data from relevant parties in a timely manner;

- **Define the scope of custody services and responsibilities.** The Measures require commercial banks to divide assets under custody into assets that can be kept in custody and other assets according to their actual control over the assets, provide custody services and other services based on their competence and service capabilities, and clarify the rights and obligations of all involved parties through custody contracts;

- **Put forward custody business management requirements.** The Measures require commercial banks to establish a proper governance structure for custody business, and strengthen business management by improving their management systems, management policies, business independence, authorisation controls, business accessibility, marketing activities, and data protection;

- **Improve practices related to continuous supervision, regulatory punishment, data reporting, and self-discipline management, among other relevant arrangements.**

The *Measures for the Supervision and Administration of Custody Services of Commercial Banks (Exposure Draft)* align with existing regulatory requirements. Based on the nature of custody business, the Measures emphasise the spirit of integrity and contracts and specify banks’ responsibilities in respect of risk management and compliance. In short, the Measures will ensure the implementation of a prudent and robust independent third-party custody mechanism while also supporting the development of asset management business.

The CBIRC steps up efforts to protect consumers' legal rights and interests

In order to better regulate behaviour in the banking and insurance industries and improve the country’s consumer protection system, the CBIRC recently issued the *Administrative Measures for the Protection of Consumers' Rights and Interests by Banking and Insurance Institutions*. These Measures establish a behavioural regulation framework by strengthening the promotion and publicity of financial knowledge, standardising the conduct of financial institutions, improving supervision and management rules, and punishing violations of laws and regulations in a timely manner. This effort aims to safeguard the eight basic rights of consumers and encourage banking and insurance institutions to better protect financial consumers. The Measures mainly include provisions to:

- **Protect consumers' right to information, right to choice, and right to fair exchange.** The Measures put forward principled requirements for product design, information disclosure, marketing, sales behaviour, and fair pricing for banking and insurance institutions. Specifically, these requirements cover the rating of product risks, disclosure of key product information, publicity of product and service charges, consumers' right to choice, and fair pricing for consumers under the same conditions;

- **Protect consumers' right to security of property and right to legal claim.** The Measures require banking and insurance institutions to operate prudently and strictly distinguish their own assets from consumers’ assets; implement consumer identification and verification in their service processes; strictly verify the qualifications of investors and strengthen custody responsibility for asset management business; and perform prudent underwriting and timely settlement of claims for insurance business, without delaying or refusing settlement for unjustifiable reasons;

- **Protect consumers' right to education and respect.** The Measures suggest that during daily operations and management, banking and insurance institutions should continue to help consumers become more financially-savvy and strengthen the promotion and publicity of financial knowledge; respect the personal dignity and customs of consumers; address the financial service needs of special customer groups such as the elderly and the disabled; and regulate marketing and collection activities;

- **Protect consumers' right to information security.** The Measures require banks and insurance enterprises to better protect consumers' personal information during collection, processing, use, and transfer of data, and exercise strict control over related behaviours and permissions.

The *Administrative Measures for the Protection of Consumers' Rights and Interests by Banking and Insurance Institutions* clarify banking and insurance institutions’ responsibilities for protecting consumers’ rights and interests under the current governance structure, and they will promote the establishment of a system for the protection of consumer rights and interests based on a "four beams and eight pillars” structure. Based on business characteristics, the Measures also put forward unified standards and behavioural “red lines” that should be followed during various types of financial services, with a view to protecting consumers.

The CBIRC strengthens regulation over country-specific risks of financial institutions

institutions and promote the stable and sustainable development of commercial banks, the CBIRC prepared the *Measures for Banking Financial Institutions on the Management of Country-specific Risks (Exposure Draft)* on the basis of the *Guidelines for Banking Financial Institutions on the Management of Country-specific Risks* issued in 2010. The Measures mainly:

- Define the measurement scope of country-specific risks in accordance with the principle of "full risk coverage";
- Include the country-specific risk reserve with owners' equity as part of the general reserve, so as to meet the regulatory requirements of the Ministry of Finance on general reserves and improve the scope and proportion of country-specific risk reserves;
- Improve regulatory requirements by defining the country-specific risk management responsibilities of banking financial institutions, putting forward relevant restrictive requirements on country-specific risk transfer, and categorising country-specific risk levels for international organisations and institutions.

The global banking environment is becoming increasingly complex, and country-specific risks require greater attention. Preventing and resolving country-specific risks are now critical missions in any bank’s pursuit of high-quality global business development. The updating of the management guidelines into management measures will enable China's comprehensive risk management system to better cover and regulate country-specific risks.

The CBIRC urges commercial banks to improve risk management for off-balance-sheet business

In recent years, the off-balance-sheet business of commercial banks has been developing rapidly, including a tremendous amount of innovative business, and this off-balance-sheet business serves as an important source of income. However, the management of certain off-balance-sheet business has been outpaced by the growth of the business, and more prudent operating rules need to be implemented based on the substantive risks of such business. Against this backdrop, the CBIRC prepared the *Measures for Commercial Banks on the Management of Risks of Off-Balance-Sheet Business* on the basis of the *Guidelines for Commercial Banks on the Management of Risks of Off-Balance-Sheet Business*, which became effective on 1 January 2023. By updating the management guidelines into management measures, the regulator mainly aims to:

- **Clarify the definition and classification of off-balance-sheet business of commercial banks,** and require commercial banks to follow the principle of managing such business in a comprehensive, classified, and risk-based manner, so as to exercise control over off-balance-sheet business risks and ensure operational compliance;

- **Drive the implementation of off-balance-sheet business governance structures and the performance of responsibilities by the board of directors, board of supervisors,** and senior management, and stipulate the responsibilities of business departments, compliance management departments, risk management departments, accounting departments, and internal and external audit functions, so as to shape a structure for top-down management that features three levels of responsibility;

- **Detail risk management requirements for off-balance-sheet business;** and require banks to expand their comprehensive risk management systems so that they cover such business, implement differentiated management for such business according to its types and risks, and specify policies, processes and approval authorities for each type of off-balance-sheet business. Regarding guarantee and commitment business for which banks undertake credit risk, the regulator focuses on areas including supervision of credit risks, the implementation of unified credit granting, the credit risk conversion coefficient for off-balance-sheet business, and advances for off-balance-sheet business. For investment and financing agency services and intermediary services, it highlights the supervision of operational risks and reputational risks, and focuses on areas including business operation regulation, customer complaints, and financial consumer protection;

- **Put forward information disclosure requirements regarding content,** frequency, form, and business partnerships to promote greater business transparency;

- **Specify requirements for supervising commercial banks' management of the risks of off-balance-sheet-business on an ongoing basis,** and prescribe regulatory measures and administrative punishments for underperforming banks.

The *Measures for Commercial Banks on the Management of Risks of Off-Balance-Sheet Business* present more comprehensive requirements for the risk management of off-balance-sheet business, covering policies and systems, limit management, authorisation management, approval mechanisms, related-party transactions, stress testing, internal control, accounting, statistical information systems, business partnerships, and other areas. Ultimately, the Measures will help urge commercial banks to establish and improve their comprehensive risk management systems for off-balance-sheet business and promote the regulated development of such business.

The CBIRC promulgates provisional measures for the administration of private pension business

In recent years, the Communist Party of China Central Committee and the State Council have expressed their commitment to the regulated development of third pillar endowment insurance. In order to implement their decisions and plans, and encourage commercial banks and wealth management companies to engage in such business, the CBIRC issued the *Notice on the Issuance of Provisional Measures for Commercial Banks and Wealth Management Companies on Private Pension Business Management*, which highlights the following points of attention for commercial banks and wealth management companies, while also providing a clear definition of private pension business and the scope, product types, and management requirements of such business:

- **High qualification standards for institutions.** The Provisional Measures set clear standards for which institutions are qualified to engage in private pension business. For example, commercial banks can engage in such business only when their net tier 1 capital exceeds RMB 100 billion and their main prudential supervision indicators meet regulatory requirements. The CBIRC will perform qualification management using a shortlist;

- **End-to-end (E2E) business process management and systematic support.** The Provisional Measures detail requirements for policies and operating procedures, business management systems, file management, and support mechanisms for commercial banks and wealth management companies engaging in private pension business;

- **Stronger protection of investors' rights and interests.** The Provisional Measures embed consumer protection into E2E private pension business management, requiring participating institutions to establish a proper consumer protection mechanism, a relevant internal performance appraisal system, and convenient and efficient complaint and complaint handling channels;

- **Enhanced information reporting and regulatory management.** The Provisional Measures clarify the channel, content, and timeline for the reporting of basic information, capital information, and investment information, and specify regulatory management measures as well as penalties for institutions and personnel who violate the rules.

The issuance of the *Provisional Measures for Commercial Banks and Wealth Management Companies on Private Pension Business Management* marks the official launch of the policy encouraging commercial banks and wealth management companies to engage in private pension business. Subsequently, the CBIRC has released the first shortlist of institutions qualified for private pension business, and the CSRC has provided a catalogue of private pension funds and their sales agencies. This regulatory policy and mechanism will pave the way for commercial banks and wealth management companies to properly engage in private pension business, and ultimately help address the diversified needs of the public for pensions and facilitate the sustainable development of the third pillar endowment insurance system.

The CBIRC is more closely watching how commercial banks manage Internet lending business

In order to more effectively regulate the Internet lending business of commercial banks and promote sustainable business development, the CBIRC issued the *Notice on Strengthening Management of the Internet Lending Business of Commercial Banks and Improving the Quality and Efficiency of Financial Services*, which adopts the regulatory principles highlighted in the *Provisional Measures for the Administration of Internet Lending by Commercial Banks* released in 2020 and the *Notice of the General Office of the CBIRC on Further Regulating the Internet Lending Business of Commercial Banks* released in 2021. With the aim of striking a balance between development and security, the Notice further clarifies lending management and independent risk control requirements for commercial banks, and encourages regulated business cooperation between commercial banks and their business partners. More specifically, the Notice requires commercial banks to:

- **Fulfil their Internet lending management responsibilities and pragmatically improve risk control for Internet lending;**
- **Step up information and data management by acquiring complete and accurate information and data for identity verification, pre-lending investigation,** risk assessment, and post-lending management, and implementing effective information verification measures;
- **Strengthen loan fund management and effectively monitor the use of funds,** so as to ensure the safety of loan funds, and prevent embezzlement and misappropriation by business partners;
- **Properly manage partnerships by signing cooperation agreements by business category to clarify the rights and responsibilities of contractual parties,** and by distinguishing between loan agreements and other service agreements. The Notice also requires commercial banks to restrict or reject cooperation with business partners that have violated the rules;
- **Effectively protect consumers' legal rights and interests,** fully disclose information as required, prohibit illegitimate collection practices, and enhance compliance management for business partners’ marketing and publicity activities.

According to the principle of "separate treatment of old and new Internet loans," during the transition period ended 30 June 2023, incremental Internet loans should comply with the new regulations, while outstanding loans that are not compliant with the new regulations should be steadily reduced. These improvements to the Internet lending regulation system for commercial banks will encourage these banks to carry out Internet lending in a regulated and prudent manner, while also promoting the sustainable development of the Internet platform economy.

The CBIRC specifies eight requirements on regulating credit card business

In recent years, China's banking financial institutions have been rapidly developing credit card business. In order to urge them to improve the quality and efficiency of their credit card business and effectively protect the legitimate rights and interests of financial consumers, on 7 July 2022, the CBIRC and the PBOC issued the *Notice on Further Expediting the Standardised and Healthy Development of Credit Card Operations*, which focuses on:

- **Credit management.** Each banking financial institution should set an appropriate upper credit limit for each of its credit card users, and incorporate the limit into the user's total credit limit for unified management;

- **Interest and fees, and information disclosure.** Banking financial institutions should enhance the regulation and transparency of their credit card interest and fees management, including dutifully adding interest and fee reminders or explanations to contracts and explicitly indicating the maximum annualised interest rate. They should also more properly manage the amount, interest, fee and term of their credit card instalment programmes;

- **Consumer protection.** Banking financial institutions should establish a review system and a working mechanism for consumer protection; fully disclose and clearly indicate the legal risks and liabilities involved in using credit cards, refrain from deceptive or false promotional activities, and ensure the traceability of sales activities; strengthen complaint management, improve customer data security, ensure management responsibility for collection practices, and strictly regulate collection activities;

- **External cooperation management.** Banking financial institutions should formulate clear criteria and approval procedures for business partner admission and exit, and prepare a business partners list to facilitate management. In addition, they should use a proprietary online platform to deliver core credit card services. If a banking financial institution carries out its credit card business with a single business partner, the number of credit cards issued and total outstanding credit should not exceed the upper concentration limit;

- **Greater convenience through online credit card services.** The Notice allows significant innovations to be pursued in credit card business, and encourages innovating business models, such as online credit card business models, on the premise that banks exercise risk control and maintain stability and order during these activities.

The *Notice on Further Expediting the Standardised and Healthy Development of Credit Card Operations* extends and enhances a series of credit card business regulatory requirements that have been released in the years since 2009. The Notice aims to address credit card business issues—such as lacklustre operations, poor services, and inadequate risk control—that have been outstanding in recent years, so as to urge commercial banks to better regulate their credit card business, strengthen risk control in related business activities, and raise service quality and efficiency.

The CBIRC steers the banking and insurance sectors in developing green finance

On 2 June 2022, the CBIRC issued the *Guidelines for Green Finance in the Banking and Insurance Sectors*, which cover key areas of green finance and aim to encourage the banking and insurance sectors to pursue green finance and support sustainable development. The Guidelines specify:

- **The main responsibilities of green finance participants.** The board of directors or board of governors of a banking and insurance institution is responsible for determining the institution's green finance development strategy, while senior management is responsible for setting green finance objectives, establishing related mechanisms and processes, and clarifying responsibilities and authorities. The institutions should fully authorise the personnel in charge of green finance and relevant departments, allocate resources as needed, and comprehensively consider the progress of green finance development during performance appraisals;

- **System and capability building.** Banking and insurance institutions should establish and continuously improve environmental, social, and governance (ESG) risk management policies, systems, and processes; clarify the focuses and key areas of their green finance business; formulate credit guidelines for industries subject to significant restrictions in China or significant risks; pursue differentiated and dynamic credit or investment policies; and implement risk exposure management systems;

- **Investment and financing process management.** Banking and insurance institutions should improve investment and financing process management, step up due diligence and approval management for credit granting and investment, and strictly restrict credit and investments for customers that have seriously violated or may probably violate ESG regulations. The institutions are also encouraged to improve green finance management and adopt differentiated and convenient management measures to better control ESG risks associated with small- and micro-enterprise financing, online financing, and other businesses;

- **Internal control management and information disclosure.** Banking and insurance institutions should establish a green finance performance appraisal system, implement incentive and regulatory measures, and improve due diligence and exemption mechanisms to facilitate sustainable and effective green finance. The Guidelines clarify the CBIRC's and its local offices' responsibilities for green finance supervision, and urge them to provide green finance business guidance to banking and insurance institutions and perform business assessments.

The *Guidelines for Green Finance in the Banking and Insurance Sectors* encourage banking and insurance institutions to pursue green finance from a strategic perspective, and incorporate ESG requirements into their internal management processes and comprehensive risk management systems, so that they can provide greater support for the green, low-carbon, and circular economy, prevent ESG risks, improve ESG performance and promote green transformation.

The CBIRC calls on commercial banks to more effectively implement the expected credit loss (ECL) method

On 13 May 2022, the CBIRC issued the *Measures for the Implementation of the Expected Credit Loss Method for Commercial Banks* to standardise commercial banks' internal control mechanism and management process for implementing the ECL method, enhance their provision management, improve their ability to prevent and resolve risks, and help them achieve sound operations. The Measures focus on the following areas:

- **Implementing the governance mechanism and management responsibilities:** The Measures clarify the responsibilities of the board of directors, board of supervisors, special committees, audit committee, senior management, lead departments, and audit departments of a commercial bank in implementing the ECL method. The board of directors bears the ultimate responsibility for managing the ECL method;

- **Laying a solid foundation for the implementation of the ECL method:** Commercial banks are required to establish a complete ECL management system, set up an ECL management team, develop a related information system, improve the accumulation of historical credit risk data, and enhance information collection and maintenance;

- **Standardising implementation processes:** Commercial banks are required to improve the level of standardisation and prudence in their implementation processes, including in respect of credit risk grouping, stage delineation, model building, prospective adjustment, management overlay, parameter management, model validation, implementation assessment, provision for credit loss allowance, and information disclosure.

- **Bolstering the supervision of the ECL method:** Regulators at all levels are required to supervise commercial banks' implementation of the ECL method through off-site supervision and on-site inspections.

The application of the ECL model is complex, involves significant subjective judgements and estimates on the part of management, and requires comprehensive assessments and arrangements covering corporate governance, internal processes, and supervision mechanisms. In order to regulate commercial banks' implementation of the ECL method, the *Measures for the Implementation of the Expected Credit Loss Method for Commercial Banks* put forward clear minimum regulatory requirements regarding management responsibilities, policies and processes, system building, data management, model implementation, model verification, and information disclosure, as well as internal and external supervision, so as to prompt commercial banks to prudently forecast risks and better resolve them.

Conclusion

In recent years, international conditions have become more complex and dynamic; the global financial environment has tightened and the pressure posed by systemic risk in the global banking industry has grown significantly. At present, focusing on domestic conditions, boosting the economy, preventing and resolving major financial and economic risks, and improving the quality of development remain the country's major tasks. Through recent policies and penalties, regulators have demonstrated their expectation that financial institutions will strictly abide by the principle of prudent operations, fulfil their main responsibilities, pursue their major businesses, and establish normalised, long-term governance and management structures. In order to help banking financial institutions grasp opportunities, cope with challenges and overcome complex uncertainties in a stormy environment, we have selected and summarised a number of regulatory hot topics and shared relevant business insights, with the goal of providing guidance for commercial banks in studying and judging compliance risks, optimising their business and operating models, and improving their risk management capabilities.

02

Important topics

Vision: Winning strategies for banks in an era of differentiated competition

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Despite a harsh and volatile environment, Chinese commercial banks' total assets grew 10.8% in 2022, 2.2% faster year-on-year, thanks to dovish monetary policy and other economic stimulus policies. However, as asset prices declined and risks increased, banks' net interest margins narrowed and their profitability continued dropping, causing the industry's ROE to fall by 0.31 percentage points to 9.33% for the year.[10]

At the beginning of 2023, the haze of the COVID-19 pandemic quickly dissipated, and the 20th National Congress of the Communist Party of China set the overall tone for macroeconomic regulation and control for the year, highlighting "making economic stability the top priority and pursuing progress while ensuring stability." According to the macroeconomic indicators published for the first quarter of 2023, China's economic performance got off to a good start for the year and entered a new cycle of recovery, adjustment, and development. In this new cycle, Chinese banks will continue to face short-term challenges, such as intensifying competition, scarcity of high-quality assets, uncertainty around real estate and platform companies, narrowing loan-deposit interest margins, and worsening asset quality.

Currently, the credit demands of enterprises and individuals remain weak, and high-quality assets are scarce, further driving down interest rates on loans. Although the PBOC recently lowered interest rates on agreement deposits and call deposits, it has not yet been able to significantly improve the overall situation. Competition for deposits and the increasing popularity of time deposits will cause already-high debt costs to persist or climb even higher, shrinking banks' net interest margins from both the asset and liability sides. According to statistics of listed banks, net interest margins dropped by around 10 to 15 basis points in the first quarter of 2023.[11]

For Chinese banks, these challenges could deliver longer-term impacts on business development in the next three to five years. In this new stage, they will not be able to drive growth through scale expansion or without refined operations, but through comprehensive differentiation. Compared with other industries, the banking sector is not only subject to regulation on business indicators, business operations, and service areas—it is also required to undertake more fundamental social responsibilities such as supporting the real economy and pursuing financial inclusion. Therefore, banks are more likely to achieve differentiation by becoming more dedicated, specialised, and efficient in respect of their customer operations, products and services, channels, risk control, digitalisation, and human capital.

Considering the current market landscape and the development stage of Chinese banks, KPMG proposes the following six strategies for the management of banks on how they can pursue differentiation and stand out among the competition.

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[10] Source: NAFR
[11] Source: NAFR

Strategy 1 Retail business – Engaging in comprehensive operations to break through growth bottlenecks, develop asset business, and attract customers with potential

At present, intense cross-sector competition, weak consumer spending, early mortgage repayment, short-term wealth management difficulties and other issues are reducing net interest margins for banks and stunting their income growth. In order to boost their retail business and ensure future growth, banks need to find new ways to pursue business growth, quickly achieve breakthroughs in asset business, and make early moves to expand potentially profitable customer bases.

Figure 1 Three key areas for making breakthroughs in retail business

Reshape the growth model for comprehensive operations

- Promote scenario-specific financial services
- Strengthen joint efforts between corporate banking and personal banking and enhance synergies among existing resources
- Accelerate digitalisation
- Identify additional customer touch points and profit sources

Drive consumer loans

- Acquire customers through professional services
- Build distinct competitive advantages
- Explore the potential of existing customers through delicate operations
- Deliver comprehensive services based on breakthroughs in consumer loan business

Expand the customer base to enable future growth

- Wealthy senior customers
- Next generation with overseas educational backgrounds
- Animation, comic, game, and novel (ACGN) fans
- Returning rural residents, singles, environmentalists, and the like

First, banks need to identify new business models for retail business growth. To this end, they can combine corporate and personal banking, integrate internal and external resources, and explore business-to-consumer (B2C) and government-to-consumer (G2C) business models with a view to developing integrated retailing capabilities. They can also harness digital technologies to connect their online and offline businesses, assets and liabilities, and head offices, branches, and sub-branches, so as to deliver comprehensive services for customers and tap new sources of growth.

Second, banks need to excel in building retail assets. At present, consumer spending is gaining importance as an economic pillar. As a result, the consumer loan market boasts great potential, and China's government and regulators are promoting consumer loan business. In order to succeed amid consumer loan competition, banks should pinpoint their customer groups, build a professional service team and business model, and develop differentiated competitive advantages. In addition, they should explore the potential of existing customers through refined operations, implement strategies by customer type and group, and deliver comprehensive services based on consumer loan business breakthroughs in order to further tap the value of customers.

Third, identifying and attending to customer groups with potential is key to ensuring the future growth of retail business. China's economy is developing rapidly, and its population structure is changing in significant ways. Against this backdrop, banks should study and analyse emerging customer groups, such as wealthy senior customers, the next generation with overseas educational backgrounds, returning middle-aged rural residents, singles, environmentalists, and ACGN fans, and offer them targeted products and services. By following this path, banks can explore potential demands and markets and drive future growth.

Strategy 2 Corporate banking business – Pursuing digitally-enabled business by ecosystem scenario, and transforming from credit experts to industry experts

In the current market environment where high-quality assets are becoming scarce and price competition is getting fiercer, banks need to focus on the booming industries, develop industrial finance by ecosystem scenario, and build differentiated competitive advantages based on their size, product and service delivery capabilities, as well as local conditions, so as to achieve breakthroughs in corporate banking.

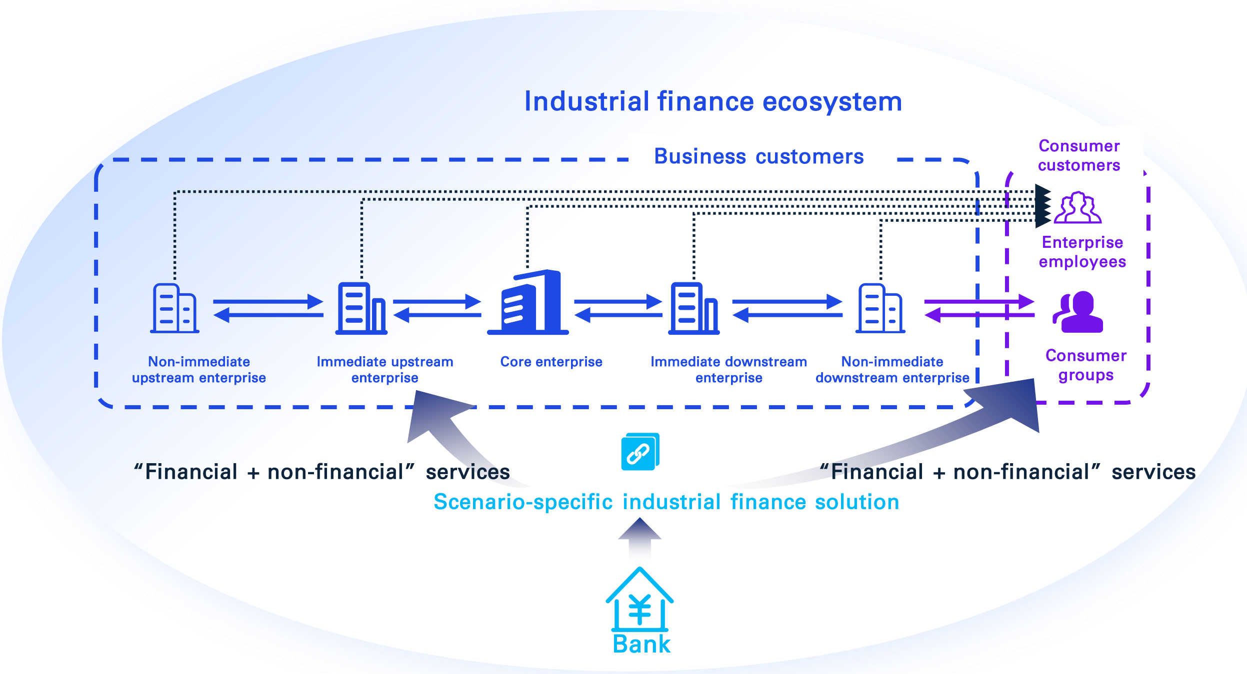
By cultivating an industrial finance ecosystem, banks can tap various types of value. For example, they will be able to reach a wider range of customers, more efficiently deliver customer services, achieve greater business stability, maintain longer-term customer relationships, more deeply explore customer value, and strengthen their risk management capabilities.

In this regard, banks should first develop or improve their industrial finance ecosystem solutions. Specifically, they need to target business customers (key enterprises and their upstream and downstream business partners) and consumer customers (enterprise employees and consumer groups) in various industrial operation scenarios, fully understand the needs of all industry participants, deliver "financial + non-financial" services, "settlement + financing" services and "banking + industry" services, and tailor financial solutions to specific scenarios, so as to generate comprehensive profits across the ecosystem.

Second, they need to build professional capabilities for industry-specific risk control. Banks should shift from the traditional mindset of controlling risk by mainly offering credit, mortgages and pledge loans to core enterprises. Instead, they should perform "big data risk control" and "transaction data risk control," with the goal of exercising professional, data-driven, industry-specific risk control.

Third, banks should establish professional, industry-focused service teams and implement proven management mechanisms. They should set up professional teams at different levels to facilitate industry-specific services and industrial finance business, and design management approaches and performance appraisal policies and mechanisms that match their business models.

Figure 2 Example of an industrial finance ecosystem



Strategy 3 Improving comprehensive risk management expertise is key to core business competitiveness

On 18 February 2013, the CBIRC and the PBOC issued the *Administrative Measures on the Capital of Commercial Banks (Exposure Draft)*, which proposes new measurement rules for capital and risk weighted assets, requiring banks to strengthen capital management and optimise asset portfolios. At the same time, the regulators have put forward higher, clearer requirements on comprehensive compliance and consumer protection. They have also optimised the regulatory framework for green finance to underscore the importance of being able to identify and manage environmental and climate risks.

In order to cope with external volatility and tightening financial regulation, banks need to make significant progress in core businesses. For example, given the above-mentioned risk control requirements for industrial finance, banks should focus their risk control capability development efforts on cultivating professional risk control, strengthening the application of digital risk control, and expanding and improving risk control systems.

From a business perspective, banks that were previously only paying attention to the risk of each creditee should transition toward monitoring the risk of customer groups and industries as a whole to meet the new requirements for professional risk control. For example, with the traditional approach of managing the risk of individual customers no longer applicable, enterprises that are acquiring customers offline by batch for their consumer loan business should focus their risk control efforts on the overall management of customer groups, employees and customer acquisition channels. Another example is that for supply chain finance, in addition to individual risks, enterprises should pay closer attention to overall industry risks, which are linked to the transaction characteristics of the industrial chain, the adequacy of upstream and downstream cooperation, and the stability of the industry.

Digital risk management has become increasingly mature across the industry. For example, digital risk control for supply chain finance now includes automatic mark-to-market for commodities, direct access to warehousing systems, direct access to bill information, industry risk warnings, and other capabilities. Meanwhile, digital risk control for consumer loan business covers mobile business maps, customer manager-oriented visitor systems, big data risk control, and big data warnings, among other tools.

In order to expand and improve their risk control systems, banks should attach importance to the management of market risks, emerging risks (such as strategic risks and environmental and climate risks), and technology risks, in addition to credit risks. In this way, they can properly establish a comprehensive risk management system.

Strategy 4 Creating an outstanding talent strategy to drive productivity

For bank executives, talent represents a key driver of business development. A growing share of business executives believe that human capital and related mechanisms and systems are becoming critical to the transformation and development of banks. Historically, under the traditional management model and mindset, executives have focused their attention on personnel recruitment and team expansion when building their crews, while leaving structural optimisation and talent development less touched on. This has resulted in various problems such as staffing imbalances between head offices and branches and between front and back offices, incompetence among management and operational teams, and poor work efficiency and attitudes.

Figure 3 Developing an outstanding talent strategy

Given the regulations over indicators such as total compensation expenses, staffing, and cost-income ratios, banks have to meet specific conditions in the short term if they opt to pursue significant transformations, such as comprehensive compensation reform or extensive structural adjustments. Therefore, we recommend that banks instead consider how to adjust their talent structure, develop more specialised teams, and better motivate professionals based on the focuses of their strategic transformations.

In order to adjust the talent structure, banks should, while hewing closely to their overall strategy, identify the gap between their existing human resource allocations and their business development needs, flexibly fine-tune the talent structure of the head office, the branches, the front, middle, and back offices, and management, adopt a talent management mechanism that features both promotion and demotion, properly staff core positions, and replace incompetent employees.

When improving the specialisation of teams, banks need to build a bank-wide, standardised multi-level employee training system, identify the core areas where professional skills are required based on the bank's strategic priorities, and establish specialised teams accordingly. In view of the current transformation trend in the banking industry, banks should prioritise improving competence in core positions such as those related to risk control, digital innovation, business technology, and product management.

Finally, in order to better motivate their people, banks should put in place a bank-wide objective-oriented talent management mechanism to ensure that the targets that have been set for positions align with the bank's business objectives and are feasible. Banks can also improve their career hierarchy, establish career paths to present a clear picture of personal development, and adopt a flexible job transfer mechanism to better match employees with positions and ensure that employees work in ways that maximise their value.

Strategy 5 Deepening digital transformation to broaden the horizon of high-quality growth

As banks dive deeper into their digital transformations, they should maintain a mindset that focuses on high-quality growth. In pursuing high-quality growth, they should focus on the strategic objectives of key stages, as well as key customer groups and business scenarios, employ innovative digital services to explore new markets, offer new products that add value, and deploy new approaches to improve productivity.

From the demand side, new life-enriching consumption scenarios such as “healthcare, education, tourism, childcare, and entertainment” are drawing more attention than the traditional scenarios of “food, housing, transportation, and shopping.” In this regard, the approximately 900 million people who reside in lower-tier cities represent a huge potential market for consumer spending and financial services. To seize these opportunities, banks can partner with various participants in these new consumption scenarios in order to provide convenient services and scenario-based financial products via digital platforms. Operating efficiency and quality are critical for the real economy. For this reason, banks should accelerate digitalisation to transform from the "capital partners" of enterprises in the real economy to their "business partners," with a view to providing them with integrated business and financial solutions that promote the efficient use of human and financial resources.

Digitalisation also represents a critical lever for banks looking to reach the next level of productivity. Leveraging digital tools, business teams can build industry-specific service capabilities to target industrial customers, and banks can shift from the business model that focuses on long-tail customers and niche customers to a business model that leverages personal social networking to promote scenario-based automatic marketing and multi-channel collaboration. In order to assess the comprehensive and sustainable benefits brought by a digitally-enabled business model, banks should properly conduct input and output calculations and performance assessments based on the comprehensive value of scenarios. Banks adopting a digitally-enabled business model, which requires robust service capabilities, should build an agile service organisation and management mechanism, so that they can use digital platforms to address the needs of ecosystem participants and industrial customers.

Strategy 6 Accelerating ESG transformation and seizing opportunities arising from green finance

The *Guidelines for Green Finance in Banking and Insurance Sectors* (the “Guidelines”) put forward clear regulatory requirements for the ESG transformation of banks and other financial institutions. Since the release of the Guidelines one year ago, ESG and green finance have gradually become strategic development imperatives for banks. The Guidelines require banks to establish and improve relevant internal management policies and processes within one year as a priority of ESG transformation. Additionally, banks should meet the other specific requirements around organisational management, investment and financing process management, policy and capability preparation, internal control, and information disclosure in order to fully implement the Guidelines.

More importantly, low-carbon and green transformation will open up new growth opportunities for banks. Even today, China's green finance market is flourishing and ranks high globally. In 2022, China's balance of green loans surged by 38.5% to RMB 22.03 trillion, which accounted for a record high of 10% of the country’s total loans.[12] Leading banks have been pursuing differentiation around green finance and constantly seeking innovation in various areas, such as business presence, product designs, channel positioning, organisational models, and performance appraisals. Looking forward, Chinese banks need to follow the Guidelines and fully tap the value of these opportunities based on their capabilities and resources, so as to turn green finance into another business highlight in their transformational journeys.

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[12] Source: PBOC

Figure 4 Highlights of ESG and green finance transformation

Two overall initiatives

- Overall planning of ESG and green finance strategy
- Overall ESG risk identification

Four tasks

- Organisational management
- Investment and financing process management
- Policy and capability development
- Internal control and information disclosure

Five measures taken by financial institutions

1. Prompt response: It is critical for financial institutions to kick off green finance practices within one year from the release of the Guidelines.
2. Official planning: Financial institutions should formulate a comprehensive strategic green finance plan.
3. Capability enhancement: Improving investment and financing capabilities is fundamental for developing green finance.
4. System improvement: Policies and processes are the top regulatory focus in the first year following the release of the Guidelines.
5. Standardised disclosure: Disclosures and data facilitate regulation.

What actions should be taken?

— Start with strategic planning or upgrading, and capitalise on state-of-the-art implementation and management to find success

The second half of China’s 14th Five-Year Plan period has begun. Earlier in the period, banks were facing challenges from a changing external environment when implementing their planned strategies. Therefore, as the economic situation gradually becomes more steady, banks need to upgrade, optimise, and adjust their original strategies in a timely manner and ensure they are properly implementing their strategies during the second half of the period. Some leading banks have made early moves in this regard in an effort to put themselves in a stronger position in the second half of the period.

Banks should adjust and upgrade their strategies in order to plan and drive breakthroughs. We recommend that banks in the middle stage of strategy implementation do the following:

- Carry out strategic upgrading as soon as possible, or during a mid-term strategy review;
- Break down the strategy. Convert the plan into specific transformation measures and clear transformation tasks, and set up key bank-wide projects accordingly to achieve quick results;
- Strengthen the bank’s strategy management mechanisms, including strategy implementation guarantee mechanisms, cross-departmental cooperation mechanisms, and strategy indicator system assessment mechanisms;
- Develop business, personnel, and management expertise on an ongoing basis by adopting a professional strategy implementation methodology and strategy management tools.

If the original strategy has expired or is no longer feasible, banks can consider developing a new strategy.

KPMG Insights

Cracking the Code: Successful Strategy Implementation

Future of Banking: Creating a Modern Customer Operations System to Tackle Corporate Banking Challenges

Future of Banking: Digitally-enabled Streamlined Operations Promote the Successful Omni-channel Transformation of Small- and Medium-sized Banks

03
Commercial banks' financial summary

2022 rankings	Name of bank	Currency	Total assets (Unit: Million) 2022	Total assets (Unit: Million) 2021	Net assets attributable to the parent company (Unit: Million) 2022	Net assets attributable to the parent company (Unit: Million) 2021	Total loans (Unit: Million) 2022	Total loans (Unit: Million) 2021
1	Industrial and Commercial Bank of China Co., Ltd.	RMB	39,609,657	35,171,383	3,495,171	3,257,755	23,265,872	20,712,964
2	China Construction Bank Corporation	RMB	34,601,917	30,253,979	2,856,733	2,588,231	21,199,205	18,807,830
3	Agricultural Bank of China Limited	RMB	33,927,533	29,069,155	2,668,412	2,414,605	19,765,745	17,175,073
4	Bank of China Limited	RMB	28,913,857	26,722,408	2,427,589	2,225,153	17,554,322	15,712,574
5	Postal Savings Bank of China Co., Ltd.	RMB	14,067,282	12,587,873	824,225	794,091	7,210,433	6,454,099
6	Bank of Communications Co., Ltd.	RMB	12,992,419	11,665,757	1,023,409	964,647	7,314,763	6,574,385
7	China Merchants Bank Co., Ltd.	RMB	10,138,912	9,249,021	945,503	858,745	6,062,913	5,580,885
8	Industrial Bank Co., Ltd.	RMB	9,266,671	8,603,024	746,187	684,111	4,995,962	4,440,183
9	Shanghai Pudong Development Bank Co., Ltd.	RMB	8,704,651	8,136,757	697,872	670,007	4,916,971	4,801,297
10	China CITIC Bank Corporation Limited	RMB	8,547,543	8,042,884	665,418	626,303	5,169,952	4,869,033
11	China Minsheng Banking Corp., Ltd.	RMB	7,255,673	6,952,786	599,928	574,280	4,170,621	4,071,485
12	China Everbright Bank Company Limited	RMB	6,300,510	5,902,069	507,883	482,489	3,582,531	3,316,285
13	Ping An Bank Co., Ltd.	RMB	5,321,514	4,921,380	434,680	395,448	3,340,177	3,074,009
14	Hua Xia Bank Co., Ltd.	RMB	3,900,167	3,676,287	320,457	298,292	2,281,352	2,221,449
15	China Guangfa Bank Co., Ltd.	RMB	3,417,904	3,359,985	261,849	234,501	2,056,093	2,022,379
16	Bank of Beijing Co., Ltd.	RMB	3,387,952	3,058,959	308,473	295,054	1,801,961	1,677,730
17	Bank of Jiangsu Co., Ltd.	RMB	2,980,295	2,618,874	208,633	192,227	1,610,853	1,405,709
18	Bank of Shanghai Co., Ltd.	RMB	2,878,525	2,653,199	221,054	205,204	1,308,441	1,227,075
19	China Zheshang Bank Co., Ltd.	RMB	2,621,930	2,286,723	162,933	164,169	1,525,030	1,347,239
20	Bank of Ningbo Co., Ltd.	RMB	2,366,097	2,015,548	167,626	149,359	1,049,541	866,160
21	Bank of Nanjing Co., Ltd.	RMB	2,059,484	1,748,947	156,256	121,360	947,969	792,022
22	China Bohai Bank Co., Ltd.	RMB	1,659,460	1,582,708	109,951	106,564	966,555	960,651
23	Bank of Hangzhou Co., Ltd.	RMB	1,616,538	1,390,565	98,573	90,071	703,290	589,512
24	Huishang Bank Corporation Limited	RMB	1,580,236	1,383,662	119,608	108,564	766,178	656,222
25	Chongqing Rural Commercial Bank Co., Ltd.	RMB	1,351,861	1,265,851	113,283	104,513	632,677	582,166
26	Hengfeng Bank Co., Ltd.	RMB	1,331,595	1,217,259	126,778	117,145	713,921	650,290
27	Zhongyuan Bank Co., Ltd.	RMB	1,326,736	768,233	89,228	61,210	687,563	390,647
28	Shanghai Rural Commercial Bank Co., Ltd.	RMB	1,281,399	1,158,376	101,834	93,768	671,876	614,631
29	Guangzhou Rural Commercial Bank Co., Ltd.	RMB	1,233,454	1,161,629	81,079	80,027	691,972	657,663
30	Beijing Rural Commercial Bank Co., Ltd.	RMB	1,119,458	1,075,202	75,631	70,470	419,501	362,605
31	Xiamen International Bank Co., Ltd.	RMB	1,088,115	1,007,169	69,751	64,746	618,826	569,382
32	Shengjing Bank Co., Ltd.	RMB	1,082,413	1,006,126	80,774	79,879	657,975	608,116
33	Bank of Chengdu Co., Ltd.	RMB	917,650	768,346	61,343	51,939	487,827	389,626
34	Bank of Changsha Co., Ltd.	RMB	904,733	796,150	60,243	55,022	427,920	370,833
35	Bank of Guangzhou Co., Ltd.	RMB	793,932	720,097	52,914	50,900	449,935	389,421
36	Bank of Tianjin Co., Ltd.	RMB	761,083	719,904	59,785	56,705	347,429	337,020
37	Chengdu Rural Commercial Bank Co., Ltd.	RMB	721,286	618,171	52,276	48,332	368,539	305,967
38	Harbin Bank Co., Ltd.	RMB	712,733	645,046	61,174	60,794	286,705	297,418
39	Bank of Chongqing Co., Ltd.	RMB	684,713	618,954	49,337	47,273	352,573	318,062
40	Shenzhen Rural Commercial Bank Co., Ltd.	RMB	671,286	586,675	51,708	47,410	355,306	300,801

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Note 1: "Total loans" was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then "total loans" was calculated based on the loan amounts reported in the balance sheet.
Note 2: "Total deposits" was calculated based on the deposit amounts reported in the balance sheet.

Total deposits		Operating income		Net fee income		Net interest income		Net profit attributable to the parent company		Cost-to-income ratio	
Unit: Million		Unit: Million		Unit: Million		Unit: Million		Unit: Million		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
29,870,491	26,441,774	917,989	942,762	129,265	133,024	693,687	690,680	360,483	348,338	25.01%	23.97%
25,020,807	22,378,814	822,473	824,246	116,085	121,492	643,064	605,420	323,861	302,513	28.12%	27.43%
25,121,040	21,907,127	724,868	719,915	81,282	80,329	589,966	577,987	259,140	241,183	31.63%	30.46%
20,201,825	18,142,887	618,009	605,559	72,248	81,426	460,678	425,142	227,439	216,559	27.88%	28.17%
12,714,485	11,354,073	334,956	318,762	28,434	22,007	273,593	269,382	85,224	76,170	61.41%	59.01%
7,949,072	7,039,777	272,978	269,390	44,639	47,573	169,937	161,693	92,149	87,581	28.14%	27.67%
7,590,579	6,385,154	344,783	331,253	94,275	94,447	218,235	203,919	138,012	119,922	32.88%	33.12%
4,788,754	4,355,748	222,374	221,236	45,041	42,680	145,273	145,679	91,377	82,680	29.37%	25.68%
4,893,812	4,463,608	188,622	190,982	28,691	29,134	133,669	135,958	51,171	53,003	27.89%	26.17%
5,157,864	4,789,969	211,392	204,557	37,092	35,870	150,647	147,896	62,103	55,641	30.53%	29.20%
4,051,592	3,825,693	142,476	168,804	20,274	27,566	107,463	125,775	35,269	34,381	35.61%	29.17%
3,917,168	3,675,743	151,632	152,751	26,744	27,314	113,655	112,155	44,807	43,407	27.88%	28.02%
3,352,266	2,990,518	179,895	169,383	30,208	33,062	130,130	120,336	45,516	36,336	27.45%	28.30%
2,094,669	1,927,349	93,808	95,870	10,369	9,252	74,293	79,605	25,035	23,535	30.13%	29.06%
2,169,898	2,094,773	75,154	74,905	12,380	10,711	55,827	56,970	15,528	17,476	35.28%	36.40%
1,945,020	1,723,837	66,276	66,275	7,066	5,990	51,458	51,397	24,760	22,226	26.55%	24.96%
1,658,678	1,478,812	70,570	63,771	6,252	7,490	52,264	45,480	25,386	19,694	24.52%	22.44%
1,598,876	1,472,966	53,112	56,230	6,493	9,047	38,000	40,438	22,280	22,042	23.02%	21.52%
1,681,443	1,415,705	61,085	54,471	4,791	4,050	47,062	41,952	13,618	12,648	27.46%	25.31%
1,310,305	1,062,328	57,879	52,774	7,466	8,262	37,521	32,697	23,075	19,546	37.29%	36.95%
1,261,132	1,087,968	44,606	40,925	5,344	5,801	26,970	27,103	18,408	15,857	29.75%	29.22%
863,934	835,921	26,465	29,194	2,569	2,238	22,669	25,179	6,107	8,630	39.24%	32.88%
937,898	817,233	32,932	29,361	4,674	3,608	22,857	21,036	11,679	9,261	29.64%	27.30%
912,776	783,813	36,230	35,514	4,180	4,431	28,705	26,856	13,398	11,460	26.15%	24.45%
824,947	759,360	28,991	30,842	1,913	2,724	25,404	26,235	10,276	9,560	31.84%	27.52%
714,247	677,377	25,120	23,879	2,487	2,837	19,629	17,659	6,748	6,381	35.84%	37.51%
845,257	455,692	25,611	19,283	1,783	1,932	21,276	16,693	3,650	3,565	39.05%	35.95%
961,370	855,367	25,627	24,164	2,156	2,166	20,754	19,371	10,974	9,698	30.50%	29.95%
910,485	849,767	22,545	23,481	1,382	1,319	18,582	19,559	3,492	3,175	31.37%	26.08%
784,041	723,846	15,261	16,586	877	944	12,256	13,433	7,906	7,578	39.20%	36.81%
700,709	671,495	17,128	16,792	1,409	1,442	12,731	13,879	4,721	4,258	34.72%	31.89%
788,752	754,881	16,153	15,467	264	429	12,854	12,388	980	402	33.80%	36.26%
654,652	544,142	20,241	17,890	677	532	16,519	14,422	10,042	7,831	24.39%	22.80%
589,413	516,186	22,868	20,868	1,319	1,064	17,967	16,112	6,811	6,304	28.30%	28.44%
454,216	414,363	17,153	16,564	1,289	1,546	13,386	12,666	3,339	4,101	24.70%	25.05%
397,765	382,479	15,759	17,694	1,686	1,784	11,473	12,925	3,565	3,196	26.92%	23.81%
526,775	461,945	15,530	13,856	507	369	13,252	11,867	5,167	4,474	28.91%	28.26%
565,587	506,780	12,871	12,320	732	697	9,007	10,061	555	274	39.41%	38.28%
382,594	338,695	13,465	14,515	761	769	10,808	11,597	4,868	4,664	25.25%	21.44%
531,161	462,327	13,745	12,781	234	493	11,291	10,367	5,931	5,589	33.01%	32.34%

		Name of bank	Currency	Return on average equity % (rounded to 2 decimal places) 2022	Return on average equity 2021	Net interest spread % (rounded to 2 decimal places) 2022	Net interest spread 2021	Net interest margin % (rounded to 2 decimal places) 2022	Net interest margin 2021
2022 rankings	1	Industrial and Commercial Bank of China Co., Ltd.	RMB	11.43%	12.15%	1.73%	1.92%	1.92%	2.11%
	2	China Construction Bank Corporation	RMB	12.27%	12.55%	1.82%	1.94%	2.02%	2.13%
	3	Agricultural Bank of China Limited	RMB	11.28%	11.57%	1.73%	1.96%	1.90%	2.12%
	4	Bank of China Limited	RMB	10.81%	11.28%	1.61%	1.62%	1.76%	1.75%
	5	Postal Savings Bank of China Co., Ltd.	RMB	11.89%	11.86%	2.18%	2.30%	2.20%	2.36%
	6	Bank of Communications Co., Ltd.	RMB	10.33%	10.76%	1.37%	1.47%	1.48%	1.56%
	7	China Merchants Bank Co., Ltd.	RMB	17.06%	16.96%	2.28%	2.39%	2.40%	2.48%
	8	Industrial Bank Co., Ltd.	RMB	13.85%	13.94%	1.83%	2.02%	2.10%	2.29%
	9	Shanghai Pudong Development Bank Co., Ltd.	RMB	7.98%	8.75%	1.72%	1.77%	1.77%	1.83%
	10	China CITIC Bank Corporation Limited	RMB	10.80%	10.73%	1.92%	1.99%	1.97%	2.05%
	11	China Minsheng Banking Corp., Ltd.	RMB	6.31%	6.59%	1.51%	1.81%	1.60%	1.91%
	12	China Everbright Bank Company Limited	RMB	10.27%	10.64%	1.93%	2.07%	2.01%	2.16%
	13	Ping An Bank Co., Ltd.	RMB	12.36%	10.85%	2.67%	2.74%	2.75%	2.79%
	14	Hua Xia Bank Co., Ltd.	RMB	9.00%	9.04%	2.07%	2.26%	2.10%	2.35%
	15	China Guangfa Bank Co., Ltd.	RMB	6.40%	8.52%	1.68%	1.79%	1.81%	1.93%
	16	Bank of Beijing Co., Ltd.	RMB	9.60%	10.29%	1.71%	1.80%	1.76%	1.83%
	17	Bank of Jiangsu Co., Ltd.	RMB	14.79%	12.60%	2.11%	2.03%	2.32%	2.28%
	18	Bank of Shanghai Co., Ltd.	RMB	11.00%	11.80%	1.57%	1.78%	1.54%	1.74%
	19	China Zheshang Bank Co., Ltd.	RMB	9.01%	9.83%	2.02%	2.07%	2.21%	2.27%
	20	Bank of Ningbo Co., Ltd.	RMB	15.56%	16.64%	2.20%	2.46%	2.02%	2.21%
	21	Bank of Nanjing Co., Ltd.	RMB	15.12%	14.85%	1.93%	2.02%	2.19%	2.25%
	22	China Bohai Bank Co., Ltd.	RMB	5.81%	8.88%	1.45%	1.61%	1.50%	1.72%
	23	Bank of Hangzhou Co., Ltd.	RMB	14.09%	12.33%	1.74%	1.86%	1.69%	1.83%
	24	Huishang Bank Corporation Limited	RMB	12.77%	12.33%	1.88%	1.98%	2.11%	2.20%
	25	Chongqing Rural Commercial Bank Co., Ltd.	RMB	9.76%	9.87%	1.84%	2.01%	1.97%	2.17%
	26	Hengfeng Bank Co., Ltd.	RMB	5.81%	6.16%	1.63%	1.67%	1.68%	1.73%
	27	Zhongyuan Bank Co., Ltd.	RMB	4.35%	5.99%	1.89%	2.13%	2.06%	2.31%
	28	Shanghai Rural Commercial Bank Co., Ltd.	RMB	11.22%	11.39%	1.75%	1.77%	1.83%	1.86%
	29	Guangzhou Rural Commercial Bank Co., Ltd.	RMB	4.40%	4.43%	1.71%	2.01%	1.69%	2.00%
	30	Beijing Rural Commercial Bank Co., Ltd.	RMB	10.82%	11.22%	1.02%	1.18%	1.13%	1.30%
	31	Xiamen International Bank Co., Ltd.	RMB	7.11%	7.78%	1.10%	1.30%	1.26%	1.46%
	32	Shengjing Bank Co., Ltd.	RMB	1.26%	0.54%	1.40%	1.39%	1.34%	1.40%
	33	Bank of Chengdu Co., Ltd.	RMB	19.48%	17.60%	2.00%	2.15%	2.04%	2.13%
	34	Bank of Changsha Co., Ltd.	RMB	12.57%	13.26%	2.52%	2.48%	2.41%	2.40%
	35	Bank of Guangzhou Co., Ltd.	RMB	6.70%	9.29%	2.27%	2.16%	2.11%	2.04%
	36	Bank of Tianjin Co., Ltd.	RMB	6.03%	5.77%	1.48%	1.85%	1.74%	2.12%
	37	Chengdu Rural Commercial Bank Co., Ltd.	RMB	10.07%	9.51%	1.90%	2.06%	2.02%	2.18%
	38	Harbin Bank Co., Ltd.	RMB	0.04%	0.55%	1.58%	1.74%	1.55%	1.78%
	39	Bank of Chongqing Co., Ltd.	RMB	10.20%	10.99%	1.59%	1.93%	1.74%	2.06%
	40	Shenzhen Rural Commercial Bank Co., Ltd.	RMB	12.41%	14.37%	1.99%	2.12%	2.02%	2.13%

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Note 1: “Total loans” was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then “total loans” was calculated based on the loan amounts reported in the balance sheet.
Note 2: “Total deposits” was calculated based on the deposit amounts reported in the balance sheet.

Non-performing loan (NPL) ratio		Allowance to total loans ratio		Provision coverage ratio		Capital adequacy ratio		Tier 1 capital adequacy ratio		Core tier 1 capital adequacy ratio	
% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
1.38%	1.42%	2.90%	2.92%	209.47%	205.84%	19.26%	18.02%	15.64%	14.94%	14.04%	13.31%
1.38%	1.42%	3.34%	3.40%	241.53%	239.96%	18.42%	17.85%	14.40%	14.14%	13.69%	13.59%
1.37%	1.43%	4.16%	4.30%	302.60%	299.73%	17.20%	17.13%	13.37%	13.46%	11.15%	11.44%
1.32%	1.33%	2.50%	2.49%	188.73%	187.05%	17.52%	16.53%	14.11%	13.32%	11.84%	11.30%
0.84%	0.82%	3.26%	3.43%	385.51%	418.61%	13.82%	14.78%	11.29%	12.39%	9.36%	9.92%
1.35%	1.48%	2.44%	2.46%	180.68%	166.50%	14.97%	15.45%	12.18%	13.01%	10.06%	10.62%
0.96%	0.91%	4.32%	4.42%	450.79%	483.87%	17.77%	17.48%	15.75%	14.94%	13.68%	12.66%
1.09%	1.10%	2.59%	2.96%	236.44%	268.73%	14.44%	14.39%	11.08%	11.22%	9.81%	9.81%
1.52%	1.61%	2.42%	2.31%	159.04%	143.96%	13.65%	14.01%	10.98%	11.29%	9.19%	9.40%
1.27%	1.39%	2.55%	2.50%	201.19%	180.07%	13.18%	13.53%	10.63%	10.88%	8.74%	8.85%
1.68%	1.79%	2.39%	2.60%	142.49%	145.30%	13.14%	13.64%	10.91%	10.73%	9.17%	9.04%
1.25%	1.25%	2.35%	2.34%	187.93%	187.02%	12.95%	13.37%	11.01%	11.41%	8.72%	8.91%
1.05%	1.02%	3.04%	2.94%	290.28%	288.42%	13.01%	13.34%	10.40%	10.56%	8.64%	8.60%
1.75%	1.77%	2.80%	2.67%	159.88%	150.99%	13.27%	12.82%	11.36%	10.98%	9.24%	8.78%
1.64%	1.41%	2.72%	2.63%	165.83%	186.27%	12.96%	12.37%	10.66%	9.84%	8.81%	7.93%
1.43%	1.44%	3.00%	3.03%	210.04%	210.22%	14.04%	14.63%	12.86%	13.45%	9.54%	9.86%
0.94%	1.08%	3.41%	3.33%	362.07%	307.72%	13.07%	13.38%	10.87%	11.07%	8.79%	8.78%
1.25%	1.25%	3.64%	3.76%	291.61%	301.13%	13.16%	12.16%	10.09%	9.95%	9.14%	8.95%
1.47%	1.53%	2.67%	2.68%	182.19%	174.61%	11.60%	12.89%	9.54%	10.80%	8.05%	8.13%
0.75%	0.77%	3.79%	4.03%	504.90%	525.52%	15.18%	15.43%	10.71%	11.28%	9.75%	10.16%
0.90%	0.91%	3.57%	3.63%	397.20%	397.34%	14.31%	13.54%	12.04%	11.07%	9.73%	10.16%
1.76%	1.76%	2.65%	2.39%	150.95%	135.63%	11.50%	12.35%	9.94%	10.76%	8.06%	8.69%
0.77%	0.86%	4.36%	4.86%	565.10%	567.71%	12.89%	13.62%	9.77%	10.40%	8.08%	8.43%
1.49%	1.78%	4.11%	4.27%	276.57%	239.74%	12.02%	12.23%	9.53%	9.54%	8.60%	8.45%
1.22%	1.25%	4.36%	4.27%	357.74%	340.25%	15.62%	14.77%	13.84%	12.98%	13.10%	12.47%
1.81%	2.12%	2.76%	3.22%	152.46%	151.56%	11.99%	12.11%	11.34%	11.36%	8.43%	8.67%
1.93%	2.18%	3.03%	3.35%	157.08%	153.49%	11.83%	13.30%	9.47%	10.39%	7.98%	8.70%
0.94%	0.95%	4.21%	4.20%	445.32%	442.50%	15.46%	15.28%	12.99%	13.10%	12.96%	13.06%
2.11%	1.83%	3.31%	3.06%	156.93%	167.04%	12.59%	13.09%	10.56%	11.06%	9.21%	9.68%
1.06%	1.17%	3.31%	3.76%	310.97%	322.76%	15.68%	16.05%	12.94%	13.03%	12.94%	13.03%
1.26%	1.06%	2.08%	2.12%	168.42%	202.73%	11.69%	11.73%	10.35%	10.44%	9.03%	9.44%
3.22%	3.28%	4.52%	4.29%	140.30%	130.87%	11.52%	12.12%	9.86%	10.54%	9.86%	10.54%
0.78%	0.98%	3.89%	3.95%	501.57%	402.88%	13.15%	13.00%	9.39%	9.84%	8.47%	8.70%
1.16%	1.20%	3.61%	3.56%	311.09%	297.87%	13.41%	13.66%	10.80%	10.90%	9.70%	9.69%
2.16%	1.57%	3.35%	2.96%	155.32%	189.43%	14.00%	13.26%	10.09%	10.16%	9.13%	9.16%
1.84%	2.41%	2.93%	3.72%	159.27%	154.26%	12.80%	13.49%	10.39%	10.74%	10.38%	10.73%
1.48%	1.65%	4.22%	3.90%	285.37%	235.97%	13.98%	14.15%	10.72%	11.33%	10.72%	11.33%
2.89%	2.88%	5.25%	4.68%	181.54%	162.45%	11.91%	12.54%	10.69%	11.33%	8.64%	9.28%
1.38%	1.30%	2.91%	3.56%	211.19%	274.01%	12.72%	12.99%	10.50%	10.45%	9.52%	9.36%
0.90%	0.84%	2.87%	3.08%	318.50%	365.08%	15.31%	16.06%	13.35%	14.01%	12.65%	13.20%

			Total assets		Net assets attributable to the parent company		Total loans	
			Unit: Million		Unit: Million		Unit: Million	
2022 rankings	Name of bank	Currency	2022	2021	2022	2021	2022	2021
41	Dongguan Rural Commercial Bank Co., Ltd.	RMB	657,690	593,361	51,128	47,379	332,668	298,713
42	Bank of Guiyang Co., Ltd.	RMB	645,998	608,687	56,667	52,348	286,232	255,866
43	HSBC Bank (China) Company Limited	RMB	596,845	574,212	58,171	53,057	249,043	243,115
44	Bank of Zhengzhou Co., Ltd.	RMB	591,514	574,980	50,773	57,766	332,516	290,467
45	Bank of Jilin Co., Ltd.	RMB	561,410	488,335	39,642	38,064	387,155	349,471
46	Bank of Dongguan Co., Ltd.	RMB	538,419	482,784	34,755	29,755	291,087	270,675
47	Bank of Guizhou Co., Ltd.	RMB	533,781	503,880	41,471	38,988	294,917	251,117
48	Bank of Qingdao Co., Ltd.	RMB	529,614	522,250	35,816	32,635	269,628	245,035
49	Bank of Suzhou Co., Ltd.	RMB	524,549	453,029	38,529	32,646	251,052	213,636
50	Jiangxi Bank Co., Ltd.	RMB	515,573	508,560	46,048	40,917	312,297	278,278
51	Jiangsu Jiangnan Rural Commercial Bank Co., Ltd.	RMB	510,997	462,710	39,553	37,361	307,130	269,567
52	Qilu Bank Co., Ltd.	RMB	506,013	433,414	35,302	32,357	257,906	217,245
53	Hankou Bank Co., Ltd.	RMB	505,731	468,756	32,230	30,939	284,466	250,088
54	Guilin Bank Co., Ltd.	RMB	497,108	442,558	36,398	25,093	290,427	247,661
55	Bank of Hebei Co., Ltd.	RMB	489,212	441,603	43,786	33,936	301,396	275,169
56	Bank of Jiujiang Co., Ltd.	RMB	479,704	461,503	35,628	34,684	280,297	250,470
57	WeBank Co., Ltd.	RMB	473,862	438,748	36,414	27,724	340,809	266,264
58	Bank of Dalian Co., Ltd.	RMB	472,053	455,700	30,814	30,270	254,630	244,921
59	Bank of Hunan Co., Ltd.	RMB	448,723	425,984	34,893	33,017	260,698	250,809
60	Guangdong Shunde Rural Commercial Bank Co., Ltd.	RMB	443,276	405,724	32,927	31,061	228,983	206,461
61	Zhejiang E-Commerce Bank Co., Ltd.	RMB	441,089	425,831	21,497	17,940	232,246	179,748
62	Chang'An Bank Co., Ltd.	RMB	437,053	378,181	28,318	22,187	259,556	224,607
63	Bank of Lanzhou Co., Ltd.	RMB	435,926	400,341	31,613	28,712	227,682	217,295
64	Qingdao Rural Commercial Bank Co., Ltd.	RMB	434,791	430,438	35,574	34,164	240,861	232,984
65	Guangxi Beibu Gulf Bank Co., Ltd.	RMB	416,491	360,532	26,385	23,288	229,284	197,582
66	Hangzhou United Rural Commercial Bank Co., Ltd.	RMB	415,630	346,869	30,106	26,990	273,092	232,851
67	Wuhan Rural Commercial Bank Co., Ltd.	RMB	412,972	372,758	23,809	23,255	242,738	216,378
68	Guangdong Huaxing Bank Co., Ltd.	RMB	410,435	374,424	24,537	21,948	211,292	189,541
69	Bank of Wenzhou Co., Ltd.	RMB	409,871	324,797	20,729	19,987	220,760	173,272
70	Tianjin Rural Commercial Bank Co., Ltd.	RMB	407,177	372,754	32,648	30,129	194,561	191,866
71	Shaanxi Qingnong Rural Commercial Bank Co.,ltd.	RMB	406,213	338,581	17,363	16,371	216,911	195,638
72	Bank of Xi'an Co., Ltd.	RMB	405,839	345,864	29,186	27,541	190,139	182,309
73	Hubei Bank Co., Ltd.	RMB	403,545	351,120	29,384	27,942	218,329	181,960
74	Bank of Kunlun Co., Ltd.	RMB	387,322	355,234	37,050	35,352	198,310	176,958
75	Bank of Gansu Co., Ltd.	RMB	377,202	358,505	32,565	32,019	214,272	201,354
76	Zhejiang Tailong Commercial Bank Co., Ltd.	RMB	376,953	312,657	27,303	23,935	240,584	203,145
77	Bank of Taizhou Co., Ltd.	RMB	371,855	316,158	27,412	24,907	215,725	193,165
78	Xiamen Bank Co., Ltd.	RMB	371,208	329,495	24,192	22,757	200,790	175,351
79	Fudian Bank Co., Ltd.	RMB	345,701	322,015	23,623	19,879	198,845	182,450
80	Weihai City Commercial Bank Co., Ltd.	RMB	343,703	304,521	20,048	19,157	165,388	143,961

The data quoted in this report came from the 2022 and 2021 annual reports publicly released by various banks, their official websites, and Wind. Data that was unavailable at the time this report was finalized was excluded.
Note 1: "Total loans" was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then "total loans" was calculated based on the loan amounts reported in the balance sheet.
Note 2: "Total deposits" was calculated based on the deposit amounts reported in the balance sheet.

Total deposits		Operating income		Net fee income		Net interest income		Net profit attributable to the parent company		Cost-to-income ratio	
Unit: Million		Unit: Million		Unit: Million		Unit: Million		Unit: Million		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
465,689	419,066	13,236	12,996	10,933	10,533	686	792	5,932	5,590	34.78%	34.18%
393,013	367,428	15,643	15,004	13,831	12,993	414	664	6,107	6,045	26.80%	27.46%
322,664	308,794	14,937	12,462	8,699	7,608	2,305	2,489	6,037	3,923	49.00%	62.50%
341,798	321,574	15,101	14,801	12,254	11,949	791	1,242	2,422	3,226	22.99%	22.98%
436,761	379,435	9,926	11,085	8,814	9,466	1,022	661	1,735	1,981	43.83%	39.30%
369,588	322,651	10,279	9,511	7,775	7,286	890	881	3,834	3,316	35.22%	34.55%
326,324	305,521	11,990	11,737	10,094	9,514	363	428	3,829	3,706	30.68%	31.09%
348,043	317,966	11,644	11,136	8,288	7,646	1,445	1,955	3,083	2,923	34.97%	33.91%
323,585	278,343	11,763	10,829	8,341	7,533	1,317	1,222	3,918	3,107	33.33%	32.02%
352,711	343,726	12,714	11,144	9,624	8,762	642	699	1,550	2,070	27.50%	31.46%
368,747	324,068	12,532	11,760	9,863	9,701	751	921	3,314	2,964	29.15%	28.52%
357,426	298,458	11,064	10,167	8,575	7,485	1,235	947	3,587	3,036	26.46%	26.27%
352,016	316,405	8,370	6,802	6,784	4,674	510	802	1,953	1,248	32.90%	35.09%
346,959	302,709	10,295	9,512	8,710	8,534	40	90	1,624	1,341	40.30%	35.70%
372,531	311,974	10,429	9,808	8,706	9,168	96	334	2,424	2,071	30.28%	28.94%
377,340	344,851	10,870	10,347	8,594	8,457	842	693	1,615	1,729	28.91%	28.57%
356,911	302,874	35,364	26,989	24,970	17,982	9,284	8,708	8,937	6,884	22.30%	25.87%
310,452	303,183	5,775	7,940	3,873	5,980	738	762	651	802	42.99%	33.11%
267,245	257,875	10,929	11,507	9,282	9,891	618	506	3,087	3,076	28.29%	24.82%
306,587	266,105	9,098	8,406	7,452	7,108	343	624	3,459	3,562	29.24%	34.92%
258,432	198,964	15,686	13,903	11,124	10,017	3,874	3,779	3,538	2,092	20.80%	34.60%
351,083	289,997	8,806	8,255	8,778	8,305	(329)	(577)	2,123	1,896	34.64%	34.05%
323,070	305,655	7,450	7,836	5,888	6,013	365	384	1,734	1,566	31.24%	29.05%
286,320	268,823	9,944	10,297	7,839	8,048	459	492	2,317	3,066	30.34%	29.22%
271,476	239,584	8,544	7,823	6,329	6,218	269	287	2,522	2,021	31.91%	29.69%
315,361	262,813	10,699	9,664	9,285	8,135	202	404	3,470	2,642	28.24%	29.33%
298,813	265,854	8,457	8,445	7,562	7,685	63	(1)	1,328	1,062	43.36%	41.54%
296,881	269,453	8,899	9,118	6,343	6,354	714	493	3,312	3,129	31.14%	38.11%
298,945	223,649	5,710	5,542	4,348	4,123	363	271	918	198	39.00%	38.86%
286,576	256,536	8,901	8,249	6,642	6,311	750	823	2,600	2,530	31.57%	32.75%
301,277	263,577	6,366	6,005	4,871	4,691	238	115	1,861	1,653	44.49%	45.51%
287,676	234,724	6,568	7,203	5,508	5,993	407	560	2,424	2,804	28.92%	26.06%
301,562	254,818	8,937	7,673	7,654	6,653	280	99	2,156	1,756	28.78%	29.64%
242,793	209,034	6,744	6,032	7,078	5,649	(1,513)	(1,203)	2,754	2,536	36.67%	36.30%
279,039	263,233	6,527	6,278	5,068	4,924	400	351	601	571	34.26%	34.52%
274,990	219,553	14,834	12,681	12,731	10,906	432	219	4,228	3,536	46.32%	44.59%
289,576	241,518	11,220	11,186	10,333	10,344	(2)	50	3,991	3,943	43.86%	36.79%
207,015	185,524	5,895	5,316	4,790	4,430	432	376	2,506	2,169	34.30%	34.56%
230,400	211,061	5,974	5,794	5,172	5,046	81	82	737	613	39.85%	39.69%
234,487	206,842	8,291	7,377	6,451	6,048	677	592	1,906	1,745	21.80%	20.50%

2022 rankings

	Name of bank	Currency	Return on average equity % (rounded to 2 decimal places)		Net interest spread % (rounded to 2 decimal places)		Net interest margin % (rounded to 2 decimal places)	
			2022	2021	2022	2021	2022	2021
41	Dongguan Rural Commercial Bank Co., Ltd.	RMB	11.72%	12.87%	1.89%	1.90%	1.92%	1.96%
42	Bank of Guiyang Co., Ltd.	RMB	11.82%	13.34%	2.12%	2.11%	2.27%	2.26%
43	HSBC Bank (China) Company Limited	RMB	10.90%	7.50%	1.41%	1.26%	1.70%	1.60%
44	Bank of Zhengzhou Co., Ltd.	RMB	3.53%	7.17%	2.18%	2.24%	2.27%	2.31%
45	Bank of Jilin Co., Ltd.	RMB	4.47%	5.32%	1.85%	2.17%	1.87%	2.24%
46	Bank of Dongguan Co., Ltd.	RMB	12.91%	12.36%	1.72%	1.82%	1.67%	1.79%
47	Bank of Guizhou Co., Ltd.	RMB	9.23%	9.88%	2.28%	2.37%	2.22%	2.29%
48	Bank of Qingdao Co., Ltd.	RMB	8.95%	10.40%	1.85%	1.87%	1.76%	1.79%
49	Bank of Suzhou Co., Ltd.	RMB	11.52%	9.96%	1.93%	1.98%	1.87%	1.91%
50	Jiangxi Bank Co., Ltd.	RMB	3.62%	5.74%	1.91%	1.88%	1.98%	1.94%
51	Jiangsu Jiangnan Rural Commercial Bank Co., Ltd.	RMB	9.31%	9.47%	undisclosed	2.29%	undisclosed	2.33%
52	Qilu Bank Co., Ltd.	RMB	11.92%	11.40%	1.87%	1.93%	1.96%	2.02%
53	Hankou Bank Co., Ltd.	RMB	6.44%	4.91%	1.28%	0.92%	1.42%	1.05%
54	Guilin Bank Co., Ltd.	RMB	5.28%	5.46%	1.74%	2.23%	1.89%	2.45%
55	Bank of Hebei Co., Ltd.	RMB	7.31%	6.84%	2.73%	3.29%	2.39%	2.86%
56	Bank of Jiujiang Co., Ltd.	RMB	5.81%	6.48%	1.93%	1.92%	1.91%	2.00%
57	WeBank Co., Ltd.	RMB	27.87%	28.24%	5.47%	4.55%	5.68%	4.75%
58	Bank of Dalian Co., Ltd.	RMB	2.13%	2.83%	0.85%	1.32%	1.05%	1.57%
59	Bank of Hunan Co., Ltd.	RMB	10.06%	10.76%	2.02%	2.27%	2.17%	2.43%
60	Guangdong Shunde Rural Commercial Bank Co., Ltd.	RMB	10.81%	11.48%	1.88%	2.04%	1.91%	2.04%
61	Zhejiang E-Commerce Bank Co., Ltd.	RMB	21.34%	15.51%	2.41%	2.57%	2.59%	2.76%
62	Chang'An Bank Co., Ltd.	RMB	9.65%	10.54%	1.99%	2.31%	2.19%	2.47%
63	Bank of Lanzhou Co., Ltd.	RMB	5.77%	5.76%	1.65%	1.74%	1.58%	1.72%
64	Qingdao Rural Commercial Bank Co., Ltd.	RMB	6.97%	10.63%	2.01%	2.18%	2.00%	2.16%
65	Guangxi Beibu Gulf Bank Co., Ltd.	RMB	11.19%	10.10%	2.26%	2.22%	1.95%	2.13%
66	Hangzhou United Rural Commercial Bank Co., Ltd.	RMB	12.72%	11.20%	2.31%	2.36%	2.59%	2.64%
67	Wuhan Rural Commercial Bank Co., Ltd.	RMB	5.64%	4.58%	1.89%	2.27%	1.98%	2.32%
68	Guangdong Huaxing Bank Co., Ltd.	RMB	15.49%	16.47%	2.08%	2.38%	1.86%	2.05%
69	Bank of Wenzhou Co., Ltd.	RMB	4.51%	1.11%	0.83%	0.92%	1.23%	1.39%
70	Tianjin Rural Commercial Bank Co., Ltd.	RMB	8.28%	8.89%	1.61%	1.75%	1.75%	1.86%
71	Shaanxi Qingnong Rural Commercial Bank Co.,ltd.	RMB	11.03%	10.89%	undisclosed	1.42%	1.69%	1.48%
72	Bank of Xi'an Co., Ltd.	RMB	8.57%	10.59%	1.54%	1.76%	1.66%	1.91%
73	Hubei Bank Co., Ltd.	RMB	7.52%	6.81%	1.91%	2.12%	2.06%	2.17%
74	Bank of Kunlun Co., Ltd.	RMB	7.62%	7.33%	2.11%	1.88%	2.18%	1.94%
75	Bank of Gansu Co., Ltd.	RMB	1.87%	1.81%	1.21%	1.48%	1.45%	1.65%
76	Zhejiang Tailong Commercial Bank Co., Ltd.	RMB	16.50%	15.91%	3.66%	3.37%	3.83%	3.61%
77	Bank of Taizhou Co., Ltd.	RMB	16.41%	18.51%	2.87%	3.42%	3.09%	3.55%
78	Xiamen Bank Co., Ltd.	RMB	11.38%	10.98%	1.47%	1.52%	1.53%	1.62%
79	Fudian Bank Co., Ltd.	RMB	3.65%	3.19%	1.60%	1.79%	1.66%	1.77%
80	Weihai City Commercial Bank Co., Ltd.	RMB	8.63%	8.55%	1.94%	2.12%	2.07%	2.24%

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Note 1: "Total loans" was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then "total loans" was calculated based on the loan amounts reported in the balance sheet.
Note 2: "Total deposits" was calculated based on the deposit amounts reported in the balance sheet.

Non-performing loan (NPL) ratio		Allowance to total loans ratio		Provision coverage ratio		Capital adequacy ratio		Tier 1 capital adequacy ratio		Core tier 1 capital adequacy ratio	
% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
0.90%	0.84%	3.37%	3.15%	373.83%	375.34%	15.98%	16.29%	13.74%	13.94%	13.70%	13.90%
1.45%	1.45%	3.79%	3.94%	260.86%	271.03%	14.16%	13.96%	12.02%	11.75%	10.95%	10.62%
0.21%	0.17%	1.50%	1.50%	748.20%	907.50%	16.70%	15.70%	15.80%	14.80%	15.80%	14.80%
1.88%	1.85%	3.12%	2.90%	165.73%	156.58%	12.72%	15.00%	11.63%	13.76%	9.29%	9.49%
1.52%	1.62%	2.43%	2.59%	151.06%	151.67%	11.63%	12.97%	10.30%	11.28%	9.37%	10.24%
0.93%	0.96%	2.38%	2.49%	254.30%	259.48%	13.42%	13.32%	9.75%	9.34%	8.56%	8.64%
1.47%	1.15%	5.17%	4.90%	351.21%	426.41%	13.82%	13.78%	11.91%	11.79%	11.20%	11.79%
1.21%	1.34%	2.65%	2.64%	219.77%	197.42%	13.56%	15.83%	10.69%	11.04%	8.75%	8.38%
0.88%	1.11%	4.67%	4.70%	530.81%	422.91%	12.92%	13.06%	10.47%	10.41%	9.63%	10.37%
2.18%	1.47%	3.88%	2.76%	178.05%	188.26%	14.00%	14.41%	12.82%	11.80%	9.65%	9.66%
1.04%	1.33%	undisclosed	2.94%	281.53%	221.40%	13.71%	13.98%	10.90%	11.03%	9.22%	9.25%
1.29%	1.35%	3.63%	3.43%	281.06%	253.95%	14.47%	15.31%	11.35%	11.63%	9.56%	9.65%
2.64%	2.85%	3.71%	3.86%	140.63%	135.45%	11.24%	12.29%	9.75%	10.47%	8.08%	8.70%
1.59%	1.69%	2.28%	2.43%	143.55%	144.26%	12.73%	11.75%	10.33%	8.91%	9.32%	7.65%
1.52%	1.77%	2.75%	3.10%	181.66%	175.43%	14.38%	12.19%	13.17%	10.98%	9.12%	9.30%
1.82%	1.41%	3.14%	3.02%	173.01%	214.66%	12.62%	13.21%	10.61%	11.08%	7.93%	8.28%
1.47%	1.20%	6.11%	5.63%	413.99%	467.46%	12.58%	12.11%	11.55%	11.06%	11.55%	11.06%
2.50%	2.46%	4.08%	3.72%	163.24%	151.39%	10.65%	11.95%	9.47%	9.42%	9.47%	9.42%
1.89%	1.90%	2.87%	2.96%	152.03%	155.33%	12.53%	13.39%	10.40%	10.75%	8.80%	9.00%
1.23%	0.96%	3.22%	3.24%	262.47%	338.39%	14.05%	14.64%	11.64%	12.16%	11.64%	12.16%
1.94%	1.53%	4.99%	5.57%	257.39%	363.95%	11.50%	12.50%	10.40%	11.41%	8.47%	8.86%
1.82%	1.83%	3.33%	3.33%	182.18%	181.92%	12.46%	11.93%	10.17%	9.44%	9.03%	8.08%
1.71%	1.73%	3.33%	3.32%	194.99%	191.88%	11.27%	11.56%	10.07%	10.38%	8.47%	8.58%
2.19%	1.74%	4.55%	4.02%	207.63%	231.77%	13.18%	13.07%	11.41%	11.27%	9.77%	9.62%
1.25%	1.27%	2.50%	2.53%	199.74%	199.18%	12.40%	12.11%	9.88%	9.51%	8.23%	8.11%
0.87%	0.88%	4.65%	4.47%	532.87%	508.07%	13.61%	13.69%	9.78%	10.20%	9.08%	9.41%
2.68%	2.55%	5.15%	4.88%	192.46%	191.08%	11.10%	12.30%	9.00%	9.55%	8.76%	9.29%
1.12%	0.89%	2.49%	2.69%	222.90%	303.38%	11.29%	11.41%	9.25%	9.03%	8.24%	7.94%
1.31%	0.75%	1.97%	1.42%	150.23%	188.77%	10.97%	11.33%	8.65%	10.18%	8.65%	10.18%
1.92%	2.24%	3.08%	3.53%	160.38%	156.14%	13.40%	13.68%	11.05%	11.08%	11.03%	11.06%
2.07%	2.42%	undisclosed	3.86%	169.21%	162.82%	11.75%	13.46%	8.89%	10.33%	8.40%	9.75%
1.25%	1.32%	2.53%	2.95%	201.63%	224.21%	12.84%	14.12%	10.48%	12.09%	10.48%	12.09%
1.97%	2.25%	4.24%	4.57%	214.78%	203.54%	12.34%	13.89%	9.70%	11.00%	9.37%	10.61%
0.98%	0.95%	3.15%	3.10%	321.06%	325.83%	13.48%	13.05%	12.29%	11.87%	12.29%	11.87%
2.00%	2.04%	2.64%	2.70%	134.73%	132.04%	12.29%	12.44%	11.76%	11.95%	11.76%	11.95%
0.94%	0.93%	2.84%	2.73%	303.32%	293.86%	14.41%	15.04%	10.68%	11.10%	9.75%	9.92%
0.90%	0.96%	3.06%	3.01%	339.99%	312.49%	15.12%	16.38%	12.50%	13.13%	11.25%	11.70%
0.86%	0.91%	3.34%	3.38%	387.93%	370.64%	13.76%	16.40%	10.60%	11.77%	9.50%	10.47%
1.96%	1.99%	3.35%	3.14%	170.38%	157.61%	11.75%	13.12%	10.62%	9.82%	9.73%	9.81%
1.46%	1.47%	2.26%	2.53%	154.68%	171.56%	13.83%	14.59%	10.61%	11.33%	8.81%	9.35%

2022 rankings	Name of bank	Currency	Total assets (Unit: Million) 2022	Total assets (Unit: Million) 2021	Net assets attributable to the parent company (Unit: Million) 2022	Net assets attributable to the parent company (Unit: Million) 2021	Total loans (Unit: Million) 2022	Total loans (Unit: Million) 2021
81	Jinshang Bank Co., Ltd.	RMB	336,420	303,292	23,335	22,136	186,826	156,285
82	Zhejiang Chouzhou Commercial Bank Co., Ltd.	RMB	327,021	296,046	23,555	22,143	169,468	150,314
83	Shanxi Bank Co., Ltd.	RMB	320,687	296,182	21,851	19,915	171,039	169,463
84	Bank of Zhangjiakou Co., Ltd.	RMB	318,662	293,111	24,383	21,364	175,534	157,681
85	China Resources Bank of Zhuhai Co., Ltd.	RMB	317,918	279,317	30,865	21,164	175,522	152,267
86	Longjiang Bank Co., Ltd.	RMB	298,921	282,964	18,000	17,452	132,665	124,753
87	Jiangsu Changshu Rural Commercial Bank Co., Ltd.	RMB	287,881	246,583	22,578	19,788	193,987	163,256
88	Bank of Rizhao Co., Ltd.	RMB	287,499	248,857	22,981	17,701	164,799	136,509
89	Zhejiang Xiaoshan Rural Commercial Bank Co., Ltd.	RMB	283,110	241,616	20,570	19,140	169,910	142,515
90	Bank of Langfang Co., Ltd.	RMB	281,725	243,551	25,710	22,985	168,104	146,769
91	Guangdong Nanhai Rural Commercial Bank Co., Ltd.	RMB	276,538	248,572	23,910	22,653	141,497	125,251
92	Standard Chartered Bank (China) Limited	RMB	272,450	258,946	28,929	27,413	101,380	101,534
93	Jilin Jiutai Rural Commercial Bank Company Limited	RMB	267,001	234,140	15,888	14,575	175,957	157,271
94	Bank of Ganzhou Co., Ltd.	RMB	266,822	244,595	16,526	15,318	175,217	150,080
95	Chongqing Three Gorges Bank Co., Ltd.	RMB	262,914	240,366	21,184	20,425	137,173	120,431
96	Bank of Tangshan Co., Ltd.	RMB	253,093	216,555	22,548	18,402	131,748	113,033
97	Sichuan Bank Co., Ltd.	RMB	247,181	184,820	31,800	30,977	136,375	101,693
98	Ningbo Yinzhou Rural Commercial Bank Co., Ltd.	RMB	237,456	213,649	20,826	17,681	143,435	127,024
99	Zhejiang Mintai Commercial Bank Co., Ltd.	RMB	237,323	203,272	16,208	13,032	165,288	141,358
100	Bank of Weifang Co., Ltd.	RMB	234,438	204,288	16,448	13,408	125,067	104,384
101	Tianjin Binhai Rural Commercial Bank Co., Ltd.	RMB	229,840	208,875	12,920	12,438	127,381	112,553
102	Guangdong Nanyue Bank Co., Ltd.	RMB	227,863	207,139	19,451	19,086	109,611	96,124
103	Bank of Handan Co., Ltd.	RMB	226,119	205,492	15,768	12,643	120,981	99,091
104	Fujian Haixia Bank Co., Ltd.	RMB	225,192	201,223	13,891	13,829	124,836	106,721
105	Liaoshen Bank Co., Ltd	RMB	224,941	224,880	15,649	18,687	27,710	21,719
106	Jiangsu Zijin Rural Commercial Bank Co., Ltd.	RMB	224,722	206,666	17,097	15,999	160,561	140,307
107	Sichuan Tianfu Bank Co., Ltd.	RMB	224,161	223,173	8,371	9,176	132,570	137,371
108	Bank of Qishang Co., Ltd.	RMB	216,281	191,474	16,517	16,024	135,911	122,103
109	Bank of Shaoxing Co., Ltd.	RMB	215,764	184,802	12,818	11,713	128,720	106,448
110	Bank of Shangrao Co., Ltd.	RMB	215,501	192,104	14,907	14,528	128,304	106,199
111	Wuxi Rural Commercial Bank Co., Ltd.	RMB	211,603	201,770	19,382	15,795	128,802	117,993
112	Bank of Cangzhou Co., Ltd.	RMB	209,601	183,334	13,939	13,069	127,413	111,768
113	Bank of Liuzhou Co., Ltd.	RMB	202,969	174,128	15,323	14,482	122,521	103,706
114	Bank of Urumqi Co., Ltd.	RMB	193,378	181,421	15,892	15,581	102,001	97,262
115	Bank of East Asia (China) Limited	RMB	193,244	190,936	21,600	21,231	108,361	107,109
116	Zhejiang Hangzhou Yuhang Rural Commercial Bank Co., Ltd.	RMB	192,039	161,422	13,811	11,879	111,384	90,737
117	Zhongshan Rural Commercial Bank Co., Ltd.	RMB	191,672	169,825	15,230	14,162	97,225	86,104
118	Citibank (China) Co., Ltd.	RMB	188,468	188,078	26,718	25,137	52,775	62,524
119	Bank of Laishang Co., Ltd.	RMB	188,079	171,206	13,829	12,358	118,426	101,260
120	Jiangsu Zhangjiagang Rural Commercial Bank Co., Ltd.	RMB	187,533	164,579	15,561	14,417	115,246	100,031

The data quoted in this report came from the 2022 and 2021 annual reports publicly released by various banks, their official websites, and Wind. Data that was unavailable at the time this report was finalized was excluded.
Note 1: "Total loans" was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then "total loans" was calculated based on the loan amounts reported in the balance sheet.
Note 2: "Total deposits" was calculated based on the deposit amounts reported in the balance sheet.

Total deposits		Operating income		Net fee income		Net interest income		Net profit attributable to the parent company		Cost-to-income ratio	
Unit: Million		Unit: Million		Unit: Million		Unit: Million		Unit: Million		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
253,771	199,207	5,260	5,391	734	765	3,593	3,554	1,838	1,686	39.93%	36.84%
226,860	199,810	8,436	7,598	79	(182)	4,843	3,932	1,780	1,738	35.00%	34.12%
241,982	220,677	3,101	2,705	220	190	1,870	1,885	392	(4,674)	81.53%	61.10%
251,372	230,870	6,084	6,369	(106)	(63)	5,382	5,422	798	1,137	38.69%	35.62%
219,273	186,671	6,523	7,499	397	451	4,796	5,962	1,995	1,844	37.68%	32.92%
267,908	234,148	3,958	4,491	297	581	2,807	2,670	620	731	46.88%	41.75%
219,182	187,559	8,809	7,655	188	238	7,611	6,691	2,744	2,188	38.58%	41.40%
214,753	184,387	6,333	6,236	409	326	5,327	5,345	1,345	1,209	34.62%	27.35%
226,885	187,270	6,359	5,881	115	80	4,990	4,690	2,442	1,859	22.33%	21.63%
208,508	185,535	5,080	5,255	17	42	4,657	4,562	810	1,426	37.77%	33.48%
196,643	181,384	6,982	5,976	294	313	4,287	3,989	2,728	3,043	28.57%	32.96%
148,704	152,039	8,347	7,269	1,397	1,398	4,076	4,107	1,614	2,191	57.14%	57.88%
232,292	196,959	6,597	6,362	82	73	6,515	6,176	1,683	1,129	48.04%	46.90%
197,312	185,744	5,423	5,093	249	329	4,730	4,424	846	803	30.22%	32.88%
175,847	149,344	4,606	5,247	265	460	3,953	4,233	1,193	1,497	29.42%	26.63%
182,896	159,048	4,676	3,900	61	58	3,896	3,154	2,158	1,549	25.21%	29.22%
168,647	132,422	4,475	3,510	111	67	3,963	3,139	909	620	50.00%	45.09%
186,695	159,279	5,141	4,717	36	33	3,824	3,484	1,883	1,709	undisclosed	30.74%
181,778	152,734	6,224	5,751	(86)	(221)	5,926	5,602	1,230	1,058	51.31%	50.95%
178,398	151,928	5,028	4,346	198	137	4,292	4,150	1,177	1,169	35.59%	37.57%
186,615	168,601	2,774	2,393	(68)	(358)	2,368	2,115	524	367	undisclosed	53.05%
145,380	139,738	2,704	3,263	313	408	1,895	2,083	384	364	57.65%	57.25%
192,049	170,358	3,532	3,591	(4)	1	2,485	2,021	1,506	1,019	40.68%	34.05%
147,831	123,828	4,893	4,444	457	22	3,809	3,718	792	683	31.88%	31.71%
202,233	200,015	(1,731)	(538)	(97)	(11)	(2,196)	(691)	(2,904)	(1,319)	undisclosed	-84.11%
179,728	159,520	4,507	4,502	66	123	4,035	3,959	1,600	1,515	38.57%	35.85%
172,742	163,631	3,017	3,472	219	368	2,410	2,816	250	750	63.98%	49.39%
170,760	152,512	3,605	3,219	200	205	3,001	2,807	640	639	40.35%	43.04%
140,059	117,764	3,936	3,634	145	102	3,280	3,079	1,401	1,180	35.52%	34.12%
159,423	140,915	4,757	4,404	65	(11)	3,622	3,469	933	887	32.95%	29.05%
177,139	161,811	4,480	4,349	227	183	3,488	3,504	2,001	1,580	30.98%	28.77%
185,415	167,601	4,081	3,637	(8)	(6)	3,998	3,724	1,283	1,252	43.08%	44.29%
132,176	116,308	4,421	3,624	401	148	3,708	3,248	860	646	39.14%	42.48%
137,413	116,924	3,008	3,342	109	71	2,430	2,802	882	965	40.25%	35.73%
128,882	121,904	4,184	3,947	396	460	3,446	3,239	363	31	68.83%	68.92%
165,991	142,450	4,244	3,917	31	16	4,064	3,572	1,347	1,141	27.72%	27.13%
132,679	118,428	3,692	3,573	154	126	2,868	2,680	1,799	1,665	36.57%	36.39%
136,639	131,385	5,616	5,445	749	1,115	2,678	2,731	1,658	1,801	undisclosed	undisclosed
156,484	136,616	4,168	3,761	170	(268)	3,696	3,822	742	667	35.00%	33.63%
143,598	124,608	4,827	4,616	47	124	3,917	3,691	1,682	1,304	32.61%	31.11%

	Name of bank	Currency	Return on average equity % (rounded to 2 decimal places) 2022	Return on average equity 2021	Net interest spread % (rounded to 2 decimal places) 2022	Net interest spread 2021	Net interest margin % (rounded to 2 decimal places) 2022	Net interest margin 2021
81	Jinshang Bank Co., Ltd.	RMB	8.07%	7.77%	1.40%	1.47%	1.32%	1.43%
82	Zhejiang Chouzhou Commercial Bank Co., Ltd.	RMB	7.79%	8.68%	1.61%	1.83%	1.68%	1.65%
83	Shanxi Bank Co., Ltd.	RMB	1.88%	-23.47%	undisclosed	1.02%	undisclosed	1.15%
84	Bank of Zhangjiakou Co., Ltd.	RMB	3.49%	5.73%	undisclosed	undisclosed	undisclosed	undisclosed
85	China Resources Bank of Zhuhai Co., Ltd.	RMB	9.49%	9.60%	1.40%	2.44%	1.63%	2.35%
86	Longjiang Bank Co., Ltd.	RMB	2.87%	3.98%	0.85%	0.83%	0.99%	0.97%
87	Jiangsu Changshu Rural Commercial Bank Co., Ltd.	RMB	13.06%	11.62%	2.88%	2.95%	3.02%	3.06%
88	Bank of Rizhao Co., Ltd.	RMB	7.70%	8.47%	1.91%	2.34%	2.07%	2.46%
89	Zhejiang Xiaoshan Rural Commercial Bank Co., Ltd.	RMB	12.15%	10.23%	1.78%	2.00%	1.85%	2.09%
90	Bank of Langfang Co., Ltd.	RMB	3.25%	6.34%	1.74%	2.01%	1.88%	2.14%
91	Guangdong Nanhai Rural Commercial Bank Co., Ltd.	RMB	11.80%	14.26%	1.97%	2.05%	1.89%	1.98%
92	Standard Chartered Bank (China) Limited	RMB	5.70%	8.30%	1.54%	1.52%	1.69%	1.66%
93	Jilin Jiutai Rural Commercial Bank Company Limited	RMB	9.19%	7.58%	2.44%	2.81%	2.56%	2.91%
94	Bank of Ganzhou Co., Ltd.	RMB	5.32%	5.56%	1.56%	1.57%	1.79%	1.76%
95	Chongqing Three Gorges Bank Co., Ltd.	RMB	5.93%	8.33%	1.33%	1.78%	1.63%	2.09%
96	Bank of Tangshan Co., Ltd.	RMB	10.54%	8.66%	1.47%	1.76%	1.69%	1.64%
97	Sichuan Bank Co., Ltd.	RMB	2.75%	2.07%	1.95%	1.78%	2.14%	2.30%
98	Ningbo Yinzhou Rural Commercial Bank Co., Ltd.	RMB	9.78%	10.75%	undisclosed	1.65%	undisclosed	1.86%
99	Zhejiang Mintai Commercial Bank Co., Ltd.	RMB	8.75%	8.75%	2.69%	2.82%	2.83%	2.83%
100	Bank of Weifang Co., Ltd.	RMB	7.88%	8.65%	1.82%	2.36%	2.01%	2.32%
101	Tianjin Binhai Rural Commercial Bank Co., Ltd.	RMB	4.14%	2.62%	undisclosed	2.72%	undisclosed	1.16%
102	Guangdong Nanyue Bank Co., Ltd.	RMB	1.99%	1.96%	1.04%	1.21%	0.99%	1.08%
103	Bank of Handan Co., Ltd.	RMB	10.57%	9.03%	1.09%	1.01%	1.19%	1.08%
104	Fujian Haixia Bank Co., Ltd.	RMB	5.76%	5.02%	undisclosed	undisclosed	1.99%	2.01%
105	Liaoshen Bank Co., Ltd	RMB	undisclosed	-12.60%	undisclosed	-1.51%	undisclosed	-1.23%
106	Jiangsu Zijin Rural Commercial Bank Co., Ltd.	RMB	9.64%	9.85%	1.60%	1.65%	1.80%	1.83%
107	Sichuan Tianfu Bank Co., Ltd.	RMB	2.42%	5.62%	1.72%	1.93%	1.30%	1.53%
108	Bank of Qishang Co., Ltd.	RMB	3.83%	4.27%	1.33%	1.70%	1.50%	1.74%
109	Bank of Shaoxing Co., Ltd.	RMB	11.42%	11.36%	undisclosed	undisclosed	undisclosed	undisclosed
110	Bank of Shangrao Co., Ltd.	RMB	6.73%	7.66%	1.65%	2.04%	1.82%	2.11%
111	Wuxi Rural Commercial Bank Co., Ltd.	RMB	13.01%	11.41%	1.56%	1.71%	1.81%	1.95%
112	Bank of Cangzhou Co., Ltd.	RMB	9.50%	9.85%	1.90%	1.94%	2.06%	2.11%
113	Bank of Liuzhou Co., Ltd.	RMB	5.77%	4.34%	1.81%	1.74%	2.02%	1.98%
114	Bank of Urumqi Co., Ltd.	RMB	5.60%	6.41%	1.13%	1.55%	1.32%	1.66%
115	Bank of East Asia (China) Limited	RMB	1.69%	0.15%	1.61%	1.55%	1.86%	1.82%
116	Zhejiang Hangzhou Yuhang Rural Commercial Bank Co., Ltd.	RMB	10.48%	10.76%	2.20%	2.34%	2.33%	2.44%
117	Zhongshan Rural Commercial Bank Co., Ltd.	RMB	12.24%	14.22%	1.48%	1.63%	1.62%	1.76%
118	Citibank (China) Co., Ltd.	RMB	6.39%	7.48%	undisclosed	undisclosed	undisclosed	undisclosed
119	Bank of Laishang Co., Ltd.	RMB	5.67%	5.49%	1.98%	2.26%	2.13%	2.53%
120	Jiangsu Zhangjiagang Rural Commercial Bank Co., Ltd.	RMB	12.21%	11.08%	1.99%	2.18%	2.25%	2.43%

2022 rankings

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Note 1: "Total loans" was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then "total loans" was calculated based on the loan amounts reported in the balance sheet.
Note 2: "Total deposits" was calculated based on the deposit amounts reported in the balance sheet.

Non-performing loan (NPL) ratio		Allowance to total loans ratio		Provision coverage ratio		Capital adequacy ratio		Tier 1 capital adequacy ratio		Core tier 1 capital adequacy ratio	
% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
1.80%	1.84%	3.19%	3.39%	177.04%	184.77%	12.40%	12.02%	10.50%	10.10%	10.50%	10.10%
1.50%	1.42%	2.91%	2.86%	194.64%	201.02%	13.85%	14.22%	10.08%	10.29%	9.09%	9.21%
2.33%	3.29%	3.77%	4.97%	161.56%	151.14%	13.05%	13.07%	10.86%	10.20%	10.86%	10.20%
3.00%	2.56%	3.87%	3.65%	128.97%	142.84%	10.88%	12.61%	10.23%	10.68%	8.48%	8.59%
1.74%	1.78%	3.21%	4.00%	188.56%	224.48%	17.08%	13.71%	14.50%	10.96%	13.54%	9.89%
3.49%	3.31%	5.11%	4.74%	146.62%	143.29%	14.23%	15.20%	10.84%	11.78%	9.05%	9.84%
0.81%	0.81%	4.35%	4.33%	536.77%	531.82%	13.87%	11.95%	10.27%	10.26%	10.21%	10.21%
1.69%	1.62%	3.20%	3.46%	189.65%	213.33%	12.77%	11.96%	11.74%	9.93%	10.16%	8.19%
0.84%	0.86%	5.77%	5.31%	683.61%	615.69%	14.26%	14.99%	12.01%	12.61%	12.01%	12.61%
2.40%	2.01%	3.76%	3.20%	156.40%	158.98%	14.48%	13.93%	13.32%	12.97%	10.71%	11.26%
1.13%	1.08%	3.25%	3.19%	287.63%	295.31%	14.43%	15.57%	13.27%	14.42%	13.27%	14.42%
1.01%	0.61%	2.99%	1.96%	295.00%	321.00%	19.30%	17.30%	16.40%	14.50%	16.40%	14.50%
1.98%	1.88%	3.12%	2.95%	157.39%	157.33%	11.50%	11.63%	9.01%	8.96%	8.91%	8.83%
2.27%	1.68%	4.09%	2.85%	180.23%	169.77%	11.75%	11.01%	10.64%	10.23%	8.33%	7.73%
1.77%	1.33%	2.66%	2.69%	150.59%	202.41%	13.09%	15.36%	11.84%	12.00%	10.31%	10.39%
0.91%	1.03%	5.29%	5.54%	584.04%	540.47%	12.93%	13.01%	11.81%	11.89%	9.80%	10.98%
1.57%	1.59%	4.50%	5.09%	286.69%	319.93%	18.60%	26.17%	17.40%	24.96%	17.39%	24.94%
0.94%	0.96%	undisclosed	3.74%	undisclosed	273.56%	15.89%	15.72%	14.43%	13.96%	12.22%	12.71%
1.17%	1.35%	1.94%	2.31%	165.87%	170.74%	11.50%	11.68%	9.55%	8.77%	8.37%	8.73%
1.41%	1.28%	2.01%	1.87%	142.61%	145.66%	11.73%	11.75%	11.08%	10.28%	9.13%	8.06%
2.60%	2.60%	3.28%	3.23%	126.46%	124.35%	15.18%	16.41%	12.88%	13.60%	undisclosed	7.95%
2.91%	1.62%	3.90%	3.86%	133.73%	238.92%	12.39%	13.14%	11.60%	11.59%	11.60%	11.59%
1.90%	1.96%	2.95%	3.57%	154.73%	182.26%	12.91%	13.15%	11.97%	10.52%	9.67%	9.33%
1.33%	1.35%	2.56%	2.64%	191.82%	195.76%	11.39%	13.02%	9.32%	10.75%	8.70%	10.03%
4.67%	6.02%	27.66%	36.14%	592.67%	600.13%	21.97%	24.98%	18.94%	21.98%	18.94%	21.98%
1.20%	1.45%	2.97%	3.36%	246.66%	232.00%	14.35%	15.20%	10.42%	10.65%	10.42%	10.65%
2.69%	2.37%	3.94%	4.99%	159.46%	222.87%	9.78%	11.40%	8.27%	9.87%	8.22%	9.81%
1.81%	1.67%	2.57%	2.36%	141.87%	141.35%	11.49%	12.50%	10.40%	11.46%	8.63%	9.47%
0.91%	0.97%	2.83%	2.99%	310.66%	309.97%	12.50%	13.26%	9.20%	9.65%	8.13%	8.42%
1.75%	1.78%	5.90%	5.58%	337.81%	313.00%	12.49%	13.87%	11.33%	12.71%	8.62%	9.57%
0.81%	0.93%	4.46%	4.46%	552.74%	477.19%	14.75%	14.35%	12.30%	10.13%	10.97%	8.74%
1.99%	1.99%	3.23%	3.73%	162.10%	186.97%	12.45%	12.20%	10.19%	11.04%	10.19%	11.04%
1.71%	1.81%	2.60%	3.04%	151.81%	168.84%	11.45%	12.69%	10.71%	11.68%	10.49%	11.43%
1.58%	1.67%	3.32%	3.29%	210.46%	196.74%	18.14%	19.12%	16.01%	16.92%	16.01%	16.92%
1.77%	1.77%	2.30%	2.30%	130.19%	130.05%	14.86%	14.58%	13.56%	13.27%	13.56%	13.27%
0.88%	0.80%	3.62%	3.28%	412.28%	403.09%	15.01%	14.79%	12.07%	12.11%	10.19%	10.98%
1.13%	0.90%	3.55%	3.94%	313.28%	439.38%	16.63%	17.37%	14.08%	14.67%	14.08%	14.67%
0.60%	0.69%	2.03%	1.91%	341.51%	276.87%	28.17%	23.10%	27.39%	22.42%	27.39%	22.42%
1.66%	1.88%	2.26%	3.09%	142.35%	170.66%	11.33%	11.40%	10.38%	10.10%	8.13%	8.48%
0.89%	0.95%	4.63%	4.49%	521.09%	475.35%	13.13%	14.30%	10.86%	11.53%	9.36%	9.82%

2022 rankings

	Name of bank	Currency	Total assets (Unit: Million) 2022	Total assets (Unit: Million) 2021	Net assets attributable to the parent company (Unit: Million) 2022	Net assets attributable to the parent company (Unit: Million) 2021	Total loans (Unit: Million) 2022	Total loans (Unit: Million) 2021
121	Bank of Chengde Co., Ltd.	RMB	186,672	171,431	10,728	9,639	83,182	78,823
122	Bank of Ningxia Co., Ltd.	RMB	184,731	172,175	13,825	13,408	100,401	92,127
123	Mengshang Bank Co., Ltd.	RMB	183,531	172,700	21,252	21,436	82,057	73,983
124	Mianyang City Commercial Bank Co., Ltd.	RMB	180,401	150,404	11,605	10,942	97,970	80,785
125	Jiangsu Suzhou Rural Commercial Bank Co., Ltd.	RMB	180,278	158,725	14,200	13,147	109,224	95,423
126	Dongying Bank Co., Ltd.	RMB	177,827	151,206	12,591	11,068	97,600	81,269
127	Changsha Rural Commercial Bank Co., Ltd.	RMB	177,618	167,863	16,515	15,925	102,471	91,042
128	Foshan Rural Commercial Bank Co., Ltd.	RMB	176,864	167,957	17,977	17,136	96,185	92,187
129	Bank of Jining Co., Ltd.	RMB	169,537	148,416	10,796	10,092	103,645	85,189
130	Jiangsu Jiangyin Rural Commercial Bank Co., Ltd.	RMB	168,751	153,128	14,275	13,026	103,298	91,635
131	Leshan City Commercial Bank Co., Ltd.	RMB	167,113	145,437	11,393	11,009	85,819	77,023
132	Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd.	RMB	159,623	136,868	14,916	13,573	103,054	85,181
133	Jiangsu Kunshan Rural Commercial Bank Co., Ltd.	RMB	155,106	134,849	13,007	11,635	94,242	80,507
134	DBS Bank (China) Limited	RMB	154,658	139,931	13,398	12,762	52,050	49,498
135	Bank of Quanzhou Co., Ltd.	RMB	152,270	139,676	9,872	9,535	91,446	82,218
136	Haikou Rural Commercial Bank Co., Ltd.	RMB	151,984	139,051	9,455	9,331	84,558	74,306
137	Yunnan Hongta Bank Co., Ltd.	RMB	151,923	146,932	12,696	12,363	67,367	56,899
138	Luzhou Bank Co., Ltd.	RMB	148,630	134,510	10,196	9,702	83,181	74,873
139	Sumitomo Mitsui Banking Corporation (China) Limited	RMB	148,077	145,119	22,105	21,025	47,957	44,465
140	Guiyang Rural Commercial Bank Co., Ltd.	RMB	148,003	131,248	8,311	7,757	89,003	75,458
141	Bank of Qinhuangdao Co., Ltd.	RMB	143,040	135,195	6,636	6,250	68,890	59,050
142	Dalian Rural Commercial Bank Co., Ltd.	RMB	142,770	128,099	8,316	8,264	74,293	67,983
143	Nanyang Commercial Bank (China) Limited	RMB	142,761	147,330	16,253	15,393	81,346	83,796
144	Bank of Linshang Co., Ltd.	RMB	142,279	129,418	10,707	10,083	98,636	86,202
145	Bank of Xingtai Co., Ltd.	RMB	142,094	135,440	7,719	7,281	83,309	75,118
146	Ordos Bank Co.,Ltd.	RMB	140,692	116,742	6,483	5,901	75,739	65,979
147	Bank of Jiaxing Co., Ltd.	RMB	139,959	122,388	8,809	8,044	82,008	70,482
148	Bank of Baoding Co., Ltd.	RMB	138,225	118,226	9,369	9,165	71,283	62,431
149	Ningbo Commerce Bank Co., Ltd.	RMB	138,050	123,306	11,150	10,845	64,217	55,546
150	Mizuho Bank (China), Ltd.	RMB	138,008	135,153	19,730	18,534	50,683	54,306

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Note 1: "Total loans" was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then "total loans" was calculated based on the loan amounts reported in the balance sheet.
Note 2: "Total deposits" was calculated based on the deposit amounts reported in the balance sheet.

Total deposits		Operating income		Net fee income		Net interest income		Net profit attributable to the parent company		Cost-to-income ratio	
Unit: Million		Unit: Million		Unit: Million		Unit: Million		Unit: Million		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
141,504	124,777	3,971	3,914	3,110	3,512	(706)	(661)	1,490	1,380	26.92%	26.19%
124,942	109,600	3,248	3,394	2,356	2,217	72	101	721	664	42.54%	40.18%
135,116	111,112	3,519	5,628	1,180	817	456	823	42	621	77.06%	53.96%
129,459	103,099	4,664	3,866	3,806	3,045	320	216	1,040	783	25.50%	26.72%
139,805	122,637	4,037	3,834	3,138	3,036	131	218	1,502	1,160	34.10%	32.88%
145,511	119,373	3,276	2,861	2,568	2,385	178	120	506	474	34.74%	34.73%
127,353	119,702	4,671	4,430	4,163	4,222	(4)	1	1,378	1,305	30.39%	31.79%
145,023	138,185	3,247	3,128	2,843	2,706	96	82	1,430	1,396	44.66%	44.47%
141,082	116,440	3,976	3,643	4,625	4,570	(1,095)	(1,209)	980	905	27.82%	28.52%
129,835	117,447	3,780	3,367	3,193	2,831	93	138	1,616	1,274	30.39%	33.40%
106,880	85,783	3,410	3,030	3,299	2,936	50	49	562	464	32.87%	32.62%
126,052	102,359	3,525	3,310	3,188	2,996	(83)	(133)	1,528	1,271	33.30%	32.22%
120,943	105,338	4,088	3,855	2,953	2,748	132	310	1,651	1,342	33.82%	34.80%
79,623	72,069	3,059	2,942	1,821	1,750	194	326	697	735	64.04%	61.68%
108,132	101,105	3,311	3,281	2,799	3,111	9	(287)	590	522	42.58%	38.26%
134,842	121,377	3,859	4,138	3,434	3,587	106	117	599	805	42.88%	37.63%
104,631	107,072	2,272	2,032	1,642	1,569	118	112	936	916	36.38%	34.45%
109,446	94,769	3,902	3,776	3,258	2,938	94	57	808	734	38.87%	38.59%
93,558	95,824	2,887	2,574	1,713	1,581	84	88	1,155	841	45.17%	49.36%
115,515	101,982	2,842	3,009	2,575	2,725	99	133	843	628	43.10%	38.68%
128,048	119,692	1,919	2,377	1,210	1,167	2	(5)	697	681	48.85%	36.04%
128,849	113,125	1,488	2,080	1,203	1,432	13	14	54	61	80.45%	60.66%
85,958	98,021	2,880	2,364	1,711	1,745	239	295	960	605	43.27%	50.39%
116,679	104,079	3,867	3,439	3,501	3,246	31	27	449	406	37.03%	37.08%
128,157	119,208	2,389	2,048	2,306	1,950	20	(59)	434	429	40.99%	46.58%
122,697	103,980	2,104	2,158	1,905	2,094	35	18	56	53	72.21%	60.59%
105,285	88,751	3,216	2,946	2,239	2,012	255	151	1,018	832	38.08%	37.25%
125,835	105,609	2,968	2,685	2,459	2,026	0	(1)	592	768	34.77%	30.31%
85,151	76,605	3,079	2,923	2,602	2,556	60	90	1,080	904	39.69%	39.44%
103,595	101,473	3,028	2,370	1,579	1,643	133	108	1,222	975	40.21%	50.18%

			Return on average equity		Net interest spread		Net interest margin	
			% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)	
2022 rankings	Name of bank	Currency	2022	2021	2022	2021	2022	2021
121	Bank of Chengde Co., Ltd.	RMB	14.69%	15.37%	1.66%	2.03%	1.77%	2.16%
122	Bank of Ningxia Co., Ltd.	RMB	5.29%	5.16%	1.23%	1.22%	1.36%	1.37%
123	Mengshang Bank Co., Ltd.	RMB	0.05%	2.94%	0.44%	0.20%	0.71%	0.47%
124	Mianyang City Commercial Bank Co., Ltd.	RMB	11.21%	10.19%	2.19%	2.26%	2.62%	2.61%
125	Jiangsu Suzhou Rural Commercial Bank Co., Ltd.	RMB	10.92%	9.31%	1.84%	2.04%	2.04%	2.24%
126	Dongying Bank Co., Ltd.	RMB	4.28%	4.30%	1.45%	1.74%	1.60%	1.95%
127	Changsha Rural Commercial Bank Co., Ltd.	RMB	8.40%	8.20%	2.27%	2.56%	2.61%	2.62%
128	Foshan Rural Commercial Bank Co., Ltd.	RMB	8.05%	8.22%	1.54%	1.51%	1.70%	1.69%
129	Bank of Jining Co., Ltd.	RMB	9.38%	9.17%	2.82%	3.46%	2.97%	3.55%
130	Jiangsu Jiangyin Rural Commercial Bank Co., Ltd.	RMB	11.87%	10.15%	1.94%	1.89%	2.18%	2.14%
131	Leshan City Commercial Bank Co., Ltd.	RMB	5.02%	4.27%	2.02%	2.80%	2.17%	2.58%
132	Zhejiang Shaoxing Ruifeng Rural Commercial Bank Co., Ltd.	RMB	10.80%	10.33%	2.10%	2.24%	2.21%	2.34%
133	Jiangsu Kunshan Rural Commercial Bank Co., Ltd.	RMB	13.43%	12.20%	2.35%	2.40%	2.34%	2.40%
134	DBS Bank (China) Limited	RMB	5.33%	5.94%	1.18%	1.28%	1.33%	1.43%
135	Bank of Quanzhou Co., Ltd.	RMB	6.45%	6.27%	undisclosed	undisclosed	2.07%	2.50%
136	Haikou Rural Commercial Bank Co., Ltd.	RMB	4.44%	4.42%	2.42%	2.63%	2.51%	2.75%
137	Yunnan Hongta Bank Co., Ltd.	RMB	7.47%	7.64%	0.93%	1.02%	1.20%	1.25%
138	Luzhou Bank Co., Ltd.	RMB	8.13%	7.89%	2.51%	2.59%	2.46%	2.49%
139	Sumitomo Mitsui Banking Corporation (China) Limited	RMB	5.35%	4.08%	0.84%	0.78%	1.19%	1.09%
140	Guiyang Rural Commercial Bank Co., Ltd.	RMB	10.50%	10.05%	1.80%	2.16%	1.90%	2.27%
141	Bank of Qinhuangdao Co., Ltd.	RMB	10.83%	11.38%	0.80%	0.91%	0.89%	0.95%
142	Dalian Rural Commercial Bank Co., Ltd.	RMB	0.65%	0.74%	0.91%	1.30%	0.94%	1.29%
143	Nanyang Commercial Bank (China) Limited	RMB	6.07%	4.03%	0.94%	0.96%	1.20%	1.22%
144	Bank of Linshang Co., Ltd.	RMB	4.32%	4.35%	2.65%	2.93%	2.72%	2.96%
145	Bank of Xingtai Co., Ltd.	RMB	5.79%	6.08%	1.40%	1.26%	1.65%	1.50%
146	Ordos Bank Co.,Ltd.	RMB	0.91%	0.17%	1.51%	2.09%	1.58%	2.10%
147	Bank of Jiaxing Co., Ltd.	RMB	12.08%	12.22%	1.53%	1.65%	1.97%	2.05%
148	Bank of Baoding Co., Ltd.	RMB	6.32%	8.38%	3.46%	2.54%	1.95%	1.77%
149	Ningbo Commerce Bank Co., Ltd.	RMB	10.74%	10.14%	1.81%	2.07%	2.02%	2.32%
150	Mizuho Bank (China), Ltd.	RMB	6.39%	5.41%	1.00%	1.07%	1.20%	1.23%

The data quoted in this report came from the 2022 and 2021 annual reports publicly released by various banks, their official websites, and Wind. Data that was unavailable at the time this report was finalized was excluded.
Note 1: "Total loans" was calculated by adding the loan amounts in the balance sheet and loan loss provisions measured at amortized cost; if this data was not available, then "total loans" was calculated based on the loan amounts reported in the balance sheet.
Note 2: "Total deposits" was calculated based on the deposit amounts reported in the balance sheet.

Non-performing loan (NPL) ratio		Allowance to total loans ratio		Provision coverage ratio		Capital adequacy ratio		Tier 1 capital adequacy ratio		Core tier 1 capital adequacy ratio	
% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)		% (rounded to 2 decimal places)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
1.72%	1.72%	3.78%	4.02%	220.23%	233.80%	14.67%	14.12%	10.87%	10.67%	10.86%	10.66%
2.73%	3.08%	4.19%	4.52%	153.53%	146.96%	11.64%	12.85%	9.85%	9.92%	9.85%	9.92%
3.51%	4.15%	6.51%	7.35%	186.05%	177.27%	13.60%	14.21%	12.38%	13.01%	12.36%	13.01%
1.48%	1.85%	5.83%	5.14%	393.37%	278.34%	11.79%	13.20%	9.83%	11.11%	8.16%	9.07%
0.95%	1.00%	4.21%	4.14%	442.83%	412.22%	12.09%	12.99%	10.17%	10.72%	10.17%	10.72%
1.26%	1.52%	undisclosed	2.04%	undisclosed	136.88%	12.31%	12.23%	undisclosed	10.19%	8.38%	7.96%
1.67%	1.60%	3.55%	3.38%	203.61%	202.37%	15.07%	14.22%	12.68%	13.07%	12.68%	13.07%
0.91%	0.74%	2.57%	2.61%	283.14%	355.55%	17.95%	18.48%	16.79%	17.32%	16.79%	17.32%
1.36%	1.30%	2.95%	2.96%	217.03%	227.67%	12.95%	14.00%	10.43%	11.46%	8.61%	9.32%
0.98%	1.32%	4.60%	4.36%	469.62%	330.62%	13.90%	14.11%	12.78%	12.97%	12.77%	12.96%
1.66%	1.78%	3.11%	2.65%	183.94%	159.53%	12.42%	13.89%	10.00%	11.45%	8.56%	9.77%
1.08%	1.25%	3.03%	3.17%	280.50%	252.90%	15.58%	18.85%	14.43%	15.42%	14.42%	15.41%
0.85%	0.96%	5.97%	6.23%	703.41%	648.80%	14.83%	14.67%	12.72%	12.49%	12.71%	12.49%
0.70%	0.70%	1.90%	1.90%	270.80%	282.70%	14.80%	15.30%	12.40%	12.70%	12.40%	12.70%
1.52%	1.68%	undisclosed	undisclosed	170.81%	152.45%	12.12%	11.75%	9.80%	9.92%	7.56%	7.58%
4.74%	3.07%	8.33%	6.65%	175.74%	216.87%	12.48%	12.70%	11.34%	11.55%	11.34%	11.55%
0.96%	0.56%	2.79%	2.75%	290.20%	491.41%	15.35%	15.68%	12.72%	13.02%	12.72%	13.02%
1.53%	1.42%	3.93%	3.72%	256.93%	262.49%	13.01%	13.36%	9.72%	9.75%	8.10%	8.05%
0.00%	0.00%	1.96%	1.99%	N/A	N/A	20.64%	20.71%	19.80%	19.87%	19.80%	19.87%
2.44%	2.00%	3.65%	3.97%	undisclosed	198.15%	11.04%	11.60%	8.00%	8.52%	8.00%	8.52%
1.99%	1.96%	3.24%	3.20%	163.28%	163.27%	12.45%	13.46%	9.42%	10.22%	8.13%	8.76%
undisclosed	4.24%	2.72%	3.20%	undisclosed	undisclosed	undisclosed	undisclosed	undisclosed	undisclosed	undisclosed	undisclosed
1.36%	0.83%	1.85%	2.12%	136.16%	257.44%	17.10%	16.15%	16.69%	15.07%	16.69%	15.07%
2.36%	2.62%	3.58%	3.88%	151.53%	148.12%	12.81%	13.30%	11.15%	11.33%	8.84%	8.86%
2.84%	2.70%	4.58%	5.09%	161.29%	188.81%	15.40%	14.94%	10.91%	10.15%	10.91%	10.15%
2.28%	3.97%	3.83%	5.35%	167.96%	134.95%	11.76%	11.20%	11.71%	11.15%	8.54%	7.99%
0.75%	0.77%	4.41%	4.65%	584.63%	602.59%	12.40%	13.14%	9.63%	10.13%	7.93%	8.18%
2.79%	2.30%	4.63%	3.59%	165.91%	156.28%	11.65%	13.97%	10.50%	12.11%	10.50%	12.11%
1.03%	1.06%	3.19%	3.08%	315.12%	284.64%	13.42%	13.52%	10.03%	10.67%	8.68%	9.18%
0.04%	0.04%	1.68%	1.50%	4,419.39%	3,773.63%	19.66%	17.36%	18.87%	16.66%	18.87%	16.66%

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