Unleashing hidden potential: On the road to recovery

China Banking Review 2023 1H

The editing team includes:

Editor-in-chief:

Michael Hu

Deputy Editors:

Zhou Zhang, Chen Jia, Chen Yanzhe

Editing team members:

Deng Liang, Li Fuqiang, Xie Yu, Zhang Yuanting, Zhu Peisheng, Zhu Qiuhan
(arranged in alphabetical order by the pinyin of last name)

Expert team:

James Chang, Margarita Ho, Richard Zhu, Linda Yip, Toby Zhang, Anthony Chen
Olivia Xie, James Tam, Edith Wong

Welcome to China Banking Review 2023 1H

The report has analysed 58 listed banks, which represent around 82.96% of the total assets and 90.42% of the net profits of commercial banks in China. The analysed banks fall into three categories:

Large commercial banks (6)

- Industrial and Commercial Bank of China
- China Construction Bank
- Agricultural Bank of China
- Bank of China
- Postal Savings Bank of China
- Bank of Communications

Joint-stock commercial banks (10)

- China Merchants Bank
- Industrial Bank
- Shanghai Pudong Development Bank
- China CITIC Bank
- China Minsheng Bank
- China Everbright Bank
- Ping An Bank
- Huaxia Bank
- China Zheshang Bank
- China Bohai Bank

City commercial banks and rural commercial banks (42)

- Bank of Beijing
- Bank of Jiangsu
- Bank of Shanghai
- Bank of Ningbo
- Bank of Nanjing
- Bank of Hangzhou
- Huishang Bank
- Zhongyuan Bank
- Shengjing Bank
- Bank of Chengdu
- Bank of Changsha
- Harbin Bank
- Bank of Tianjin
- Bank of Chongqing
- Bank of Guiyang
- Bank of Zhengzhou
- Suzhou Bank
- Bank of Guizhou
- Bank of Qingdao
- Qilu Bank
- Jiangxi Bank
- Bank of Jiujiang
- Bank of Lanzhou
- Bank of Xi'an
- Bank of Gansu
- Weihai City Commercial Bank
- Xiamen Bank
- Jinshang Bank
- Luzhou Bank
- Chongqing Rural Commercial Bank
- Shanghai Rural Commercial Bank
- Guangzhou Rural Commercial Bank
- Dongguan Rural Commercial Bank
- Qingdao Rural Commercial Bank
- Changshu Rural Commercial Bank
- Jilin Jiutai Rural Commercial Bank
- Zijin Rural Commercial Bank
- Wuxi Rural Commercial Bank
- Rural Commercial Bank of Zhangjiagang
- Suzhou Rural Commercial Bank
- Bank of Ruifeng
- Jiangyin Rural Commercial Bank

"In the first half of 2023, despite the complex and severe international environment, China's economy continued to recover and was generally stable. However, there are new difficulties and challenges such as insufficient domestic demand, operational difficulties for some enterprises and hidden risks in key sectors. The foundation for sustained economic recovery and development still needs to be solid. The banking industry, amongst all, faces these challenges directly and increase efforts to serve the real economy. For listed banks, the profit growth rate slowed down while the total assets maintained growth. The balances of non-performing loan ("NPL") have shown an upward trend. However, the NPL ratio has dropped from the beginning of the year. The capital adequacy ratio ("CAR") has shown an overall downward trend. The divergence in banks' performances has become increasingly obvious.

This report analyses the half-year results of 58 A-share and/or H-share listed banks (see the list on the left for details) as of June 30, 2023. Unless otherwise specified, the banks listed in this publication are arranged according to their unaudited asset size as of June 30, 2023. Previous data are all compared with the same calibre. All data used sources from public information such as half-year reports of listed banks. The monetary amount used in this report is Renminbi Yuan (except for ratios).

For more information or to discuss the development of China's banking industry with us, please contact your day-to-day business contact at PwC, or our financial services team listed in the appendix to this report."

* Bank of Jinzhou is not included in the sample analysis due to its delayed release of 2023 interim results.

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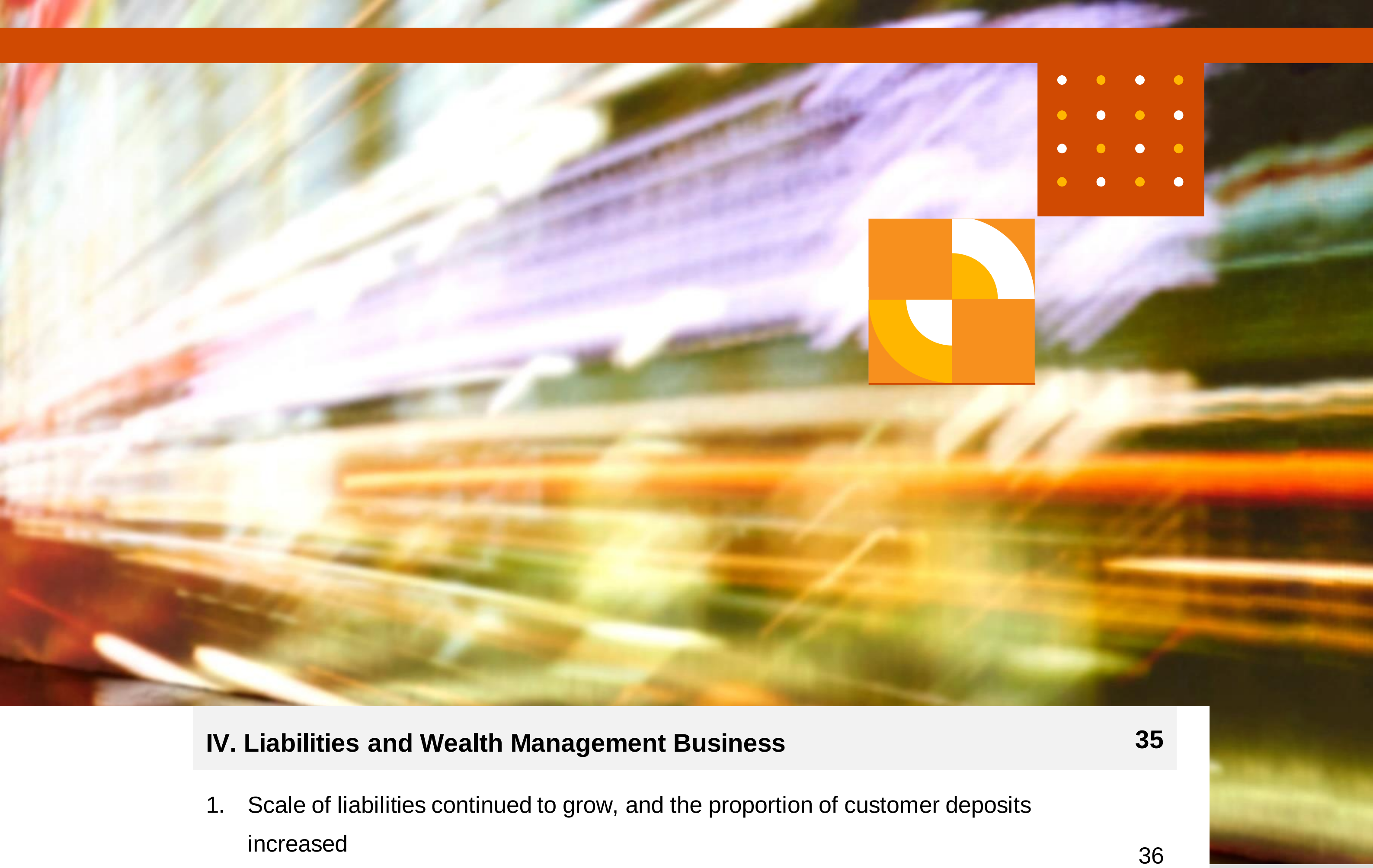


Overview and Outlook

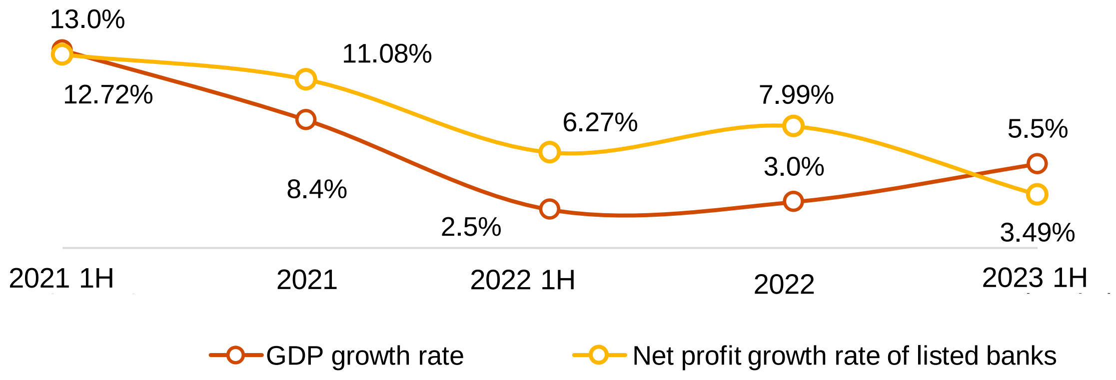
The banking industry, amongst all, faces these challenges directly and increases efforts to serve the real economy

Overview

In the first half of 2023, despite the complex and severe international environment, China's economy continued to recover and was overall stable. However, there are new difficulties and challenges such as insufficient domestic demand, operational difficulties for some enterprises and hidden risks in key sectors. The foundation for sustained economic recovery and development still needs to be solid.

In the first half year, China's economic task adhered to the general tone of seeking progress while maintaining stability, and amplified control over macroeconomic adjustments, focusing on stabilising growth, employment and prices. According to the National Bureau of Statistics, China's Gross Domestic Product (GDP) in the first half of 2023 reached RMB 59,303.4 billion, represented a YoY 5.5% increase, or a 1.0 percentage point faster than that in the first quarter. The National Consumer Price Index (CPI) rose by 0.7% YoY, 0.6 percentage point lower than that in the first quarter. The Producer Price Index (PPI) dropped by 3.1% YoY, 1.5 percentage points higher than that in the first quarter. From the perspective of the three major needs that drive economic growth, the total retail sales of consumer goods increased 8.2% YoY in the first half of 2023, 2.4 percentage points faster than that of the first quarter; the growth of investment in fixed assets slowed down, increased by 3.8% YoY, 1.3 percentage points lower than that of the first quarter; the total value of imports and exports goods increased by 2.1% YoY, lower than the 4.8% growth rate in the first quarter. It shows that the endogenous driving force of the economy needs to be strengthened despite the weakening of external demands.

Figure 1: Comparison of YoY GDP growth rate and net profit growth rate of listed banks



Source: National Bureau of Statistics, PwC research

Financial support for the real economy steadily increased

In the first half year, On the basis of maintaining prudent monetary policy, the People's Bank of China (PBOC) leveraged comprehensive monetary policy tools to guide financial institutions to stabilise credit and support the real economy while promote high-quality economic operation from three perspectives: total GDP, economic structure and prices.

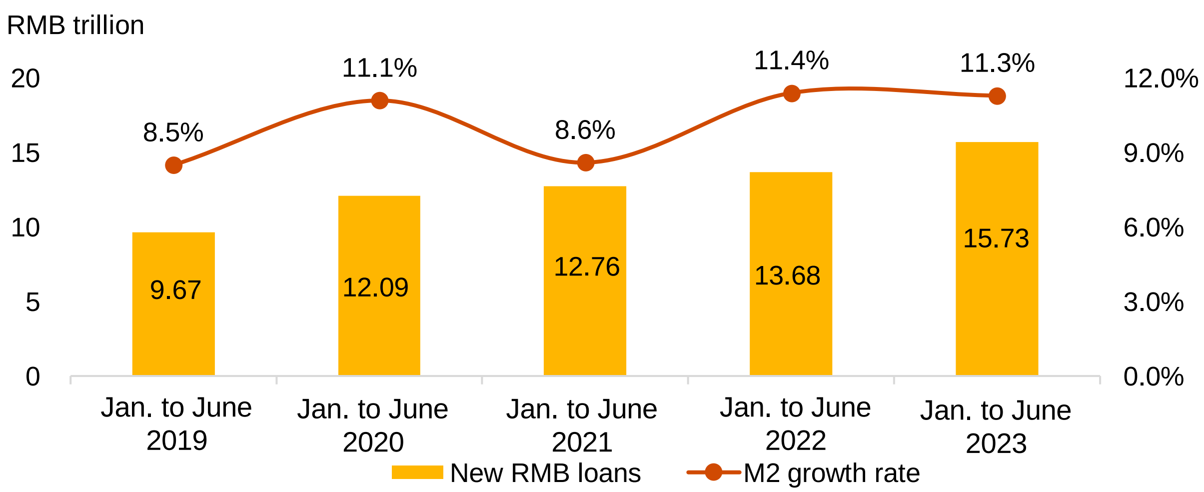
PBOC increased the market liquidity through reserve requirement ratio (RRR) cuts and open market operation to support the steady growth of total credit. In March 2023, PBOC reduces the RRR of financial institutions by 0.25 percentage points. By the end of June 2023, the broad money (M2) supply and aggregate social financing increased by 11.3% and 9.0% YoY respectively. In the first half year, RMB loans increased by RMB 15.73 trillion, increased by nearly RMB 2 trillion YoY. The credit scale maintained a reasonable growth.

The credit structure continued to be optimised. Structural monetary tools were continuously applied to increase support for key areas and weak links such as inclusive finance, technological innovation, green development. There were continuing efforts to extend inclusive small and micro loans and guaranteed housing loans to support small and micro businesses, and to ensure the delivery of pre-sold homes. Medium and long-term loans for manufacturing and infrastructure industries, loans to medium and small enterprises that specialise in niche sectors, command a high market share and have strong innovative capacity and core technologies, and inclusive financing loans to small and micro businesses outperformed all loans in YoY growth rate.

The interest rate of the loans decreased significantly. In the first half year, the loan prime rate (LPR) with 1-year maturity more than 5-year maturity both fell by 10 basis points, which promoting declines in corporate and household financing costs while maintaining an overall stability. According to PBOC, the weighted average interest rate of new corporate loans in the first half year was 3.96%, 25 basis points lower YoY, and the weighted average interest rate of new individual housing loans was 4.18%, 107 basis points lower YoY.

The private economy constitutes an important foundation for high-quality development. Pursuant to the Opinions on Promoting the Development and Growth of the Private Economy jointly released by the Central Committee of the Communist Party of China and the State Council on 14 July, financial authorities followed the provisions thereout, provided sustained and improved financial services and optimised the financing environment for private enterprises. The banking industry has taken a wide range of measures to support the private economy, such as increasing credit support, reducing financing costs, reducing fees, and promoting innovation in financial products and services.

Figure 2: Trends of M2 and new RMB loans



Source: PBOC, PwC research

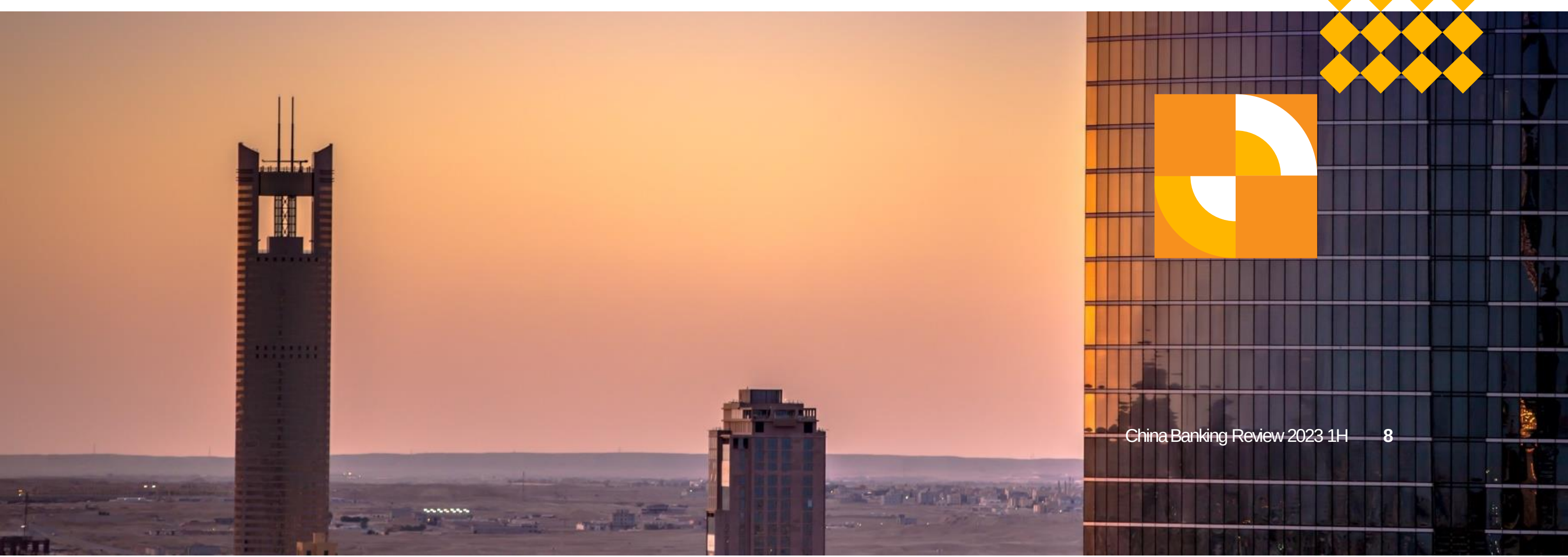
Strengthen risk prevention and control

2023 is the first year to fully implement the guiding principles of the 20th CPC National Congress. In the first half year, the National Administration of Financial Regulation (NAFR) was officially set up on the basis of the former China Banking and Insurance Regulatory Commission (CBIRC), marking an important step in the country's institutional reform on financial supervision. The new financial regulator continues to implement major tasks of serving the real economy, deepening financial supply-side reforms and preventing and controlling financial risks. The banking industry insists on promoting high-quality development by increasing support for private and small and micro businesses, scientific and technological innovation and green development, supporting rural revitalisation, and improving risk management.

In the first half year, the former CBIRC and PBOC jointly formulated the Measures for the Risk Classification of Financial Assets of Commercial Banks and the Administrative Measures for the Capital of Commercial Banks (Exposure Draft). These measures are designated to improve risk measurement and strengthen risk prevention and control in the banking industry thus to ensure a sound operation of the industry. According to NAFR, by the end of June, the main risk-based regulation indicators of the banking industry had fallen into a reasonable range. Specifically, the total assets of financial institutions increased by 10.4% YoY; the NPL ratio of commercial banks was 1.62%, down by 0.05 percentage point YoY; and the provision coverage ratio was 206.13%, representing an increase of 2.35 percentage points YoY.

Strengthening measures to prevent and resolve local debt risks should be put in place. During the meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee held on 24 July, a package of measures was formulated to defuse the risks of local government debts. The financial authorities adhered to the spirit of the meeting. They coordinated financial support to deal with local debt, and thoroughly implemented enriched tools and measures to prevent and resolve debt risks.

Emphasised financial efforts to support a stable and healthy development of the real estate sector. PBOC and NAFR released 16 financial policies to support the development of the real estate sector in November 2022, and extended the implementation timeline of two of these policies to July 2023, with a view to ensure reasonable and moderate real estate financing while increase financial supports for the delivery of pre-sold homes. In addition, regulators continued to adjust and optimise the real estate credit policy. In August 2023, the policy to recognise households with mortgage records but no local property ownership as first-time homebuyers was included in the “One city, one policy” approach. On 31 August, PBOC and NAFR announced that the housing loan interest rates would be reduced starting from 25 September 2023, and the existing differential housing credit policies would also be adjusted and optimised. Furthermore, efforts should be made to support the implementation of the “One city, one policy” approach according to each city's own conditions, and guide to lower interest rates and down payment ratio for individual housing loans.



Profit growth of listed banks slowed down, while total assets continued to grow

In the first half of 2023, listed banks thoroughly implemented the national macroeconomic policies, persisted in making progress while maintaining stability, and contribute to high-quality economic development.

In terms of profitability, the total net profit of 58 listed banks increased by 3.49% YoY in the first half year, representing a lower YoY growth rate, and the profit before provisions decreased by 1.78% YoY. Both the average return on assets (ROA) and the weighted average return on equity (ROE) of listed banks declined.

In the first half year, the total assets of 58 listed banks amounted to RMB 286.15 trillion, representing an increase of 8.19% over the end of 2022 and a slight rise from the increase of 8.02% in the first half of 2022. Listed banks continued to maintain growth in new loans. Balance of customer loans grew to RMB 158.83 trillion, an increase of RMB 11.58 trillion, or 7.86% from that as at the end of 2022. In terms of asset quality, the NPL balance of listed banks overall increased, with the NPL ratio fell from the beginning of the year. The provision coverage ratio continued to rise, and the provision-to-loan ratio remained stable.

By the end of June, the total liabilities of listed banks amounted to RMB 263.88 trillion, representing an increase of 8.65% from the end of the previous year. Deposits remained the major composition of liabilities. The customer deposit balance of listed banks was RMB 200.47 trillion, representing an increase of 9.24% from the end of the previous year.

In the same period, the CAR of listed banks saw an overall downward trend. Less capital could be raised, with internal capital replenishment being the main source.

Outlook

Looking ahead into the future, the external environment remains complex and challenging. The global economic growth is slowing down and the road to recovery is tortuous with increasing divergences in different regions. The cumulative effect of interest rate hikes in some developed economies on the global economy and financial market will continue to emerge. The domestic economy is facing new difficulties and challenges. The endogenous driving force for economic recovery needs to be improved, consumption still needs to be boosted, and investor confidence needs to be further enhanced. Recently, domestic policies have focused on expanding domestic demand, boosting consumer and investor confidence, preventing and resolving financial risks in key areas, and promoting sustained and stable economic performance.

As the banking sector typically lags behind the overall macroeconomic cycle, it is anticipated that the banking sector will continue to face pressures and challenges in the second half of the year. On the one hand, commercial banks will continue to enhance their capacity to serve the real economy by supporting the transformation, upgrade, and technological innovation, comprehensively deepening digital transformation, expanding the coverage of and access to financial services. On the other hand, they shall consider reducing service costs, improving asset quality, strengthening risk prevention and control capabilities, and ensure that no systemic risks arise.

Future major trends in the banking sector include:

- **Improve the quality and efficiency of serving the real economy**. Banks will prioritise financial support for key areas such as inclusive finance, private, small and micro enterprises, advanced manufacturing, strategic emerging industries, and green finance in accordance with national policies; grant more retail loans to boost consumption in China; and intensify financial support to rental housing, urban village reconstruction, and government-subsidised housing to maintain stable and orderly real estate financing.

- **Continuously strengthen risk prevention and control**. The banking sector should comprehensively strengthen risk management, and enhance the foresight, comprehensiveness, and initiative of risk prevention and control. Efforts should be intensified in handling distressed assets, closely monitoring risks related to real estate and local government loans, conducting ongoing stress tests, dynamic monitoring, warning, and control of risks to ensure that responsibilities of risk management are well-defined. Banks can leverage policy benefits such as the pilot program for the transfer of retail NPL, to manage and resolve risks associated with NPL in a timely manner.

- **Properly address pressure on net interest margin**. Affected by factors such as support to the real economy and the decline in market interest rates, coupled with the specific rules for adjusting interest rate of outstanding housing mortgage by commercial banks in the second half of the year, banks will continue to encounter downward pressure on net interest margin and profit. Banks are required to further strengthen their asset-liability management, improve funding cost management of liabilities and stabilise net interest margin and net interest income.

- **Expand non-interest income.** With net interest income under pressure, expanding non-interest income became a key driver for banks or banks to stabilise profitability. Banks should strengthen customer management, improve financial services for key customers and key scenarios, improve product capabilities and continue to make efforts in areas such as wealth management, asset securitisation, derivatives, payment and settlement to expand business growth.

- **Promote steady transformation of integrated operation.** During the phase of high-quality development, creating multiple profit growth drivers through integrated operation transformation will become one of the important ways to enhance customer service capabilities. In the future, large banks can expand their financial licenses based on their own characteristics and advantages, and improve service capabilities in wealth management, financial leasing, consumer finance, and investment banking. Small and medium sized banks can align internal lines of business based on the comprehensive needs of customers to build a "Value-Creating Bank" in an all-round direction.

- **Promote digital transformation**. Banks are required to further empower their operation and management with technology, continue to promote comprehensive digital transformation, improve data governance capabilities, strengthen data security and privacy protection, and improve operational efficiency. With the introduction of accounting policies to account for data resources, banks are required to improve the relevance of accounting information, reflect the value of data assets, seize market opportunities and expand new scenarios for data business.

- **Advance sustainable development strategy and improve internal governance.** With the new disclosure standards of the International Sustainability Standards Board (ISSB) released recently, in order to further implement the requirements of the *Green Finance Guidelines for the Banking and Insurance Industries*, banks should continue to improve internal governance, prepare to adopt international standards, start key works such as carbon emission calculation for investment and financing, climate risk assessment and build corresponding sustainable information disclosure capabilities.

I Operational Performance

1. Revenue growth was under pressure, profit before provision fell

The growth rate of operating income fell significantly, and profit before provision declined

In the first half of 2023, the overall operating income of China's 58 listed banks increased 0.50% YoY, representing a much lower growth rate than 2022 due to factors such as continuous support to the real economy and the overall decline in market interest rates. Operating and management expenses increased by 5.07% YoY, and profit before provision decreased by 1.78%.

The total provision for credit impairment losses decreased by 7.57% YoY, alleviated the pressure of declining operating income on net profit, and net profit increased by 3.49% YoY.

Figure 3: Analysis of the YoY growth rate of net profit of listed banks in the first half of 2023

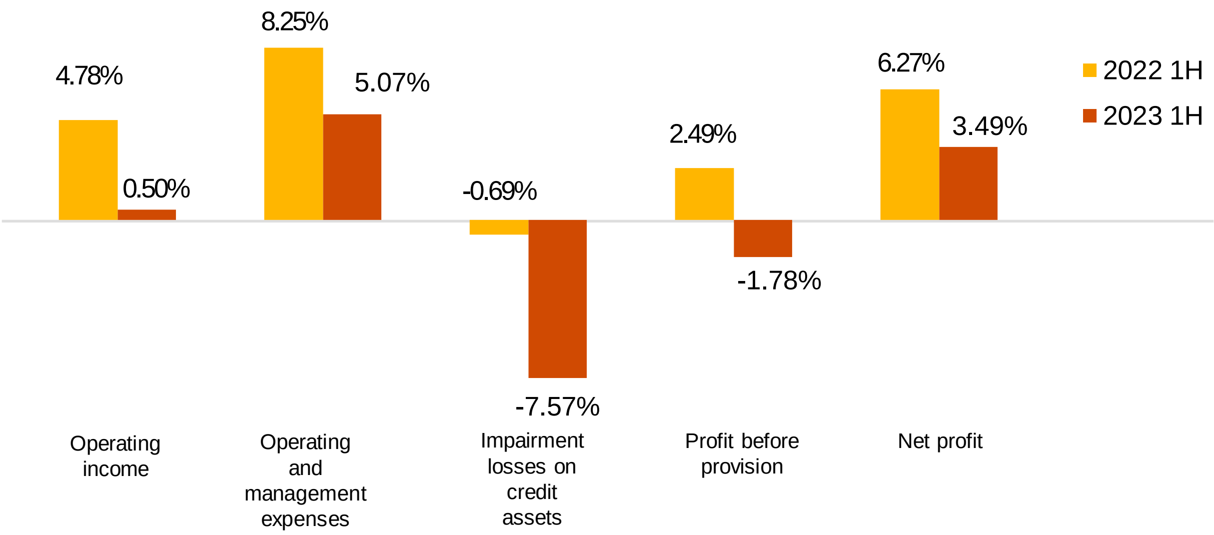
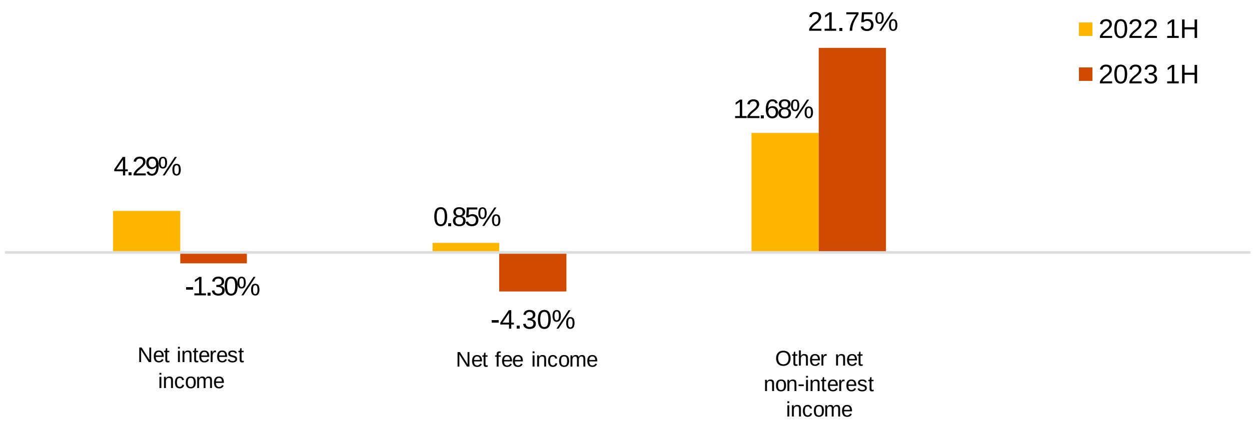


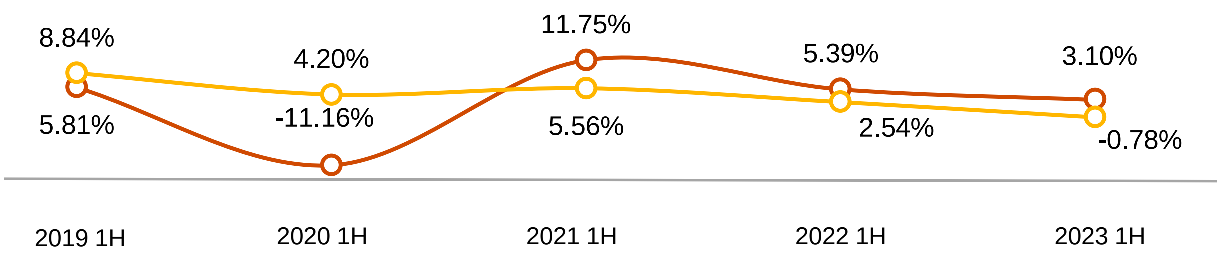
Figure 4: Analysis of the YoY growth rate of operating income of listed banks in the first half of 2023



*Other net non-interest income includes investment income, gains or losses from fair value changes, exchange gains or losses, other operating income and expenses, etc.

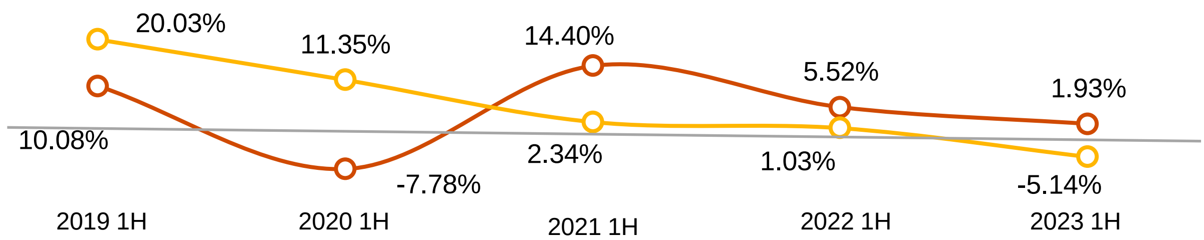
The net profit of large commercial banks increased by 3.10% YoY, the growth rate dropped by 2.29 percentage points from the same period last year; the profit before provision of large commercial banks decreased by 0.78% YoY, of which two banks' net profit before provision increased due to the contribution of non-interest income. Affected by the narrowing of interest spreads, the profit before provision of the remaining 4 banks fell compared with the same period last year.

Figure 5: Net profit and profit before provision growth of large commercial banks



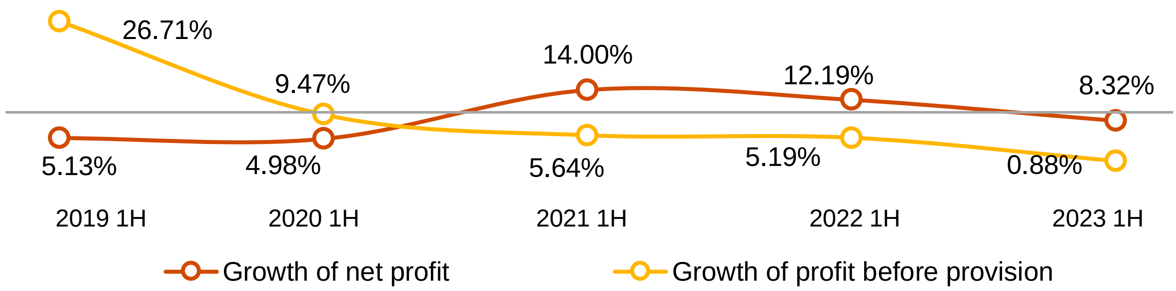
The net profit of joint-stock commercial banks increased by 1.93% YoY, the growth rate dropped by 3.59 percentage points from the same period last year, of which 4 banks' net profit dropped YoY due to decrease in net interest income; profit before provision of joint-stock commercial banks decreased by 5.14% YoY, with all 10 banks recorded YoY decrease.

Figure 6: Net profit and profit before provision growth of joint-stock commercial banks



The net profit of city and rural commercial banks increased by 8.32% YoY, the growth rate dropped 3.87 percentage points from the same period last year. Compared with large commercial banks and joint-stock banks, although the growth rate of net profits of city and rural commercial banks has slowed down, they still maintain relatively high growth. Profit before provision increased by 0.88%, and the growth rate decreased 4.31% from the same period last year. From the geographical distribution perspective, the net profit of city and rural commercial banks in the Yangtze River Delta area increased by 15.46% YoY, and the average profit before provision increased by 3.01% YoY, higher than the industry average level.

Figure 7: Net profit and profit before provision growth of city and rural commercial banks



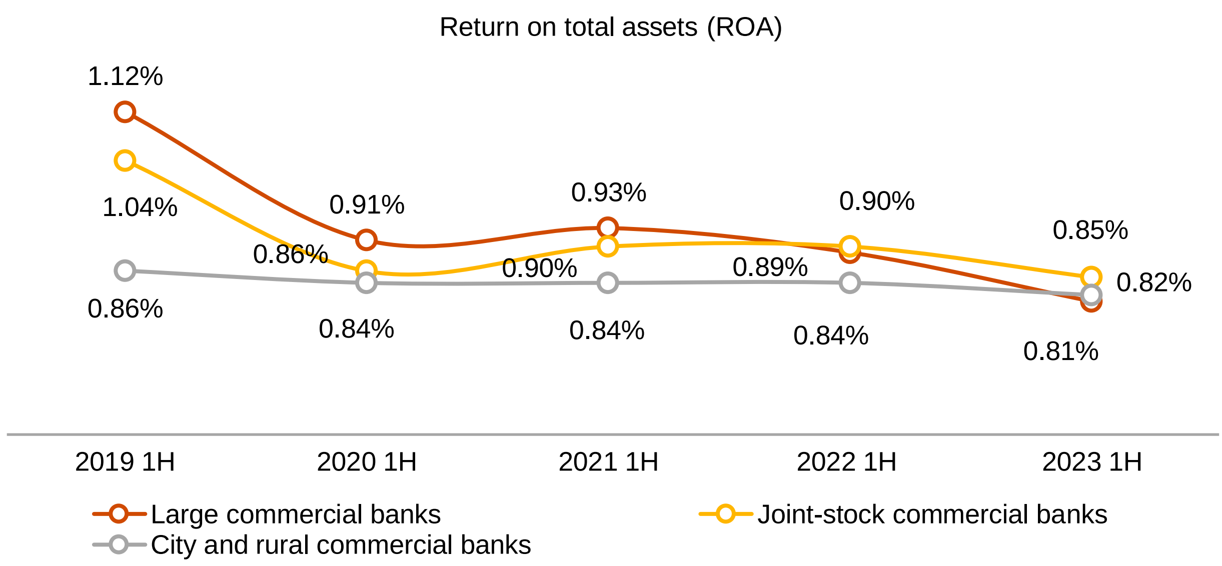
2. Declined profitability

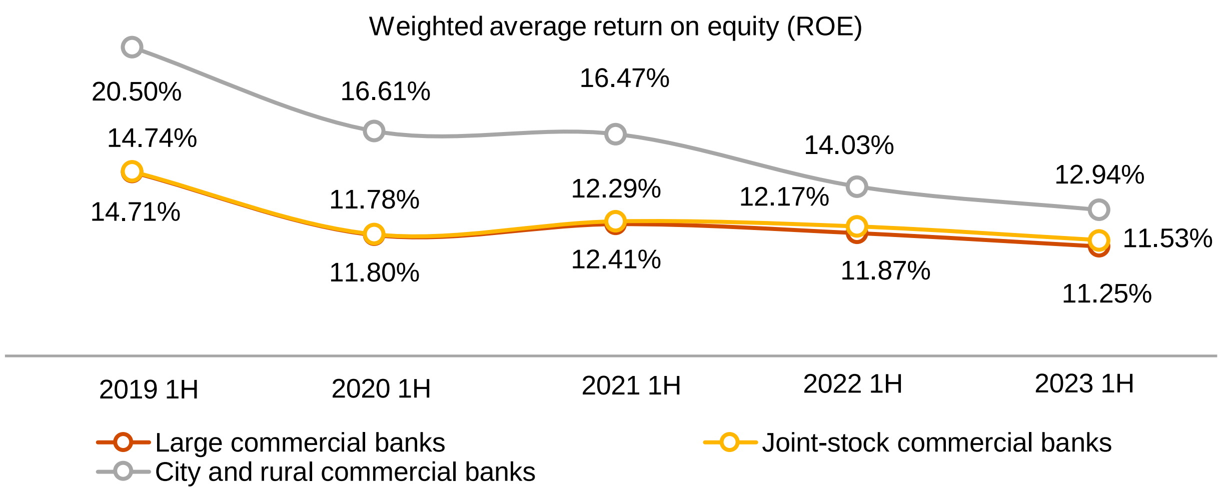
In the first half of 2023, profitability indicators of 58 listed banks showed a downward trend.

The average ROA of both joint-stock commercial banks, and city and rural commercial banks dropped, with large commercial banks experiencing the largest decline.

The weighted average ROE of listed banks continued to decline, and the growth rate of net profit was lower than the growth rate of net assets.

Figure 8: Trends in profitability indicators of listed banks



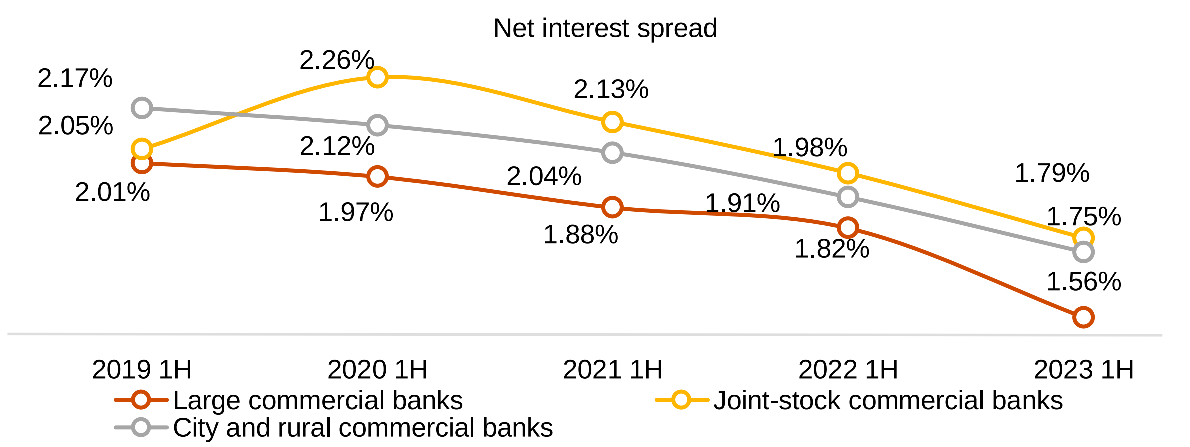


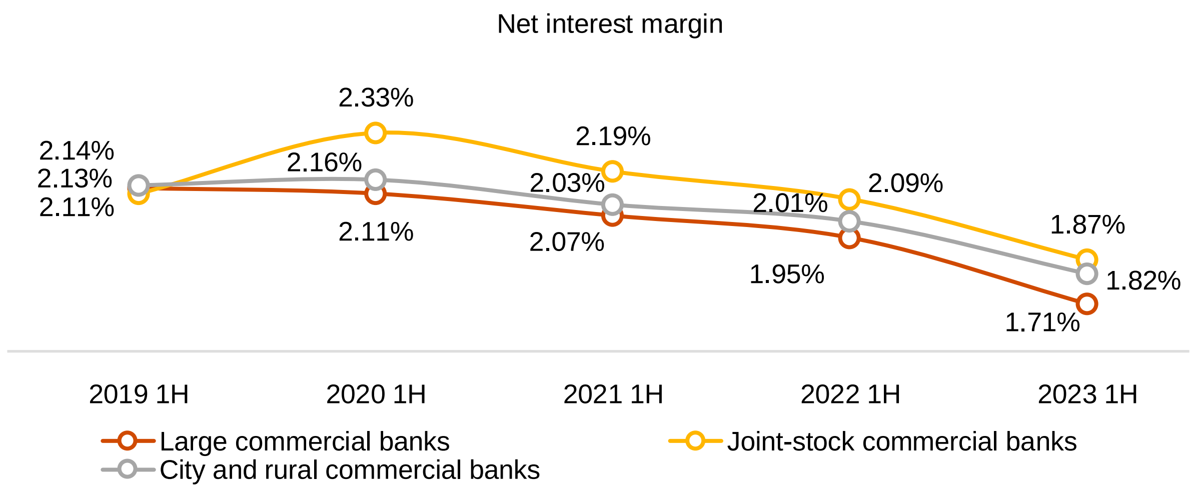
3. Net interest spread and net interest margin continued to narrow

In the first half of 2023, net interest spread and net interest margin of listed banks generally showed a narrowing trend. The net interest spread and net interest margin of large commercial banks narrowed by 0.26 and 0.24 percentage points respectively compared with the same period in 2022; the two indicators of joint-stock commercial banks narrowed by 0.19 and 0.22 percentage points respectively; and the two indicators narrowed by 0.16 and 0.19 percentage points for city and rural commercial banks respectively, with a more moderated decline in the second quarter.

The net interest spread and net interest margin of listed banks generally showed a narrowing trend. In the first half of 2023, the economy was on a recovery track. The LPR for loans with a maturity of 1-year and more than 5 years declined by 10 basis points. The banking industry reduced financing costs of enterprises and supported the real economy, thus further drive down loan yields. From the perspective of the liability side, under the combined influence of moderately loose monetary policy and increase in the proportion of term deposits, the liability-side cost ratio declined slightly.

Figure 9: Trends in the net interest spread and net interest margin of listed banks





4. Net interest income, net fee and commission income decreased YoY, other non-interest income became the main source of revenue growth

In the first half of 2023, the operating income of 58 listed banks increased by 0.50% YoY to RMB 3.07 trillion, which was significantly lower than the 4.78% growth rate in the same period last year.

Net interest income

Net interest income of listed banks decreased by 1.3% YoY. Affected by the decline in net interest margin, the net interest income of large commercial banks and joint-stock commercial banks decreased by 1.25% and 3.45% YoY respectively. The net interest income of city and rural commercial banks increased by 2.77% YoY, of which 22 banks increased and 20 banks decreased.

Net fee and commission income

Net fee and commission income of listed banks decreased by 4.3% YoY. Affected by the continued fluctuations in the capital market and banks' continued fee reductions and profit concessions, fee income from wealth management products decreased YoY. Specifically, large commercial banks recorded basically the same figures as the same period last year, while joint-stock commercial banks and city and rural commercial banks dropped 9.84% and 15.87% YoY respectively.

Other non-interest income

Other non-interest income of listed banks increased by 21.75% YoY. In the first half of the year, gains from changes in fair value and investment income increased YoY due to factors such as improved market expectations, expected slowdown in US dollar interest rate hikes and recovery in the bond market.

Figure 10: Growth in net interest income of listed banks

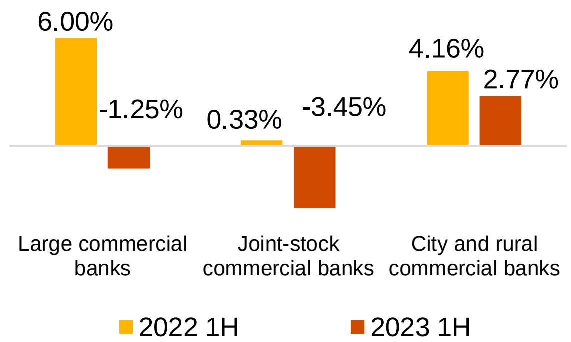


Figure 11: Growth in net fee and commission income of listed bank

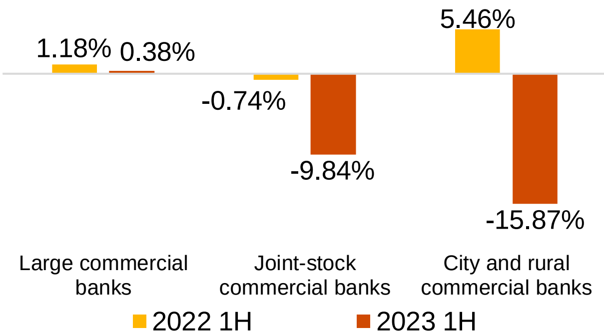
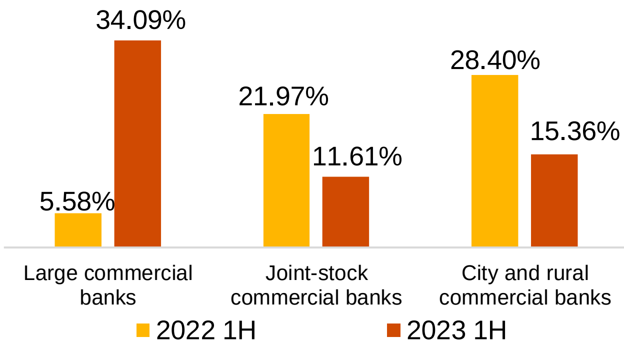


Figure 12: Growth in other non-interest income of listed banks



II Asset Portfolio

1. The growth rate of total assets has picked up and the stability of credit growth has been strengthened

Since 2023, the momentum of global economic recovery has weakened and the cumulative effects of rapid interest rate hikes in developed economies continue to emerge. China's economy continued to recover and was generally stable. However, it still faces challenges such as insufficient domestic demand, operating difficulties for some companies and latent risks in key areas. The foundation for sustained economic recovery and development still needs to be strengthened.

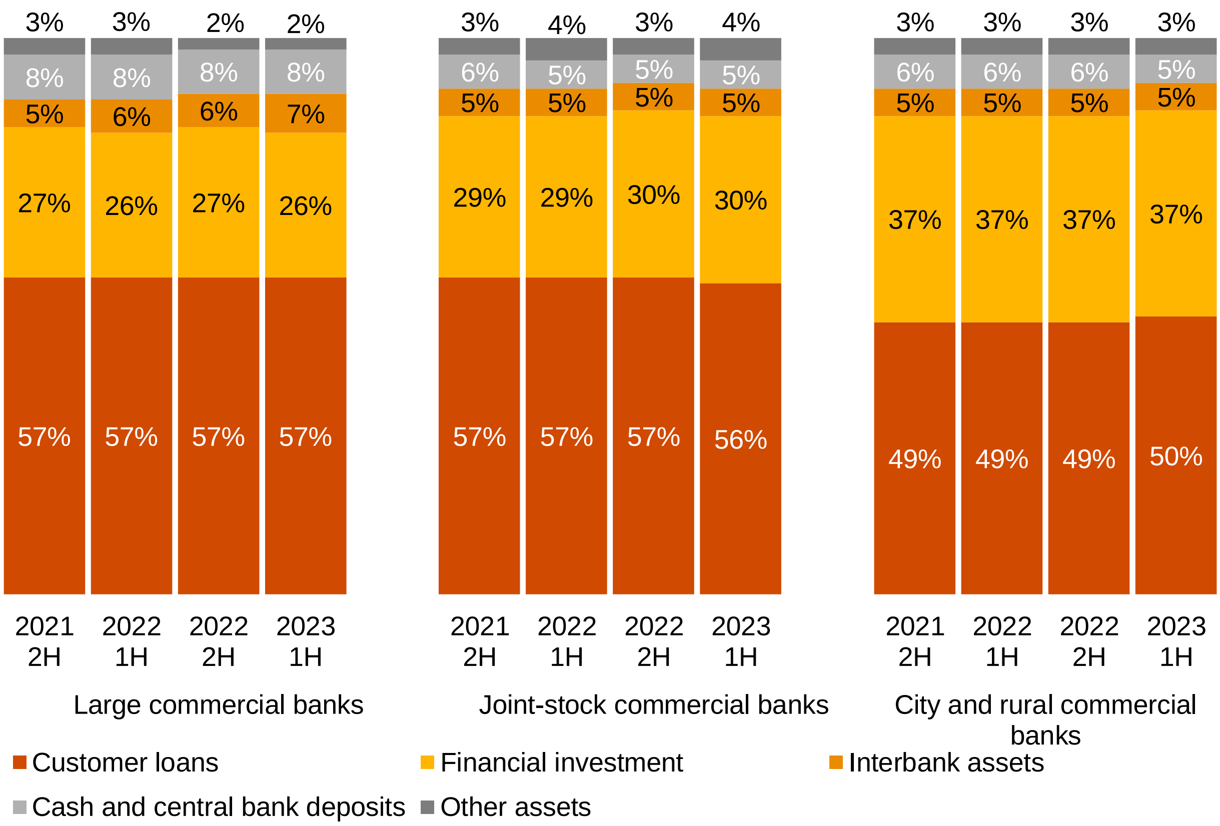
Growth of total assets of listed banks further increased compared with the same period last year, which strongly supported the cultivation of endogenous economic growth momentum. At the end of June, the total assets of listed banks increased by 8.19% compared with the end of 2022, maintaining a YoY increase on a high base, and is higher than the GDP growth rate, and the stability of credit growth was strengthened. Large commercial banks once again led the way in expansion of balance sheets, steadily playing the role of "bellwether". Joint-stock commercial banks grew faster than the same period last year, but due to capital constraints, the growth rate was lower than that of large commercial banks.

In terms of asset structure, customer loans and financial investment of listed banks continued to grow, accounting for a stable proportion of total assets. The growth of deposit and repurchase business of large commercial banks and joint-stock commercial banks has driven a short-term increase in the proportion of interbank assets.

Table 1: Changes in total assets of listed banks

Total assets (RMB Trillion)	2021 2H	2022 1H	2022 2H	2023 1H
Large commercial banks	145.44	158.92	164.09	179.98
Joint-stock commercial banks	59.35	62.18	63.74	67.00
City and rural commercial banks	32.56	35.29	36.65	39.17
Total	**237.35**	**256.39**	**264.48**	**286.15**
Half-year ring growth				
Large commercial banks	1.30%	9.27%	3.25%	9.68%
Joint-stock commercial banks	3.25%	4.77%	2.51%	5.11%
City and rural commercial banks	3.30%	8.38%	3.85%	6.88%
Total	**2.06%**	**8.02%**	**3.16%**	**8.19%**

Figure 13: Changes in the asset structure of listed banks

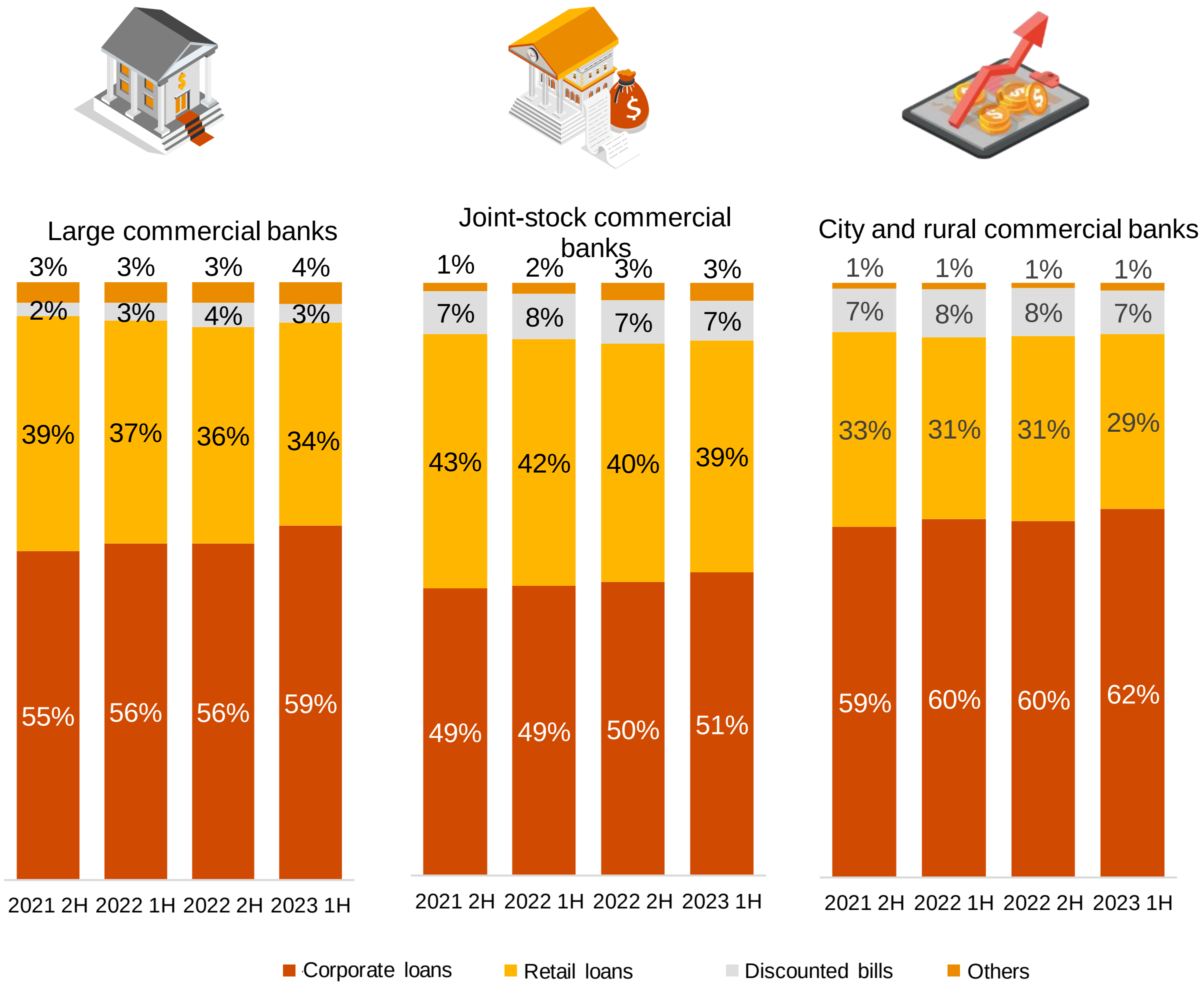


2. Corporate loans served as the growth engine, the relative proportion of retail loans continued to fall

In the first half of 2023, customer loans of listed banks continues to grow. Total balance of customer loans amounted to RMB 158.83 trillion, representing an increase of RMB 11.58 trillion, or 7.86% from the end of 2022. The growth rate significantly increased by 4.47 percentage points compared with that in the second half of 2022, and 0.15 percentage point higher than that of the same period of the previous year. Among them, large commercial banks achieve the highest growth, followed by city and rural commercial banks and joint-stock commercial banks.

In terms of loan structure, corporate loans increased by 13.52%, with an increase of 2.62 percentage points in the proportion, retail loans increased by 2.21%, with a decrease of 1.92 percentage points in the proportion, and discounted bills decreased by 10%, with a decrease of 0.89 percentage point in the proportion.

Figure 14: Changes in the loan structure of listed banks



3. Increased credit support for infrastructure, environmental and technological innovation

From the perspective of investment direction, in the first half of 2023, loans to leasing, manufacturing, wholesale and retail industries grew at a rather high speed, supporting recoveries in investment in infrastructure, high-tech manufacturing and consumption. In terms of promoting the development of the digital economy, loans to the information transmission, computer service and software industries increased by 23.19%.

According to the China Monetary Policy Report released by the PBOC in the second quarter of 2023, the balance of medium and long-term loans in the manufacturing industry, green loans, and loans to small and medium enterprises that specialise in niche sectors, command a high market share and have strong innovative capacity and core technologies increased by 40.3%, 38.4% and 20.4% YoY respectively at the end of June, significantly higher than the overall growth rate of loans.

In the first half of the year, the loan growth rate of real estate industry of listed banks rebounded to 4.24%, and its proportion to corporate loans decreased.

Table 2: Corporate loan growth of listed banks by industry

Industry	2022 2H Balance (RMB Trillion)	2023 1H Balance (RMB Trillion)	2022 2H Proportion	2023 1H Proportion	2023 1H Growth
Leasing and business services	14.41	16.71	17.88%	18.26%	15.96%
Manufacturing	13.63	16.26	16.91%	17.77%	19.30%
Transportation, warehouse and postal services	12.54	13.51	15.56%	14.76%	7.74%
Real estate	7.54	7.86	9.35%	8.59%	4.24%
Water conservancy, environmental, and public facilities management	6.85	7.68	8.50%	8.40%	12.12%
Electricity, gas and water production and supply	5.97	6.80	7.40%	7.43%	13.90%
Wholesale and retail	5.69	6.63	7.06%	7.24%	16.52%
Information transmission, computer service and software	0.69	0.85	0.86%	0.93%	23.19%
Subtotal (others)	13.28	15.20	16.48%	16.62%	14.46%
Total corporate loans	**80.60**	**91.50**	**100.00%**	**100.00%**	**13.52%**

4. Retail loan growth was sluggish, and consumer and mortgage loan demands were insufficient

In the first half of 2023, the total retail loans of listed banks were RMB 56.65 trillion, an increase of 2.21% from the beginning of the year.

On one hand, the scale of mortgage loans fell back. Affected by sluggish real estate sales and early prepayment by residents, the scale of mortgage loans fell by 0.40% in the first half of the year, with its proportion of total retail loans also fell by 1.67%. In the second half of the year, with the intensive implementation of real estate policies and adjustment measures in existing housing mortgage interest rates, mortgage loan demand is expected to rebound.

On the other hand, the recovery in consumer demand is still insufficient. Consumption demand is an important engine for smooth economic cycle. In the first half of the year, personal consumer loans of listed banks increased by 6.54%, reversing the rapid decline in the second half of 2022, but the scale has not yet returned to the same level of the same period in 2022. The scale of credit card business decreased by 0.66%.

It should be noted that the operation / business assistance loans to enterprises of listed banks increased by 15.38%, supported the overall growth of retail loans. business support loans mainly include agriculture-related loans, personal business assistance loans, and online loans for operation purposes. Commercial banks continue to increase credit support for economic recovery and rural revitalisation.

Figure 15: Changes in the retail loan structure of listed banks

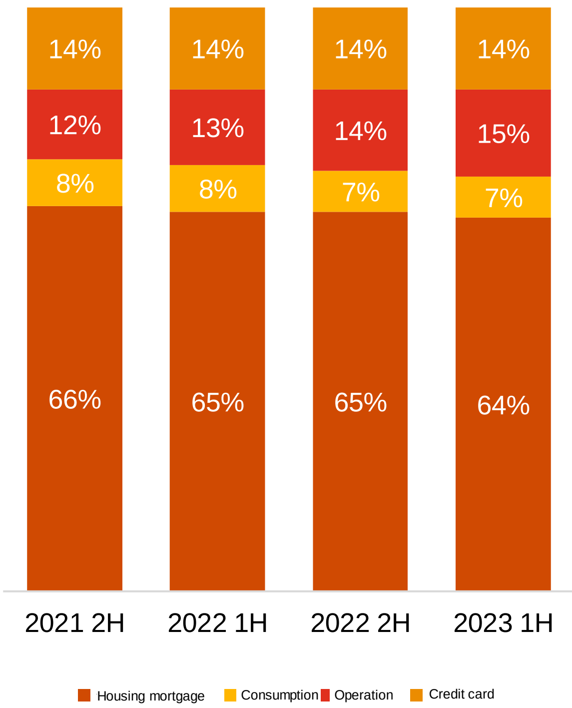


Table 3: Balance of retail loan of listed banks

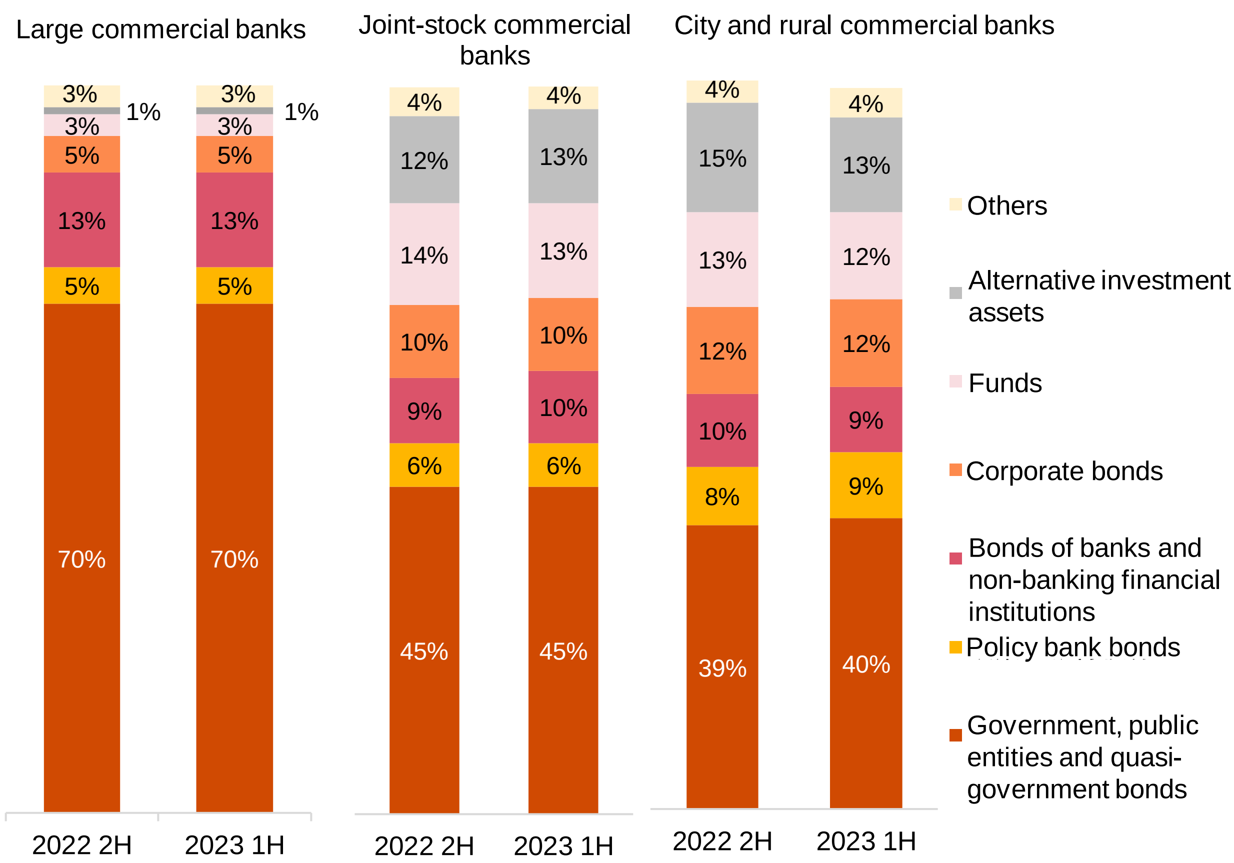
	2022 1H RMB 100 million	2022 2H RMB 100 million	2023 1H RMB 100 million	2022 1H Growth	2022 2H Growth	2023 1H Growth
Housing mortgage	357,350	362,694	361,256	1.42%	1.50%	-0.40%
Operation/ Business assistance	69,827	75,760	87,409	13.04%	8.50%	15.38%
Credit card	76,004	76,587	76,081	0.53%	0.77%	-0.66%
Consumption	46,860	39,256	41,801	1.02%	-16.23%	6.54%
Total	**550,041**	**554,297**	**566,547**	**2.60%**	**0.77%**	**2.21%**

5. Financial investment grew steadily, while the growth rate of corporate bonds was lower than the overall

The scale of financial investment of listed banks continued to grow, whilst maintaining a stable structure. Large commercial bank bonds accounted for over 90%, joint-stock commercial banks and city and rural commercial bank bonds accounted for around 70%. Other financial investments are mainly funds and alternative investment assets.

In the first half of the year, the increase in bond investment of listed banks was mainly contributed by government, financial institutions and policy bank bonds, and the growth rate of investment in corporate bonds was lower than the overall growth rate of financial investments. In July 2023, the Opinions on Promoting the Development and Growth of the Private Economy by the Central Committee of the Communist Party proposed to improve the financing support policy for private enterprises, support qualified private small, medium and micro enterprises to raise funds in the bond market, encourage qualified private enterprises to issue sci-tech innovation corporate bonds, and promote the specialised support plan for private enterprise bond financing to expand coverage and enhance credit enhancement.

Figure 16: Changes in the financial investment structure of listed banks



III Asset Quality

1. Increased credit issuance, risk indicators remained stable but under pressure

By the end of June 2023, for the 58 listed banks:

The overall ratio of loans in the watch list, overdue loan ratio and NPL ratio decreased by 0.07, 0.04 and 0.02 percentage point respectively from the high points at the beginning of the year. In addition, the write-off ratio of NPL and scale of transfer decreased over the same period. Various risk indicators and risk compensation capabilities remained stable.

Commercial banks should pay attention to impact of the lag in corporate risk exposure on risk indicators due to the incremental investment of assets. In addition, as the NPL ratio of retail business continues to grow, commercial banks should carefully identify customer credit risks and their risk changes, to pursue asset increments while prevent risks in advance.

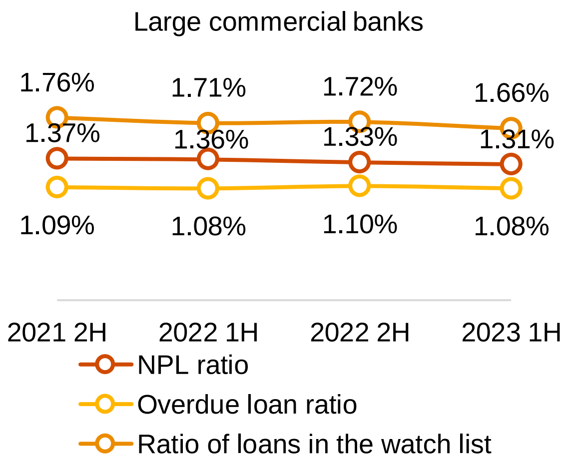
Risk indicators of large commercial banks stabilised

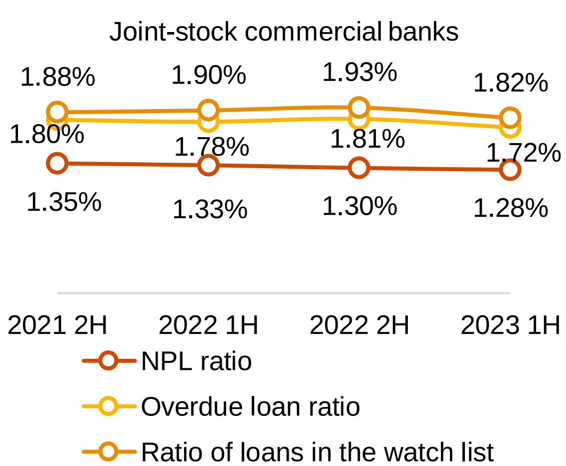
The NPL balance of large commercial banks increased by 7.33% from the end of 2022 to RMB 1.37 trillion, and the overdue loan balance increased by 7.11% to RMB 1.14 trillion. As the growth rates of both NPL and overdue loan balances were lower than the overall loan growth rate, the NPL ratio and overdue loan ratio both decreased slightly by 0.02 percentage point to 1.31% and 1.08% respectively. The overdue loan ratio of large commercial banks continued to be lower than NPL ratio, the proportion of loans in the watch list and proportion of stage 2 loans also declined. The risk indicators stabilised and improved. However, it is still necessary to pay attention to the further downward pressure on asset quality that may be caused by counter-cyclical adjustments.

The overdue loan ratios of joint-stock commercial banks generally declined

The NPL balance of joint-stock commercial banks increased by 2.22% to RMB 490.9 billion, while the overdue loan balance dropped by 0.46% to RMB 662.9 billion. The NPL ratio decreased slightly by 0.02 percentage point compared with the end of last year to 1.28%, with the NPL loan ratio of all joint-stock commercial banks fell between 0.95% to 1.85%. Overdue loan ratio also decreased slightly by 0.09 percentage point to 1.72%. The overdue loan ratio was higher than the NPL ratio, but the difference was narrowed.

Figure 17: Changes in NPL ratio, overdue loan ratio, and ratio of loans in the watch list



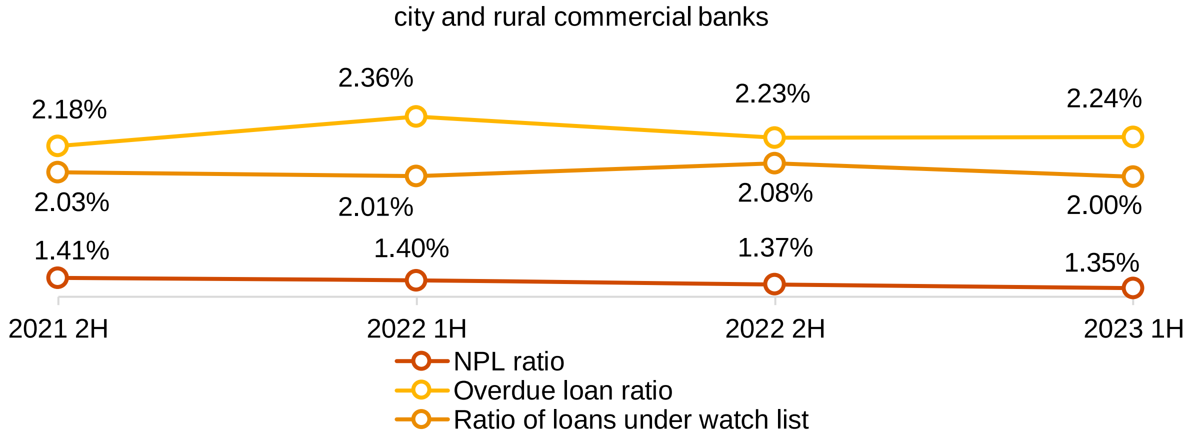


2. Asset quality of regional banks continued to diverge

The overdue loan ratio of some city and rural commercial banks increased rapidly, and the NPL ratio became polarised

The overdue loan ratio of city and rural commercial banks continued to be higher than the ratio of loans under watch list and NPL ratio, and the overdue loan ratio of some banks were rising rapidly. Thus attention should be paid to the risk exposure and the transmission risk of regional banks. The NPL balance of city and rural commercial banks increased by 6.56% to RMB 271.4 billion, while the NPL ratio decreased by 0.02 percentage point. The overdue loan balance increased by 8.39% to RMB 448.8 billion, while the overdue loan ratio increased by 0.01 percentage point. The difference between overall NPL ratio and overdue loan ratio increased by 0.03 percentage point in the first half of 2023.

Figure 18: Changes in NPL ratio, overdue loan ratio, and ratio of loans under watch list



NPL ratios were diverging. Among the 42 listed city and rural commercial banks, at the end of June 2023, 8 banks had a NPL ratio of more than 2% (compared to 5 banks with a NPL ratio of over 2% at the end of the last year. The regional distribution is more dispersed, and the risk indicators of different banks in the same region also diverge. In this period, the number of city and rural commercial banks with a non-performing rate below 1% increased from 1 to 15, and they are still concentrated in the Yangtze River Delta region and the Chengdu-Chongqing Economic Zone.

The trend of overdue loan ratio of city and rural commercial banks diverges significantly. Among the 42 listed city and rural commercial banks, the overdue loan ratio of 21 banks increased and 21 banks decreased. The overdue loan ratio of 4 banks increased by 0.50 percentage points in the first half of 2023, There was an increased pressure on risk exposure.

The regional differentiation of risk indicators for city and rural commercial banks continued. The NPL ratio and overdue loan ratio have increased in the central region, the north-eastern region, and Pearl River Delta region, while the ratios have decreased in the Yangtze River Delta region, the Chengdu-Chongqing Economic Circle, the western region and the Bohai Rim region.

Table 4: Proportion of NPL ratio, overdue loan ratio and ratio of loans under watch list among 42 city and rural commercial banks by region

	Number of banks	NPL ratio	Overdue loan ratio	Ratio of loans under watch list
Yangtze River Delta	15	0.96% (-3bp)	1.11% (-5bp)	1.01% (-3bp)
Central	6	1.88% (+9bp)	2.98% (+6bp)	2.99% (-14bp)
Bohai Rim Region	6	1.46% (-4bp)	1.85% (-39bp)	2.04% (-23bp)
Pearl River Delta	3	1.62% (+6bp)	3.35% (+45bp)	4.29% (-63bp)
Chengdu-Chongqing Economic Circle	4	1.06% (-7bp)	1.50% (-3bp)	1.44% (-5bp)
Western	5	1.54% (-3bp)	2.99% (-11bp)	3.59% (+13bp)
Northeast	3	2.96% (+2bp)	9.90% (+154bp)	4.15% (+72bp)
Total	**42**	**1.35% (-2bp)**	**2.24% (+1bp)**	**2.00% (-8bp)**

Note: Yangtze River Delta - Shanghai, Jiangsu, Zhejiang and Anhui; Central China: Hunan, Henan, Jiangxi and Shanxi;
Bohai Rim Region: Beijing, Tianjin and Shandong; Pearl River Delta: Shenzhen, Fujian and Guangdong; Chengdu-Chongqing Economic Circle: Sichuan and Chongqing; Western China: Guizhou, Shaanxi and Gansu; Northeast China: Liaoning, Heilongjiang and Jilin

3. The quality of corporate assets continued to improve and the retail NPL ratio increased significantly

Corporate loans:

As of the end of June 2023, the corporate NPL balance of listed banks was RMB 1.44 trillion, an increase of 4.71% from the end of previous year. The NPL ratio was 1.61%, down 0.14 percentage points from the end of last year. The NPL ratios of all types of banks' corporate business declined.

Retail loans:

At the end of June, the NPL retail loans of listed banks were RMB 536.6 billion, an increase of 7.66% from the end of the previous year. The overall NPL ratio of retail loans was 0.93%, an increase of 0.04 percentage points from the end of the previous year. The NPL ratio of all types of banks increased compared with the end of the previous year, and the increase in the NPL ratio of city and rural commercial banks was more significant than that of others.

From the perspective of business types, affected by the pandemic and the downturn of the real estate market, the NPL ratios of personal mortgage, consumer and credit card businesses of listed banks all increased compared with the previous year.

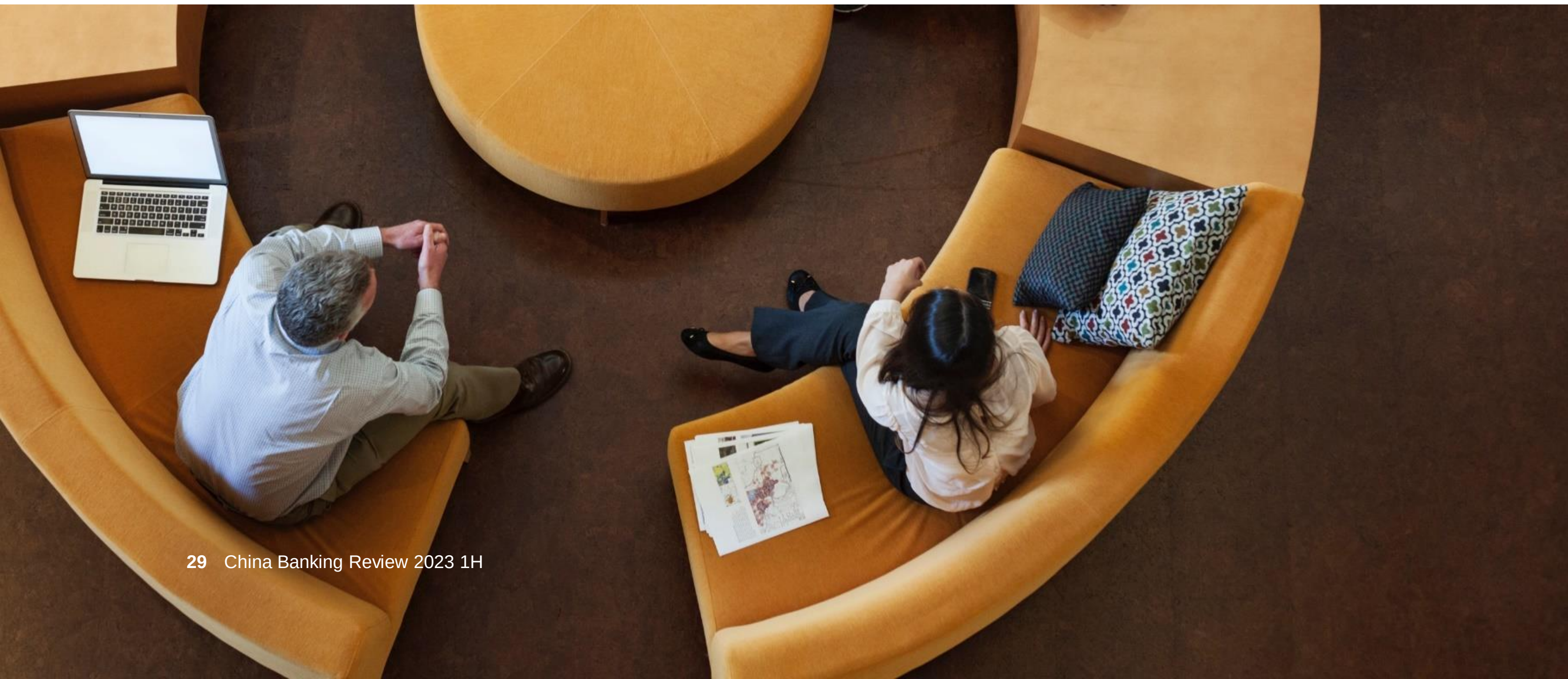


Figure 19: NPL ratios of corporate and retail loans of listed banks

Note: The data excludes banks that do not differentiate between the NPL balances of corporate and retail business. Discounted bills are excluded from the calculation of corporate NPL ratio.

Share of real estate loans decreased, NPL ratios of major banks fell back and the combination measures to stabilise the real estate industry continued to impact

At the end of June 2023, the scale of loans to the public real estate industry by 58 listed banks was approximately RMB 7.86 trillion, accounting for 8.59% of the total public loans, a decrease of 0.76 percentage points from the end of 2022.

The overall NPL ratio of corporate real estate loans was 4.20%, an increase of 0.17 percentage points from the end of the previous year. The NPL ratio of large commercial banks fell back from its high point, and the risks of joint-stock commercial banks and city and rural commercial banks continued to be exposed.

In terms of policies, various housing policies aimed to optimise and make timely adjustments were enacted in the second half of 2023. Such policies includes first-tier cities' "recognition of houses but not loans", the unified lower limit of down payment ratio for first and second homes nationwide to 20% and 30%, adjustment of existing mortgage interest rates, promotion of special refinancing for housing companies to bail out, etc. In addition, the People's Bank of China and the State Financial Supervision Administration issued an extension on July 10 to extend the application period of the "16 Financial Articles" related policies on real estate, which will help alleviate concerns that real estate risk exposure will have a further negative impact on bank asset quality indicators.

Table 5: Changes in corporate real estate loans of listed banks

Corporate real estate loans	2021 2H	2022 1H	2022 2H	2023 1H	Changes in current period
Volume (RMB Trillion)					
Large commercial banks	3.51	3.72	3.84	4.09	6.51%
Joint-stock commercial banks	2.57	2.56	2.52	2.55	1.19%
City and rural commercial banks	1.07	1.16	1.17	1.22	5.13%
Business proportion					
Large commercial banks	8.06%	7.69%	7.60%	6.99%	-0.61%
Joint-stock commercial banks	15.15%	14.14%	13.47%	12.56%	-0.91%
City and rural commercial banks	10.99%	10.49%	10.35%	9.68%	-0.67%
NPL ratio					
Large commercial banks	3.29%	3.97%	5.15%	5.02%	-0.13%
Joint-stock commercial banks	1.79%	2.32%	2.91%	3.42%	0.51%
City and rural commercial banks	2.10%	2.36%	2.51%	2.80%	0.29%

Note: The industry distribution of certain listed banks' corporate loans is based on the balance of domestic banks. Banks that have not disclosed the industry distribution of NPLs are excluded.

Encourage the mitigation of local government debt risks

According to the Report of the State Council *on the Implementation of Budgets for 2023* deliberated at the fifth session of the Standing Committee of the 14th National People's Congress on 28 August 2023, the central government actively supports local governments in mitigating hidden debt risks. A package of debt risk mitigation plans have been introduced to urge local governments to coordinate available funds, assets, resources and implement supportive policies and measures. A closer attention has been paid to municipal and county governments to properly resolve existing hidden debts, optimise the maturity structure, reduce interest burdens, and gradually mitigate debt risks.

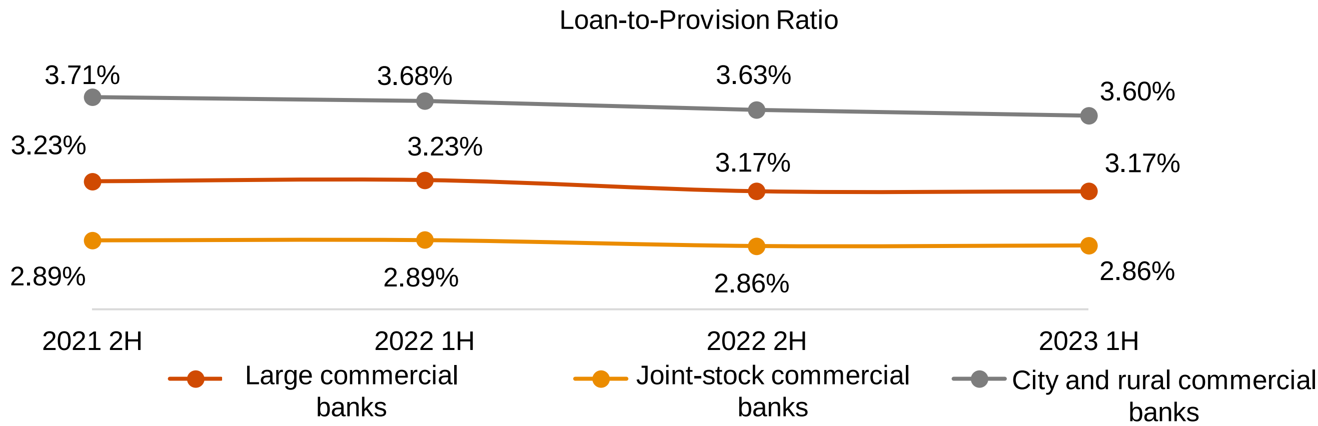
Some listed banks have disclosed information of its exposure and asset quality of local financing platforms. Their overall proportion of local financing loas of corporate loans is 4%-5%, and the non-performing rate is within 1.5%. Banks will actively and steadily handle local debt risks under the guidance of regulatory authorities.

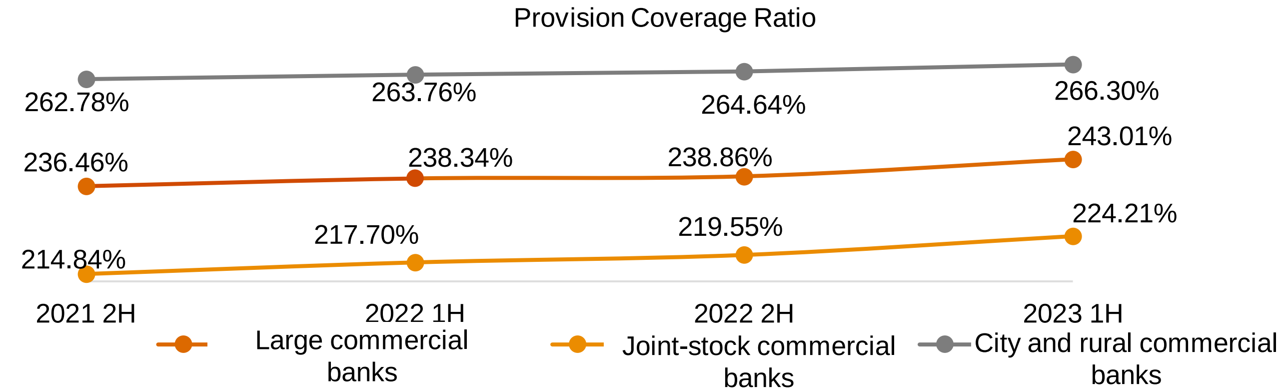
The overall loan-to-provision ratio remained stable, the provision coverage ratio increased, representing a robust risk resistance capability

As of the end of June 2023, the overall loan-to-provision of listed banks was 3.15%, which was basically the same as the end of the previous year. The provision coverage ratio was 241.64%, an increase of 4.14 percentage points from the end of last year. Commercial banks should pay attention to the impact of the Measures for the Risk Classification of Financial Assets of Commercial Banks on NPL scale and ratio.

In the first half of the year, the scale of write-off and transfer of non-performing assets of listed banks decreased YoY. NPL write-off and transfer-out amounted to RMB 413.3 billion, a decrease of 1.55% from 2022 1H. The amount of write-off and transfer-out of joint-stock commercial banks increased by 2.71% compared with 2022 1H, while the amounts written-off and transferred out by large commercial banks and city and rural commercial banks decreased by 3.01% and 10.83%, respectively.

Figure 20: Changes in loan-to-provision ratios and provision coverage ratios of listed banks





4. Focus to the impact of new regulations on financial asset classification and improve the ability to forecast credit risks

PwC further interpretated the Measures for the Risk Classification of Financial Assets of Commercial Bank issued by the former CBIRC and the PBOC in February 2023. For details, please refer to “Column II: Promoting risk resolution through classification - Interpretation of risk classification management measures for commercial banks” in PwC’s China Banking Review 2022.

The newly added stage three assets is similar to non-performing assets. The measures will officially take effect from July 2023. As stipulated in Article 11, the credit-impaired “stage 3” financial assets should be at least classified as substandard, while the volume of non-performing assets and stage 3 loans will further converge.

There are still differences in stages and classifications of existing assets. There is a certain degree of difference between the scale of "stage 3" impaired loans and the scale of NPL of some joint-stock commercial banks and city and rural commercial banks. In the first half of the year, the overall differences between joint-stock commercial banks and city and rural commercial banks expanded. According to the above regulatory requirements, banks need to gradually complete reclassification before the end of 2025. It is expected that the scale of banks’ NPLs will continue to be under pressure.

In addition, we also observed that differences between stage 2 loans (“loans with significantly increased credit risk”) and loans under the watch list of joint-stock commercial banks and city and rural commercial banks were growing in the first half of the year, reflected the fact that the staging was ahead of five-level classification adjustment.

Figure 21: Special mention loan ratios and stage 2 loans of listed banks

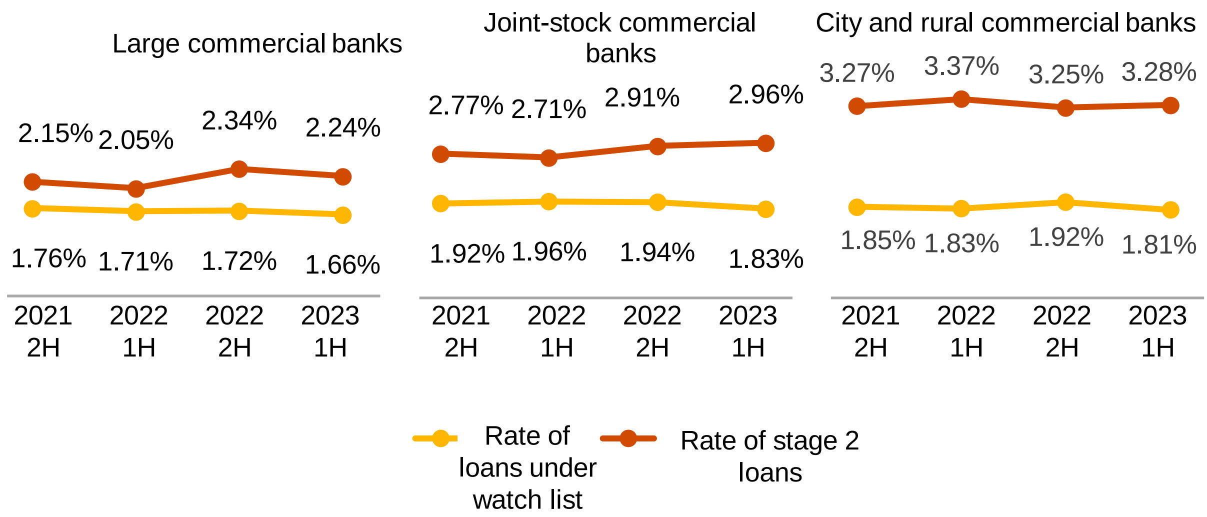
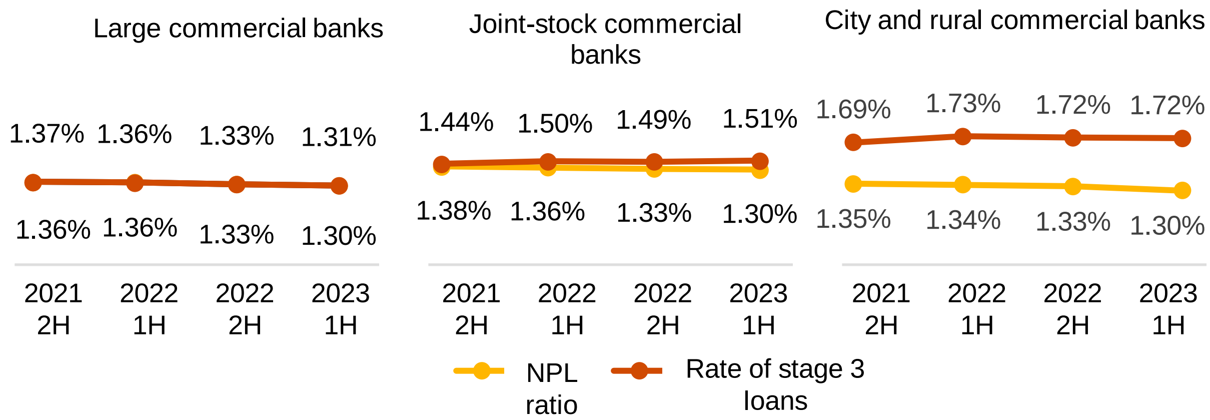


Figure 22: NPL ratios and stage 3 loans of listed banks



Note: Banks that have not disclosed staging are excluded.

Banks should pay close attention to loans whose stage classification is made earlier than the five-level classification adjustment and their potential impact on regulatory indicators. More efforts should be made to strengthen the collection and disposal of such loans, resolve the risks of such loans in a timely manner, and ensure that regulatory requirements are met at the end of the transition period.

IV Liabilities and Wealth Management Business

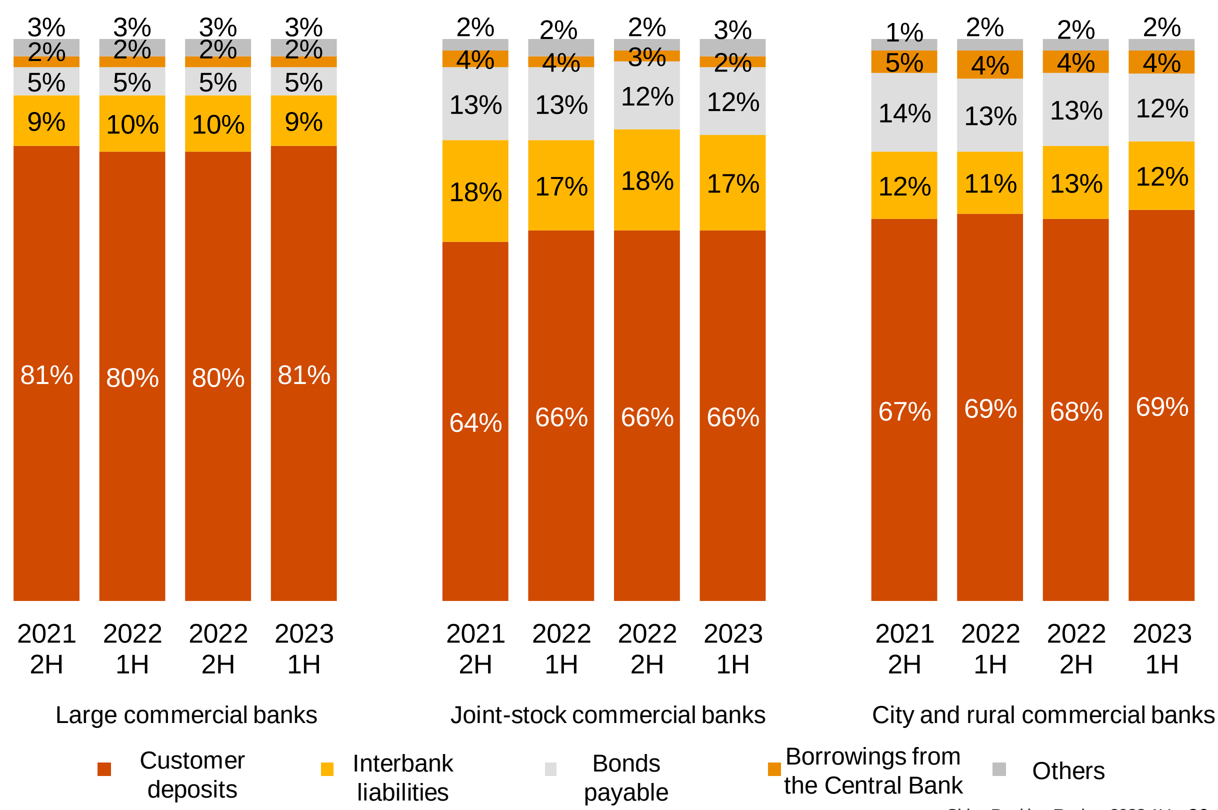
1. Scale of liabilities continued to grow, and the proportion of customer deposits increased

At the end of June 2023, the total liabilities of listed banks were RMB 263.88 trillion, an increase of RMB 21.01 trillion and an increase of 8.65% from the end of 2022. In terms of liability structure, customer deposits are still the main source of funds for listed banks. The proportion of deposits of large commercial banks and city and rural commercial banks has increased, while the proportion of interbank liabilities has decreased.

Table 6: Growth in total liabilities of listed banks

Total liabilities	2021 2H	2022 1H	2022 2H	2023 1H
Volume (RMB Trillion)				
Large commercial banks	133.04	146.10	150.60	166.10
Joint-stock commercial banks	54.43	57.16	58.46	61.58
City and rural commercial banks	29.88	32.59	33.81	36.20
Total	**217.35**	**235.85**	**242.87**	**263.88**
Half-year ring growth				
Large commercial banks	0.88%	9.82%	3.08%	10.29%
Joint-stock commercial banks	2.52%	5.02%	2.27%	5.34%
City and rural commercial banks	2.86%	9.07%	3.74%	7.07%
Total	**1.56%**	**8.51%**	**2.98%**	**8.65%**

Figure 23: Changes in the liability structure of listed banks



2. Scale of deposits increased significantly, and the proportion of fixed-term and retail deposits increased

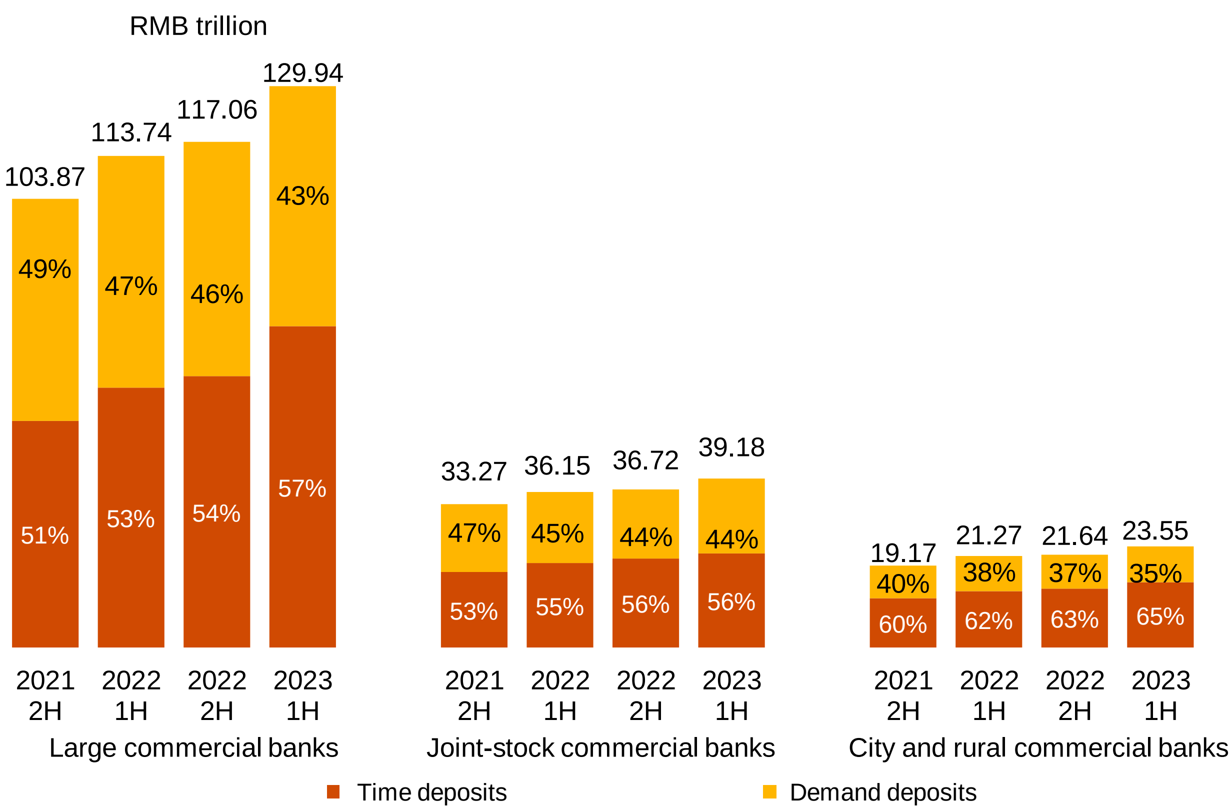
At the end of June 2023, the customer deposit balance of listed banks was RMB 200.47 trillion, an increase of 9.24% from the end of 2022, of which the growth rate of deposits of large commercial banks reached 10.37%.

The growth rate of time deposits accelerated to 14.83%, which was significantly higher than the overall deposit growth rate. The proportion of time deposits continued to increase to 58%, with large commercial banks and city and rural commercial banks seeing significant growth, and the trend of regular time deposits continued.

In the first half of the year, residents' willingness to save continued to rise, retail deposits grew to RMB 95.79 trillion, approaching to the scale of corporate deposits. Retail deposits of joint-stock commercial banks and city and rural commercial banks raised marginally.

In the second half of the year, with the reduction of deposit interest rates, banks will increase their efforts to expand sources of low-cost funding, optimise deposit structures, and further promote the reduction of deposit costs.

Figure 24: Changes in deposit balances and the proportion of time deposit of listed banks



* Note: Deposit balances in the above figure exclude interest payable.

Figure 25: Changes in the deposit structure of listed banks

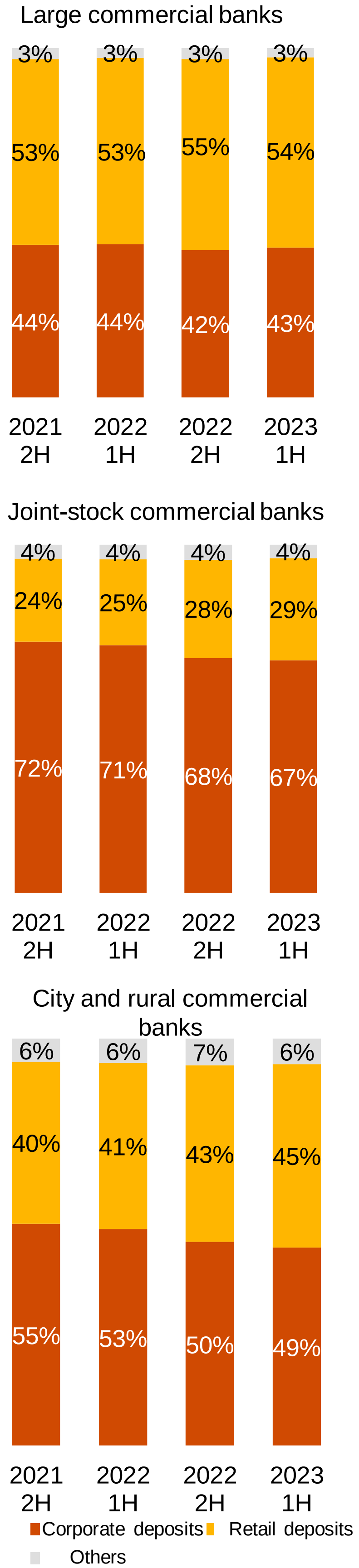
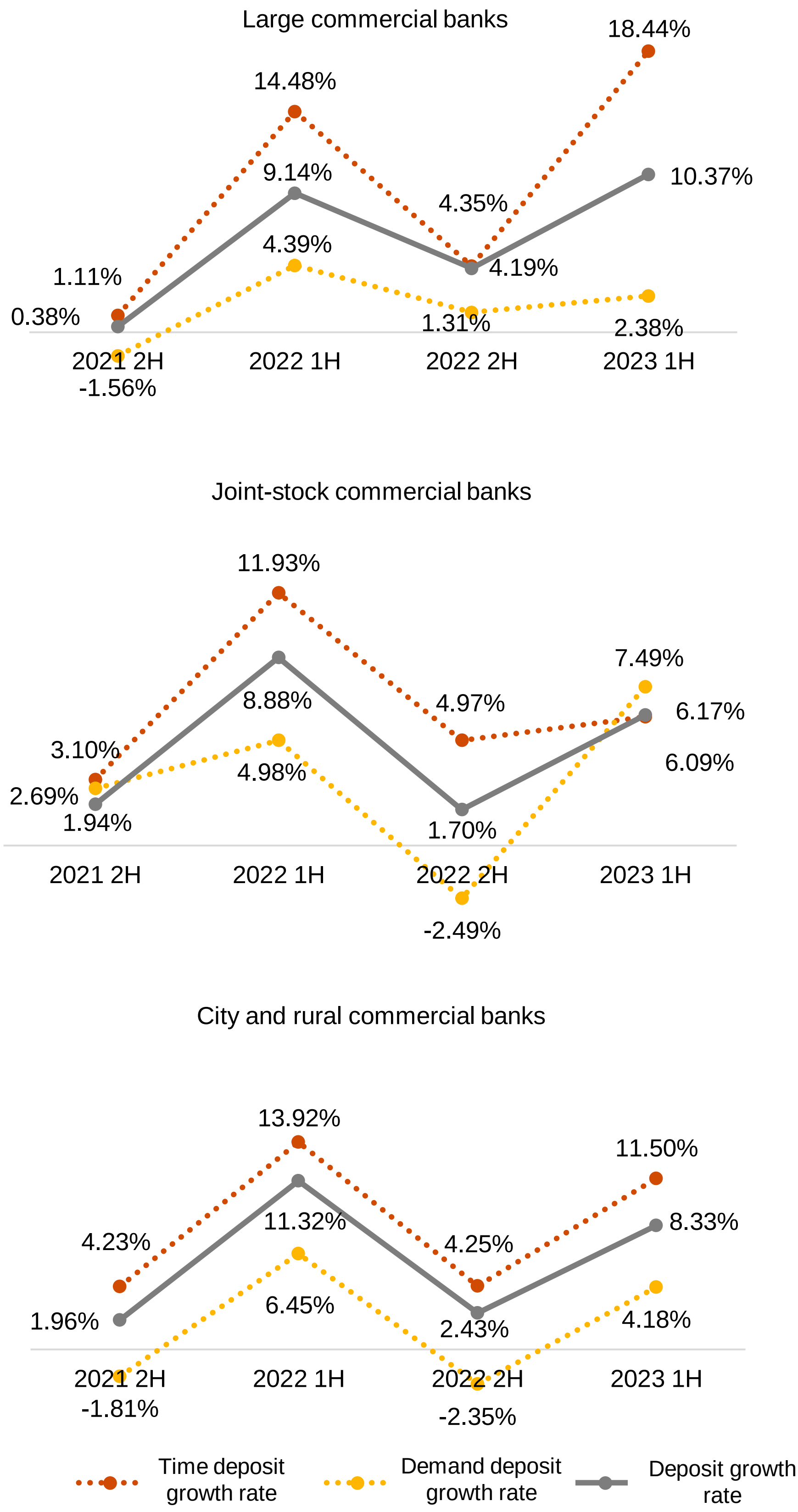


Figure 26: Changes in deposits growth rates of listed banks



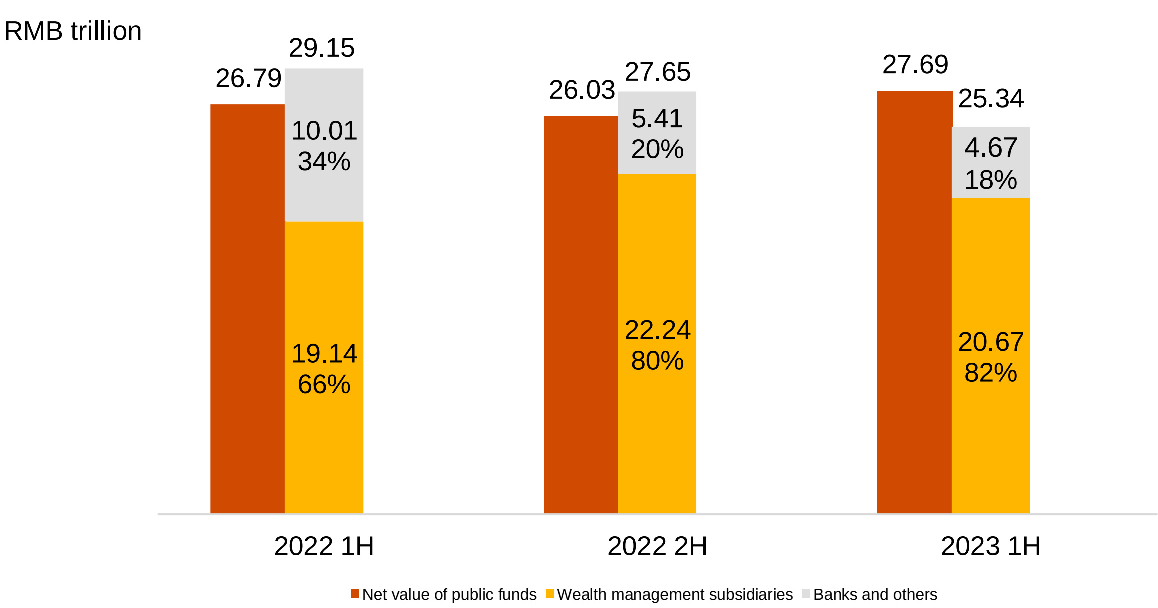
3. Scale of wealth management products decreased, while the scale of closed-end products increased

According to the Semi-annual Report on China's Banking Wealth Management Market (2023 1H), as of the end of June 2023, the existing scale of wealth management products was RMB 25.34 trillion, which was lower than the scale of public funds, RMB 27.69 trillion, for the first time. Of which, the scale of existing wealth management products issued by wealth management companies dropped to 20.67 trillion yuan, a decrease of 1.57 trillion yuan and a decrease of 7.06% from the end of 2022.

Affected by capital market fluctuations, product scale decline, fee reduction and profit-sharing measures, the subsidiaries of wealth management witnessed a YoY decline in net profit in the first half of the year. According to statistics from 19 wealth management subsidiaries that have announced their net profits, wealth management subsidiaries achieved a total net profit of RMB 12.318 billion in the first half of the year, a decrease of 4.228 billion yuan or 25.55% from the same period last year.

The financial product market is still dominated by individual investors, and the overall risk preference tends to be stable. In response to the fluctuations in the capital market and the needs of investors, the scale and proportion of closed-end financial products are growing. By the end of June, the existing closed-end wealth management products was RMB 5.08 trillion, an increase of RMB 0.3 trillion from the end of 2022. The closed-end wealth management products accounted for 20.05% of all existing wealth management products, an increase of 2.77% from the end of 2022. As the maturity of closed-end products is extended, the weighted average maturity of new closed-end products has extended from 186 days in 2019 to 346 days in June 2023 according to the Semi-annual Report on China's Banking Wealth Management Market (2023 1H).

Figure 27: Comparison between wealth management products and public funds



Source: *Semi-annual Report on China's Banking Wealth Management Market (2023 1H)*, *Annual Report on China's Banking Wealth Management Market (2022)*, *Semi-annual Report on China's Banking Wealth Management Market (2022 1H)*, and the Asset Management Association of China

4. Yield rate of wealth management products rebounded

According to the Semi-annual Report on China's Banking Wealth Management Market (2023 1H), in the first half of 2023, the average yield of wealth management products rebounded to 3.39%, an increase of 1.3 percentage points from the end of 2022 and 0.75 percentage points higher than the10-year government bond yield. The net loss rate of financial management products has returned to the level before the "redemption wave" of financial management products.

Wealth management companies actively expand agency sales channels other than the parent bank. In the first half of the year, the proportion of wealth management products sold by wealth management companies on behalf of the parent bank further declined. The number of cooperative sales agencies of financial management companies increased to 417, an increase of 89 from the beginning of the year.

For cash management products, various institutions have launched innovative sales models such as combination sales, increased product quick redemption limits, and created product selling points. As deposit interest rates will continue to decline, wealth management products are expected to rebound.

Figure 28: Changes in yield rates of wealth management products

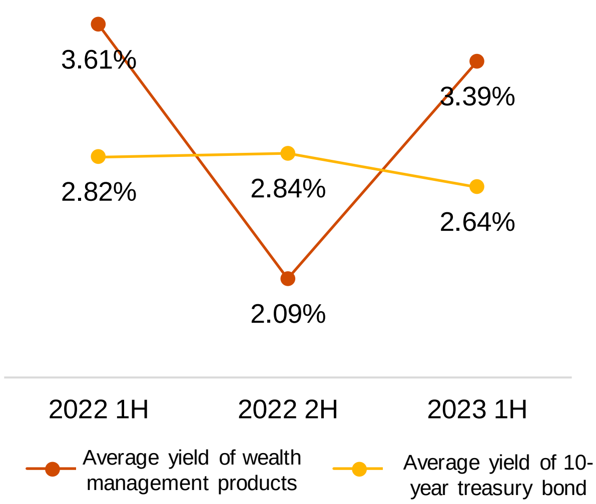


Table 7: Scale and proportion of wealth management products

Products Operation Mode	2023 1H Scale RMB trillion	2023 1H Proportion	2022 2H Scale RMB trillion	2022 2H Proportion	2022 1H Scale RMB trillion	2022 1H Proportion
Closed-end products	5.08	20.05%	4.78	17.28%	4.86	16.67%
Open-end products	20.26	79.95%	22.87	82.72%	24.29	83.33%
Total	**25.34**	**100.00%**	**27.65**	**100.00%**	**29.15**	**100.00%**

Source: Semi-annual Report on China's Banking Wealth Management Market (2023 1H), Annual Report on China's Banking Wealth Management Market (2022) and Semi-annual Report on China's Banking Wealth Management Market (2022 1H)

V Capital Management

1. Capital adequacy ratio generally declined

Capital adequacy ratio, as the core banking regulatory indicator, is the basic foundation for the continued operation of banks.

In the first half of the year, commercial banks actively responded to the national financial policy to support the real economy and continued to expand loans to smooth the virtuous economic and financial cycle. The profit growth rate of the banking industry slowed down. As at the end of June 2023, core tier 1 capital adequacy ration ("CAR") and CAR of listed banks both declined.

Large commercial banks had maintained a higher CAR than the other two types of banks. In the first half of the year, large commercial banks fulfilled their obligations to keep a high growth in assets, showing a significant decline in the core tier 1 CAR and CAR. Both joint-stock commercial banks and city and rural commercial banks were burdened by capital sources, and witnessed a minor decline in the core tier 1 CAR and CAR. The core tier 1 CAR of certain joint-stock commercial banks and city and rural commercial banks were approaching the regulatory limits.

With the implementation of the Measures for the Capital Management of Commercial Banks (Draft for Comments) and build a differentiated capital supervision system, listed banks continued to reinforce their operating foundations, strengthen asset portfolio management, replenish capital through multiple channels and diversification, and improve capital use efficiency and risk resilience.

Figure 29: Core tier 1 CAR

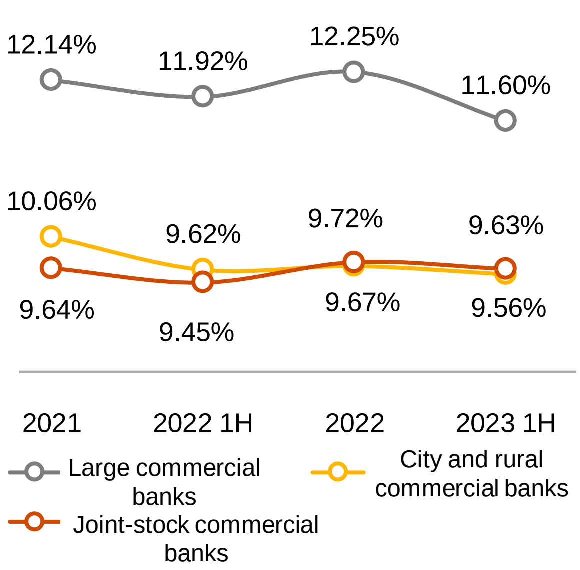
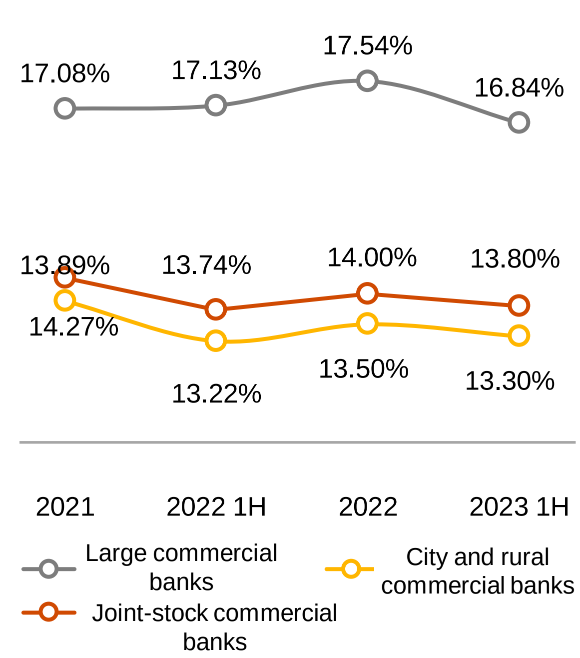


Figure 30: CAR



2. Scale of capital raising decreased, and internal capital supplement became the main source

In order to alleviate capital pressure, banks replenish capital through various channels. In the first half of 2023, listed banks raised a total of approximately RMB 298 billion in capital through the issuance of secondary capital bonds, perpetual bonds and convertible bonds, representing a 42% decrease from RMB 510 billion in the same period last year.

Affected by factors such as the decline in market subscription demand, the popularity of listed banks in issuing perpetual bonds declined in the first half of the year, with a significant decrease compared with the previous year.

After the large issuance of tier 2 capital bonds in 2022, listed banks' issuance in the first half of the year shrank to RMB 264 billion, an decrease of approximately 24% from the same period last year.

In addition, listed banks have actively expanded channels for external capital replenishment. In the first half of 2023, Postal Savings Bank of China and China Zheshang Bank replenished core tier 1 capital by a total of RMB 54.7 billion through share allotment and capital contribution.

Figure 31: Amount of capital replenishment instruments issued by listed banks

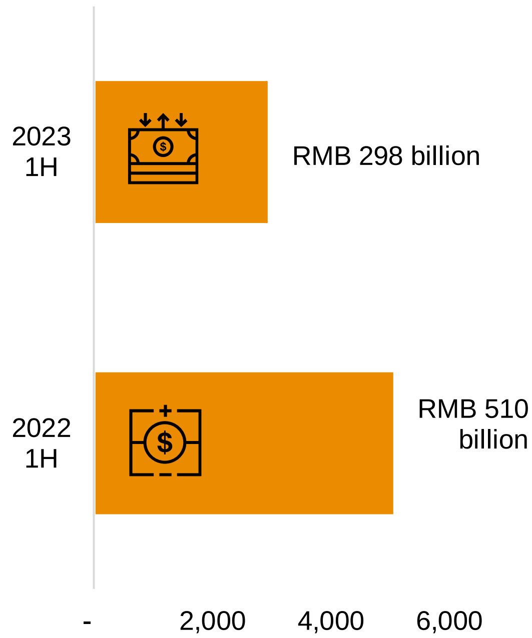
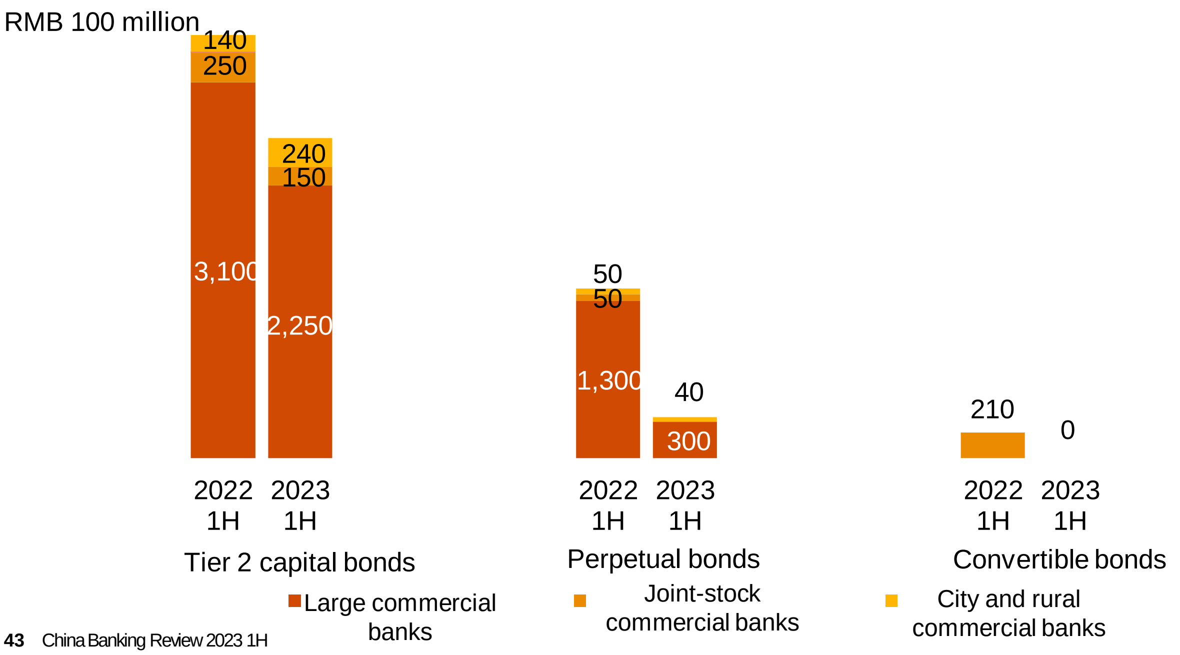
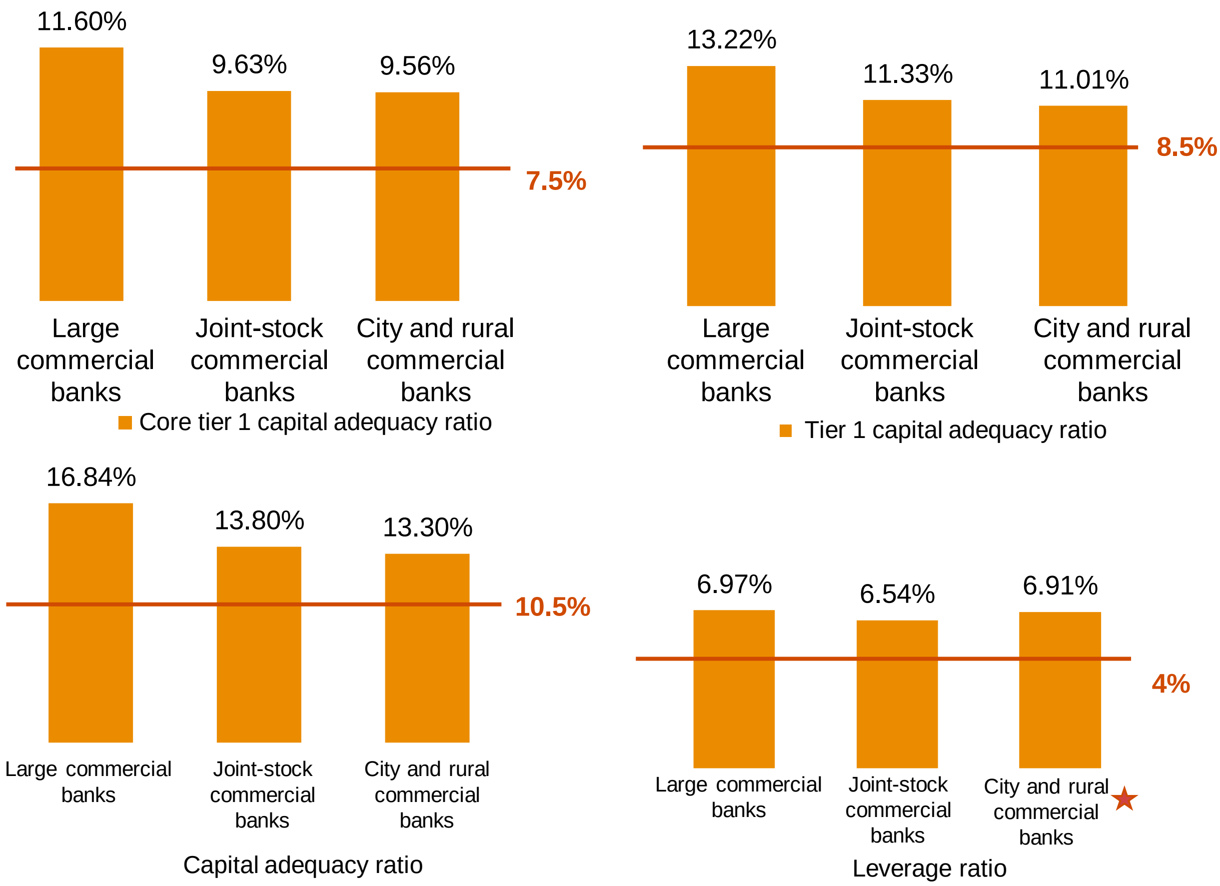


Figure 32: Amount of capital replenishment instruments issued by listed banks



3. New capital regulations demand supervision on different capital tranches, and capital management requirements are comprehensively upgraded

Figure 33: Capital adequacy ratio and leverage ratio of listed banks in 2023 1H



* Red line in the above figure represents he minimum capital adequacy ratio and leverage ratio of commercial banks required by the new capital regulations

★ Note: As Luzhou Bank did not disclose leverage ratio, it was not included in the above calculation of leverage ratio.

On 18 February 2023, the former CBIRC officially released the Measures for the Capital Management of Commercial Banks (Draft for Comments) (thereafter the “Measures”), that imposed “tiered regulation” and once again clarified the requirements of capital adequacy ratio and leverage ratio for commercial banks.

After the implementation of the Measures, the 58 listed banks will adopt relatively complex capital measurement methods according to their respective tiers, such as adjusting the credit risk weights of corporate, interbank, and retail businesses, and adjust the capital measurement rules for market risks and operational risks. Banks will also face more comprehensive, in-depth and detailed disclosure requirements related to capital and risk management.

Appendix

Statistical interpretations of financial data of listed banks

PwC Financial Services contact information

Statistical interpretations of financial data of listed banks

The main statistical metrics of financial data involved in this report are explained as follows:

1. Financial investments include: Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortised cost.

2. Interbank assets include: Amounts deposited with banks and other financial institutions, funds disbursed, and financial assets purchased under resale agreements.

3. Interbank liabilities include: Funded deposited by banks and other financial institutions, funds borrowed, and financial assets sold for repurchase.

4. Issued debt securities include: Subordinate debt, tier 2 capital debt, convertible corporate debt, green bonds, financial bonds, and debt instruments such as hybrid capital bonds, certificates of deposit, and certificates of interbank deposit.

5. Average ROA = net profit/average opening and closing balance of total assets. The weighted average return on net assets is calculated in accordance with the provisions of the China Securities Regulatory Commission's “Information Disclosure and Reporting Rule No. 9 for Companies Offering Securities to the Public: Calculation and Disclosure of Return on Net Assets and Earnings Per Share (revised in 2010).

6. Net profit margin = average return on interest-earning assets - average interest rate of interest-bearing liabilities; Net interest spread = net interest income/average interest-earning assets

7. Cost-to-income ratio = business and management expenses/operating income

8. NPL ratio = NPL balance/customer loan balance; Special mention loan ratio = special mention loan balance/customer loan balance; Overdue loan ratio = overdue loan balance/customer loan balance

9. Provision coverage ratio = loan impairment provision balance/NPL balance; Loan-to-provision ratio = loan impairment provision balance/total customer loans and advances

10. Core tier 1 capital adequacy ratio = Net core tier 1 capital/total risk-weighted assets; Tier 1 capital adequacy ratio = net tier 1 capital/total risk-weighted assets; Capital adequacy ratio = Net capital/total risk-weighted assets

11. There may be minor differences between the sum of the sub-items and the total due to rounding.

PwC Contacts

James Chang

Financial Service Leader, PwC China

+86 (755) 8261 8882

james.chang@cn.pwc.com

Audit Services

Margarita Ho - Beijing
+86 (10) 6533 2368
margarita.ho@cn.pwc.com

Richard Zhu - Beijing
+86 (10) 6533 2236
richard.y.zhu@cn.pwc.com

Linda Yip - Beijing
+86 (10) 6533 2300
linda.yip@cn.pwc.com

Michael Hu - Shanghai
+86 (21) 2323 2718
michael.l.hu@cn.pwc.com

Patrick Zhou - Shanghai
+86 (21) 2323 3214
patrick.zhou@cn.pwc.com

Olivia Xie - Guangzhou
+86 (20) 3819 2605
olivia.xie@cn.pwc.com

Anthony Chen - Shenzhen
+86 (755) 8261 8264
anthony.chen@cn.pwc.com

Shirley Yeung - Shenzhen
+86 (755) 8261 8818
shirley.yeung@cn.pwc.com

James Tam - Hong Kong
+852 2289 2706
james.tam@hk.pwc.com

Edith Wong - Hong Kong
+852 2289 2948
edith.ht.wong@hk.pwc.com

Consulting services

Jianping Wang - Shanghai

+86 (21) 2323 5682

jianping.j.wang@cn.pwc.com

Jeff Hao - Beijing

+86 (10) 6533 7942

jeff.hao@cn.pwc.com

Ying X Zhou - Beijing

+86 (10) 6533 2860

ying.x.zhou@cn.pwc.com

Toby Zhang - Shanghai

+86 (21) 2323 2886

toby.zhang@strategyand.cn.pwc.com

Qing Ni - Beijing

+86 (10) 6533 2599

qing.ni@cn.pwc.com

Brian KY Yiu - Hong Kong

+852 2289 1934

brian.ky.yiu@hk.pwc.com

Tax Services

Oliver Kang - Beijing

+86 (10) 6533 3012

oliver.kang@cn.pwc.com

Matthew Wong - Shanghai

+86 (21) 2323 3052

matthew.mf.wong@cn.pwc.com

www.pwccn.com