Driving the real economy

China Banking 2024 Mid-Year Review and Outlook

Editor-in-chief

Jessy Tong

Deputy editors

Edward ZA Yu, Jia JA Chen

Editorial team members

Zoe J Ren, Michael MJ Wu, Alexie YA Xie

Expert Team

James Chang, Margarita Ho, Linda Yip, James Tam

Welcome to the China Banking 2024 Mid-Year Review and Outlook

This report analyses 58 listed banks, representing 84.60% of total assets and 90.38% of net profits in China's commercial banking sector. They are grouped as follows:

Group	Banks	
Large Banks (6)	ICBC	BOC
	ABC	PSBC
	CCB	BOCOM
Joint-stock banks (10)	CMB	CEB
	Industrial Bank	PAB
	SPD	HXB
	CNBC	CZB
	CMBC	CBHB
City & Rural Banks (42)	BOB	Jiujiang Bank
	BOJS	Lanzhou Bank
	BOSC	XACB
	BNB	Weihai Bank
	NJBK	Gansu Bank
	HZBank	XMBank
	Huishang Bank	Jinshang Bank
	ZY Bank	Huzhou Bank
	BoCD	CQRCB
	BCS	SHRCB
	SJBC	GRCB
	TCCB	DRCB
	Harbin Bank	QRCB
	Chongqing Bank	CSRCB
	GYB	ZJRCB
	BSZ	JTRCB
	BQD	WRCB
	QLB	SZRCB
	Zhengzhou Bank	ZRCBank
	Guizhou Bank	Ruifeng Bank
	Jiangxi Bank	JRCB

In the first half of 2024, China's economy faced internal and external complexities, amid challenging international conditions. Despite this, the domestic economy remains stable, though bottlenecks persist. The banking sector, guided by the 'Five Major Areas' and the Central Financial Work Conference, is focused on long-term evolution and supporting growth in the real economy.

This report analyses 58 A- or H-share listed banks that had disclosed their 2024 semi-annual reports as of 30 June 2024. Banks are arranged by unaudited asset size, and all data is sourced from public information and denominated in RMB. For more information on China's banking sector, please contact your PwC representative or our financial services team listed in the appendix.

Table of Contents

Overview and Outlook 06

I. Operating Performance 13

1. Net profit growth slowed, but at widely different rates
2. While profitability diverged, overall trends are stable
3. Net interest margins and spreads down slightly
4. Income structure sees increasing non-interest income
5. Fee income affected by growing competition

II. Asset Portfolio 19

1. Asset growth slowed; loan and investment structures improved
2. Steady growth in total credit; new loan rates at historic lows
3. ‘New’ and ‘Green’ corporate loans prioritised so as to implement the 'Five Major Areas'
4. Mortgage decline; Slowing consumer and business loan growth
5. Increasing debt securities and fund investments; steady reduction in non-standard assets

III. Asset Quality 25

1. Risk indicators under pressure; Delinquency rates rise
2. Corporate NPL balance stabilises, but retail exposure risks persist
3. Declining loan-to-provision ratio; A turning point in provision for City & Rural banks
4. One year since the implementation of new risk classification regulation

IV. Liability and Wealth Management 33

1. Stable growth in liabilities; Slight drop in customer deposits
2. Deposit growth slows, but time and retail deposits surge
3. Steady recovery in wealth management products, but a decline in yields

V. Capital Management 39

1. New capital rules implemented; capital adequacy ratios rebound
2. Capital raising fully recovers
3. Listed banks meet regulatory requirements.

Overview and Outlook

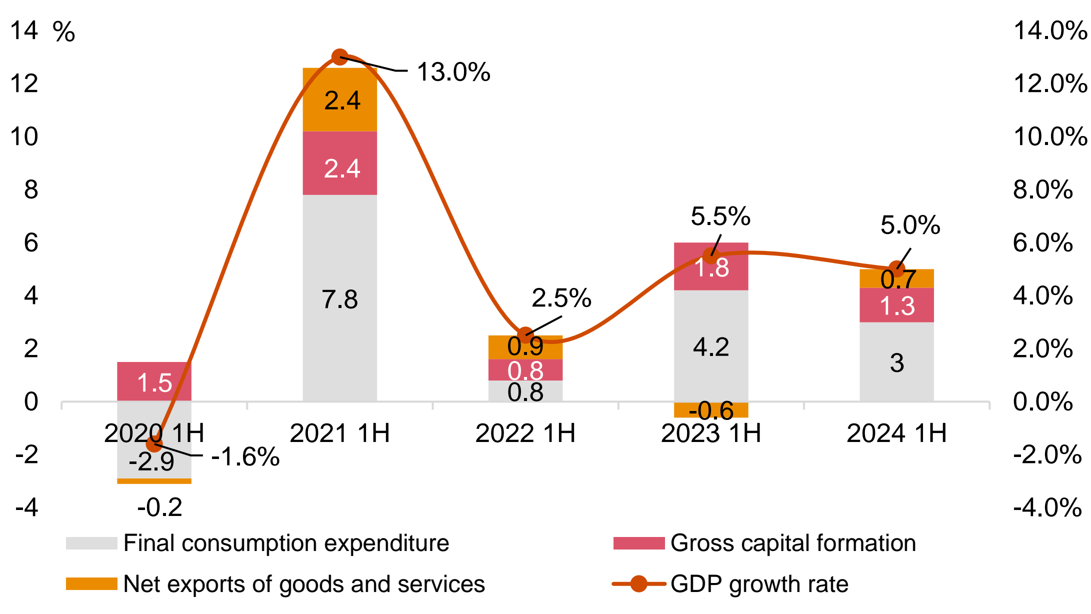
Overview:

The global political and economic landscape became more complex during the first half of 2024 and was marked by trade frictions and geopolitical disputes. Slower growth and rising instability have led to diverging performance in the region. Declining inflation in developed economies is complicating monetary policy. In the first half of the year, the Federal Reserve maintained its benchmark rate, while some central banks, including the European Central Bank, began lowering rates, thus narrowing the interest rate gap between emerging and developed markets and easing pressures on capital flows.

Domestically, China's economy is stable but faces bottlenecks. The National Bureau of Statistics reports 5.0% year-on-year GDP growth in the first half, with retail sales increasing by 3.7%, down from 4.7% in the first quarter. Consumption contributed 60.5% to GDP growth, investment contributed 25.6%, and net exports accounted for 13.9%. The overall domestic macro-economy can be characterised as 'strong supply, weak demand, strong external demand, weak domestic demand'. The road to economic recovery remains challenging.

In light of an increasingly tough business environment, as well as risk and control challenges, the banking sector is implementing the principles of the Central Financial Work Conference, including the 'Five Major Areas'. The long term view of the banking sector's development has not changed: that is that it will continue to promote the healthy development of the real economy and move steadily into the future.

Figure 1: Annual YoY GDP growth rate and the effect of three major drivers of growth



Source: National Bureau of Statistics, PwC research

Supportive monetary policy strengthens counter-cyclical regulation: China's banking sector focuses efforts on 'Five Major Areas'

In the first half of the year, the People's Bank of China maintained supportive monetary policies, reducing the reserve requirement ratio by 0.5% in February to ensure adequate banking liquidity. By June, loans totalled RMB 250.85 trillion, an 8.80% year-on-year increase, while total social financing reached RMB 395.11 trillion, up 8.10%.

As of the end of June, green loans had grown the fastest of all loan types, rising 28.5% year-on-year. Medium- and long-term loans to the manufacturing sector increased by 17.5%, while inclusive small business loans rose by 16.9%. Real estate loan balances grew 2.8% year-on-year, up 1.3 percentage points from the previous year. In contrast, personal housing loans declined by 2.1%.

Lending rates trended steadily downward. By June, the 1-year and 5-year loan prime rates (LPR) were 3.45% and 3.95% respectively, with the average rate on new loans at 3.68% (down 0.51% year-on-year). On 22 July, the PBoC further lowered these LPRs to 3.35% and 3.85%. To support the real estate market, the national level for personal home loan interest rates was abolished, allowing cities to set local rates independently. In June, the average rate for new personal home loans was 3.45%, down 0.66% year-on-year.

The Third Plenary Session of the 20th CPC Central Committee, held 15 to 18 July, approved reforms to deepen the financial system, promoting the Five Major Areas (FinTech, Green finance, financial inclusion, pensions, and digital finance). These reforms aim to improve the governance of financial institutions and establish incentives and restraints to serve the real economy. New laws will support qualified foreign institutions to participate in financial pilot projects and to enhance financial security. Responding to policy calls, the banking sector is fully committed to implementing the Five Major Areas, facilitating the development of new productive forces tailored to local conditions, and more effectively supporting high-quality economic development.

Figure 2: Trend of year — end RMB loan balances

Total (RMB trillion)
Growth rate (%)
300
250
200
150
100
50
0
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2020 1H: 165.2, 13.20%
2021 1H: 185.5, 12.30%
2022 1H: 206.35, 11.20%
2023 1H: 230.58, 11.30%
2024 1H: 250.85, 8.80%
RMB loan balance
YoY growth rate

Source: PBOC, PwC research

‘Strong financial supervision’ to mitigate financial risks in key areas

In the first half of the year, the National Financial Supervision and Administration Bureau revised key regulations, including the ’Fixed Asset Loan Management Measures’ and ‘Personal Loan Management Measures’ to standardise banks’ credit processes and enhance risk prevention. On 16 August, it released the ’Compliance Management Measures for Financial Institutions (Draft for Public Consultation)’ to strengthen and promote a culture of compliance and to clarify responsibilities.

The banking sector is adapting to the regulatory framework that emphasises clear responsibilities and effective enforcement, aiming to manage financial risks in key areas under a ’strict and rigorous’ regulatory environment. The main focus includes:

- Systematically preventing and resolving risks in small and medium-sized financial institutions. Regulatory authorities should adopt a 'one policy for one province and one bank’ approach, tailored to regional development. This aims to enhance corporate governance, strengthen supervision of major shareholders, encourage differentiated development paths, and optimise the regional financial landscape.
- Promoting coordinated urban real estate financing can enhance effectiveness. Banks will support the reasonable financing needs of real estate businesses. In June, the Financial Supervision Bureau and the Ministry of Housing and Urban-Rural Development optimised measures to improve the efficiency and quality of financial support for ’whitelisted’ projects and to ensure housing delivery. By August, banks had approved 5,392 whitelisted projects, amounting to nearly RMB 1.4 trillion in financing.
- Financial institutions are collaborating to address local government debt risks. The 'one province, one policy’ approach supports debt relief through the phased reduction of financing platforms and existing debts, while gradually converging risks. The Political Bureau of the CPC Central Committee’s meeting on 30 July emphasised the need to enhance and implement local debt relief solutions.

Banks' net profit growth declines and profitability diverges, while risk indicators remain stable

In the first half of 2024, banks' net profit growth fell sharply, with the 58 banks surveyed reporting a 0.3% increase year-on-year. Credit impairment losses declined by 7.43%, while profit before provisions dropped by 3.12%. The average ROA and ROE also decreased, indicating diverging profitability. Additionally, the net interest margin and spread narrowed due to falling loan yields and rising deposit funding costs.

The total assets of these 58 banks reached RMB 306.44 trillion, an increase of 4.27 per cent from the end of the previous year. Loans continued to increase, with the loan balance standing at RMB 172.85 trillion, an increase of RMB 9.53 trillion (+5.84%) from the end of 2023.

The non-performing loan balances of the banks surveyed rose by 4.85% from the previous year to RMB 2.26 trillion, while the non-performing loan ratio decreased slightly to 1.27%. Accelerated real estate lending contributed to the lower non-performing loan ratio and a declining share of business. The provision-to-loan ratio continued to fall, and the provision coverage ratio for City & Rural banks started to decrease.

By the end of June, the total liabilities of these banks reached RMB 282.22 trillion, up RMB 11.61 trillion (4.29%) from the end of 2023. Customer deposits totalled RMB 208.12 trillion, with growth slowing to 2.56%. New measures which took effect on 1 January 2024 led to an overall increase in capital adequacy ratios in the first half of the year.

Outlook:

Despite ongoing uncertainties in the external environment and internal economic adjustments, strategic opportunities outweigh the challenges. Favourable conditions support long-term improvement in the macroeconomy. For the banking sector, strengthening risk management and addressing uncertainty will be critical.

The Third Plenary Session of the 20th CPC Central Committee stressed the need to further deepen reforms in order to promote Chinese-style modernisation. This involves accelerating the development of new quality productive forces, and cultivating and strengthening new industries. In the second half of the year, China’s economy will focus on initiatives to expand domestic demand and boost consumption, while adjustments in the property market are still in progress. The People's Bank of China (PBoC) has gradually adjusted its monetary policy framework since June, clarifying the 7-day repo operation rate in the open market as the main policy rate. The market-based interest rate control mechanism is expected to be further improved. In addition, the PBoC formally launched a new monetary policy tool in August to carry out treasury bond trading operations. It bought RMB 100 billion of treasury bonds in the same month. According to the needs of the macroeconomy and policy control, monetary policy tools may be further enriched to support the development of the real economy.

The banking sector will continue to support China’s modernisation through the Five Major Areas by bolstering key national strategies and promoting quality productivity. The sector is expected to remain stable, with manageable asset quality and credit risk. However, the low interest rate environment will pressure banks, as net interest margins narrow and deposits shift to asset management products.

The Five Major Areas will enhance key areas: supporting the lifecycle of tech businesses and guiding patient capital in science and technology; optimising standards and expanding green financial products; making financial inclusion more targeted; promoting commercial pensions and enhancing product design; and leveraging digital technology to innovate banking operations, strengthen internal management, and improve data infrastructure.

Banks will prioritise their core business and refine internal management as lending rates decline and net interest margins narrow, leading to a sustained slowdown in net profit growth. They will focus on reducing costs, optimising asset and liability structures, enhancing management, and seeking new sources of revenue while balancing profitability with risk.

Pressure on operating quality and cost controls remain. Banks will continue to control the proportion of high-cost deposits, while improving the quality of intermediaries and of customer experience. They will diversify their liability structure and take into account the need to prevent liquidity risks while reducing liability costs.

Banks need to prevent risks arising from volatility in bond markets and optimise their investment structures. With long-term bond yields declining, banks have increased bond investments to capitalise on rising asset prices. The PBoC has warned about the risks associated with long bond yields and is stress-testing financial institutions' bond asset exposure. Small and medium-sized banks, with weaker risk controls, should carefully assess trends in market interest rates, allocate their financial assets prudently, and manage potential bond market fluctuations.

Greater regulatory compliance for small and medium-sized institutions will help control risks arising from real estate and local debt. Improved early warning systems and better management of non-performing assets will help enhance asset quality. Regulators are likely to intensify their monitoring of asset quality to ensure resilience and may encourage banks to strengthen risk management through financial technology.

Banks will continue their digital transformation by effectively utilising artificial intelligence (AI) and accelerating product innovation to enhance their technological capabilities and leverage data value. Banks recognise AI's potential to transform operations and that it is essential in order to gain a competitive edge.

Operating Performance

1. Net profit growth slowed, but at widely different rates

In early 2024, net profit growth for the 58 banks surveyed fell sharply due to narrowing interest rate spreads resulting in a 0.30% year-on-year increase, down from 3.49%. Credit impairment provisions decreased by 7.43%, and profit before provisions dropped by 3.12%.

Large banks saw a 0.81% decline in net profit, with a 4.28% decline year-on-year in profit before provision. Joint-Stock banks experienced a 0.58% increase, despite a 3.34% drop in profit before provisions.

City & Rural banks reported a 4.76% year-on-year increase in net profit for 2024, though this represents a 3.56 percentage point decline in growth compared to the previous year. Pre-provision profit rose by 2.27%. Performance varied significantly among these banks: those in the Yangtze River Delta maintained profitability, while banks in the Northeast and Pearl River Delta saw declines. Banks in central and western regions were also polarised.

Figure 3: Net profit and profit before provision growth: large banks

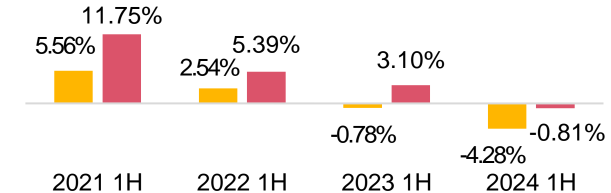


Figure 4: Joint-stock banks.

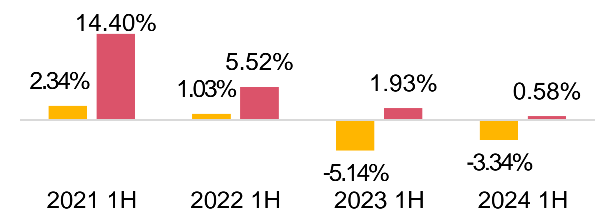


Figure 5: City & rural banks

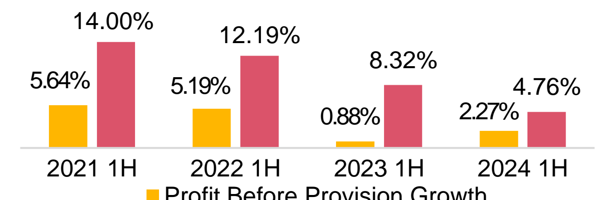
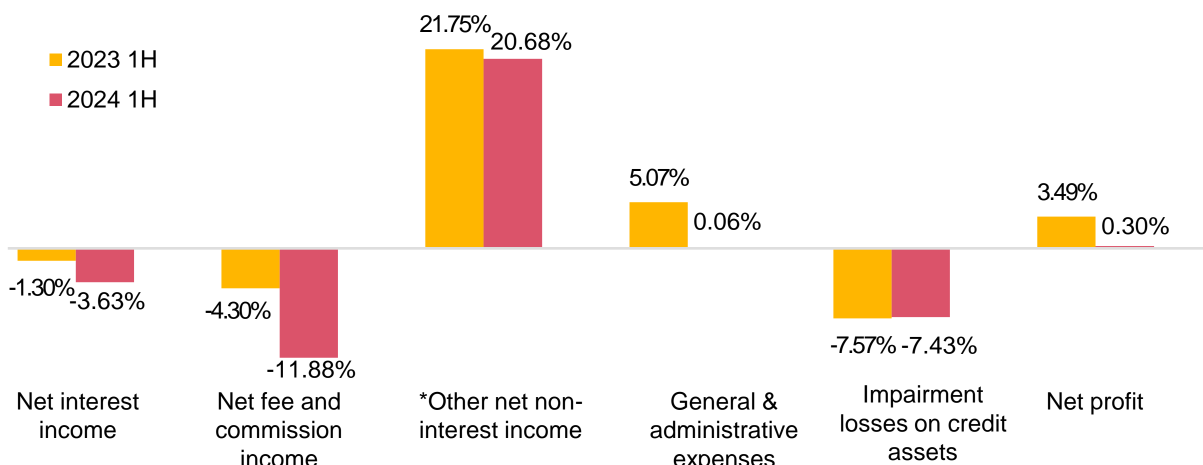


Figure 6: Changes in the income statement in 2024 1H



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

2. While profitability diverged, overall trends are stable

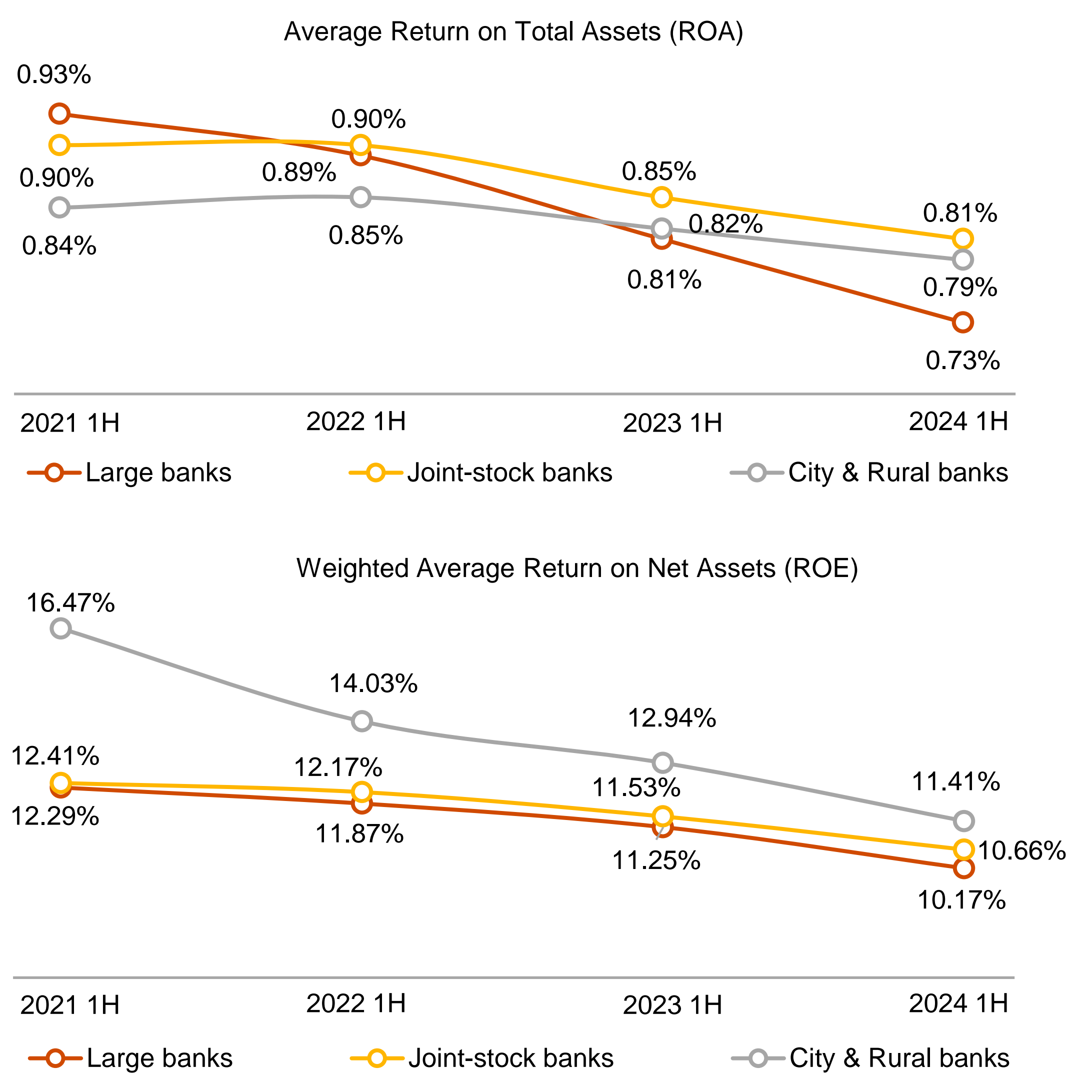
In the first half of 2024, the average ROA and weighted average ROE of the 58 banks declined, primarily due to slowing profit growth and ongoing asset expansion.

In the first half of the year, the Large banks saw net profits fall for the first time. Despite asset increases, ROA and ROE fell by 0.08 and 1.08 percentage points, or 9.88% and 9.60%. ROA for Large banks declined rapidly, diverging further from Joint-Stock and City & Rural banks.

Due to reduced net profit growth, the ROA of Joint-Stock banks declined by 0.04 percentage points, narrowing the gap with City & Rural banks to 0.02 points. ROE fell by 0.87 points to 10.66%.

City & Rural banks' ROA and ROE decreased by 0.03 and 1.53 points respectively. Despite some profit growth during 1H, rising capital needs and deposit demand increases in net and total assets during the previous two quarters have led to a large decline in return on assets.

Figure 7: Profitability indicators



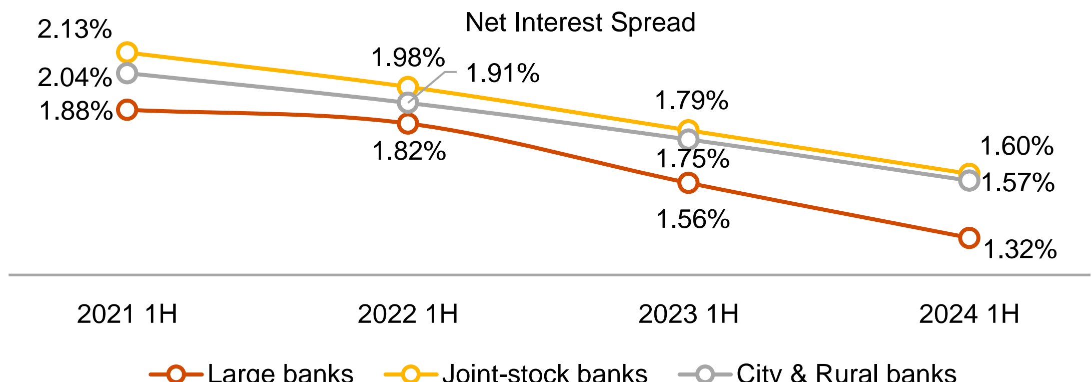
3. Net interest margins and spreads down slightly

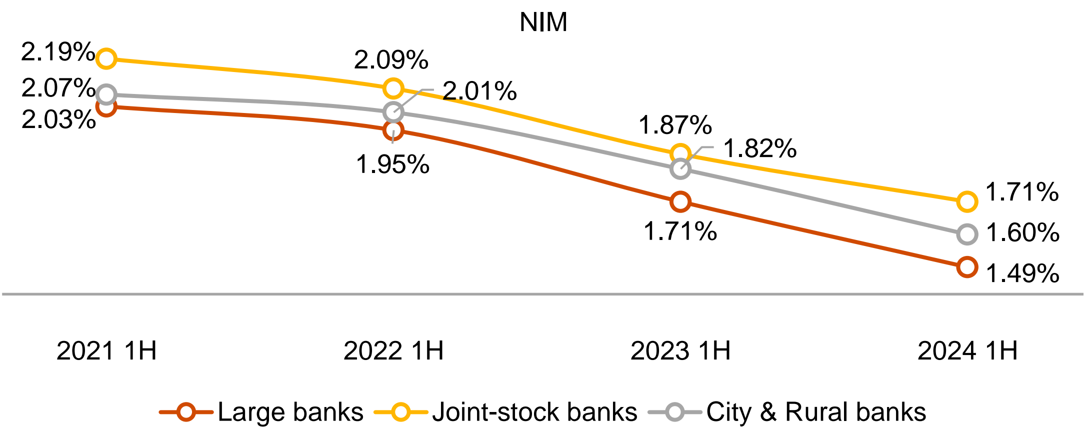
In the first half of 2024, banks' net interest margins and spreads narrowed further due to declining loan yields and rising deposit costs. This ongoing issue has led to record low margins in China's banking sector, with the average net interest margin dropping to 1.54%, the lowest in history, according to the State Administration of Financial Supervision (SAFS).

The six Large banks saw their margins narrow by 0.24 and 0.22 percentage points from 2023, while Joint-Stock banks declined by 0.19 and 0.16 points, and City & Rural banks by 0.18 and 0.22 points.

Since early 2024, markets have been liquid, with interest rates fluctuating at low levels. On the asset side, high-quality, high- yield assets have become scarcer, while the PBoC and SAFS are pushing for further repricing of credit assets, putting downward pressure on yields for banks. On the liability side, ongoing interest rate cuts and lower market rates have affected funding costs, with the 2H rate cut expected to further impact liability costs in the second half of the year. Overall, banking spreads are likely to narrow further in this period.

Figure 8: Trends in NIS and NIM





4. Income structure sees increasing non-interest income

In the first half of 2024, the operating income of the banks surveyed declined 1.98% year-on- year to RMB 3.01 trillion, a drop from the 0.50% increase reported in the same period last year.

Net interest income fell 3.63% year-on-year to RMB 2.16 trillion, with a wider decline compared to 2023. Central bank interest rate cuts further narrowed net interest margins, while weak social financing demand and slowing credit growth pushed operating income into negative territory. The combined effects of volume and price changes led to a decline in net interest income across all banks.

In the first half of the year, net fee and commission income fell 11.88% year-on-year. Large banks declined by 9.90%, Joint-Stock banks by 16.96% due to reduced wealth management business, low capital market asset prices and stricter regulations. Increased macro policy adjustments and banks' fee reduction measures also contributed to the decline in net fee income.

Due to PBoC interest rate cuts, the bond market has strengthened, increasing banks' investment income and accelerating growth in other non-interest net income. In the first half of the year, the banks saw other non-interest net income rise by 20.68% year-on-year. Large banks grew by 13.39%, while Joint-Stock and City & Rural banks increased by 26.73% and 26.87% respectively. Investment income has significantly boosted non-interest net income growth compared to previous years.

Figure 9: Growth in net interest income

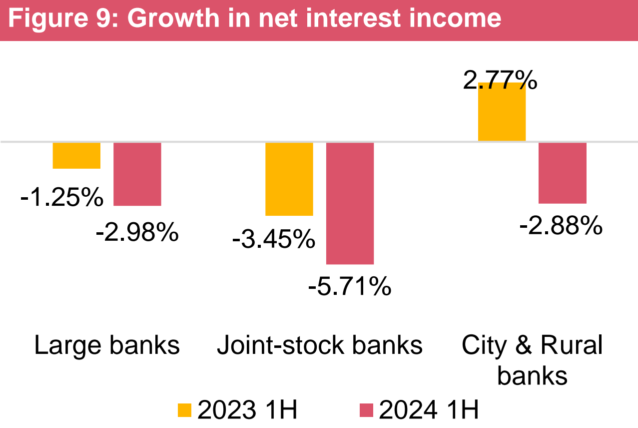


Figure 10: Growth in net fee and commission income

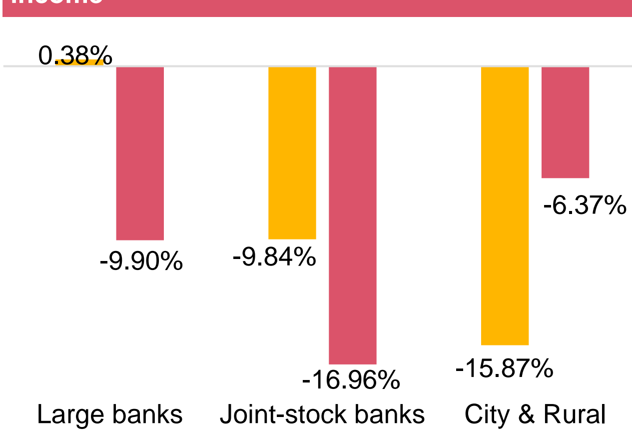
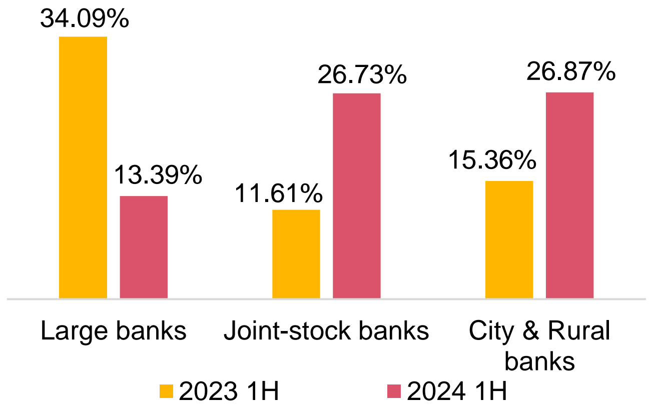


Figure 11: Growth in other net non-interest income



5. Fee income affected by growing competition

In the first half of 2024, fee income declined by 11.74%, primarily due to drops in agency and financial management fees, which fell by 28.11% and 20.79%. As a result, bank card fees and settlement clearing fees became the top sources of income.

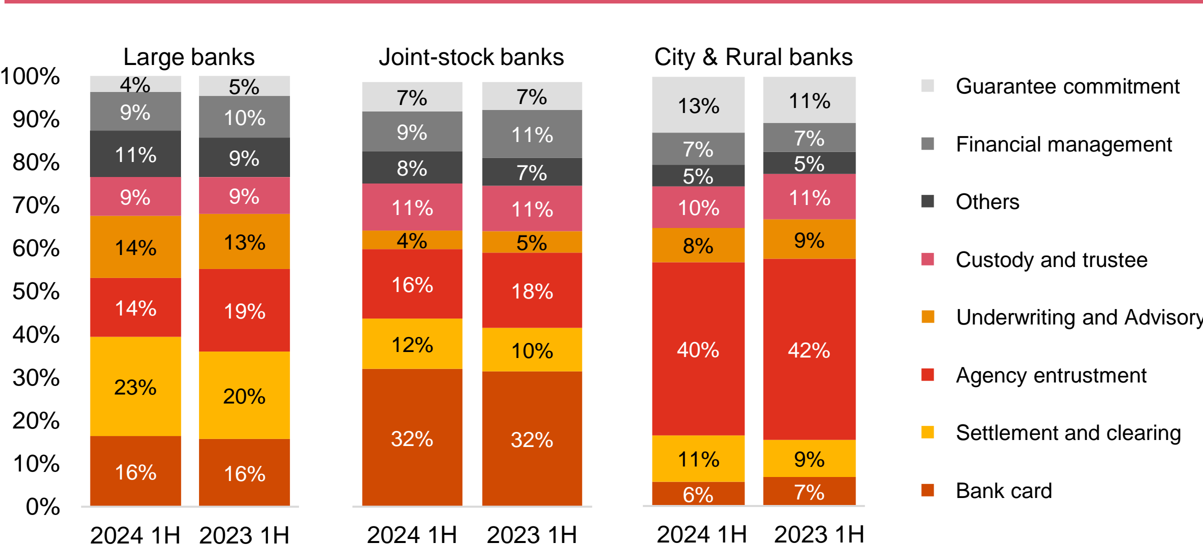
Large banks saw a 10.83% decrease in fee income, driven by significant declines in agency commissions, guarantee commitment fees, and financial management fees, which dropped by 36.15%, 27.55%, and 17.93% respectively. Settlement and clearing income accounted for 23.02% of total fee income, remaining the largest source.

The top four sources of fee income for Joint-Stock banks are bank cards, agency entrustment, settlement and clearing, and custody and trustee fees, accounting for a combined total of 71.75%. Fee income across all business categories declined compared to the same period last year, with financial management fees experiencing the largest drop at 29.29%.

Forty percent of City & Rural banks' fee and commission income came from agency commissions on wealth management, insurance, and fund products, reflecting an 8.71% decline from the same period in 2023. However, settlement, clearing, and guarantee commitment fee income countered this trend, increasing by 18.50% and 15.30% for Large banks and Joint-Stock banks respectively. City & Rural banks have demonstrated diversified services and results by differentiating themselves from the competition.

The banks surveyed have encountered intense competition and widening customer demands, making non-interest income, particularly from agency business, a key competitive area. However, agency business has faced significant downward pressure. There is an urgent need for banks to innovate in their financial products, focus on differentiated solutions, and address the diverse demands of the market.

Figure 12: Portion of fee and commission Income



Asset Portfolio

1. Asset growth slowed; loan and investment structures improved

Since 2024, the external environment has remained complex and uncertain, with insufficient domestic demand. Ongoing transformations of old and new kinetic energy and structural adjustments are challenging asset growth and quality control for banks.

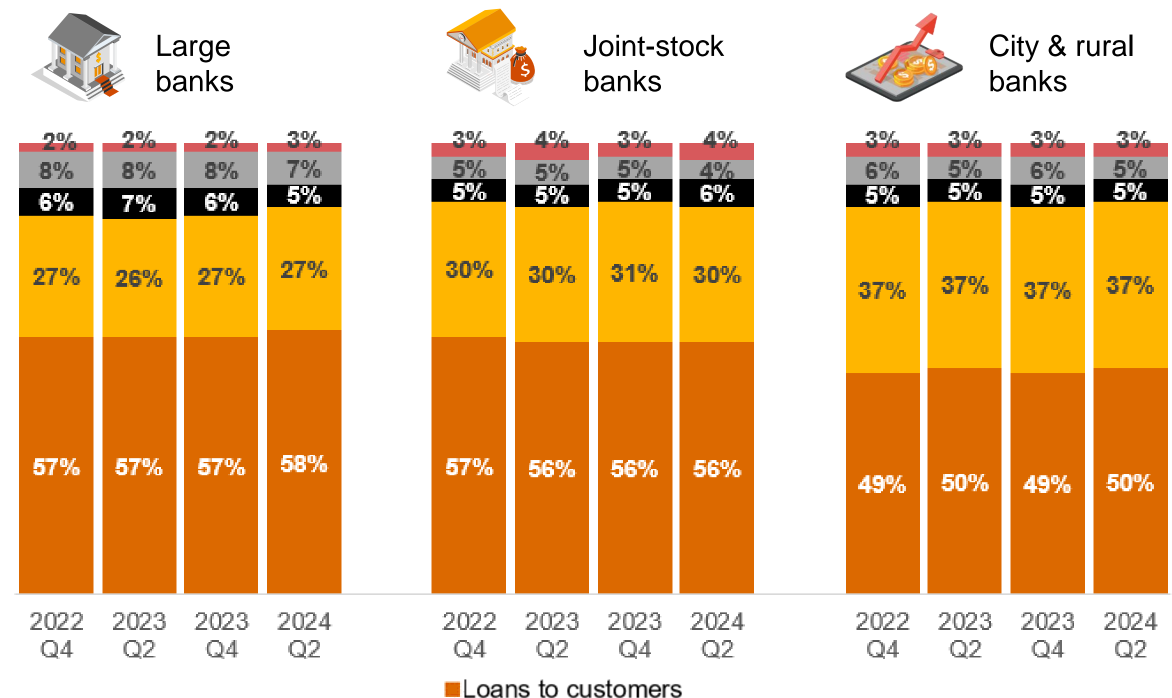
In the first half of the year, the total assets of these banks reached RMB306.44 trillion, an increase of 4.27% from the end of the previous year.

Large banks reduced their interbank assets and increased credit to the real economy, leading to steady growth. In contrast, Joint-Stock banks faced asset-side pressure, slowing their growth. City & Rural banks achieved a 6.09% increase in assets by extending credit and expanding investments.

Table 1: Changes in total assets

Total assets	2022 2H	2023 1H	2023 2H	2024 1H
Scale (RMB Trillion)				
Large banks	164.09	179.98	185.11	193.89
Joint-stock banks	63.74	67.00	68.41	69.71
City & Rural banks	36.65	39.17	40.38	42.84
Total	**264.48**	**286.15**	**293.90**	**306.44**
YoY Increase				
Large banks	3.25%	9.68%	2.85%	4.74%
Joint-stock banks	2.51%	5.11%	2.10%	1.90%
City & Rural banks	3.85%	6.88%	3.09%	6.09%
Total	**3.16%**	**8.19%**	**2.71%**	**4.27%**

Figure 13: Changes in asset structure



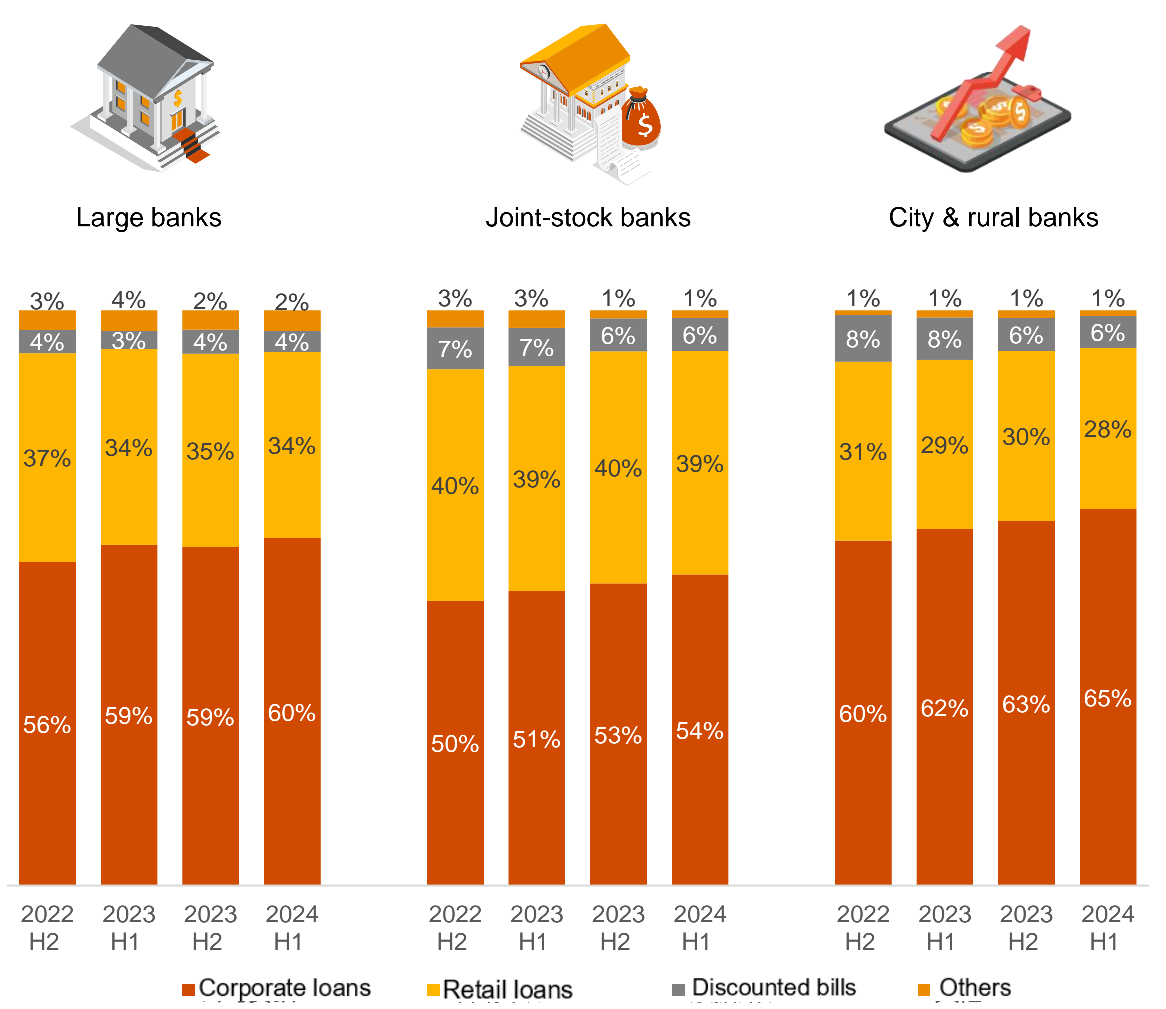
2. Steady growth in total credit, new loan rates at historical lows

Customer loans rose to RMB 172.85 trillion, increasing by RMB 9.53 trillion, or 5.84%, compared to the end of 2023. Growth rebounded by 3.01 percentage points compared to the second half of 2023 but was still 2.03 percentage points lower than the first half of 2023. City & Rural banks saw the fastest growth.

Corporate loans grew by 8.92%, an increase of 1.70 percentage points compared to last year, while retail loans increased by 1.88%,1.32 percentage points slower than last year. Bill discounts fell by 1.72%, a decrease of 0.33 percentage points.

Lending rates remained low, with the PBoC's report for Q2 2024 indicating a weighted average interest rate of 3.68% for newly-issued loans in June, down 0.51 percentage points year-on-year. This decline has helped reduce the overall financing costs for the economy, directing financial resources to key strategic areas, and supporting the economic recovery.

Figure 14: Change in loan structure



3. ‘New’ and ‘Green’ corporate loans prioritised

Focusing on the Five Major Areas, the banks have shifted credit towards the new economy and to green initiatives by investing in the real economy. Loan balances increased across several sectors, particularly leasing, manufacturing, wholesale and retail, and construction.

According to the PBoC, by the end of June 2024, medium- to long-term loans in the manufacturing sector, high-tech manufacturing, technology-oriented SMEs, and ‘specialised, sophisticated, and new’ enterprises grew by 18.10%, 16.50%, 19.20% and 15.90% year-on-year, all surpassing the overall loan growth rate. Inclusive small business loans increased by 16.50%, while green loans rose by 28.50%, supporting the green and low-carbon development of the real economy.

Banks are actively resolving local debt risks by enforcing national regulations on local government debt management. Under regulatory guidance, they are cautiously addressing financing platform and implicit debt risks, strengthening management, and ensuring no new implicit local government debts are incurred.

Table 2: Corporate loan growth rate by industry

Industry	2023 2H (RMB Tr.)	2024 1H (RMB Tr.)	2023 2H %	2024 1H %	2024 1H Growth
Leasing and business services	17.98	19.84	18.71%	18.90%	10.34%
Manufacturing	16.86	18.52	17.55%	17.64%	9.85%
Transportation, warehousing and postal services	14.27	15.13	14.85%	14.41%	6.03%
Real estate	8.40	8.90	8.74%	8.48%	5.95%
Water conservancy, environmental and public facilities management	8.11	8.69	8.44%	8.28%	7.15%
Production and supply of electricity, gas and water	7.75	8.41	8.07%	8.01%	8.52%
Wholesale and retail	6.77	7.38	7.05%	7.03%	9.01%
Architecture	4.52	5.12	4.70%	4.88%	13.27%
Financial Service	2.53	2.54	2.63%	2.42%	0.40%
Others	8.90	10.44	9.26%	9.95%	17.30%
Total corporate loans	**96.09**	**104.97**	**100%**	**100%**	**9.24%**

4. Mortgage decline; Slowing consumer and business loan growth

In the first half of 2024, total retail loans by these 58 banks reached RMB 60.52 trillion, a 1.88% increase from the start of the year. Due to a sluggish real estate market and early repayments, mortgages continued to shrink, with their share of retail loans down by 3 percentage points year-on-year.

The banks supported small businesses, with loans up by 10.59%. Although growth slowed, their share of total loans continued to rise.

As China's economy improves and consumer support policies are introduced, domestic consumption is recovering. The share of consumer loans remained stable, with a quarter-on-quarter increase of 5.11% in balances.

Figure 15: Changes in the structure of retail loans

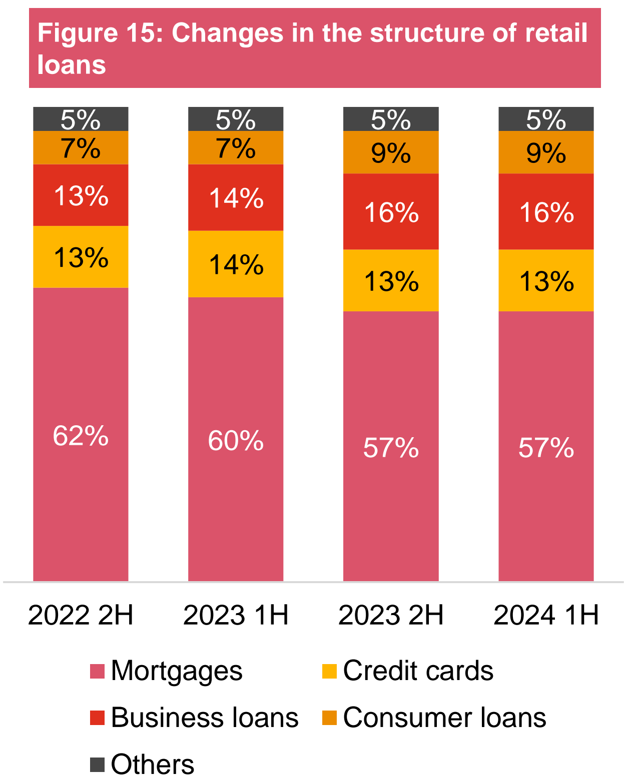


Table 3: Retail loans

	2023 1H (RMB Bn.)	2023 2H (RMB Bn.)	2024 1H (100 M)	2023 1H Growth	2023 2H Growth	2024 1H Growth
Total Retail Loans	57,696	59,405	60,522	2.65%	2.96%	1.88%
Of which: Mortgages	33,242	32,323	32,008	-0.35%	-2.76%	-0.97%
Operations/ Business Support	8,752	9,987	11,045	17.20%	14.11%	10.59%
Credit Cards	6,221	6,349	6,286	-1.19%	2.06%	-1.01%
Consumer	4,180	4,873	5,122	6.54%	16.57%	5.11%

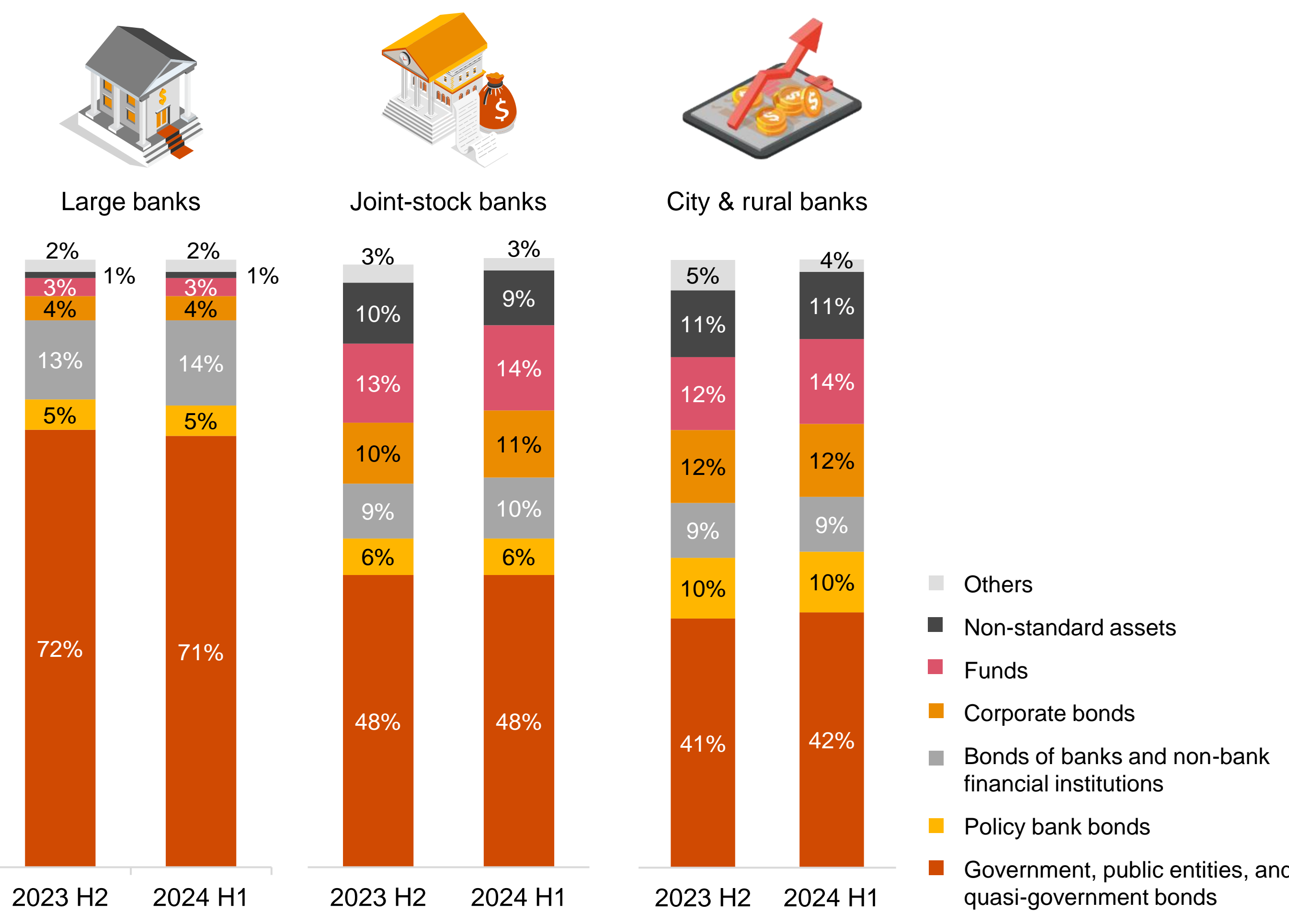
5. Increasing debt security and fund investments, steady reduction in non-standard assets

In this period, the banks further reduced non-standard investments and strengthened bond and fund holdings. This led to investment growth of 7.11% for Large banks, a decline of 0.43% for Joint-Stock banks, and an increase of 4.30% for City & Rural banks. Investment distribution remained stable.

Government, public entity, and quasi-government bonds were the main types of bond investments, growing from RMB 51.53 trillion at the end of last year to RMB 53.93 trillion, a 4.66% increase that contributed nearly 60% to the overall rise in investment balances. Bonds from financial institutions and policy banks rose 9.46%, from RMB 14.76 to 16.15 trillion, contributing close to 35%.

Fund investments increased from RMB 5.94 to 6.63 trillion, an 11.56% rise. Meanwhile, non-standard investments declined from RMB 4.27 to 3.86 trillion by the end of the second quarter of 2024.

Figure 16: Breakdown of **financial investments**



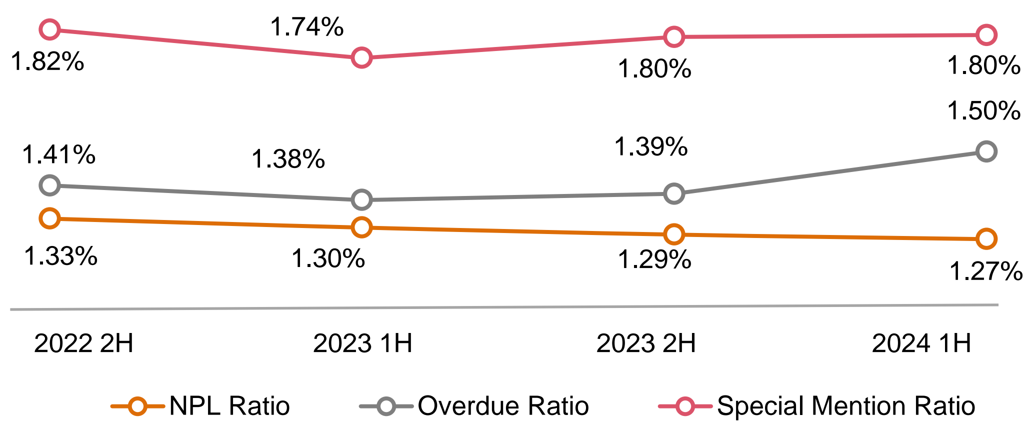
Asset Quality

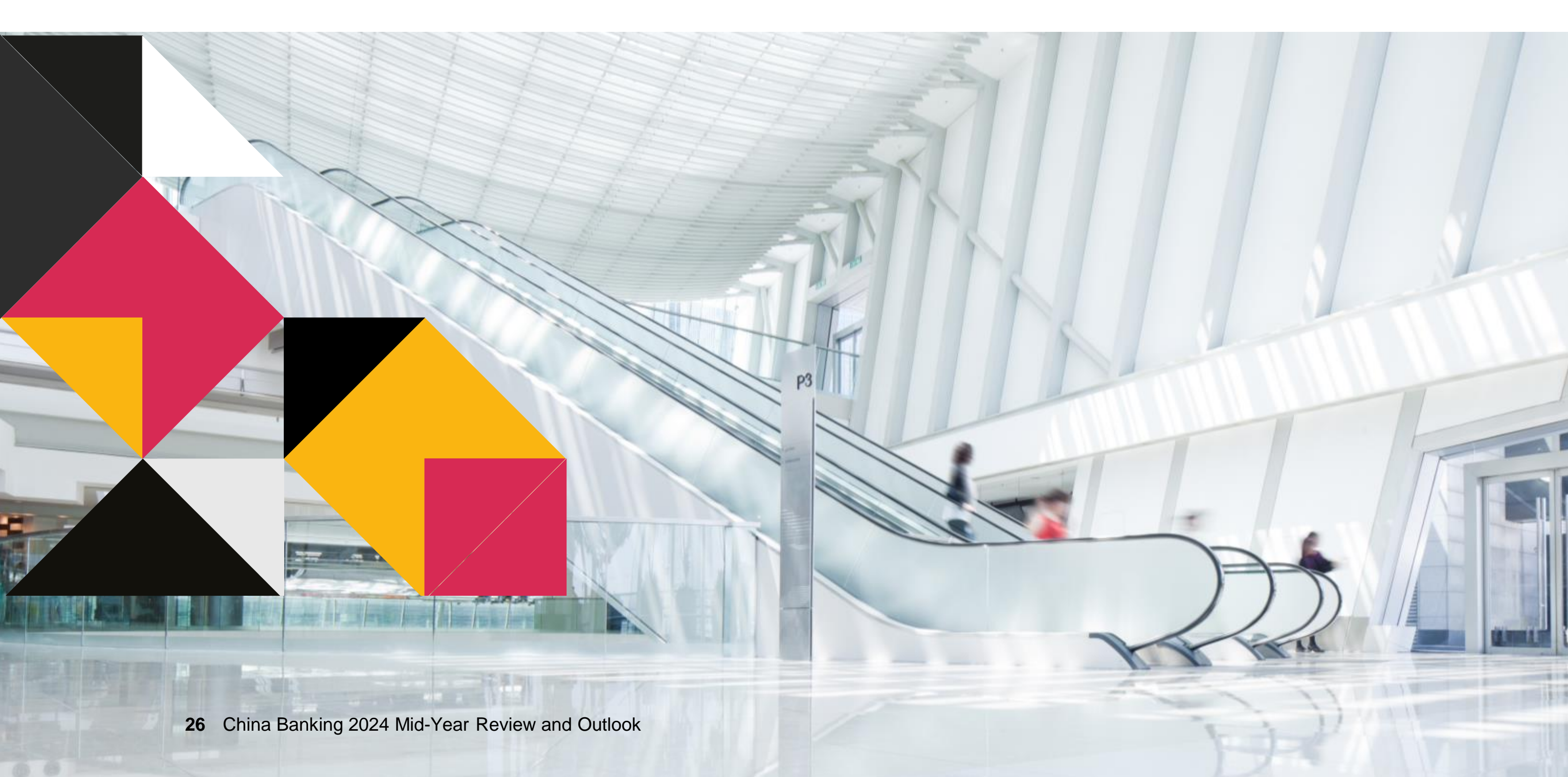
1. Risk indicators under pressure; Delinquency rates rise

In the first half of 2024, the overall classified loan ratio remained stable at 1.80%. The balance of overdue loans grew by 13.91% to RMB 2.67 trillion, with the overdue rate rising by 0.11 percentage points to 1.50%. The balance of non-performing loans increased by 4.85% to RMB 2.26 trillion, while the NPL ratio decreased by 0.02 percentage points to 1.27%. The gap between the overdue and non-performing rates has rapidly widened.

The banks should carefully screen customer credit profiles, pursue asset growth while managing risks, and properly mitigate asset deterioration from new overdue loans.

Figure 17: Changes in NPL, Overdue, and Special Mention ratios





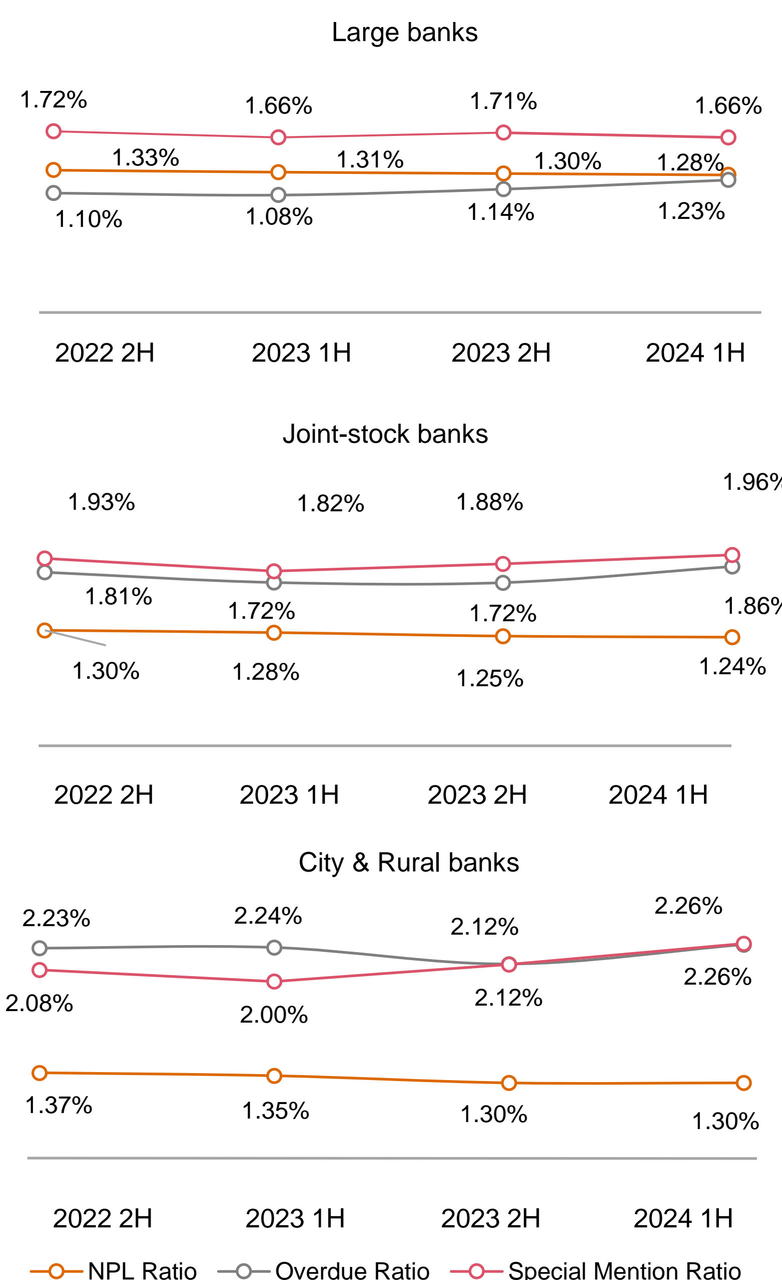
Large banks maintain stable risk indicators; Joint-Stock and City & Rural banks see widening Overdue vs. NPL gap

In the first half of 2024, the banks saw NPLs rise by 5.35% from the end of 2023 to RMB 1.48 trillion, with the NPL ratio decreasing from 1.30% to 1.28%. Write-offs and transfers grew by 20.18% year-on-year to RMB 178.1 billion. The overdue rate has remained below the non-performing rate since 2022, but the gap is narrowing. Risk indicators are stable, though the difference between overdue and NPLs is shrinking, requiring further attention.

Joint-Stock banks reported a 2.15% increase in NPLs to RMB 497.8 billion, with the ratio down from 1.25% to 1.24%. Write- offs and transfers rose by 12.49% to RMB 230.6 billion. The overdue rate increased from 1.72 % to 1.86 %, remaining above the non-performing rate and with the gap widening.

City & Rural banks experienced a 7.17% rise in NPLs to RMB 286 billion, with the ratio stable at 1.30%. Write-offs and transfers increased by 19.97% to RMB 72.1 billion. Overdue loans continue to exceed NPLs, indicating pressure on credit quality. Since 2023, the gap between overdue and special mention loan rates has narrowed significantly.

Figure 18: Changes in NPL, Overdue and Special Mention ratios



The divergence in NPL ratios among City & Rural banks continues. Among the 42 banks in this category, the number with ratios above 2% decreased from 7 to 6, all concentrated in the Northeast and Central regions. The number with ratios below 1% remained at 14, focused in the Yangtze River Delta and Chengdu-Chongqing Economic Belt.

Overdue rates diverged: 29 banks saw increases while 13 experienced declines. Eight banks had overdue rates rise by 0.50 percentage points in the first half of 2024, indicating heightened risk exposure.

Regional differences persist, with rising non-performing and overdue rates in the Central and Western regions and the Pearl River Delta, while the Yangtze River Delta and Chengdu-Chongqing Economic Belt remained stable.

Table 4: Regional Distribution of NPL, Overdue and Special Mention ratios for 42 City & Rural banks

	No of banks	Loan principal RMB Mn.	NP rate	Overdue rate	Special mention rate
Yangtze River Delta	15	110,100(+9%)	0.93%(-3bp)	1.20%(+3bp)	1.25%(+1bp)
Bohai Econ Rim	6	373,900(+8%)	1.36%(-3bp)	1.82%(-1bp)	2.05%(-6bp)
Central Region	6	247,300(+4%)	1.96%(+12bp)	3.63%(+57bp)	3.83%(+71bp)
Chengdu-Chongqing Econ Belt	4	193,000(+8%)	1.02%(-3bp)	1.37%(+5bp)	1.42%(+4bp)
Western Region	5	139,000(+5%)	1.73%(+6bp)	3.04%(+49bp)	4.22%(+18bp)
Pearl River Delta	3	133,700(+3%)	1.61%(+10p)	4.84%(+87bp)	4.53%(+16bp)
Northeast Region	3	102,600(+5%)	2.69%(+1bp)	8.13%(-15bp)	5.24%(+60bp)
Total	**42**	**2,199,600(+7%)**	**1.30%(±0bp)**	**2.26%(+13bp)**	**2.26%(+14bp)**

Note: The Yangtze River Delta includes Shanghai, Jiangsu, Zhejiang, and Anhui provinces; the Central Region comprises Hunan, Henan, Jiangxi, and Shanxi provinces; the Bohai Economic Rim consists of Beijing, Tianjin, and Shandong provinces; the Pearl River Delta includes Shenzhen, Fujian, and Guangdong provinces; the Chengdu-Chongqing Economic Belt covers Sichuan and Chongqing provinces; the Western Region consists of Guizhou, Shaanxi, and Gansu provinces; and the Northeast Region includes Liaoning, Heilongjiang, and Jilin provinces.

2. Corporate NPLs stabilise, but retail risks persist

Corporate Loans:

In the first half of 2024, corporate NPLs totalled RMB 1.51 trillion, up 0.82% year-on- year, while the NPL ratio was 1.47%, down 0.11 percentage points.

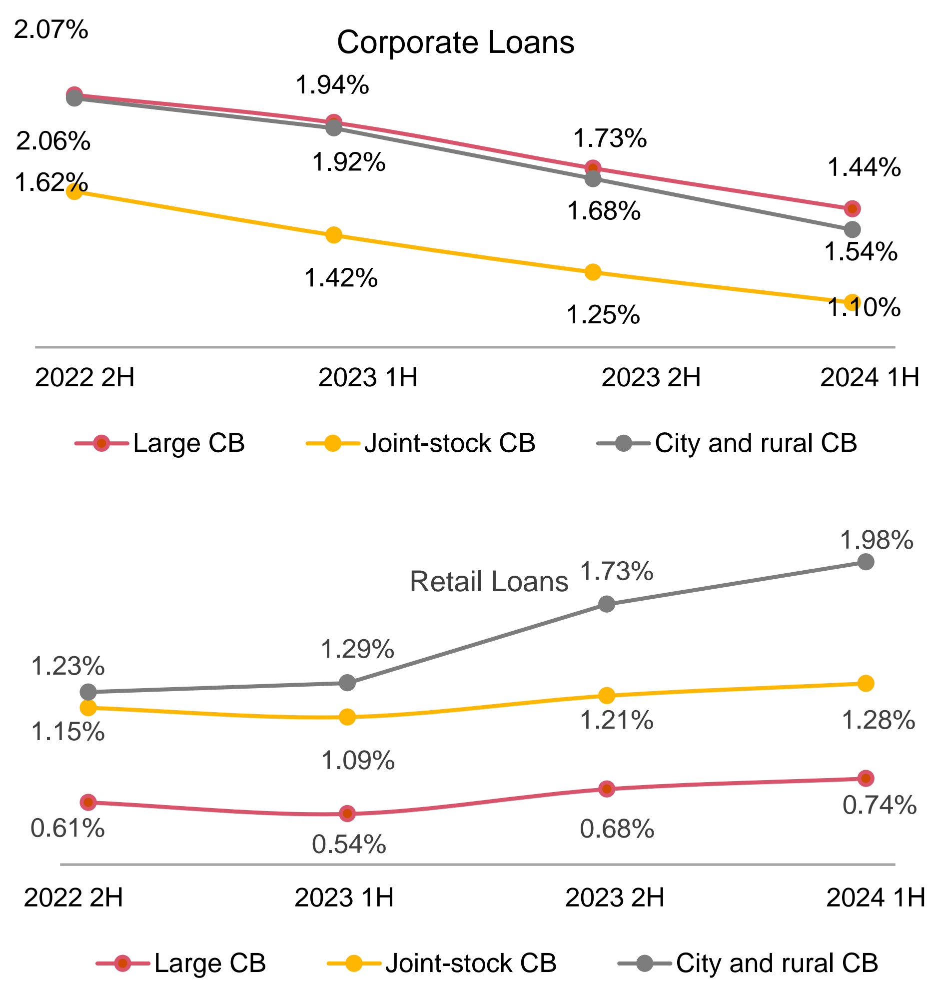
While Large banks saw a brief rise at the end of 2023, Joint-Stock and City & Rural banks have seen their NPL ratios decline over the past two years.

Retail Loans:

As of June, retail NPLs totalled RMB 667.9 billion, up 15.34% from the end of last year, with increases across consumer, business, and mortgage loans.

The overall NPL ratio was 1.09%, rising by 0.13%. All bank types reported higher ratios, indicating sustained risk exposure, while City & Rural banks saw a rapid rise.

Figure 19: Changes in NPL ratios for corporate and retail loans



Note: Certain banks that do not distinguish between corporate and retail loan non-performing amounts have been excluded. Additionally, City & Rural banks may have restated comparative period data due to changes in statistical scope.

Accelerated real estate credit growth, but a declining NPL ratio and a decreasing share of business

This year, central and local governments have introduced policies to support real estate. These include coordinated financing mechanisms, easing purchase restrictions, lowering down payments, and removing minimum interest rates on personal home loans. These measures aim to stimulate market demand and improve the financing environment.

In the first half of 2024, the banks provided approximately RMB 8.90 trillion in loans to the corporate real estate sector, accounting for 8.48% of total corporate loans, a decrease of 0.27 percentage points from the end of 2023. The NPL ratio for this sector was 3.70%, down 0.25 percentage points, indicating effective risk control.

In June 2024, the PBoC launched a re-lending programme for affordable housing, encouraging banks to support state-owned enterprises in acquiring unsold properties. By the end of June, RMB 24.7 billion in rental housing loans had been issued, with further issuance expected to accelerate. Local governments are also providing financial and infrastructural support to reduce costs and enhance the sustainability of the housing rental industry.

Table 5: Changes in corporate real estate loans

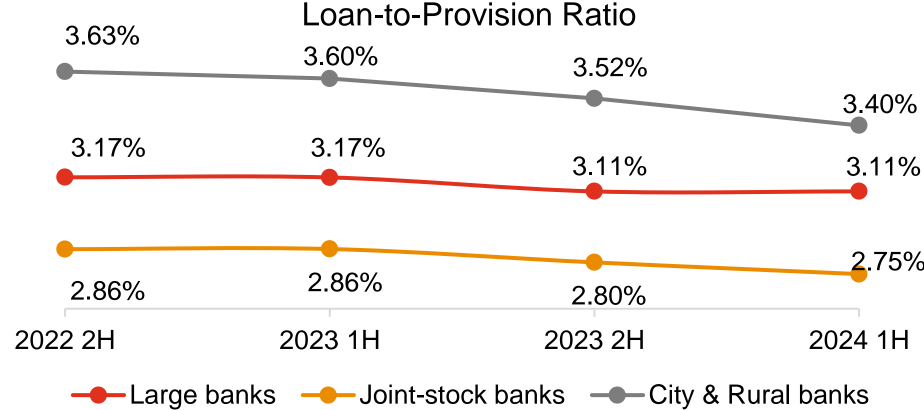
Category	2022 2H	2023 1H	2023 2H	2024 1H	Change
RMB Trillion					
Large	3.84	4.09	4.69	5.02	7.04%
Joint-stock	2.52	2.55	2.50	2.62	4.80%
City & Rural	1.17	1.22	1.21	1.26	4.13%
Percentage					
Large	7.60%	6.99%	7.49%	7.33%	-0.17%
Joint-stock	13.47%	12.56%	12.20%	11.92%	-0.28%
City & Rural	10.35%	9.68%	9.38%	8.72%	-0.66%
NPL ratio					
Large	5.15%	5.02%	4.58%	4.40%	-0.18%
Joint-stock	2.91%	3.42%	3.14%	2.80%	-0.34%
City & Rural	2.49%	2.69%	3.03%	2.61%	-0.42%

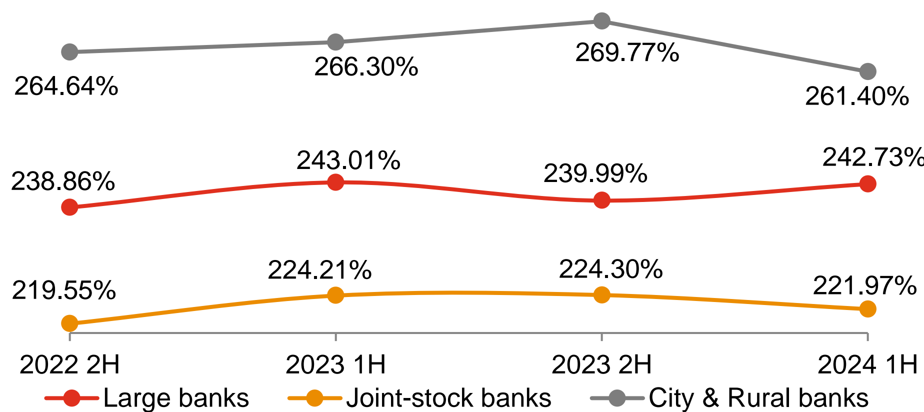
3. Declining loan-to-provision ratio; a turning point in provision coverage for City & Rural banks

As of June 2024, the loan-to-provision ratio for these banks was 3.07%, down 0.02%, while the provision coverage ratio rose to 240.52%, up 0.39 %. Both loan-to-provision and provision coverage ratios declined (though the latter increased for Large banks). NPL ratios also continued to decline.

In the first half of 2024, non-performing asset write-offs and transfers rose by 16.33% year-on-year to RMB 480.8 billion. Large banks, joint-stock banks, and City & Rural banks reported write-offs of RMB 178.1 billion, RMB 230.6 billion, and RMB 72.1 billion respectively, increasing by 20.18%, 12.49%, and 19.97%.

Figure 20: Changes in Loan-to-Provision and Provision Coverage Ratios





4. One year since the implementation of new risk classifications

Effective July 2023, Article 11 of the 'Measures for the Risk Classification of Financial Assets' has required stage three financial assets with credit impairment to be classified as at least substandard, aligning NPLs with stage three loans.

Large banks show a strong alignment between Stage 3 impaired loans and NPLs, with minimal mismatch. In contrast, Joint-Stock and City & Rural banks still face mismatches, and the new regulations are exerting significant pressure on the latter's regulatory indicators. As the transition period approaches and operational fluctuations occur, these factors will likely challenge the risk management capabilities of City & Rural banks.

As of the first half of the year, Stage 2 loans (loans with 'significant increase in credit risk') grew by 5.74% to RMB 4.64 trillion compared to the end of 2023. Except for a temporary rise and subsequent decline in the Stage 2 proportion among Large banks, both Joint-Stock and City & Rural banks have seen annual increases in Stage 2 loans and loans under special mention, with the gap widening each year, indicating that stage classifications are adjusting ahead of the five-level classification.

Banks should closely monitor loans classified earlier than the five-level system and their potential impact on regulatory indicators. Attention is needed on delayed repayment projects, risks in the real estate sector, local government financing platform debts, and troubled companies. By dynamically adjusting financial asset classifications based on forward-looking information, banks can develop a plan to comply with the 'Measures for the Risk Classification of Financial Assets' and ensure a smooth transition of regulatory indicators during the existing asset transition period.

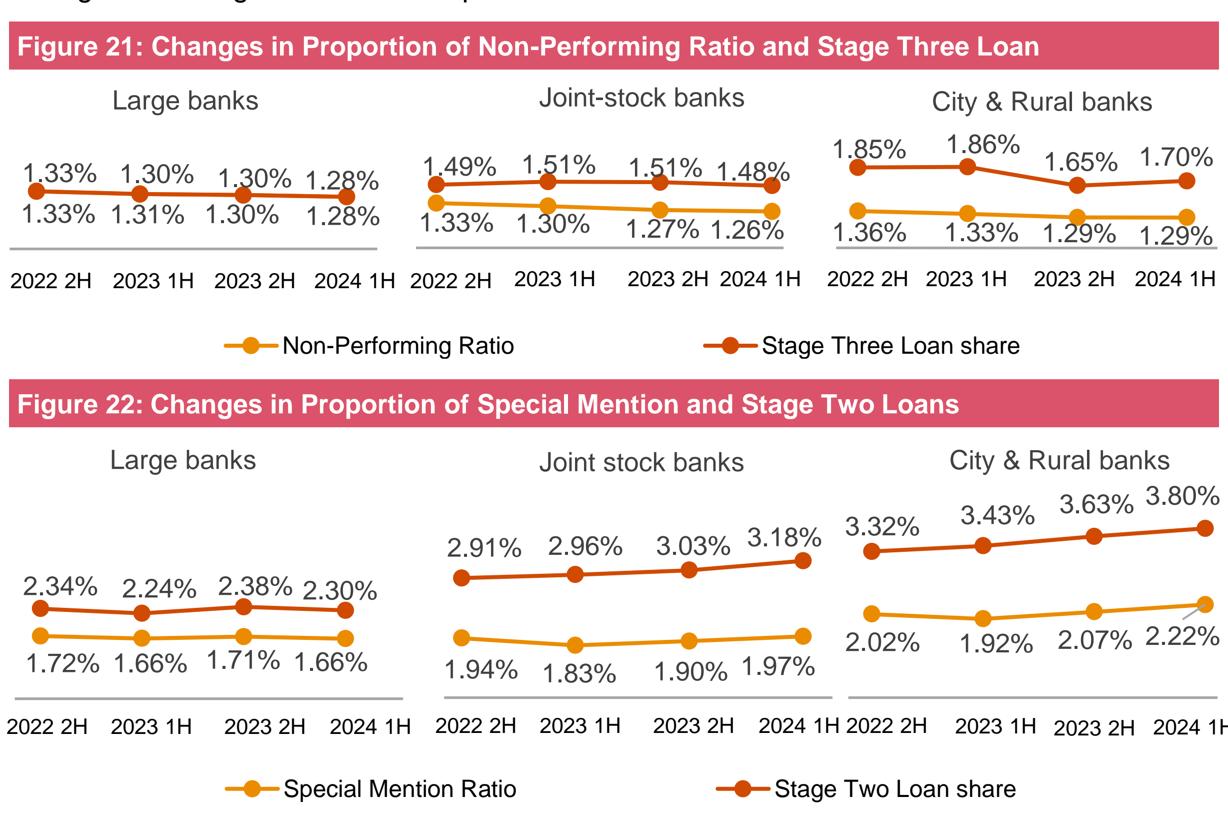
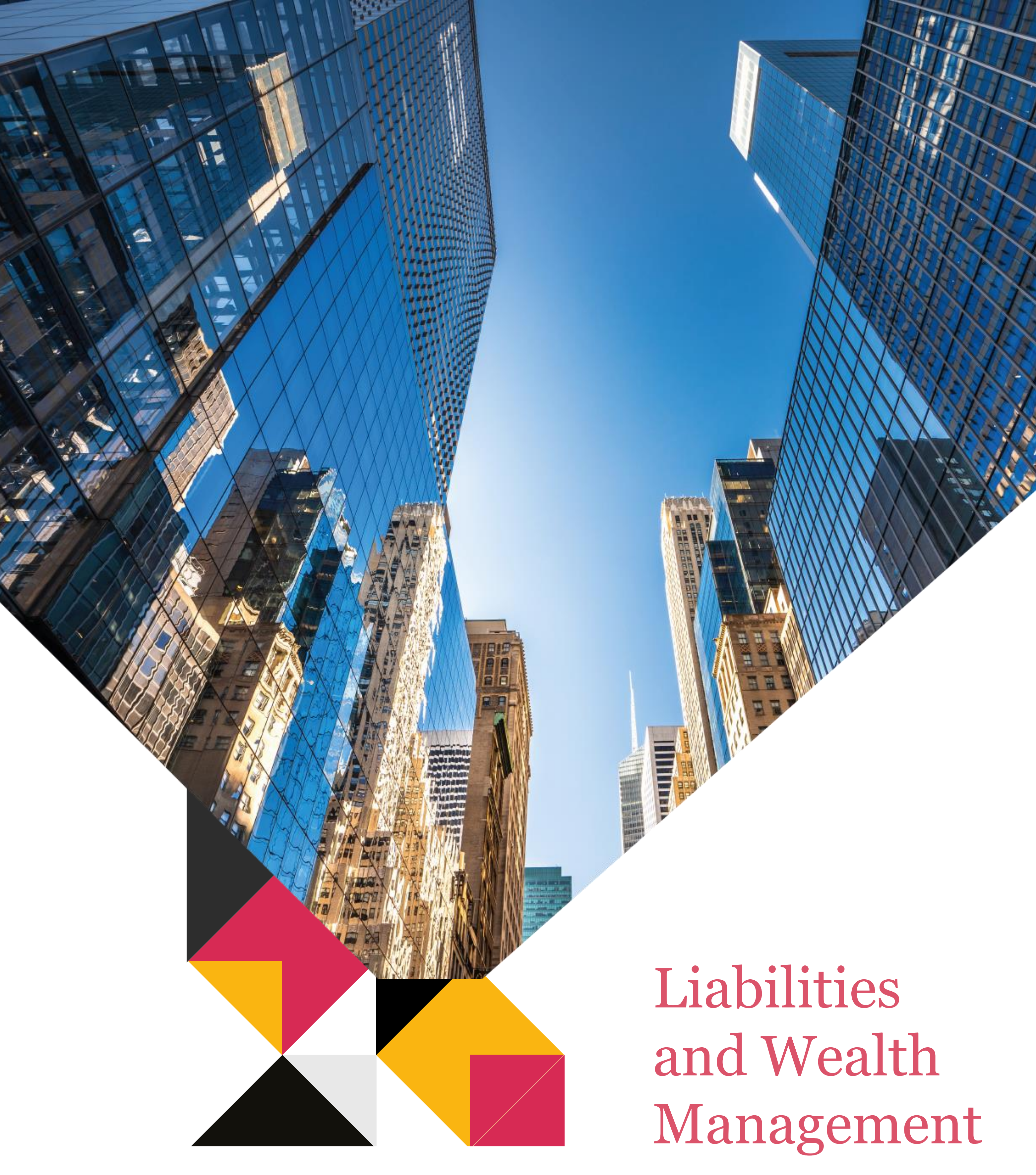


Figure 21: Changes in Proportion of Non-Performing Ratio and Stage Three Loan

Figure 22: Changes in Proportion of Special Mention and Stage Two Loans

Note: City & Rural commercial banks may have restated comparative data due to changes in statistical scope, excluding banks that did not disclose stage classifications.



Liabilities and Wealth Management

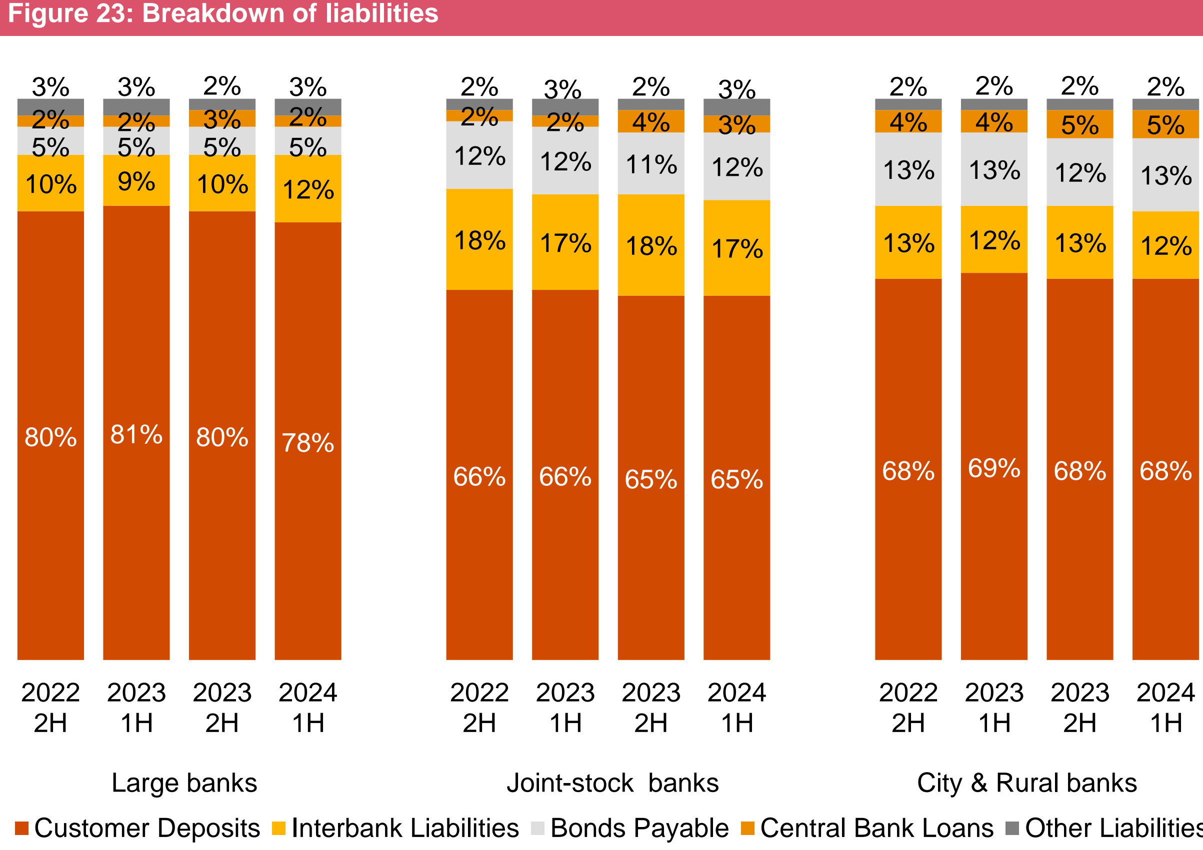
1. Stable growth in liabilities; Slight drop in customer deposits

As of June 2024, the banks' total liabilities reached RMB 282.22 trillion, an increase of RMB 1.161 trillion, or 4.29%, from the end of 2023. Customer deposits remain the largest source of funding, but their proportion has slightly decreased due to regulatory actions halting 'manual interest supplementation'.

Table 6: Growth in total liabilities

Total Liabilities	2022 2H	2023 1H	2023 2H	2024 1H
(RMB Trillion)				
Large	150.60	166.10	170.46	178.81
Joint-stock	58.46	61.58	62.76	63.86
City & Rural	33.81	36.20	37.39	39.55
Total	**242.87**	**263.88**	**270.61**	**282.22**
Year-on-year increase				
Large	3.08%	10.29%	2.62%	4.90%
Joint-stock	2.27%	5.34%	1.92%	1.75%
City & Rural	3.74%	7.07%	3.29%	5.78%
Total	**2.98%**	**8.65%**	**2.55%**	**4.29%**

Figure 23: Breakdown of liabilities



2. Deposit growth slows, but time and retail deposits surge

As of June 2024, customer deposits reached RMB 208.12 trillion, a 2.56% increase from the end of 2023, with City & Rural banks seeing a growth rate of 5.91%.

The proportion of time deposits has continued to rise to 61%. Growth accelerated to 5.75% in the first half of 2024, significantly outpacing overall deposit growth. Influenced by macroeconomic factors, market fluctuations and changes in risk appetite, the trend toward time deposits is expected to continue, presenting ongoing challenges for banks in managing funding costs.

The willingness of residents to save continues to rise. Retail deposits grew to RMB 105.40 trillion, increasing their share to 51%. Notably, Large banks have seen significant growth in retail deposits.

In April 2024, the market interest rate pricing self-discipline mechanism issued an initiative prohibiting banks from promising or paying interest supplements that exceed the authorised deposit rate caps. Banks that previously made such commitments are barred from making payments on the interest payment date. This measure aims to maintain order in the deposit market and further stabilise banks' funding costs.

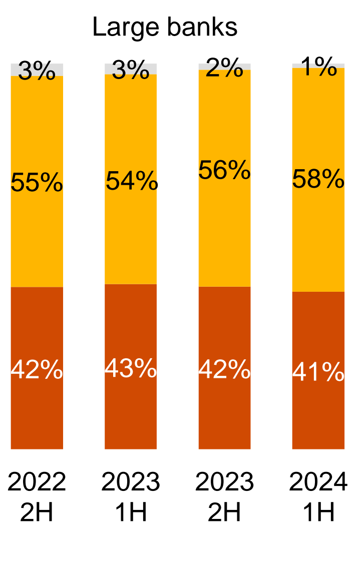
Figure 24: Changes in deposit balances and proportion of time deposits (RMB Trillion)

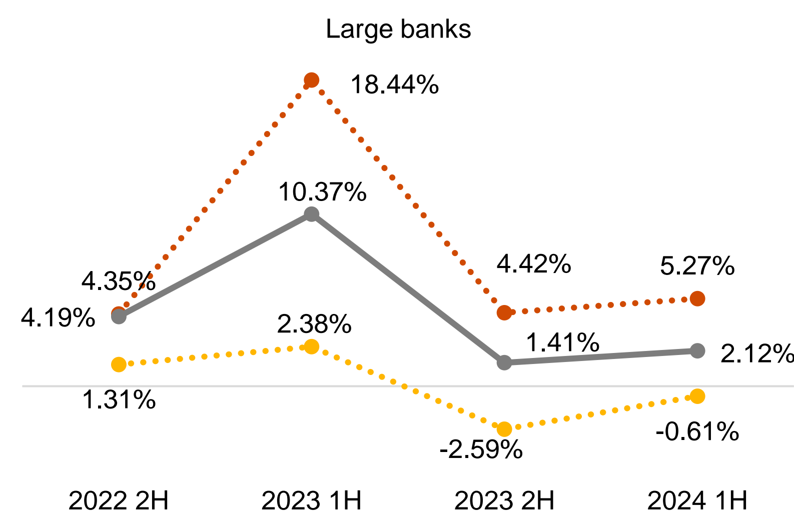
	Period	Total	Time Deposits	Demand Deposits
Large banks	2022 2H	117.06	54%	46%
	2023 1H	129.94	57%	43%
	2023 2H	131.79	59%	41%
	2024 1H	135.56	60%	40%
Joint-stock banks	2022 2H	36.72	56%	44%
	2023 1H	39.18	56%	44%
	2023 2H	39.07	58%	42%
	2024 1H	39.77	59%	41%
City & Rural banks	2022 2H	21.64	63%	37%
	2023 1H	23.55	65%	35%
	2023 2H	23.97	67%	33%
	2024 1H	25.89	69%	31%

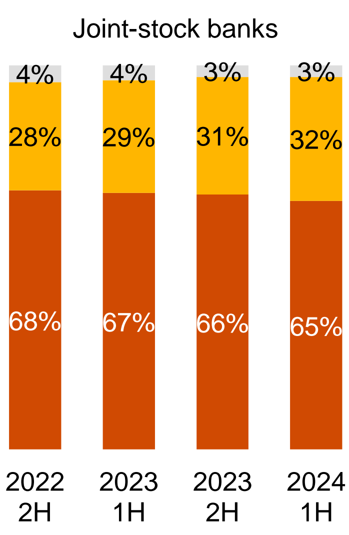
Note: The deposit balance in the above chart does not include accrued interest.

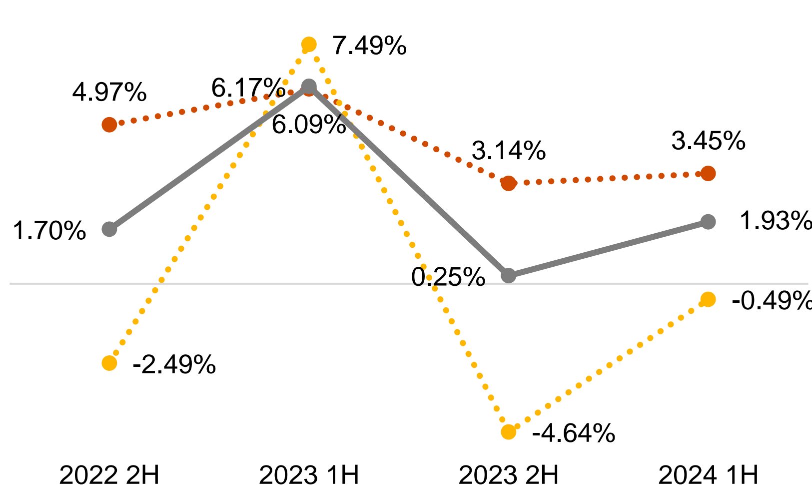
Figure 25: Changes in deposit structure

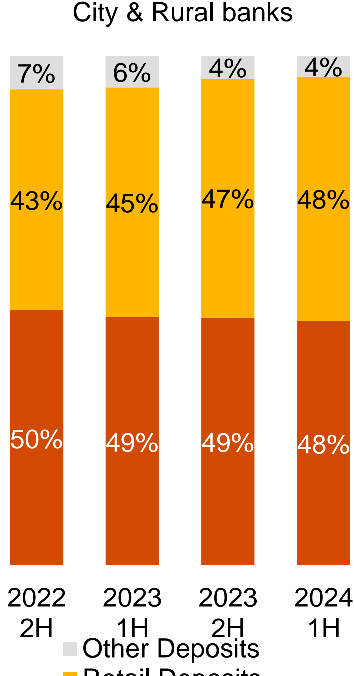
Figure 26: Growth rates by deposit type

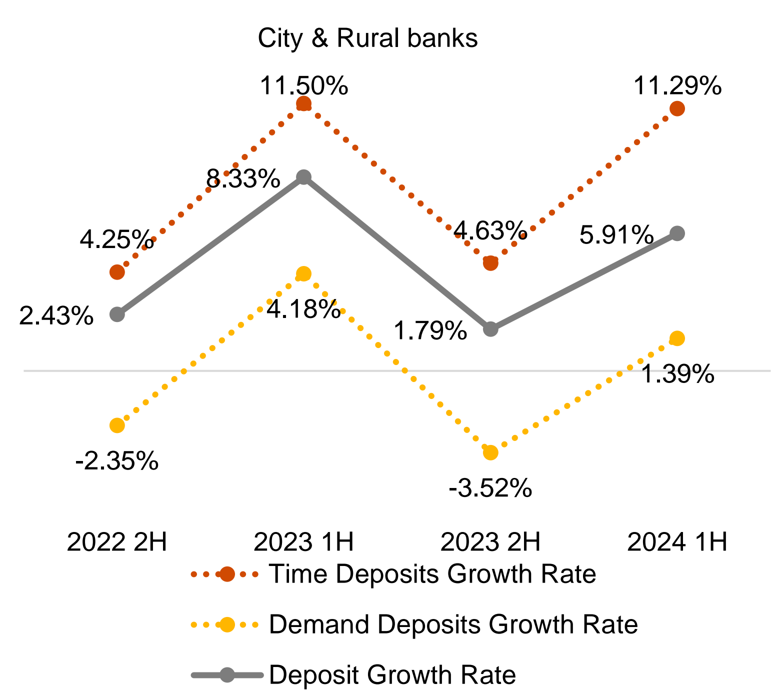












3. Steady recovery in wealth management products, but a decline in yields

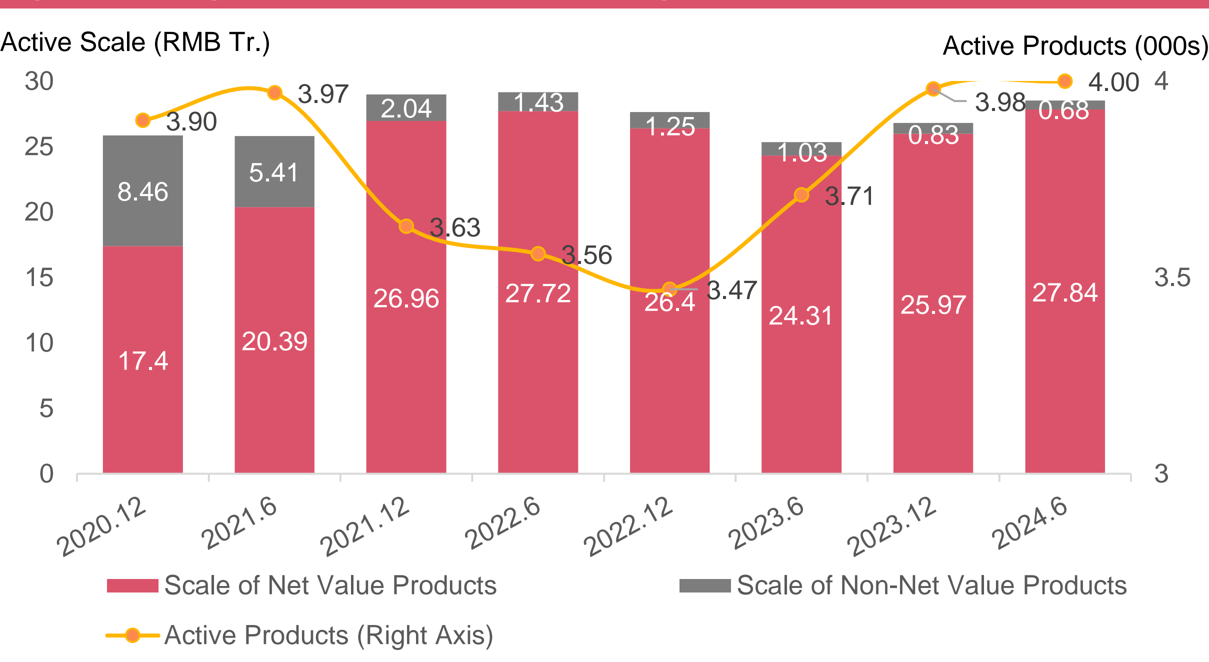
As of June 2024, the banking wealth management market reached RMB 28.52 trillion, up 6.43% from the end of 2023 and 12.55% year-on-year. This growth followed the regulatory halt to ‘manual interest supplements’, which caused ’deposit migration’. In the first half of 2024, 15,400 new wealth management products were launched, raising RMB 33.68 trillion and generating RMB 341.3 billion in returns for investors. By the end of June 2024, there were 40,000 active products, increasing by 0.49% from the end of 2023 and 7.99% year-on-year.

Net asset value (NAV) wealth management products reached RMB 27.84 trillion, making up 97.61% of the total. This reflects a 0.68 percentage point increase from the end of 2023 and a 1.67 percentage point increase year-on-year.

The number of wealth management investors has continued to grow. As of June 2024, there were 122 million investors holding wealth management products, a 6.65% increase from the end of 2023 and a 17.18% increase year-on-year. Structurally, individual investors dominate the market, totalling 120 million and accounting for 98.74%.

Wealth management companies have continued to expand distribution channels beyond their parent banks. Among the 31 operational wealth management companies, 28 have developed additional distribution channels, increasing the share of sales from these channels. The number of partnering distributors has also grown, with a total of 511 institutions selling products issued by wealth management companies as of June 2024, an increase of 20 from the end of 2023.

Figure 27: Changes in the structure of Wealth Management products



Source: "China Banking Wealth Management Market Half-Year Report (H1 2024)"

Wealth managers have responded to national policy initiatives, optimising fund allocation to effectively support the Five Major Areas and serve the real economy. By the end of June 2024, investments in green bonds exceeded RMB 270 billion, while funds allocated to special bonds for the Belt & Road Initiative, regional development, and poverty alleviation surpassed RMB 100 billion. In the first half of the year, 77 ESG-themed wealth management products were issued, raising over RMB 36 billion.

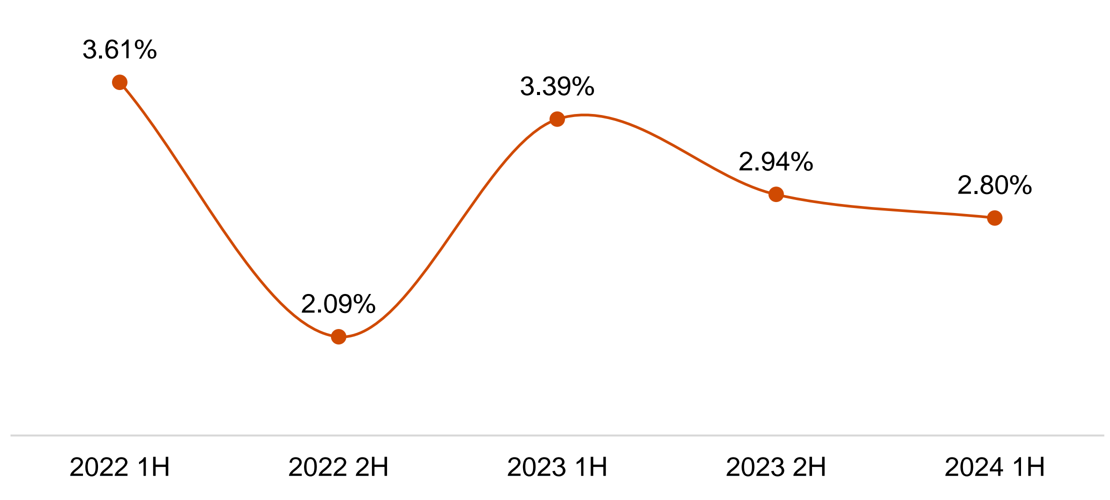
In terms of product operation models, the share of closed-end wealth management products was 20.13%, a decrease of 0.84 percentage points from the end of 2023. The weighted average duration of newly issued closed-end wealth management products ranged from 303 to 392 days, reflecting an extension compared to 2023.

The average yield of wealth management products fell to 2.80% in the first half of 2024, a decrease of 0.14 percentage points from the end of 2023. This decline was influenced by lower yields in the bond and money markets, affecting both fixed income and cash management products. With further reductions in bank deposit rates and the enforcement of regulations on manual interest supplements in the second half of the year, yields on cash-type wealth management products are expected to decrease further.

Table 7: Scale and changes in Wealth Management products

Product Operation Model	2023 2H		2024 1H		Change	
	Scale (Trillion)	%	Scale (Trillion)	%	Scale (Trillion)	%
Closed-End Products	5.62	20.97%	5.74	20.13%	0.12	-0.84
Open-End Products	21.18	79.03%	22.78	79.87%	1.60	+0.84
Total	**26.80**	**100.00%**	**28.52**	**100.00%**	**1.72**	**-**

Figure 28: Changes in Wealth Management Product Yields



Source: "China Banking Wealth Management Market Half-Year Report (H1 2024)"

Capital Management

1. New capital rules implemented, capital adequacy ratios rebound

The capital adequacy ratio, as a core indicator of bank regulations, is fundamental to the ongoing viability of banks.

The "Measures for the Capital Management of Commercial Banks" (referred to as the "Capital New Regulations") officially took effect on 1 January 2024. These regulations reform the measurement rules for risk-weighted assets related to credit risk, market risk, and operational risk, while significantly increasing the requirements for third-pillar information disclosure. Additionally, the Capital New Regulations establish a differentiated capital regulatory framework that aligns capital oversight with the size and complexity of banks, enhancing the efficiency of capital management.

Following the implementation of the Capital New Regulations, the banks' capital adequacy ratios have generally shown steady improvement. The average common equity tier 1 (CET1) capital adequacy ratio is 11.26%, the tier 1 capital adequacy ratio is 13.00%, and the total capital adequacy ratio is 16.38%, reflecting increases of 20, 26, and 47 basis points respectively compared to the end of 2023. Large banks benefited the most from external capital supplementation, with their CET1, tier 1, and total capital ratios rising by 34, 43, and 84 basis points respectively. Among the banks, 36 (62%) saw increases in their capital adequacy ratios.

Figure 29: CET 1 Capital Ratio

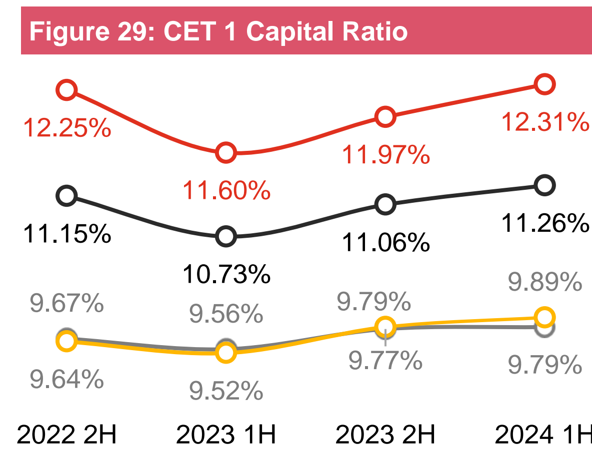


Figure 30: Tier 1 Capital Ratio

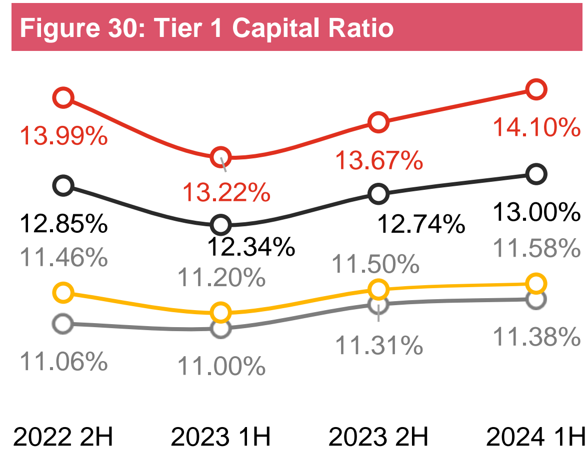
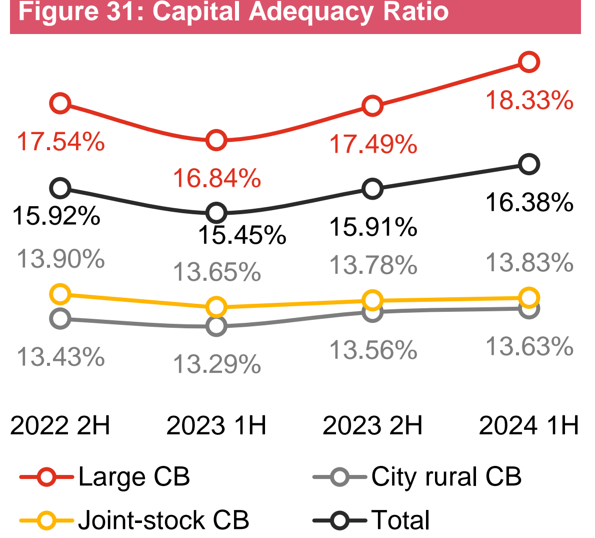


Figure 31: Capital Adequacy Ratio



2. Capital raising fully recovers

In recent years, the slowdown in banks' profit growth has reduced their capacity for internal capital replenishment. To alleviate capital pressure, banks have primarily issued capital-boosting instruments. In the first half of 2024, banks raised approximately RMB 721.3 billion through the issuance of subordinated debt and perpetual bonds, a significant increase compared to the same period last year.

Additionally, this year has seen a peak in the redemption of existing subordinated debt, further accelerating issuance.

To meet Total Loss Absorption Capacity (TLAC) regulatory requirements, major banks such as ICBC, Bank of China, China Construction Bank and Agricultural Bank of China completed their inaugural TLAC bond issuances this year. Looking ahead, the scale of TLAC bond issuances may increase further to comply with global systemically important bank (G-SIB) standards. The introduction of TLAC bonds will also enhance the stability of China's financial system and reduce systemic risk.

Figure 32: Issuance of capital supplements (RMB bn.)

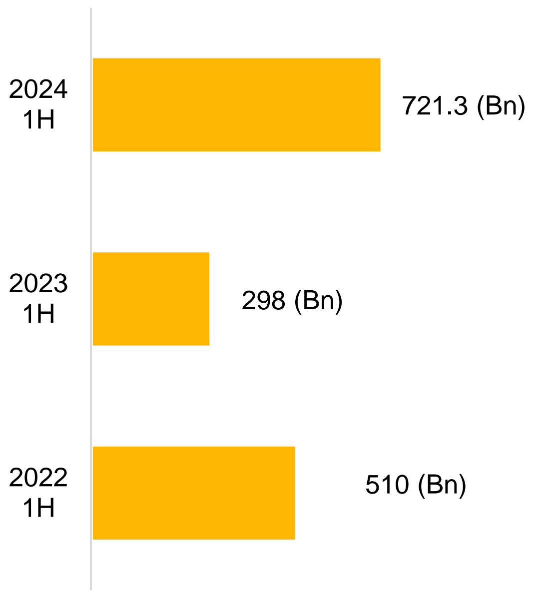
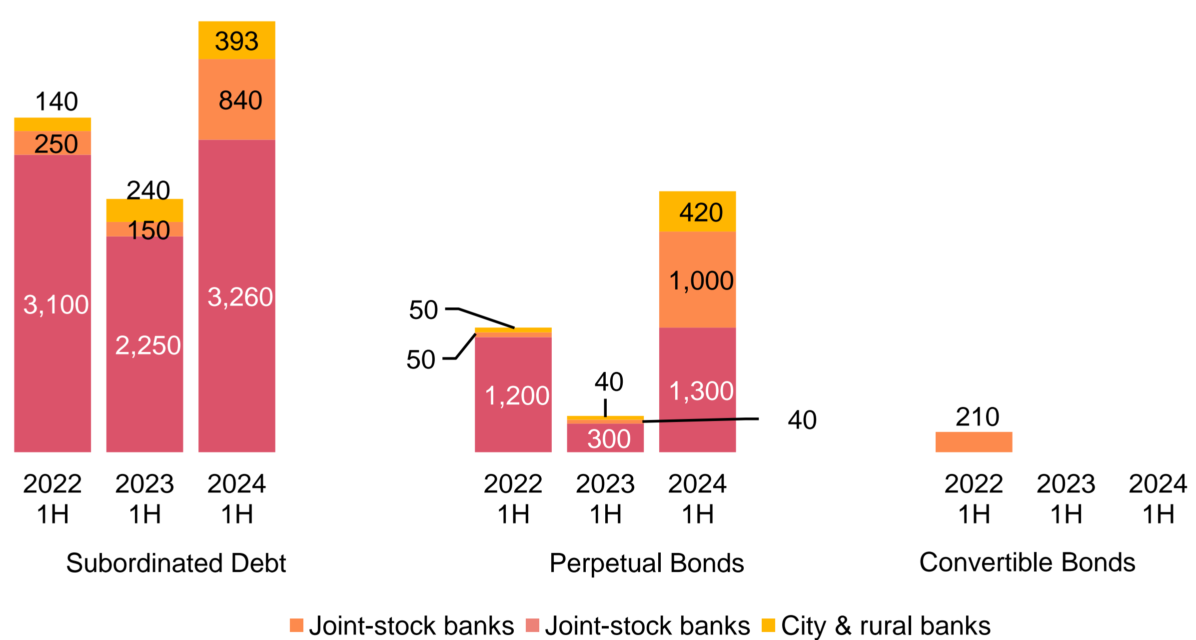
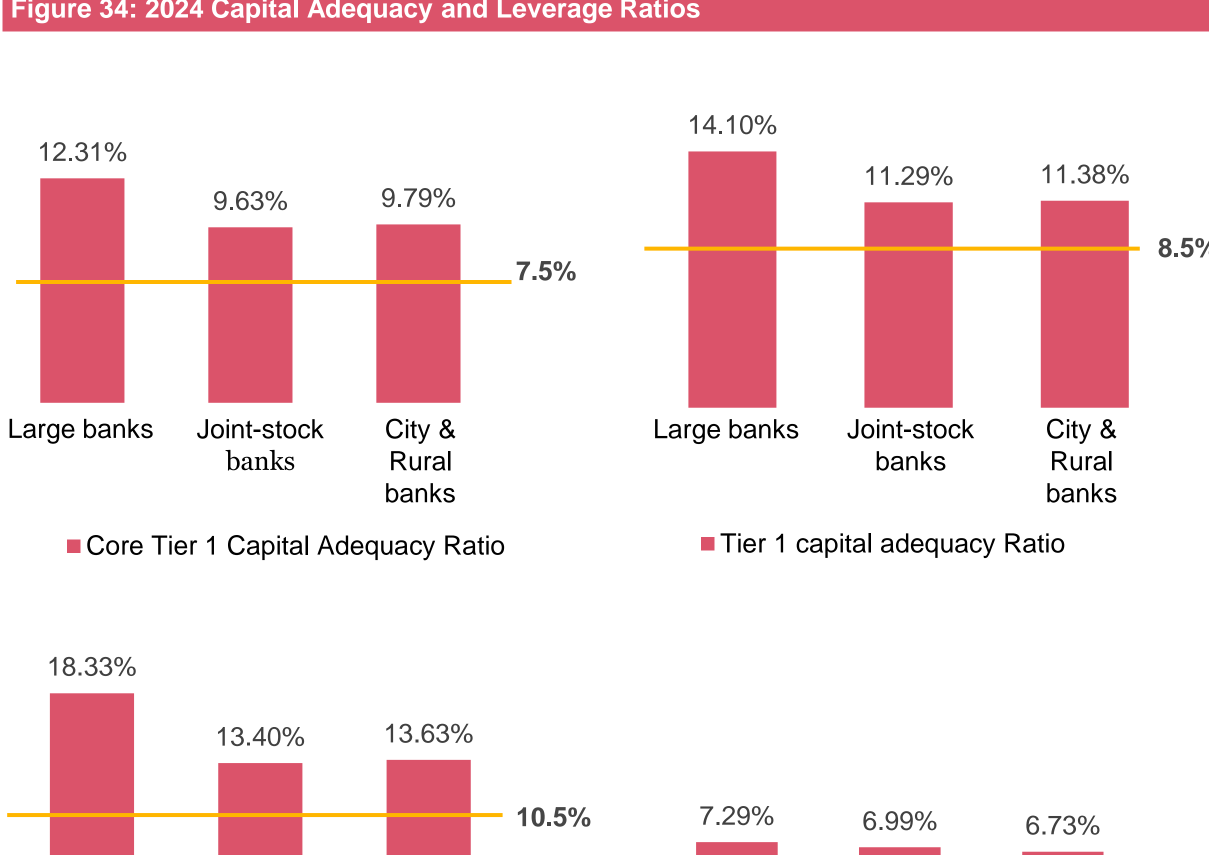


Figure 33: Issuance of capital supplement tools (RMB million)



3. Listed banks meet regulatory requirements

Figure 34: 2024 Capital Adequacy and Leverage Ratios



*The horizontal line in the chart indicates the minimum regulatory requirements for capital adequacy and leverage ratios that commercial banks must meet under the Capital New Regulations, excluding additional requirements for systemically important banks (SIBs). Global and domestic SIBs have additional capital requirements ranging from 1% to 3.5% and 0.25% to 1.5%, respectively, with the higher requirement applying if a bank qualifies as both. SIBs must also meet an additional leverage ratio requirement, set at 50% of their extra capital requirement, using tier 1 capital.

As of the end of June 2024, the capital adequacy ratios and leverage ratios of the 58 banks surveyed, calculated in accordance with the 'Measures for the Capital Management of Commercial Banks', met the requirements of the Capital New Regulations.

Appendix

Statistical interpretations of financial data

The main statistical metrics of financial data involved in this report are interpreted 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: Amounts 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 (2010 Revision).
6. Net interest spread = average return on interest-earning assets - average interest rate of interest-bearing liabilities; Net interest margin = net interest income/average interest-earning assets
7. Cost-to-income ratio = business and management expenses/operating income
8. NPL ratio = NPL balance/balance of loans to customers; Ratio of loans in the watch list = balance of loans in the watch list/balance of loans to customers; Overdue loan ratio = balance of overdue loans/balance of loans to customers
9. Provision coverage ratio = balance of impairment provision for loans/NPL balance; Loan-to-provision ratio = balance of impairment provision for loans/total loans and advances to customers
10. Core tier 1 CAR = net core tier 1 capital/total risk-weighted assets; Tier 1 CAR = net tier 1 capital/total risk-weighted assets; CAR = 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 Services Leader, PwC China
+86 (755) 8261 8882
james.chang@cn.pwc.com

Audit Services

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

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

Vivian Ma - Shanghai
+86 (21) 2323 3398
vivian.ma@cn.pwc.com

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

Jessy Tong - Shanghai
+86 (21) 2323 2763
jessy.tong@cn.pwc.com

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

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

Brian 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

This document is provided only for the purpose of providing general information and should not be used as a substitute for advice provided by professional consultants.

©2025 PricewaterhouseCoopers. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity.

Please see www.pwc.com/structure for further details.