Executive summary

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Building a better working world

Chinese listed banks persevere in the face of a changing banking landscape

2021 marks the 30th anniversary of the first Chinese bank to list on a recognized stock exchange. It also marks the 15th consecutive year of EY's review of the performance of, and outlook for China's listed banks.

These institutions have evolved annually, in line with changes in the global and domestic macroeconomic environment and regulatory policies. Despite heightened volatility in and the impact of new asset management and other regulations in recent years, China's listed banks maintained generally solid growth over 2018 - 2021.

In 2021, the listed banks benefitted from an improved operating environment as impact from the COVID-19 pandemic started to abate: profits recovered, deterioration in the non-performing loan (NPL) ratio was reversed, asset quality improved, and the provision coverage ratio (PCR) and capital adequacy ratio (CAR) both increased, boosting the banks' resilience. Furthermore, these institutions accelerated the transformation of their wealth management businesses as the transition period for new regulations ended. On the contrary, the banks face a further tightening of regulatory requirements with the introduction of raft of new measures by the regulators.

Below are some developments we want to callout:

Significant rebound in operating results. China's economy showed a stable recovery in 2021. GDP grew 8.1% year-on-year (YoY), up 5.8 percentage points from 2.3% in 2020, highlighting a good start to the first year of the 14th Five-Year Plan. In 2021, buoyed by an improved macroeconomic environment, the total operating income for the 59 listed Chinese banks reached RMB6,052.708 billion, growing by 7.75% YoY, up 2.84 percentage points from the 4.91% expansion in 2020. Meanwhile, total net profit stood at RMB1,994.789 billion, a YoY increase of 12.05%, up 11.95 percentage points from 0.10% in 2020.

Improved asset quality. As at 31 December 2021, the NPL balance of the listed banks totaled RMB1,875.555 billion, an increase of RMB34.356 billion from the prior year-end. However the weighted average NPL ratio declined to 1.37% from 1.50% at the end of 2020. The average NPL ratio of corporate loans to real estate sector rose from 1.71% a year ago to 2.62% at 2021 year-end, driven by the increasing risk of real estate sector.

Despite this increase, the banks managed to the reverse the rising trend of the overall NPL ratio. This was achieved by the banks enhancing credit risk control and increasing their focus on write-offs and the disposal of non-performing assets. However, while there was an overall decline the NPL ratio, their impaired debt investments grew by more than RMB160.0 billion in 2021. In particular, the national joint-stock banks' impaired debt investments as a proportion of total debt investments increased from 1.65% to 3.09%, while that of city commercial banks increased from 1.86% to 2.81%.

With the exception of the large commercial banks, all other types of banks (including national joint-stock banks, city commercial banks and rural commercial banks) registered a higher overdue loan ratio, with the overdue loan balance larger than the NPL balance and the difference widening.

Strengthening resilience. In 2021, while leading global banks significantly reduced asset provisions, the Chinese listed banks appear to have taken a different route, not easing provision policies even though, arguably, the negative impact of the pandemic appeared to be easing. Chinese listed banks, made an aggregate loan loss provision of RMB1,295.815 billion for the year. The average loan PCR increased from 212.44% at 2020 year-end to 233.43% at 2021 year-end, and the average allowance-to-loan ratio was up from 3.19% at 2020 year-end to 3.20% at 2021 year-end.

The listed banks also replenished capital through multiple channels, such as profit retention and issuance of convertible bonds, perpetual bonds and tier-2 capital bonds. The core tier-1 CAR improved from 10.97% to 11.08% at 2021 year-end, while CAR increased from 15.24% to 15.75%, enhancing the banks' risk resilience.

New era in wealth management. 2021 was the end of the transitional period for the implementation of the new regulations on asset management. The listed banks largely completed the remediation of legacy wealth management business and achieved remarkable results in resolving the shadow banking risk. As the transition to the net asset value-based management continued, the contribution of wealth management business to the fee and commission income of these institutions increased significantly.

Forty-three listed banks disclosed the value of net asset value-based wealth management products (WMPs) in their annual reports, showing a balance of RMB22,711.3 billion at 2021 year-end. For the 31 banks that disclosed this data in both 2021 and 2020, the aggregate balance of net asset value-based WMPs increased by 68.07% in 2021 from 2020 year-end.

As at 31 December 2021, 19 listed banks had wealth management subsidiaries, demonstrating their increased efforts to transfer wealth management business to dedicated subsidiaries. Capitalizing on their parent banks' sales channel, customer base, systems and operational capacity, these subsidiaries achieved rapid growth, with total volume of products managed registering RMB18,100.4 billion while the total net profit rose 149.07% YoY to RMB24.367 billion by end-2021.

Tightening regulatory requirements. In 2021, the China Banking and Insurance Regulatory Commission (CBIRC) issued the Guidelines for Corporate Governance of Banks and Insurance Institutions and supporting regulatory measures to further regulate the corporate governance of commercial banks. The release of the Administration of Total Loss Absorption Capacity of Global Systemically Important Banks and the Additional Regulatory Provisions on Systemically Important Banks (Trial Implementation) further tightened the regulatory capital requirements for the first 19 systemically important banks.

Policies related to the sales management of WMPs, liquidity risk management and rules on cash management products were introduced, increasing the requirements for the sound development of wealth management business. The official implementation of the Data Security Law and the Personal Information Protection Law shows the CBIRC's focus on increasing consumer protections, presenting greater challenges to the listed banks in areas such as customer privacy protection. Regulators also introduced further requirements on commercial banks' practices in online lending and deposit business, liability quality management, reputational

risk management, IT outsourcing risk management, anti-money laundering and anti-terrorist financing.

Serving the real economy. In 2021, facing the resurgence of COVID-19 and the triple pressures of shrinking demand, supply shocks and weakening expectations, the listed banks continued to increase the proportion of credit assets in an effort to proactively respond to national policies. The banks strengthened credit support for key areas and weak links of the national economy, small- and micro-sized businesses (MSMEs) and low-carbon transformation and development. Thus the proportion of credit assets continued to increase.

As at the end of 2021, loans as a proportion of total assets increased by 1.76 percentage points to 55.75% from 53.99% at the end of 2020. The listed banks continued to optimize the credit structure by increasing support for areas such as advanced manufacturing and technological innovation. For instance, in 2021, the growth rate of loans to the manufacturing industry reached 10.88%, an increase of 1.38 percentage points compared with 2020.

Benefiting from retail transformation. In 2021, the profit contribution of the banks' retail business was on the rise. Retail income accounted for 42.38% of total operating income, up 0.12 percentage points from 2020. The difference in the income contribution of retail banking compared with corporate banking widened to 2.09 percentage points from 0.05 percentage points in 2020. Profit before tax of retail banking represented 46.43% of total profit before tax, up 0.91 percentage points from 2020.

With intensified competition in retail business, the listed banks developed differentiated strategies and identified their comparative advantage based on their own underlying strengths. Some banks continued to grow the number of customers and the value of retail assets through extensive outlet networks; some obtained more mid-to-high-end customer groups by offering "customer-centric" comprehensive wealth management services; and others improved customer activity and obtained "long-tail customers" through convenient and optimal mobile app functions.

Deepening digital transformation. In recent years, the listed banks have continuously increased investment in FinTech and information systems. Twenty-four listed banks disclosed the investment in technology in their 2021 annual report, with an aggregate total of RMB170.969 billion. According to the data from the 15 listed banks that made such disclosures in the previous three years, the amount of investment in technology in 2021 grew by 12.43% from 2020.

Although investment in technology exhibited slower growth, its proportion of operating income increased YoY, standing at 2.38%, 3.01% and 3.13% respectively in 2019, 2020 and 2021. Rapid integration of technology and business has accelerated the banks' digital transformation. While benefiting from FinTech enablement, they continue to face challenges in areas such as data governance, scenario construction, and risk prevention and control. In pursuing digital transformation, the listed banks need to establish and enhance their digital governance structure, improve FinTech-related systems and mechanisms, promote in-depth integration of technology and business scenarios, place greater importance to data quality and security, and strengthen customer privacy protections.

Picking up the momentum in developing green finance. In 2021, the listed banks actively responded to the national strategic goal of "peaking carbon dioxide emissions and achieving carbon neutrality" and continued to promote green finance. Forty-three listed banks disclosed their green loans as at the end of 2021, which totaled RMB11,198.0 billion in aggregate. This represents an increase of 38.93%, up 26.47 percentage points from the growth rate of the prior year, demonstrating the banks' solid efforts to increase the supply of green credit.

In addition, they continued to actively innovate on carbon finance products and promote new offerings such as carbon neutrality, biodiversity and sustainability-linked bonds. They also supported the construction of a nationwide carbon market while enhancing climate and environmental risk management. The listed banks need to promote green finance and transformation-driven finance in a coordinated and orderly manner, ensure smooth transition from legacy practices to new models and new offerings, and control the pace of transformation, with a sharper focus on the risks and challenges of climate and environmental changes.

Exploring inclusive finance. In 2021, the listed banks continued to increase the supply of financial services for MSMEs. Forty-six listed banks disclosed their inclusive finance loans as at the end of 2021, which totaled RMB11,102.0 billion. This was an increase of 28.99% from the end of 2020, and 17.54 percentage points higher than the overall growth rate of loans.

They also actively participated in the construction of a comprehensive rural inclusive finance platform, and vigorously assisted with the efforts in rural revitalization, introducing innovations in financial products and service models, developing differentiated credit policies, and building a modern financial service system for "agriculture, rural areas and farmers".

The listed banks further improved financial services for low-income groups, enabled employment and entrepreneurship with financial support, and optimized the financing service system for MSMEs throughout the whole lifecycle. They also utilized digital technology to improve the quality and efficiency of inclusive finance, then leverage this to explore ways to achieve common prosperity for all.

While the listed banks experienced profound changes in 2021, they were able to continue with the development trajectory and maintain their dedication to serve the real economy, promote retail and digital transformation, and develop green and inclusive finance.

As we move further ahead with the implementation of China's 14th Five-Year Plan and "the second centenary", challenges and opportunities will continue to abound for China's listed banks. Only those that remain committed, strategically vested and invest resources to raise their competitive profiles, strengthen technology empowerment and ensure stable operations will achieve high-quality growth and sustain future developments.