Executive summary:
Adaptability of listed banks to changing banking landscapes

In 2023, the global macroeconomic environment faced profound and unprecedented changes characterized by increasing complexity and growing uncertainties. The frequent occurrence of geopolitical conflicts, sluggish global economic recovery, and volatile global financial markets all created headwinds for global growth. Yet despite these challenges and the compounded effect from lackluster domestic demand, China actively responded to various external shocks and effectively spurred economic recovery. The Chinese market's GDP thus grew 5.2% year-on-year (YoY) in 2023[1], 2.2 percentage points higher than that of the previous year.

Adjustments to macroeconomic policies have posed certain challenges to the operation and performance of listed banks. This saw their net interest income (NIM) declined for four consecutive years in a low-rate environment amid slowing economic growth and lowering fee charges for supporting the real economy. In 2023, the average NIM for listed banks were 1.69%, down 25 bps from 2022 (down 54 bps from the pre-pandemic level in 2019), which led to net interest income declining to a level unseen since 2017.

In addition, the net fee and commission income of the listed banks trended down for two consecutive years, decreasing by 8.05% from 2022 as fee income from wealth management, consulting and advisory businesses declined. With decrease in both net interest income, and net fee and commission income, their operating income in 2023 fell by 0.98% YOY to RMB5,869.91 billion.

To address the mounting complexity and challenges in the operating environment, listed banks doubled down to align businesses and operations with the real economy. They were committed to enhancing financing support, focusing on the development of technology finance, green finance, inclusive finance, pension finance and digital finance. To navigate macro-economic cycles and achieve the long-term goal of high-quality development, banks increased efforts to improve operational and management efficiency, ensure prudent operation and coordinated development and operational security, to pursue steady growth.

Adapting to changes by stabilizing performance and growth. The complex and challenging operating environment aside, the listed banks achieved net profit growth by cutting costs and improving efficiency, reinforcing risk prevention and control, and lowering credit cost.

The listed banks' aggregated net profit for 2023 totaled RMB2,169 billion. While this was a YOY increase of 1.43%, growth was slower than the 7.2% registered in 2022 versus 2021. Despite a decline in operating income, they strengthened cost management across the board, registering a YOY increase in operating expense of 2.17% to RMB1,884 billion in 2023 that was slower than the YOY increase of 4.39% for 2022. They further reinforced risk prevention and control to reduce credit cost, leading to a credit cost of 0.76% in 2023, down 8 bps YOY, while impairment losses accrued in the income statement decreased by 8.82% from 2022.

Although the overall net profit of the listed banks continued to grow, different types of banks showed polarized performance. Specifically, the six largest banks all saw net profit upticks, with an average growth rate of 2.47%. Meanwhile, among the 10 national joint-stock banks, four had lower, while six had higher net profits, with an average growth rate of -3.18%. As for the 29 city commercial banks, seven had lower net profits while 22 saw improved net profits (at an average growth rate of 6.09%); while for the 13 rural commercial banks, three saw declines even as the other 10 in their peer set managed to raise net profits by an average of 1.47%. Compared with large banks, small- and medium-sized banks are more susceptible to changes in the macroeconomic environment, indicating the need to cement the foundation for development and enhance resilience.

Adapting to changes by supporting the high-quality development of the real economy. With a firm commitment to serving the real economy, the listed banks focused their primary responsibilities and businesses, optimizing financial supply and infusing financial momentum into the real economy.

At the end of 2023, the total assets of the listed banks amounted to RMB293,909 billion, a YoY increase of 11.1%. Specifically, the loan balance (net of provision for impairment) totaled RMB163,321 billion, a YoY increase of 10.9%. They increased support for key areas such as tech-enterprises, advanced manufacturing and emerging strategic industries, and stepped-up efforts in cultivation of new productivity drivers. At the end of 2023, their loans to the manufacturing industry increased by 18.7% over 2022. To spur the real economy, they actively lowered fee charges and cost of financing for borrowers in 2023, which resulted in a thinner 4.14% return on loans, a decrease of 0.26 percentage point from 2022.

Adapting to changes by meeting the people's needs for a better life. The listed banks aligned their services with people's aspirations for a better life by increasing the supply of wealth management offerings and maintaining a rapid growth in retail asset management. In 2023, among those with total assets exceeding RMB1 trillion, 22 banks disclosed assets under management (AUM) data for retail business, with the total balance being RMB117 trillion, an increase of RMB10.1 trillion YOY.

The trend indicates their continued efforts to improve personal pension wealth management services and offer more product diversity to meet individuals' pension planning requirements. The listed banks also actively ramped up on their socially

1. Source: National Bureau of Statistics

responsible financial activities, pushing ahead with green and inclusive financing. In 2023, the 49 listed banks that disclosed the data on green loans had a total balance of RMB22,893 billion, increasing by 40.3% YOY, significantly faster than their overall growth of loans. Similarly, the 51 listed banks that disclosed the data on inclusive loans had a total balance of RMB18,188billion, an increase of 28.4% YOY.

Adapting to changes by operating prudently with risk protections. In 2023, the listed banks maintained stable asset quality by being prudent in their operations, enhancing risk control in key areas, and improving intelligent risk control. Their non-performing loan (NPL) balance totaled RMB2,160 billion at 2023 year-end, an increase of RMB149 billion YOY. However, the corresponding weighted average NPL ratio declined from 1.33% to 1.29%.

On a sectorial basis, the average NPL ratio for their corporate loans to the real estate sector rose by 0.26 percentage point to 3.80% at 2023 year-end due to exposures to the real estate sector that faced stressful operating conditions. Nevertheless, the listed banks managed to keep overall NPL ratio steady through their continued efforts to dispose of distressed assets. The weighted average allowance-to-loan ratio of listed banks at 2023 year-end was 240%, increasing YOY by 2.39 percentage points, while the provision coverage ratio (PCR) remained at a higher level.

The listed banks actively replenished capital through internal and external channels and maintained the capital adequacy level stable. Their weighted average capital adequacy ratio was largely unchanged YoY at 15.8% at 2023 year-end, with the overall capacity to offset risks being adequate.

While the overall asset quality of the listed banks remained stable, some small- and mid-sized listed banks faced greater pressure on asset quality, with the NPL ratio exceeding 2% in six city commercial banks and a rural commercial bank. The amount of impaired loans of city commercial banks and rural commercial banks was 25% and 51% higher than NPL balance, respectively. Deviation between NPLs and impaired loans threatened downgrade of assets.

Adapting to changes by accelerating digital intelligence transformation. As digital transformation deepens, China's listed banks' investment in technology continues to grow steadily and shifted focus to integrate technology and business and improve quality and efficiency through transformation. Twenty-five listed banks disclosed investment data in technology in their 2023 annual reports, with an aggregate amount of RMB197 billion, while 27 mentioned the number of FinTech/IT personnel totaling over 144,000. For those that disclosed headcounts, their proportion of FinTech personnel increased from 5.04% of overall FTEs in 2021 to 5.98% in 2023.

With the rise of artificial intelligence (AI) technology, particularly generative AI, large AI models are increasingly attracting the attention of China's banking industry. In 2023, more listed banks began to develop larger AI models and made breakthroughs in building business scenarios and essential capabilities around intelligent investment and research, customer service, marketing, risk control and operation, nudging the banking sector from digital transformation toward digital intelligence transformation.

As emphasis on the digital economy continues to rise, the listed banks are striving to deliver on their respective digital intelligence capabilities as core competencies. The progress in developing large AI models is expected to drive innovation around existing products and services, business processes, operations and business models, presenting new opportunities for the transformation and development of the industry. While the application of large AI models in the banking sector unveils bright prospects, challenges exist in practice such as those relating to data privacy and security, explainability of the model, accuracy of prediction, ethical matters and legal protection.

To cope with the increasingly fierce market competition and achieve high-quality development, the listed banks are committed to improving customer base, products and services, management and operational capabilities, and technological capacity. Beyond that, they also foster a high-performing internal corporate culture to enhance customer service, innovation, risk and compliance, and management, and promote correct values and enhance employee engagement and morale, trying to leverage soft powers to strengthen hard powers.

Looking ahead for the remainder of 2024, China's rebounding economic development should provide the listed banks with more opportunities. They need to holistically plan around both their tactical short-term business objectives and longer-term strategies. This includes striking balances between supporting national strategies, driving high-quality economic growth and delivering on social responsibilities, while consistently bolstering the banks' own growth and delivering corporate profits to stakeholders.

The listed banks also need to enable innovation, transform digitally based on AI capacities, and offer customers distinctive financial services while keeping a watchful eye on risk management and mitigation. It is only with such foresight and good execution, can the listed banks in China deliver on high-quality financial services and support China's efforts toward becoming a global financial powerhouse.