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China Banking Monitor 2025

April 2025

Creating Opportunities

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Index

Main takeaways

Credit expansion remained tepid in 2025, as the banking sector struggled with a subdued macro environment amid rising geopolitical risks.

Asset growth slowed sharply, with both loan and non-loan assets expanding at a reduced pace amid muted credit demand.

Profitability deteriorated significantly, with narrowing interest margins and declining lending rates driving ROA and ROE to historic lows.

While NPL ratios improved due to aggressive bad loan resolution, rising special-mention loans and renewed US tariffs under Trump's administration point to mounting credit risk.

Capital buffers improved for mortgage-heavy banks under new capital rules, but the TLAC rollout in 2025 introduces renewed pressure on capital adequacy, partifularly for smaller lenders.

The local government debt swap program has offered short-term relief to LGFVs, but underlying fiscal and structural risks remain unresolved.

Interconnectedness with shadow banking rose modestly as smaller banks leaned on interbank funding, driven by declining interbank market rates.

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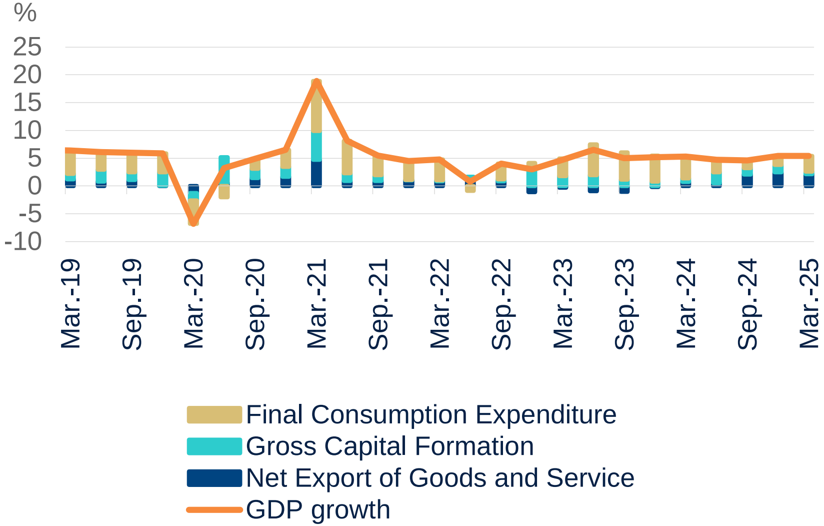
Macroeconomic environment

China banks remain vulnerable to lackluster macro environment weighed by property market

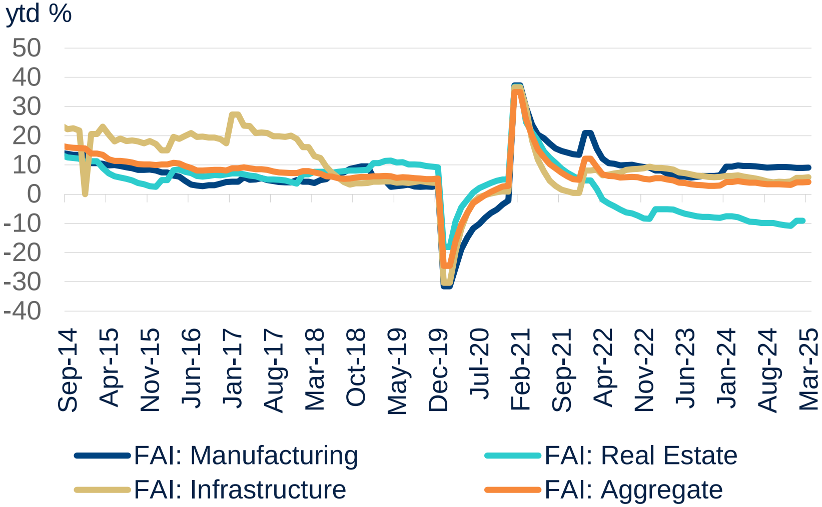
China achieved 5.4% growth in Q1 2025, as export enterprises front-loaded their orders ahead of the implementation of reciprocal tariffs

THE GDP GROWTH ACHIEVED 5.4% IN Q1 2025 Q1, WITH NET EXPORTS DRIVING THE ECONOMY



Source: NBS & BBVA Research.

WEAK REAL ESTATE FAI STILL WEIGHED ON FAI

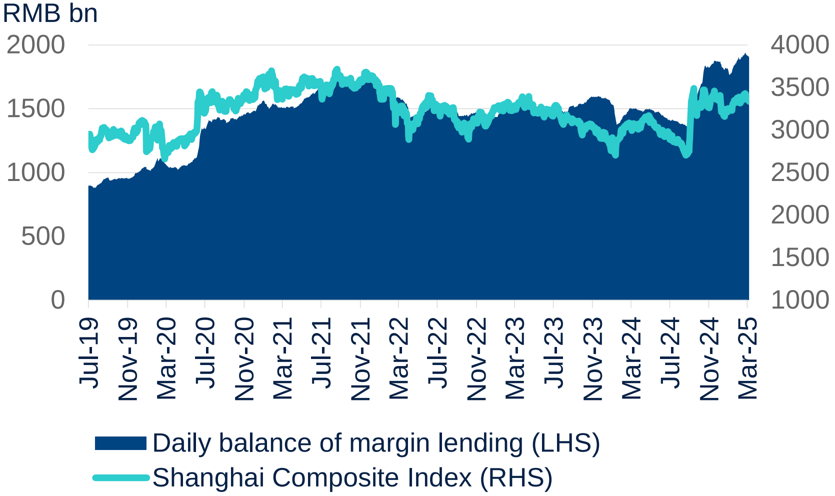


Source: CEIC, Haver & BBVA Research.

Economic growth reached 5.4% in Q1 2025, in line with Q4 2024 GDP growth, driven by enterprises front-loading their orders ahead of the reciprocal tariffs taking effect, along with stimulus packages announced since September 2024. The beleaguered real estate market remains a drag, compounded by weak consumer and business confidence and rising geopolitical risks.

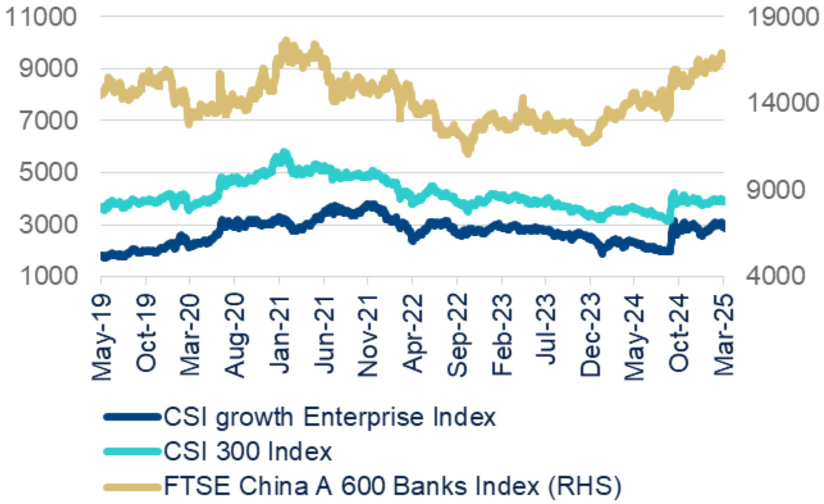
The rise of Deepseek has boosted China's stock market sentiment since the start of 2025

THE SENTIMENT OF SHANGHAI COMPOSITE INDEX AND DAILY BALANCE OF MARGIN LENDING IMPROVED AT THE BEGINNING OF 2025



Source: SSE, SZSE & BBVA Research.

…AS WELL AS CSI 300 INDEX AND FTSE CHINA BANKING INDUSTRY INDEX

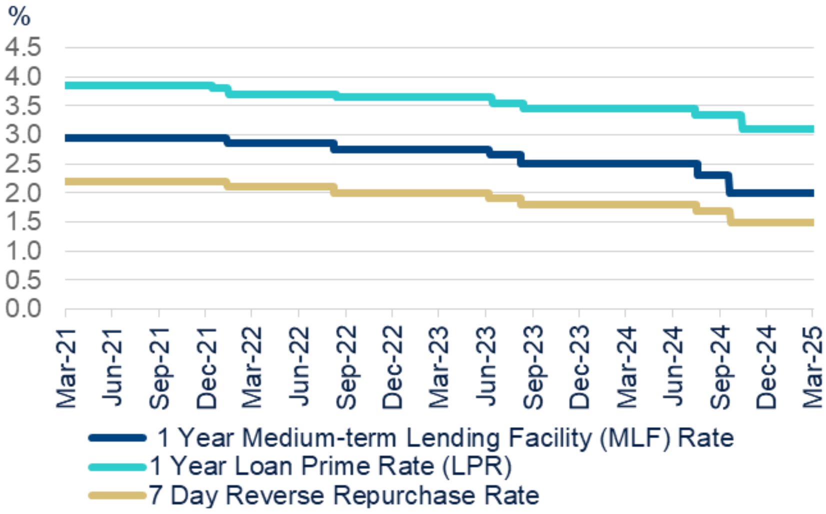


Source: SSE, SZSE & BBVA Research.

Stock markets show certain stabilization of investor sentiment due to the rise of Deepseek together with China's technology advancement in AI, robots, semi-conduct etc., with both the performance of Shanghai composite index and CSI 300 index improving at the beginning of 2025.

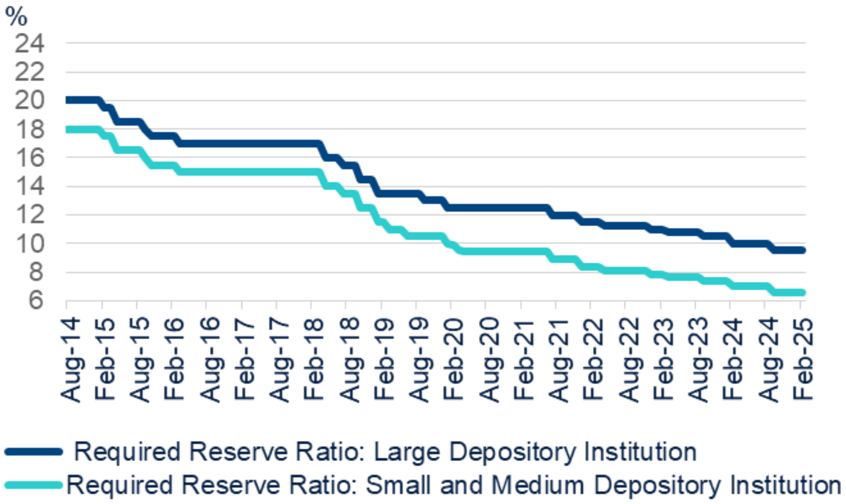
Monetary policy has shifted towards an expansionary stance, albeit with caution

THE PBOC CUT THE LOAN PRIME RATE TWO TIMES IN 2024 (JULY AND OCTOBER)



Source: The People's Bank of China & BBVA Research.

…AND HAS CUT REQUIRED RESERVE RATIO TWO TIMES IN 2024 (FEBRUARY AND SEPTEMBER)

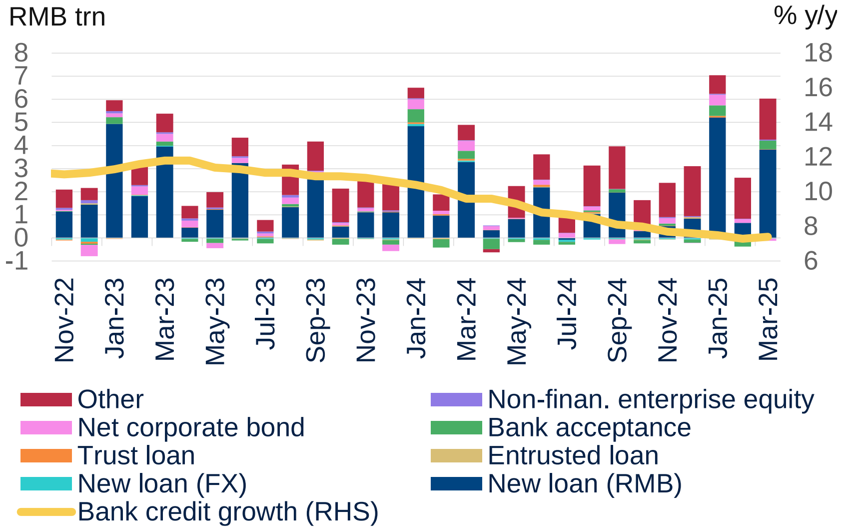


Source: The People's Bank of China & BBVA Research.

To bolster the economy, the central bank has cumulatively cut the 1-year loan prime rate by 30 bp to 3.15% and reduced the required reserve ratio (RRR) cumulatively by one percentage point to ease pressure on banks in 2024. We expect two more rate cuts this year, along with 2-3 additional RRR cuts in 2025.

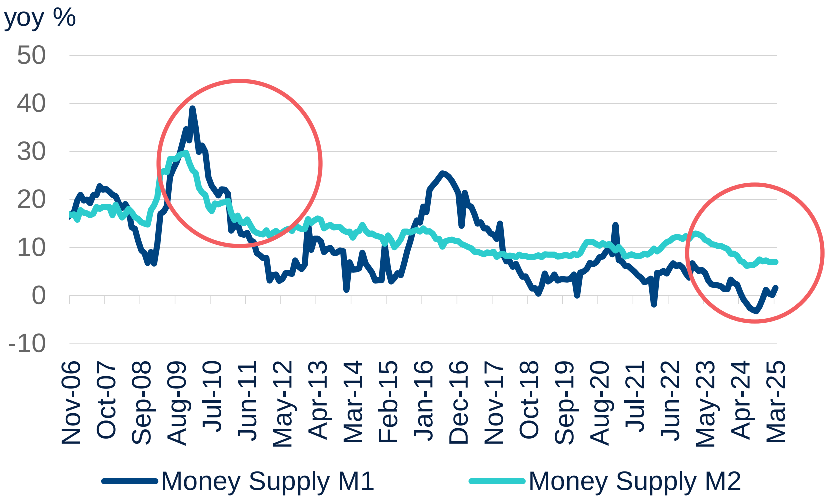
Credit bounced back in March 2025 due to stimulus

TOTAL SOCIAL FINANCING MAINLY SUPPORTED BY GOVERNMENT BOND



Source: The People's Bank of China & BBVA Research.

THE GAP BETWEEN M1 AND M2 INDICATES WEAK CREDIT DEMAND OF THE CORPORATE SECTOR

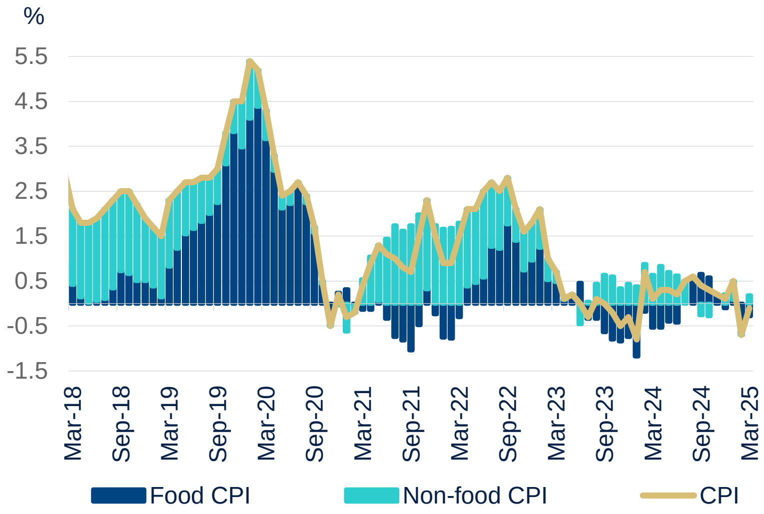


Source: The People's Bank of China & BBVA Research.

Growth in outstanding total social financing (TSF), a broad measure of credit and liquidity in the economy, as well as outstanding RMB loans rebounded in March, underpinned by front-loaded lending at the beginning of the year and rapid government bond issuance.

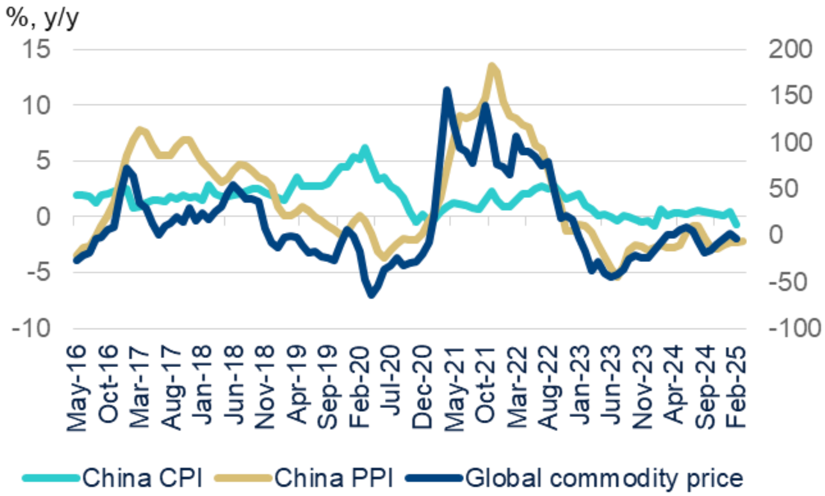
Stagnant deflationary environment remains amid prolonged real estate sluggish and unbalanced economic structure

CPI TURNED NEGATIVE IN FEBRUARY 2025 AND AROUND 0% FOR A LONG TIME



Source: NBS & BBVA Research.

PPI ALSO REMAINED NEGATIVE FOR A LONG TIME

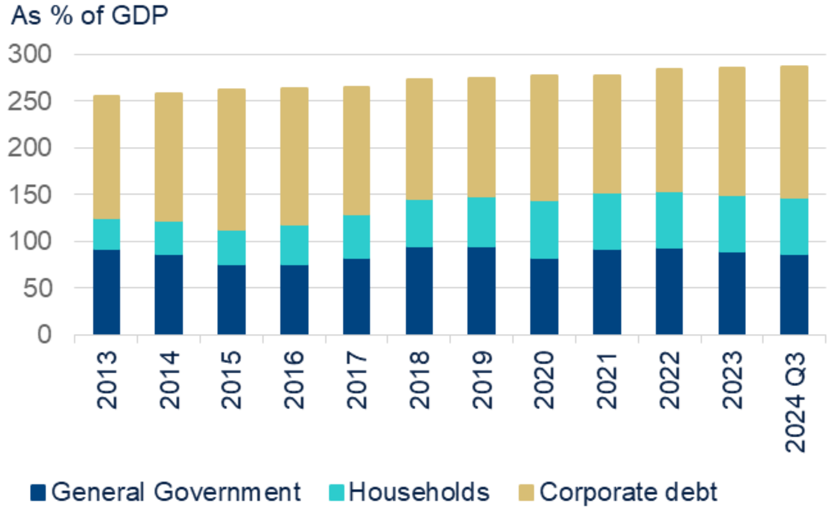


Source: NBS & BBVA Research.

Reversing a deflationary environment is challenging, amid significant adjustments in the real estate sector and unbalanced economic structure. Amid weak domestic demand, the economy is confronting persistent deflationary pressure in 2025.

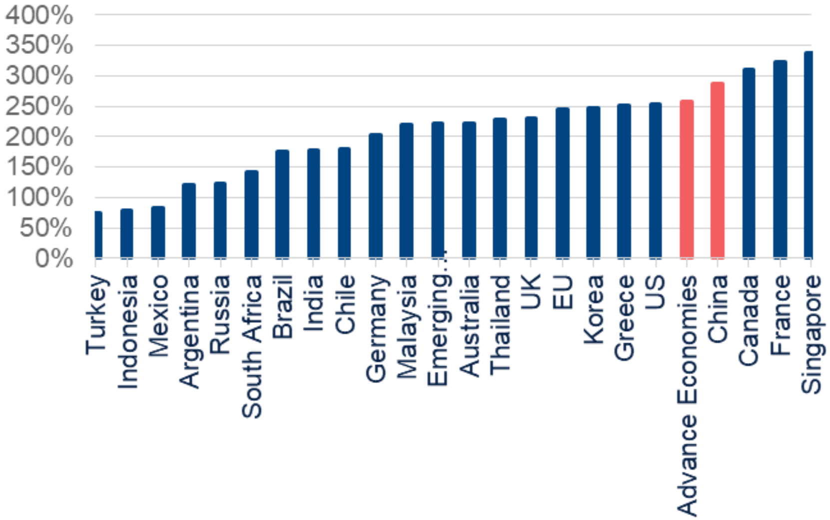
China’s debt overhang concentrates on local government and corporate sector

CORPORATE DEBT PARTICULARLY SOE DEBT TAKES THE LARGEST SHARE, FOLLOWED BY GENERAL GOVERNMENT DEBT



Source: BIS & BBVA Research.

CHINA’S MACRO LEVERAGE RATIO IS HIGHER THAN EMERGING AND ADVANCED MARKETS AVERAGE



Source: BIS & BBVA Research.

China’s macro leverage ratio, defined as total debt as % of GDP, reached a record high of 286.1% in Q3 2024, which is 9.5 percentage points higher than the same period last year. However, the debt overhang issue primarily focuses on local government debt and corporate debt, while homebuyers are rushing to pay down mortgages due to lowered mortgage rates.

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Performance of banking Sector

Banking profitability is subject to headwinds

Main messages

BANKING ASSETS GROWTH

Banking assets experienced a slower rate of expansion in 2024, increasing by merely 6.5% to RMB 444.6 trillion, as the growth rate of both loan and non-loan assets decelerated. In terms of loan growth components, the growth rate of housing sector loans remained negative in 2024. Additionally, the growth rates of consumer loans and corporate loans decelerated to singe-digit levels, weighed by subdued domestic demand.

BANKING PROFITABILITY

Banks' profitability deteriorated due to a continued narrowing net interest margin (NIM), with both the return on assets (ROA) and return on equity (ROE) reaching their lowest levels in record.

ASSET QUALITY

Although the non-performing loan (NPL) ratio declined due to sustained bad loan resolution, the asset risks are rising due to the reciprocal tariffs imposed by Trump's second administration. City and rural commercial banks are particularly vulnerable to further asset quality deterioration due to their less diversified asset portfolio, relatively low capital adequacy ratio, and larger exposure to the real estate sector.

BANK CAPITALIZATION

Banks' capital capitalization remained stable. The new Basel-based capital rule, effective since January last year, has potentially freed up the capital for banks with large mortgage exposure. However, lenders are subject to pressure from capital shortfalls due to the implementation of TLAC rule starting in Jan 2025.

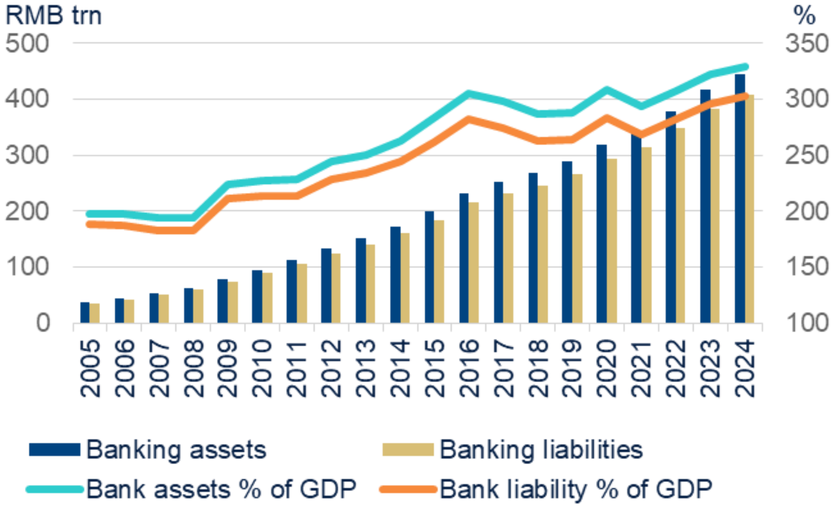
A snapshot of financial fundamentals of Chinese banks

	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Asset quality and credit risk										
Loans/total assets	56.4%	56.4%	55.0%	55.0%	55.3%	54.9%	66.8%	67.3%	66.9%	66.7%
NPL ratio	1.66%	1.63%	1.62%	1.62%	1.61%	1.59%	1.59%	1.56%	1.56%	1.50%
(NPL+special-mention loan) ratio	3.93%	3.86%	3.78%	3.76%	3.81%	3.78%	3.76%	3.78%	3.84%	3.72%
Provisions/NPLs	205.5%	205.9%	205.2%	206.1%	207.9%	205.1%	204.5%	209.3%	209.5%	211.2%
Profitability & efficiency										
NIM	1.94%	1.91%	1.74%	1.74%	1.73%	1.69%	1.54%	1.54%	1.53%	1.52%
Cost to income ratio	30.0%	34.0%	29.1%	30.3%	31.6%	35.3%	29.0%	30.7%	31.8%	35.6%
ROE	9.3%	9.3%	10.3%	9.7%	9.5%	8.9%	9.6%	8.9%	8.8%	8.1%
ROA	0.75%	0.76%	0.81%	0.75%	0.74%	0.70%	0.74%	0.69%	0.68%	0.63%
Solvency										
Tier 1 ratio	12.2%	12.3%	12.0%	11.8%	11.9%	12.1%	12.4%	12.4%	12.4%	12.6%
Core Tier 1	10.6%	10.7%	10.5%	10.3%	10.4%	10.5%	10.8%	10.7%	10.9%	11.0%
Leverage ratio	6.8%	6.9%	6.7%	6.6%	6.7%	6.8%	6.8%	6.8%	6.8%	6.8%
NPLs/ Capital	10.3%	10.1%	10.2%	10.4%	10.2%	9.9%	10.0%	9.8%	9.7%	9.3%
Liquidity and funding										
Deposits/Total assets	80.9%	80.8%	83.1%	82.5%	82.3%	81.7%	81.9%	81.5%	81.5%	81.0%
Loan to deposit ratio	78.7%	78.8%	77.6%	77.7%	78.2%	78.7%	78.8%	80.6%	80.8%	80.3%
Liquidity coverage ratio	142.7%	147.4%	149.5%	150.9%	143.5%	151.6%	150.8%	150.7%	153.3%	154.7%

Source: National Financial Regulatory Administration, China’s Depository Corporations Survey & BBVA Research.

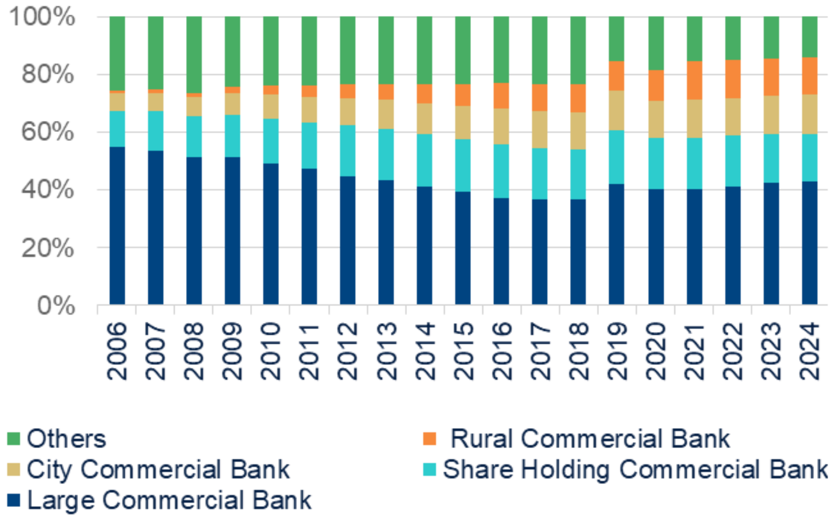
Bank assets experienced slowing expansion in 2024

THE GROWTH OF BANKING ASSETS DECLINED WEIGHED BY SLOWING CREDIT GROWTH



Source: National Financial Regulatory Administration & BBVA Research.

LARGE AND SHAREHOLDING COMMERCIAL BANKS STILL DOMINATE IN BANKS' ASSETS

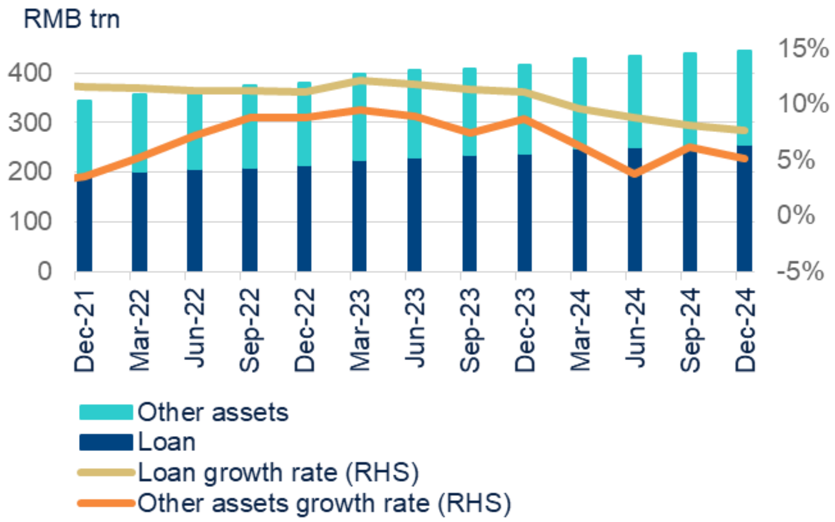


Source: National Financial Regulatory Administration & BBVA Research.

China's banking sector assets grew at a slower rate of 6.5% in 2024, compared to 9.9% in the previous year, reaching RMB 444.6 trillion. The slower asset growth rate suggests a more cautious lending approach by banks and is also weighed by slowing credit growth, as credit growth has been dampened by weak demand from both corporates and consumers.

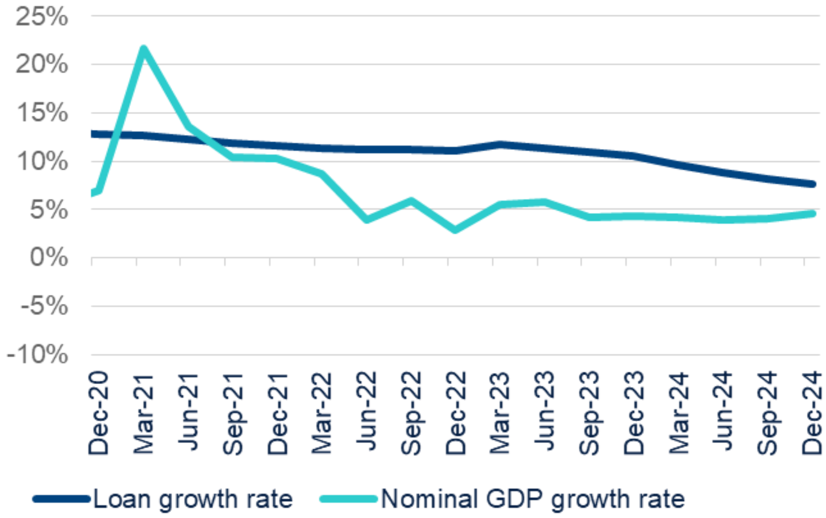
Asset growth continued to deteriorate, primarily driven by a broad-based deceleration in both loan and non-loan asset expansion

BOTH LOAN AND NON-LOAN ASSET GROWTH SLOWED DOWN



Source: PBOC, NBS & BBVA Research.

…BUT LOAN GROWTH RATE STILL EXCEED NOMINAL GDP GROWTH RATE

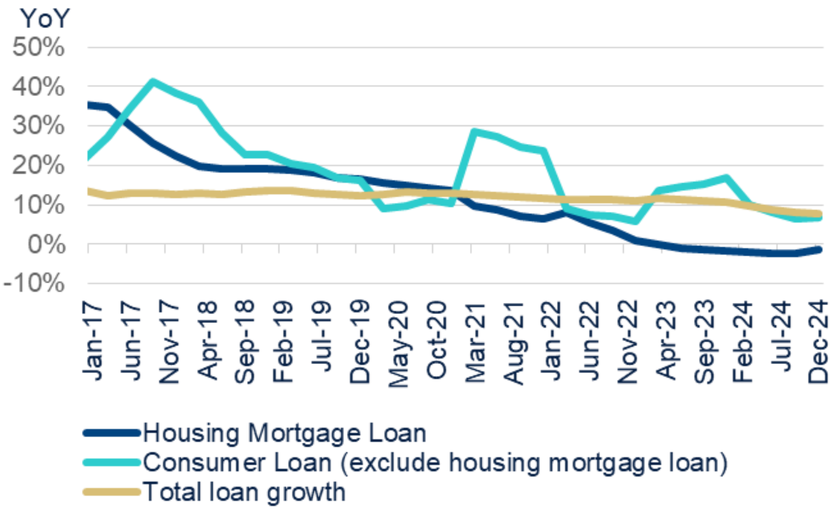


Source: National Financial Regulatory Administration & BBVA Research.

The loan growth rate dropped to 7.6% in Q4 2024, a significantly decline from 11.0% in the same period a year earlier. Meanwhile, non-loan asset growth, which includes investments , interbank assets and other financial instruments, also lost momentum. It fell to a three-year low of 3.7% in Q2 2024 before showing a modest recovery in the second half of the year.

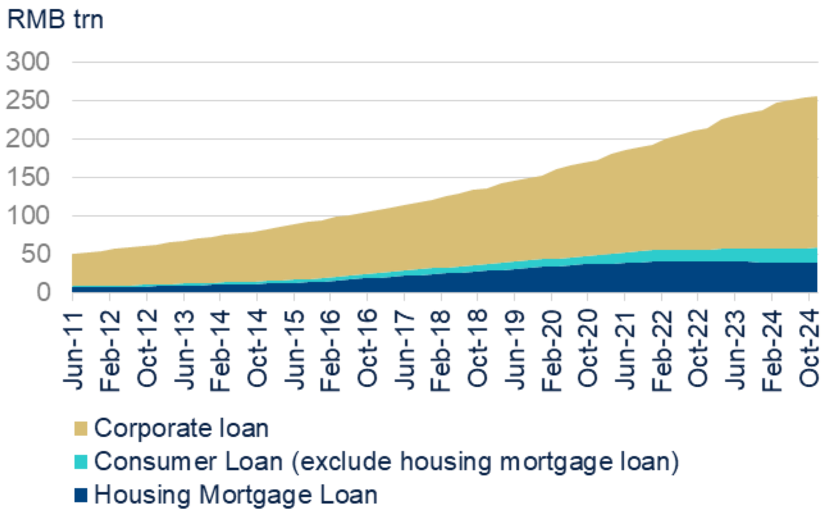
Housing mortgages loan growth tumbled

HOUSING MORTGAGES LOAN GROWTH REMAINED IN THE NEGATIVE REGION SINCE 2023



Source: The People's Bank of China & BBVA Research.

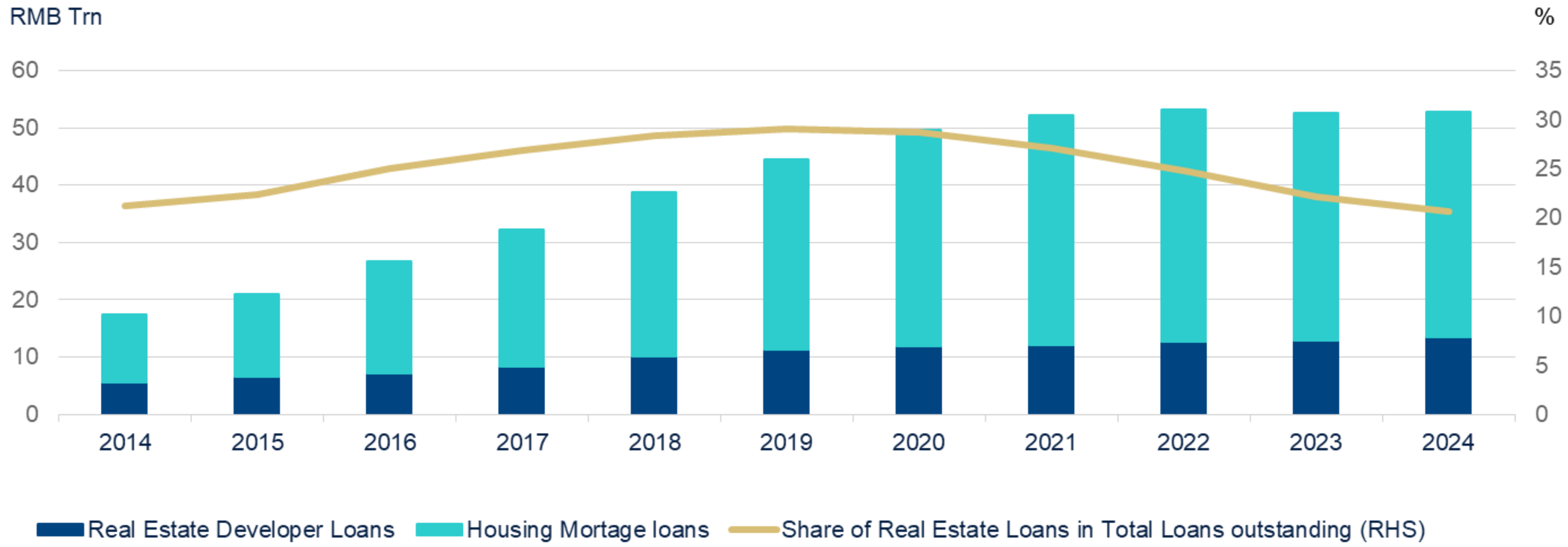
LOAN GROWTH RATE WERE DRAGGED BY HOUSING MORTGAGE LOAN



Source: The People's Bank of China & BBVA Research.

Mortgage loan demand remained weak due to the sluggish real estate sector, with growth turning negative in 2023 and staying in the red through 2024. Meanwhile, consumer and corporate loan growth slowed to 6.9 and 9.7% in 2024, down from 16.9% and 13.7% a year earlier, amid subdued domestic demand.

Banks' exposure to the housing sector continued to trend downward



Source: The People's Bank of China & BBVA Research.

Banks have remained cautious about new property exposure and have continued to transfer housing risks to non-bank financial institutions. The share of mortgage and real estate developer loans in total outstanding loans declined further to 20.7% in Q4 2024, down from 22.2% in Q4 2023 and well below the peak of 29% at the end of 2019.

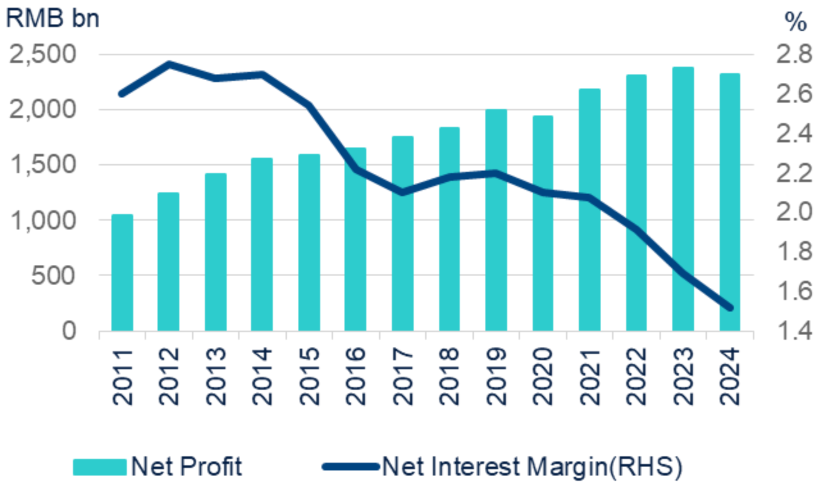
Green loan growth has slowed since the beginning of 2024

Source: The People's Bank of China & BBVA Research.

The rapid expansion of green loans has slowed, as the emphasis on enhancing energy security continues to temper growth of green loans, many of which having been allocated to decarbonization projects in the energy sector. Green loan growth eased to 21.7% at the end 2024, down from 36.5% in Q4 2023.

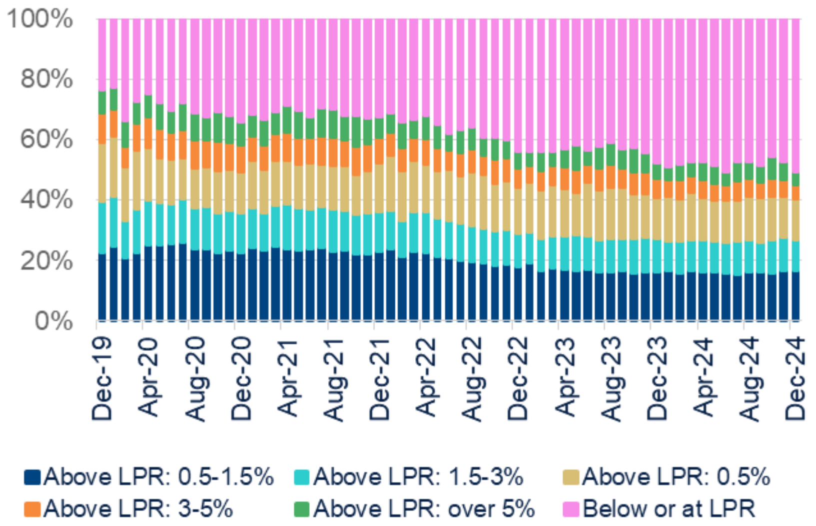
Banks' profitability fell sharply amid declining lending rates and narrowing interest margins

NET INTEREST MARGIN (NIM) SEE FURTHER DECLINES



Source: National Financial Regulatory Administration & BBVA Research.

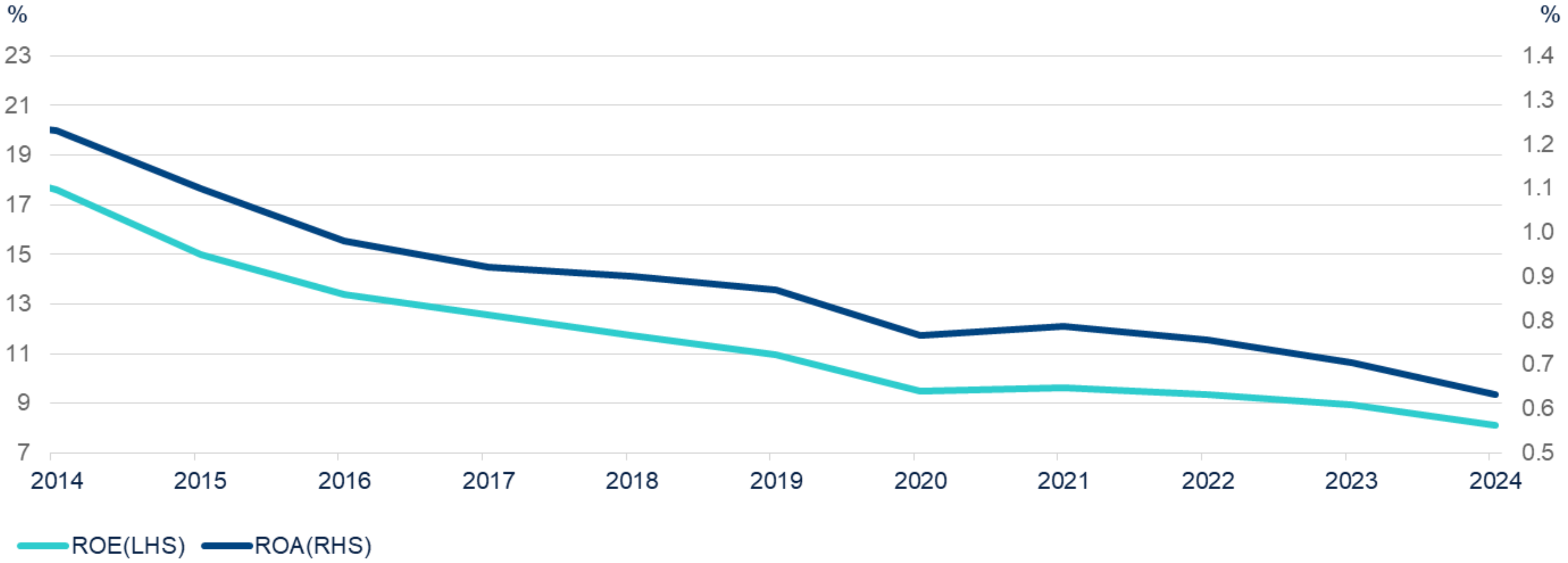
THE PROPORTION OF LENDING RATE BELOW OR AT LPR CONTINUES TO RISE



Source: National Financial Regulatory Administration & BBVA Research.

The net interest margin (RHS) contracted due to lending rate cuts and rising deposit costs, hitting a record low of 1.52 in Q4 2024. Banks' net profit growth rate turned negative in 2024, falling to -2.3% - the first decline since 2021. Over 50% of lenders reported lending rates at or below the loan prime rate (LPR), and a further decline in loan yields is expected in 2025.

ROA and ROE reached their lowest levels on record

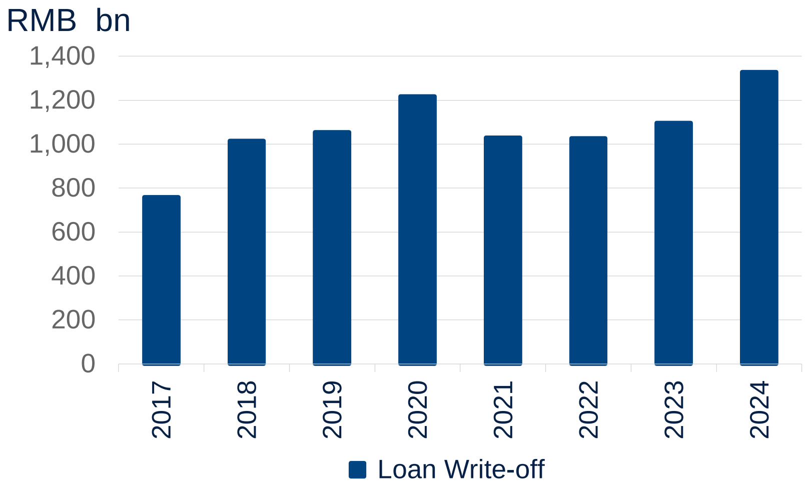


Source: National Financial Regulatory Administration & BBVA Research.

Weighed down by the declining net interest margin, both ROE and ROA fell further to 8.1% and 0.6% in 2024 respectively, from 8.9% and 0.7% in 2023, marking their lowest levels on record.

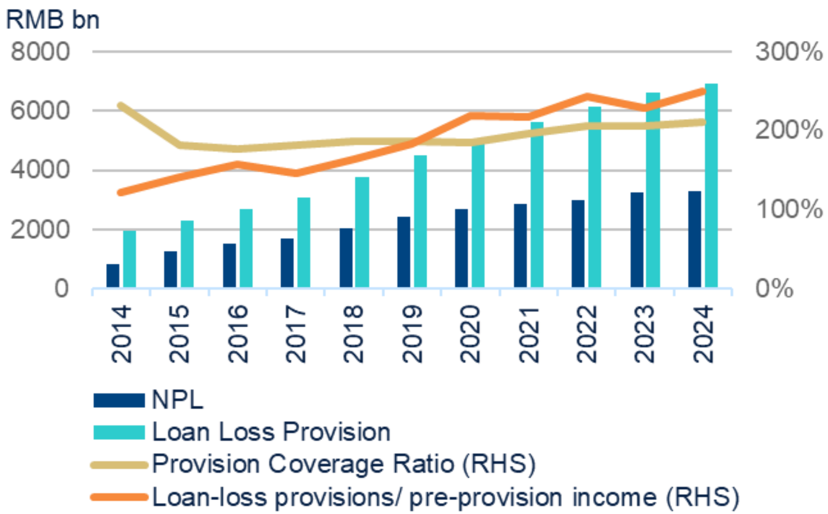
Bank’s resolution of bad loans have accelerated

BAD LOAN RESOLUTION ACCELERATED WHILE LOAN LOSS PROVISION DECLINED



Source: National Financial Regulatory Administration & BBVA Research.

CHINESE BANK LOAN LOSS PROVISION STILL MORE THAN TWO TIMES OF NPL

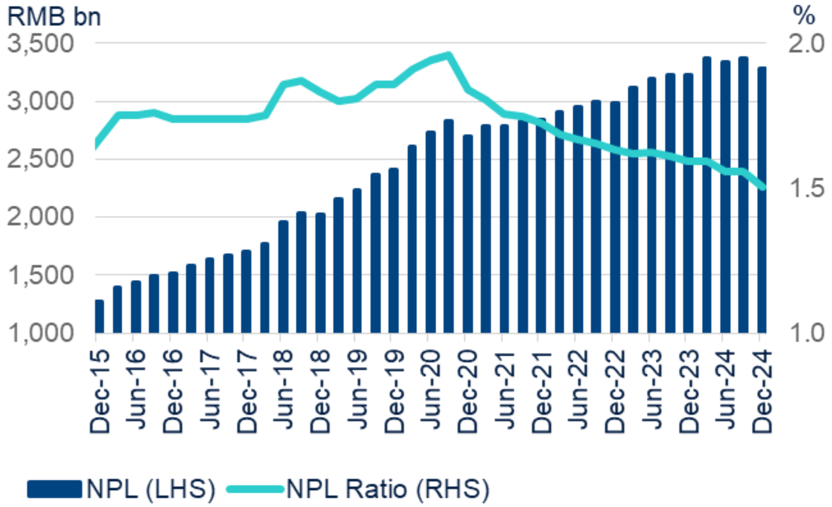


Source: National Financial Regulatory Administration & BBVA Research.

Bad loan resolutions rose to RMB 1,329 billion, marking a 21.2% increase from last year. Although loan loss provisions have declined in response to authorities’ directives to lower provision coverage at large banks - aiming at channeling funds to support the real economy and replenish core tier 1 capital- they still remain more than twice the amount of NPLs.

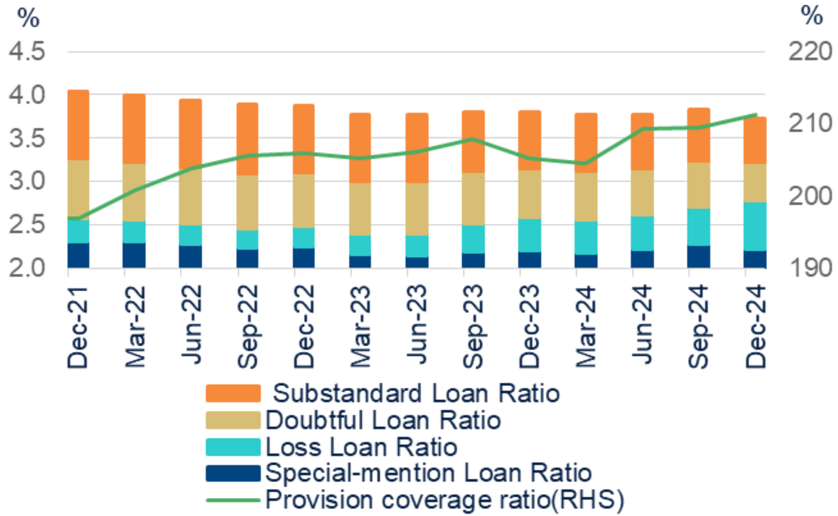
Bad loan ratio declined, benefiting from sustained NPL disposal

NPL RATIO MODERATED AND NPLS LEVEL DECLINED



Source: National Financial Regulatory Administration & BBVA Research.

…SPECIAL- MENTION LOAN RATIO PICKED UP SLIGHTLY , WHILE PROVISION REMAINED HIGH

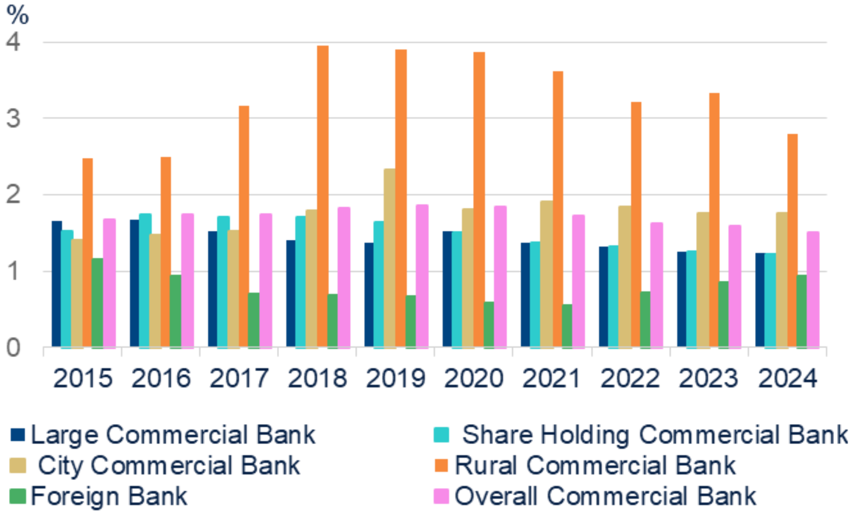


Source: National Financial Regulatory Administration & BBVA Research.

The NPL ratio dipped to 1.5% in Q4 2024 from 1.59% a year earlier, aided by ongoing disposal efforts. However, the special-mention loan ratio inched up to 2.22% from 2.2% in the Q4 2023, signaling persistent transitional risks. US reciprocal tariffs may further strain export-driven sectors, raising bad debt risks for small businesses and unsecured retail loans.

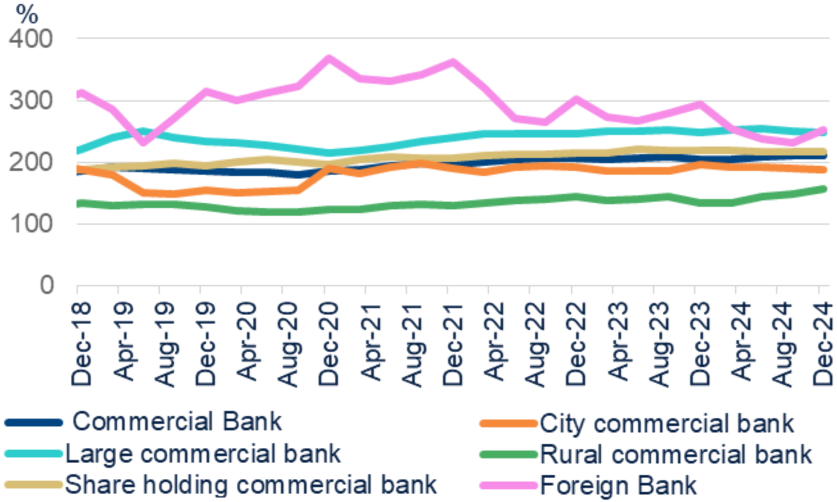
Rising NPL of small lenders prompt authorities to pursue more consolidation

NPL RATIO IN RURAL COMMERCIAL BANKS DECLINED SIGNIFICANTLY AFTER CONSOLIDATION



Source: National Financial Regulatory Administration & BBVA Research.

THE PROVISION COVERAGE RATIO FOR RURAL COMMERCIAL BANKS ROSE ABOVE THE REGULATORY REQUIREMENT

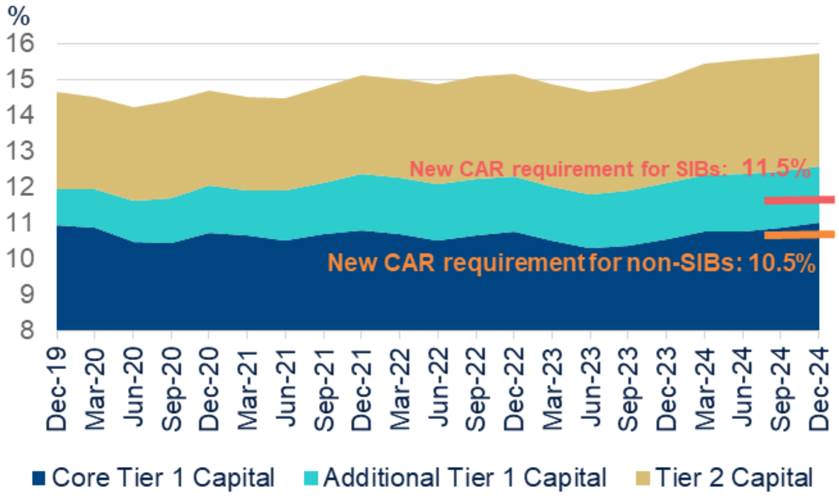


Source: National Financial Regulatory Administration & BBVA Research.

To address small bank risks, authorities accelerated the consolidation, merging around 290 small banks in 2024 - compared to about 70 from 2019 to 2023. Notably, the provision coverage ratio for collectively rural commercial banks rose to 156.4% by end-2024, exceeding the 150% supervisory threshold for the first time since June 2018.

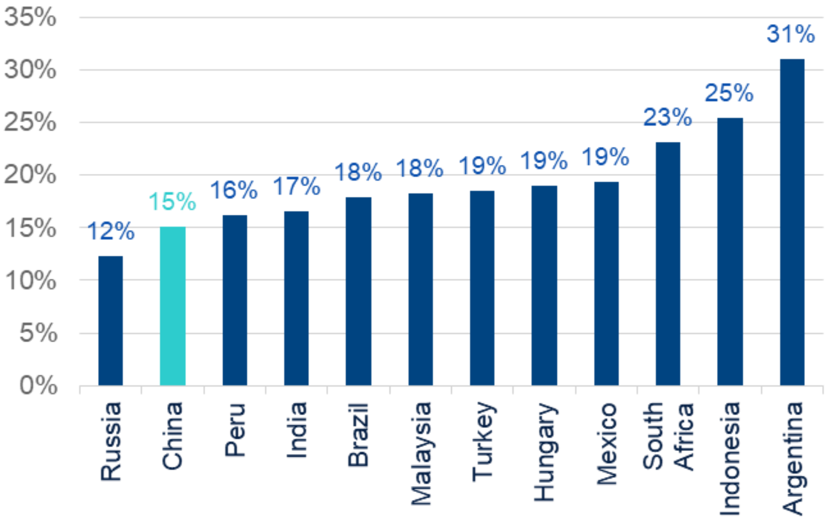
Banks' capitalization has shown steady improvement following the implementation of new capital rule

CORE TIER 1 CAPITAL ADEQUACY RATIO HAS IMPROVED SLIGHTLY



Source: National Financial Regulatory Administration & BBVA Research.

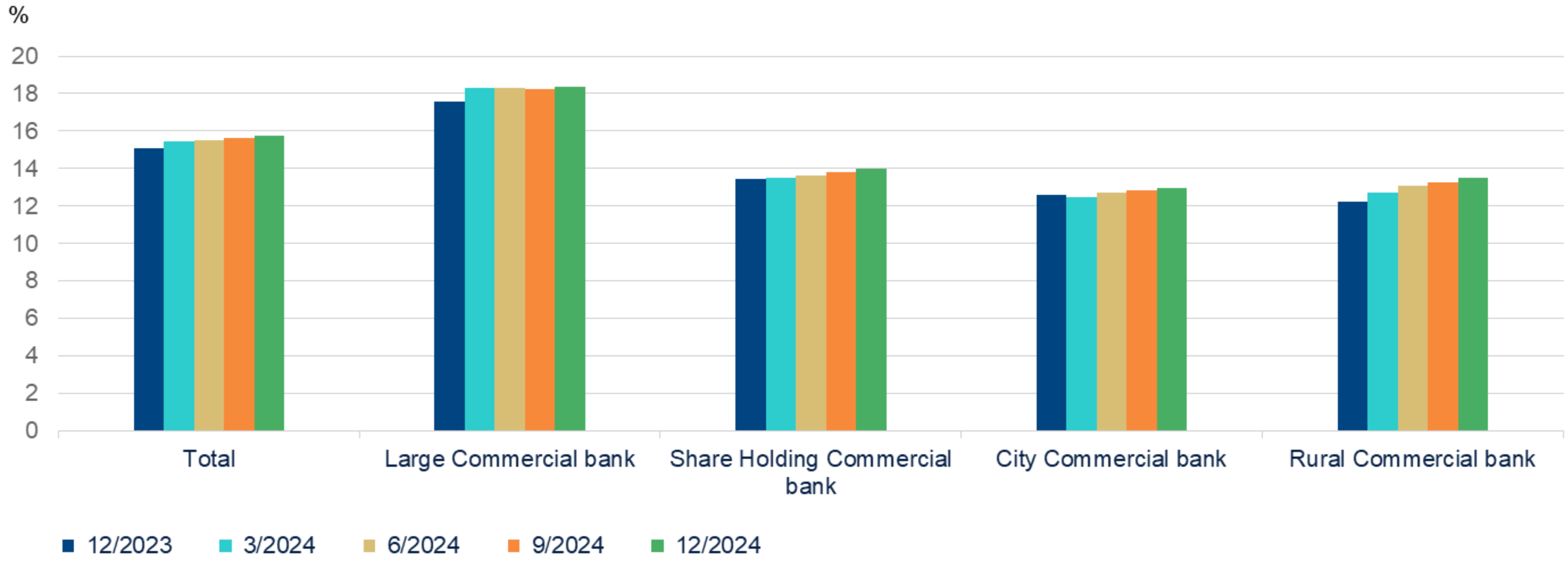
AND CHINESE BANKS' CAR STILL LAG BEHIND THEIR MAJOR EMS PEERS



Source: Haver & BBVA Research.

Slower profit growth has weakened banks' capacity for internal capital replenishment. However, new capital rules effected January 2024 freed up capital for mortgage-exposure banks. Many also issued subordinated debt and perpetual bonds to supplement capital. Core Tier 1,Tier 1, and total capital adequacy ratio rose by 46, 45, and 68 basis points respectively, from end-2023.

A diverged capital buffer distribution among big and smaller banks

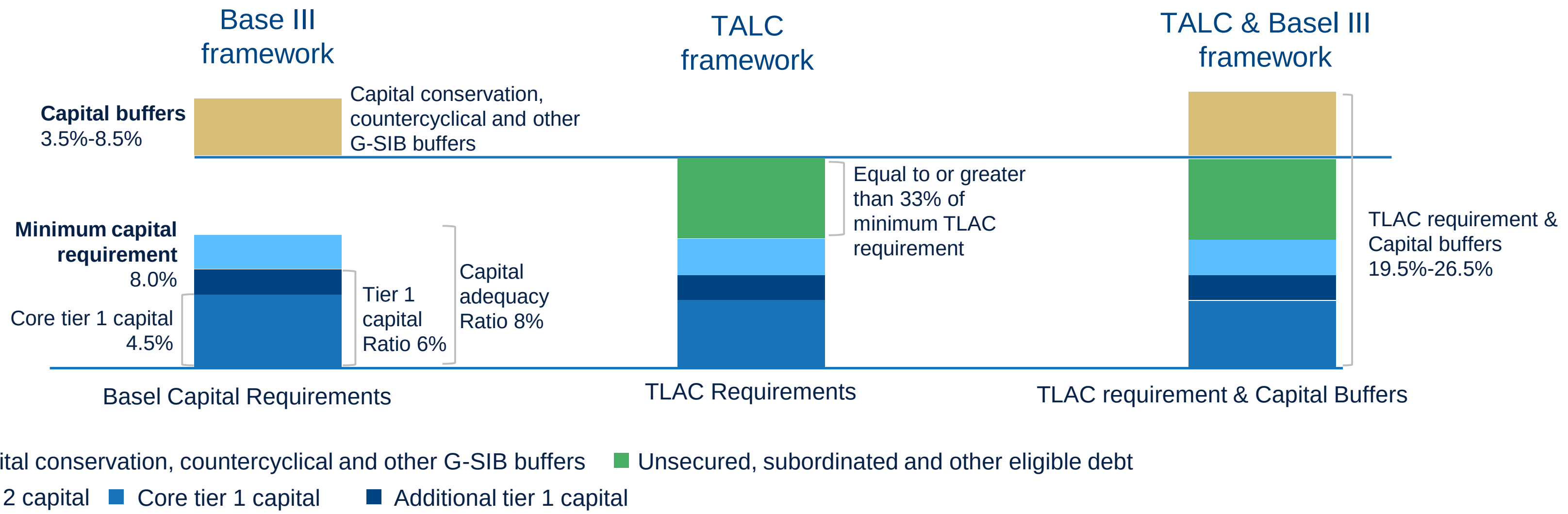


Source: National Financial Regulatory Administration & BBVA Research.

City and rural commercial banks have lower capital adequacy ratios compared with their large commercial bank peers, this is attributed to their larger exposure to the property sector as well as their higher sensitivities of funding costs.

China moves towards TLAC launch

RELATIONSHIP BETWEEN TLAC AND BASEL III

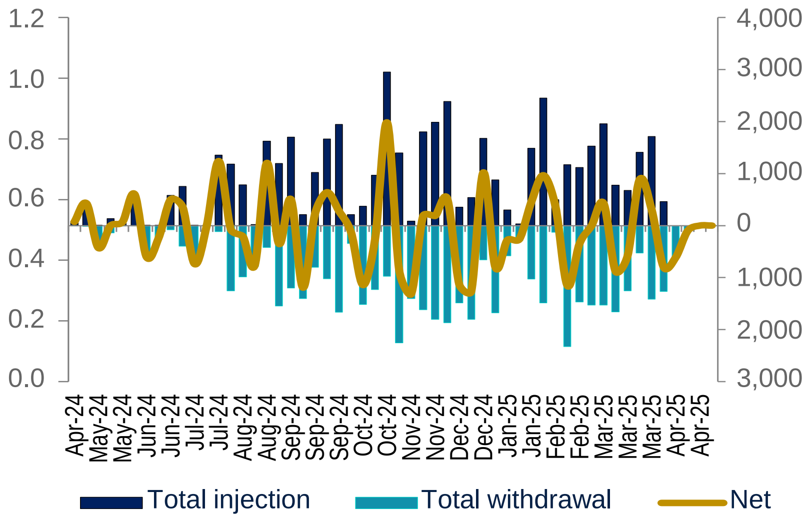


Source: FSB & BBVA Research.

As China moved toward the TLAC launch starting in January this year, the top five Chinese banks are expected to raise RMB 2.5 trillion in capital by the end of 2025 to meet the regulation requirements. To support this, the Ministry of Finance announced it will issue RMB 500 billion in special treasury bonds in 2025 to support bank recapitalization.

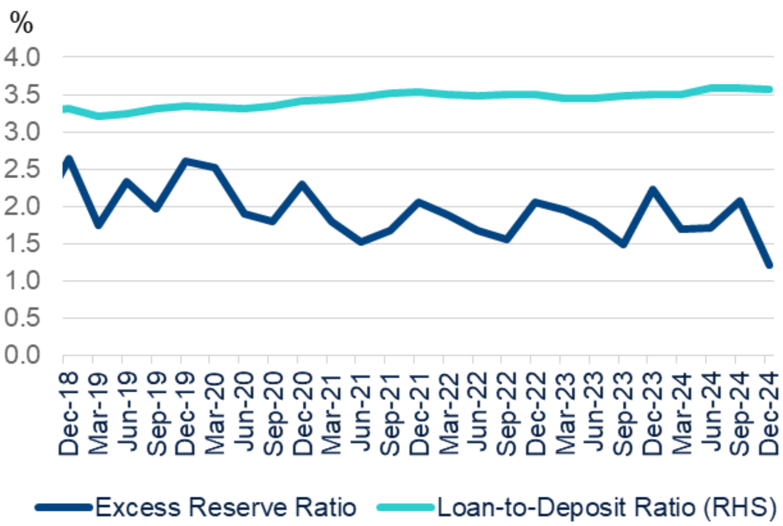
Banks' liquidity remained adequate

CHINA PBOC HAS RELIED LESS ON QUANTITATIVE MEASURES OF LIQUIDITY MANAGEMENT IN 2024



Source: PBoC & BBVA Research.

EXCESS RESERVE INDICATES THAT LIQUIDITY IN THE BANKING SYSTEM REMAIN ADEQUATE



Source: National Financial Regulatory Administration & BBVA Research.

The PBOC reduced its reliance on quantitative liquidity measures in 2024, withdrawing net liquidity from the banking system in the third quarter. The excess reserve ratio fell sharply to 1.2% in Q4, 100 basis points lower than a year ago. Coupled with a rising loan to deposit ratio, this signals a policy shift aimed at encouraging banks to channel liquidity into the real economy rather than hoarding reserves.

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03

Impact of reciprocal tariffs to banks

The tariffs have a negative impact on credit demand, margins and asset quality

The impact of the reciprocal tariffs

CREDIT DEMAND

- **Structural Pressure: Credit demand is under sustained pressure.**
- **Growth Slowdown: Projected credit growth slows by 1%**
- **Maximum loan exposure to US-Bound exporters**: Accounts for 2.6% of total loans.
- **Estimated credit shortfall (2025)**: In a worst-case scenario, a shortfall of RMB 213.9 billion may occur, or 1.2% of total new loans.

NET INTEREST MARGIN (NIM)

- **Current Trend: NIM is approaching the** bottom, limiting further downside.
- **Projected Decline:** NIM is estimated to decline by 14.9bp.
- **Bottom line Forecast:** NIM expected to stabilize at 1.28%.

ASSET QUALITY

- **Manufacturing & small business loans: NPL ratios remain low at** 1.36% and 1.26%, respectively.
- **Real Estate:** Property-related NPLs have declined to 3.55%, indicating signs of stabilization.
- **Retail loans:** NPLs in mortgages, credit cards, consumer and business loans have slightly risen in H1 2024, the NPL ratio could reach 6% in an extreme situation.

Reciprocal tariffs between the US and China are exerting pressure on Chinese banks, particularly due to declining demand from export-oriented manufacturers. Although the tariffs are negatively impacting credit demand and margins, the overall risk to banks remains manageable, with asset quality showing relative stability across most sectors.

Mitigation measures amid the escalating trade war

CREDIT DEMAND

Domestic Demand-related Enterprises:
The Chinese government may adopt fiscal policies to stimulate domestic demand, which could in turn boost consumer loan demand, partially offsetting the decline in credit demand from exporters.

NET INTEREST MARGIN (NIM)

Mitigating Factors:
A reduction in deposit rates and reserve requirement ratio (RRR) reduction. Moreover, regulatory guidance to stabilize consumer loan interest rates (minimum around 3%) may help alleviate downward pressure on NIM.

ASSET QUALITY

Stabilizing Factors:
Government support for local government financing vehicles (LGFVs) and the real estate sector, along with policy support for retail loans, will help stabilize asset quality.

With NIM already nearing its lower limit at 1.24%, there is limited room for further monetary easing. Therefore, fiscal subsidies and demand-side policies will likely play a bigger role in supporting the banking sector.

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04

LGFV debt structures have been optimized, and de-leveraging policies are effective

The announced debt swap problem could ease local government pressure to some extent, but the structural risks remain.

Main messages

PROPERTY MARKET RISKS RELATED WITH LGFVS

As land has been a crucial asset for local government financing vehicles (LGFVs) to finance their investments, many LGFVs find it difficult to sell their assets and service their debt due to the drop in housing prices.

EXPOSURE TO BANKS

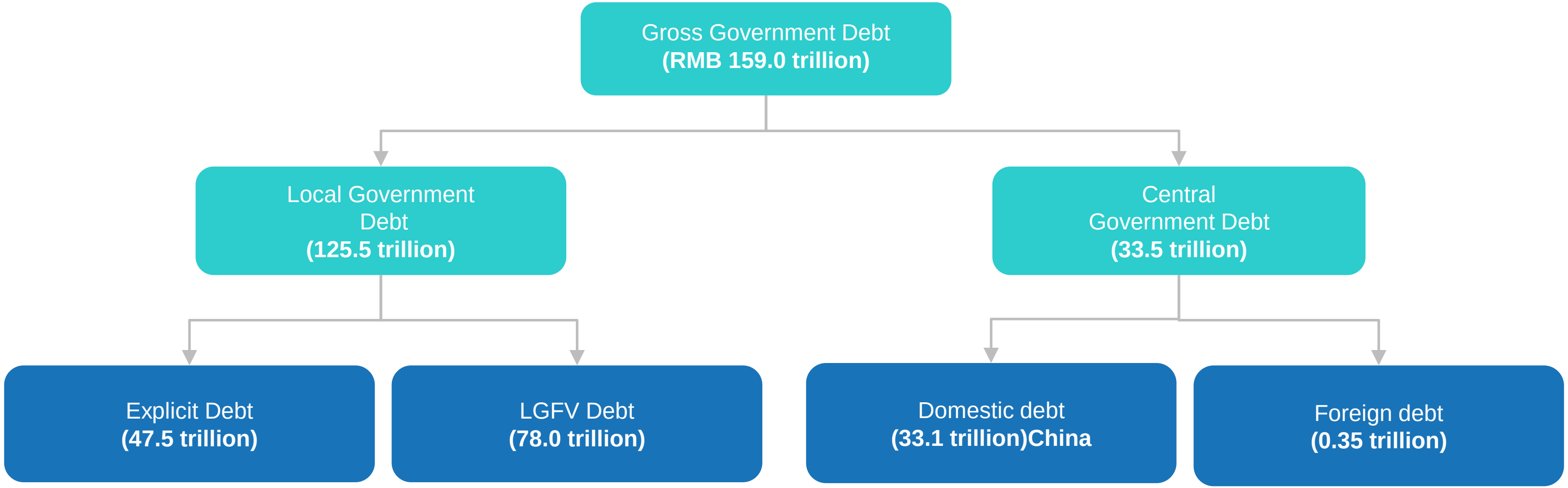
Banks have a greater exposure to LGFVs than to the housing sector. According to estimates, the LGFVs' debt amounted to RMB 78 trillion in Q3 2024, equivalent to 58% of China's GDP.

DEFAULT RISK

We expect that the default risk of LGFVs is still low compared to property companies due to the implicit government guarantee. We believe that local government are willing to continue supporting LGFV, as preventing systemic financial risks remains a top priority for the government. There is a possibility of isolated credit events occurring, and banks are likely to bear some of the costs associated with resolving the debt.

“Hidden debts” issued by the LGFVs debt will pose risks to the banking sector

DEBT STRUCTURE OF CHINA’S GOVERNMENT DEBT BY END OF Q3 2024

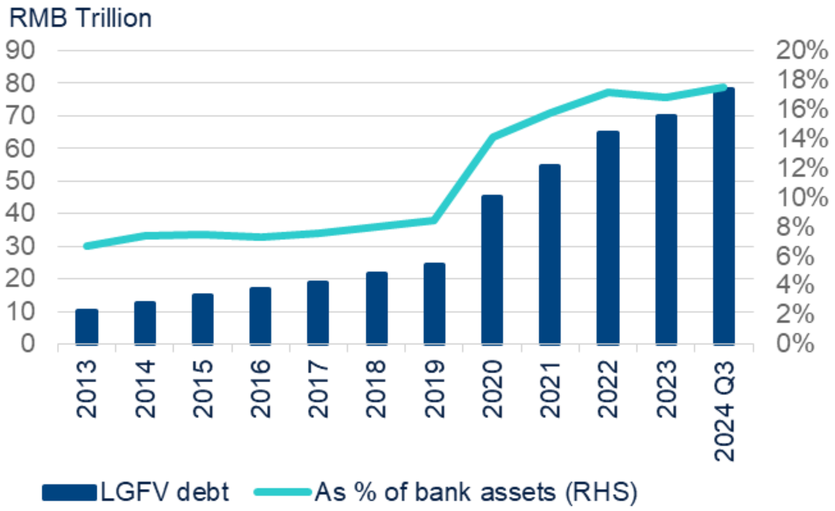


Source: CBRIC, S&P rating & BBVA Research.

With land-sale revenue falling sharply in recent years, concerns are growing over local governments’ ability to support LGFVs. To relieve local government pressure, China approved issuance of RMB 10 trillion (USD 1.4 trillion) in local governments debt swap program through 2028, though it may short of full deleveraging.

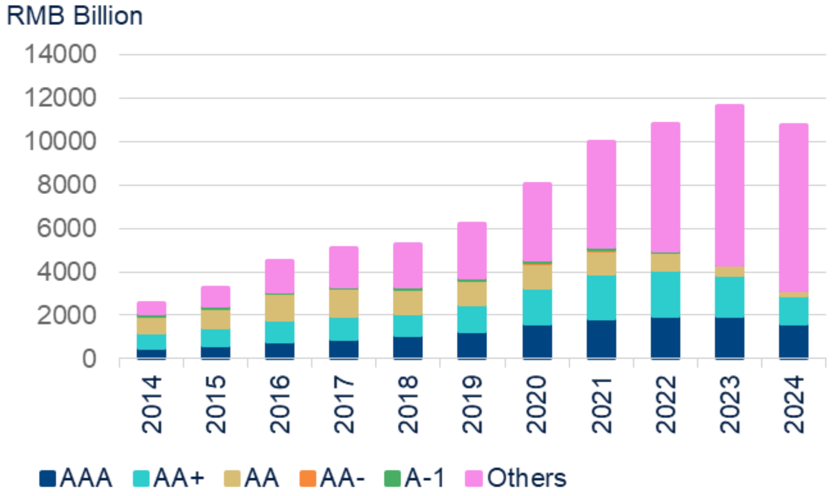
China's debt swap program helped to ease LGFV burden, but structural risks persist

LOCAL GOVERNMENT DEBTS HAVE GROWN RAPIDLY IN THE PAST SEVERAL YEARS



Source: CBRIC, S&P rating & BBVA Research.

ACCELERATED DEBT SWAP PROGRAM AIMS TO EASING LGFV BURDEN

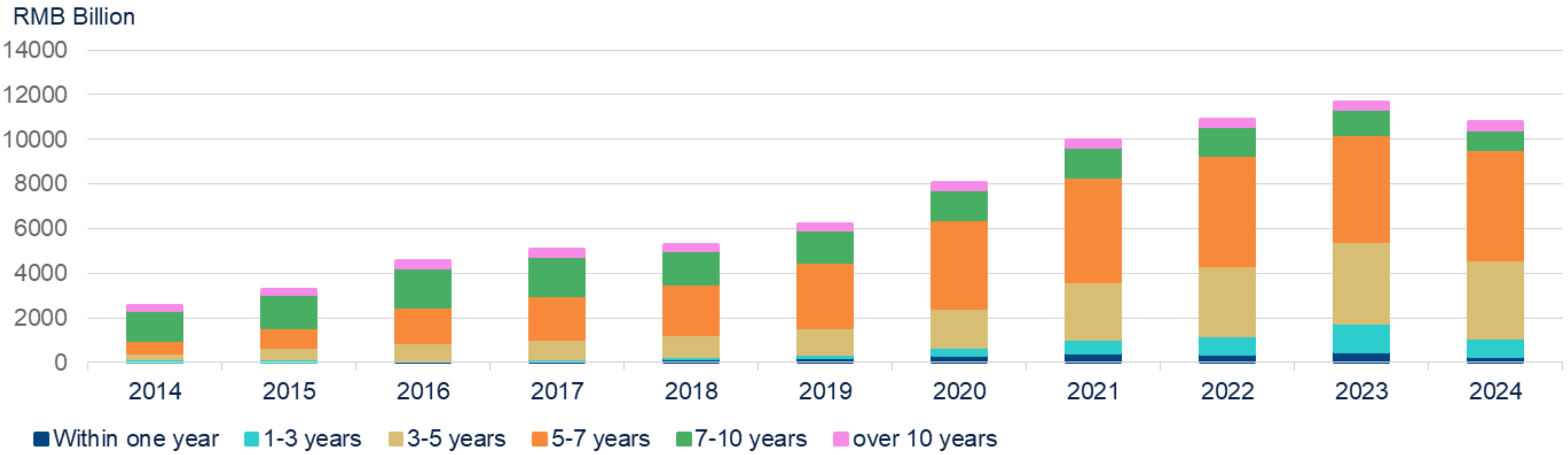


Source: PBoC & BBVA Research.

Local government held "hidden debt" held by their LGFVs has risen fast, which has more than tripled in the past five years, with an estimates amount of around RMB 78.0 trillion at Q3 2024. China's accelerated debt swap program helped to reduce LGFV's burden, however, the success of this strategy hinges on economic growth, revenue enhancement, and deeper fiscal reforms.

Most of LGFVs debt listed in stock exchange will mature in 5-7 years, while majority proportion of offshore debt will mature in 2025

MOST OF LGFVS DEBT IN LISTED FIRMS WILL MATURE IN 5-7 YEARS

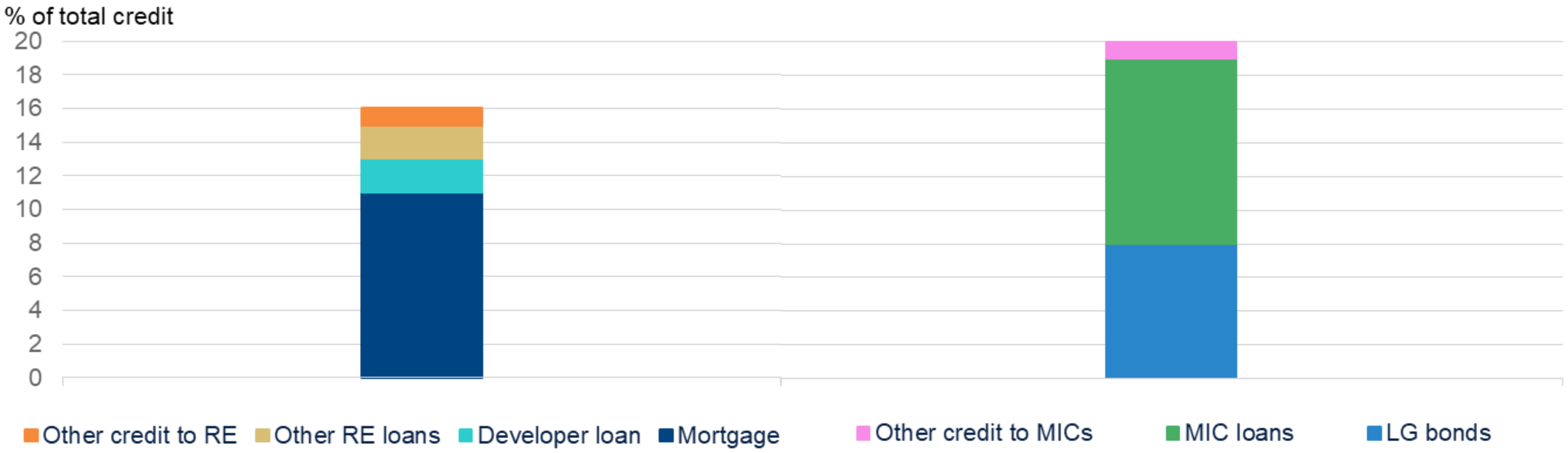


Source: China Central Depository & Clearing Co., Ltd. (CCDC) & BBVA Research.

Most LGFVs debt in listed firms will mature in 5-7 years, with RMB 2.54 trillion in bonds due over the next 12 months - 13% more last year. China's LGFVs are projected to face significant debt maturities in the offshore market this year, with a 69.4% rise in maturities, reaching USD48.2 billion, signaling increased financing pressure.

Chinese banks have larger exposures to local governments financing vehicles (LGFVs) than to the housing sector

BANKS' EXPOSURE TO HOUSING AND LOCAL GOVERNMENT DEBT IN 2023



Source: Haver, IIF & BBVA Research. *total credit uses bank claims and other assets excluding bank claims on the central bank.

According to analysis by IIF, banks have larger exposures to local governments financing vehicles (LGFVs) than to the housing sector. Idiosyncratic credit events could occur and banks will likely to bear some of the cost of debt resolution, however, we deem the LGFVs will not pose a systemic risk to the banking system due to local government implicit bailout.

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05

Shadow banking activities

Banks interconnectedness with the shadow banking system has further edged up

Main messages

SHADOW BANKING ASSETS

Shadow banking assets picked up, but still lower than the 2021's level. The broad shadow banking assets rose to RMB 53.3 trillion in 2024 from RMB 49.0 trillion in 2023. The increase was driven by wealth management products (WMPs) and trust loans, which are benefited by low-interest rate environment.

MAJOR COMPONENTS

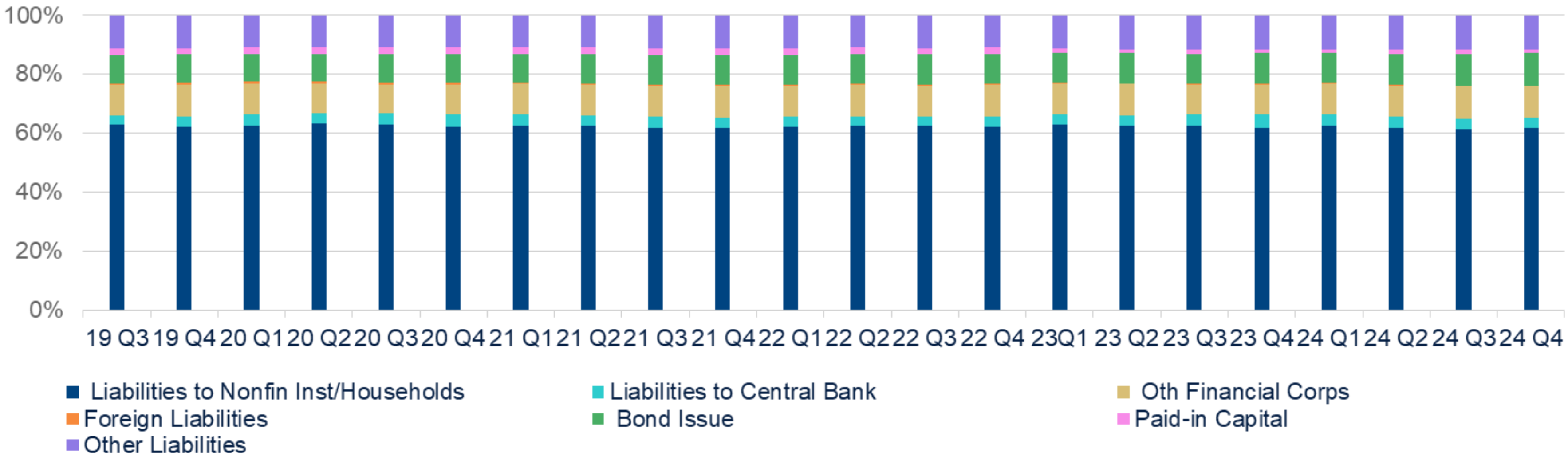
Asset funded by WMPs picked up accordingly, while exposures to principal protected products continued declining. The balance of trust loans also grew, with short term payment pressure increasing in response to the government's call to help stabilize the real estate industry and reduce developers' refinancing risks.

INTERCONNECTEDNESS TO BANKS

Banks interconnectedness with the shadow banking system edged up slightly. The decline of interest rate in the interbank market has encouraged smaller banks to rely more on interbank funding.

Banks' funding dependence on the shadow banking system has edged up slightly

BREAKDOWN OF BANKS LIABILITIES



Source: PBoC & BBVA Research.

Banks' reliance on nonbank financial institutions has slightly rose, as the decline in interest rates in the interbank market has encouraged smaller banks to take part in interbank activities. However, there is a low possibility that shadow banking risks will spread more widely to the banking industry amid strict regulatory supervision.

Shadow banking components

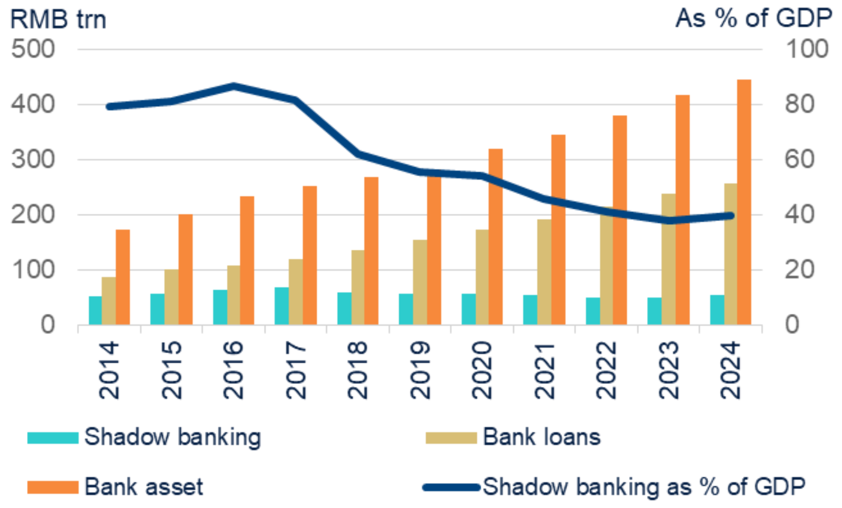
BREAKDOWN OF BANKS SHADOW BANKING SYSTEM

Credit Intermediation Products	2024 (RMB Trillion)	As % of total banking assets (%)	2023 (RMB Trillion)	As % of total banking assets (%)	2022 (RMB Trillion)	As % of total banking assets (%)	2021 (RMB Trillion)	As % of total banking assets (%)	2020 (RMB Trillion)	As % of total banking assets (%)	2019 (RMB Trillion)	As % of total banking assets (%)	2018 (RMB Trillion)	As % of total banking assets (%)
Entrusted loans	11.2	2.5	11.3	2.7	11.2	3.0	10.9	3.2	11.1	3.5	11.4	4.0	12.4	4.7
Trust loans	4.2	0.9	3.9	0.9	3.8	1.0	4.4	1.3	6.3	2.0	7.5	2.6	7.9	3.0
Undiscounted bank's acceptance bills	2.2	0.5	2.5	0.6	2.7	3.0	3.0	0.9	3.5	1.1	3.3	1.2	3.8	1.5
Assets funded by WMPs/ AMPs	26.3	5.9	21.9	5.2	21.5	5.8	24.0	7.1	24.7	7.9	23.4	8.3	24.4	9.3
Bank's off-balance sheet	25.9	5.8	21.8	5.2	21.3	5.7	22.6	6.7	20.7	6.6	16.7	5.9	15.8	6.1
Securities firms and funds	0.4	0.1	0.0	0.0	0.2	0.0	1.4	0.4	4.0	1.3	6.7	2.4	8.6	3.3
Loans by finance companies	3.8	0.9	3.8	0.9	3.8	1.0	3.9	1.2	3.4	1.1	3.3	1.2	3.2	1.2
Others*	5.6	1.3	5.6	1.3	7.3	2.0	7.5	2.2	6.8	2.2	6.8	2.4	6.3	2.4
Total	53.3	12.0	49.0	11.7	50.3	15.8	53.7	15.9	55.8	17.8	55.7	19.7	58.0	22.1

Source: BBVA estimated based on Moody shadow banking report and China Banking Industry Financial Management Market Annual Report, assuming Loans by finance companies and others the same as 2023
*Includes financial leasing, microcredit, pawn shop loans, online "peer-to-peer" lending, asset-backed securities and consumer credit companies.

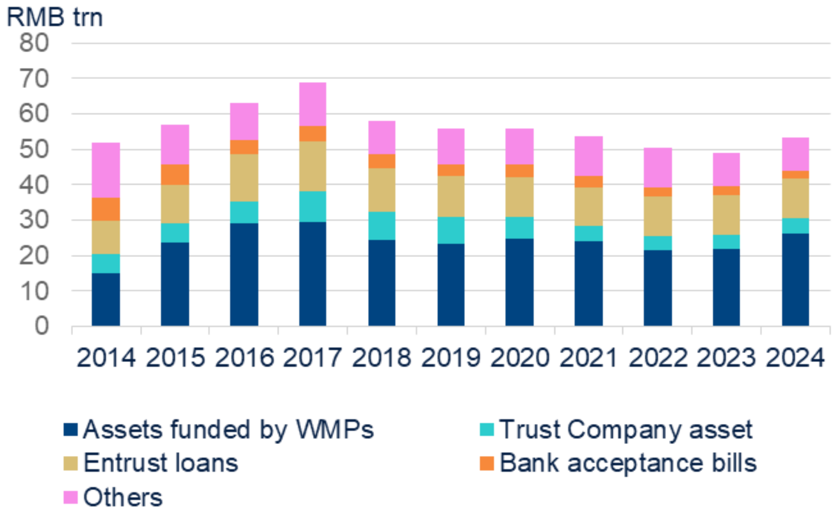
China shadow banking assets edged up

SHADOW BANKING ASSETS AS % OF GDP TICKED UP MARGINALLY



Source: China Banking Industry Financial Management Market Annual Report 2024 & BBVA Research.

THE ACCELERATE OF SHADOW BANKING SECTOR IS MAINLY DRIVEN BY WMPS AND TRUST LOANS

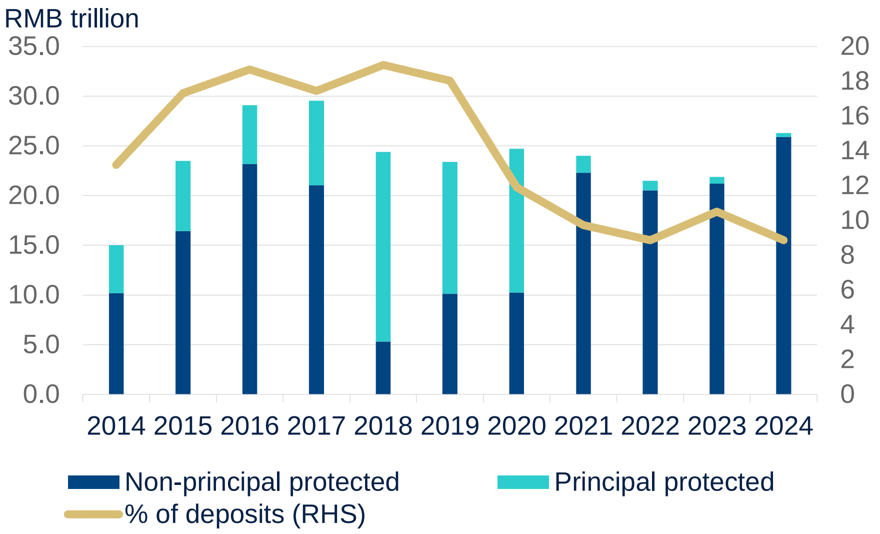


Source: PBOC, Moody report & BBVA Research.

As the government's policy focus shifts to promoting economic growth, the shadow banking assets picked up slightly in 2024 compared with 2023, but still lower than the level in 2021. The broad shadow banking assets edged up to RMB 53.3 trillion in 2024 from RMB 49 trillion in the previous year.

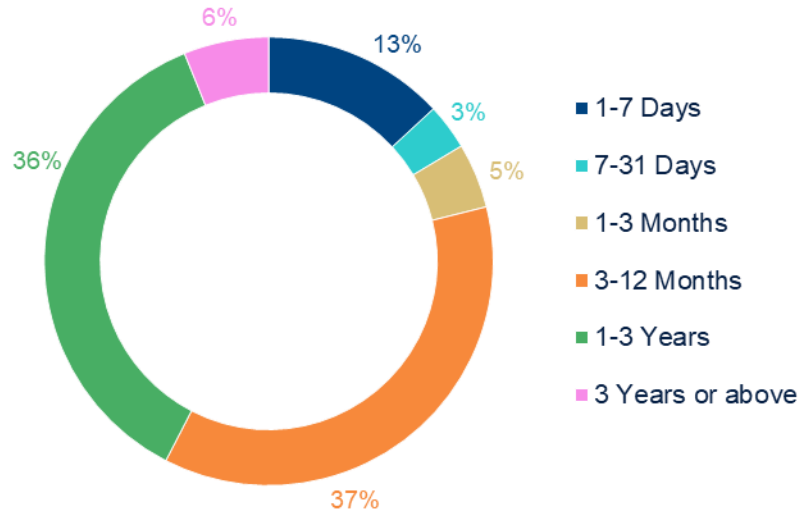
Interbank and non-standard wealth management products continued to shrink in 2024

PRINCIPAL PROTECTED WMPS OUTSTANDING HAS FURTHER DECLINED



Source: China Banking Wealth Management Market Annual Report 2024 & BBVA Research.

THE MAJORITY OF WMPS OUTSTANDING BY THE END OF 2024 IS 3-12 MONTHS

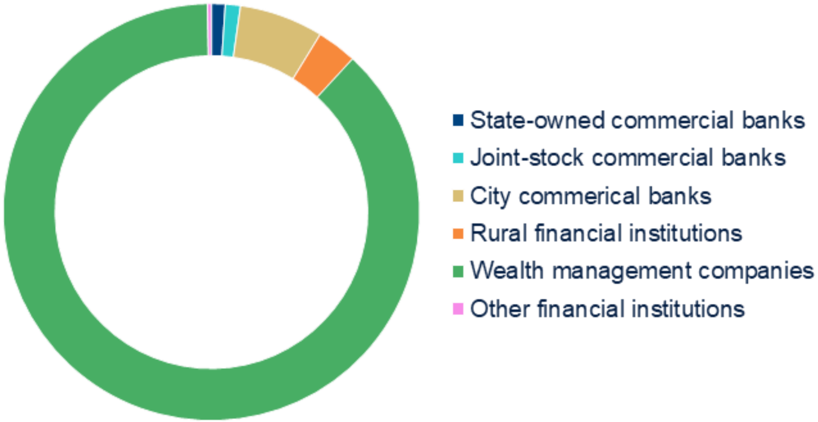


Source: Wind & BBVA Research.
*According to the WMPs that has published yield rate.

Although off balance sheet of WMPs edged up to RMB 26.3 trillion from 21.9 trillion in the preceding year, both interbank and non-standard wealth management products as percentage of total wealth management products continued to shrink. The majority of WMPs outstanding have maturity of 3-12 months.

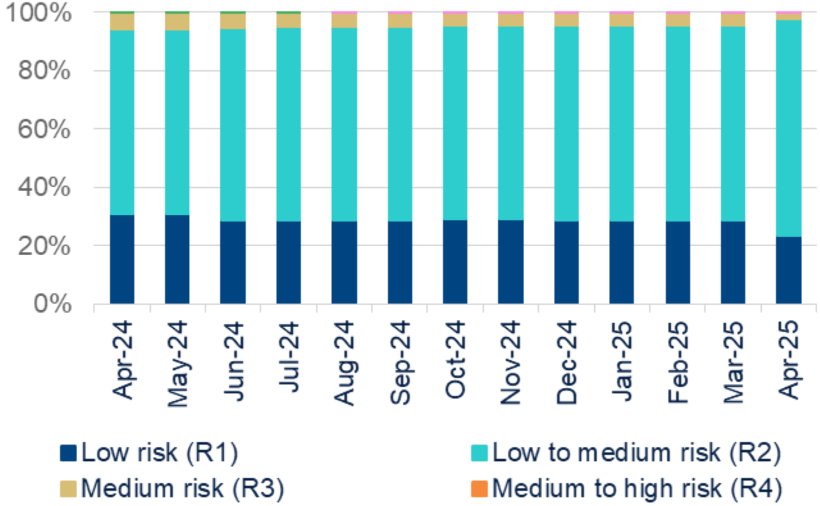
Banks established WMP companies to provide financing while ring fence associated risks

THE WMPS ARE MAINLY ISSUED BY WEALTH MANAGEMENT COMPANIES BY SIZE



Source: China Banking Wealth Management Market Annual Report & BBVA Research.

THE UNDERLYING ASSETS OF THE OUTSTANDING WMPS ARE MOSTLY FIXED INCOME ASSETS WITH R2 RISKS

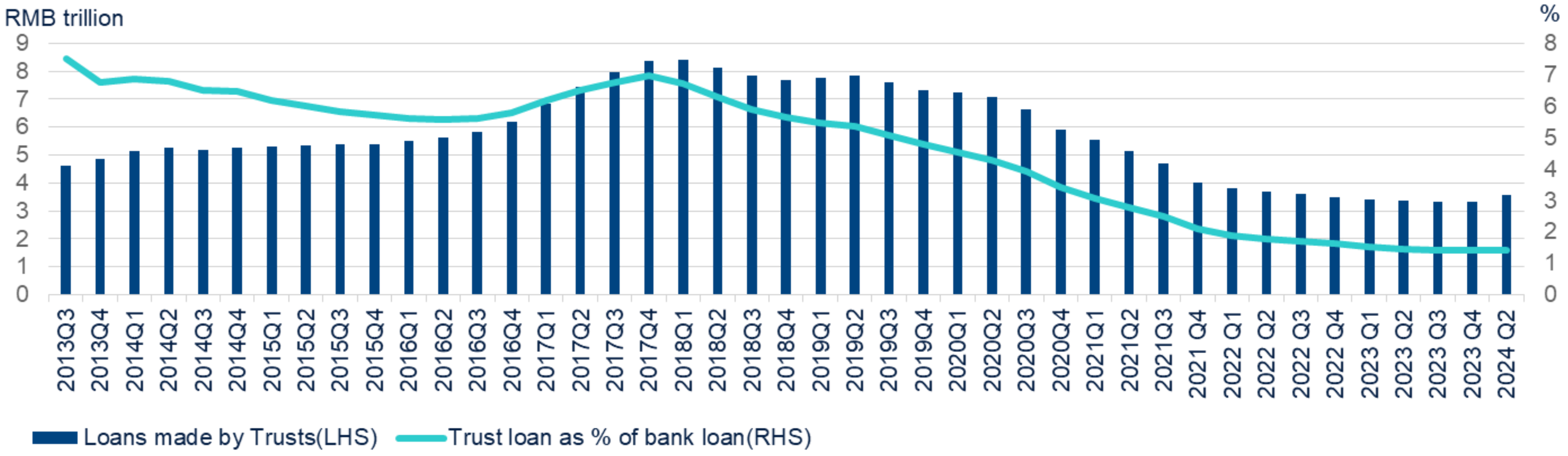


Source: Wind & BBVA Research.

The WMPs are mainly held by wealth management companies. Banks established independent WMP subsidiaries to ring fence associated risks. Most assets under the WMPS are corporate bonds, which have low to medium risks (R2).

The balance of trust loans assets picked up

TRUST COMPANY LOANS CONTINUED TO DECLINED

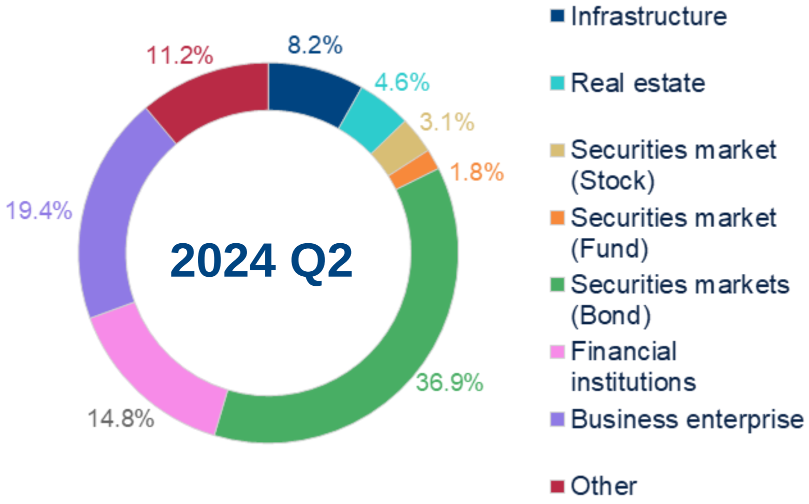


Source: China Trustee Association & BBVA Research.

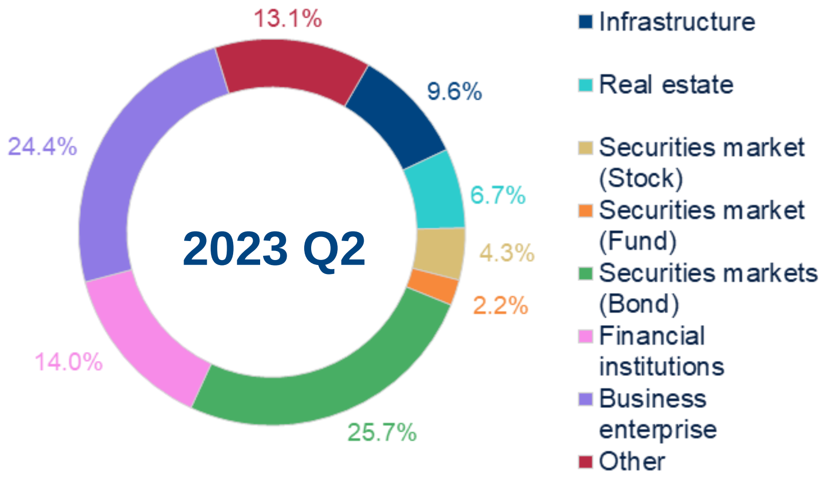
The balance of trust loans grew moderately, with the balance of trust assets rising to RMB 3.5 trillion at the end of Q2 2024 compared to RMB 3.3 trillion in the Q4 2023, as the government encouraged the trust sector to help stabilize the real estate industry and reduce developers' liquidity and refinancing risks.

Trust assets pivoting away from infrastructure and real estate to bond market

AUTHORITIES PUT STRICT MONITOR ON THE FINANCING CHANNEL FOR INFRASTRUCTURE AND REAL ESTATE



Source: China Trustee Association & BBVA Research,

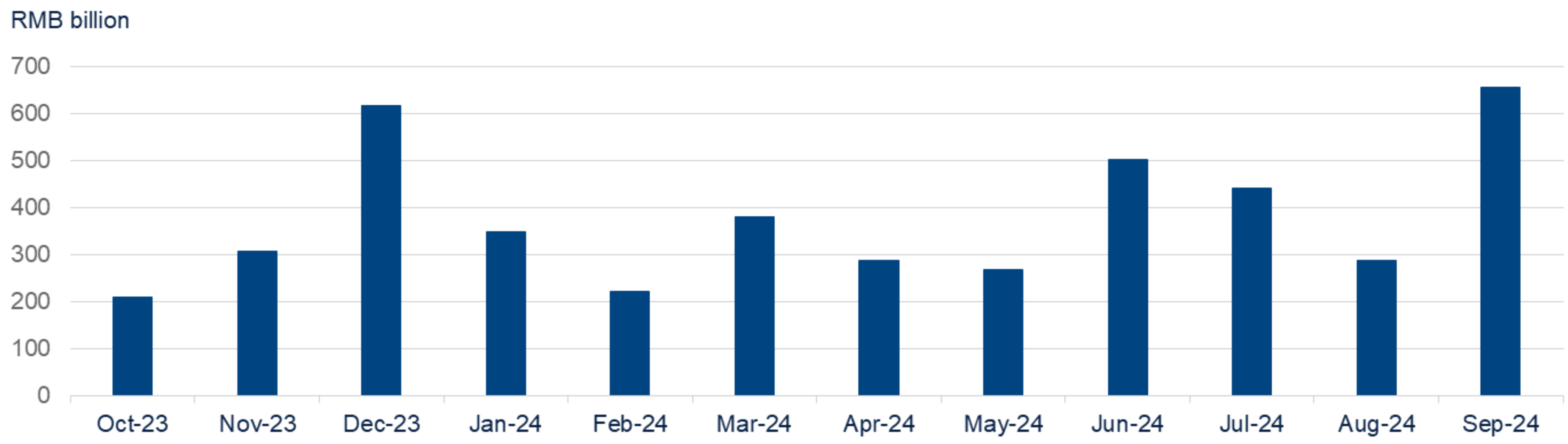


Source: China Trustee Association & BBVA Research,

The trust sector has scaled down its direct exposure to the infrastructure and real estate sector, the contagion risk is manageable as the exposure declines. However, the downturn in the real estate sector still poses significant credit risks to trust firms. Difficulties in the real estate market will affect the underlying asset quality and liquidity of trust schemes.

Short-term payment pressure on trust projects has increased significantly

TRUST EXPIRATORY STATUS



Source: China Trustee Association & BBVA Research.

The short-term repayment or refinancing pressure on trust projects has markedly increased. As of the end of the third quarter of 2024, the total number of trust projects due in the next 12 months increased by 22.1% from a year ago.

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06

Banking sector's outlook

Entering 2025, the banking sector faces mounting challenges

The banking sector enters 2025 with increased headwinds

Asset growth

Asset growth is likely to slow in 2025 weighed by the weak credit demand, although the government's willingness to push large lenders to channel new credit into public sector and help struggling real estate developers to finish their property projects and deliver quality property on time remained unchanged.

Asset quality

We expect China banks' asset risks will remain elevated in 2025, as higher US tariffs could weigh on China's economy and spill over to the banking sector. Banks asset risks to the LGFVs is manageable with the government debt swap program announced last year, but the structural risks remain.

Profitability

Banks' profitability will continue to be pressured in 2025. We expect the prolonged period of low interest rate environment will continue as China will take the moderate loose monetary policy in 2025, causing persistent pressure to Chinese banks' NIM. Banks' asset yield will keep trending down, and the reduction in deposit costs can only partially mitigate the impact.

Capitalization

Banks' capital ratios are likely to remain to be stable in 2025 because of the slower loan growth as slower risks weighted asset growth will lower capital requirement. The central government will also inject equity capital into large state-owned banks, but small lenders are still subject to capital shortfalls.

Shadow banking

Shadow banking as a provider of credit to the real economy will rose slightly in 2025 as the decline in interest rates in the interbank market will encourage smaller banks to use wholesale funding facilities. However, there is a low possibility that shadow banking risks will spread more widely to the banking industry amid regulators' prudence policies.

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Research

China Banking Monitor

April 2025

Creating Opportunities