Banks - China

Asia II Financials meeting takeaways – Week 3: slower & smoother loan growth

Industry Overview

29 January 2024

Equity
China
Banks-Multinational

Meeting takeaways from management for Week 3

We continue to host bank managements and experts for calls. See summary below and details inside. Also see takeaways for week 1&2, CMB and LGFV (reports linked).

BOC: new RMB loan amount in 2024 is expected to be similar as in 2023. BOC's loan allocation is already smooth through quarters thus won't see any big change this year. It hopes to increase retail loan mix in 2024, although mortgage demand remains lackluster YTD. Domestic NIM will continue to be weighed by mortgage back-book repricing, LPR cut and deposit maturity lengthening. Overseas NIM may see headwinds from Fed rate cut, but BOC will adjust B/S to slow the impact. It expects a stable provision/coverage in 2024. It sees profit pressure this year due to NIM decline and high base of fee income.

CCB targets a YoY increase in new loan amount in 2024. 1Q may account for 30% of full year new loans in 2024, vs 40% in 2023, following regulator's guidance to smooth loan granting pace. CCB plans to grow more retail loans in 2024. YTD, consumption loans and personal business loans maintain fast growth, while mortgage loan issuance may decline YoY in 1Q24 from a high base, but CCB targets a positive mortgage growth in FY24. NIM will continue to decline in 2024, though probably at a milder pace after 2Q.

CSRB managed to achieve its revenue/profit targets set at the beginning of the year and expects FY23 full year growth would be similar/slightly lower than 9M23 level. CSRB's FY24 new loan size is expected to remain similar as in FY23 thus the loan growth rate will be lower than that of FY23. CSRB is trying to balance loan growth with asset quality. Regulator's recent guidance on raising inclusive SME loan ticket size ceiling from RMB10mn to RMB20mn may benefit CSRB from competition perspective.

FinTech credit expert: our expert believes the FinTech credit market will continue to grow, albeit at a milder pace vs past years. Performance will diverge among players. Ant and Tencent (WeBank)'s loan growth could be contained given their large size. Within smaller platforms, ByteDance has emerged into a leading player and will continue to grow at a fast pace in 2024, given its massive user base and rich consumption scenes. Pinduoduo and Kuaishou, although not taking many actions so far, could also grow their FinTech lending business in the future. JD and Meituan are losing market share. Du Xiaoman/QFIN may only grow at moderate pace, due to lack of consumption scenes.

FinTech payment expert: our expert believes the FinTech payment industry has passed the high-growth era and will enter a stable growth period. 2B business and cross-border business could be new growth drivers. AliPay/TenPay are likely to maintain their market dominance in non-bank payment. UnionPay is gaining customers via subsidies, mainly in tier 1-2 cities, but hard to challenge AliPay/TenPay's status. ByteDance may be a challenger, however, it needs to invest a lot to change customers' mind.

Table of Contents

Winnie Wu >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3058
winnie.wu@bofa.com

Emma Xu >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 8165
emma.xu@bofa.com

Wenqing Han, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 5032
wenqing.han@bofa.com

CRE: Commercial Real Estate

JD: Jingdong

LPR: Loan Prime Rate

LGFV: Local Government Financing Vehicle

NIM: Net Interest Margin

NPL: Non-performing Loan

QFIN: Qifu Technology

More Acronym at the end of the report

Timestamp: 28 January 2024 06:00PM EST

Exhibit 1: 2024 Asia II China Strategy & financials meeting schedule

We will be hosting around 40 calls during January and February 2024

Date	Sector	Company/Topic	10-11am	11-12am	12-2pm	2-3pm	3-4pm	4-5pm	6:30pm
Jan 29th, Mon	Bank	China Citic Bank (998 HK)						Dial in1	
Jan 31st, Wed	Bank	Shanghai Pudong Development Bank (600000 CH)	Dial in2						
Jan 31st, Wed	Bank	China Industrial Bank (601166 CH)					Dial in3		
Jan 31st, Wed	Bank	China Everbright Bank (6818 HK)						Dial in4	
Feb 1st, Thurs	Bank	Ping An Bank (000001 CH)	Dial in5						
Feb 1st, Thurs	Bank	Minsheng Bank (1988 HK)						Dial in6	
Feb 2nd, Fri	Bank	Agriculture Bank of China (1288 HK)	Dial in7						
Feb 5th, Mon	Bank	Industrial & Commercial Bank of China (1398 HK)						Dial in8	
Feb 23rd, Fri	Bank	Hang Seng Bank FY23 post result call with CFO (11 HK)	Register1						
Feb 23rd, Fri	Group lunch	HSBC post result lunch with CFO (5 HK)			Register2				

Replay	China Pacific Insurance Group (2601 HK)	Takeaway	CPIC: Dividend, growth and assumption changes
Replay	CITIC Securities (6030 HK)	Takeaway	CITICS & Huatai: Mutual funds, IPO, prop trading
Replay	China Merchant Bank (3968 HK)	Takeaway	CMB: Top line remain challenged in 2024
Replay	Huatai Securities (6886 HK)	Replay	Bank of Suzhou (002966 CH)
Replay	Zhong An Online P&C (6060 HK)	Replay	BOC Hong Kong (2388 HK)
Replay	Expert call on muni bond issuance & LGFV risks	Takeaway	LGFV: increased market confidence, but challenges remain
Replay	PICC Group/PICC P&C (1339 HK/2328 HK)	Takeaway	PICC Property & Casualty: CoR, dividend, and investment
Replay	Chongqing Rural Commercial Bank (3618 HK)	Replay	Expert call on China e-payment industry development
Replay	Bank of Nanjing (601009 CH)	Replay	Expert call on evolving FinTech credit industry landscape
Replay	New China Life (1336 HK)	Replay	China Life (2628 HK)
Replay	Bank of Communication (3328 HK)	Replay	Postal Savings Bank of China (1658 HK)
Takeaway	Cheers to consumption upgrade & asset price rally – SG marketing trip feedback	Takeaway	QFIN (QFIN US/3660 HK) update call with CFO
Replay	Changshu Rural Commercial Bank (601128 CH)	Replay	2024 Jumpstart sales channel check
Replay	Mega (2886 TT)	Replay	Bank of China (3988 HK)

Source: BofA Global Research

BofA GLOBAL RESEARCH

Company meeting takeaways

Bank of China (BOC, 3988 HK)

Loan growth: BOC's new RMB loan amount was around RMB2.2tn in 2023. As it targets a similar new loan amount in 2024, the growth rate would be 2-3ppt lower this year. Corporate loans accounted for ~90% of new loans in 2023, vs. 40-60% previously, due mainly to the weak mortgage loan growth. BOC hopes to increase retail loans granting in 2024, while YTD loan granting is still dominated by corporate loans' jump-start sales, whereas mortgage demand remains lackluster. Regulators guided on smoother loan allocation between quarters, as BOC's loan granting is already relatively smooth, it won't see a big change on loan granting pace.

Loan allocation: sector focus of corporate lending will be similar to that of last year, focusing on green financing, advanced manufacturing, infrastructure, strategic new emerging industry etc. Local government projects approved last year now have started to draw down the loan demand in the 1Q24. Regarding the over-capacity, BOC thinks, from their risk management perspective, the industries such as NEV (New Energy Vehicle) and solar still have the room to grow and they can pick good borrowers/industry leaders as their clients. Currently they are not seeing any NPL stress in such areas.

Domestic NIM will continue to be weighed by mortgage back-book repricing, LPR cut and deposit maturity lengthening. Corporate loan yield is still declining but the decline in 2024 is expected to be less compared to that in 2023. Mortgage back book re-pricing will still weigh on the bank's NIM in Q1-Q3 and its in-house view of two potential LPR cut this year also add pressures to NIM. On liability side, the key negative factor is the deposit maturity lengthening given investors' low risk appetite, while deposit rate cuts only partially offset the NIM decline and will take a long time to show the effect. **Overseas NIM** benefited from the US rate hikes last year. The Fed rate cut is expected to take place in 2H24 but both the pace and magnitude are uncertain yet. BOC may adjust the mix of FX assets and increase the loan maturity to benefit from the higher interest rate for a longer term. It will also try to increase its loan to deposit ratio as well as reduce time deposit migration to strengthen its NIM.

Asset quality: BOC expects a stable provision and coverage in FY24. It increased provisions in FY23, while most of its peers cut the provisions during the same period, as the bank wants to 1) keep a reasonable provision level given a strong loan growth; and 2) to proactively take provision for future risk.

Net profit sees pressure in 2024 as 1) NII is weighed by margin decline; 2) 2023 is a high base for fee income growth in 2024.

Inclusive SME loans: regulator didn't give banks any guidance on inclusive SME loan growth in 2023 but BOC still achieved fast loan growth of +35.6% YoY by 9M23. Such loan has relatively high loan yield with stable asset quality (NPL ratio below 1%) thus is a good source of loans for the bank. PBOC recently raised the inclusive SME loan ticket size ceiling from RMB10mn to RMB20mn, which could benefit more mid-sized private firms.

China Construction Bank (CCB, 939HK)

Loan growth: CCB targets a YoY increase in new loan amount in 2024. According to regulator's window guidance, the loan issuance will be smoother this year and 1Q's issuance will account for 30% of the full year new loans (vs. 40% in 1Q23), followed by 30% in 2Q, 20% in 3Q and 20% in 4Q. YTD loan demand is better than last year but diverges among regions. **Mortgage loan prepayment** peaked in 2Q23 and has been largely reduced thereafter. There was some uptick of mortgage prepayment in Dec and Jan during the bonus season, but still at a reasonable level.

Loan allocation: CCB plans to grow more retail loans in 2024 from 2023 level, as 1) retail loans have better pricing; 2) CCB needs to strengthen its position of No.1 retail bank among peers; 3) the recovery of consumption is solid YTD. **Corporate loan** demand mainly comes from inclusive SME financing, rural revitalization, green financing, advanced manufacturing and 3 major projects - building affordable housing, renovating urban villages, and constructing emergency public facilities. **Developer loan** growth is solid in 1Q24, and the new loan amount is similar as in 1Q23. Regarding to recent policy on supporting developers via operation loans, CCB will follow market-oriented practice and conduct the lending project by project. **For retail loans**, consumption loans and personal business loans maintain fast growth, while mortgage loan issuance is expected to decline YoY in 1Q24 as 1Q23 was a high base given pent-up demand release post re-opening. For the full year 2024, the bank targets a positive mortgage loan growth combining primary housing and secondary housings' mortgage needs as: 1) government emphasizes that local regions will further optimize their housing policies to stimulate the demand; and 2) the housing transaction value of secondhand homes are increasing, especially in large cities such as Beijing.

NIM is expected to continue to decline in 2024 and is an important issue for large banks whose net interest income contribute to 80%+ of total income. On asset side, the loan pricing is still quite low and may further decline with the expected LPR cut in Feb or Mar. The mortgage back-book repricing will also weigh on loan yield in the first three quarters of this year. On liability side, the 3 rounds of deposit rate cut are helpful, but the effect only show up when deposits matured. Based on CCB' internal calculation, the loan pricing decline overweighs deposit rate cut and 1Q24 is expected to see larger NIM decline compared to 2Q24-4Q24. The stabilization/turnaround of NIM will depend on the recovery of macro economy.

Time deposit migration continues as it is dynamically correlated to the capital market performance and other investment products' attractiveness (e.g. insurance products).

Net profit: CCB expects to see a solid earnings growth in FY23. For FY24, the revenue decline is expected to be less compared to FY23 as the bank will proactively manage the loan pricing and funding cost. Non-interest income is also expected to see a stable growth. On expense, the bank saw a solid cost control in FY23, it will further explore the ways to lower the cost. Credit cost declined YoY in FY23, but the decline in FY24 is expected to be less than that of FY23.

Capital/TLAC: CCB needs to meet TLAC requirements by 2025 and 2028 respectively, and the bank has prepared for the TLAC issuance in 2024. Based on the bank's assessment, the pressure to meet the TLAC requitement is not as high as previously expected. The new capital rule is positive to CCB's capital ratio based on the bank's internal calculation. but the NIM pressure continues to weigh on the bank's capability to generate capital internally.

Changshu Rural Commercial Bank (CSRB, 601128 CH)

Revenue/Net profit growth: CSRB's total operating income and net profit grew by 12.6% YoY and 21.4% YoY respectively in 9M23. It managed to achieve its revenue/profit targets set at the beginning of the year and expects FY23 full year growth would be similar/slightly lower than 9M23 level.

Loan growth was around 15% loan in FY23. In FY24, new loans size is expected to remain similar as in FY23 thus the loan growth rate will be lower. CSRB is trying to balance loan growth and asset quality thus will not aggressively grow its loans.

Loan mix: retail loans accounted for 50%+ of total loans granting in 2023 and is expected to maintain such contribution in FY24. Mortgage and credit card balance net declined by around RMB1.4bn in 2023 while personal operating loans grew fast. Mortgage loans have the lowest yield (4.1-4.2% for primary housing) among its retail loans, vs. 6.7-6.8% of personal business loan, thus has a lower priority for CSRB. Though CSRB doesn't have price advantage compared to big banks, they are able to lend to long tail customers. Regulator's recent guidance on raising inclusive SME loan ticket size ceiling from RMB10mn to RMB20mn will also benefit CSRB from competition perspective.

Non-interest income: CSRB hopes to achieve a stable non-interest income growth in 2024. As a rural commercial bank, CSRB doesn't have license for wealth management, thus its fee income largely depends on agency sales. Investment income, fair value gain, and foreign exchange profit are expected to maintain stable growth in FY24.

NIM declined in 2023 weighed by LPR cuts and mortgage back book repricing. For FY24, NIM is expected to continue to decline but the decline would be less than that of FY23. On liability side, the deposit cost decline helps, CSRB's 3-year deposit rate was around 3.4% and the new 3-year deposit rate came in at around 2.8%.

Asset quality: NPL ratio is expected to remain stable in FY23. Its NPL formation rose in FY23 and is expected to further increase in FY24 but at a milder pace. Write-off is expected to reach RMB1.6bn in FY23 (RMB0.2bn on corporate loans and the rest on retail loans).

Cost-to-income ratio decreased slightly YoY in 2023. CSRB expects to lower its cost-to-income ratio in the future.

County bank: CSRB acquired one county bank in 2022 and three in 2023. Many county banks are willing to be sold to CSRB, but CSRB will remain conservative and only select high quality ones.

FinTech credit and payment experts

FinTech credit

Our expert believes the FinTech credit market will continue to grow, albeit at a milder pace vs past years.

Performance will diverge among players. Ant and Tencent (WeBank) are the Tier 1 players. Their loan growth could be contained given their already large size. Tier 2 players include JD, ByteDance, Du Xiaoman, Meituan, QFIN etc. ByteDance grew their loans very fast in the past 2 years, to ~RMB300bn currently. It may continue to grow at a fast pace in 2024, given its massive user base and rich consumption scenes. However, ByteDance is not aiming to become as big as Ant, in the near-to-medium term. JD and Meituan are losing market share. Du Xiaoman/QFIN may only grow at moderate pace, due to lack of consumption scenes. Tier 3 players are those smaller online lending platforms. Their overall size declined in 2021-22, due to government's control on high-yield lending, but rebounded in 2023 given relaxation of regulatory controls. Pinduoduo and Kuaishou, although not taking many actions so far, could also grow their FinTech lending business in the future.

State banks generally don't cooperate with FinTech lenders. Joint-stock banks are working with FinTech lenders. CEB, SPDB, PAB and Zheshang Bank have been doing the business, Huaxia Bank grew quickly in 2023, while CNCB and CIB may look to grow this business. Regional banks like Bank of Beijing, Bank of Shanghai, BOJS, BONB and BONJ are doing more FinTech lending vs peers.

FinTech payment

Our expert believes the FinTech payment industry has passed the high-growth era and will enter a stable growth period. Domestic fee rate has declined to a very thin level (≤60bp), though it could have further declined without regulatory guidance.

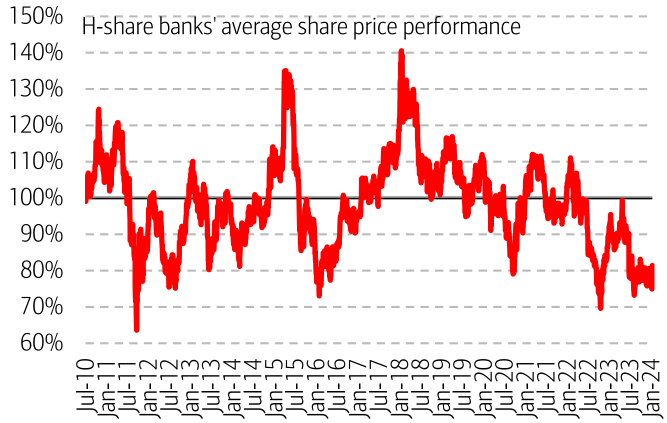
2B business and cross-border business could be new growth drivers. The addressable market of 2B business is huge, but it needs knowledge and expertise for different industries, unlike 2C business which can share the experience. 2B market used to be dominated by banks, but non-bank players are also looking to do more in this area. Cross-border payment is slow, low-efficient, and costly currently, so having much room to improve.

AliPay/TenPay are likely to maintain their market dominance in non-bank payment. UnionPay is gaining customers via subsidies, mainly in tier 1-2 cities, but hard to challenge AliPay/TenPay's status. ByteDance may be a challenger, however, it needs to invest a lot to change customers' mind.

Share price performance and valuation

The H-share banks as a whole rose by 0.6% YTD, outperforming the MSCI China Index by 5.5ppt, HSI Index by 7.1ppt, and H-FIN Index by 1.9ppt. H-share banks' share prices are close to the low end of their long-term trading range, with valuation at 0.36x P/B, 2.1x P/PPOP and 3.5x P/E. We believe that the bank sector at these levels offers good downside protection in a challenging equity market.

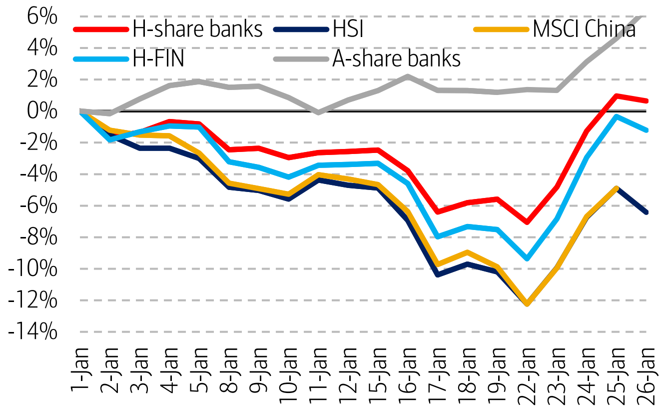
Exhibit 2: H-share banks' weighted average stock price performance
H-share banks' average share price at the low end of their LT average level



Source: Bloomberg, *Performance is not adjusted for dividends

BofA GLOBAL RESEARCH

Exhibit 3: H-share bank and market performance YTD
Both A and H share banks outperformed major indices YTD

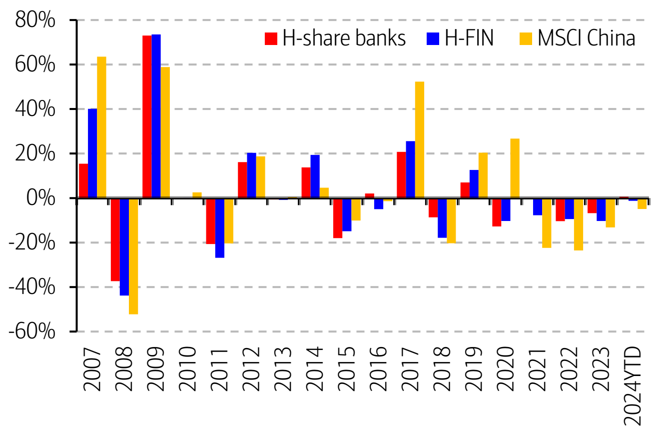


Source: Bloomberg, *Performance is not adjusted for dividends

BofA GLOBAL RESEARCH

Over the past 16 years, the H-share banks tend to be defensive and have lower beta than non-bank financials and the broader China markets. They underperformed non-bank financials and the MSCI China index in the bull markets (eg 2007, 2012, 2017, 2019, 2020), but outperformed in the down or flattish markets (eg 2008, 2014, 2016, 2018, 2021, 2022, 2023, 2024YTD).

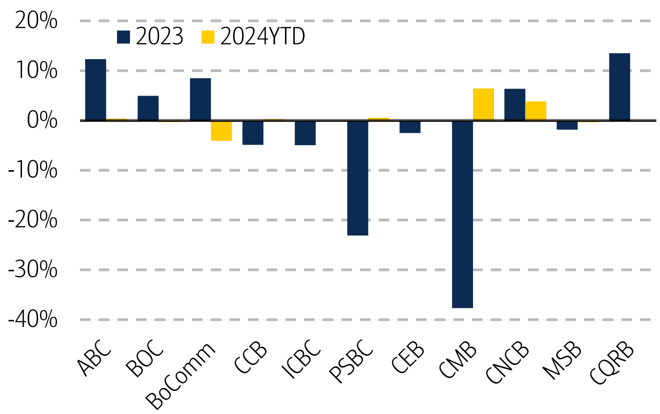
Exhibit 4: H-share banks' relative performance vs markets
H-share banks outperformed MSCI China and H-FIN index YTD



Source: Bloomberg, *Performance is not adjusted for dividends

BofA GLOBAL RESEARCH

Exhibit 5: Individual banks' H-share performance in 2023/24YTD
CMB and CNCB were the best performer YTD, BoComm lagged



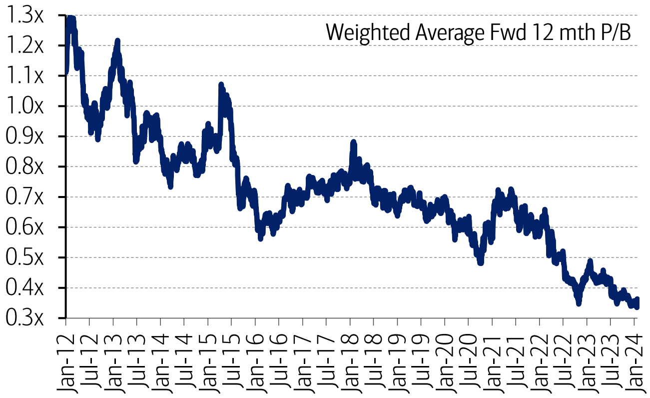
Source: Bloomberg *Performance is not adjusted for dividends

BofA GLOBAL RESEARCH

The valuation of the H-share bank sector suffered long-term de-rating. It reached a new low of 0.35x 12-month forward P/B, 3.1x P/E and 1.8x P/PPOP in October 2022. The valuation recovered post reopening but declined again since February 2023. P/B reached a record low of 0.34x in December 2023, while P/E and P/PPOP are at historical low levels. We see sufficient room for multiple expansion, especially if macro economy stabilizes in the coming quarters.

Exhibit 6: H-share banks' forward P/B valuation since 2012

P/B rebounded in Jan-2023 but declined to 0.36x by now

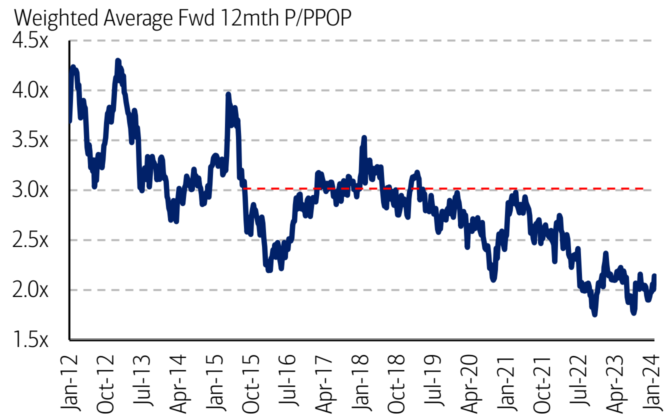


Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 7: H-share banks' forward P/PPOP valuation since 2012

P/PPOP of the sector is at 2.1x currently



Source: Bloomberg

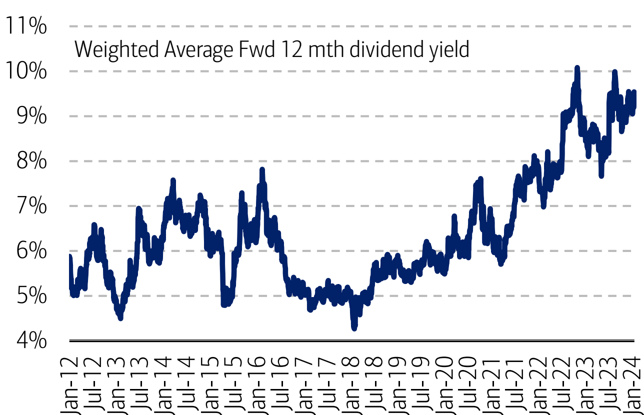
BofA GLOBAL RESEARCH

Gross dividend yield of the banks reached 7.8% in Feb-2016, dropped to 4.3% in Jan-2018, rebounded to a new high of 10.1% in Oct-2022, and is at 9.5% currently.

The H-share banks continue to be underweighted by global investors, although the underweighting was reduced significantly during 2H16-3Q18. The underweighting remained largely stable during 2018 to 1H22, but widened again in the past 12-18 months, due partly to property market turmoil, LGFV debt risks, and geopolitical tensions. As of December 2023, the underweight position on H-share banks was close to the lowest level since 2018.

Exhibit 8: H-share banks' average dividend yield

Dividend yield is 8.9%, a historical high level

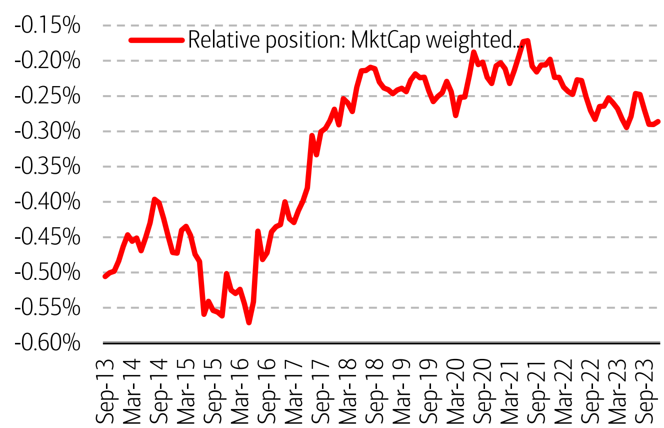


Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 9: H-share banks' relative position to the benchmark

Banks' underweighting was largely stable since 2018



Source: BofA Global Asia Pac Quant Strategy, MSCI, FTSE, Factset, 13F Filings, Benchmark indices, Country Stock Exchanges

BofA GLOBAL RESEARCH

H-share valuation comp

Exhibit 10: HK/China banks valuation comp

Bank sector valuation is attractive, with high dividend yield

	BofA Ticker	Rating	Price (HKD)	Mkt cap (USD mn)	P/E 2023E	P/E 2024E	P/B 2023E	P/B 2024E	P/PPOP 2023E	P/PPOP 2024E	Div Yield 2023E	Div Yield 2024E	ROE 2023E	ROE 2024E	ROA 2023E	ROA 2024E
China Banks (H share)																
ABC	ACGBF	BUY	3.02	183,630	3.9x	3.9x	0.40x	0.38x	2.2x	2.2x	8.2%	8.2%	10.8%	10.0%	0.7%	0.6%
BOC	BACHF	BUY	2.97	157,513	3.7x	3.7x	0.37x	0.34x	2.1x	2.0x	8.5%	8.6%	10.1%	9.5%	0.7%	0.6%
CCB	CICHF	BUY	4.66	152,532	3.3x	3.4x	0.36x	0.34x	2.1x	2.0x	9.1%	9.1%	11.3%	10.4%	0.9%	0.8%
ICBC	IDCBF	BUY	3.82	233,702	3.6x	3.6x	0.37x	0.35x	2.2x	2.2x	8.7%	8.7%	10.6%	9.9%	0.8%	0.7%
BoComm	BKFCF	BUY	4.67	53,585	3.7x	3.7x	0.35x	0.33x	2.0x	2.0x	8.8%	8.8%	9.8%	9.2%	0.6%	0.6%
PSBC	PSBKF	NEUTRAL	3.75	61,037	4.1x	4.3x	0.44x	0.41x	2.8x	2.9x	7.7%	7.6%	11.0%	9.9%	0.5%	0.5%
CEB	CEBCF	UNDERPERFORM	2.32	24,009	3.0x	3.1x	0.29x	0.27x	1.2x	1.3x	9.0%	9.1%	9.7%	9.1%	0.6%	0.6%
CMB	CIHHF	BUY	28.95	106,485	4.8x	4.6x	0.73x	0.66x	3.2x	3.1x	6.9%	7.2%	16.1%	15.1%	1.3%	1.3%
CNCB	CHBJF	BUY	3.82	35,922	2.8x	2.7x	0.29x	0.27x	1.3x	1.3x	10.1%	10.6%	10.8%	10.5%	0.7%	0.7%
MSB	CGMBF	UNDERPERFORM	2.64	22,581	3.3x	3.2x	0.20x	0.19x	1.2x	1.2x	9.1%	9.5%	6.3%	6.2%	0.4%	0.4%
CQRB	COGQF	BUY	3.03	6,275	3.0x	2.9x	0.27x	0.26x	1.7x	1.7x	10.2%	10.4%	9.5%	9.0%	0.8%	0.7%
Sector average				**1,037,271**	**3.7x**	**3.7x**	**0.41x**	**0.38x**	**2.2x**	**2.2x**	**8.5%**	**8.5%**	**11.1%**	**10.4%**	**0.8%**	**0.7%**
HK Banks																
BEA	BKEAF	UNDERPERFORM	9.20	3,119	5.9x	6.0x	0.25x	0.25x	2.3x	2.5x	9.3%	9.9%	4.3%	4.1%	0.5%	0.5%
BOCHK	BNKHF	BUY	19.22	26,007	6.2x	6.0x	0.64x	0.61x	4.5x	4.5x	8.6%	9.2%	10.5%	10.4%	0.9%	0.8%
HSB	HSNGF	NEUTRAL	83.40	20,407	7.7x	8.4x	0.99x	0.95x	5.9x	6.6x	7.3%	7.9%	13.3%	11.6%	1.1%	1.0%
Sector average				**49,534**	**6.8x**	**7.0x**	**0.76x**	**0.73x**	**4.9x**	**5.2x**	**8.1%**	**8.7%**	**11.3%**	**10.5%**	**0.9%**	**0.9%**
HSBC	XHSBF	BUY	60.70	148,700	6.1x	5.7x	0.86x	0.81x	4.4x	4.1x	7.7%	10.6%	14.1%	14.2%	1.1%	1.1%
StanChart	XCHBF	NEUTRAL	59.15	20,175	7.9x	6.1x	0.46x	0.43x	3.4x	3.3x	3.3%	3.8%	6.1%	7.4%	0.3%	0.4%
Sector average				**168,875**	**6.3x**	**5.8x**	**0.82x**	**0.77x**	**4.3x**	**4.0x**	**7.2%**	**9.8%**	**13.1%**	**13.4%**	**1.0%**	**1.0%**

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

Acronym

ABC: Agricultural Bank of China
BOC: Bank of China
BoComm: Bank of Communications
CCB: China Construction Bank
ICBC: Industrial and Commercial Bank of China
PSBC: Postal Savings Bank of China
CEB: China Everbright Bank
CMB: China Merchants Bank
CNCB: China CITIC Bank
MSB: China Minsheng Bank
CIB: China Industrial Bank
SPDB: Shanghai Pudong Development Bank
PAB: Ping An Bank
BOCD: Bank of Chengdu
BOHZ: Bank of Hangzhou
BOJS: Bank of Jiangsu
BONB: Bank of Ningbo
CQRB: Chongqing Rural Commercial Bank
BEA: Bank of East Asia
BOCHK: Bank of China (Hong Kong) Limited
HSB: Hang Seng Bank
StanChart: Standard Chartered

ASEAN: The Association of Southeast Asian Nations
AT1: Additional Tier 1
CAR: Capital Adequacy Ratio
CASA: Current Account Savings Account
CET1: Core Equity Tier 1
CIR: Cost-to-Income Ratio
GBA: Greater Bay Area
HKMA: Hong Kong Monetary Authority
FVTOCI: Fair Value Through Other Comprehensive Income
FVTPL: Fair Value Through P&L
LGFV: Local Government Financing Vehicle
LPR: Loan Prime Rate
LTV: Loan to Value
MOF: Ministry of Finance
MTM: Mark to Market
NAV: Net Asset Value
NII: Net Interest Income
NIM: Net Interest Margin
NPL: Non-performing Loan
PBOC: People's Bank of China
PPOP: Pre-provision Profit
ROE: Return on Equity
RWA: Risk Weighted Asset
SME: Small-and-Medium sized Enterprise
SML: Special Mention Loan
SOE: State-owned Enterprise
TLAC: Total Loss Absorption Capacity
TSF: Total Social Financing
WMP: Wealth Management Product
YRD: Yangtze River Delta

Disclosures

Important Disclosures

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R1]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

Other Important Disclosures

From time to time research analysts conduct site visits of covered issuers. BofA Global Research policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.

The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.

Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Refer to BofA Global Research policies relating to conflicts of interest.

"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.

Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:

BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at www.bofaml.com/BofASEdisclaimer; BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSFC); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.

This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the Electronic Communications Disclaimers for further information.

This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.

General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.

This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned herein. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

Copyright and General Information:

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.