

Banks - China

ICBC FY23 pre-closing call takeaway: stay sound and solid

Industry Overview

We host ICBC today, see call summary below & takeaways for [week 1&2](#), [week3](#), [week 4](#).

2024: stable loan growth & asset quality, less NIM decline

Loan growth: ICBC expects 2024 new loan size to be similar to 2023. Its loan issuance pace is based on loan demand and in line with previous years'. YTD, both new corporate and new retail loan size rose slightly YoY. Loan issuance will focus on "Two Big Two Small" (i.e., big clients, big projects, small enterprises, little giants) and "Five Articles" (inclusive SME, technology, green, elderly-care and digital financing). As the No. 1 personal bank, ICBC will also try to improve its retail loan mix. It has achieved positive growth in mortgage/consumption/personal operating loans YTD. Its **developer loans** also posted positive growth YTD. It hasn't received any specific guidance on developer lending yet and will stick to existing supportive policies. The Whitelist is more like a recommendation list on property projects, and ICBC will mainly support projects with good cash flows and clear property rights without differentiating the ownership nature.

NIM remains under pressure in 2024 but is expected to decline less vs 2023. The 2022-23 downward trend was mainly driven by 1) the asymmetric decline of LPR and deposit rate since 2022 (the major reason); 2) faster corporate loan growth vs. retail loan growth; and 3) deposit maturity lengthening. Looking forward, on the assets side, good jump-start loan issuance in 1Q24 will support the loan pricing. New loan pricing rose sequentially YTD thanks to favorable mix change (the mix of low-yielding working capital loans declined, and the mix of higher-yielding mortgage loans increased). On the liability side, time deposit pricing was lowered by 10-65bp across maturities last year and the benefit will gradually be realized this year. Settlement needs will bring demand deposits which also help alleviate the negative impact of the deposit maturity lengthening.

Asset quality: ICBC has implemented more effective measures to control the credit cost in recent years. Its provisioning is objective and NPL coverage ratio is just a result. That said, it still expects its NPL coverage ratio to stay at >200% going forward. Its collaterals' values are stable overall, despite property price decline in certain cities. Its **mortgage** LTV fell from 50% a decade ago to 45.2% by 3Q23 (-1.5ppt from 2022YE), with top tier cities' mortgage LTV at 36.5% (-2.2ppt from 2022YE) and tier-3 or below cities' LTV at <50% by 3Q23. For personal operating loans, ICBC doesn't just rely on collaterals for risk control, but mainly focuses on the primary repayment sources (i.e., cash flows from business operations). Personal operating loans have lower LTV, shorter maturity, and more frequent repayments, compared with mortgage loans,

LGFV loan growth was slower than corporate loans', and its mix in total loans declined YTD. ICBC's LGFV loans were mainly to entities in the economically developed areas with good cashflow generating capability. Their NPL ratio is lower while loan yield is higher than corporate loans'. LGFV restructuring has very limited impact on ICBC's NIM (as it focuses on 12 risky areas which account for a small mix, and ICBC has limited exposure to high-interest-rate bonds/NSCAs) and will be conducted in a market-oriented way.

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LGFV: Local Government Financing Vehicle

LPR: Loan Prime Rate

LTV: Loan to Value

NIM: Net Interest Margin

NPL: Non-performing Loan

NSCAs: Non Standard Credit Assets

YE: Year End

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