

China Banks and Property

2026 GCC takeaways: Is the worst behind?

Equities

China
Banks, Ex-S&L

Slightly better optimism on 2026 outlook; low expectation on policy stimulus

In our 2026 GCC Macro, Financials and Property tour, our macro experts turn marginally more positive on 2026 outlook, due to a smaller drag from property sector, strong exports momentum, and seemingly eased deflationary pressure. Some expect PPI to narrow the YoY decline to zero by year-end along with ongoing anti-involution campaign, though stickiness of deflation remains to be watched. Real GDP growth target is expected to be set at 4.5-5.0% or 'close to 5.0%' - there are different views about the ease of achieving this target, with exports outlook being a key debate. Consumption is not seen as a key growth driver for 2026, as effect of trade-in subsidies fades. On policy outlook, experts expect limited fiscal expansion, marginally looser monetary policy (10bps rate cut), and do not see the widely discussed Qishi article as a sign of substantial step-up of property sector policy. For longer-term outlook, experts hope 15th Five-year Plan can be a potential window period to accelerate structural reforms, such as better public welfare/ basic pension for migrant workers.

Implications for banks: small rate cut, less NIM pressure

While monetary policy is expected to be more proactive vs 2H25, experts think banks' current stretched NIM level remains a key constraint for rate cut, and expect quasi-fiscal policies to be broadened. Mortgage rate subsidy is seen as a potential policy option being evaluated, but seems still far from execution, due to issues such as source of funds (central government vs local governments), and duration of the scheme. Meanwhile, the outlook of continued housing price decline in 2026 and lukewarm consumption growth momentum is in line with banks' expectation of limited retail loan recovery. The property developer NPL may take more time to digest - a distressed developer we spoke to suggests that 50%+ of its project loans are still classified as normal.

Property: Bearish outlook with limited policy support

We hold a bearish view on property sector outlook after meeting with policy experts, property agents. As homebuyers are shifting from buy to rent, property price may still have 30-40% downside from current levels if rental yield matches with mortgage rate. Policy tools available to stabilize property price appear limited. We expect 10% and 5% property price decline in 2026/2027 respectively. Project completion is not an issue as per a distressed developer's CFO comment, as they have completed the project completion in 2025. Asset management companies (AMC) require 8% IRR return and assumes a 30% property price decline when they invest into distressed developers' project companies. We see selective opportunities on property market, ie 1) luxury housing demand remains with certain entry barriers, 2) well-managed malls (eg CR Mixc) continue to outperform the market. Our preferred stock: CR Mixc in our space.

Bank meetings takeaway: better revenue outlook, driven by NII and fees

Most banks indicated decent loan origination in the first two weeks of January, driven by corporate loans. Revenue outlook improves, driven by less YoY NIM decline and ongoing fee income recovery. Investment income may lag, assuming a less favourable bond market in 2026. While fundamentals outlook midly improved, we think bank stocks may continue to underperform in the near-term given the positioning as a defensive sector. Nevertheless, with lingering growth uncertainties and geopolitical risks, we think high-dividend yield names may have opportunities to catch up into middle of the year. We prefer CITIC-H, CCB-H, BOC-H, and ICBC-H for decent dividend yield, Bank of Hangzhou and Bank of Ningbo for stronger than peers profit growth and ROE.

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Macro & policies outlook

During 2026 UBS Greater China Conference and our post-GCC macro, financial & property tour last week, we discussed several macro topics with experts from government think tanks, including NDRC Information Center, Development Research Center of the State Council, Policy Research Center at MOHURD. We also met with academic professors, banks, real estate agents, residential and shopping mall developers.

GDP growth target likely set at 4.5-5.0%, with easing deflation

Overall, our experts expect the **2026 real GDP growth target could be set as a range at 4.5-5.0%**. To achieve the long-term economic development goal by 2035 outlined by the 15th Five-Year Plan (2026-2030), China needs to deliver an average real GDP growth of 4.2% in the next 10 years. Thus, experts believe the central government will continue to strive for a growth of close to 5% in 2026. UBS China economists currently forecast [2026E real GDP growth of 4.5%](#), with some [upside risks](#).

Interestingly, we heard **divergent views regarding the ease of achieving the above GDP target**. One expert believes China will have to turn to infrastructure investments (2025: -2.2%) again to counter a potential weakening of consumption and net exports. Another expert, however, is bullish about China's export outlook amid a stabilising/declining US tariff and demand from Europe's remilitarization, is more optimistic about the resilience of domestic consumption and corporate investments. Property investment is commonly expected to narrow the decline from 2025 (-17.2%), to a range of -10% to -5%.

Easing deflation pressure and improved nominal GDP growth in 2026 appears a consensus, though sustainability uncertain. A less negative GDP deflator was commonly seen by experts as a bright spot. CPI is expected to increase to 0.5%, while PPI is expected to narrow decline to a range of -1% to 0% for the full-year. Such improvements are expected to support corporate earnings and fiscal revenue. That said, whether such trend could sustain remains debatable, as the anti-involution campaign is an administrative measure in the short-term, while China's supply-demand gap remains a long-term structural issue that is hard to be resolved.

Figure 1: UBSe China summary forecast

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Real GDP growth (%)	2.3	8.6	3.1	5.4	5.0	4.9	4.5	4.6
Consumption	-1.0	9.2	2.1	8.8	4.1	4.8	4.4	4.6
Fixed Investment	6.3	1.2	4.1	2.1	2.0	1.2	3.4	2.6
Net exports (contribution to growth)	0.7	1.8	0.6	-0.5	1.7	1.4	0.7	0.9
Current account balance (% of GDP)	1.7	1.9	2.4	1.4	2.2	2.9	3.1	3.4
Export growth (BoP basis, in USD %)	5.2	28.1	4.1	-5.0	7.2	4.5	2.5	5.5
Import growth (BoP basis, in USD %)	0.3	32.7	1.1	-3.6	2.2	0.0	1.2	2.0
CPI (average, % y/y)	2.5	0.9	2.0	0.2	0.2	0.0	0.4	0.8
TSF credit growth (%)	13.3	10.2	9.5	9.6	8.0	8.2	7.8	7.2
10-year CGB yield (end year, %)	3.15	2.78	2.85	2.60	1.70	1.85	1.80	2.00
USDCNY exchange rate (end year)	6.54	6.38	6.96	7.09	7.30	7.00	7.00	6.90

Source: CEIC, Wind, UBS estimates

Policy outlook: Limited fiscal expansion, marginal monetary easing

While our speakers agree that maintaining current level of fiscal supports are still critical to achieve this year's economic growth target, **expectation for further fiscal expansion is relatively low**. To recall, in the December Central Economic Work Conference (CEWC), the policymakers set a tone of 'promoting quality and efficiency'

for the economic work this year, and emphasized 'maintaining necessary levels' of fiscal deficit, government debt and total spending scale, as opposed to the call for 'extraordinary counter-cyclical measures' in the previous year. As such, an expert thinks fiscal policies this year will focus more on efficiency rather than further scale expansion.

On the other hand, **monetary policy is expected to be somewhat more proactive than last year's**, as the CEWC emphasized promoting 'stable economic growth and reasonable inflation rebound' as key considerations for monetary policy. Our experts in general believe further rate cuts are necessary, as China's current real interest rate remains too high (albeit down a little post easing deflation pressure) compared to a neutral interest rate that might have become zero. Nevertheless, with the banking sector's NIM remained a key bottleneck, one expert on monetary policy expects only a 10bps of rate cut this year. Given the limited magnitude of rate cut, and improved inflation outlook, the expert sees risk to the 30-year central government bond yield skewed heavily to the upside.

Property downturn expected to continue in 2026, with limited large-scale policy responses. One expert on property sector expects the property downturn to continue this year, albeit at a narrower magnitude, with property investments decline of <10%, national property sales to fall by 5-6% in GFA/value terms, and continued decline of secondary housing price (also narrower than 2025). The expert thinks policy responses could focus on further reducing various restrictive policies on transactions, while the chance for large-scale policy responses is low, including inventory purchase by central government, and fiscal subsidy on mortgage interest rate. For the latter, while it is indeed under discussion by policymakers, two key issues remained to be addressed: 1) whether the fiscal spending comes from central or local governments; 2) how long should the subsidies last. With regards to the article from Qiushi Journal that received wide market attention, the expert sees it as an editorial-type article to boost market confidence, and discourages over-interpretation.

Other key topics discussed

Exports: Solid external demand, but complicated geopolitical relations. While there is no doubt that exports have surprised many to the upside in 2025, there appeared to be both opportunities and risks with regards to the outlook ahead. On the positive side, one expert remains China's export growth to remain solid in 2026, reaching 5% in USD terms, underpinned by a robust US economy, increased military spending by Europe, and a stabilising/ easing US tariff. On the other hand, another expert sees the trade tension between China and EU as a key uncertainty, considering a sizable and widening trade surplus against Europe. With China's industrial upgrade, the expert estimate that around 60% of China exports to the EU today are competing with local products, up from 30% in the past.

FX: Is Rmb entering an appreciation cycle? One of our experts believe that the Rmb has ended a depreciation cycle last year, and is on the verge of a new appreciation cycle. From an academic point of view, there are constant debates about Rmb being undervalued and potential appreciation pressure: 1) the purchasing power parity (PPP) exchange rate estimated to be 2.7 by an expert, far below current exchange rate; 2) China's real effective exchange rate (REER) has depreciated by 20% since 2021, owing to the opposite path of inflation in China versus most other economies. With the backdrop of China's continued strong export momentum (backed by the competitiveness of China products), ongoing trade tensions between China and US/ EU, and ongoing deflation pressure faced by China, the expert thinks a modest annual Rmb appreciation is needed just to keep China products from being even more competitive in overseas markets. As such, the expert sees USDCNY appreciated by 3-4% to 6.7-6.8% by end-2026 in his baseline, which is expected to have a neutral impact to economic growth.

Consumption: Effect of trade-in policies fading; time to speed up 'investment in people'? One expert believes the Rmb300bn trade-in subsidies appear to have very limited multiplier effect, as 2025 social retail sales growth of +3.7% ended up only marginally higher than that in 2024 (+3.5%). The expert thinks the trade-in subsidies should be phased out gradually given: 1) past experiences with auto subsidies suggest

that the stimulus effect lasts no more than 1.5 to 2 years; 2) the ownership of durable consumer goods per household in China is already high compared globally. While the market has been calling for subsidies for the service industry, execution is difficult as the central government is only involved in very few service consumption areas (e.g. air tickets, high-speed railways), while most of other service consumptions need to be subsidized by local governments and local fiscal conditions become a key constraint. Echoing the government's new slogan of 'invest in people', first raised in the 15th Five-year Plan and reaffirmed in recent CEWC, the expert believes a more effective way to boost China's consumption structurally is to directly subsidize the underprivileged population. Economists commonly point to inadequate social security protection as a main reason behind China's high household saving rate/ weak consumption, and measures advocated include better public services for migrant workers (i.e. hukou reform), and further increase of national minimum basic pension standard (currently Rmb143/ month).

Anti-involution: Effective short-term, but is it sustainable? While the anti-involution campaign appears to have taken effect in certain upstream sectors and select mid- to downstream sectors, an expert believes such administrative measures do not resolve the long-term issue of overcapacity, and the root issue of local governments' investment impulse. The expert believes the price hikes in upstream sectors are unlikely to be passed through to the downstreams, thus squeezing the profit margin of midstream equipment manufacturing industry.

Distressed property developer: Where are we in banks' developer NPL clean-up? We met with a distressed property developer which has completed 720k units of project delivery, and dealt with offshore debt via debt-to-equity swap. Currently the developer still has Rmb250bn outstanding debt onshore, most of which at individual project level. The developer notes that as a general practice, most banks have strong incentives to allow roll-over of existing project loans to distressed developers which may have delayed NPL recognition, as allowed by the regulator's forbearance policy on developer loans. That said, the developer noticed that certain banks with strong income and balance sheets may choose to proactively recognise and write off NPL. Currently about 50%+ of the developer's outstanding bank loans are still recorded as normal. The expert believes majority of banks' developer loans are covered by collateral value, though some losses are inevitable in cities with deep housing price decline, and the process for banks to exit (i.e. via discounted sale to AMC) could be very long.

Progress of LGFV debt resolution: the case of Sichuan Province. We met with an expert from CSCI Pengyuan Credit Rating Sichuan branch, which covers LGFV bonds, as well as ABC Sichuan branch and Bank of Chengdu. Both banks are involved in the resolution of LGFV debt. Overall, LGFV debt growth has moderated meaningfully to around 5% and the debt resolution recorded substantial progress. On one hand, based on the Rmb12trn resolution plan announced in 2024, as of end-2025, Rmb5.6trn of local government bond has been issued for resolution of hidden debt. On the other hand, LGFVs have been undergoing transformation into commercially run, market oriented SOE entities. A notable proportion of LGFVs have completed such transformation. According to the meetings, each city and administrative area (province/ prefecture/ county) is permitted to keep only one LGFV by end-2025; and all these LGFV should be transformed into commercially-ran SOE by H127. We believe these LGFV undergoing restructuring are those eligible for the Rmb14trn debt swap program as recognized by the Ministry of Finance.

As per the expert, interest-bearing debt by Sichuan LGFV consists of a mix of: 70% bank loans/ 20% bonds/ 10% non-standardised credit assets. In terms of credit spread, the average risk spread for 2025 bonds was approximately 60bps lower than that in 2024 and 260bps below the 2022 level. Credit spreads now range from 55bps to 95bps, depending on issuer risk profiles.

Insurance company: Latest update on bancassurance and investment strategy by insurance funds? We met with China Life's management. On bancassurance, the insurer has ~170 k bancassurance outlets, and ~70 k of them are active. The company upholds a '6+10+N' strategy. Among the 105 bank partners, the big 6 state-owned banks contribute >60% of bancassurance business. The 10 joint-stock banks include Mingsheng, Guangfa, Industrial Bank, and etc. The 'N' refers to local banks. On investment strategy, exposure to public equities (i.e. stocks, equity funds, Honghu Fund

and listed associates/JVs) stands at 18%. For equity strategy, the stock investments are skewed towards FVTPL (mostly growth stocks), accounting for 77% of total as of Jun-2025 (vs peer average: 56%). If growth names outperform, the insurer may consider taking profit and shifting allocation to FVOCI stocks (e.g. high-dividend-yield).

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Property sector takeaways

Property sector in 2026: downward pressure persists; low policy expectation

Overall, our experts on property sector hold a bearish view on property sector outlook in 2026. To recap on 2025, experts see 1) continued property price decline in high tier cities; 2) less liquidity in low tier cities; 3) slow policy execution progress that only 200k units of monetary housing resettlement completed out of 1mn target. Looking ahead, expert expects another 5-6% decline in property sales and around 10% decline in property investments in 2026. Expert believes secondary property price could hardly bottom out in 2026, but only decline at a narrower range, as 1) rental yield have not improved much due to rental decline, 2) social housing completion would increase in 2026 and 2027, 3) income expectation have not recovered yet. In terms of policy outlook, the expert thinks the likelihood for rollout of major new policies in 2026, ie. 1) large scale of inventory purchase and 2) subsidies on existing mortgage, is small. Expert also mentioned the [Qiu Shi Article](#) was more of a propaganda instead of a new central government stance to property sector.

Besides, CFO of a distressed developer shared company has completed onshore and offshore bond restructuring, as well as housing completion of 720k units. Company expects the recovery rate of property development loan of the housing completion was theoretically high at almost 100%, but in practice the collateral (raw land and unsold units) liquidity is low. Company still owned over Rmb200bn interest-bearing debt, which was slowly progressed at project level restructuring, as AMC would still require 8% IRR after property price decline of 30-40%.

We also met with a local property agent on property market in tier 1 cities and Chengdu. He held a bearish view on the physical market, as 1) rental yield still way below mortgage rate in tier 1 cities; 2) secondary listings are still increasing. The agent saw continued demand in new luxury projects, but this was project specific and could not support the price expectation of nearby secondary projects.

Chengdu MixC: Strong sales growth; active tenant changes

We visited Chengdu MixC, the NO.2 mall in Chengdu ranked by retail sales at ~Rmb8.5bn in 2025, only behind Chengdu Taikoo Li at over Rmb10bn and before IFS at less than Rmb8bn. Chengdu MixC is positioned as a sub-luxury mall, and has no international luxury brands due to only 2km distance away from Taikoo Li. Project manager attributed the mall outperformance to their proactive tenant changes (2025: 35% of tenant changes), introducing more sports and lifestyle brands. Project manager expects that Chengdu MixC could reach a retail sales of Rmb10bn in five years.

C&D Haiyao: Luxury project demand sustains, but product expertise is essential

We also visited C&D Haiyao, a luxury residential project located in the Financial Centre area of Chengdu. The project was acquired in March 2025 at average land price of Rmb41,200 per sqm, and launched on 11 January 2026 at average property price of over Rmb77,000 per sqm. Company expected the net margin at ~7%. The unit size ranges from 250-475 sqm, and the average property management fee is Rmb10 per sqm per month. The first batch launched a total of 82 units and sold 62 units (around 76% sell through rate) and the largest 475 sqm products were the most popular. Sales manager shared that 80% of home buyers were local high-net-wealth people and 20% were from Beijing and Shanghai. Adjacent to Haiyao, BEKE also launched a luxury residential project Beichen S1 with average selling price of around Rmb65,000 per sqm, but the sell through rate was low around 23%. Sales manager noted that C&D project had an edge over BEKE on 1) the experience and track record of property development, 2) understanding the demand of high-end home buyers, eg. 3.8m floor height and straight south-facing design, which LIANJIA data might don't have the expertise; 3) self-owned property manager.

Chengdu trip takeaways

We visited Chengdu as part of our tour, a major city in western China and the capital of Sichuan province, a province with high-tech manufacturing and service sectors as key pillars to the local economy. Chengdu, with 21mn population, is known for its strength in various manufacturing sectors, leading capabilities in research and development, renowned universities, as well as abundant cultural and tourism resources. We met with local private company entrepreneurs, representative from a credit rating agency, ABC Sichuan branch, Bank of Chengdu and a local shopping mall developer.

Progress of LGFV debt resolution: the case of Sichuan Province

Our guest speaker from CSCI Pengyuan Rating Agency noted that Chengdu issues roughly 60% of the total LGFV bonds in the Sichuan province. Despite Sichuan's overall LGFV debt balance being higher than the provincial average as it is one of the largest provinces in the country, Sichuan's debt structure remains relatively healthy, supported by a high share of bank loans and medium to long term borrowing. Bank loans, bonds, and non standard credit assets make up roughly 70%, 20%, and 10% respectively of LGFV's interest-bearing debt.

LGFV debt growth has moderated meaningfully—from 10–15% during 2022–23 to around 5% as of 1H25—and is expected to fall further in 2026. Thanks to effective provincial coordination on debt resolution, there have been no public debt LGFV defaults.

In recent years, interest rate spreads on Sichuan's new bond issuance have narrowed. For instance, the average risk spread for 2025 bonds was approximately 60bps lower than that in 2024 and 260bps below the 2022 level. LGFV recently issued bonds generally bears less than 4% interest rates. Nonetheless, spreads still vary significantly depending on issuer's risk profiles, locations, strengthen of government support etc.

Private companies: technology at the core of businesses

We met with three private company entrepreneurs from biotechnology sector, AI sector and public services sector, respectively. Technology serves as the core competence for each of the private company. The biotech company engages in the research and commercialization of stem cell and CAR-T therapy. The AI company serves financial institutions and retail investors to provide infrastructure for AI solutions and AI empowered investment strategy. The public service company mainly operates smart car parking lots, with the ultimate goal of humanless car parking and parking lot maintenance. The entrepreneur stressed that for traditional industries, embracing technology upgrade is key to avoid unsustainable margin contraction in the current competitive environment.

Technologically innovative businesses enjoy policy support. To cope with the long investment horizon of pipelines, the biotech company, under the policy support, could generate income in two years by providing technology services at highest grade hospitals in China. This compares to the regular approval process for new drug which could last 10 years and cost over Rmb1bn. For the company operating smart car parking lots, local governments have various supportive policies driven by the smart city initiative. That said, the strength of the support and actual implementation of the policy diverge vastly between different cities.

Uncertainties remain for Chinese companies venturing overseas. The AI company serves overseas clients mainly in the form of technology output. Cross border data transfer is a key risk area. Hence, the company adopts a structure that completely segregates domestic and overseas data. For the company operating smart car parking lots, there are risks around geopolitics and data security. Differences between markets also poses challenge, e.g., paying parking fee is not a norm in middle east and western markets tend to be conservative. Southeast Asia is a region the company is focused on. For the biotech company, the key is to acquire regulatory approval and partner with health care providers in the local market, which are not easy tasks.

ABC Sichuan Branch: superior ROA helped by rapid loan issuance and good risk management

ABC Sichuan branch continues to deliver a stable ROA significantly higher than the group level (0.64% in 9M25). This outperformance is underpinned by relatively rapid loan issuance and disciplined asset quality management. Corporate lending remains the backbone of the portfolio, accounting for roughly two thirds of total loans and exceeding Rmb900bn. Within this segment, high tech enterprise lending is expected to serve as an important growth engine. Management noted that, year to date, both retail and corporate loan growth were slightly weaker than the same period last year.

On the retail front, they see limited room for further expansion in personal operating loans. In 2025, operating loans contributed over 60% of new issuance, yet this volume was only about 60% of 2024 levels. Moreover, the Big 4 China banks collectively accounted for more than 100% of new operating loan issuance across Sichuan. They anticipate a further moderation in operating loan growth in 2026. Housing mortgage trends were mixed. Although nearly 60% of new mortgages were issued in Chengdu—supported by continued net population inflow—total mortgage balances at the branch still declined.

Agriculture related lending has grown to more than Rmb600bn, representing over 40% of the loan book. Management views rural commercial banks and Sichuan Rural Commercial United Bank as the main competitors in this segment, while perceiving limited competitive pressure from PSBC.

From a margin perspective, interest rates on newly issued corporate loans have stabilized. The loan to deposit spread remained steady at 1.71% through the first three quarters before edging up to 1.72% in 4Q25.

Asset quality risks remain manageable overall—the branch reports an NPL ratio of about 1.2%, although the NPL ratio for property development loans were much higher than the group (5.35% as of H125).

Bank of Chengdu: Loan growth fuelled by government related lending

BOCD has been growing both loans and deposits balance the fastest in Chengdu since 2021. BOCD now ranks 2nd in deposit market share and 4th in loan market share in Chengdu. Main competitors for BOCD are big-4 large SOE banks and Chengdu Rural Commercial Bank. One of the main drivers for BOCD's loan growth is government related lending. BOCD noted that overall government led investment in "Chengdu-Chongqing economic circle" is relatively strong. Loan pricing for such lending remains on a downward trend with large divergence among different regions. On the other hand, regarding local government hidden debt resolution, the bank sees substantial progress and expects complete resolution of hidden debt relevant to BOCD by June 2027. The hidden debt is resolved mainly via (1) local government debt swap and (2) transformation of LGFVs into a commercially run and market oriented entity.

On property related exposure, overall loan balance (property developer loans + retail residential mortgage) sits at around Rmb130bn or around 15% of the total loan book, with mortgage accounting for the majority. BOCD sees limited risk on property developer loans, as the bank has exited lending to risky developers at an early stage and now mainly lend to SOE developers. Mortgage asset quality deteriorated, especially those originated in the recent few years, as property prices fell notably. Overall NPL of mortgage remains relatively low.

On deposit migration, the bank sees substantial amount of time deposit maturing this year. To retain the AUM, the bank is actively launching new products (WMPs, insurance products, funds) for distribution. Meanwhile, the bank maintains a reasonable premium on the deposit interest rate over large SOE banks.

Banking sector takeaway

We met with several banks during the UBS 2026 Greater China Conference, including CCB, BOC, PSBC, CMB, CITIC, PAB, MSB, Bank of Jiangsu, Bank of Hangzhou and Changshu Rural Commercial Bank. Overall, most banks indicated decent loan origination in the first two weeks of January, driven by corporate loans. Outlook on NII growth improves, mainly driven by narrower YoY decline in NIM to single digit (-11bps YoY for the banking sector in 9M25) while loan growth may record a mild deceleration only. Banks are optimistic on fee income, considering no material rate cut expected in 2026 and business volume remains robust. Investment income growth may lag, given the expectation of a less favourable bond market in 2026 and a relatively tough base in 2025. Banks generally expect steady credit cost in 2026, with manageable NPL formation. We summarise below key takeaways by topic: loan growth, NIM, fee income & investment income, and asset quality. On stock picks, we prefer CITIC-H, CCB-H, BOC-H, and ICBC-H for its decent dividend yield at around 5.5% (2025E). We also like Bank of Hangzhou for its well sustained higher than peers earnings growth and ROE, as well as Bank of Ningbo for a recovery in asset quality and earnings growth.

Individual bank takeaways: [CCB](#), [BOC](#), [PSBC](#), [CMB](#), [MSB](#), [BOJS](#), [BOHZ](#), [CSRCB](#).

Mild loan growth moderation for 2026; decent loan origination in Jan so far

Overall, banks we met expect similar loan balance increase in 2026 vs in 2025, or a mild moderation in loan growth in 2026 in line with the banking sector. In 2025, new RMB loans amounted to Rmb16.3trn, down from Rmb18.1trn in 2024. YoY growth moderated to 6.4% by end-2025 from 7.6% by end-2024. The loan balance increase was mainly driven by corporate loans, +Rmb15.5trn or 95% of the loan balance increase, while household loans recorded only Rmb0.4trn. Entering into 2026, loan origination appeared to be slightly better YoY so far, driven by corporate loans, as retail demand remains weak. Structurally, banks would like to more actively grow retail loans but recognise that it will be largely contingent on market conditions, with asset quality as a key factor to consider. Most banks noted that they strive to conduct more loan origination at the beginning of the year to maximize interest income for the full year of 2026.

Narrower NIM decline supported by time deposit maturing

Banks expect narrower NIM YoY decline to single digit in 2026 (-11bps YoY for the banking sector in 9M25). A few banks mentioned NIM largely stabilized sequentially since Q225. Looking into 2026, on the asset side, the downward trend of yield would likely continue, following the 10bps LPR cut in May 2025. That said the magnitude of the decline could moderate, assuming no further policy rate cut or structural rate cuts (e.g., on mortgage rate). Banks have not heard any concrete plan on mortgage interest subsidy yet. In the beginning of 2026, banks see loan pricing largely steady vs end of 2025, with slight uptick in some cases. Further, the industry self discipline mechanism helped keep pricing competition from intensifying by setting floor rates on loans. That said, we highlight that government related lending, which serves as the main engine for regional banks' loan growth, could face some downside going forward. On the liability side, as substantial amount of time deposit with relatively high interest rate conducted in 2022-23 would mature in 2026, larger savings on deposit cost could better offset the asset yield decline. Similar to in 2025, Q126 would likely be under the largest pressure, due to concentrated loan repricing.

Positive outlook on fee income; investment & trading income could lag

Banks are generally optimistic on fee income in 2026, as 1) no material fee rate cut anticipated in 2026, with majority of fee rate cut already completed, and 2) business volume could deliver robust growth, amid time deposit maturing and improved risk appetite by retail clients. Most of the insurance product and mutual fund distribution fee rate cut have already been implemented, while the remaining "stage-3" mutual fee rate cut is milder than expected and has a grace period till end of 2026. Banks expect 70-90% of the maturing time deposit to stay with the banks, with majority of them remaining as deposits and the rest allocated to financial products distributed by the bank, e.g., WMPs, insurance products, funds and precious metal products. Bancassurance booked robust growth YoY in 2026 so far, based on our channel check.

Retail investors have growing interest in WMPs carrying equity exposure as well.

We expect investment & trading income growth to lag, due to a less favourable bond market in 2026 and a tough base in 2025. Banks carry significant unrealized gains at the current interest rate level. While banks hold divergent views on the outlook of market interest rate, e.g., 10-year CGB yield, it appears they are decelerating the allocation into bonds in the near term.

Asset quality pressure remains; steady credit cost guided

SME loans and consumption loans continue to bear asset quality pressure. Banks are generally cautious in growing such loans. Banks we cover have minimal exposure related to long tail consumer lending at an interest rate >20%, which has been under regulatory tightening since Q325. Risk of mortgage appears to be manageable, despite the notable hike in NPL in recent years. LTV generally sits at healthy levels at around 40-50%. Corporate loan book asset quality appears to be improving, partly due to expansion of government related lending which carries 0 NPL in most cases. By sectors, manufacturing and real estate are the two sectors that investors have the most concerns at. There could be downgrade upcoming associated with Vanke. Most banks guided steady credit cost in 2026, expecting manageable NPL formation, with some further downside in provision coverage ratio.

Links to our key reports on China banks

[How risky are individual property-backed loans?](#) - 20 Nov 2025

[China Marketing feedback—potential rotation back to defensives towards year-end?](#) - 4 Nov 2025

[Q325 wrap-up: SOE banks maintain improving trends on revenue and earning](#) - 31 Oct 2025

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Valuation Method and Risk Statement

We derive our price targets for H-share China banks based on a three-stage dividend discount model (DDM). We derive our price targets for A-share China banks based on P/B to ROE valuation methodology.

We think major risks to China banks include: 1) deterioration in asset quality, underpinned by a soft macro environment and domestic property market activity; 2) risks related to capital adequacy and dilution led by refinancing; and 3) downside in interest rates and the consequent pressure on bank profitability.

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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
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Company Name	Reuters	12-month rating	Price	Price date
Agricultural Bank of China ^{16,7,18}	1288.HK	Neutral	HK\$5.35	21 Jan 2026
Agricultural Bank of China - A ^{16,7,18}	601288.SS	Neutral	Rmb6.96	21 Jan 2026
Bank of Chengdu	601838.SS	Buy	Rmb15.72	21 Jan 2026
Bank of China ^{1,5,16,28,7,18,6a,6b}	3988.HK	Buy	HK\$4.46	21 Jan 2026
Bank of China (Group) - A ^{1,5,16,28,7,18,6a,6b}	601988.SS	Neutral	Rmb5.33	21 Jan 2026
Bank of Hangzhou	600926.SS	Buy	Rmb15.18	21 Jan 2026
Bank of Jiangsu ⁷	600919.SS	Buy	Rmb9.73	21 Jan 2026
Bank of Ningbo ⁷	002142.SZ	Buy	Rmb28.88	21 Jan 2026
Changshu Rural Commercial Bank	601128.SS	Neutral	Rmb7.15	21 Jan 2026
China CITIC Bank ^{28,7,18}	0998.HK	Buy	HK\$7.00	21 Jan 2026
China CITIC Bank - A ^{28,7,18}	601998.SS	Neutral	Rmb7.61	21 Jan 2026
China Construction Bank ^{16,28,7,18}	0939.HK	Buy	HK\$7.67	21 Jan 2026
China Construction Bank - A ^{16,28,7,18}	601939.SS	Neutral	Rmb8.86	21 Jan 2026
China Merchants Bank ^{16,28,7,18,6a,6b}	3968.HK	Neutral	HK\$46.84	21 Jan 2026
China Merchants Bank - A ^{16,28,7,18,6a,6b}	600036.SS	Buy	Rmb38.24	21 Jan 2026
China Minsheng Banking ^{28,7,18}	1988.HK	Neutral	HK\$3.73	21 Jan 2026
China Minsheng Banking - A ^{28,7,18}	600016.SS	Neutral	Rmb3.76	21 Jan 2026
China Resources Mixc Lifestyle Services ^{2,4,5,28}	1209.HK	Buy	HK\$43.44	21 Jan 2026
China Vanke ^{4,18}	000002.SZ	Sell	Rmb5.01	21 Jan 2026
China Vanke - H ^{4,18}	2202.HK	Sell	HK\$3.68	21 Jan 2026
Industrial & Commercial Bank of China ^{16,7,18}	1398.HK	Buy	HK\$6.21	21 Jan 2026
Industrial & Commercial Bank of China A ^{16,7,18}	601398.SS	Neutral	Rmb7.35	21 Jan 2026
Ping An Bank ⁷	000001.SZ	Neutral	Rmb11.07	21 Jan 2026
Postal Savings Bank of China ¹⁸	1658.HK	Neutral	HK\$5.02	21 Jan 2026
Postal Savings Bank of China ¹⁸	601658.SS	Neutral	Rmb5.08	21 Jan 2026

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