BOC Research Institute

Global Banking Sector Outlook

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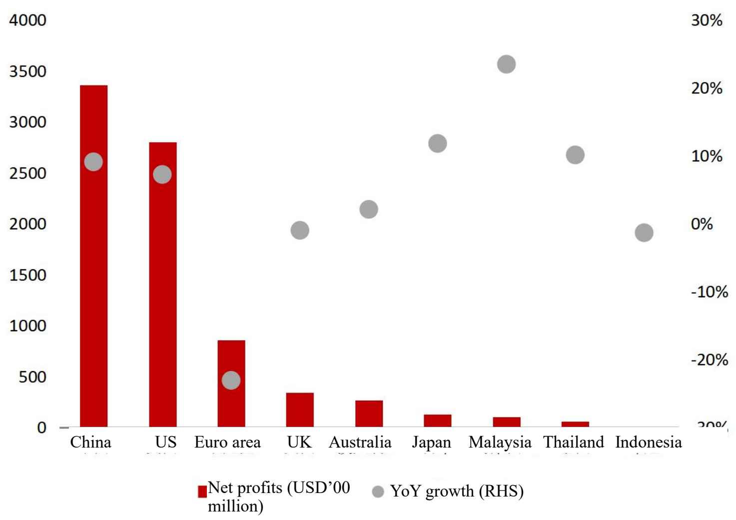
Highlights

● The global banking sector will see uncertainties hovering through 2023, with weaker profitability that curbs the capital adequacy enhancement and expansion of assets and non-performing loans still under pressure.

● In 2023, under the guidance of the 20th CPC National Congress, China's banking sector will further anchor the recovery of the real economy, keep its profits growing steadily and continue to improve the quality of assets.

● The 20th CPC National Congress was successfully held to envisage a future of high-quality economic and financial development, pointing to an improving banking environment. This report provides a special study on how the 20th CPC National Congress navigates the high-quality development of the banking sector.

Net Profits of the Banking Sector and Their year-on-year Growth in 2023 by Economy (Estimated)



Source: BOC Research Institute

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The 20th CPC National Congress Has Started a New Journey of Banking Development

– Global Banking Sector Outlook (2023)

The global economic and financial system faced tough challenges in 2022. In such a context, the banking sector showed prominent risk factors holding back the expansion of assets and increase in capital adequacy and eroding profitability. Relatively, China's economy obviously tended to improve as the fiscal and monetary policies worked together to enhance the quality and efficiency of growth, with the banking sector better poised to provide high-quality services for the real economy while maintaining solid operations. The 20th CPC National Congress opened on October 16 as a crucial meeting that has taken China on a new journey toward building a modern socialist country in all respects and toward the second centenary goal, charting the courses for social and economic development. This report provides a special study on how the 20th CPC National Congress navigates the high-quality development of the banking sector.

I. Global Banking Review and Outlook for 2023

I.1 Growing uncertainties in global banking environment

The global economic downturn amid geopolitical risk spillovers brings a severe challenge to banking earnings. Since 2022, the outbreak of the Russia-Ukraine conflict has led to local disruptions in the supply chain and soaring prices of food and energy, exacerbating the global inflation. The continued spread of COVID-19 has hindered global economic growth. The International Monetary Fund (IMF) forecast in October that the global economy would grow by 3.2% in 2022 and slow further to 2.7% in 2023. The World Bank lowered its forecast for 2023 global growth to 1.9%, dangerously close to a world recession on the whole, the grim economic environment has exposed the global banking sector to significant risks.

The rapid and large interest rate hikes in major economies have had a huge impact on global banking operations. Central banks in major economies have maintained aggressive rate hikes in 2022 to counter inflationary pressure. The European Central Bank (ECB) has raised interest rates three times in the year, the US Federal Reserve (the Fed) has hiked rates six times in a row, the Bank of England (BoE) has increased rates seven times in the year, and South Korea, Canada and Australia have all raised rates several times at different scales. Some emerging economies have also maintained frequent and sharp rate hikes. The Hungarian Central Bank (MNB) raised its benchmark rate by 1,060 bps to 13% after consecutive hikes. The Central Bank of Brazil raised interest rates by 450 bps to 13.75%. Overall, with rate hikes announced in most economies, the banking sector has suffered higher financing costs with mounting market risks, feeling heavier pressure on asset and liability management.

The financial regulatory policies upheld a prudent tone, guiding banks toward steady operation. Since 2022, the major developed economies, including the US and the euro area, have always taken forestalling systemic financial risks as the bottom line, adhered to the guiding principle of prudential supervision and refined supervision at a faster pace in terms of data disclosure, capital requirements, products and services, climate risks and digital technology in line with economic developments, thereby enabling banks to steadily operate and make profits while meeting the regulatory requirements. Also, some emerging economies keep shoring up weaker areas in their financial regulatory policies in relevant fields.

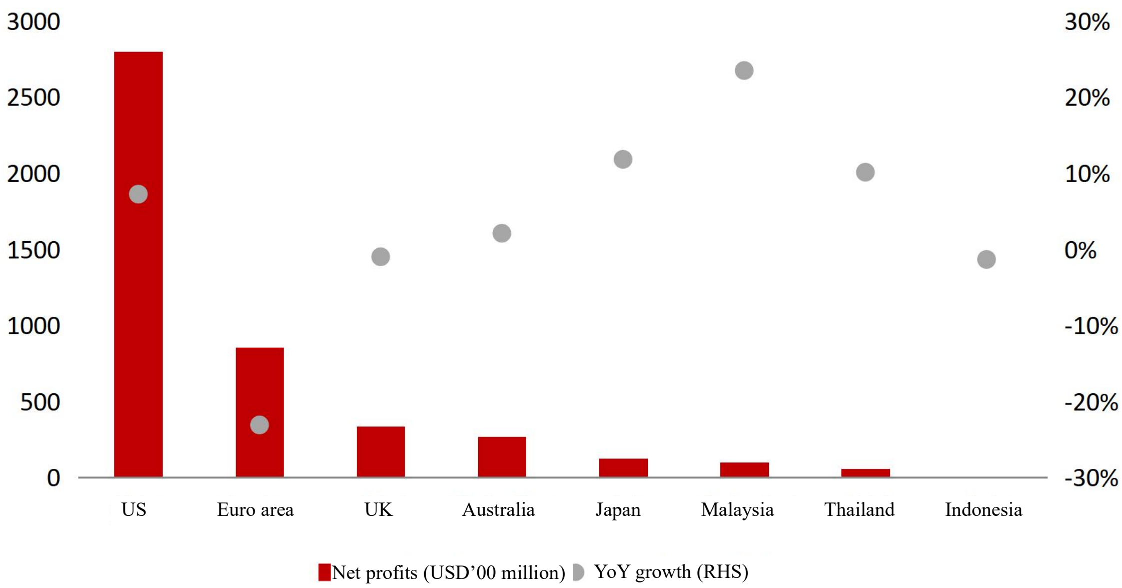
I.2 Global banking sector showed not optimistic performance

The sustained impact of economic and financial uncertainties may have a negative impact on global banking operations on various fronts. The weaker profitability will become a prominent feature of global banking operations, which will impair the ability to replenish capital and grow bigger and add to the potential liquidity risk, market risk and credit risk.

1. Still-hampered recovery of profitability

The world economy lost steam in 2022. The banking sector in some economies set aside huge loss provisions. Meanwhile, the capital market turmoil led to a decrease in non-interest income and the rising financing costs in financial markets weakened credit demand. Banking earnings growth faced significant headwinds. Looking forward to 2023, the boost to net interest income from interest rate hikes will fade and the political and economic environment and capital market uncertainties will persist, making it difficult to ease the pressure on banking earnings growth. For the whole year, the net banking profit of the euro area and the UK may further decline, by 23% and 1% year-on-year, respectively. As the forward-looking provisioning has reached a high level, the US banking sector is expected to realize a net profit of nearly USD280 billion, up 7.2% year-on-year. Japan's net banking profit will pick up after a nearly 30% drop in 2022, up 11.8% year-on-year. Australia's banking sector faces a challenge to earnings growth, with its net profit expected to slow to about 2.1% year-on-year.

Fig. 1: Net Banking Profits[1] in Selected Economies and year-on-year Growth in 2023 (Estimated)



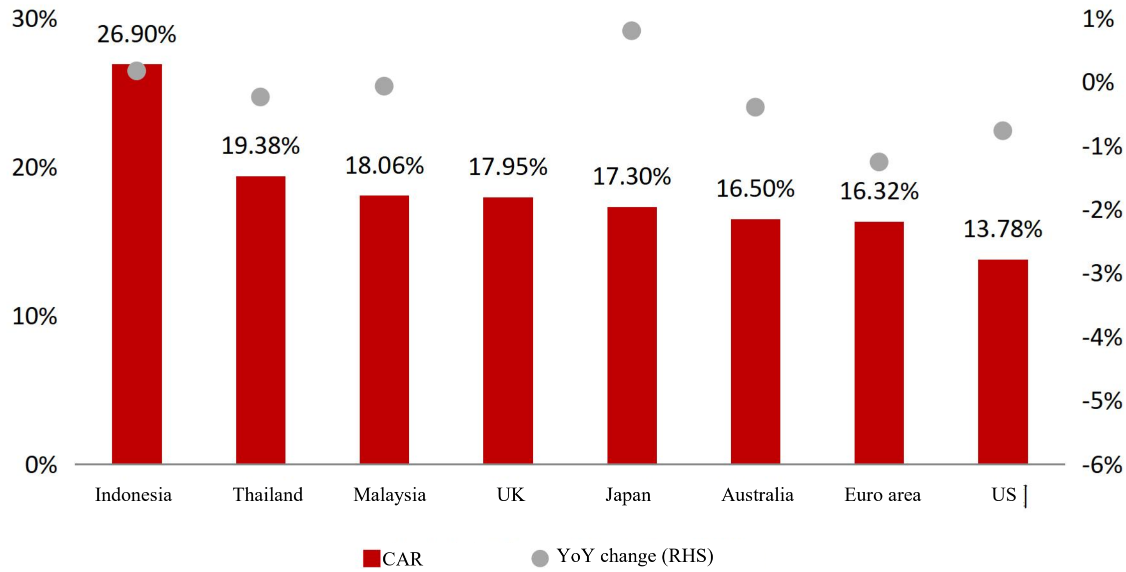
Sources: Central banks and regulatory authorities, financial statements of banks, BOC Research Institute

[1] The European data cover 36 major banks. The UK data cover five major banks, namely HSBC Holdings, National Westminster Bank, Lloyds Bank, Standard Chartered Bank and Barclays Bank. The big five contribute about 70% of the UK's total banking assets. Japan's banking data cover three major financial groups, namely Mitsubishi UFJ, Sumitomo Mitsui and Mizuho Financial Group, which contributed about 60% of Japan's total banking assets. The same below.

2. Capital adequacy on the decline

In 2022, the global banking sector saw a continuing expansion in risk-weighted assets in a highly uncertain environment. The weakened profitability of banks further restricted their ability to replenish capital. Banks' capital adequacy ratio is expected to fall in most economies by the end of the year. Looking forward to 2023, the capital adequacy level will continue to decline across the global banking sector. Externally, most economies have not yet established bank capital buffer rules to deal with risks such as economic recession, inflation and energy crisis, with financing costs remaining high in capital markets. Internally, the global banking sector is unlikely to recover the profitability quickly, which dampens the ability to replenish capital from within. The capital adequacy ratio of the US banking sector is expected to further decline to 13.8% at the end of the year, down 0.8 pct year-on-year. The capital adequacy ratios of the euro area and Australia reached 16.3% and 16.5%, down 1.3% and 0.4% year-on-year, respectively. The capital adequacy level of the UK and Japanese banking sectors experienced a slight recovery from a low comparison base. Emerging markets such as Southeast Asia also suffered from headwinds, with the capital adequacy ratio in Thailand and Malaysia further down to 19.4% and 18.1%, respectively.

Fig. 2: Capital Adequacy Ratios of Banks in Major Economies and Their Changes at the End of 2023 (Estimated)

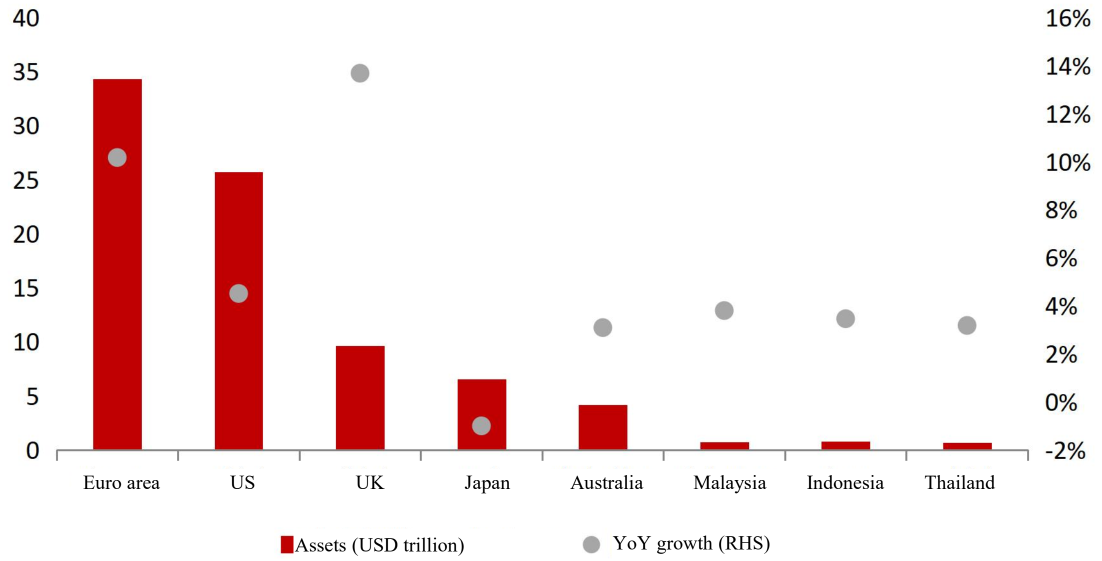


Sources: Central banks and regulatory authorities, financial statements of banks, BOC Research Institute

3. Assets continued to expand slowly

Global market conditions increasingly tightened in 2022 in the context of a grim, complex and uncertain world economy. Banks in some economies chose to control their business size in response to strained profits. Some of the world's largest banks scaled back operations, showing slower growth in assets. Looking forward to 2023, the risks and challenges will persist and the banking sector in most economies will maintain a prudent stance, which will further damper the expansion of banking assets. The US banking assets are projected to hit USD25.7 trillion at the end of the year, a relatively low year-on-year increase of 4.5%. Australia will see its growth of banking assets further slow to 3.1%. The euro area and the UK are likely to keep their banking assets grow by over 10% despite a moderation of expansion. The expansion of banks in emerging markets represented by Southeast Asia is likely to slow down sharply to the lowest level in recent years. The growth rate of banking assets in Indonesia, Malaysia and Thailand will be only 3.5%, 3.8% and 3.2% year-on-year, respectively.

Fig. 3: Banking Assets of Major Economies and Their Growth at end-2023 (Estimated)

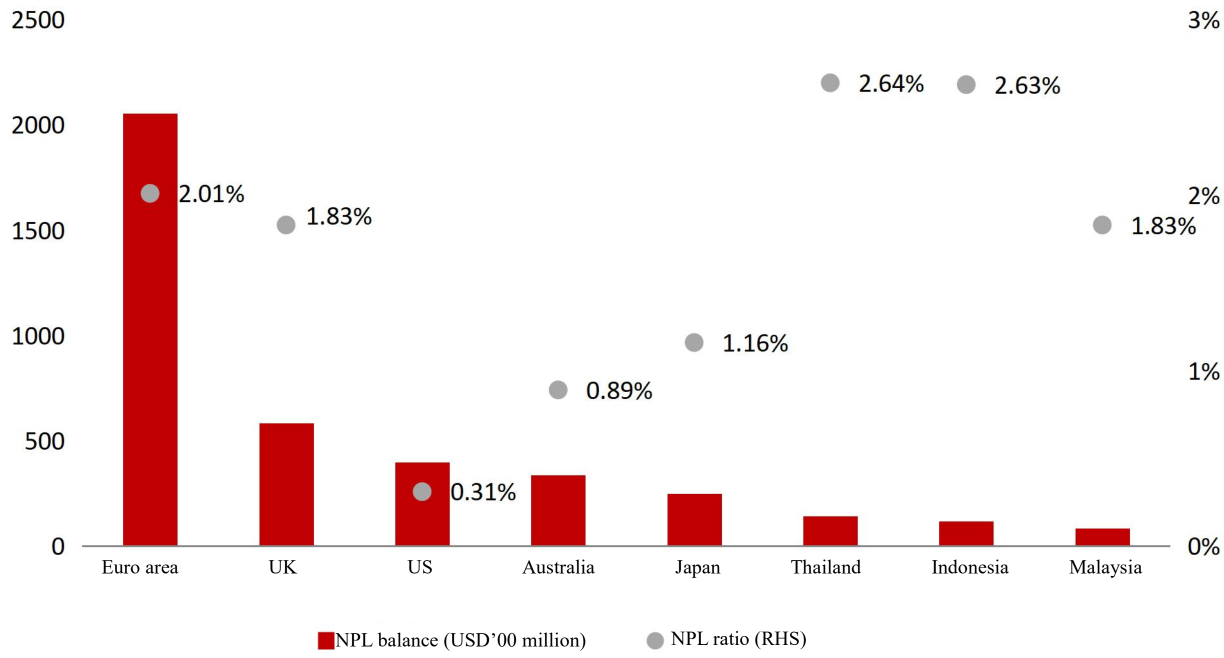


Sources: Central banks and regulatory authorities, financial statements of banks, BOC Research Institute

4. Provisions remained high and asset quality fluctuations were relatively stable

In 2022, banks in various economies accelerated the loan write-off and increased risk reserves, with the asset quality generally under control. Looking forward to 2023, potential risk points will remain in place, including the fact that the monetary policy shift cannot be in lockstep with the easing of inflation, and the pressure of cumulative rate hikes on the corporate financial position and profit growth will become more apparent. As the loan loss provisions have been set aside to a sufficient level in advance, the outstanding non-performing loans (NPLs) in the US banking sector is expected to drop to USD40 billion by the end of the year, with the NPL ratio down to 0.31%. The NPL ratio of euro area banks is expected to drop slightly, but still at a high level. The NPL ratio may continue to rise in the UK, Japanese and Australian banking sectors, given their strained profitability at present. The NPL ratio in Southeast Asian emerging markets such as Malaysia, Indonesia and Thailand will drop to 1.83%, 2.63% and 2.64%, respectively, boosted by economic growth.

Fig. 4: Balance and Ratio of NPLs of Banks in Major Economies at end-2023 (Estimated)



Sources: Central banks and regulatory authorities, financial statements of banks, BOC Research Institute

II. China's Banking Review and Outlook for 2023

II.1 Operating environment stable and poised for improvement

China's economy obviously tended to improve in 2022, providing a favorable environment for the banking sector to provide high-quality services for the real economy while maintaining solid operations.

First, the macro-economic growth remained on track for recovery, laying a solid foundation for the banking sector to operate steadily and more profitably. The global turbulence on political and economic fronts and China's sporadic outbreaks of COVID-19 have taken a toll on the economy in 2022. In this regard, China placed stable growth higher on the priority list, bringing the economy back to growth track by implementing a package of policies and measures to stabilize the economy. Consumption's contribution to economic growth was resilient, while investment remained a steady driver of growth.

Second, the fiscal and monetary policies worked together to enhance the quality and efficiency of growth, encouraging the banking sector to meet financing needs of various parties and provide high-quality services for the real economy. The proactive fiscal policy became more forward-looking, targeted and sustainable, putting the focus on major strategic tasks and projects, providing support for rural vitalization, high-tech breakthroughs and large-sized infrastructure construction and stepping up the enterprise relief through tax reduction and refund. The prudent monetary policy was flexible and appropriate, driving down lending rates, reducing the financing cost for the real economy, fueling a persistent expansion of bank credit and providing targeted support for weaker links and key areas of the economy that were hit hard by COVID-19 pandemic.

Third, financial regulators took into account the tasks of strengthening weaknesses, boosting

development, improving public wellbeing and preventing risks while ensuring steady development of the banking sector. The international geopolitical conflicts have sent shock waves to the global financial markets in 2022, which faced a new grim situation of forestalling financial risks. Domestic financial regulators adhered to bottom-line thinking. On the premise of warding off risks, regulators placed more emphasis on strengthening weaknesses, boosting development and improving public wellbeing. They guided banks to strike a balance among business expansion, profit growth and risk prevention and provide solid, high-quality financial services for the real economy.

II.2 China's banking sector will remain stable under the guidance of the 20th CPC National Congress

The 20th CPC National Congress opened successfully on October 16, 2022. The report to the 20th CPC National Congress emphasized that, to build a modern socialist country in all respects, we must, first and foremost, pursue high-quality development. As the core of China's financial system, the banking sector should fully unleash its leading role and maintain high-quality development. In 2023, the banking sector will anchor the recovery of the real economy, achieve solid earnings growth and keep the quality of assets stable.

First, the expansion of assets underpinned earnings growth. Commercial banks recorded RMB315.26 trillion in assets at the end of 2022Q3, up 10.9% year-on-year, 2.57 pcts faster than a year ago. The expansion was mainly due to a sharp rise in credit supply and deposits taken. Looking forward to 2023, the path to Chinese modernization is clearer. China will further implement the strategies of building a modern industry system, fully promoting rural vitalization, pursing higher-standard opening up and promoting green development. China's banking sector will place more emphasis on effectively upgrading and appropriately expanding the business. In addition, with the global interest rates on the rise and China maintaining a prudent monetary policy, commercial banks will further improve their ability to manage liabilities, enhance their awareness of active debts, allocate assets rationally, avoid the problem of blindly raising the cost of debts and leaving more space for making concessions to the real economy. Commercial banks are expected to keep their assets and liabilities growing by around 10% in 2023.

Second, the growth of net profits was divided. Commercial banks recorded RMB1.7 trillion in net profits for the first three quarters of 2022, up 1.2% year-on-year, down 10 pcts from a year ago. Looking forward to 2023, net profits will return to the normal growth pattern as commercial banks are making swift adjustments on revenue and cost sides, expected to maintain a growth rate of around 6%. In addition, the revenue structure will be further improved and the interest margin narrowing will be eased. The credit scale will continue to expand, and the growth of income growth will hinge upon a growing volume going forward. With the NAV-based transformation of wealth management products on the way, the wealth management business will enter a stage of high-quality development, and the banking wealth management market will continue to expand at a steady pace. The outstanding NAV-based wealth management products will further take up a bigger proportion, and non-interest income will play a greater role in bank revenue.

Third, asset quality will continue to improve. Macroeconomic policies maintained the tone of ensuring stable growth in 2022. While actively supporting the recovery of the real economy, the banking sector took a raft of measures to dispose of NPLs and forestall and defuse financial risks, continuing to record a rise in NPL balance and a fall in NPL ratio. Commercial banks recorded RMB3 trillion in balance of NPLs at the end of 2022Q3, up 5.6% year-on-year, representing a NPL ratio of 1.66%, down 0.09 pct year-on-year, indicating a continuous improvement that began in 2020Q3. Looking forward to 2023, with the domestic economy in a steady recovery, enterprises will gradually improve their operations and banks will feel further eased pressure to prevent and control risks in asset quality. Banks are expected to further reduce provisions to increase credit supply while freeing up profits, thus providing stronger support for the real economy. The balance of NPLs is expected to edge up slightly and the NPL ratio to remain on the decline.

Fourth, capital adequacy will be good. China's banking sector has stepped up capital replenishment in 2022, which turned into a continued rise in capital adequacy ratios. At the end of 2022Q3, commercial banks' common equity tier 1 capital adequacy ratio stood at 10.64%, down 0.03 pct year-on-year. Tier 1 capital adequacy ratio and capital adequacy ratio were 12.21% and 15.09%, up 0.09 pct and 0.29 pct year-on-year, respectively. With diversified channels of capital replenishment, such as perpetual bonds and Tier 2 capital bonds, commercial banks have had an adequate capital base, and the small and medium-sized banks are under mitigated pressure to replenish capital. Commercial banks are expected to maintain an upward trend of capital adequacy ratios at the end of 2023, yet still under pressure to replenish the common equity tier 1 capital.

Table 1: Forecasts on China's Commercial Banking Development Indicators

	Indicator	2020	2021	2022Q3	2022 (E)	2023 (E)
Size	Assets (RMB trillion)	265.8	288.6	315.3	320	352
	Liabilities (RMB trillion)	244.5	264.7	290.2	294	323
	Growth of assets, YoY (%)	10.98	8.58	10.88	11.0	10.0
	Growth of liabilities, YoY (%)	11.13	8.26	11.10	11.0	10.0
Profit	Net profit (RMB trillion)	1.94	2.18	1.71	2.2	2.4
	ROA (%)	0.77	0.79	0.75	0.7	0.8
	ROE (%)	9.48	9.64	9.32	9.0	9.5
	Net interest margin (%)	2.10	2.08	1.94	1.94	1.95
	Cost/income ratio (%)	31.19	32.08	30.04	33.0	33.0
Risk	NPL ratio (%)	1.84	1.73	1.66	1.65	1.65
	Provision coverage ratio (%)	184.5	196.9	205.5	204	200
	CAR (%)	14.70	15.13	15.09	15.3	15.5
	Core Tier 1 CAR (%)	10.72	10.78	10.6	10.8	11.0

Sources: CBIRC, BOC Research Institute

III. Special Research: The 20th CPC National Congress Navigates High-quality Development of the Banking Sector

The 20th CPC National Congress, opened on October 16, 2022, has charted the course for China's social and economic development, guiding high-quality development of the banking sector.

III.1 The banking environment keeps improving

The report to the 20th CPC National Congress made a two-step strategic arrangement for building China into a great modern socialist country in all respects, laying emphasis on the strategic tasks for the next five years and depicting the prospect of high-quality macroeconomic development. It has provided stable expectations and clear direction for banking development.

1. A stable and open economic environment

First, China will adhere to the underlying theme of reform and opening-up. The report to the 20th CPC National Congress clearly pointed out that “China will remain committed to deepening reform and opening up. We must intensify efforts to advance reform and explore new ground, and we must remain steadfast in expanding opening up. We must work hard to remove deep-seated institutional barriers so as to fully tap into the strengths of socialism with Chinese characteristics and continuously imbue our socialist modernization endeavors with fresh dynamism and vitality. We must do better in translating our country’s institutional strengths into effective governance”. The next five years will be crucial for getting our efforts to build a modern socialist country in all respects off to a good start. China will comprehensively deepen the reform at home and open up wider to the outside world, creating a better environment for the banking sector to achieve high-quality development.

Second, emphasis is placed on the development of the real economy. The report to the 20th CPC National Congress has made it clear that, in pursuing economic growth, we must continue to focus on the real economy, so as to effectively upgrade and appropriately expand China’s economic output. The real economy development will further focus on key industries and regions in pursuit of green and high-quality development and speed up the industrial system modernization, bringing historic responsibilities and opportunities to the banking sector.

Third, industrial and agricultural security is highlighted. The report to the 20th CPC National Congress attaches great importance to the security of economic development, pointing out that “national security is the bedrock of national rejuvenation, and social stability is a prerequisite for building a strong and prosperous China. We must resolutely pursue a holistic approach to national security and promote national security in all areas and stages of the work of the Party and the country, so as to ensure national security and social stability”. In the future, China’s economic growth will still face a complicated and ever-changing environment with many uncertainties at home and abroad. The modernization of the national security system and capacity is an integral part and important guarantee of Chinese modernization.

2. Orderly and secure financial environment

First, the central bank system will be modernized. The report to the 20th CPC National Congress requires efforts to “modernize the central bank system”. It is an important task in building a modern financial system in the new era. The central bank is required to achieve the goals of full employment, stable currency value, financial stability and balance of payments. China will modernize the design and implementation of the monetary policy framework, the financial infrastructure service system, the systematic risk control system and the international financial coordination and cooperation mechanism to create a more orderly and secure environment for banking operation and development.

Second, the financial system reform will be deepened. The report to the 20th CPC National Congress pointed out that, to foster a new pattern of development and pursue high-quality development, China should “deepen structural reform in the financial sector” and “improve the functions of the capital market”. This means the financial system will work harder to serve the real economy in every respect by improving the multi-level financial system, modernizing financial institutions and modernizing the financial governance system and capacity for stronger adaptability, competitiveness and inclusiveness of financial institutions.

Third, the regulation will be systematized. The 20th National Congress highlighted the importance of financial supervision, calling for efforts to “strengthen and refine modern financial regulation, reinforce the systems that safeguard financial stability and place all types of financial activities under regulation according to the law". The systemization of regulation will focus on improving the regulatory framework, regulatory methods and regulatory instruments to achieve financial market stability and protect consumer rights.

3. Innovation and leadership in sci-tech environment

The report to the 20th CPC National Congress has identified making breakthroughs in promoting high-quality economic development and achieving greater self-reliance and strength in science and technology as one of the main objectives and tasks in the next five years, which will be crucial for building a modern socialist country in all respects. To promote high-quality development, we have to eliminate the constraints and bottlenecks imposed by the weak capability of scientific and technological innovation. By 2035, China will join the ranks of the world's most innovative countries, with great self-reliance and strength in science and technology. As the current round of sci-tech revolution and industrial transformation is going deeper, changes in the sci-tech environment will create fresh growth momentum for banks. **The faster move to build China's strength in cyberplace will create a better environment for informatization of the banking sector.** Such technologies as quantum information and blockchain will be used more broadly in the digital transformation of banks. **The faster move to build a digital China will help foster a more mature "contactless banking" environment and** eliminate the time and space restrictions on banking services.

III.2. The banking sector into a new stage of high-quality development

China has embarked on a new journey toward building a modern socialist country in all respects. With the business environment improving on all fronts, the banking sector will enter a new stage of high-quality development.

First, the political stance will be heightened with clearer strategic positioning. The 20th CPC National Congress has set out the strategic development objectives for the cause of the Party and the state in the coming period. The banking sector will, guided by the spirit of the 20th CPC National Congress, further enhance its political standing and clarify its strategic positioning. **Firstly, the banking sector will unswervingly follow the path of financial development with Chinese characteristics.** Banks will earnestly study and implement the major theoretical viewpoints and major strategic thoughts established at the 20th CPC National Congress, accurately understand and grasp the strategic plans and task requirements for China's future economic and financial work, thoroughly analyze and accurately grasp the economic and financial situation, and make financial work more scientific, predictable, proactive and creative. **Secondly, the banking sector will follow the state policies and serve the high-quality economic and social development.** The banking sector will actively and effectively implement the monetary policy and optimize the credit structure in a proactive manner. Banks will further cooperate with PBOC in maintaining reasonable growth in the total supply of money and credit, keep the RMB value stable and promote high-quality economic development. Banks will seize the market opportunity afforded by the fiscal policy to improve the financing structure and term structure of major infrastructure projects, and improve the use efficiency of special-purpose local government bonds through companion financing and other means. **Thirdly, the banking sector will fulfill its mission of serving the real economy vigorously.** Banks will provide a broader range of services and products that can be accessed more easily from all levels of the real economy. The financing costs of the real economy will be further reduced. Policy measures such as deferred principal and interest repayment, fee reduction and profit concessions will be implemented to sharpen the competitive edge of the real economy. Banks will provide medium- and long-term financial support for advanced manufacturing and strategic emerging industries, provide regular financial supply for micro and small businesses eligible for inclusive finance and agriculture, rural areas and farmers and effectively upgrade and appropriately expand the real economic output.

Second, the sectoral structure will be optimized to build a multi-level banking system. It will become an increasingly prevailing trend to build a multi-level banking institution system that accommodates high-quality economic development. All types of banking institutions will advance side by side and grow together with a stronger ability to serve all market players in a targeted, focused and differentiated manner, thus gradually shaping an industry pattern featuring clear tiers, wide coverage, reasonable division of labor and diversified operation. **Firstly, the multi-level banking system is taking shape more clearly.** The banking system is increasingly streamlined to include a more reasonable number and a clearer hierarchy of financial institutions, including both national banking institutions that provide financial services across the country and local banking institutions that focus on serving the local community, micro and small businesses and agriculture, rural areas and farmers. Such a banking system, multi-tiered and broad-ranging, provide inclusive and high-quality services to meet diverse financial needs with targeted financial supply. **Secondly, the largest banks play a greater role of “ballast stones”.** The large banks will continue to maintain their dominant position and play a “ballast” role in the multi-level banking system, further act as the leading wild goose, effectively serve the major national strategies and weaker links by clearly defining business boundaries, allocate more financial resources for key areas in accordance with the requirements of the supply-side structural reform of the financial sector and continuously improve the quality and efficiency of serving the real economy. **Thirdly, the banking sector will increasingly rationalize the pattern of cooperation and division of labor.** With the largest banks acting as the leading wild goose, the banking sector will continue to optimize the business layout and refocus the allocation of financial resources, steadily increase the number and market share of smaller financial institutions in an orderly manner, improve the coverage and penetration rate of financial services by differentiating the activities of small, medium-sized and large banks and work toward a full, balanced and inclusive development of financial supply.

Third, credit supply will be targeted and directed to support the industrial system modernization. Banks will provide credit in a more targeted and timely manner to support the faster move to boost China’s strength in manufacturing, product quality, aerospace, transportation, cyberspace and digital development. **Firstly, with a focus on building China into a manufacturing power, the banking sector will seize the “bigger, diverse and newer” business opportunities.** The banking sector will look for bigger customer groups in world-class manufacturing industry clusters, further diversify the financial services to serve strategic emerging industries such as new-generation information technology, artificial intelligence and biotechnology and provide newer financial service mechanisms that highlight the technological elements that help enhance the quality and effectiveness of financial services. **Secondly, with a focus on boosting China’s strength in product quality, the banking sector will take a “higher, faster and more comprehensive” approach to development.** The banking sector will provide higher-quality financial resources, including faster and more efficient credit services, to directly boost the key areas and weaker links of the national economy. It will more comprehensively meet the needs of customers with a full package of financial services for users of all types and sizes. **Thirdly, with a focus on boosting China’s strength in aerospace and transportation, the banking sector will enhance the capacity of professional and networked services.** The banking sector will further strengthen its professional team building, gain a deeper understanding of aerospace and transportation projects and innovate financial products. Banks will tap deep into the aerospace and transportation industry systems for networking of customers. Financial coordination is necessary to help build a comprehensive transportation system. **Fourthly, with a focus on boosting China’s strength in cyberspace and digital economy, the banking sector will endeavor to meet more diversified financial needs.** The banking sector will focus on addressing the differentiated financial needs of customer groups at the frontiers of science and technology, including artificial intelligence, edge computing and cloud computing, cater for the asset-light and technology-intensive business mode of customer groups engaged in the digital economy and further innovate credit products and credit enhancement models such as collateralization. The banking sector will achieve breakthroughs in key areas in a well-focused manner, forming a new banking pattern that supports modernization of the industrial system.

Fourth, the retail transformation will deepen to improve people's quality of life. The banking sector will stick to the goal of improving the people's quality of life, continue to implement the "mega retail" strategy and keep deepening the business development pattern focused on personal deposits and lending, supplemented by consumer finance and wealth finance, thereby serving people's growing demand for financial services. **Firstly, the retail transformation strategy will be more divergent.** The retail transformation of the largest banks and joint-stock banks will shift from "growing bigger" to "growing stronger" and enter a stage of high-quality development, characterized by a bigger share of revenue and pre-tax profit from the retail business. City commercial banks, rural commercial banks and other local banks will reinforce their local strengths, further develop scenario-based finance, keep breaking new ground of retail finance services and foster their unique edge. **Secondly, the retail business will focus on the financial needs of key customer groups.** In implementing the rural vitalization strategy, the banking sector will move faster to build an inclusive finance service system and tap opportunities in consumer finance and wealth management among rural residents. The focus will be placed on new urbanites' financial needs in consumption and elder care services. **Thirdly, wealth management will return to the original mission.** Banks will develop the wealth management business with vigor leveraging on their strengths in service channels, customer base and financial resources, in an effort to continuously improve the revenue structure. Working together with wealth management subsidiaries, banks will speed up the NAV-based transformation and return to the original mission of managing wealth for and on behalf of customers. **Fourthly, consumer finance will grow rapidly.** The banking sector will, following the trend of consumption upgrading, foster new forms and models of consumer spending, make timely adjustments to strategic planning and develop higher-quality consumer finance services. Consumer finance will be strategically positioned at a higher level to transit business development from "bigger size" to "higher quality".

Fifthly, inclusive finance will achieve high-quality development to advance rural vitalization in every respect. Banks will attach greater importance to the sustainability of inclusive finance, strive to improve the quality and efficiency of inclusive financial services and better ease the difficulties of enterprises, promote rural revitalization and meet people's basic needs. Firstly, inclusive financial services will be further deepened and broadened for closer alignment with the financial needs of all customer groups covered by inclusive finance. The availability of accounts, loans and comprehensive inclusive financial services will be further improved, and the scale of inclusive finance will continue to expand. Secondly, diverse financial services will be available to meet various needs of different groups in a new era, in a bid to improve the financial health of low-income households and individuals. Financial services including financing, savings, insurance and wealth management for inclusive finance customers will be further enriched, and the products and services for specific customer groups will be further deepened. Thirdly, the comprehensive financial services in rural areas will be improved to efficiently support farmers in increasing their income and achieving rural vitalization. Separate credit plans will be developed for agriculture-related and inclusive agriculture-related fields, so as to strengthen the support for agriculture, rural areas and farmers. Advanced technologies such as satellite remote sensing, blockchain and big data will be used to provide personalized financial services for various farming projects. Fourthly, the supply of inclusive finance will be structurally optimized to significantly narrow the gap between geographical areas. Inclusive credit to underdeveloped areas, old revolutionary base areas, border areas, ecologically degraded areas and old industrial cities will be increased in an orderly manner. A differentiated model of inclusive finance supply in which innovative products and services are launched in line with local resource endowments will take shape. Fifthly, inclusive finance will be more commercially sustainable as its ability to forestall and defuse risks will be enhanced. Relevant workers will be more professional, the risk management technology will keep improving and the banking sector will strike a better balance between developing inclusive finance and forestalling and defusing financial risks.

Sixth, green finance will advance steadily to help the transition to a green economy and society. The banking sector will uphold and act on the principle that lucid waters and lush mountains are invaluable assets, and maintain harmony between humanity and nature when planning development. Banks will have clearer objectives of supporting green economic development and step up efforts on product research and development, market service and institutional construction in light of the needs of the green economy industry. **Firstly, the green finance product portfolio will be continuously enriched to meet the service needs of different customers.** Banks will create various financing modes such as EOD, PPP, syndicated loans, green bonds, ABS and industrial funds, follow up on the major green projects in the 14th five-year plans of local governments and accelerate the construction of environmental protection facilities. More support and help will be given to green small and medium-sized enterprises, and use products such as carbon emission pledge. The services for green enterprises will be broadened and deepened using such products as pledge of carbon emission permits, green supply chain and equipment leasing. **Secondly, more attention will be paid to the technological transformation and structural optimization of the green industry, with credit directed to key industrial areas.** Banks will pay particular attention to the transformation trends and development needs of the green industry, especially in the fields of solar power, wind energy and hydrogen energy. More financial services and products will be developed in line with the characteristics of the upstream, midstream and downstream links of the industrial chain. The credit policies for the green industry will be refined and the credit support plan will be focused on green transition. **Thirdly, the top-level design of green finance development will be improved and the market standards will be unified.** Banks will cooperate with local government agencies, other financial institutions and listed companies to refine the national laws on green development. Regional green alliances will be established to make overall plans for regional green finance, unify market standards and continuously enhance Chinese banks' influence and contribution to the global green economy.

Seventh, comprehensive operation will reach a higher standard and direct financing will be supported. With direct financing placed high on the state's priority list, the banking sector will embrace broader room for comprehensive operation, including investment banking, securities investment, financial consulting, commissioned sales, custody and asset management. The banking sector will accelerate its transformation, integrate and match cross-market financial products and services and provide customers with integrated financial services. **Firstly, the strategic positioning of comprehensive operation will be further clarified.** The largest banks will focus more on global development, gradually grow into world-class financial service groups, develop an integrated financial service ecosystem, sharpen their edge in global financial markets and become trendsetters of the global financial sector. The medium-sized banks will keep developing their unique strengths, focus on their core business and explore to benchmark with the world's leading banks in key fields, such as asset management and investment banking. **Secondly, the capacity of integrated customer services will be enhanced.** To the extent permitted by regulators, the banking sector will integrate the customer and product information of the parent company and its comprehensive operation subsidiaries to develop a group-wide customer view and product view, provide tailor-made, diverse financial services for customers, integrate various service channels and bring together all contact points of customers with banks at different times, different channels and different business. **Thirdly, market-oriented systems and mechanisms will be developed to enhance internal driving forces.** For some comprehensive operation subsidiaries, the banking sector will enhance their competitiveness by letting in private capital and capital from tech firms and foreign non-bank financial institutions that can create strategic synergies. Banks will boldly use professional managers and industry professionals under the market-oriented mechanism, whose remuneration will be commensurate with their profit contribution and work pressure and the market level of compensation.

Eighth, internationalization will go deeper in pursuit of higher-standard opening up. Banks will be more active in seizing policy opportunities, keeping pace with trade facilitation, accelerating the integration and optimization of resources, using digital technology to promote product innovation and service upgrading, build a customer-centric ecosystem of global trade finance services featuring integration of domestic and overseas operations and high-quality opening up, thus contributing to China's drive for higher-standard opening up. **Firstly, the banking sector will keep improving service quality, attaching greater importance to the needs of key regions and key customer groups.** Banks will move faster to enhance their customer service capacity with a focus on the strategic regional plans for the Beijing-Tianjin-Hebei Region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, and on such priority works as the RCEP, the Belt and Road Initiative, development of free trade zones and international trade facilitation. Extra attention will be paid to the development of new customer bases such as cross-border e-commerce, service trade and offshore trade to ensure trade financing support is readily available. **Secondly, the product mix and innovation efforts will be stepped up to meet the diverse needs of enterprises.** Combined with the cross-border cash management and treasury service requirements of the enterprise, the Company will provide a package of integrated trade finance services that will add value, reduce cost and improve efficiency will be provided in line with corporate demand for cross-border cash management and treasury services. Banks will cooperate with the regulatory authorities in steadily advancing the innovation of facilitation policies and enhancing the collaboration across regions and currencies. Banks will explore the innovation in cross-border asset transfer business and conduct pilot research on factoring, bills and financial leasing. **Thirdly, digital transformation will be accelerated to expand the boundaries and channels of cross-border financial services.** Cutting-edge technologies such as artificial intelligence, big data, cloud computing, blockchain and the Internet of Things will be employed to provide more efficient trade finance services for industry chains and supply chains. Financial infrastructures will unleash their strengths to develop trade finance service scenarios integrating government agencies, business entities, banks and credit insurers, build a financial service platform with distinctive scenarios and provide bulk, standard and ecosystem-based trade finance services.

Ninth, risk compliance will be enhanced to safeguard the national financial security. The report to the 20th CPC National Congress stressed that China will "ensure no systemic risks arise" and strengthen the financial security system, which will guide banks toward the new direction of sound operation. **Firstly, risk control in the banking sector should be oriented to systematization and digitalization.** With a systematic orientation, the risk prevention and control system should be developed and a policy framework for risk prevention, early warning, response and accountability should be refined to prevent individual financial risk events from spreading across the system. With a digital orientation, the big data platform will be fully utilized to develop the risk control data platform at a faster pace. Intelligent risk analysis tools will be used to identify early risk signals and issue early warning to complete the digital and intelligent transformation of risk identification and control. **Secondly, banking compliance should be institutionalized and normalized.** In terms of institutionalization, banks should further form a compliance policy environment with systematized basic regulations, precise compliance check, systematic problem correction, strict bottom-line constraints and standardized business processes, so as to effectively improve the efficiency of internal control and compliance management. In terms of normalization, a compliance culture shall be created to foster a strong compliance atmosphere and seriously deal with key risks and non-compliance incidents. **Thirdly, consumer protection should focus on regulating the behavior of financial institutions and improving supervisory rules.** Through assessment, special audit and other management mechanisms, strong efforts should be made to lay a solid foundation for consumer protection. The internal supervision and management rules should be improved to ensure illegalities and irregularities will be punished promptly, form a good atmosphere for compliance and effectively safeguard the legitimate rights and interests of financial consumers. Banks should keep assisting in improving the external monitoring environment and protecting the legitimate rights and interests of consumers and other stakeholders.

Tenth, the banking sector should accelerate the digital transformation to pursue overall upgrading of the financial services ecosystem. With the mission of serving the real economy, the banking sector will embrace the waves of science and technology more firmly, keep pace with the digital China drive and enable advancement and transformation through technology. **Firstly, the digital transformation strategy will be further implemented.** A digital operation mechanism with clearer levels and links will be created to reform the modes of operation, service and risk control. Innovation costs will be lowered through resource sharing, so that the group-wide synergies will be leveraged to effectively address a series of challenges, including product homogenization, cross-sectoral and multi-level competition and financial disintermediation. **Secondly, investment in science and technology will be increased on all fronts.** The proportion of sci-tech investment and the sci-tech talent pool will further expand, making China a leader in the global banking sector. Technological and human resources will be focused on infrastructure development, large-scale data processing and operation model upgrading, in an effort to promote the research and development of digital finance products, the construction of channel matrix and the whole-process dematerialization of financial services. **Thirdly, the data governance capability will be significantly enhanced.** The enterprise-level data models and data standards will be further optimized to produce more accurate customer profiles, dig deeper into customers' financial needs, develop customized product interfaces and enrich the supply of innovative financial products. **Fourthly, the development of an intelligent risk control system will be accelerated.** The traditional loan underwriting model will be further transformed and the risk control chain will be put into use. The intelligent risk control system will be increasingly sophisticated to encompass real-time fraud control, smart anti-money laundering and comprehensive risk management. While working on innovation, banks should be clearly aware of possible problems regarding business compliance, data security and sci-tech ethics and constantly alert to the technological risks, model risks and data monopoly risks behind the rapid development of intelligent technologies.

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