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CHINA FINANCIAL SERVICES

Trip Takeaways: Banks Shift to Defensive Balance Sheet Management; Prefer Brokers on HK ROE and AI Theme; FUTU's Valuation Undemanding but AUM Growth Key to Watch

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During our recent China Financials trip, we met with the management of 9 lending institutions (7 banks and 2 fintech lending platforms) and 2 brokers. Our findings lead us to prefer brokers over lending institutions, a shift from our previous preference for banks (which was based on stable growth and valuation considerations, see here). The primary reason for this adjustment is our belief that, under the premise of slowing loan growth, EPS growth is no longer the main driver of bank stock performance. Instead, strengthening the balance sheet will become a crucial criterion for evaluating a bank's valuation. Within our Banks coverage, we reiterate our Buy rating on **BONB**, as we believe its high-quality growth can sustain high ROE, balanced shareholder returns, and improved capital levels (see here).

Meanwhile, brokers such as **CICC** and **CITICS** are raising capital through various means to invest in the Hong Kong market, citing relatively better returns, leading to upgraded ROE guidance. Additionally, China brokers increasingly co-investing in and underwriting AI company IPOs should drive further revenue growth, although we believe this will have a limited impact on valuation uplift due to the high cyclical volatility of such earnings. We maintain our Buy ratings for **CICC-H** and **CITICS-A**.

FUTU remains an investor focus amid the recent cross-border capital flow regulations. Its valuation is at a historical low, and we believe its AUM growth, excluding mark-to-market changes and non-compliant mainland China accounts, will be a crucial metric for evaluating its 2Q26 results.

We summarize our key takeaways from our visits below.

1. **Loan growth**: The 7 banks we visited, spanning large, medium, and small sizes, all indicated that loan growth will slow after 1Q26, primarily due to weak demand. Retail loan growth is sluggish, while corporate loan growth is mainly concentrated in government-related sectors. However, among them, smaller banks like **Bank of Hangzhou** and **BONB** commented that they believe that substantial loan demand still exists in local technology and export sectors, which management believe should support their differentiated loan portfolios and pricing power.
2. **NIM outlook:** Despite guidance for slower loan growth, most banks are optimistic about their 2026 NIM, mainly driven by lower deposit costs. But we also observed that as retail loan growth slows, retail deposit growth is also

declining, and corporate deposit growth is affected by the growth in corporate lending. Therefore, with overall loan growth set to decelerate, deposit growth could also slow down. Most banks will likely see a continued rise in their loan-to-deposit ratios, which should slow the downward trend in deposit costs.

3. **Mortgage:** Most banks maintained their conservative guidance for full-year mortgage growth, despite the recent improvement in property sales. This is likely due to a cautious stance toward the sustainability of demand improvement and a decrease in the average loan size per mortgage compared to before. However, this is expected to result in a lower Loan-to-Value (LTV) ratio, providing banks with more buffer for mortgage risk. Therefore, banks noted they do not believe that property risk will affect their balance sheet stability, as provisions for existing risks have already been made, and the safety margin for new risks has increased.
4. **Retail and Fintech lending:** Retail finance continues to face growth bottlenecks. While some fintech lending platforms reported better-than-expected performance in 1Q26, despite regulatory pressure on lower interest rates, due to stabilized new loan pricing and clearance of legacy risks, banks indicated that growth pressure for credit cards and consumer loans remains significant, and risk disposal will take more time, with most banks planning to increase provisions for these assets.
5. **Brokerage strength: CICC**'s management guidance was better than expected. Its ROE target for the next three years has been raised from 12% to 13-15%, primarily due to capital deployment in the Hong Kong market, which management commented offers superior ROE, following the completion of its merger and restructuring with Dongxing Securities and Cinda Securities. **CITICS** also recently announced a RMB 16bn capital replenishment to be invested in the Hong Kong market. Wealth management is also a key strategic focus, with **CICC** noting it believes that a more compliant market, following strengthened regulation on cross-border capital flows, provides it with greater growth opportunities.
6. **FUTU** remains a focal point for investors amid the recent round of regulation on cross-border capital flows. **FUTU** has already booked a fine in its 1Q26 results. Management reiterated the main growth narrative, especially in the context of an AI bull market, but the remediation of non-compliant mainland China accounts could impact short-term performance. We believe that AUM growth, excluding mark-to-market changes and non-compliant mainland China accounts, will be a crucial metric for evaluating its 2Q26 results.

The authors would like to thank Zihan Wang for her contribution to this report.

Banks: Balance Sheet Strength Over EPS Growth as Credit Slows

The China banking sector delivered a strong performance in 1Q26, in line with our previous expectations. However, as we move into 2Q26, our channel checks indicate that multiple key indicators are facing pressure, suggesting the better-than-expected performance of 1Q is unlikely to be replicated for the remainder of the year. Consequently, we believe the primary focus for evaluating bank value is shifting from EPS growth to the fortification of their balance sheets. Based on our conversations with several lending institutions including banks and fintech lending platforms during our China Financials Trip, we note five major trends (summarized as follows):

1. Asset Growth: Credit Demand Continues to Weaken with Scale Expansion Tilting Towards Bond Allocation

Our trip conversations suggest that since the beginning of 2Q26, demand for both corporate and retail loans has weakened, with meeting participants noting the soft performance observed in April's credit data is likely to have continued into May (Exhibit 1). The retail segment is experiencing a particularly pronounced downturn, which has manifested in two key areas: 1) Despite signs of improvement in property sales, households are still in a phase of deleveraging, causing new mortgage origination to fall below the amount of repayments, which in turn has resulted in a contraction of the outstanding mortgage balance; 2) Tepid consumer demand has led to sluggish growth in both consumer loans and credit cards (Exhibit 2). Against this backdrop, banks have adopted a more conservative stance on their full-year credit growth targets, with future growth expected to rely more heavily on corporate lending including government-related loans (Exhibit 3).

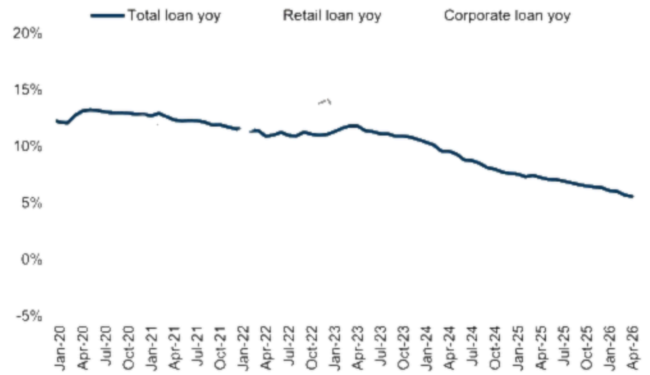
Nevertheless, significant divergence among banks remains (Exhibit 4):

1) Leading regional smaller banks, such as **Bank of Hangzhou** and **Bank of Ningbo**, continue to guide for relatively rapid credit growth of approximately 16% and 12-15%, respectively. Management have attributed this primarily to the resilience of their regional economies and their differentiated strategic focus on technology, innovation, and SMEs.

2) Large SOE banks like **CCB** and **BOC** are supported by their corporate lending business and are forecasting loan growth of around 8%.

3) Retail-focused banks, such as **CMB**, are seeing downward pressure from weak retail demand, and we expect to see credit growth that is slightly slower than that of the large SOE banks.

Exhibit 1: Our trip conversations suggest that since the beginning of 2Q26, demand for both corporate and retail loans has weakened
As of April 2026



Source: PBOC

Exhibit 2: The retail segment is experiencing a particularly pronounced downturn, which has manifested in two key areas: 1) Despite signs of improvement in property sales, households are still in a phase of deleveraging, causing new mortgage originations to fall below the amount of repayments, which in turn has resulted in a contraction of the outstanding mortgage balance; 2) Tepid consumer demand has led to sluggish growth in both consumer loans and credit cards
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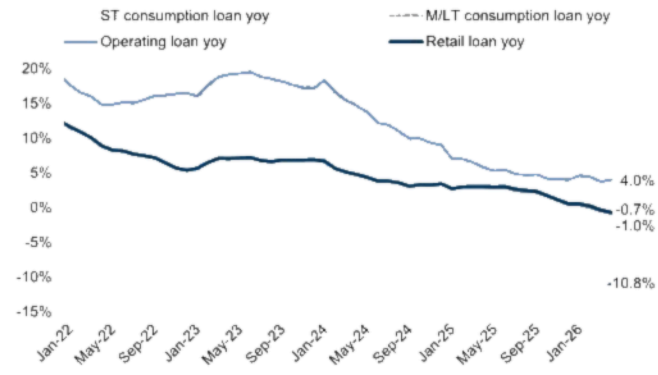

Source: PBOC

Exhibit 3: Against this backdrop, banks have adopted a more conservative stance on their full-year credit growth targets, with future growth expected to rely more heavily on corporate lending including government-related loans
As of April 2026

Source: PBOC

Exhibit 4: Nevertheless, significant divergence among banks remains

*refers to non-covered banks.

Source: Company data

In contrast to the weakening credit landscape, banks have generally maintained relatively high bond investment growth. This trend is driven by two factors: First, the structure of social financing is gradually shifting from indirect financing to direct financing, as reflected in TSF data (Exhibit 5); Second, the risk-adjusted and capital-adjusted returns on bond investments remain attractiveas they have lower risk and lower capital consumption. Several banks have guided that their bond investment growth will surpass credit growth in 2026. In terms of investment strategy, large SOE banks tend to be more inclined to invest in long-duration bonds, primarily holding them to maturity to collect interest income. In contrast, small and medium-sized banks tend to be more flexible in their operations, focusing on capturing capital gains through swing trading and tactical positioning (Exhibit 6).

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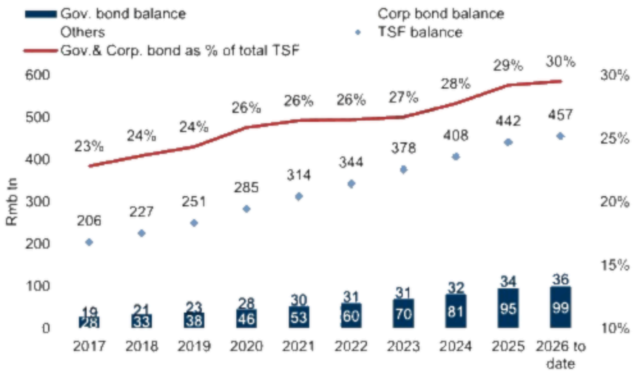

Source: PBOC

Exhibit 6: In terms of investment strategy, large SOE banks tend to be more inclined to invest in long-duration bonds, primarily holding them to maturity to collect interest income. In contrast, small and medium-sized banks tend to be more flexible in their operations, focusing on capturing capital gains through swing trading and tactical positioning

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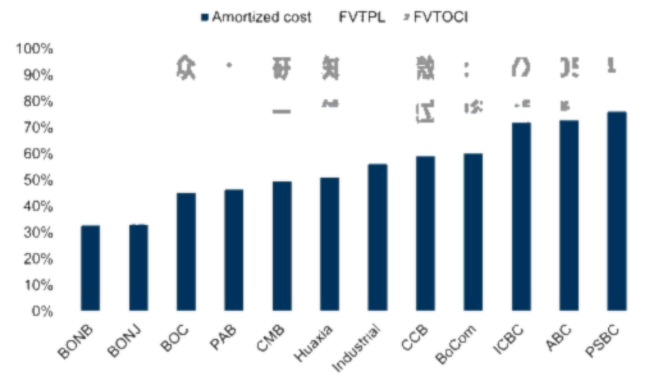


Source: Company data

2. NIM: The Full-Year 2026 Outlook Remains Optimistic, but the Exceptional 1Q26 Performance is Unlikely to Extend into 2Q, with the Liability Side Being the Main Point of Divergence

The banking sector's NIM experienced an unexpected sequential rebound in 1Q26, and most banks have maintained an optimistic outlook for the full year of 2026, believing that NIM is entering a stabilization phase. However, when viewed on a quarterly basis, banks do not expect the upward momentum from 1Q to continue through the remaining quarters, which are still likely to face slight sequential downward pressure (Exhibit 7). A breakdown of the driving factors reveals the following:

- **Asset Yields:** 1) On the loan side, although the bulk of loan repricing pressure was released in 1Q26 and retail loan yields have stabilized at low levels, pricing for corporate loans has not yet bottomed out. Furthermore, loan yields of government-related loans are facing downward pressure in the context of local government debt resolution initiatives. 2) On the bond side, large banks, due to their large holdings of legacy long-duration, high-yield bonds, are likely to continue to face downward repricing pressure as these assets mature over the next two to three years.
- **Liability Costs:** 1) Deposit repricing was a significant tailwind for NIM in 1Q26, setting a positive tone for NIM stabilization in 2026. However, looking ahead, the positive impact of this factor should diminish quarter by quarter due to front-loaded deposit growth. Moreover, the interest rate spread between existing and new deposits will gradually narrow, limiting the potential for further declines in funding costs. 2) Deposit growth is a derivative of loan growth. With sluggish retail loan growth and the "migration" of deposits as high-interest term deposits mature, retail deposit growth is also set to slow. Similarly, corporate deposit growth is tied to

corporate lending. Therefore, in a scenario where overall loan growth decelerates, deposit growth will also slow down. Most banks will likely see their loan-to-deposit ratios (LDR) continue to rise, which in turn slows the downward trend in deposit costs (Exhibit 8).

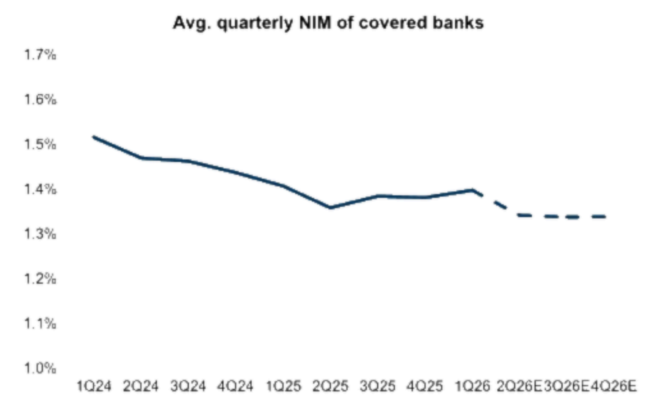
Against this backdrop, potential points of divergence among banks arise from:

1) Overseas Footprint: BOC and **SPDB** have mentioned during the trip plans to increase their allocation to foreign currency assets, aiming to leverage the high-interest-rate environment abroad to offset domestic spread compression. Notably, **BOC**'s overseas assets accounted for about 20% of its total assets but contributed approximately 30% of its pre-tax profit, in 2025 with its double-digit overseas ROE, significantly higher than its domestic ROE in the high single digits.

2) Liability Structure: Bank of Hangzhou noted during our conversations that the company is benefiting from the maturity of a concentration of high-interest term deposits and a higher proportion of corporate demand deposits that enjoyed rate cuts driven by the industry self-regulatory mechanism. **SPDB,** on the other hand, noted the company is benefiting from cost reductions in its interbank liabilities under industry self-disciplinary mechanisms as well. In contrast, banks like **CMB**, which already possess an exceptionally strong and low-cost liability franchise, have less room for further cost reduction compared to peers (Exhibit 9).

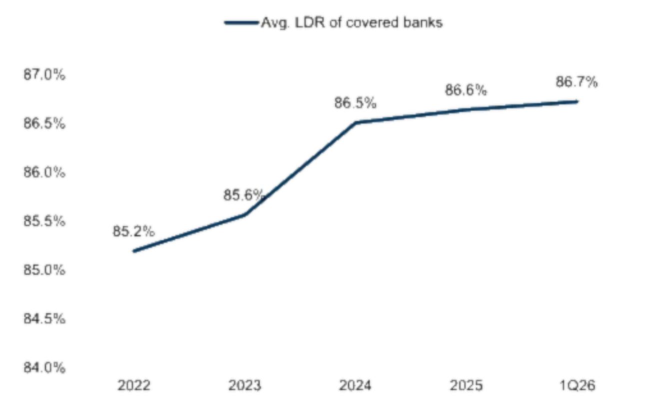
3) Deposit Retention Capability: The maturity of high-rate deposits triggers a "deposit migration," which tests a bank's ability to retain customer funds. Banks with strong wealth management capabilities (such as **CMB**) and large SOE banks with extensive branch networks are more defensively positioned. Conversely, banks with high LDRs and less sticky deposit bases face the risk of rising funding costs (Exhibit 10).

Exhibit 7: The full-year 2026 outlook for NIM remains optimistic, but the exceptional 1Q26 performance is unlikely to extend into the remaining quarters, which may still face slight sequential downward pressure



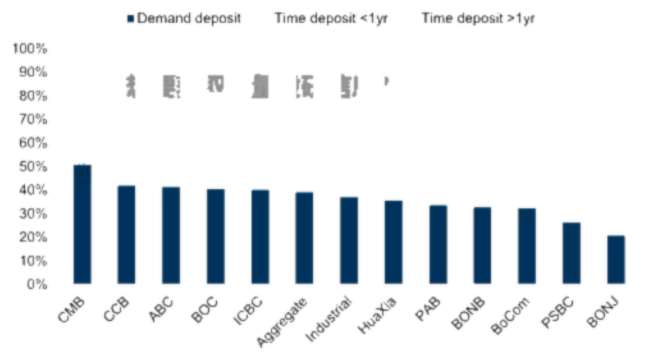
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: Most banks will likely see their loan-to-deposit ratios (LDR) continue to rise, which in turn could slow the downward trend in deposit costs



Source: Company data

Exhibit 9: Banks like CMB, which already possess an exceptionally strong and low-cost liability franchise, have less room for further cost reduction compared to peers
As of 2025



Source: Company data

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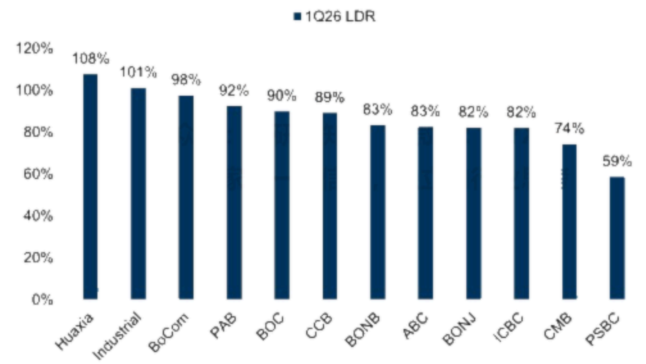


Source: Company data

3. Non-Interest Income: Wealth Management Drives Fee Income, While Investment Income is Suppressed by a High Base Effect

Fee income is expected to experience modest and steady growth. Banks are observing a continued recovery in the wealth management sector, with the deposit migration trend driving growth in fee-based agency sales and custody services extending into 2Q26. On the product side, equity funds, wealth management products, precious metals, and insurance are the primary growth drivers. On the channel side, the advantages of large SOE banks and retail-focused banks remain solid, while smaller banks such as **BONB** are locking in customers by offering value-added services such as payroll management. However, credit card-related fees remain a widespread drag on performance; only **CCB** has managed to achieve counter-trend growth by successfully increasing its card activation rate. Consequently, banks with a higher proportion of wealth management-related fees in their fee income structure, such as **BONB** where such fees account for approximately 80%, are better positioned to benefit (Exhibit 12, Exhibit 11).

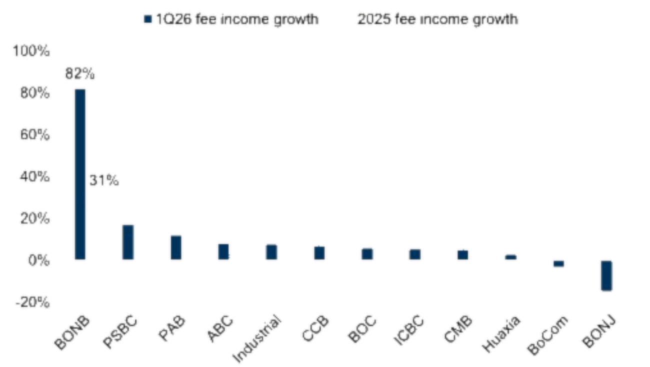
However, banks anticipate that the contribution from investment income will be relatively limited, with the breakdown as follows:

1) Trading Income: 1Q26 benefited from a bull run in the bond market. However, banks believe the bond market will likely enter a phase of range-bound trading, making trading gains less sustainable and predictable.

2) Equity Investment Income: Some banks, such as **CCB**, indicated a certain level of contribution in 1Q26 from the equity investment projects held by their Asset Investment Companies (AICs). However, this type of income is highly susceptible to capital market volatility and is considered non-recurring. Therefore, we do not factor it into our forward-looking expectations. It is worth noting, however, that based on public disclosures, some large banks' AICs hold stakes in leading companies in the AI industry value chain (such as **CXMT** and **YMTC**), which represent potential unrealized investment value on their balance sheets.

3) Realization of Floating Gains: During a period of low bond rates in 2Q25, many banks opportunistically realized floating gains from their FVOCI and AC bond portfolios (Exhibit 13). This created a high base that will weigh on investment income growth this year. For 2026, banks have indicated that the realization of such gains will depend on market timing. Furthermore, with an expected improvement in NII, the incentive for banks to realize large-scale floating gains simply to support overall revenue has diminished. Therefore, we expect the year-over-year contribution from this item to be limited (Exhibit 14).

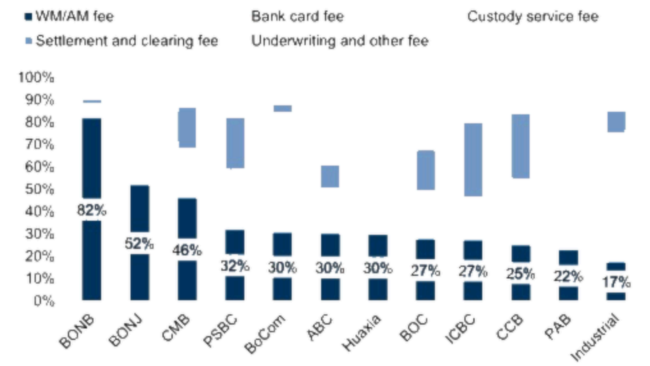
Exhibit 11: Fee income is expected to experience modest and steady growth. Banks are observing a continued recovery in the wealth management sector, with the deposit migration trend driving growth in fee-based agency sales and custody services extending into 2Q26.



Source: Company data

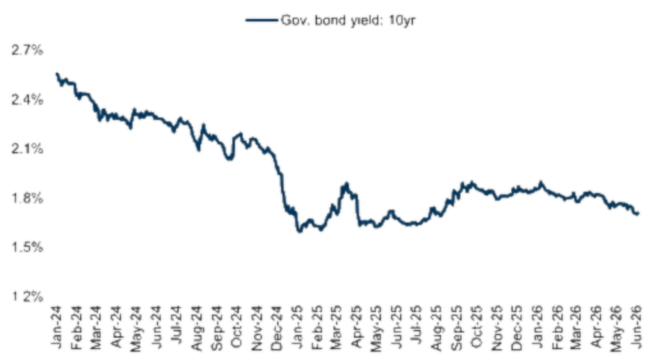
Exhibit 12: Banks with a higher proportion of wealth management-related fees in their fee income structure, such as BONB where such fees account for ~80%, are better positioned to benefit

As of 2025



Source: Company data

Exhibit 13: During a period of low bond rates in 2Q25, many banks opportunistically realized floating gains from their FVOCI and AC bond portfolios. This created a high base that will weigh on investment income growth this year.



Source: Wind

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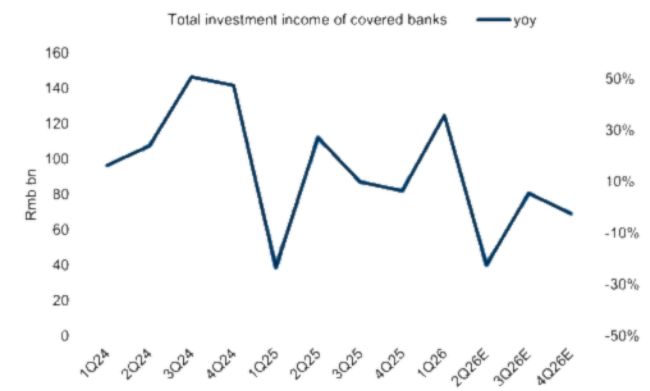


Source: Company data, Goldman Sachs Global Investment Research

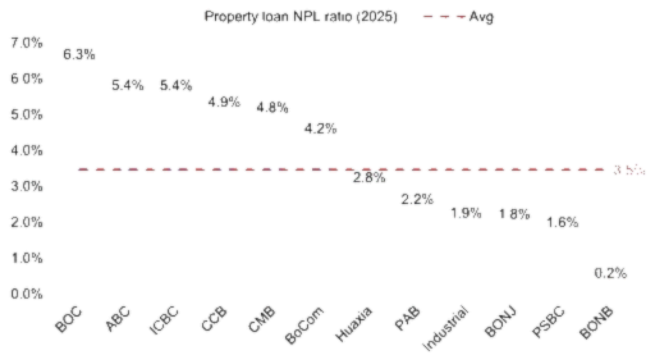
4. Asset Quality: Property Risk is Bottoming Out, with Clear Divergence in the Retail Segment

In terms of asset quality, most banks continue to view risks associated with property and the retail segment as their primary areas of concern.

- **For property loans**, banks maintain the view that the peak of new NPL formation has passed. However, they emphasize that pressures persist, with NPL ratios for the large banks remaining around 5% (Exhibit 15), making a rapid improvement unlikely in the short term. In contrast, **BONB** has zero exposure to property developers, and its existing property loans are primarily directed toward social housing projects, allowing it to avoid the impact of the property industry downturn.
- **For non-mortgage retail loans**, risks are still on the rise, but at a varied pace across different banks. For the industry as a whole, NPL formation in credit cards and operating loans is still increasing, albeit at a slower rate. However, due to their proactive and early risk control measures, the asset quality of **BONB** (Exhibit 16) and **PAB** (see here) has already entered an improvement cycle. We are observing a similar trend at the fintech platforms. We note that the 1Q26 results of several leading fintech lending platforms exceeded market expectations, driven primarily by a sequential improvement in risk performance, which led to a recovery in their take rates. This is attributable to two factors: first, these platforms began to scale back on high-risk loans and tighten credit standards for new loans as early as 2Q-3Q25, and with an average loan duration of only 8-11 months, the unwinding of existing credit risk is relatively swift; second, industry-wide liquidity risks have also eased. Considering the time lag for risk transmission from high-yield platforms to bank balance sheets, we expect the banking industry's retail credit risk to remain under pressure in the short term, but we anticipate improvement in subsequent quarters.
- **For mortgage loans**, although weak demand has dragged on overall growth, the gradual stabilization of housing prices and household deleveraging is expected to result in improved LTV ratios. This, in turn, provides a greater safety buffer for banks' mortgage risk. Therefore, banks do not believe that property-related risks will destabilize their balance sheets, as provisions for existing risks have already been made, and the risk-adjusted safety margin for new loans has increased.

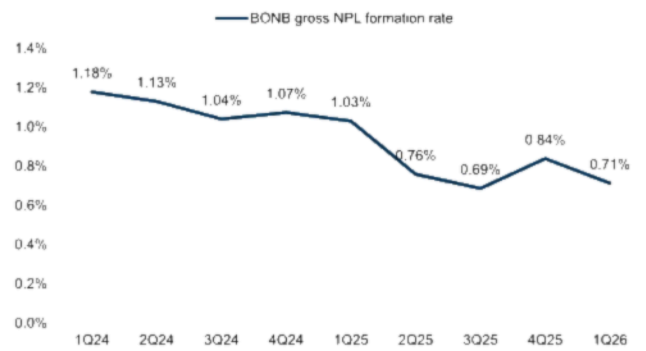
At the provisioning level, most banks believe that the overall provisioning pressure will decrease this year. The 1Q26 data from some banks show that a decline in corporate NPL formation has offset the rise in retail NPL formation, leading to an overall year-over-year decrease in new NPL formation. However, from a structural perspective, given that retail loan growth remains under pressure and risk disposal still requires time, most banks have indicated they will increase the level of provisioning for their retail loan portfolios. Furthermore, since the banking industry has been releasing provisions to boost profits over the past few years, under the expectation of a revenue recovery in 2026, it is likely that most banks will continue the trend observed in 1Q26 of increasing provisions as a counter-cyclical adjustment to enhance their risk-absorption capacity. This would result in a scenario where revenue and PPOP grow faster than net profit (Exhibit 17). However, there are also banks with already substantial provision buffers, such as **Bank of Hangzhou**, whose NPL coverage ratio may be allowed to slowly decline as NPL formation slows (Exhibit 18).

Exhibit 15: For property loans, banks maintain the view that the peak of new NPL formation has passed. However, they emphasize that pressures persist, with NPL ratios for the large banks remaining around 5%, making a rapid improvement unlikely in the short term.



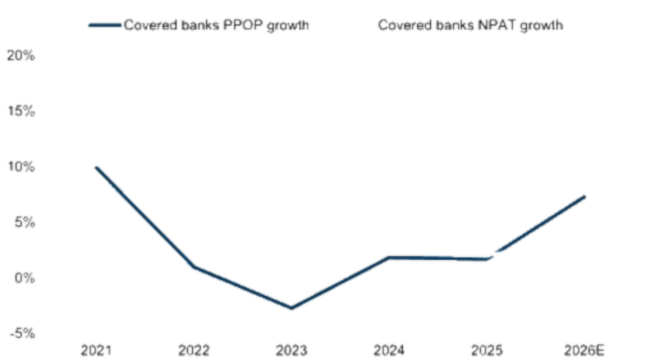
Source: Company data

Exhibit 16: Due to proactive and early risk control measures, the asset quality of BONB has already entered an improvement cycle.



Source: Company data

Exhibit 17: Since the banking industry has been releasing provisions to boost profits over the past few years, under the expectation of a revenue recovery in 2026, it is likely that most banks will continue the trend observed in 1Q26 of increasing provisions as a counter-cyclical adjustment to enhance their risk-absorption capacity. This would result in a scenario where revenue and PPOP grow faster than net profit.



Source: Company data, Goldman Sachs Global Investment Research

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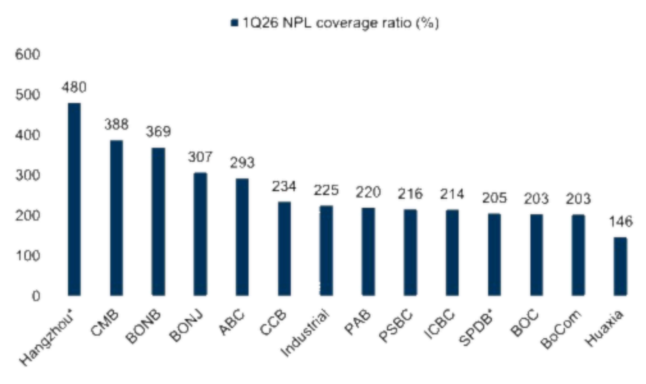


Source: Company data

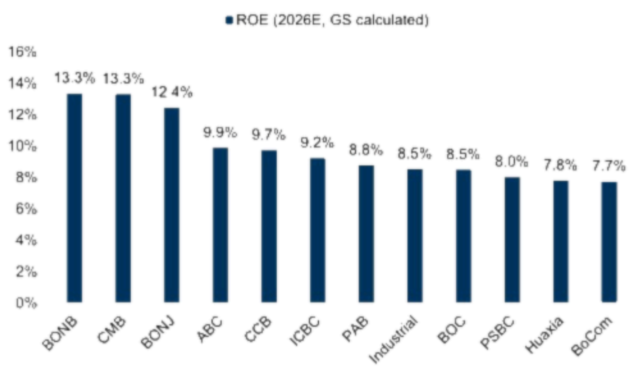
5. ROE and Capital: Maintaining Stable Dividends, with a Focus on Internal Capital Generation

Banks generally believe that the downward pressure on ROE will continue in the short term, as profit growth is lagging behind the growth in shareholders' equity (Exhibit 19). In terms of drivers, banks are more focused on stabilizing their ROA than on adjusting leverage.

Furthermore, although the large SOE banks received capital injections from the Ministry of Finance last year, and some small and medium-sized banks (such as **BONJ**, **SPDB,** **Bank of Hangzhou,** and **Industrial Bank**, albeit partially in the case of the latter) successfully augmented their capital through the conversion of previously issued convertible bonds, the environment for external financing remains relatively constrained, with most banks' P/B ratios trading below 1.0x (Exhibit 20, Exhibit 21, Exhibit 22). Therefore, banks are inclined to improve their capital adequacy through refined capital management and by applying for accreditation to use the Advanced Approaches for capital measurement. All banks we visited, including **BONB** (which raised its dividend payout ratio by 5ppts to 27% in 2025), have guided that their dividend payout ratios will remain stable in the short term. The strategy is to retain earnings to strengthen their CET1 capital, rather than to attempt to boost ROE by increasing dividends.

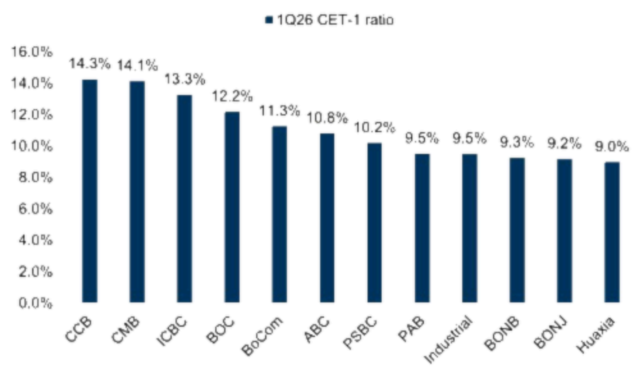
In summary, while the fundamentals of the banking sector in 2026 are showing a trend of stabilization and improvement, the marginal outlook for 2Q26 is weaker than that of 1Q26. Against the backdrop of slowing credit growth, the key determinant for evaluating bank value is shifting from EPS growth to the ability to fortify the balance sheet. In the short term, we believe brokers will outperform banks. However, within the banking sector, we recommend **BONB** due to its distinct advantages, as we believe its high-quality growth can sustain a high ROE, balanced shareholder returns, and a robust capital position.

Exhibit 19: Banks generally believe that the downward pressure on ROE will continue in the short term, as profit growth is lagging behind the growth in shareholders' equity



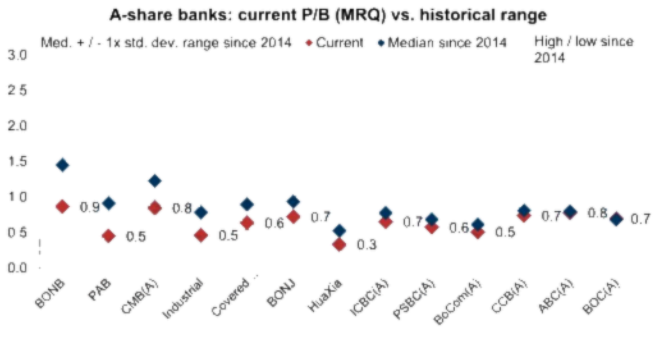
Source: Goldman Sachs Global Investment Research

Exhibit 20: Although the large SOE banks received capital injections from the Ministry of Finance last year, and some small and medium-sized banks (such as BONJ, SPDB, Bank of Hangzhou, and Industrial Bank, albeit partially in the case of the latter) successfully augmented their capital through the conversion of previously issued convertible bonds...



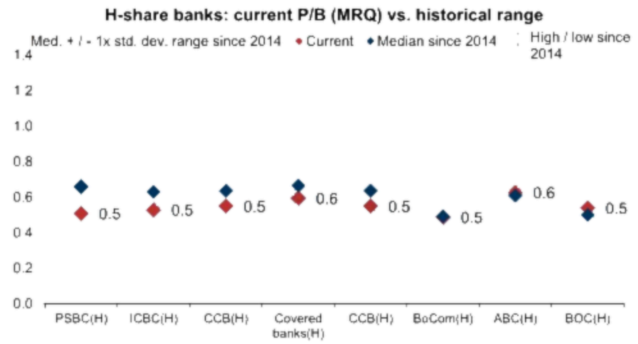
Source: Company data

Exhibit 21: ...the environment for external financing remains relatively constrained, with most banks' P/B ratios trading below 1.0x in both A shares...



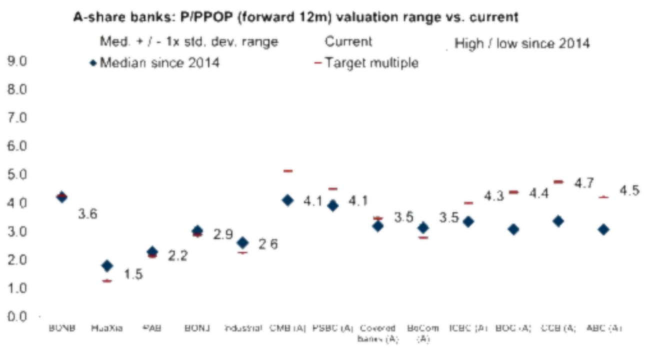
Source: Wind

Exhibit 22: ...and H shares



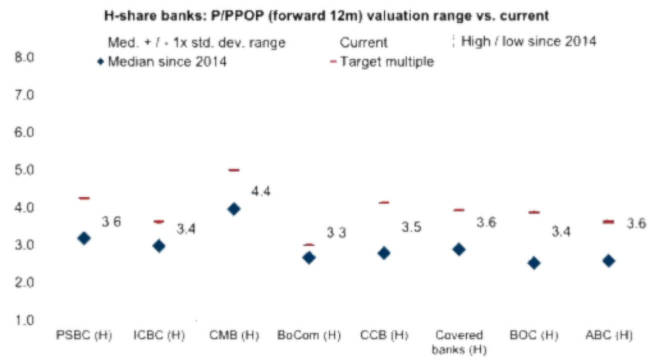
Source: Wind

Exhibit 23: China banks' P/PPOP valuation (A shares)



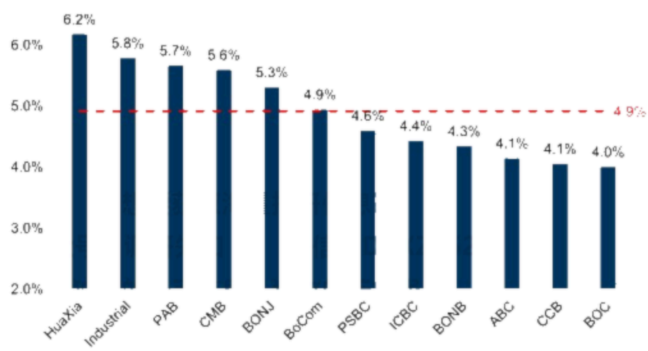
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 24: China banks' P/PPOP valuation (H shares)



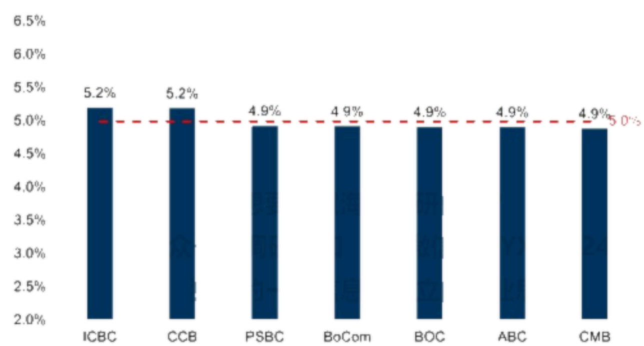
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 25: 2026E dividend yield (A shares)



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 26: 2026E dividend yield (H shares)



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 27: China banks' valuation comp
Prices as of June 4, in local currency

	Ticker	Current price	TP	Rating	Target P/PPOP	Upside/ downside (%)	TP implied P/B		Trading P/B		Trading P/PPOP		Div. yield	
H-share (HKD)							**2026E**	**2027E**	**2026E**	**2027E**	**2026E**	**2027E**	**2026E**	**2027E**
ICBC (H)	1398.HK	6.72	6.96	Neutral	3.625x	4%	0.55	0.52	0.53	0.50	3.72	3.50	5.2%	5.5%
BOC (H)	3988.HK	5.25	5.95	Buy	3.875x	13%	0.61	0.57	0.54	0.50	3.66	3.42	4.9%	5.2%
CCB (H)	0939.HK	8.55	9.96	Buy	4.125x	16%	0.64	0.60	0.55	0.52	3.78	3.54	5.2%	5.4%
ABC (H)	1288.HK	5.81	5.82	Neutral	3.625x	0%	0.63	0.58	0.63	0.58	3.89	3.62	4.9%	5.2%
BoCom (H)	3328.HK	7.37	6.40	Sell	3.000x	-13%	0.43	0.40	0.49	0.47	3.57	3.46	4.9%	5.1%
PSBC (H)	1658.HK	5.02	5.75	Buy	4.250x	15%	0.59	0.56	0.52	0.48	3.91	3.71	4.9%	5.2%
CMB (H)	3968.HK	47.62	52.86	Buy	5.000x	11%	1.02	0.94	0.92	0.85	4.81	4.50	4.9%	5.2%
A-share (Rmb)														
ICBC (A)	601398.SS	7.23	7.68	Neutral	4.000x	6%	0.66	0.62	0.62	0.58	4.37	4.10	4.4%	4.7%
BOC (A)	601988.SS	5.90	6.72	Buy	4.375x	14%	0.75	0.70	0.66	0.62	4.48	4.19	4.0%	4.2%
CCB (A)	601939.SS	10.03	11.47	Buy	4.750x	14%	0.81	0.76	0.71	0.66	4.84	4.53	4.1%	4.2%
ABC (A)	601288.SS	6.30	6.75	Neutral	4.200x	7%	0.79	0.74	0.74	0.69	4.60	4.28	4.1%	4.4%
BoCom (A)	601328.SS	6.72	5.92	Sell	2.775x	-12%	0.43	0.41	0.49	0.46	3.55	3.43	4.9%	5.1%
PSBC (A)	601658.SS	4.93	6.09	Buy	4.500x	24%	0.68	0.64	0.55	0.52	4.19	3.97	4.6%	4.8%
CMB (A)	600036.SS	38.10	54.18	Buy	5.125x	42%	1.14	1.05	0.80	0.74	4.20	3.93	5.6%	6.0%
Industrial	601166.SS	18.29	17.89	Sell	2.250x	-2%	0.43	0.41	0.44	0.42	2.62	2.51	5.8%	6.0%
PAB	000001.SZ	10.82	11.89	Neutral	2.125x	10%	0.48	0.45	0.43	0.41	2.21	2.11	5.7%	5.9%
HuaXia	600015.SS	6.72	6.06	Sell	1.250x	-10%	0.29	0.27	0.32	0.30	1.50	1.51	6.2%	6.2%
BONB	002142.SZ	30.45	41.29	Buy	4.250x	36%	1.11	1.00	0.82	0.74	3.79	3.42	4.3%	4.8%
BONJ	601009.SS	11.01	12.34	Neutral	2.875x	12%	0.77	0.70	0.69	0.63	3.00	2.80	5.3%	5.6%
H-share avg.						7%	0.64	0.60	0.60	0.56	3.91	3.68	5.0%	5.2%
A-share avg.						12%	0.70	0.64	0.61	0.56	3.61	3.40	4.9%	5.2%

Target prices (TPs) are 12-month.

Source: Wind, Goldman Sachs Global Investment Research

Brokers: AI Theme Sustains Market Momentum, ROE Recovery Through International Business Capital Investment, Easing Regulatory Uncertainty for Online Brokers

1. Sustained Market Momentum and the Impact of the AI Sector

Our covered brokers' performance in 1Q26 was robust, benefiting from record high ADTV and an active IPO market. **CICC** management said that enthusiasm in the IPO market is continuing, with more than 180 deals currently in the pipeline. Concurrently, as long as the market features appealing themes (such as AI) and a sustained low-interest-rate environment, management believes it is unlikely that the current high trading volumes will experience a significant decline. A comprehensive improvement in economic fundamentals would further enhance liquidity and continue to drive growth in trading-related income, per management.

Furthermore, the market has recently been focused on the impact of large-scale IPOs from the AI industry chain on brokers. We believe that:

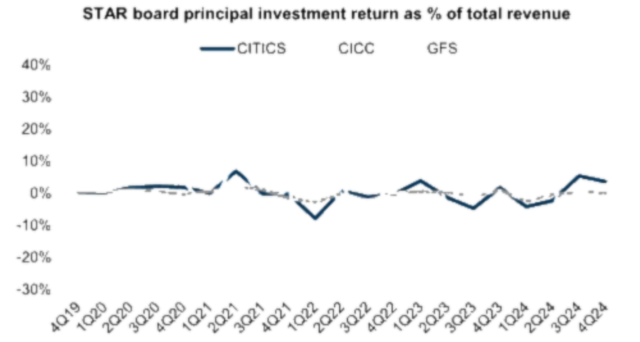
- If the AI sector continues to maintain a high degree of prosperity, there is potential for an upward revision to our A-share ADTV forecast. Our current forecast for ADTV is Rmb 2.7tn for 2026 vs. Rmb 2.1tn for 2025 (Exhibit 30). GS strategists also remain optimistic about the A-share market, projecting the CSI 300 Index will rise to 5300 within 12 months.
- In terms of the impact of STAR Board principal investment, we believe the enhancement to EPS and ROE will likely be smaller than paper gains might suggest, mainly considering the two-year lock-up periods and: 1) opportunity cost on committed capital and 2) the uncertainty of market valuation. Moreover, we think STAR Board principal investment will weigh on the balance sheets of brokers, and it is subject to fluctuations in the net value of unexited equity stakes. Therefore, we do not believe that this part of income is likely to lead to an uplift in the valuation multiple. An example is the STAR Board IPO and principal investment cycle from 2020 to 2023. We saw the valuation of H-shares for the brokers decline from a peak of 12x to a trough of 7x, mainly because valuation discounts on the brokers' principal investment had a significant impact on the period's earnings, in addition to the decline in IPOs and trading volumes resulting from the capital market downturn. During the 2020-23 period, the investment income growth of our covered brokers ranged from a peak of 265% to a trough of -72% YoY. Therefore, we believe principal investment tends to exacerbate the volatility of brokers' earnings and is unlikely to drive an uplift in their valuation multiples.

Exhibit 28: During the 2020-23 period, the investment income growth of our covered brokers ranged from a peak of 265% to a trough of -72% YoY, with the valuation of H-shares for the brokers declining from a peak of 12x to a trough of 7x

Investment income growth and forward P/E both use the average of CICC, CITICS, GFS in our coverage

Source: Company data, Wind

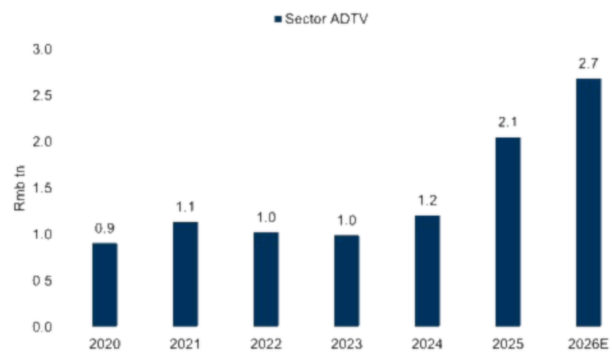
Exhibit 29: We therefore believe principal investment tends to exacerbate the volatility of brokers' earnings and cannot drive an uplift in their valuation multiples



Source: Company data, Goldman Sachs Global Investment Research, Wind

Exhibit 30: Our current forecast for ADTV is Rmb 2.7tn for 2026 vs. Rmb 2.1tn for 2025

Rmb tn



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 31: Dupont Analysis of broker coverage

2026E

DuPont Analysis(2026E)	CICC	CITICS	GFS
Net fee and commission	**2.0%**	**1.8%**	**1.9%**
Brokerage commission	0.8%	0.8%	1.0%
Investment banking	0.7%	0.3%	0.1%
Asset/wealth Management	0.4%	0.6%	0.7%
Net interest income	**0.0%**	**0.2%**	**0.2%**
Investment income	**1.8%**	**2.0%**	**1.8%**
Net total revenues	**3.6%**	**4.0%**	**3.9%**
Total operating expense	2.0%	1.7%	1.8%
ROA	**1.3%**	**1.7%**	**1.8%**
x Leverage	7.0x	6.2x	6.2x
ROE	**9.2%**	**10.7%**	**10.9%**
Revenue growth	**17%**	**22%**	**29%**
NPAT growth	**23%**	**23%**	**38%**
CIR	54%	43%	45%

Source: Goldman Sachs Global Investment Research

2. Capital Injections into Overseas Business to Enhance Leverage and ROE Levels

We previously mentioned that sustained strong performance for brokers must be demonstrated through a continuous recovery in ROE. This not only requires a consistently positive IPO market in Hong Kong but, more importantly, requires that the brokers' leverage levels have room for sustained growth. Since 1Q26, we have observed an industry trend of brokers refinancing to inject capital into their overseas operations. For example, **GFS**'s refinancing of HK$6.1bn at the beginning of the year was fully allocated to its Hong Kong business. **CICC** management mentioned during a CEO meeting that **CICC** is increasing capital in its Hong Kong subsidiary to strengthen its international business and plans to maintain its leading position as the largest Chinese broker in Hong Kong by net capital. The balance sheet of its Hong Kong business has expanded rapidly, with leverage increasing from approximately 7x at the end of 2025 to over 9x as of May 2026, driven primarily by market demand. The near-term leverage target is 10-12x. Recently, **CITICS** also announced a private placement plan by its major shareholder to raise Rmb 16bn for international business development. According to our calculation based on the latest public announcement, although this will lead to a 5% EPS dilution in the short term, upon completion of the placement, the equity contribution from the international business will increase from 9% to 13%, and leverage will decrease from 17x to 11x, creating more room for future enhancement.

The average leverage/ROE for the overseas subsidiaries of the three brokers in our coverage is 11x/16%, compared to the group average leverage of 6x/9%. Among them, **CICC**'s overseas business contributes the most to both revenue and profit, at over 40%, the highest among Chinese brokers. During our recent China Financials trip, **CICC** management discussed its recently announced ROE improvement plan, aiming to increase ROE to 13-15% within the next three years. The core driver for this is a proposed M&A transaction, which management believes would integrate a larger capital base and unlock synergies (especially in the wealth management business), while costs remain relatively fixed. Management added that this deal would supplement **CICC**'s capital, and that roughly half of the capital allocated to overseas business will be used for institutional activities such as IPOs, derivatives, and total return swaps. **CICC's** market share for Hong Kong IPOs last year was approximately 30%, maintaining a leading position. **CICC** has also observed an increasing number of compliant clients (e.g., those holding passports meeting regulatory conditions) emerging in Hong Kong and Singapore, and its client base is growing rapidly. Hong Kong has surpassed Switzerland to become the world's largest wealth management center, presenting significant opportunities for its wealth management business.

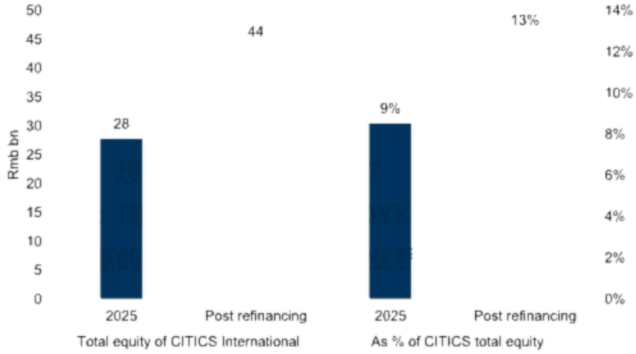
We have summarized the current key regulatory capital indicators for the brokers we cover (Exhibit 38). We note that as of 2025, leverage is constrained by metrics such as the Net Stable Funding Ratio (NSFR), with less than 1x of headroom remaining before hitting the cap, corresponding to only 1% of ROE upside. If completed as proposed, the announced refinancing and M&A activities could reduce leverage and create more room for future increases. We maintain our Buy ratings on **CICC-H** and **CITICS-A**, based on their high contribution from overseas business performance and their ROE levels.

Exhibit 32: CITICS planned refinancing details

CITICS refinancing		
Net proceeds from placing	**Rmb mn**	**16,000**
Placing shares	mn	794
Placing price	HK$	23.13
Discount to the May 28 closing price	%	-8.0%
Premium over avg. closing price for last 5 trading days	%	-9.8%
New capital	**Rmb mn**	**16,000**
as % of CITICS total equity (2025)	%	5%
as % of CITICS International total equity (2025)	%	58%
New shares	**mn**	**794**
as % of existing issued H shares	%	30.3%
as % of existing issued shares	%	5.4%
EPS dilution	**%**	**5.09%**

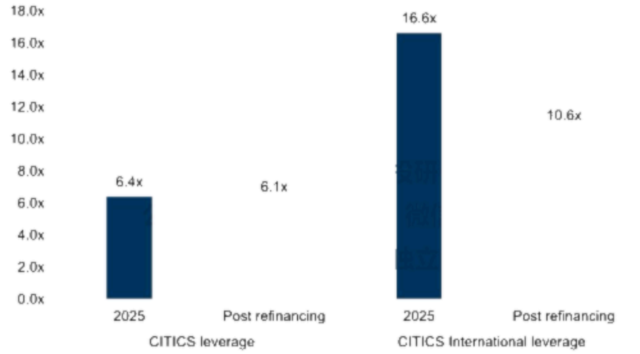
Source: Company data, Wind

Exhibit 33: Following this Rmb 16bn refinancing, we calculate the equity proportion of CITICS international business will increase from 9% to 13%



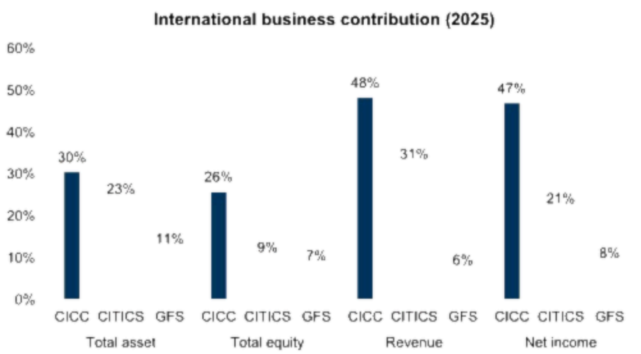
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 34: Following this Rmb 16bn refinancing, we calculate the leverage of CITICS international business will decrease from 16.6x to 10.6x, creating greater room for expansion



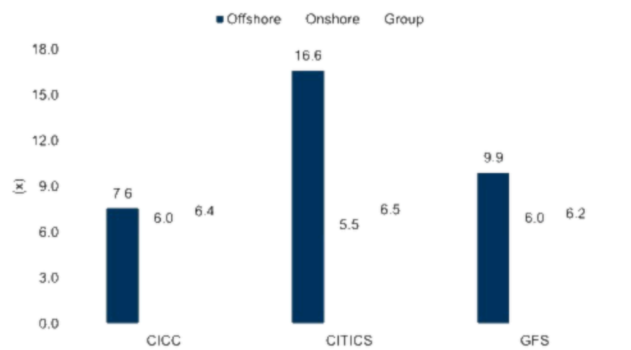
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 35: CICC's overseas business contributes the most to both revenue and profit, at over 40%, the highest among Chinese brokers
as of 2025



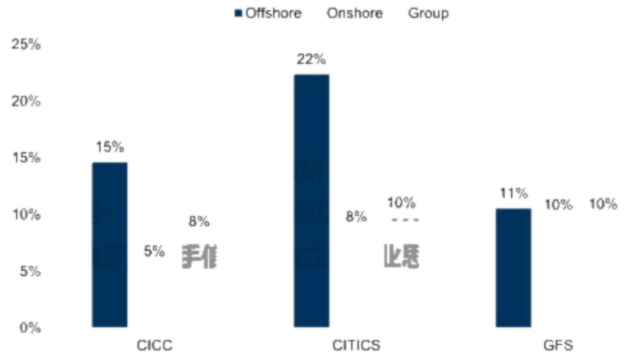
Source: Company data

Exhibit 36: The average leverage for the overseas subsidiaries of the three brokers in our coverage is 11x, compared to the group average leverage of 6x
as of 2025



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 37: The average ROE for the overseas subsidiaries of the three brokers in our coverage is 16%, compared to the group average leverage of 9%
as of 2025



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 38: We note that as of 2025, leverage is constrained by metrics such as the Net Stable Funding Ratio (NSFR), with less than 1x of headroom remaining before hitting the cap, corresponding to only 1% of ROE upside.

As of 2025, parent company	CICC	CITICS	GFS	Red line	Alert
Capital leverage ratio	14%	12%	11%	≥8%	≥9.6%
Net stable funding ratio	125%	134%	145%	≥100%	≥120%
Risk coverage ratio	210%	183%	232%	≥100%	≥120%
Liquidity coverage ratio	138%	260%	186%	≥100%	≥120%
Total leverage (parent company)	4.3x	3.8x	4.6x		
Implied maximum leverage before alert	4.5x	4.3x	5.0x		
Implied leverage upside	0.2x	0.4x	0.4x		
Implied ROE upside	0%	1%	1%		

Source: CSRC, Company data, Goldman Sachs Global Investment Research

3. Easing Regulatory Uncertainty for Online Brokers; Sustained Capital Market Improvement Drives AUM Growth

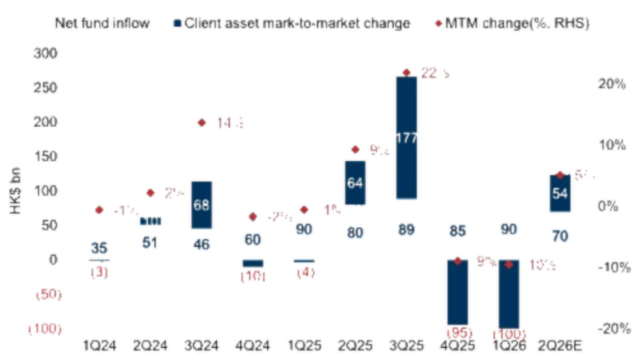
FUTU remains an investor focus following recent developments relating to cross-border capital flow regulations. The new regulations announced on May 22 created uncertainty for **FUTU**'s earnings and valuation. We believe that as regulatory policies are gradually implemented—for instance, the fine has already been booked in the 1Q26 results, and an announcement on June 4 clarified the execution date as June 12—regulatory uncertainty is progressively diminishing, and **FUTU**'s growth should become more stable.

Management guidance indicates that mainland clients account for 13% of its client base, 17% of AUM, and 20% of revenue. Based on this, we have estimated the earnings impact from the regulatory fine and the wind-down of non-compliant mainland clients and believe the impact should be limited. Furthermore, management has reiterated its primary growth trajectory, maintaining its 800k full-year 2026 new paying client growth target, with contributions expected to come mainly from the Hong Kong and Singapore markets. As noted in our previous report, we believe this will lead to higher client acquisition costs and lower AUM per client, which in turn would have an impact on profitability.

However, the company has also observed a further increase in retail investor turnover rates in 2Q26. Simultaneously, mark-to-market appreciation driven by the market recovery, led by themes like AI, has also contributed to an AUM recovery. Consequently, due to the continued strength of US tech stocks since April 2026, the company is guiding for double-digit quarter-over-quarter growth in AUM for 2Q26, with stable interest income generated from the growth in its margin financing business. Additionally, we believe the continuous enhancement of its product matrix, such as the launch of Korean stock trading and US prediction markets, will further strengthen **FUTU**'s competitive position amid intensifying competition in major markets.

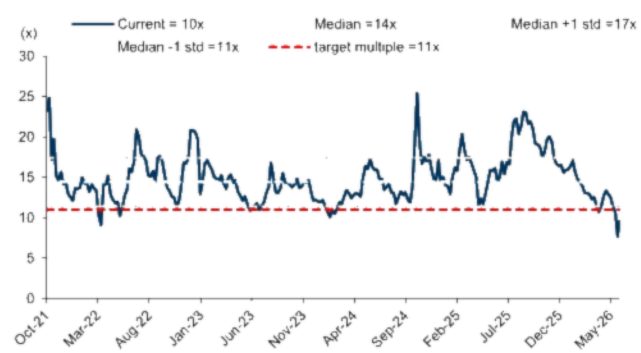
Although its valuation (P/E) is at a historical low, we believe the issue of non-compliant mainland China accounts may impact **FUTU**'s short-term share price performance. We believe AUM growth, excluding mark-to-market changes and non-compliant mainland China accounts, will be a key metric for evaluating the quality of 2Q26 earnings. A key point of observation will be whether new client growth and fund inflows from overseas markets can compensate for the losses in the mainland business. We remain Neutral on **FUTU**.

Exhibit 39: FUTU AUM change breakdown



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 40: FUTU 12m forward P/E Valuation range



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 41: Brokers valuation summary
Prices as of June 5

Name	Ticker	Price (Local currency)	Rating	Valuation method	Target multiple	Target price (Local currency)	Upside (%)	Net profit growth		Trading PE		Trading PB		Implied PE		Implied PB	
								2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E
Covered companies																	
Brokers (A)																	
CICC-A	601995.SS	32.30	Neutral	12m PE	18.0x	45.72	↑ 42%	24%	1%	12.9x	12.7x	1.1x	1.0x	18.2x	18.0x	1.6x	1.4x
CITICS-A	600030.SS	25.67	Buy	12m PE	16.0x	39.96	↑ 56%	23%	0%	10.3x	10.3x	1.1x	1.0x	16.0x	16.0x	1.7x	1.5x
GFS-A	000776.SZ	18.81	Buy	12m PE	14.0x	32.09	↑ 71%	37%	-5%	7.8x	8.2x	0.8x	0.7x	13.4x	14.0x	1.3x	1.2x
Brokers (H)																	
CICC-H	3908.HK	18.81	Buy	12m PE	11.0x	30.45	↑ 62%	24%	1%	6.9x	6.8x	0.6x	0.5x	11.1x	11.0x	0.9x	0.9x
CITICS-H	6030.HK	25.26	Neutral	12m PE	11.0x	29.95	↑ 19%	23%	0%	9.3x	9.3x	1.0x	0.9x	11.0x	11.0x	1.1x	1.1x
GFS-H	1776.HK	15.94	Neutral	12m PE	8.0x	19.99	↑ 25%	37%	-5%	6.1x	6.4x	0.6x	0.6x	7.6x	8.0x	0.8x	0.7x
Fintech																	
Futu	FUTU	92.33	Neutral	12m PE	11.0x	114.37	↑ 24%	-15%	24%	11.1x	8.9x	2.0x	1.6x	13.7x	11.1x	2.5x	2.0x

Target prices (TPs) are 12-month.

Source: FactSet, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - Bank of Ningbo
Valuation: We are Buy-rated on BONB with a 12-month target price of Rmb 41.29, based on a 2027E P/PPOP multiple of 4.25x.

Key risks: 1) Deterioration in asset quality, 2) NIM improvement falling short of expectations, 3) Sustained negative growth in bond investment income, 4) Higher-than-expected capital consumption, 5) A reduction in the dividend payout ratio.

Price Target Risks and Methodology - China International Capital Corp.
We are Buy/Neutral on CICC-H/CICC-A. Our 12-month target prices of HK$ 30.45/Rmb 45.72 are based on 11x/18x 2027E P/Es.

Downside risks: 1) weaker-than-expected China capital market, 2) OTC derivative losses, 3) decreased AUM and fee rate, 4) higher cost-to-income ratio.

Upside risks for A-share: 1) improving brokerage fees and IBD income, 2) increasing OTC derivative business and income growth, 3) more cost savings to support ROE.

Price Target Risks and Methodology - CITIC Securities Co.
We are Buy/Neutral on CITICS A/H. Our 12-month target prices of Rmb 39.96/HK$ 29.95 are based on 16x/11x 2027E P/Es.

Downside Risks: 1) further slower revenue growth on weaker capital market, 2) decreasing AUM and take rate of asset management business, 3) slower growth of investment income, 4) more operating expense to keep cost income ratio high.

Upside risks for H share: 1) improving capital market and higher ADTV to drive core business growth, 2) further greater than expected cost savings.

Price Target Risks and Methodology - FUTU Holdings
We are Neutral-rated on FUTU with a 12-month TP of US$114.37, based on a 12m forward 2027E P/E of 11x.

Upside/Downside risks: 1) Lower-/greater-than-expected regulatory impact, 2) Stronger-/weaker-than-expected capital market performance, 3) an optimized cost structure in new markets, 4) challenges in new market expansion.

Price Target Risks and Methodology - GFS Co.
We are Buy/Neutral on GFS-A/H. Our 12-month target prices of Rmb 32.09/HK$ 19.99 are based on 14x/8x 2027E P/Es.

Upside risks: 1) improving brokerage fees and IBD income, 2) increasing asset management AUM, 3) more cost savings to support ROE.

Downside risks: 1) weaker-than-expected China capital market, 2) a decrease in AUM and fee rate, 3) higher cost-to-income ratio.