CHINA BANKS

Addressing the second round of large bank recapitalization

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On 6 September, **ICBC** announced an A-share private placement of Rmb 100bn. According to announcement details, the **Ministry of Finance (MoF)** will contribute Rmb 70bn, while **China Tobacco** will contribute Rmb 30bn. Since 2025 and inclusive of ICBC's announcement, the MoF will have injected a cumulative Rmb 600bn into China's five large banks **(ICBC, CCB, BOC, BoCom, PSBC**), lifting their CET1 ratios by an average of 89bp in the year of injection. In 1H26, all five large banks raised their dividend payout ratios by 1ppt to 31%. We believe the latest capital injections further strengthen capital adequacy and provide additional flexibility to support future loan growth and shareholder returns.

Based on recent investor discussions, we see two key questions surrounding the capital raising.

1. What is the dilution impact on EPS and BVPS, and what does it mean for shareholders?

According to the announcement, the placement price will be based on the average A-share trading price for ICBC over the preceding 20 trading days. This differs from the 2025 capital injections, which were conducted at a premium and therefore provided a cushion against EPS dilution. At this stage, the proposed placement does not include such a premium.

That said, two factors warrant attention in our view. First, the exact pricing reference date has not yet been finalized, meaning the 20-day average share price remains a moving target. Second, management indicated during the analyst meeting that it intends to balance dilution considerations with shareholder returns. In addition, unlike conventional private placements, this transaction is not being executed at a 20% discount to the prevailing 20-day average trading price as was the case in the 2025 injection. Until pricing details have been finalized, we do not rule out the possibility that the final subscription price could incorporate a premium, which could help mitigate dilution concerns.

For illustrative purposes, we examine the potential impact to EPS and BPVS under a static scenario assuming the average A-share price over the 20 trading days up to 4 September 2026:

- 2026 **ICBC** EPS dilution would be approximately -3.5%;

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- 2026 **ICBC** BVPS dilution would be approximately -1.6%.

By comparison, our current forecasts for **ICBC** imply 2026-28 EPS CAGR of 5% and BVPS CAGR of 7%. On this basis, the potential dilution impact could be broadly recovered through earnings and book value growth within the subsequent two years.

Separately, the large banks raised their payout ratios from 30% to 31% beginning in 1H26. All else equal, this translates into a roughly a 3% increase in DPS. Our model forecasts imply average DPS growth of 6% over the next two years for **ICBC**. We assume **ICBC** can maintain the 31% payout ratio following completion of the capital raising. Under this framework, the overall impact on minority shareholders would likely be manageable.

Key uncertainties remain:

- The final pricing reference date for the placement has yet to be determined.
- Management indicated that, should A-share prices experience short-term volatility during the issuance process, measures such as premium pricing could be considered to protect existing shareholders.
    - In such a scenario, we believe the short-term impact on H-share investors could be more pronounced.

Exhibit 1: Inclusive of ICBC's announcement, the MoF will have injected a cumulative Rmb 600bn into China's five large banks (ICBC, CCB, BOC, BoCom, PSBC) since 2025, lifting their CET1 ratios by an average of 89bp in the year of injection.
Rmb bn

	Recap 2026 (GSe)	Recap 2025			
Rmb bn	ICBC	CCB	BOC	BoCom	PSBC
CET1 Captial (2026E)	4,102	3,710	2,812	1,207	1,066
RWA(2026E)	29,987	25,341	22,246	10,374	10,137
CET1 ratio (2026E)	13.7%	14.6%	12.6%	11.6%	10.5%
New capital	100	105	165	120	130
From MoF	70	105	165	112	118
From other shareholders	30			8	12
CET-1 ratio change (bps)	33				
Adj. CET1 ratio (2026E)	14.0%				
2023-2025 CAGR					
EPS	1%	0%	-1%	-4%	-8%
BVPS	7%	7%	6%	4%	4%
DPS	1%	0%	-1%	-5%	-5%
2026E-2028E CAGR					
EPS	5%	6%	5%	3%	5%
BVPS	7%	7%	7%	6%	6%
DPS	6%	7%	7%	4%	6%

Figures for ICBC assume the average A-share price over the 20 trading days up to September 4, 2026 and are for illustrative purposes only.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Potential dilution impact on ICBC capital raising assuming a final price equivalent to the average A-share price over the last 20 trading days up to September 4, 2026
Rmb bn

Rmb bn	ICBC
New capital	100
Prior GSe	150
Implied PB	0.72x
Prior GSe	0.71x
CET-1 ratio change (bps)	33
Prior GSe	50
EPS dilution	3.5%
Prior GSe	5.2%
BVPS dilution	1.6%
Prior GSe	1.0%
DPS change after 1% payout ratio increase	0.0%
Adj. DPS (2026E)	0.32
DPS Dilution	-3.5%

Source: Company data, Goldman Sachs Global Investment Research

2. What does the deployment of new capital mean for ICBC and Banks?
We believe this question has implications for both growth and shareholder returns.

1) Growth: Stronger balance sheets rather than materially faster loan growth

With credit demand remaining subdued, the four large banks that completed capital injections in 2025 (**CCB, BOC, BoCoM and PSBC**) did not subsequently experience a meaningful acceleration in loan growth. Instead, lending growth continued to moderate alongside broader industry trends. As a result, assuming no significant change in the macro environment, we do not expect the capital injection at **ICBC** to result in materially faster loan growth. Management emphasized that the new capital will be used to enhance capital efficiency and optimize balance sheet management.

In our view, the injection primarily:

- strengthens balance sheet resilience;
- enhances loss-absorption capacity; and
- provides optionality for future balance sheet expansion when opportunities arise.

Current loan growth is increasingly concentrated in corporate lending, which typically carries higher RWA intensity. Consequently, RWA growth has been running faster than loan growth. After declining from 57% in 2023 to 55% in 2Q26, we do not expect sector RWA density to continue falling materially. Against this backdrop, the ability to deploy capital more efficiently is likely to remain an important differentiating factor among the large banks.

2) Shareholder returns: Balancing recapitalization and dividends

The relationship between recapitalization and shareholder returns remains a key investor debate. The latest capital raising continues to be led by the MoF, financed

through special government bond issuance. At the same time, large banks have recently increased dividend payout ratios, allowing all shareholders to participate in potential benefits. We have previously argued that recapitalization accompanied by higher dividends can be a mutually beneficial outcome:

- With large banks offering dividend yields of roughly 4-5%, and still around 3-4% even after factoring in placement-related pricing effects, the dividend yield remains well above the current 10-year Chinese government bond yield of approximately 1.68%, generating a positive carry spread relative to the government's funding cost.
- Stronger capital positions help underpin long-term dividend sustainability, benefiting other shareholder groups such as insurance companies.

Therefore, we do not view recapitalization-driven dividend payments as a short-term negative. Rather, we see them as strategically positive over the longer term.

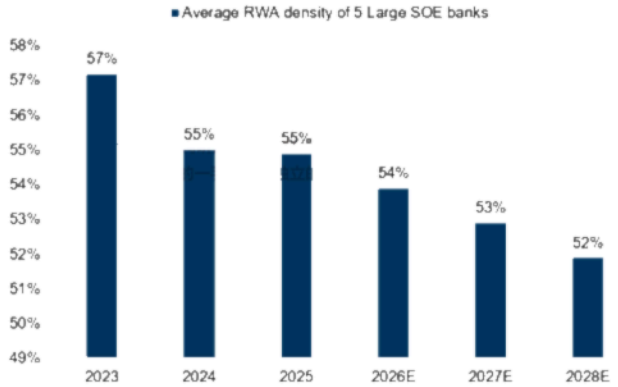
That said, sustainable dividends ultimately depend on asset quality stability. During recent analyst meetings and earnings discussions, managements noted that:

- property-sector risks continue to trend down at the margin;
- changes in property financing models have reduced incremental mortgage-related risks; and
- retail credit risks remain an area requiring ongoing digestion and monitoring.

As a result, we believe asset quality will remain a key differentiator among large banks.

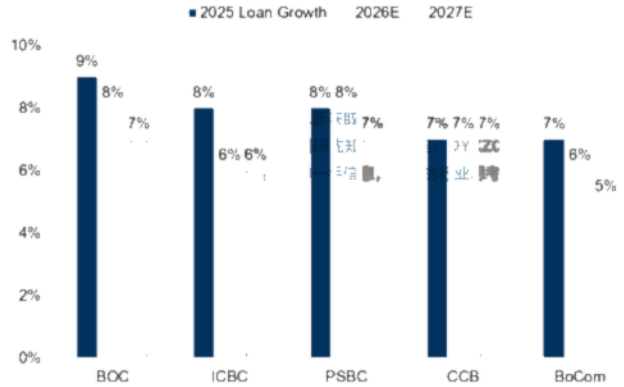
In 2Q26, the five large banks noted within increased provisions by an average of 25% YoY as part of counter-cyclical risk management. Provision expenses rose 23% YoY at **ICBC**. Although profit growth lagged operating income growth, NPL coverage ratios generally remained stable or improved across the sector. **ICBC**'s provision coverage ratio stood at 218% (flat YoY) despite increased risk disposal activity. In our view, this reflects both the current macroeconomic environment and banks' risk-management capabilities.

Exhibit 3: After declining from 57% in 2023 to 55% in 2Q26, we would not expect sector RWA density to continue falling materially
5 banks refer to ICBC, CCB, BOC, BoCom and PSBC



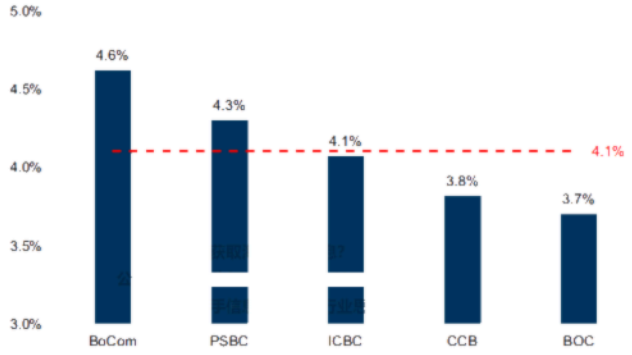
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Assuming no significant change in the macro environment, we do not expect the capital injection at ICBC to result in materially faster loan growth



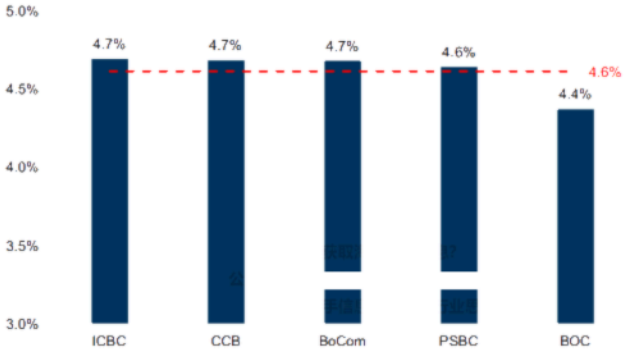
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: Large SOE banks A-share dividend yield
2026E



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 6: Large SOE banks H-share dividend yield
2026E



Source: Wind, Goldman Sachs Global Investment Research

This round of capital injection marks the final stage of the capital replenishment program for China's large banks. This further reinforces our constructive view on the sector. We believe the capital injections strengthen balance sheets, support sustainable dividend distributions, and enhance the ability of large banks to navigate a slower-growth environment.

Relative to smaller banks, which generally lack comparable external capital support and operate with weaker balance sheets, we expect the large banks to continue delivering superior operating performance.

Among the large banks, we continue to prefer Buy rated **CCB** (H/A) and **BOC** (H/A). We also see selective alpha opportunities among regional banks, including **BONB** (Buy), where we remain constructive on loan growth prospects and risk-management execution.

Price Target Risks and Methodology - Bank of Communications

Valuation: We are Sell rated on BoCom H/A shares with 12-month target prices of HK$ 6.39/Rmb 5.91. Our 2027E-based target P/PPOP multiples for BoCom H/A are 3x/2.775x.

Key upside risks: 1) further improving NIM, 2) better asset quality, 3) increasing non-NII income, 4) CET1 ratio increase on better-than-expected capital accumulation.

Price Target Risks and Methodology - China Construction Bank
Valuation: We are Buy rated on CCB A/H with 12m TPs of Rmb 11.63/HK$ 10.10. Our 2027E-based target P/PPOP multiples are 4.75x/4.125x for A/H shares.

Downside risks: 1) dividend payout ratio miss, 2) worse NIM and asset quality, 3) more capital requirement.

Price Target Risks and Methodology - Postal Savings Bank of China Co.
Valuation: We are Buy rated on **PSBC** A/H with 12m target prices of Rmb 6.10/HK$ 5.76. Our 2027E-based target P/PPOP multiple for A/H shares is 4.5x/4.25x.

Downside risks: 1) miss agency cost rate, 2) lower NIM, 3) worse asset quality, 4) DPS miss.

Price Target Risks and Methodology - Bank of China
Valuation: We are Buy rated on **BOC** A/H with 12-month target prices of Rmb 6.73/HK$ 5.96. Our 2027E-based target P/PPOP multiples are 4.375x/3.875x for the A/H shares.

Downside risks: 1) significantly higher-than-expected asset growth, impacting capital accumulation, 2) dividend payout ratio cut, 3) continued deterioration in asset quality.

Price Target Risks and Methodology - ICBC
Valuation: We are Neutral rated on ICBC H/A shares with 12-month price targets of HK$ 6.92/Rmb 7.63. Our 2027E-based target P/PPOP multiples for ICBC H/A are 3.625x/4x.

Upside risks: 1) Higher dividend payout ratio, as there is potential for excess dividends in the short term, thanks to the proposed capital injection by the government. 2) Better-than-expected PPOP growth and NIM reversal. 3) Additional reduction of provisions as local government debt risks are resolved. 4) Stronger-than-expected economic recovery leading to better credit demand, less NPL and better profitability. 5) Better-than-expected asset quality improvement.

Downside risks: 1) Lower-than-expected capital injection, below our estimated lower

bound of Rmb100bn. 2) Significantly higher-than-expected asset growth, impacting capital accumulation. 3) Dividend payout ratio cut. 4) Continued deterioration in asset quality. 5) Slower-than-expected economic growth which leads to sluggish credit demand, greater-than-expected NPLs and worse profitability.

