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China banks

SOE banks beat in 2Q; upgrade PSBC, downgrade Industrial Bank and Huaxia Bank

SOE banks delivered an above-consensus set of results in 2Q26, with average revenue/profit growth of +9%/+6% y/y, materially ahead of JSBs at +1%/-9% (Table 2). In addition, SOE banks lifted interim dividend payout ratios by 1ppt; while modest in magnitude, this marks the first increase in normalized payout since their listings and is a constructive signal for shareholder returns. Within our coverage, PSBC recorded the largest profit beat versus our estimates (+6%), while the biggest disappointments were Everbright (UW; -37% vs JPMe), followed by Huaxia (-33%) and Industrial (-12%). Against this backdrop, we continue to expect SOE banks to outperform JSBs. We upgrade PSBC from Neutral to OW, downgrade Industrial from OW to Neutral, and downgrade Huaxia from Neutral to UW. Within our China banks universe, BOC and CCB remain our top picks, although we maintain OW ratings across all SOE banks.

- ***We upgrade PSBC from Neutral to OW rating as AQ stabilizes and performance gap vs SOE banks is set to narrow***: PSBC delivered the strongest profit growth in 2Q (+7% y/y) among SOE banks and beat our forecast by 6% (link). Although PBT was weaker than expected (down 3% y/y), we upgrade to OW on (1) sector-leading PPoP growth (+15% y/y) driven by stable NII and strong non-NII, alongside better cost control; (2) early signs of retail asset-quality stabilization with declining retail NPL formation and deceleration in SML ratio rise; and (3) a stabilizing NPL coverage ratio after a multi-quarter decline (Figure 16). With meaningful YTD versus SOE peers (H-share lagging by 24ppt), we see scope for catch-up as AQ pressure eases and earnings delivery improves. We raise 26E/27E/28E earnings by 2%/4%/5% and lift PT by 16% to HK$5.90.
- ***We downgrade Huaxia Bank from Neutral to Underweight rating on rising delinquency ratio and thin provision buffer:*** 2Q26 was a sharp miss in our coverage (-33% vs JPMe) While revenue held up (only ~2% y/y decline) on strong loan growth (+15% y/y) supporting NII, profit was dragged by a sharp rise in impairment charges (+29% y/y). We are concerned about slowing NII momentum as NIM -5bps q/q, the steepest among peers, and deteriorating leading asset-quality indicators with notable spike in overdue and retail NPL, against a low NPL coverage ratio (~145%, the 2nd lowest in our universe). We cut 26E/27E/28E EPS by 22%/25%/28% and cut our PT ~30% to Rmb4.80.
- ***We downgrade Industrial Bank from Overweight to Neutral rating on limited EPS growth visibility***: Industrial's 2Q26 earnings contracted 11% y/y, missing JPMe by 12% despite broadly stable revenue (+1% y/y) and solid headline buffers (NPL coverage ~226%). The print reinforces our view that the bank is not prioritizing EPS stability via provision/earnings management, which is important given upcoming CB conversion dynamics (conversion price is 15% above spot price). Despite an attractive dividend yield (the highest in our coverage), we think the market will be reluctant to re-rate the stock as a "yield name" without clearer earnings visibility. We downgrade to Neutral, cut 26E/27E/28E earnings by 6%/7%/7%, and lower PT by 18% to Rmb18.00.

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Banks & Financial Services

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See page 28 for analyst certification and important disclosures, including non-US analyst disclosures.

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price CCY	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Postal Savings Bank of China (1658)	1658 HK	62,606	HKD	4.95	OW	N	5.90	Dec-27	5.10	n/c
Huaxia Bank - A	600015 CH	15,492	CNY	6.55	UW	N	4.80	Dec-27	7.10	n/c
Industrial Bank - A	601166 CH	53,812	CNY	17.43	N	OW	18.00	Dec-27	22.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 28 Aug 26.

2Q26 results wrap – key beat and misses

SOE banks' revenue/profits growth was on average +9%/+6% y/y, meaningfully ahead of JSBs of +1%/-9% y/y. On a bank-by-bank basis, Table 1 shows that PSBC profits beat JPMe by 6%, the highest among China bank peers. On the other hand, Everbright (UW) missed JPMe by 37%, followed by Huaxia (missed by 33%) and Industrial (missed by 12%).

Table 1: Summary of Actual vs Estimates of 2Q26 results

Rmb bn	Revenues 2Q26E	Revenues 2Q26A	Revenues A vs JPMe	PPoP 2Q26E	PPoP 2Q26A	PPoP A vs JPMe	Net Profits 2Q26E	Net Profits 2Q26A	Net Profits A vs JPMe
ABC	197.4	204.8	4%	134.7	140.0	4%	70.7	71.2	1%
BOC	174.1	178.3	2%	110.7	117.5	6%	65.7	67.0	2%
CCB	210.3	219.9	5%	157.8	166.8	6%	81.7	83.3	2%
ICBC	219.7	224.2	2%	158.2	165.1	4%	86.7	86.7	0%
BoComm	71.1	72.9	3%	43.9	44.9	2%	21.3	21.7	2%
PSBC	94.8	96.3	2%	43.8	48.2	10%	24.4	25.8	6%
Citic	56.2	55.7	-1%	40.6	40.6	0%	17.5	17.5	0%
CMB	88.2	88.6	0%	58.2	57.8	-1%	38.6	38.6	0%
Minsheng	35.5	35.9	1%	24.7	25.4	3%	8.5	8.0	-6%
Industrial	55.7	55.1	-1%	39.8	39.3	-1%	19.6	17.3	-12%
Everbright	32.6	31.3	-4%	22.6	21.6	-5%	11.5	7.3	-37%
Pingan	36.8	35.3	-4%	26.0	25.4	-2%	11.2	11.2	0%
SPDB	45.9	47.2	3%	33.2	35.3	6%	12.8	13.1	2%
Huaxia	25.0	26.7	7%	16.2	17.9	11%	6.5	4.4	-33%
SOE banks Avg			**3%**			**5%**			**2%**
JSBs Avg			**0%**			**1%**			**-11%**
Sector Avg			**1%**			**3%**			**-5%**

Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports, J.P. Morgan estimates.

Table 2: Comparison of banks' 2Q26 earnings growth

YoY growth	Net interest income	Fee income	Operating income	OPEX	PPoP	Impairment charge	Net profit
ABC	13%	-29%	12%	9%	13%	-10%	5%
BOC	13%	-5%	8%	1%	12%	18%	6%
CCB	9%	-12%	10%	4%	12%	15%	6%
ICBC	10%	1%	10%	0%	14%	23%	3%
PSBC	4%	5%	7%	0%	15%	67%	7%
BoCom	10%	4%	9%	4%	12%	2%	5%
Citic	4%	-2%	3%	-2%	5%	15%	3%
CEB	2%	-5%	-5%	-5%	-5%	61%	-40%
CMB	6%	7%	4%	4%	4%	22%	3%
MSB	11%	-3%	6%	2%	8%	16%	-7%
PAB	2%	-5%	-1%	-5%	1%	-1%	4%
SPDB	9%	2%	6%	-5%	10%	10%	8%
Industrial	0%	10%	1%	0%	1%	15%	-11%
Huaxia	12%	10%	-2%	-5%	-1%	29%	-32%
Big 4	**11%**	**-11%**	**10%**	**3%**	**13%**	**12%**	**5%**
Large banks	**10%**	**-6%**	**9%**	**3%**	**13%**	**19%**	**6%**
JSBs	**6%**	**2%**	**1%**	**-2%**	**3%**	**21%**	**-9%**
Sector	**8%**	**-2%**	**5%**	**0%**	**7%**	**20%**	**-3%**

Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

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Table 3: Valuation comparison of H-share-listed China banks

Company	Bbg code	Price (HK$)	Rating	Dec-27 PT (HK$)	% to PT	Mkt cap (US$ B)	P/E (x) FY26E	P/E (x) FY27E	P/BV (x) FY26E	P/BV (x) FY27E	Div. yield FY26E	Div. yield FY27E	ROE FY26E	ROE FY27E
Large banks														
BOC-H	3988 HK	5.58	OW	6.15	10%	279	6.5	6.2	0.54	0.51	4.9%	5.2%	8.5%	8.4%
CCB-H	939 HK	9.14	OW	10.10	11%	314	6.0	5.7	0.55	0.52	5.1%	5.3%	9.6%	9.4%
ICBC-H	1398 HK	7.45	OW	8.40	13%	397	6.2	6.0	0.55	0.52	5.0%	5.2%	9.2%	9.0%
BoCom-H	3328 HK	7.51	OW	8.10	8%	90	6.2	5.9	0.46	0.42	5.2%	5.4%	7.7%	7.4%
ABC-H	1288 HK	6.23	OW	6.55	5%	347	6.5	6.2	0.61	0.56	4.9%	5.1%	9.8%	9.4%
PSBC	1658 HK	4.96	OW	5.90	19%	87	6.9	6.6	0.48	0.45	5.5%	5.8%	8.3%	8.2%
Big 4 average							**6.3**	**6.0**	**0.56**	**0.53**	**5.0%**	**5.2%**	**9.3%**	**9.0%**
Large banks average							**6.4**	**6.1**	**0.53**	**0.50**	**5.1%**	**5.3%**	**8.9%**	**8.6%**
Joint-stock banks														
Citic-H	998 HK	8.32	OW	8.75	5%	69	5.8	5.6	0.51	0.48	5.5%	5.7%	9.2%	9.0%
CMB-H	3968 HK	49.02	OW	62.00	26%	149	7.1	7.0	0.89	0.82	5.0%	5.1%	13.1%	12.2%
MSB-H	1988 HK	3.30	N	3.65	11%	22	4.7	4.5	0.21	0.21	6.5%	6.7%	4.6%	4.7%
CEB-H	6818 HK	2.97	UW	2.60	-12%	26	4.7	4.5	0.27	0.26	6.4%	6.7%	5.9%	5.8%
JSBs average							**5.5**	**5.4**	**0.47**	**0.44**	**5.8%**	**6.0%**	**8.2%**	**7.9%**
Sector							**6.0**	**5.8**	**0.51**	**0.47**	**5.4%**	**5.6%**	**8.6%**	**8.4%**

Source: Bloomberg Finance L.P. , J.P. Morgan estimates. Prices are as of 28 Aug 2026.

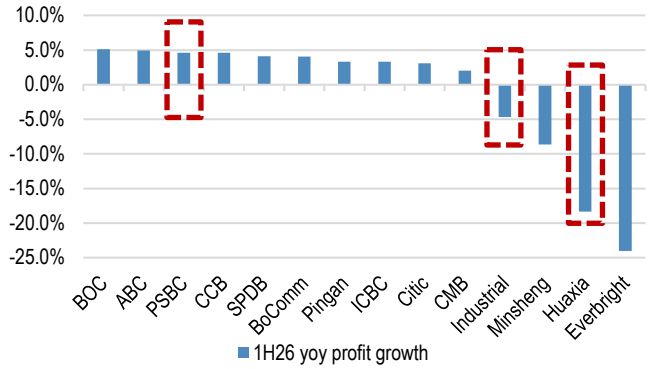
Table 4: Valuation comparison of A-share-listed China banks

Company	Bbg code	Price (RMB)	Rating	Dec-27 PT (Rmb)	% to PT	Mkt cap (US$ B)	P/E (x) FY26E	P/E (x) FY27E	P/B (x) FY26E	P/B (x) FY27E	Div. yield FY26E	Div. yield FY27E	ROE FY26E	ROE FY27E
Large banks														
CCB-A	601939 CH	10.69	OW	11.75	10%	314	8.1	7.8	0.75	0.71	3.8%	3.9%	9.6%	9.4%
BoCom-A	601328 CH	7.10	OW	8.40	18%	90	6.8	6.5	0.51	0.47	4.7%	4.9%	7.7%	7.4%
BOC-A	601988 CH	6.19	OW	7.10	15%	279	8.4	8.0	0.70	0.66	3.8%	4.0%	8.5%	8.4%
ICBC-A	601398 CH	7.86	OW	9.50	21%	397	7.6	7.3	0.68	0.64	4.1%	4.2%	9.2%	9.0%
ABC-A	601288 CH	6.79	OW	7.35	8%	347	8.3	7.9	0.77	0.71	3.8%	4.0%	9.8%	9.4%
Big 4 average							**8.1**	**7.8**	**0.73**	**0.68**	**3.9%**	**4.0%**	**9.3%**	**9.0%**
Large banks average							**7.9**	**7.5**	**0.68**	**0.64**	**4.0%**	**4.2%**	**9.0%**	**8.7%**
Joint-stock banks														
SPDB-A	600000 CH	9.00	OW	12.60	40%	45	6.4	5.9	0.39	0.37	4.7%	5.1%	6.7%	6.3%
Citic-A	601998 CH	8.72	OW	9.50	9%	69	7.1	6.8	0.63	0.59	4.5%	4.7%	9.2%	9.0%
CMB-A	600036 CH	39.35	OW	54.00	37%	149	6.6	6.5	0.83	0.77	5.3%	5.4%	13.1%	12.2%
MSB-A	600016 CH	3.42	N	3.70	8%	22	5.6	5.4	0.26	0.25	5.3%	5.6%	4.6%	4.7%
PAB-A	000001 CH	11.65	N	11.70	0%	34	5.4	5.2	0.47	0.44	5.3%	5.5%	9.2%	8.9%
Industrial-A	601166 CH	17.43	N	18.00	3%	55	5.2	5.2	0.43	0.41	5.9%	5.9%	8.4%	8.0%
CEB-A	601818 CH	3.03	UW	2.70	-11%	26	5.5	5.4	0.32	0.31	5.4%	5.6%	6.4%	5.9%
HXB-A	600015 CH	6.55	UW	4.80	-27%	15	5.1	5.1	0.31	0.30	5.1%	5.1%	8.3%	6.4%
JSBs average							**5.9**	**5.7**	**0.46**	**0.43**	**5.2%**	**5.4%**	**8.2%**	**7.7%**
Sector average							**6.6**	**6.4**	**0.54**	**0.51**	**4.8%**	**4.9%**	**8.5%**	**8.1%**

Source: Bloomberg Finance L.P. , J.P. Morgan estimates. Prices are as of 28 Aug 2026.

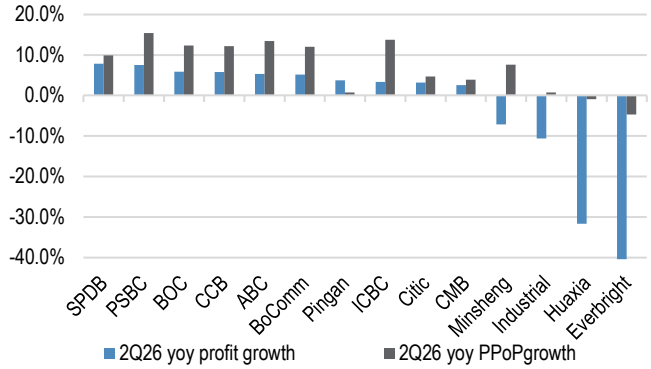
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Figure 1: China banks 1H26 profit growth – SOE banks delivered more stable growth than JSBs



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

Figure 2: PPoP and profits yoy growth in 2Q26 by banks



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

Huaxia – Sharp rise in delinquent ratio with low provision buffer

2Q26 missed JPMe by 33%, the sharpest among banks in our coverage. Looking at details, 2Q revenue contraction was only 2% y/y, as robust loan growth (+15% y/y) supported NII growth. However, impairment charges rose by 29% y/y, leading to profit contraction.

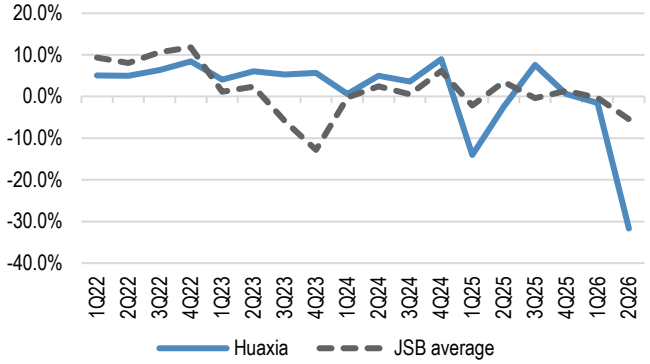
We are downgrading Huaxia Bank from Neutral to UW rating based on the following:

- NII growth may slow down as loan growth may decelerate on the back of a rise in credit risks. And 2Q NIM contracted 5bps q/q, the sharpest among banks we cover (Figure 4).
- Rising asset quality risks with a low provision buffer: despite the overall NPL ratio reducing by 5bps q/q, Huaxia reported a jump in the overdue ratio, the sharpest among banks we cover (Figure 5). In addition, we note the highest bounce in the retail NPL ratio for Huaxia among peers (Figure 6). With this, Huaxia has the second lowest NPL coverage ratio of 145%, vs the JSB average of 209%. This means a low buffer on profits when NPL formation rises.

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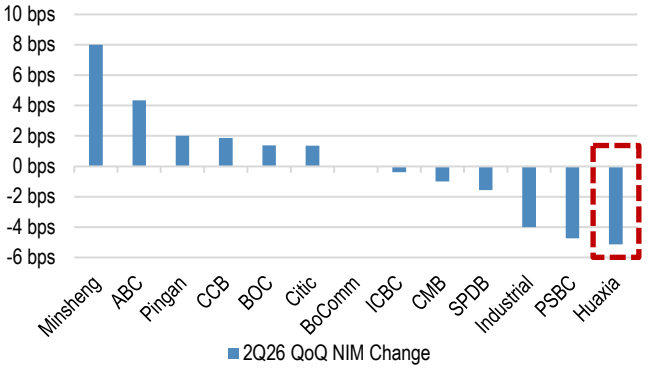
We cut EPS by 22%/25%/28% for 26e/27e/28e (Table 9) and cut PT to Rmb4.80.

Figure 3: Huaxia bank saw -32% y/y profit contraction in 2Q26, weaker than JSBs average



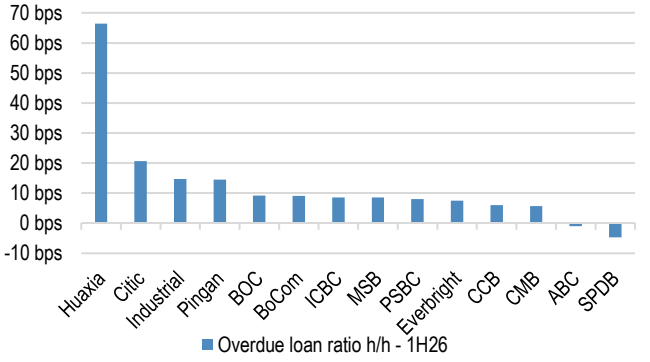
Source: Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1Q21-2Q26 financial reports. Note: weighted average for JSBs in our coverage.

Figure 4: Huaxia bank saw the largest sequential NIM contraction in 2Q26 among banks in our coverage



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

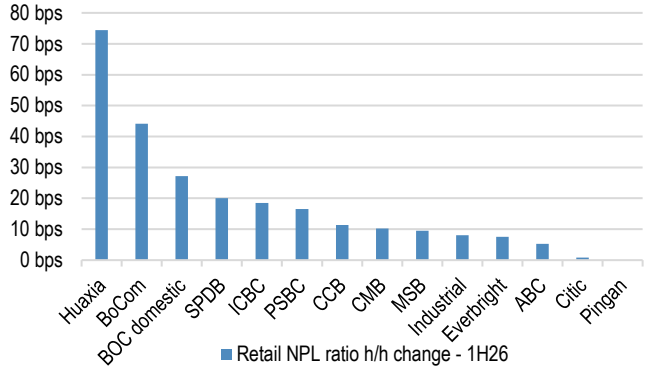
Figure 5: Huaxia bank saw the largest rise in the overdue ratio h/h among banks in our coverage in 1H26



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

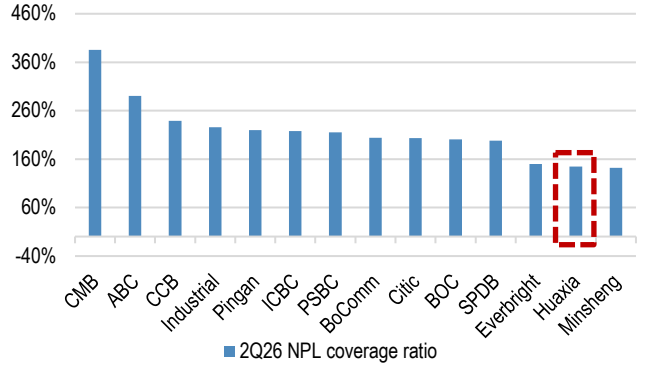
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Figure 6: Huaxia bank saw the largest rise in retail NPL ratio h/h among banks in our coverage in 1H26



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

Figure 7: Huaxia bank has the second lowest NPL coverage ratio among banks in our coverage



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

Table 5: Summary of Huaxia 2Q26 results

In Rmb mm unless otherwise stated	2Q25	3Q25	4Q25	1Q26	2Q26	QoQ	YoY	2Q26E	A vs Est.
Key P&L Items									
NII	15,029	15,720	16,654	17,669	16,889	-4%	12%	16,516	2%
Non-Interest Income	12,299	3,639	10,379	6,953	9,797	41%	-20%	8,443	16%
Fees	1,430	1,599	882	1,706	1,576	-8%	10%	1,513	4%
Non-fee	10,869	2,040	9,497	5,247	8,221	57%	-24%	6,930	19%
Total Income	27,328	19,359	27,033	24,622	26,686	8%	-2%	24,959	7%
Operating expenses	(9,222)	(7,247)	(9,797)	(6,424)	(8,739)	36%	-5%	(8,780)	0%
PPOP	18,106	12,112	17,236	18,198	17,947	-1%	-1%	16,179	11%
Total impairment	(9,360)	(3,253)	(7,273)	(11,561)	(12,038)	4%	29%	(7,336)	64%
Pre-Tax	8,754	8,837	9,852	6,611	5,914	-11%	-32%	8,887	-33%
Income Tax	(2,181)	(2,116)	(567)	(1,491)	(1,346)	-10%	-38%	(2,252)	-40%
Attributable Income	6,407	6,512	9,218	4,987	4,378	-12%	-32%	6,492	-33%
Key Balance Sheet Items									
Gross Loans	2,417,095	2,435,594	2,566,666	2,766,635	2,769,995	0%	15%		
Including NPL amount	38,670	38,456	39,886	42,917	41,465	-3%	7%		
Total deposits	2,350,330	2,366,556	2,409,626	2,570,543	2,597,119	1%	11%		
Total assets	4,549,625	4,586,358	4,737,619	4,878,502	4,985,348	2%	10%		
Equity	365,667	368,569	395,746	401,370	400,320	0%	9%		
RWA	3,222,688	3,333,462	3,393,070	3,612,464	3,655,465	1%	13%		
Key Ratios									
NIM	1.54%	1.58%	1.57%	1.63%	1.58%	-5 bps	4 bps	1.60%	-2 bps
Cost income ratio	33.7%	37.4%	36.2%	26.1%	32.7%	666 bps	-100 bps		
ROE	7.0%	7.1%	9.6%	5.0%	4.4%	-64 bps	-265 bps		

ROA	0.57%	0.57%	0.79%	0.41%	0.36%	-6 bps	-21 bps
NPL Ratio	1.60%	1.58%	1.55%	1.55%	1.50%	-5 bps	-10 bps
NPL Coverage ratio	156.7%	149.3%	143.3%	146.4%	144.9%	-144 bps	-1180 bps
Loan loss reserve	2.51%	2.36%	2.23%	2.27%	2.17%	-10 bps	-34 bps
Credit cost	1.53%	0.54%	1.16%	1.73%	1.74%	1 bps	21 bps
LDR	102.8%	102.9%	106.5%	107.6%	106.7%	-97 bps	382 bps
Core capital ratio	9.56%	9.33%	9.38%	8.97%	8.84%	-13 bps	-72 bps
Tier 1 Ratio	11.44%	11.14%	11.75%	11.19%	11.04%	-15 bps	-40 bps
Total CAR	13.07%	12.63%	13.16%	12.53%	12.36%	-17 bps	-71 bps

Source: Huaxia 2Q25-2Q26 quarterly report.

Table 6: Huaxia's asset yields and funding costs

NIM analysis	1H25	2H25	1H26	HoH	YoY
Corporate Loans	3.48%	3.27%	3.13%	-13 bps	-35 bps
Personal Loans	5.26%	5.04%	5.09%	5 bps	-17 bps
Gross loans	4.00%	3.76%	3.59%	-16 bps	-40 bps
Investments	2.90%	2.81%	2.64%	-17 bps	-26 bps
Central bank	1.29%	1.46%	1.31%	-14 bps	2 bps
Other interbank	2.07%	1.69%	1.71%	2 bps	-36 bps
Average IEA Yield	**3.45%**	**3.26%**	**3.13%**	**-13 bps**	**-32 bps**
Corporate Demand	0.59%	0.46%	0.29%	-17 bps	-29 bps
Corporate Time	2.20%	1.98%	1.84%	-15 bps	-37 bps
Personal Demand	0.07%	0.05%	0.05%	0 bps	-2 bps
Personal Time	2.31%	2.06%	1.86%	-20 bps	-46 bps
DEPOSITS	1.69%	1.51%	1.35%	-16 bps	-35 bps
Borrowings from central banks	2.15%	1.92%	1.64%	-28 bps	-51 bps
Interbank	1.94%	1.59%	1.56%	-2 bps	-37 bps
Debt and Securities	2.15%	2.03%	1.95%	-8 bps	-20 bps
Average Funding Costs	**1.84%**	**1.62%**	**1.50%**	**-12 bps**	**-35 bps**
Loan-deposit spread	**2.30%**	**2.25%**	**2.25%**	**0 bps**	**-6 bps**

Source: Huaxia 1H25-1H26 financial report.

Table 7: Huaxia's asset quality by sector

	As % of total loans					NPL ratio		
%	1H25	2H25	1H26	HoH	YoY	2H25	1H26	HoH (%)
Corporate loans	**68.2%**	**68.9%**	**72.8%**	**389 bps**	**460 bps**	**1.42%**	**1.13%**	**-29 bps**
Manufacturing	11.7%	11.8%	12.1%	30 bps	43 bps	1.90%	1.79%	-11 bps
Leasing and commercial services	20.1%	20.6%	22.8%	222 bps	269 bps	0.37%	0.26%	-11 bps
Wholesale and retail	5.3%	5.1%	5.0%	-12 bps	-31 bps	3.42%	3.55%	12 bps
Real estate	4.2%	4.0%	3.8%	-27 bps	-44 bps	2.83%	1.64%	-119 bps
Construction	4.0%	4.0%	4.0%	7 bps	5 bps	2.89%	2.17%	-73 bps
Water, environment and public utilities management	5.7%	5.9%	6.5%	60 bps	85 bps	0.55%	0.40%	-15 bps
Transportation, storage, and postal	3.8%	4.0%	4.2%	26 bps	43 bps	1.07%	0.08%	-99 bps
Production and supply of electric power, gas and water	4.0%	4.1%	4.2%	10 bps	20 bps	0.36%	0.48%	12 bps
Mining	2.0%	1.8%	2.1%	25 bps	15 bps	2.60%	2.82%	22 bps
Others	7.5%	7.6%	8.1%	48 bps	56 bps	1.80%	1.42%	-38 bps
Discounted bills	**2.1%**	**3.8%**	**3.7%**	**-17 bps**	**153 bps**	**0.00%**	**0.00%**	**0 bps**
Retail loans	**29.6%**	**27.2%**	**23.5%**	**-373 bps**	**-613 bps**	**2.11%**	**2.85%**	**74 bps**
Mortgages	13.5%	12.4%	11.2%	-120 bps	-222 bps	n.a.	n.a.	n.a.
Credit card	6.6%	5.9%	5.0%	-93 bps	-164 bps	n.a.	n.a.	n.a.
Others	9.6%	8.9%	7.3%	-160 bps	-226 bps	n.a.	n.a.	n.a.
Total loans	**100.0%**	**100.0%**	**100.0%**	**0 bps**	**0 bps**	**1.55%**	**1.50%**	**-6 bps**

Source: Huaxia 1H25-1H26 financial report.

Table 8: Huaxia's asset quality metrics

Ratios %	2H24	1H25	2H25	1H26	HoH	YoY
SML ratios	2.58%	2.52%	2.67%	2.64%	-3 bps	12 bps
Overdue loan	1.70%	1.70%	1.61%	2.28%	66 bps	58 bps
Overdue loan less than 90 days	0.57%	0.46%	0.52%	0.89%	38 bps	44 bps

Overdue loan more than 90 days	1.13%	1.24%	1.10%	1.39%	29 bps	15 bps
NPLs/Overdue loan more than 90 days	142%	129%	142%	108%	-3348 bps	-2112 bps

Source: Huaxia 2H24-1H26 financial report.

Table 9: Summary of estimates changes

In Rmb mn except %	2026E			2027E			2028E		
	New	Old	Change	New	Old	Change	New	Old	Change
NII	69,342	69,076	0%	71,374	72,568	-2%	76,156	77,326	-2%
Non-Interest Income	31,469	30,526	3%	32,692	31,967	2%	34,172	33,547	2%
Fees	5,887	5,824	1%	6,240	6,232	0%	6,615	6,730	-2%
Non-fee	25,582	24,702	4%	26,451	25,736	3%	27,558	26,817	3%
Total Income	100,811	99,602	1%	104,066	104,535	0%	110,328	110,873	0%
Operating expenses	(32,350)	(32,553)	-1%	(32,994)	(33,527)	-2%	(34,164)	(35,112)	-3%
PPOP	68,461	67,049	2%	71,072	71,008	0%	76,164	75,761	1%
LLP	(37,803)	(30,341)	25%	(40,203)	(32,505)	24%	(44,453)	(35,075)	27%
Other provision	(3,155)	(1,682)	88%	(3,312)	(1,766)	88%	(3,478)	(1,854)	88%
Pre-Tax	27,347	34,909	-22%	27,397	36,618	-25%	28,070	38,710	-27%
Income Tax	(5,113)	(6,724)	-24%	(5,261)	(7,249)	-27%	(5,538)	(7,873)	-30%
Attributable Income	**21,588**	**27,633**	**-21.9%**	**21,490**	**28,817**	**-25.4%**	**21,886**	**30,286**	**-27.7%**
Key Balance Sheet Items									
Gross Loans	2,797,695	2,735,424	2%	2,952,827	2,901,396	2%	3,101,650	3,062,714	1%
Deposits	2,649,061	2,605,288	2%	2,850,655	2,803,550	2%	3,053,051	3,002,602	2%
Equity	412,543	414,584	0%	425,567	435,384	-2%	441,121	457,316	-4%
Total Assets	5,035,720	4,959,061	2%	5,302,239	5,241,264	1%	5,557,260	5,505,701	1%
Key Ratios									
NIM	1.57%	1.60%	-3 bps	1.53%	1.60%	-7 bps	1.55%	1.62%	-7 bps
Cost income ratio	32.1%	32.7%	-59 bps	31.7%	32.1%	-37 bps	31.0%	31.7%	-70 bps
ROE	5.3%	6.8%	-148 bps	5.1%	6.8%	-165 bps	5.1%	6.8%	-173 bps
ROA	0.44%	0.57%	-13 bps	0.42%	0.57%	-15 bps	0.40%	0.56%	-16 bps
NPL Ratio	1.50%	1.54%	-4 bps	1.50%	1.54%	-3 bps	1.50%	1.53%	-3 bps
NPL Coverage ratio	139.9%	143.8%	-4 ppt	141.9%	147.8%	-6 ppt	151.4%	153.3%	-2 ppt
Loan loss reserve	2.10%	2.21%	-11 bps	2.14%	2.27%	-13 bps	2.27%	2.35%	-8 bps
LDR	105.6%	105.0%	62 bps	103.6%	103.5%	9 bps	101.6%	102.0%	-41 bps
Credit costs	1.41%	1.14%	26 bps	1.40%	1.15%	24 bps	1.47%	1.18%	29 bps
Core capital ratio	9.08%	9.49%	-41 bps	8.96%	9.53%	-57 bps	8.93%	9.63%	-70 bps
Tier 1 Ratio	11.26%	11.75%	-49 bps	11.03%	11.67%	-64 bps	10.90%	11.66%	-76 bps
Total CAR	12.57%	13.10%	-53 bps	12.27%	12.95%	-68 bps	12.09%	12.88%	-79 bps

Source: J.P. Morgan estimates.

Industrial – a lack of EPS growth visibility

Industrial 2Q26 profits contracted 11% y/y, missing JPMe by 12%; please see our note for details. Note that despite NIM contraction of 4bps q/q, Industrial Bank was able to deliver positive revenue growth of +1% y/y, largely in line with JPM estimate. With stable revenue growth, relatively stable asset quality and relatively high NPL coverage of 226%, it is a surprise to us that profit growth contracted 11% y/y.

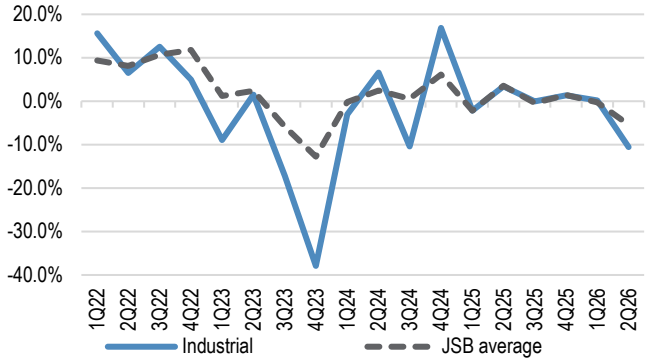
Industrial has Rmb41bn of convertible bonds maturing in Dec 2027. Currently, the conversion price of Rmb20.13 is 15% above the last closing price of Aug 28th. This leads to expectation that Industrial may deliver better-than-peers growth to encourage conversion. However, the 2Q result shows there is a lack of commitment from the Bank to deliver stable EPS. Thus, even though Industrial Bank offers the second highest dividend yield among China banks we cover, the market may not view Industrial Bank as a yield stock due to a lack of EPS growth visibility, in our view.

As such, we downgrade Industrial Bank from OW rating to Neutral rating on its weaker PPoP growth in 2Q (+1% vs industry average of +7% y/y) and a lack of

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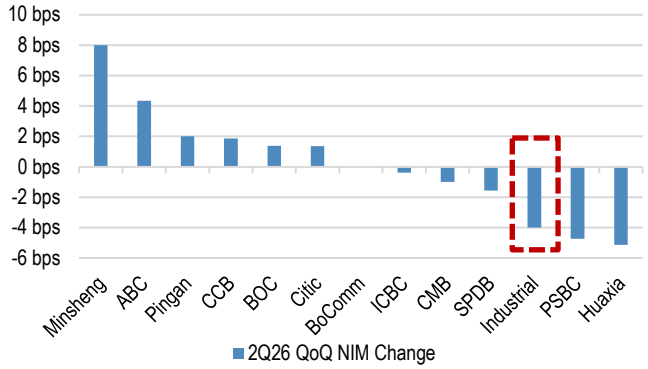
commitment to stabilize EPS growth via provision management. We cut 26e/27e/28e earnings by 6%/7%/7%, and cut PT by 18% to Rmb18.00.

Figure 8: Industrial bank saw -11% y/y profit contraction in 2Q26, weaker than JSBs average



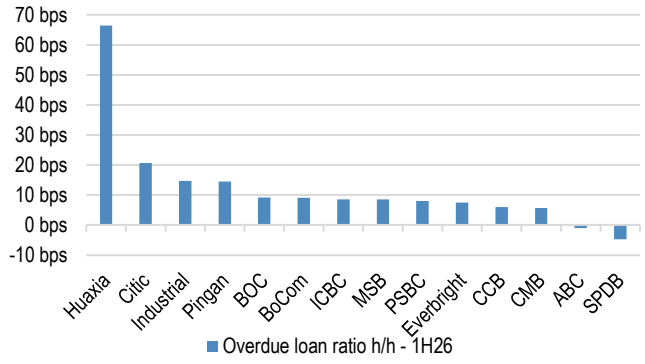
Source: Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1Q21-2Q26 financial reports. Note: weighted average for JSBs in our coverage.

Figure 9: Industrial bank saw 4bps q/q NIM contraction in 2Q26



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

Figure 10: Industrial overdue loan ratio rose by 15bps h/h in 1H26



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

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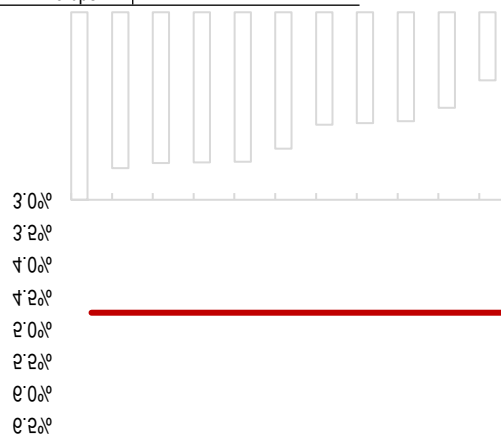
Figure 11: 2026E dividend yields by bank

Source: J.P. Morgan estimates. Bloomberg Finance L.P. Data as of Aug 29th, 2026.

Table 10: Summary of Industrial bank 2Q26 results

In Rmb mm unless otherwise stated	2Q25	3Q25	4Q25	1Q26	2Q26	QoQ	YoY	2Q26E	A vs Est.
Key P&L Items									
NII	36,033	37,204	37,793	36,918	35,886	-3%	0%	37,404	-4%
Non-Interest Income	18,742	13,572	13,714	18,172	19,201	6%	2%	18,296	5%
Fees	6,348	7,006	5,810	7,228	6,973	-4%	10%	6,762	3%
Non-fee	12,394	6,566	7,904	10,944	12,228	12%	-1%	11,533	6%
Total Income	54,775	50,776	51,507	55,090	55,087	0%	1%	55,700	-1%
Operating expenses	(15,792)	(15,394)	(19,943)	(13,523)	(15,827)	17%	0%	(15,922)	-1%
PPOP	38,983	35,382	31,564	41,567	39,260	-6%	1%	39,778	-1%
Total impairment	(15,895)	(12,191)	(15,309)	(14,183)	(18,329)	29%	15%	(16,323)	12%
Pre-Tax	23,093	23,100	16,315	27,403	20,969	-23%	-9%	23,405	-10%
Income Tax	(3,670)	(3,117)	(1,805)	(3,527)	(3,530)	0%	-4%	(3,706)	-5%
Attributable Income	19,345	19,942	14,386	23,832	17,299	-27%	-11%	19,579	-12%
Key Balance Sheet Items									
Gross Loans	5,903,433	5,989,907	5,948,938	6,154,964	6,164,553	0%	4%		
Including NPL amount	63,493	64,560	64,251	66,167	66,421	0%	5%		
Total deposits	5,964,497	5,924,666	6,020,806	6,088,518	6,313,778	4%	6%		
Total assets	10,614,376	10,673,253	11,094,256	11,282,907	11,460,940	2%	8%		
Equity	881,747	890,658	901,716	912,554	948,790	4%	8%		
RWA	8,299,643	8,399,720	8,460,074	8,797,937	8,913,029	1%	7%		
Key Ratios									
NIM	1.70%	1.68%	1.66%	1.62%	1.58%	-4 bps	-12 bps	1.58%	0 bps
Cost income ratio	28.8%	30.3%	38.7%	24.5%	28.7%	418 bps	-10 bps		
ROE	8.67%	9.00%	6.42%	10.51%	7.44%	-307 bps	-123 bps		
ROA	0.73%	0.75%	0.53%	0.85%	0.61%	-24 bps	-12 bps		
SML Ratio	1.66%	1.67%	1.69%	1.75%	1.72%	-3 bps	6 bps		
NPL Ratio	1.08%	1.08%	1.08%	1.08%	1.08%	0 bps	0 bps		
NPL Coverage ratio	228.5%	227.8%	228.4%	224.5%	225.7%	115 bps	-287 bps		
Loan loss reserve	2.43%	2.46%	2.46%	2.41%	2.43%	1 bps	-1 bps		
Credit cost	1.09%	0.82%	1.03%	0.94%	1.19%	25 bps	11 bps		
LDR	98.98%	101.10%	98.81%	101.09%	97.64%	-345 bps	-134 bps		
Core Tier 1	9.54%	9.66%	9.70%	9.50%	9.43%	-7 bps	-11 bps		
Tier 1	11.30%	10.97%	10.64%	10.41%	10.66%	25 bps	-64 bps		
CAR	14.18%	13.85%	13.56%	13.20%	14.21%	101 bps	3 bps		

Source: Industrial bank 2Q25-2Q26 quarterly report. J.P. Morgan estimates.



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Table 11: Summary of estimates changes

	2026E			2027E			2028E		
	Old	New	Change	Old	New	Change	Old	New	Change
NII	150,883	144,647	-4%	158,480	148,839	-6%	168,658	158,738	-6%
Non-Interest Income	65,156	66,061	1%	68,742	67,607	-2%	72,560	71,087	-2%
Fees	27,703	27,914	1%	29,920	29,868	0%	32,313	31,959	-1%
Non-fee	37,452	38,147	2%	38,822	37,738	-3%	40,247	39,128	-3%
Total Income	216,038	210,708	-2%	227,222	216,446	-5%	241,219	229,825	-5%
Operating expenses	(65,439)	(64,978)	-1%	(67,998)	(66,196)	-3%	(70,728)	(68,850)	-3%
PPOP	150,599	145,730	-3%	159,224	150,250	-6%	170,490	160,974	-6%
LLP	(56,343)	(59,616)	6%	(62,350)	(62,304)	0%	(69,619)	(69,679)	0%
Other provision	(3,832)	(1,052)	-73%	(3,832)	(1,052)	-73%	(3,832)	(1,052)	-73%
Pre-Tax	90,362	85,176	-6%	92,979	87,008	-6%	96,977	90,358	-7%
Income Tax	(12,172)	(11,653)	-4%	(12,520)	(11,898)	-5%	(13,059)	(12,355)	-5%
Attributable Income	77,860	73,155	-6.0%	80,129	74,742	-6.7%	83,588	77,635	-7.1%
Key Balance Sheet Items									
Gross Loans	6,242,756	6,226,199	0%	6,525,865	6,508,557	0%	6,854,769	6,836,588	0%
Deposits	6,385,065	6,408,485	0%	6,771,361	6,829,843	1%	7,181,029	7,278,905	1%
Equity	958,588	943,550	-2%	1,011,245	992,390	-2%	1,066,367	1,043,352	-2%
Total Assets	11,662,883	11,616,784	0%	12,304,174	12,270,343	0%	13,019,917	12,967,722	0%
Key Ratios									
NIM	1.61%	1.57%	-4 bps	1.61%	1.54%	-6 bps	1.62%	1.56%	-6 bps
Cost income ratio	30.6%	30.8%	29 bps	30.6%	30.6%	3 bps	30.6%	30.0%	-59 bps
ROE	8.7%	8.4%	-30 bps	8.5%	8.0%	-45 bps	8.3%	7.9%	-45 bps
ROA	0.65%	0.62%	-3 bps	0.63%	0.59%	-4 bps	0.63%	0.58%	-5 bps
NPL Ratio	1.11%	1.08%	-3 bps	1.13%	1.08%	-5 bps	1.13%	1.08%	-4 bps
NPL Coverage ratio	223.0%	216.7%	-6 ppt	227.6%	209.7%	-18 ppt	242.3%	210.7%	-32 ppt
Loan loss reserve	2.47%	2.35%	-13 bps	2.56%	2.26%	-31 bps	2.73%	2.28%	-45 bps
LDR	101.9%	97.2%	-473 bps	101.9%	95.3%	-659 bps	101.9%	93.9%	-796 bps
Credit costs	0.90%	0.96%	6 bps	0.96%	0.96%	0 bps	1.02%	1.02%	0 bps
Core capital ratio	9.79%	9.50%	-29 bps	9.84%	9.51%	-33 bps	9.85%	9.50%	-35 bps
Tier 1 Ratio	10.79%	10.49%	-30 bps	10.79%	10.44%	-35 bps	10.75%	10.38%	-37 bps
Total CAR	13.56%	13.99%	42 bps	13.42%	13.75%	34 bps	13.23%	13.52%	28 bps

Source: J.P. Morgan estimates.

PSBC – performance gap vs SOE banks peers to narrow on stabilizing AQ

PSBC 2Q profit went up by 7% y/y, the highest among SOE banks and beat our expectation by 6ppt (link). Note that PBT contracted 3% y/y and missed our estimate by 5ppt, but we still upgrade PSBC from Neutral to OW rating based on the following:

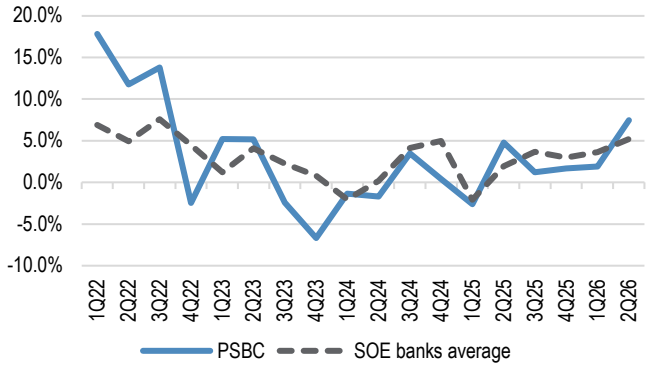
- **Robust PPoP growth:** PSBC's 2Q26 PPoP growth of 15% y/y was the highest among banks we cover, driven by stable NII and robust non-NII growth. In addition, there was an improvement in cost optimization that excluding impact of deposits agency fee, OPEX contracted 3% y/y in our calculation.
- **Stabilizing asset quality:** management commented during briefing that retail NPL formation ratio reduced by 17bps y/y or -5bps q/q. And its SML ratio only edged up by 5bps, decelerating from +10bps q/q in 1Q. Note that the SML ratio has been rising by double digit basis points since 3Q23, thus the stabilizing trend indicates lower AQ pressure in coming quarters, in our view.
- **Stabilizing NPL coverage ratio:** In previous quarters when NIM has contracted meaningfully and asset quality pressure has been high, PSBC has stabilized

profits growth by reducing the NPL coverage ratio, which has seen a steep decline since 3Q23. This has stabilized in 2Q26 (Figure 16).

- PSBC has meaningfully underperformed peers, with the H-share price underperforming SOE banks by 24ppt YTD (Figure 17). We believe the performance gap will narrow, as asset quality pressure is easing and PSBC is showing a strong commitment to ensure earnings growth keeps up with that of SOE peers..

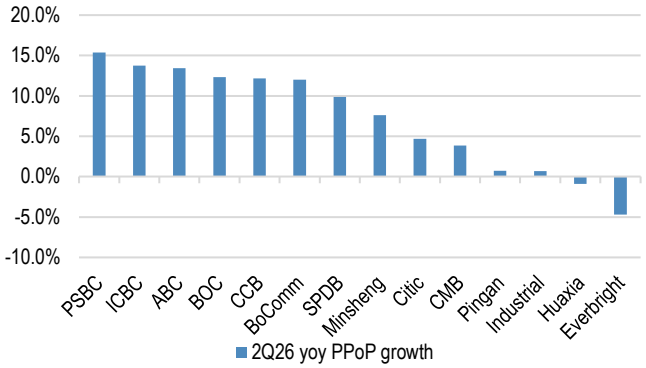
We increase 26e/27e/28e earnings by 2%/4%/5% and increase PT by 16% to HK$5.90.

Figure 12: PSBC delivered stronger yoy profit growth than other SOE banks in 2Q26



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC 1Q22-2Q26 financial reports.

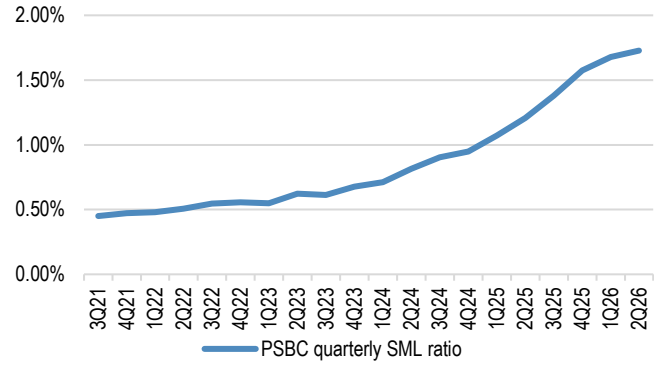
Figure 13: PSBC delivered the strongest PPoP growth in 2Q26



Source: ABC, BOC, CCB, ICBC, BoCom, PSBC, Citic, CMB, Minsheng, Everbright, SPDB, PAB, Industrial, Huaxia 1H26 financial reports.

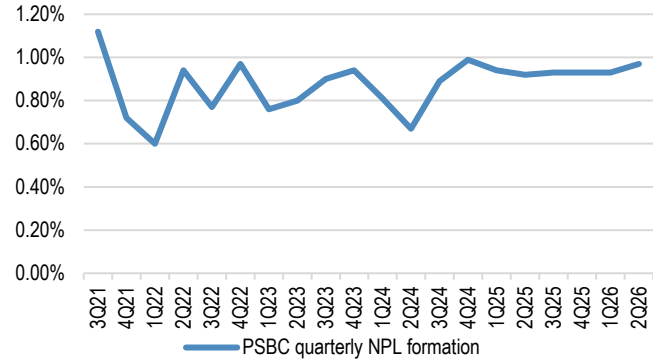
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Figure 14: PSBC quarterly SML ratio has trended in recent years, though pace is moderating



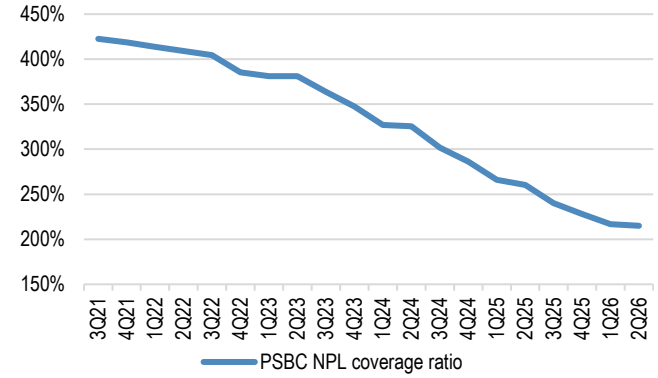
Source: PSBC 3Q21-2Q26 financial reports.

Figure 15: PSBC quarterly NPL formation ratio has been relatively stable in the past few quarters.



Source: PSBC 3Q21-2Q26 financial reports.

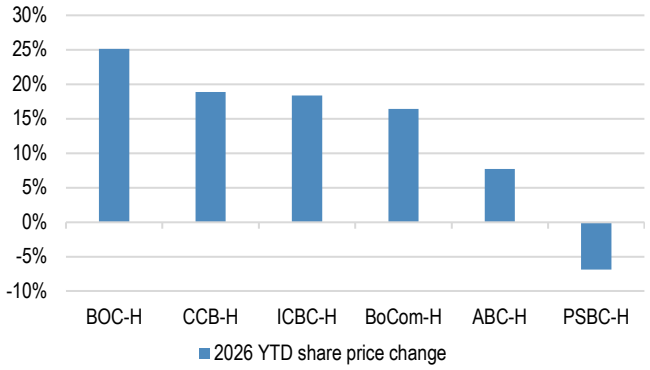
Figure 16: PSBC NPL coverage ratio has shown signs of stabilization in 2Q26



Source: PSBC 3Q21-2Q26 financial reports.

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Figure 17: PSBC-H has underperformed SOE bank peers in 2026 YTD



Source: Bloomberg Finance L.P. Data as of Aug 29th, 2026. Note: Past performance is not an indicator of future results.

Table 12: Summary of estimate changes

	2026E			2027E			2028E		
	New	Old	Change	New	Old	Change	New	Old	Change
NII	302,559	299,695	1.0%	327,043	320,455	2.1%	355,866	348,552	2.1%
Non-Interest Income	80,846	81,501	-0.8%	90,245	91,003	-0.8%	100,764	101,645	-0.9%
Fees	32,051	33,770	-5.1%	36,539	38,498	-5.1%	41,654	43,887	-5.1%
Non-fee	48,795	47,731	2.2%	53,706	52,506	2.3%	59,110	57,757	2.3%
Total Income	383,405	381,196	0.6%	417,287	411,458	1.4%	456,630	450,196	1.4%
Operating expenses	-228,251	-231,498	-1.4%	-241,535	-243,320	-0.7%	-255,002	-256,961	-0.8%
PPOP	155,154	149,699	3.6%	175,753	168,138	4.5%	201,628	193,235	4.3%
LLP	-54,836	-48,762	12.5%	-70,468	-64,217	9.7%	-91,370	-85,581	6.8%
Pre-Tax	100,127	100,515	-0.4%	105,203	103,585	1.6%	110,300	107,416	2.7%
Income Tax	-8,503	-11,120	-23.5%	-9,257	-11,753	-21.2%	-9,896	-12,494	-20.8%
Attributable Income	91,289	89,331	2.2%	95,610	91,768	4%	100,067	94,859	5%
Key Balance Sheet Items									
Gross Loans	10,410,686	10,429,588	0%	11,253,692	11,274,124	0%	12,164,959	12,187,047	0%
Deposits	17,874,654	17,972,574	-1%	19,420,812	19,527,202	-1%	21,100,712	21,216,305	-1%
Equity	1,220,152	1,223,661	0%	1,286,649	1,288,189	0%	1,356,320	1,354,892	0%
Total Assets	20,335,442	20,315,774	0%	22,079,414	22,039,393	0%	23,925,226	23,885,132	0%
Key Ratios									
NIM	1.62%	1.62%	0 bps	1.62%	1.60%	2 bps	1.62%	1.60%	2 bps
Cost income ratio	59.53%	60.73%	-120 bps	57.88%	59.14%	-125 bps	55.84%	57.08%	-123 bps
ROE	8.31%	7.89%	43 bps	8.23%	7.65%	58 bps	8.13%	7.49%	65 bps
ROA	0.44%	0.42%	2 bps	0.43%	0.40%	3 bps	0.41%	0.38%	3 bps
NPL Ratio	1.01%	0.96%	5 bps	1.02%	0.97%	6 bps	1.00%	0.95%	6 bps
NPL Coverage ratio	195.6%	198%	-3 ppt	190.3%	187%	4 ppt	204.3%	197%	8 ppt
Loan loss reserve	1.98%	1.90%	8 bps	1.95%	1.81%	14 bps	2.05%	1.86%	19 bps
LDR	58.2%	58.0%	21 bps	57.9%	57.7%	21 bps	57.7%	57.4%	21 bps
Credit costs	0.55%	0.49%	6 bps	0.65%	0.59%	6 bps	0.78%	0.73%	5 bps
Core Capital ratio	10.00%	10.29%	-28 bps	9.79%	10.05%	-27 bps	9.58%	9.82%	-23 bps
Tier 1 Ratio	11.42%	11.73%	-32 bps	11.09%	11.39%	-30 bps	10.78%	11.05%	-26 bps
Total CAR	14.07%	13.90%	17 bps	13.59%	13.44%	16 bps	13.15%	12.99%	16 bps

Source: J. P. Morgan estimates.

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Postal Savings Bank of China (1658)

Performance gap vs SOE bank peers to narrow on stabilizing AQ

PSBC delivered the strongest profit growth in 2Q (+7% y/y) among SOE banks and beat our forecast by 6ppt (link). Although PBT was weaker than expected (down 3% y/y), we upgrade to OW on (1) sector-leading PPoP growth (+15% y/y) driven by stable NII and strong non-NII, alongside better cost control; (2) early signs of retail asset-quality stabilization with declining retail NPL formation and a slower rise in the SML ratio rise; and (3) a stabilizing NPL coverage ratio after a multi-quarter decline. With meaningful YTD versus SOE peers (H-share lagging by 24ppt), we see scope for catch-up as AQ pressure eases and earnings delivery improves. We raise 26E/27E/28E earnings by 2%/4%/5% and lift PT by 16% to HK$5.90.

▲ Overweight
Previous: Neutral

1658.HK,1658 HK
Price (28 Aug 26): HK$4.95

▲ Price Target (Dec-27): HK$5.90
Prior (Dec-27): HK$5.10

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 27E (Rmb)	0.76	0.80	4.2%

Half Yearly Forecasts (FYE Dec)

Adj. EPS (Rmb)

	2025A	2026E	2027E
H1	0.49	0.43A	0.45
H2	0.35	0.33	0.35
FY	0.79	0.76	0.80

Style Exposure

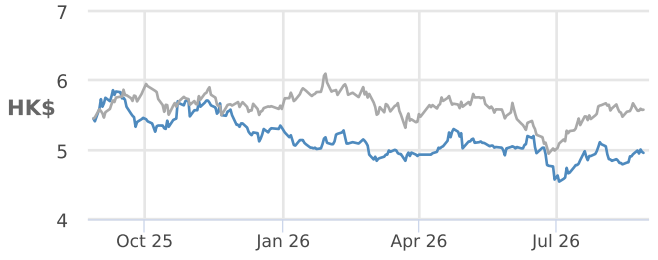
Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	23	18	18	18	20
Growth	68	74	80	68	63
Momentum	36	62	45	64	56
Quality	36	38	57	37	29
Low Vol	10	16	16	30	20
ESGQ	12	15	-	5	-

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

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Price Performance



	YTD	1m	3m	12m
Abs	-6.9%	-0.5%	0.7%	-9.1%
Rel	-6.7%	-1.6%	-1.6%	-11.4%

Company Data

Shares O/S (mn)	99,161
52-week range (HK$)	5.88-4.48
Market cap ($ mn)	62,606
Exchange rate	7.84
Free float (%)	67.0%
3M ADV (mn)	38.73
3M ADV ($ mn)	24.2
Volatility (90 Day)	21
Index	HSI
BBG ANR (Buy | Hold | Sell)	16|4|2

Key Metrics (FYE Dec)

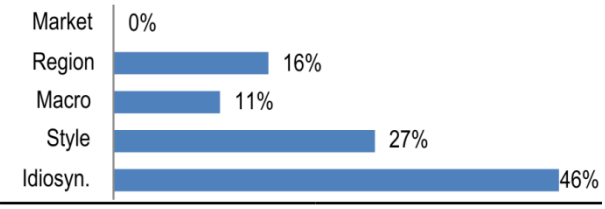
Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Net interest income	281,620	302,559	327,043	355,866
Non interest income	74,246	80,846	90,245	100,764
Operating expenses	(224,715)	(228,251)	(241,535)	(255,002)
Adj. PPOP	131,151	155,154	175,753	201,628
Provision for loan losses	(32,434)	(54,836)	(70,468)	(91,370)
Adj. PBT	98,221	100,127	105,203	110,300
Adj. net income	87,404	91,289	95,610	100,067
Adj. EPS	0.79	0.76	0.80	0.83
BBG EPS	0.75	0.71	0.74	0.77
DPS	0.22	0.24	0.25	0.26
Loans	9,440,874	10,204,490	11,034,642	11,915,891
Deposits	16,541,716	17,874,654	19,420,812	21,100,712
Total Assets	18,682,067	20,335,442	22,079,414	23,925,226
Margins and Growth				
NIM	1.7%	1.6%	1.6%	1.6%
Ratios				
Loan/ Deposit ratio	57.1%	57.1%	56.8%	56.5%
NPL / Loans	0.9%	1.0%	1.0%	1.0%
Coverage	226.7%	195.6%	190.3%	204.3%
CET 1	10.5%	10.0%	9.8%	9.6%
Non-int. income/ Income	20.9%	21.1%	21.6%	22.1%
Cost/Income	63.1%	59.5%	57.9%	55.8%
LLP/Loans	(0.3%)	(0.5%)	(0.7%)	(0.8%)
ROA	0.5%	0.5%	0.5%	0.4%
ROE	8.0%	7.7%	7.6%	7.6%
Valuation				
Dividend yield	5.1%	5.5%	5.8%	6.1%
Adj. P/E	5.4	5.6	5.3	5.1
P/ BV	0.4	0.4	0.4	0.4

Summary Investment Thesis and Valuation

- In our view, PSBC should benefit indirectly more from the small bank reforms than other SOE banks.
- **Asset quality is stabilizing:** we note early signs of retail asset-quality stabilization with declining retail NPL formation and a slower rise in the SML ratio.
- **Robust PPoP growth:** PSBC's 2Q26 PPoP growth of 15% y/y was the highest among banks we cover, driven by stable NII and robust non-NII growth.

Our Dec-27 PT of HK$5.90 is based on DDM, using a cost of equity of 11.8%, normalized ROE of 8.7% and terminal date of 31 December 2028.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	-0.06	0.06
Region: China	0.41	0.40
Macro:		
Emerging Economies CPI(YoY)	-0.30	-0.21
JPM Forecast Revision EM	0.19	0.19
Emerging Central Bank Rate	0.27	0.15
Quant Styles:		
Value	0.60	0.52
DivYld	0.60	0.50
Quality	0.42	0.44

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Investment Thesis, Valuation and Risks

Postal Savings Bank of China *(Overweight; Price Target: HK$5.90)*

Investment Thesis

- In our view, PSBC should benefit indirectly more from the small bank reforms than other SOE banks.
- **Asset quality is stabilizing:** we note early signs of retail asset-quality stabilization with declining retail NPL formation and deceleration in SML ratio rise.
- **Robust PPoP growth:** PSBC's 2Q26 PPoP growth of 15% y/y was the highest among banks we cover, driven by stable NII and robust non-NII growth.

Valuation

Our Dec-27 PT of HK$5.90 is based on a dividend discount model (DDM), using a cost of equity of 11.8 %, normalized ROE of 8.7% and terminal date of 31 December 2028. Details are summarized in the valuation table below.

Key assumptions/parameters.	
Normalized ROE	8.7%
Cost of capital	11.8%
Long-term growth	4.5%
Fair terminal P/BV	0.58
Dec-27 H-share PT (HK$)	5.90

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks to our rating and price target include: relatively rapid recent loan growth, which raises concerns about rising credit risks; higher implicit deposit costs through agency-fee structure with China Postal Group; and industry risks associated with slow macro growth, asset quality deterioration and shadow banking.

Upside risks include: continued structural improvement, including rising LDR, fee income growth and improving cost efficiency; and profit growth regaining momentum if the macro situation gradually recovers.

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J.P.Morgan

Postal Savings Bank of China (1658): Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Interest income	508,243	480,903	484,868	509,845	551,381
Interest expense	(222,120)	(199,283)	(182,309)	(182,803)	(195,515)
Net interest income	**286,123**	**281,620**	**302,559**	**327,043**	**355,866**
Non interest income	63,010	74,246	80,846	90,245	100,764
o/w Fee income	25,282	29,365	32,051	36,539	41,654
o/w Trading income	36,802	44,904	49,437	54,380	59,818
Net revenues	**349,133**	**355,866**	**383,405**	**417,287**	**456,630**
Non interest expense	(226,096)	(224,715)	(228,251)	(241,535)	(255,002)
o/w Employee costs	(64,045)	(64,827)	(66,742)	(67,813)	(69,847)
Pre-Prov. Profits	**123,037**	**131,151**	**155,154**	**175,753**	**201,628**
Provisions	(28,445)	(32,930)	(55,026)	(70,549)	(91,328)
Adj. PBT	**94,592**	**98,221**	**100,127**	**105,203**	**110,300**
Income taxes	(7,876)	(10,598)	(8,503)	(9,257)	(9,896)
Minority interest	(237)	(219)	(336)	(336)	(336)
Adj. Net profit	**86,479**	**87,404**	**91,289**	**95,610**	**100,067**
PPOP per share	1.24	1.19	1.29	1.46	1.68
Reported EPS	0.87	0.79	0.76	0.80	0.83
Adj. EPS	**0.87**	**0.79**	**0.76**	**0.80**	**0.83**
DPS	**0.26**	**0.22**	**0.24**	**0.25**	**0.26**
Diluted shares outstanding	99,161	110,517	120,095	120,095	120,095

Balance Sheet Gearing	FY24A	FY25A	FY26E	FY27E	FY28E
Loans/Deposits	56.8%	57.1%	57.1%	56.8%	56.5%
Investment/Assets	34.7%	34.6%	35.5%	37.1%	37.6%
Loan/Assets	52.0%	51.9%	51.4%	51.1%	50.9%
Customer deposits/Liabilities	95.2%	94.4%	93.5%	93.4%	93.5%
LT debt/Liabilities	1.6%	1.5%	1.4%	1.4%	1.3%

Ratio Analysis (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest margin	1.9%	1.7%	1.6%	1.6%	1.6%
Non interest income/Net revenue	18.0%	20.9%	21.1%	21.6%	22.1%
Non interest income/Avg. Assets	0.4%	0.4%	0.4%	0.4%	0.4%
Efficiency ratio	64.8%	63.1%	59.5%	57.9%	55.8%
Leverage ratio	6.2%	6.5%	6.2%	6.0%	5.9%
Revenue/Assets	2.1%	2.0%	2.0%	2.0%	2.0%
RORWA	1.0%	1.0%	0.9%	0.9%	0.8%
RWA	8,617,743	9,533,914	10,618,097	11,528,707	12,492,493
Avg. RWA	8,402,404	9,075,829	10,076,005	11,073,402	12,010,600
Avg. IEA	15,325,497	16,925,952	18,641,179	20,249,002	21,971,100
Gross Loans	8,913,202	9,648,316	10,410,686	11,253,692	12,164,959
Avg. IBL	15,306,448	16,627,036	18,106,986	19,715,785	21,408,415
LLR	(229,058)	(207,442)	(206,196)	(219,050)	(249,069)
NPLs	80,319	91,524	105,402	115,090	121,896
P/BV (x)	0.4	0.4	0.4	0.4	0.4
Adj. P/E (x)	4.9	5.4	5.6	5.3	5.1
Dividend yield	6.2%	5.1%	5.5%	5.8%	6.1%
Dividend payout	30.0%	27.6%	31.0%	31.0%	31.0%

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	46,478	44,078	37,157	36,819	40,744
Deposits with banks	2,108,560	2,591,218	2,351,575	2,491,478	2,642,206
Net loans	8,684,144	9,440,874	10,204,490	11,034,642	11,915,891
PP&E	60,250	62,310	63,002	66,833	70,896
Net intangibles	0	0	0	0	0
LT investments	6,004,127	6,358,153	7,479,072	8,245,490	9,047,249
Other assets	181,351	185,434	200,146	204,153	208,241
Total assets	**17,084,910**	**18,682,067**	**20,335,442**	**22,079,414**	**23,925,226**
Interest earning assets	16,352,440	17,887,631	19,631,884	21,318,757	23,117,178
Deposits	15,287,541	16,541,716	17,874,654	19,420,812	21,100,712
Borrowings	645,540	779,274	1,018,329	1,117,777	1,177,530
Other liabilities	120,180	198,732	219,941	251,810	288,297
Total liabilities	**16,053,261**	**17,519,722**	**19,112,923**	**20,790,398**	**22,566,539**
Shareholder equity	1,029,669	1,160,146	1,220,152	1,286,649	1,356,320
Minority interests	1,980	2,199	2,367	2,367	2,367
Total liabilities and Shareholder equity	**17,084,910**	**18,682,067**	**20,335,442**	**22,079,414**	**23,925,226**
Interest bearing liabilities	15,933,081	17,320,990	18,892,983	20,538,588	22,278,242
Book Value Per Share	10.38	9.66	10.16	10.71	11.29
Tangible Book Value Per Share	10.38	9.66	10.16	10.71	11.29

Asset Quality/Capital	FY24A	FY25A	FY26E	FY27E	FY28E
Loan loss reserves/Loans	(2.6%)	(2.2%)	(2.0%)	(1.9%)	(2.0%)
NPLs/Loans	0.9%	0.9%	1.0%	1.0%	1.0%
Loan loss reserves/NPLs	313.1%	254.0%	210.0%	192.9%	197.5%
NPL y/y growth	19.1%	14.0%	15.2%	9.2%	5.9%
Tier 1 ratio	11.9%	12.1%	11.4%	11.1%	10.8%
CAR	14.4%	14.5%	14.1%	13.6%	13.2%

Ratio Analysis (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Return on equity (ROE)	8.7%	8.0%	7.7%	7.6%	7.6%
Return on assets (ROA)	0.5%	0.5%	0.5%	0.5%	0.4%
Operating ROA	0.6%	0.6%	0.5%	0.5%	0.5%
Pre-Tax ROA	0.6%	0.6%	0.5%	0.5%	0.5%
Pre-Provision ROA	0.7%	0.7%	0.8%	0.8%	0.9%
Tax rate	8.3%	10.8%	8.5%	8.8%	9.0%
Net loans y/y growth	9.7%	8.7%	8.1%	8.1%	8.0%
Assets y/y growth	8.6%	9.3%	8.9%	8.6%	8.4%
RWA y/y growth	5.3%	10.6%	11.4%	8.6%	8.4%
Deposits y/y growth	9.5%	8.2%	8.1%	8.7%	8.7%
Net interest income y/y growth	1.5%	(1.6%)	7.4%	8.1%	8.8%
Revenues y/y growth	1.8%	1.9%	7.7%	8.8%	9.4%
Adj. EPS y/y growth	(1.4%)	(9.3%)	(3.9%)	4.7%	4.7%
BVPS y/y growth	7.8%	(7.0%)	5.2%	5.4%	5.4%
IE assets/Assets	93.4%	94.6%	95.6%	95.5%	95.5%
Margins (as % of Avg. Assets)	1.7%	1.6%	1.5%	1.5%	1.5%
LLP/Loans	(0.4%)	(0.3%)	(0.5%)	(0.7%)	(0.8%)
Equity/Assets	6.0%	6.1%	6.1%	5.9%	5.7%
Cost/Assets	1.4%	1.3%	1.2%	1.1%	1.1%
Assets/Equity	16.5	16.3	16.4	16.9	17.4

Source: Company reports and J.P. Morgan estimates.
Note: Rmb in millions (except per-share data).Fiscal year ends Dec

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Huaxia Bank - A

Underweight

Previous: Neutral

600015.SS,600015 CH

Price (28 Aug 26): Rmb6.55

Price Target (Dec-27): Rmb4.80
Prior (Dec-27): Rmb7.10

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (Rmb)	1.67	1.29	-22.7%
Adj. EPS - 27E (Rmb)	1.75	1.29	-26.3%

Half Yearly Forecasts (FYE Dec)

Adj. EPS (Rmb)

	2025A	2026E	2027E
H1	0.66	0.53A	0.52
H2	0.99	0.77	0.77
FY	1.62	1.29	1.29

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	3	2	4	4	4
Growth	59	80	86	64	88
Momentum	41	80	51	24	47
Quality	33	56	56	28	73
Low Vol	8	10	9	3	3
ESGQ	93	95	95	93	11

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

Sharp rise in delinquent ratio with low provision buffer

2Q26 was the sharpest miss in our coverage (vs JPMe by 33%). While revenue held up (only ~2% y/y decline) on strong loan growth (+15% y/y) supporting NII, profit was dragged by a sharp rise in impairment charges (+29% y/y). We are concerned about slowing NII momentum as NIM -5bps q/q, the steepest among peers, and deteriorating leading asset-quality indicators with a notable spike in overdue and retail NPL, against a low NPL coverage ratio (~145%, the second lowest in our universe). We cut 26E/27E/28E EPS by 22%/25%/28% and reduce our PT ~30% to Rmb4.80.

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Price Performance



	YTD	1m	3m	12m
Abs	-4.7%	-7.5%	-0.3%	-15.2%
Rel	-4.3%	-11.1%	3.3%	-18.0%

Company Data

Shares O/S (mn)	15,915
52-week range (Rmb)	7.98-6.31
Market cap ($ mn)	15,492
Exchange rate	6.73
Free float (%)	41.5%
3M ADV (mn)	74.39
3M ADV ($ mn)	75.1
Volatility (90 Day)	21
Index	SHASHR
BBG ANR (Buy | Hold | Sell)	8|1|3

Key Metrics (FYE Dec)

Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Net interest income	62,948	69,342	71,374	76,156
Non interest income	28,966	31,469	32,692	34,172
Operating expenses	(32,209)	(32,350)	(32,994)	(34,164)
Adj. PPOP	59,705	68,461	71,072	76,164
Provision for loan losses	(22,726)	(37,803)	(40,203)	(44,453)
Adj. PBT	34,174	27,347	27,397	28,070
Adj. net income	25,770	20,604	20,506	20,902
Adj. EPS	1.62	1.29	1.29	1.31
BBG EPS	1.61	1.61	1.64	1.80
DPS	0.42	0.34	0.33	0.34
Loans	2,518,416	2,738,957	2,889,763	3,031,246
Deposits	2,409,626	2,649,061	2,850,655	3,053,051
Total Assets	4,737,619	5,035,720	5,302,239	5,557,260
Margins and Growth				
NIM	1.6%	1.6%	1.5%	1.5%
Ratios				
Loan/ Deposit ratio	104.5%	103.4%	101.4%	99.3%
NPL / Loans	1.6%	1.5%	1.5%	1.5%
Coverage	143.2%	139.9%	141.9%	151.4%
CET 1	9.4%	9.1%	9.0%	8.9%
Non-int. income/ Income	31.5%	31.2%	31.4%	31.0%
Cost/Income	35.0%	32.1%	31.7%	31.0%
LLP/Loans	(0.9%)	(1.4%)	(1.4%)	(1.5%)
ROA	0.6%	0.4%	0.4%	0.4%
ROE	6.8%	5.1%	4.9%	4.8%
Valuation				
Dividend yield	6.4%	5.1%	5.1%	5.2%
Adj. P/E	4.0	5.1	5.1	5.0
P/ BV	0.3	0.3	0.2	0.2

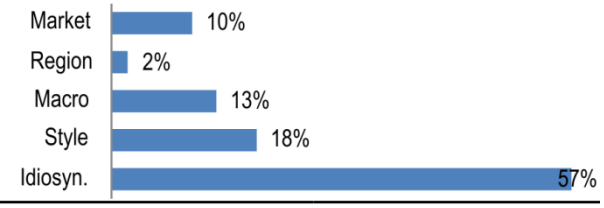
Summary Investment Thesis and Valuation

- Asset quality under pressure: leading asset-quality indicators deteriorate with notable spike in overdue and retail NPL, against a low NPL coverage ratio (~145%, the second lowest in our universe).
- We think Huaxia has poor capital-generating capability with a weak capital position.
- Huaxia's profitability, as measured by PPoP/average assets and return on RWA, is weak compared to its peers.

We have a UW rating on Huaxia Bank.

Our Dec-27 price target of Rmb4.80 is DDM-derived, assuming a cost of equity of 12.3%, a normalized ROE of 6.1% and a terminal date of 31 December 2028.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	-0.40	-0.33
Region: China	0.32	0.14
Macro:		
Emerging Economies CPI(YoY)	0.36	0.30
JPM Global Equity Sentiment	-0.24	-0.25
Emerging Central Bank Rate	-0.37	-0.23
Quant Styles:		
DivYld	0.41	0.42
LowVol	0.35	0.39
Value	0.40	0.39

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Investment Thesis, Valuation and Risks

Huaxia Bank - A *(Underweight; Price Target: Rmb4.80)*

Investment Thesis

- Asset quality under pressure: leading asset-quality indicators deteriorate with notable spike in overdue and retail NPL, against a low NPL coverage ratio (~145%, the second lowest in our universe).
- We think Huaxia has poor capital-generating capability with a weak capital position.
- Huaxia's profitability, as measured by PPoP/average assets and return on RWA, is weak compared to its peers.

We have a UW rating on Huaxia Bank.

Valuation

Our Dec-27 price target of Rmb4.80 is DDM-derived, assuming a cost of equity of 12.3%, a normalized ROE of 6.1% and a terminal date of 31 December 2028. Details are summarized in the valuation table below.

Key assumptions/parameters	
Normalized ROE	6.1%
Cost of capital	12.3%
Long-term growth	4.5%
Fair terminal P/BV	0.21x
Dec-27 PT (Rmb)	4.80

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Upside risks include: (1) better-than-expected macro growth, leading to improved asset quality; and (2) asset-liability mix improvement that leads to stronger-than-expected profitability.

Downside risks include: (1) rising funding costs, leading to NIM compression; (2) asset quality deterioration due to worse-than-expected macro growth; and (3) faster growth, leading to a capital shortfall.

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Huaxia Bank - A: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Interest income	146,483	135,151	135,161	135,816	141,849
Interest expense	(84,420)	(72,203)	(65,819)	(64,442)	(65,693)
Net interest income	**62,063**	**62,948**	**69,342**	**71,374**	**76,156**
Non interest income	35,083	28,966	31,469	32,692	34,172
o/w Fee income	5,443	5,576	5,887	6,240	6,615
o/w Trading income	24,382	16,908	18,516	19,244	20,206
Net revenues	**97,146**	**91,914**	**100,811**	**104,066**	**110,328**
Non interest expense	(32,413)	(32,209)	(32,350)	(32,994)	(34,164)
o/w Employee costs	(16,428)	(16,219)	(16,204)	(16,571)	(17,157)
Pre-Prov. Profits	**64,733**	**59,705**	**68,461**	**71,072**	**76,164**
Provisions	(28,791)	(25,416)	(40,958)	(43,515)	(47,931)
Adj. PBT	**35,879**	**34,174**	**27,347**	**27,397**	**28,070**
Income taxes	(7,683)	(6,423)	(5,113)	(5,261)	(5,538)
Minority interest	(520)	(551)	(646)	(646)	(646)
Adj. Net profit	**25,736**	**25,770**	**20,604**	**20,506**	**20,902**
PPOP per share	4.07	3.75	4.30	4.47	4.79
Reported EPS	1.74	1.71	1.36	1.35	1.38
Adj. EPS	**1.62**	**1.62**	**1.29**	**1.29**	**1.31**
DPS	**0.41**	**0.42**	**0.34**	**0.33**	**0.34**
Diluted shares outstanding	15,915	15,915	15,915	15,915	15,915

Balance Sheet Gearing	FY24A	FY25A	FY26E	FY27E	FY28E
Loans/Deposits	105.9%	104.5%	103.4%	101.4%	99.3%
Investment/Assets	37.7%	37.0%	35.4%	34.5%	34.4%
Loan/Assets	54.5%	54.4%	55.9%	56.2%	56.3%
Customer deposits/Liabilities	54.5%	55.5%	57.3%	58.5%	59.7%
LT debt/Liabilities	15.5%	15.3%	12.9%	10.5%	9.3%

Ratio Analysis (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest margin	1.6%	1.6%	1.6%	1.5%	1.5%
Non interest income/Net revenue	36.1%	31.5%	31.2%	31.4%	31.0%
Non interest income/Avg. Assets	0.8%	0.6%	0.6%	0.6%	0.6%
Efficiency ratio	33.4%	35.0%	32.1%	31.7%	31.0%
Leverage ratio	8.5%	8.7%	8.5%	8.3%	8.2%
Revenue/Assets	2.3%	2.0%	2.1%	2.0%	2.0%
RORWA	0.8%	0.8%	0.6%	0.5%	0.5%
RWA	3,115,312	3,393,070	3,692,400	3,887,823	4,074,815
Avg. RWA	3,090,295	3,254,191	3,542,735	3,790,111	3,981,319
Avg. IEA	3,815,042	3,969,204	4,286,805	4,556,130	4,785,106
Gross Loans	2,366,317	2,566,666	2,797,695	2,952,827	3,101,650
Avg. IBL	3,923,849	4,119,688	4,421,337	4,678,416	4,918,581
LLR	(61,327)	(57,101)	(58,737)	(63,064)	(70,403)
NPLs	37,914	39,886	41,975	44,432	46,491
P/BV (x)	0.3	0.3	0.3	0.2	0.2
Adj. P/E (x)	4.1	4.0	5.1	5.1	5.0
Dividend yield	6.2%	6.4%	5.1%	5.1%	5.2%
Dividend payout	23.3%	24.6%	24.7%	24.7%	24.7%

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	2,046	1,849	2,450	813	2,649
Deposits with banks	282,559	378,892	423,142	445,424	464,592
Net loans	2,313,356	2,518,416	2,738,957	2,889,763	3,031,246
PP&E	71,867	80,000	90,127	94,688	99,479
Net intangibles	1,786	1,778	1,798	1,871	1,946
LT investments	1,651,055	1,718,039	1,737,941	1,824,143	1,907,142
Other assets	53,822	38,645	41,304	45,537	50,205
Total assets	**4,376,491**	**4,737,619**	**5,035,720**	**5,302,239**	**5,557,260**
Interest earning assets	3,802,743	4,135,665	4,437,946	4,674,315	4,895,897
Deposits	2,184,137	2,409,626	2,649,061	2,850,655	3,053,051
Borrowings	1,767,221	1,878,391	1,905,595	1,951,520	1,981,935
Other liabilities	59,449	49,802	64,608	71,230	78,531
Total liabilities	**4,010,807**	**4,337,819**	**4,619,264**	**4,873,405**	**5,113,517**
Shareholder equity	361,982	395,746	412,543	425,567	441,121
Minority interests	3,702	4,054	3,913	3,267	2,621
Total liabilities and Shareholder equity	**4,376,491**	**4,737,619**	**5,035,720**	**5,302,239**	**5,557,260**
Interest bearing liabilities	3,951,358	4,288,017	4,554,657	4,802,175	5,034,986
Book Value Per Share	22.74	24.87	25.92	26.74	27.72
Tangible Book Value Per Share	22.63	24.75	25.81	26.62	27.59

Asset Quality/Capital	FY24A	FY25A	FY26E	FY27E	FY28E
Loan loss reserves/Loans	(2.6%)	(2.2%)	(2.1%)	(2.1%)	(2.3%)
NPLs/Loans	1.6%	1.6%	1.5%	1.5%	1.5%
Loan loss reserves/NPLs	160.8%	152.2%	141.5%	141.0%	146.8%
NPL y/y growth	(1.5%)	5.2%	5.2%	5.9%	4.6%
Tier 1 ratio	11.7%	11.7%	11.3%	11.0%	10.9%
CAR	13.4%	13.2%	12.6%	12.3%	12.1%

Ratio Analysis (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Return on equity (ROE)	7.6%	6.8%	5.1%	4.9%	4.8%
Return on assets (ROA)	0.6%	0.6%	0.4%	0.4%	0.4%
Operating ROA	0.9%	0.8%	0.6%	0.6%	0.6%
Pre-Tax ROA	0.9%	0.8%	0.6%	0.6%	0.6%
Pre-Provision ROA	1.5%	1.3%	1.4%	1.4%	1.4%
Tax rate	21.4%	18.8%	18.7%	19.2%	19.7%
Net loans y/y growth	2.5%	8.9%	8.8%	5.5%	4.9%
Assets y/y growth	2.9%	8.3%	6.3%	5.3%	4.8%
RWA y/y growth	1.6%	8.9%	8.8%	5.3%	4.8%
Deposits y/y growth	0.8%	10.3%	9.9%	7.6%	7.1%
Net interest income y/y growth	(11.9%)	1.4%	10.2%	2.9%	6.7%
Revenues y/y growth	4.2%	(5.4%)	9.7%	3.2%	6.0%
Adj. EPS y/y growth	9.6%	0.1%	(20.0%)	(0.5%)	1.9%
BVPS y/y growth	13.6%	9.3%	4.2%	3.2%	3.7%
IE assets/Assets	88.4%	87.1%	87.7%	88.1%	88.1%
Margins (as % of Avg. Assets)	1.4%	1.4%	1.4%	1.4%	1.4%
LLP/Loans	(1.1%)	(0.9%)	(1.4%)	(1.4%)	(1.5%)
Equity/Assets	7.9%	8.3%	8.3%	8.1%	8.0%
Cost/Assets	0.8%	0.7%	0.7%	0.6%	0.6%
Assets/Equity	12.7	12.0	12.1	12.3	12.5

Source: Company reports and J.P. Morgan estimates.
Note: Rmb in millions (except per-share data).Fiscal year ends Dec

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Industrial Bank - A

Neutral

Previous: Overweight

601166.SS,601166 CH

Price (28 Aug 26): Rmb17.43

Price Target (Dec-27): Rmb18.00
Prior (Dec-27): Rmb22.00

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (Rmb)	3.68	3.46	-6.0%
Adj. EPS - 27E (Rmb)	3.79	3.53	-6.7%

Half Yearly Forecasts (FYE Dec)

Adj. EPS (Rmb)	2025A	2026E	2027E
H1	2.06	1.94A	1.98
H2	1.62	1.51	1.56
FY	3.69	3.46	3.53

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	6	3	5	3	9
Growth	38	42	49	72	64
Momentum	43	74	35	68	62
Quality	15	17	19	35	33
Low Vol	6	6	4	9	16
ESGQ	7	11	11	14	16

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

Lack of EPS growth visibility

Industrial's 2Q26 earnings contracted 11% y/y, missing JPMe by 12% despite broadly stable revenue (+1% y/y) and solid headline buffers (NPL coverage ~226%). The print reinforces our view that the bank is not prioritizing EPS stability via provision/earnings management, which is important given upcoming CB conversion dynamics (conversion price ~15% above spot). Despite an attractive dividend yield (the highest in our coverage), we think the market will be reluctant to re-rate the stock as a "yield name" without clearer earnings visibility. We downgrade to Neutral, cut 26E/27E/28E earnings by 6%/7%/7%, and lower PT by 18% to Rmb18.00.

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Price Performance



— 601166.SS Price (Rmb) SHCOMP (rebased)

	YTD	1m	3m	12m
Abs	-17.2%	-6.3%	-3.0%	-23.4%
Rel	-16.8%	-9.9%	0.6%	-26.3%

Company Data

Shares O/S (mn)	20,774
52-week range (Rmb)	22.88-16.44
Market cap ($ mn)	53,812
Exchange rate	6.73
Free float (%)	68.6%
3M ADV (mn)	104.43
3M ADV ($ mn)	279.3
Volatility (90 Day)	21
Index	SSE
BBG ANR (Buy | Hold | Sell)	22|2|1

Key Metrics (FYE Dec)

Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Net interest income	148,752	144,647	148,839	158,738
Non interest income	63,989	66,061	67,607	71,087
Operating expenses	(65,171)	(64,978)	(66,196)	(68,850)
Adj. PPOP	147,570	145,730	150,250	160,974
Provision for loan losses	(53,866)	(59,616)	(62,304)	(69,679)
Adj. PBT	89,973	85,176	87,008	90,358
Adj. net income	77,469	73,155	74,742	77,635
Adj. EPS	3.69	3.46	3.53	3.67
BBG EPS	3.59	3.59	3.70	3.90
DPS	1.07	1.03	1.03	1.07
Loans	5,821,808	6,080,133	6,361,755	6,680,788
Deposits	6,123,916	6,519,182	6,945,012	7,398,727
Total Assets	11,094,256	11,630,594	12,286,152	12,985,820
Margins and Growth				
NIM	1.5%	1.4%	1.4%	1.4%
Ratios				
Loan/ Deposit ratio	95.1%	93.3%	91.6%	90.3%
NPL / Loans	1.1%	1.1%	1.1%	1.1%
Coverage	227.6%	216.7%	209.7%	210.7%
CET 1	9.7%	9.5%	9.5%	9.5%
Non-int. income/ Income	30.1%	31.4%	31.2%	30.9%
Cost/Income	30.6%	30.8%	30.6%	30.0%
LLP/Loans	(0.9%)	(1.0%)	(1.0%)	(1.0%)
ROA	0.7%	0.6%	0.6%	0.6%
ROE	8.7%	7.9%	7.7%	7.6%
Valuation				
Dividend yield	6.1%	5.9%	5.9%	6.2%
Adj. P/E	4.7	5.0	4.9	4.8
P/ BV	0.4	0.4	0.4	0.4

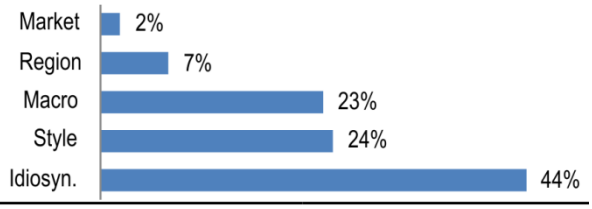
Summary Investment Thesis and Valuation

We have a Neutral rating on Industrial Bank.

- NIM contracted by 4bps q/q in 2Q26. This puts pressure on NII growth in the coming quarters.
- Retail asset quality under pressure, with increase in credit card NPL ratio.
- Industrial Bank has the third-highest NPL coverage ratio among JSBs. This provides a buffer for future earnings growth.

Our Dec-27 price target of Rmb18.00 is DDM-derived, assuming a cost of equity of 12.80%, a normalized ROE of 7.6% and a terminal date of 31 December 2028.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	-0.10	-0.16
Region: China	0.45	0.26
Macro:		
Generic 1st 'CO' Future	0.58	0.47
JPM EM Currency(EMCI) Fixing	0.24	0.16
JP Morgan GBI-EM Global Div	0.20	0.15
Quant Styles:		
Value	0.63	0.48
DivYld	0.55	0.47
LowVol	0.45	0.43

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Investment Thesis, Valuation and Risks

Industrial Bank - A *(Neutral; Price Target: Rmb18.00)*

Investment Thesis

We have a Neutral rating on Industrial Bank.

- NIM contracted by 4bps q/q in 2Q26. This puts pressure on NII growth in the coming quarters.
- Retail asset quality under pressure, with increase in credit card NPL ratio
- Industrial Bank has the third-highest NPL coverage ratio among JSBs. This provides a buffer for future earnings growth.

Valuation

Our Dec-27 price target of Rmb18.00 is DDM-derived, assuming a cost of equity of 12.80%, a normalized ROE of 7.6% and a terminal date of 31 December 2028. Details are summarized in the valuation table below.

Key assumptions/parameters	
Normalized ROE	7.6%
Cost of capital	12.8%
Long-term growth	4.5%
Fair terminal P/BV	0.37x
Dec-27 PT (Rmb)	18.00

Source: J. P. Morgan estimates.

Risks to Rating and Price Target

Downside risks include: (1) more LPR cuts, leading to further NIM compression; (2) widespread defaults of developer loans, leading to higher-than-expected NPL and credit costs; and (3) a material retreat of Northbound fund flow, leading to (~5% of Industrial Bank's free float is held by Northbound funds).

Upside catalysts include: (1) better pricing power on a mix shift; (2) less NIM compression than we expect; and (3) higher-than-expected loan and fee growth.

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Industrial Bank - A: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Interest income	343,835	312,406	295,233	298,859	312,847
Interest expense	(195,728)	(163,654)	(150,586)	(150,020)	(154,109)
Net interest income	**148,107**	**148,752**	**144,647**	**148,839**	**158,738**
Non interest income	64,119	63,989	66,061	67,607	71,087
o/w Fee income	24,096	25,891	27,914	29,868	31,959
o/w Trading income	38,750	36,610	36,722	36,313	37,702
Net revenues	**212,226**	**212,741**	**210,708**	**216,446**	**229,825**
Non interest expense	(64,840)	(65,171)	(64,978)	(66,196)	(68,850)
o/w Employee costs	(38,048)	(38,909)	(38,792)	(39,568)	(41,151)
Pre-Prov. Profits	**147,386**	**147,570**	**145,730**	**150,250**	**160,974**
Provisions	(60,189)	(57,622)	(60,668)	(63,356)	(70,731)
Adj. PBT	**87,120**	**89,973**	**85,176**	**87,008**	**90,358**
Income taxes	(9,629)	(12,119)	(11,653)	(11,898)	(12,355)
Minority interest	(286)	(385)	(368)	(368)	(368)
Adj. Net profit	**77,205**	**77,469**	**73,155**	**74,742**	**77,635**
PPOP per share	7.09	7.03	6.89	7.10	7.61
Reported EPS	3.72	3.69	3.46	3.53	3.67
Adj. EPS	**3.72**	**3.69**	**3.46**	**3.53**	**3.67**
DPS	**1.06**	**1.07**	**1.03**	**1.03**	**1.07**
Diluted shares outstanding	20,774	21,001	21,163	21,163	21,163

Balance Sheet Gearing	FY24A	FY25A	FY26E	FY27E	FY28E
Loans/Deposits	98.0%	95.1%	93.3%	91.6%	90.3%
Investment/Assets	32.9%	32.4%	30.9%	30.0%	30.1%
Loan/Assets	54.2%	54.1%	53.6%	53.2%	52.8%
Customer deposits/Liabilities	59.5%	60.2%	61.1%	61.6%	62.0%
LT debt/Liabilities	12.0%	11.1%	8.7%	8.3%	8.3%

Ratio Analysis (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest margin	1.6%	1.5%	1.4%	1.4%	1.4%
Non interest income/Net revenue	30.2%	30.1%	31.4%	31.2%	30.9%
Non interest income/Avg. Assets	0.6%	0.6%	0.6%	0.6%	0.6%
Efficiency ratio	30.6%	30.6%	30.8%	30.6%	30.0%
Leverage ratio	8.5%	8.3%	8.3%	8.3%	8.3%
Revenue/Assets	2.1%	2.0%	1.9%	1.8%	1.8%
RORWA	1.0%	1.0%	0.8%	0.8%	0.8%
RWA	7,848,126	8,460,074	9,044,966	9,554,786	10,098,909
Avg. RWA	7,580,226	8,154,100	8,752,520	9,299,876	9,826,848
Avg. IEA	9,210,951	9,611,138	10,159,730	10,644,105	11,238,780
Gross Loans	5,736,610	5,948,938	6,226,199	6,508,557	6,836,588
Avg. IBL	9,309,057	9,735,292	10,258,165	10,767,334	11,364,489
LLR	(145,633)	(146,240)	(146,065)	(146,801)	(155,800)
NPLs	61,477	64,251	67,413	70,015	73,954
P/BV (x)	0.4	0.4	0.4	0.4	0.4
Adj. P/E (x)	4.7	4.7	5.0	4.9	4.8
Dividend yield	6.1%	6.1%	5.9%	5.9%	6.2%
Dividend payout	28.5%	28.9%	29.8%	29.2%	29.3%

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	4,919	4,910	5,384	3,407	3,445
Deposits with banks	1,052,404	1,341,777	1,669,195	1,799,212	1,917,858
Net loans	5,608,859	5,821,808	6,080,133	6,361,755	6,680,788
PP&E	30,731	31,831	34,486	38,021	41,918
Net intangibles	1,654	1,591	1,549	1,612	1,677
LT investments	3,454,180	3,550,797	3,476,082	3,687,776	3,912,361
Other assets	355,151	341,542	363,764	394,369	427,773
Total assets	**10,507,898**	**11,094,256**	**11,630,594**	**12,286,152**	**12,985,820**
Interest earning assets	9,430,907	10,017,554	10,369,514	10,931,237	11,536,291
Deposits	5,721,779	6,123,916	6,519,182	6,945,012	7,398,727
Borrowings	3,683,956	3,877,645	3,881,472	4,025,915	4,179,521
Other liabilities	208,552	179,049	274,356	310,801	352,188
Total liabilities	**9,614,287**	**10,180,610**	**10,675,010**	**11,281,728**	**11,930,436**
Shareholder equity	881,908	901,716	943,550	992,390	1,043,352
Minority interests	11,703	11,930	12,033	12,033	12,033
Total liabilities and Shareholder equity	**10,507,898**	**11,094,256**	**11,630,594**	**12,286,152**	**12,985,820**
Interest bearing liabilities	9,432,475	10,038,108	10,478,222	11,056,446	11,672,532
Book Value Per Share	42.45	42.61	44.58	46.89	49.30
Tangible Book Value Per Share	42.37	42.53	44.51	46.82	49.22

Asset Quality/Capital	FY24A	FY25A	FY26E	FY27E	FY28E
Loan loss reserves/Loans	(2.5%)	(2.5%)	(2.3%)	(2.3%)	(2.3%)
NPLs/Loans	1.1%	1.1%	1.1%	1.1%	1.1%
Loan loss reserves/NPLs	240.2%	232.1%	222.0%	213.1%	210.2%
NPL y/y growth	5.1%	4.5%	4.9%	3.9%	5.6%
Tier 1 ratio	11.2%	10.6%	10.5%	10.4%	10.4%
CAR	14.3%	13.6%	14.0%	13.7%	13.5%

Ratio Analysis (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Return on equity (ROE)	9.2%	8.7%	7.9%	7.7%	7.6%
Return on assets (ROA)	0.7%	0.7%	0.6%	0.6%	0.6%
Operating ROA	0.9%	0.9%	0.8%	0.7%	0.7%
Pre-Tax ROA	0.9%	0.9%	0.8%	0.7%	0.7%
Pre-Provision ROA	1.4%	1.4%	1.3%	1.3%	1.3%
Tax rate	11.1%	13.5%	13.7%	13.7%	13.7%
Net loans y/y growth	5.2%	3.8%	4.4%	4.6%	5.0%
Assets y/y growth	3.4%	5.6%	4.8%	5.6%	5.7%
RWA y/y growth	7.3%	7.8%	6.9%	5.6%	5.7%
Deposits y/y growth	3.6%	7.0%	6.5%	6.5%	6.5%
Net interest income y/y growth	1.1%	0.4%	(2.8%)	2.9%	6.7%
Revenues y/y growth	0.7%	0.2%	(1.0%)	2.7%	6.2%
Adj. EPS y/y growth	0.1%	(0.7%)	(6.3%)	2.2%	3.9%
BVPS y/y growth	10.8%	0.4%	4.6%	5.2%	5.1%
IE assets/Assets	89.1%	89.0%	89.4%	89.0%	88.9%
Margins (as % of Avg. Assets)	1.4%	1.4%	1.3%	1.2%	1.3%
LLP/Loans	(0.9%)	(0.9%)	(1.0%)	(1.0%)	(1.0%)
Equity/Assets	8.1%	8.3%	8.1%	8.1%	8.1%
Cost/Assets	0.6%	0.6%	0.6%	0.6%	0.5%
Assets/Equity	12.3	12.1	12.3	12.4	12.4

Source: Company reports and J.P. Morgan estimates.
Note: Rmb in millions (except per-share data).Fiscal year ends Dec

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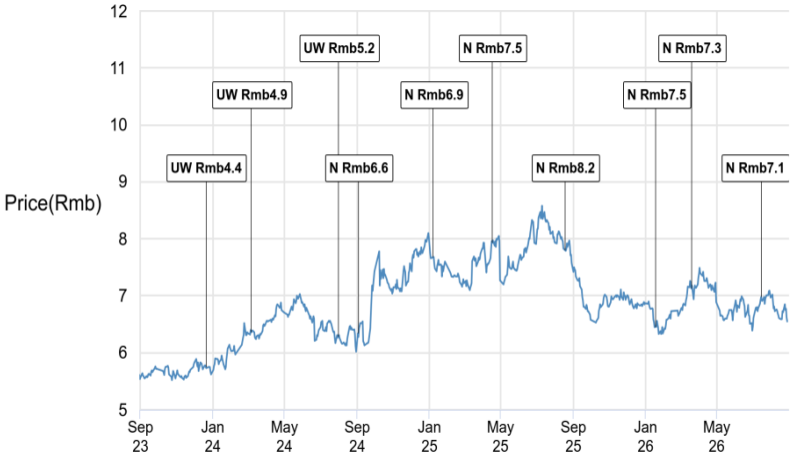
Postal Savings Bank of China (1658) (1658.HK, 1658 HK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 31, 2016. All share prices are as of market close on the previous business day.

Date	Rating	Price (HK$)	Price Target (HK$)
04-Oct-23	N	3.82	4.3
13-Oct-23	N	4.01	4.35
19-Nov-23	N	3.54	4.1
03-Jan-24	OW	3.65	4.35
07-Mar-24	OW	4.13	4.8
02-Apr-24	N	4.09	4.4
19-Apr-24	N	4.04	4.3
01-Aug-24	N	4.18	4.6
02-Oct-24	OW	4.65	5.8
08-Jan-25	OW	4.55	5.5
13-Mar-25	OW	5.05	5.7
31-Mar-25	N	4.97	5
19-Aug-25	N	5.53	5.3
24-Oct-25	N	5.70	5.7
19-Jan-26	N	5.08	5.5
11-Jul-26	N	4.67	5.1

Huaxia Bank - A (600015.SS, 600015 CH) Price Chart



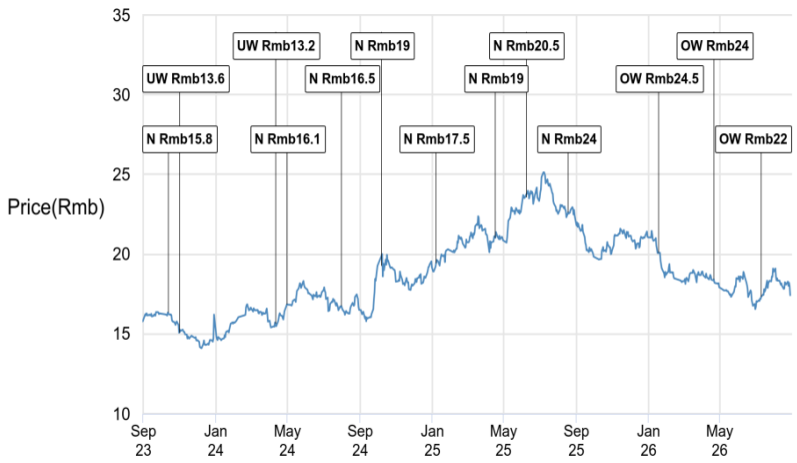
Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 04, 2004. All share prices are as of market close on the previous business day.

Date	Rating	Price (Rmb)	Price Target (Rmb)
21-Dec-23	UW	5.75	4.4
07-Mar-24	UW	6.36	4.9
01-Aug-24	UW	6.28	5.2
03-Sep-24	N	6.34	6.6
08-Jan-25	N	7.68	6.9
18-Apr-25	N	7.93	7.5
19-Aug-25	N	7.80	8.2
19-Jan-26	N	6.45	7.5
20-Mar-26	N	7.13	7.3
16-Jul-26	N	6.98	7.1



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Industrial Bank - A (601166.SS, 601166 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
13-Oct-23	N	16.34	15.8
01-Nov-23	UW	15.08	13.6
12-Apr-24	UW	15.65	13.2
01-May-24	N	16.85	16.1
01-Aug-24	N	16.75	16.5
08-Oct-24	N	19.27	19
08-Jan-25	N	19.43	17.5
18-Apr-25	N	21.03	19
09-Jun-25	N	23.56	20.5
19-Aug-25	N	22.62	24
19-Jan-26	OW	20.08	24.5
22-Apr-26	OW	18.42	24
11-Jul-26	OW	17.33	22

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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