

January 11, 2026 09:00 PM GMT

China Financials | Asia Pacific

2026 Outlook: Gradually back to a positive loop

We expect the China financial sector to return to a positive development loop after bottoming in 2025, marked by a gradual rebound in new loan and financial asset yields, continued orderly digestion of high-risk financial assets, with stable credit costs and an active capital market.

We expect 2026 to be a steady year with several favorable trends for China financial stocks including: 1) steady or slightly higher nominal GDP growth in 2026 than 2025 (per our economics team), 2) continued shift in policy support from credit to fiscal, which will further reduce long term credit risks, 3) steady digestion of existing financial risks with lower new risk formation, 4) less policy intervention in loan growth and loan pricing, evidenced in the de-emphasis of M2 and TSF target growth, and 5) lower policy volatility. All of these factors should help create a favorable environment for financial firms, and help reduce the risk premium and support a continued valuation rebound for financial stocks.

Potential gradual rebound in new financial asset yields and continued strong household financial asset growth to support pickup in revenue and earnings growth. A key potential sign of a new positive loop in the financial sector would be a rebound in new financial asset yields starting in 2H26, driven by tighter loan supply, refocus on risk-based loan pricing, and moderating deflation pressures. We expect banking sector NIM to bottom in 1H26, with the recovery supported by delayed deposit repricing, and insurance companies benefiting from improving investment spreads. In addition, continued strong household financial asset growth and an active capital market should support healthy fee income growth at banks and mid- to high-teen premium growth at insurance firms. This, combined with stable credit costs, should support some profit rebound at banks and healthy profit growth at insurance firms.

We remain positive on China financial stocks, with insurance our preferred sector. Ping An remains our Top Pick, given its structural growth in household assets and product innovation. Among banks, Bank of Ningbo stands out for strong revenue and profit growth, while Minsheng offers turnaround potential. CICC-H and FUTU are our preferred broker stocks.

MORGAN STANLEY ASIA LIMITED+

Richard Xu, CFA

Equity Analyst

Richard.Xu@morganstanley.com

+852 2848-6729

Chiyao Huang

Equity Analyst

Chiyao.Huang@morganstanley.com

+852 3963-4624

Beryl Yang

Research Associate

Beryl.Yang@morganstanley.com

+852 3963-2224

Rick Zhao

Equity Analyst

Rick.Zhao@morganstanley.com

+852 2239-7033

CoCo Gong

Research Associate

CoCo.Gong@morganstanley.com

+852 3963-4703

Chenqian Liu

Research Associate

Chenqian.Liu@morganstanley.com

+852 3963-0359

CHINA FINANCIALS

Asia Pacific

Industry View

Attractive

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Order of Preference

Exhibit 1: A-share Banks: Order of preference

Order of preference																		
Name	Minsheng	Industrial	Minsheng	Chengde	CMB	PAB	CITIC	Hengsheng	Beijing	SPOB	BOC	CCB	ICBC	ABC	Huawei	BuCom	CEB	
Stock code	601142.SS	601169.SS	600016.SS	601135.SS	600036.SS	600012.SZ	601089.SS	601199.SS	600003.SS	600003.SS	601988.SS	601988.SS	601988.SS	601988.SS	601988.SS	601988.SS	601988.SS	601988.SS
Rating	Overweight	Overweight	Overweight	Overweight	Overweight	Equal-weight	Equal-weight	Equal-weight	Equal-weight	Equal-weight	Equal-weight	Equal-weight	Equal-weight	Equal-weight	Underweight	Underweight	Underweight	
Currency	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Current price	28.80	20.20	5.83	10.23	41.26	7.41	10.15	5.33	11.30	8.22	5.58	7.98	7.44	6.19	7.20	2.97	2.87	
Price target	41.10	30.20	8.00	24.00	56.10	10.20	10.20	6.10	13.00	6.20	8.80	7.00	6.80	5.90	6.00	2.80	2.80	
Target upside (%)	43	48	37	82	35	37	30	31	26	12	57	9	8	8	8	8	8	
Market cap (RMB\$bn)	180,423	434,592	164,887	67,079	1,065,551	223,363	384,007	114,172	116,521	339,722	1,495,366	1,730,314	2,548,801	2,527,838	105,075	479,521	180,752	
Street view																		
Blue - Overweight Yellow - Equal-weight Green - Underweight																		
MS vs Consensus																		
NPAT 25e	0%	2%	10%	0%	0%	1%	2%	0%	4%	1%	0%	0%	1%	0%	3%	1%	2%	
NPAT 26e	1%	6%	10%	1%	1%	2%	4%	4%	4%	3%	0%	0%	1%	0%	3%	1%	2%	
PE																		
2025e	6.5x	5.9x	6.0x	5.1x	7.4x	5.5x	6.4x	5.5x	5.1x	5.5x	7.9x	7.2x	8.0x	10.2x	4.4x	7.3x	5.9x	
2026e	6.2x	5.6x	5.6x	4.8x	7.0x	5.3x	5.8x	5.6x	5.0x	5.4x	7.7x	7.0x	7.6x	9.5x	4.2x	7.0x	5.6x	
PB																		
2025e	0.85x	0.87x	0.82x	0.75x	0.88x	0.86x	0.88x	0.79x	0.62x	0.68x	0.76x	0.71x	0.71x	0.74x	0.81x	0.86x	0.86x	
2026e	0.75x	0.83x	0.82x	0.68x	0.84x	0.86x	0.85x	0.71x	0.60x	0.69x	0.67x	0.65x	0.67x	0.68x	0.82x	0.82x	0.83x	
RDE - %																		
2025e	12.2x	9.7x	10.0x	10.3x	12.0x	9.2x	9.2x	10.0x	8.4x	9.7x	8.5x	10.1x	9.4x	9.8x	8.1x	8.2x	7.4x	
2026e	12.2x	9.9x	5.1x	14.4x	12.6x	8.9x	8.4x	13.7x	8.3x	7.0x	8.5x	9.7x	9.1x	9.6x	7.8x	7.5x	7.0x	
Price performance																		
1M Abs Perf	9%	6%	-3%	-1%	3%	1%	2%	1%	1%	-3%	8%	4%	3%	3%	4%	3%	4%	
3M Abs Perf	2%	-1%	0%	-1%	1%	1%	4%	3%	1%	-1%	-4%	-2%	-3%	-3%	-1%	-2%	1%	
YTD Abs Perf	2%	-1%	0%	-1%	1%	1%	4%	3%	1%	-1%	-4%	-2%	-3%	-3%	-1%	-2%	1%	

Source: Company data, Factset, Morgan Stanley Research. Note: Close prices as of January 8, 2026.

Exhibit 2: H-share Banks: Order of preference

Order of preference											
Name	Minsheng	Citic	BOC	CCB	PSBC	ICBC	CMB	ABC	BOCOM	CEB	CORCB
Stock code	1988.HK	0998.HK	3988.HK	0939.HK	1568.HK	1398.HK	3968.HK	1288.HK	3328.HK	6818.HK	3618.HK
Rating	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Underweight	Underweight	Underweight
Currency	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD
Current price	3.89	6.88	4.42	7.61	5.07	6.10	50.40	5.53	6.40	3.59	5.92
Price target	6.10 HKD	9.20 HKD	6.30 HKD	9.90 HKD	6.50 HKD	8.00 HKD	63.40 HKD	6.90 HKD	6.10 HKD	2.70 HKD	4.00 HKD
Target upside (%)	57	34	43	30	28	31	28	25	4	-25	-32
Market cap (HKD\$bn)	164,887	394,007	1,495,366	1,730,314	420,649	2,548,801	1,065,551	2,527,838	479,521	185,752	60,381
Street view											
Blue - Overweight Yellow - Equal-weight Green - Underweight											
MS vs Consensus											
NPAT 25e	10%	2%	0%	0%	0%	1%	0%	0%	1%	2%	-2%
NPAT 26e	15%	6%	0%	1%	2%	1%	1%	-1%	-1%	1%	-4%
PE											
2025e	5.5x	5.3x	5.8x	5.4x	6.4x	5.7x	8.3x	6.9x	5.9x	5.3x	5.3x
2026e	5.1x	4.8x	5.5x	5.2x	6.4x	5.4x	7.8x	6.3x	5.7x	5.2x	4.9x
PB											
2025e	0.27x	0.48x	0.49x	0.53x	0.57x	0.53x	1.05x	0.66x	0.45x	0.33x	0.45x
2026e	0.26x	0.44x	0.49x	0.49x	0.50x	0.48x	0.92x	0.59x	0.42x	0.31x	0.40x
RDE - %											
2025e	5.0x	9.3x	8.9x	10.1x	8.8x	9.4x	13.2x	9.9x	8.2x	7.4x	8.7x
2026e	5.1x	9.4x	8.5x	9.7x	8.1x	9.1x	12.6x	9.6x	7.5x	7.0x	8.5x
Price performance											
1M Abs Perf	-7%	-2%	0%	0%	-4%	0%	-3%	-3%	-9%	0%	-4%
3M Abs Perf	-6%	2%	2%	5%	4%	2%	9%	6%	-1%	1%	-1%
YTD Abs Perf	-1%	-1%	-1%	-1%	-5%	-3%	-6%	-4%	-1%	-1%	-4%

Source: Company data, Factset, Morgan Stanley Research. Note: Close prices as of January 8, 2026.

Exhibit 3: Order of preference - H-share Insurers

Order of preference										
Name	Ping An	China Life	CPIC	AIA	PICC P&C	PICC Group	Zhong An	FWD	CTIH	NCI
Stock code	2318.HK	2628.HK	2601.HK	1299.HK	2328.HK	1339.HK	6060.HK	1828.HK	966.HK	1336.HK
Rating	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Equal-weight	Underweight
Currency	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD
Current price	70.2	31.1	38.4	83.9	16.5	7.4	17.0	38.6	21.1	61.4
Price target	89	25.7	37.0	96	21.6	7.6	24.7	46.5	17.7	37.9
Target upside (%)	27	-17	-4	14	31	3	45	20	-16	-38
Market cap (US\$bn)	164	113	47	113	47	42	3	6	10	25
Trading volume (US\$mm)	322	184	65	290	62	39	63	4	22	86
Street view										
Blue - Overweight Red - Equal-weight Grey - Underweight										
Buy/Overweight %										
Hold/Equal-weight %	96	88	88	100	89	74	91	91	61	42
Sell/Underweight %	0	0	0	0	3	0	0	0	4	17
Bull Case Value										
Upside %	113	53.5	59.1	112	26.9	14.1	38.5	65.2	32.8	79.2
Downside %	61	72	54	34	63	91	126	69	55	29
Bear Case Value										
Downside %	46	13.5	17.8	54	11.6	4.2	15.6	30.3	8.5	23.4
Risk/Reward Skew	-34	-57	-54	-36	-30	-43	-8	-22	-60	-62
	1.8	1.3	1.0	0.9	2.1	2.1	15.0	3.2	0.9	0.5

Source: Morgan Stanley Research, FactSet; e = Morgan Stanley Research estimates. Note: Close prices as of January 8, 2026.

Exhibit 4: Order of preference - A-share Insurers

1/8/2026	Ping An	CPIC	PICC Group	China Life	NCI
Name	601318.SH	601601.SH	601319.SH	601628.SH	601336.SH
Stock code	601318.SH	601601.SH	601319.SH	601628.SH	601336.SH
Rating	Overweight	Overweight	Equalweight	Equalweight	Underweight
Currency	CNY	CNY	CNY	CNY	CNY
Current price	70.4	47.0	9.80	49.0	81.5
Price target	85	43.4	9.0	42.8	58.0
Target upside %	21	-8	-8	-13	-29
NOSH	18,210	9,620	44,224	28,265	3,120
Market cap (US\$m)	185,744	65,460	62,811	200,720	36,824
Trading volume (US\$m)	445	162	82	76	138
Street view					
Blue - Overweight					
Buy/Overweight %	97	81	60	70	73
Hold/Equal-weight %	3	17	15	11	10
Sell/Underweight %	0	3	25	19	17
Bull Case Value	104	54.2	12.9	49.1	72.6
Upside %	47	15	32	0	-11
Bear Case Value	42	16.3	3.9	12.4	21.5
Downside %	-40	-65	-60	-75	-74
Risk/Reward Skew	1.2	0.2	0.5	0.0	-0.1

Source: Morgan Stanley Research, FactSet; e = Morgan Stanley Research estimates. Note: Close prices as of January 8, 2026.

Exhibit 5: A-share Brokers: Order of preference

	CITICS 600030.SS	GFS 000776.SZ	East Money 300059.SZ	HTSC 601688.SS	Galaxy 601881.SS	CMS 600999.SS
Rating	OW	EW	EW	EW	UW	UW
Price Target (Rmb)	37.10	21.80	30.00	23.70	14.70	15.00
Current Price	28.54	22.26	24.00	23.95	16.04	17.14
Upside/(Downside) (%)	23%	-8%	19%	-7%	-11%	-16%
Market Cap (in USD mm)	59,275.1	22,913.1	54,148.9	29,537.5	19,942.8	20,664.2
Avg Daily Traded Vol (in USD mm)	508.6	151.4	1,362.9	218.9	158.1	90.0
Valuation Multiples at Last Close						
FY25e P/E	13.9x	12.7x	30.4x	13.4x	13.0x	13.8x
FY26e P/E	12.1x	12.0x	26.5x	12.7x	12.7x	13.7x
Stock Price Performance						
1 Month	-0.6%	2.5%	1.5%	5.7%	-1.1%	1.9%
3 Month	-3.7%	-4.0%	-10.3%	6.9%	-10.0%	0.4%
1 Year	5.8%	44.3%	6.4%	45.2%	18.2%	-2.9%
YTD	-0.6%	1.1%	3.5%	1.5%	2.0%	3.0%

Source: Company data, Morgan Stanley Research. Note: Close prices as of January 8, 2026.

Exhibit 6: H-share Brokers: Order of preference

	CICC 3908.HK	CITICS 6030.HK	GFS 1776.HK	HTSC 6886.HK	GALAXY 6881.HK	CMS 6099.HK
Rating	OW	EW	EW	EW	EW	UW
Price Target (HKD)	28.90	31.40	18.40	20.10	10.10	12.70
Current Price	22.12	29.10	18.68	19.72	10.90	15.17
Upside/(Downside) (%)	31%	8%	-1%	2%	-7%	-16%
Market Cap (in USD mm)	13,706.3	59,275.1	22,913.1	29,537.5	19,942.8	20,664.2
Avg Daily Traded Vol (in USD mm)	73.5	55.6	20.6	25.3	55.1	23.4
Valuation Multiples at Last Close						
FY25e P/E	10.5x	12.7x	9.6x	9.9x	7.9x	11.0x
FY26e P/E	8.5x	11.1x	9.1x	9.4x	7.7x	10.9x
Stock Price Performance						
1 Month	16.7%	5.4%	4.1%	2.0%	2.7%	-0.8%
3 Month	2.6%	-2.0%	-6.6%	-1.2%	-6.1%	-8.8%
1 Year	85.6%	49.2%	91.0%	62.2%	65.7%	11.2%
YTD	13.0%	6.2%	6.1%	4.8%	8.7%	8.8%

Source: Company data, Morgan Stanley Research. Note: Close prices as of January 8, 2026.

Investment Summary: Gradually back to a positive loop in 2026

A steady environment with further reduction of financial risks, stable financial asset returns and less policy tightening

We expect 2026 to be a steady year with several favorable trends for China financial stocks. First, [our macro team expects](#) steady GDP growth with nominal GDP growth actually trending a bit higher than 2025. We believe steady economic growth without major stimulus presents the best investment scenarios for financial firms, as it strikes a better balance between short-term and long-term financial risks.

Second, we will see continued policy support shift from monetary to fiscal, which will help contain financial risks and support financial asset yields in 2026. Notably, the statements from [China Central Economic Working Conference](#) removed the phrase of keeping TSF and M2 growth in line with economic growth and price level, which should further reduce window guidance on loan growth. This will help shift TSF mix towards government bonds from bank loans in 2026, which should help reduce the formation of long-term credit risks. In addition, the notably slowed industrial credit and investment growth to 1.9% yoy in November 2025 should help reduce long-term credit risks and support gradual reduction in PPI pressures in a steady macro growth environment.

In addition, we expect a reduced push for loan growth, the push for more rational loan and financial asset pricing, moderating PPI pressures as well as the focus on RMB globalization will support stabilizing or even some rebound in financial asset yields in 2026.

Moreover, we believe most of the financial policy tightening is behind us with notably reduced policy uncertainty and volatility in 2026.

Further slowdown in loan growth, stabilizing and potentially some rebound in new financial asset yields to support rebound in banks' NIM and insurance investment spread

We expect a key sign of the start of a new positive loop of China financial system will be the rebound in overall financial asset yields, which we believe could start taking place in 2H26. We believe several factors have been paving the way for a gradual rebound in the financial asset yield in China including:

- 1) Notably below consensus rate cuts in 2025 and further reduced policy focus on rates based on statements from the [China Central Economic Working Conference](#). Notably, the change in PBOC comment to maintain comprehensive financing cost at low levels from pushing comprehensive financing lower shows reduced policy push for lower financial asset yields in China.
- 2) Tighter loan supply following further reduction in policy push for loan growth evidenced in the de-emphasis of M2 and TSF target at the PBOC 2026 Work Conference, which should support loan and financial asset yields.
- 3) New floors on loan pricing set by the Bank Self-Discipline Association and push for

more risk-based pricing by policy makers should gradually push for some rebound in loan yields over time, due to overly low credit risk premium in current loan pricing.

4) At the PBOC's 2026 Work Conference, the Central Bank indicates it will guide financial firms to better communicate comprehensive finance cost to both corporate and individual borrowers. We think this is an effort to increase public awareness of the cost behind loan pricing as well as already low loan yields relative to the various costs, including credit risks and capital requirements, which should help more rational loan pricing.

5) The gradual reduction in PPI pressure and return to a low inflation environment should also pave the way for rebound in financial asset yield over time, particularly given still reasonable nominal GDP growth of around 4% and credit demand that will support around 6% loan growth and 7-8% TSF growth.

With stabilizing and gradual rebound in financial asset yields, we expect a bottom for banking sector NIM in 1H26, and some rebound starting in 2H26, which should also be supported by some delayed repricing of deposit costs. While we also expect some modest further slowdown in loan and bank balance sheet growth to 6% and 7%, respectively, from 6.2% and 8% in 2025, the more stable NIM should support rebound in revenue growth at banks over 2026.

Continued strong household financial asset growth and active capital market should support healthy fee income growth

Following two years of 12% annual growth in household financial assets, we expect continued healthy 10%+ growth in 2026. This, combined with our expectation of continued healthy capital market activity and some shift in the allocation of new household financial assets to insurance, funds and bank wealth management products, should also support high-single-digit fee income growth at China banks. This will also support mid- to high-teen insurance premium growth, which, combined with stable and improving investment spreads at China insurance companies, should also support double-digit growth at China insurance firms.

Continued risk digestion in retail, SME and industrial credit risks with much slower new risk accumulation

Credit growth ex. government bonds has slowed to 6% with more rational industrial, property and SME growth, which continue to support our view that financial risks have completely shifted from expansion to digestion and moderation. This, combined with an annual Rmb3-4tn NPL digestion by the China banking system through write-offs, sales, and recoveries, should help further reduce high-risk financial assets to 3% of total financial assets by 2027 from around close to 5% by the end of 2025.

Specifically, despite likely some further decline in property price and property sales volume in 2026, we think most credit risks from the property sector have been well digested by various market participants. We estimate that ~Rmb7tn in losses related to all "dead inventory" from the property sector have been digested over the past four years by the financial sector, property bond issuers, equity holders, and supply chains, and we expect gradual and smooth digestion of credit losses over the next 2-3 years by various

market participants.

We continue to believe that China's financial system has the time and room to digest industrial credit risks related to its overcapacity issues, and that the current pace of funding tightening to high-risk sectors should lead to a process of gradual capacity digestion. We estimate that around 10% of overall manufacturing credit could be at risk as of end-2025. If to be digested over the next 3 years, it would translate into an additional of ~1.9% gross NPL formation at industrial loans annually, or ~20bps net formation of total loans. This should have a limited impact on the credit costs of key banks, given likely lower NPL credit costs related to property and LGFV loans.

For retail risks, we expect credit cost for credit card and consumption loans to remain somewhat elevated in 1H26, but formation should moderate in 2H26 following a couple of years of moderation and more prudent risk control. We believe the lower consumer loan NPL formation will allow banks to digest NPLs in SME and inclusive financing loans.

Overall, we expect stable credit cost at China financial firms in 2026 while the system continues to digest the remaining high-risk financial assets.

We continue to expect strong performance in insurance names, steady performance at China banks, and periodic opportunities in brokers and HKEx, particularly in 2H26

We continue to expect reduced financial system risks and still relatively low rate in China to reduce cost of equity for China financial stocks. This, combined with some profit rebound, will drive some further re-rating for the sector.

Insurance remains as our preferred sector within China financials, and we reiterate Ping An as our Top Pick. Long-term structural growth potential is still underestimated by the market, we believe, given strong China household asset growth over the medium term, more attractive insurance products over other retirement savings alternatives, and value-added health and senior care options that should support strong VNB and insurance companies for many years to come.

We expect bank profit growth to trend higher, more in line with nominal GDP growth in 2026 and potentially outpace nominal GDP growth in 2027, mainly driven by rebound in NII growth and healthy fee income growth supported by asset and wealth management related fees amid strong household financial asset growth. Bank of Ningbo remains our Top Pick in banks for its double-digit revenue and profit growth, and continued market share gains. We continue to see a good turnaround opportunity in Minsheng Bank, and steady positive performance for key SOE banks.

We see good investment opportunities for HKEx and a few brokers in 2026, given a steady macro environment, orderly risk digestion and recovering capital market activity with a supportive regulatory backdrop.

We expect ADT to stay at elevated level in both the A share and HK market in 2026, while IPO volume should continue to rebound, in particular in A shares. Additionally, we expect continued trend of institutionalization, as major institutions, such as insurers, private funds and mutual funds, saw an increase of almost Rmb6tn in equity AUM in 2025, which should generate more trading flows for brokers and exchanges, and lead to higher demand

for more sophisticated products that generate higher ROE.

We see good opportunities at HKEx, which is a high-quality beta stock with new initiatives to drive revenue growth (such as the fixed income market). We reiterate our preference for CICC-H among China brokers, given its leading market share in underwriting (>20% share of 2025 HK IPOs) and institutional equity business, as well as its strengthened capital base following the recently announced merger. We also highlight FUTU, which is our Top Pick among all brokers, for a range of structure drivers: overseas expansion, crypto trading and comprehensive wealth franchise building.

Exhibit 7: List of investment ideas

Top Ideas	Ticker	Catalysts
Banks		
Bank of Ningbo	002142.SZ	Better leverage on competitive advantages amid more rational competition
Minsheng Bank - H	1988.HK	Gradual ROE recovery with complete transformation
Insurance		
Ping An - H	2318.HK	High growth in 2026, opportunities in wealth management, healthcare and senior care, and dissipating investor concerns
Brokers		
Futu	FUTU.O	Steady client asset inflows, operating leverage and crypto opportunities
CICC - H	3908.HK	Market share consolidation in investment banking and equity trading, strengthening capital base after merger
Steady performers		
Banks		
CCB - H	0939.HK	Positive profit growth and still attractive dividend yield at 6%
BOC - H	3988.HK	Positive profit growth and still attractive dividend yield at 6%
Insurance		
PICC P&C	2328.HK	Market leader in the P&C market with competitive advantages
PICC Group H	1339.HK	PICC P&C underpins its core value, along with revaluation in Health business and improvement in Life business
Fintech		
Qifu	QFIN.O	Attractive shareholder returns amid continued share buybacks and dividend payout despite near-term uncertainty
Relative underperformers		
Banks		
Everbright Bank - A	601818.SS	Earnings may lag peers
Huaxia Bank	600015.SS	Earnings may lag peers
Insurance		
NCI - H	1336.HK	Valuation is much higher than peers and quality may lag peers
Brokers		
CMS - H	6099.HK	Earnings may lag peers; brokerage market share loss

Source: Morgan Stanley Research

Potential Catalysts Ahead

Banks... We think share prices could be supported in 1Q26 by seasonal fund inflows. Catalysts: Stable LPR or marginal LPR cut (reported monthly) could serve as a key catalyst as it would be a key signal of stable loan and financial asset yields. We also expect stable credit demand in 1Q26, likely supported by some front loading of infra investments in the first year of the 15th Five-Year Plan in 2026. We believe full-year 2025 earnings (in late March 2026) could be catalyst as well.

Insurance... We believe insurers' sales will be very strong in early 2026, with improved business quality and favorable investment environment. Catalysts include: 1) strong 2025 full-year results; 2) strong VNB growth in 2026 and healthy business quality; 3) continued declined guaranteed liability cost; 4) stable financial asset yield and healthy stock market sentiment, and 5) favorable regulatory policies in investment, product and capital.

Brokers... We see several catalyst for onshore brokers in 2026, including: 1) potential

further relaxation of leverage for large brokers as alluded to by CSRC; 2) relaxation of short sell and derivatives window guidance; 3) some high profile IPO and observable acceleration in monthly IPO volume, and 4) more M&A announced by top brokers (see [China Brokers Catalyst Preview](#)).

We think brokers could perform well into 1H26 as investors start to bake in the expectation of rising fundraising and institutional business volume, along with an easier comp of ADT in 1H25. While some investors could view potential capital raising by brokers as dilutive, we think eventually investor interests will again concentrate to the ones having stronger capability to leverage good market condition to generate higher ROE, and to consolidate market share organically or inorganically.

Risks to our views

Notably greater-than-expected decline in loan/financial asset yields would lead to further deterioration in credit and capital allocation

Our analysis shows that further decline in financial asset yields in China could lead to several drawbacks, including lower household interest income, reduced credit availability (as banks will lower risk appetite in view of low yield), and reduced ability of the financial system to absorb and digest risks.

In addition, market-oriented capacity closures for industrial sectors could be slower if loan yields are too low. While local government actions are one of the key drivers of overcapacity dynamics, achieved partly because of the low loan rate environment, proper loan rates and credit growth will limit local government's influence on capacity expansion and lead to a more market-oriented resolution of overcapacity issues.

A steady environment to support the China financial system to return to a positive loop

Steady economic growth should form a more favorable environment for China financials

Our macro team expects steady GDP growth with nominal GDP growth at 4.1% in 2026, actually trending a bit higher than 2025, with modest stimulus (see: [2026 China Economics Outlook: Slow March to Lowflation](#)). In addition, policy support has shifted from monetary to fiscal, evidenced in the de-emphasis on TSF and M2 growth targets at the PBOC 2026 Work Conference. We interpret these trends as more favorable for China financials, especially a better balance between short-term and long-term financial risks, as well as gradually recovering financial asset yields.

Specifically, the absence of major stimulus and reduced focus on quantitative targets should lead to more rational credit extension with lower new risk formation. This should lead to better credit allocation with mix shift further towards government bond, reducing long-term credit risks. PPI pressure could also gradually be relieved amid reduced credit and FAI support for industrial sectors. In addition, it should also help support stabilization or even some rebound in loan and financial asset yields amid risk-based pricing.

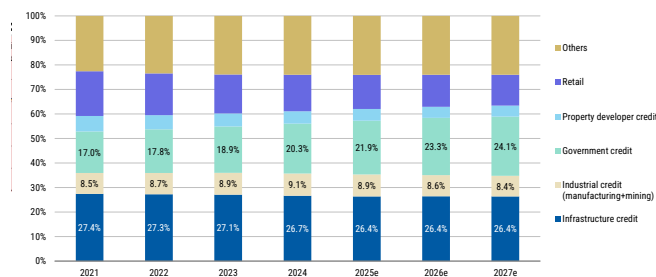
Further moderation in credit growth and TSF mix shift to government bonds to further reduce new risk formation in China's financial system

Despite the drag from slower industrial credit growth with continued anti-involution efforts, we see some downside support on overall credit growth and improving credit mix amid reduced window guidance.

- First, the elimination of window guidance and continued digestion of overcapacity risks should lead to more rational loan growth and more risk-based loan pricing.
- Second, government bond and infra credit will continue to serve as the downside support, especially with an ongoing swap program, the launch of Rmb500bn structural financial policy tools and reduced LGFV risks.
- Third, credit mix should continue to shift towards high-quality development sectors (Five Major Articles) from capital-heavy industries, per PBOC's 2Q25 Monetary Policy report.

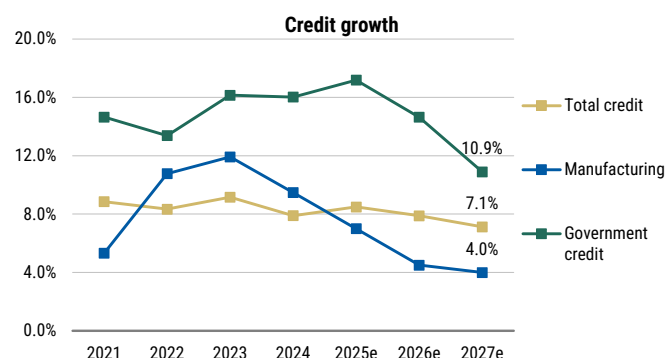
We expect a more sustainable pace of credit growth in the following years as credit mix shift towards sectors with higher quality/efficiency, and we see less need for further stimulus amid most historical risks digested and reduced new risk formation. Specifically, we expect credit growth to moderate from ~8.5% in 2025E gradually to ~7% in 2027E, where government bonds will remain the key driver at double-digit growth. Nevertheless, the support from government bonds will still reduce on a yearly basis, given a higher base and gradual exit of the swap program. Infra credit (~27% of total credit as of 2024) will also play a crucial role, especially with more use of central government-led investment and policy bank facilities.

Exhibit 8: We expect credit mix further shift to government bonds



Source: NFRA, CEIC, Morgan Stanley Research (e) estimates

Exhibit 9: Infra and government credit to support credit growth



Source: CEIC, PBOC, NFRA, China Trust Association, Wind, Morgan Stanley Research (e) estimates

We expect new loan and financial yields to rebound in 2026 with more policy support

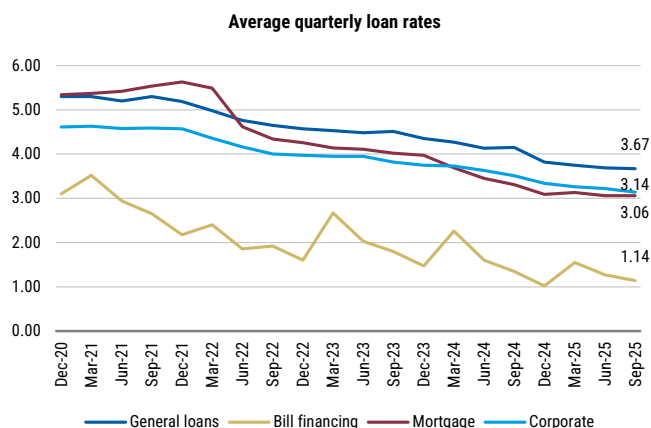
We expect a key sign of the start of a new positive loop of China financial system will be the rebound in overall financial asset yields, which we believe could start taking place in 2H26. We have seen a notable shift in policy focus in 2025 and acknowledge that stable profitability at financial firms and proper loan and financial asset yields are key for long term financial system stability, and more efficient credit and capital allocation in China. This is in line with our view that effective loan and financial asset yields are already too low for proper long-term credit allocation and risk digestion. We believe changed policy direction, more balanced credit supply and demand and the gradual moderation in deflation pressure in China will support loan and financial asset yields in 2026.

A clear sign of change in policy direction from pushing loan and financial asset yields lower to encourage more risk-based pricing and preventing over competition and overly low loan yields

We believe the following policy window guidance before mid 2025 led to lower loan and financial yields than natural market equilibrium, which led to more notable decline in loan yields than policy rate since 2019:

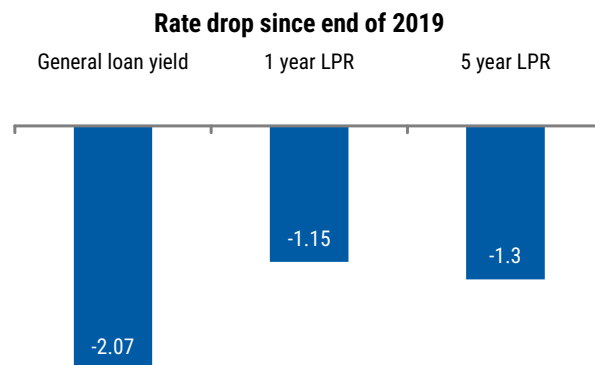
1. Pushing loan growth higher than natural market demand, which led to too much competition among banks and a sharp drop in new loan yields;
2. Giving a clear mandate to banks to reduce rates on certain types of loans;
3. Giving guidance to banks to cut deposit rates and discourage them from competing for deposits.

Exhibit 10: Loan yields down notably but stabilizing recently



Source: PBOC, CEIC, Morgan Stanley Research

Exhibit 11: One-year and five-year LPR are down 115bps and 130bps since 2019, respectively



Source: PBOC, CEIC, Morgan Stanley Research

While comments from policy makers tend to describe higher effectively loan yield decline as the policy achievement, the latest 2025 financial stability report published in late Dec 2025 has started to describe the bigger decline in loan yield than policy rate as an issue due to irrational competition among banks.

We have also seen a notable change in comments from policy makers recently:

- The recent change in PBOC comment to maintain comprehensive financing cost at low levels from pushing comprehensive financing lower shows reduced policy push for lower financial asset yields in China.
- [Message from CEWC](#) removed the phrase of keeping TSF and M2 growth in line with economic growth and price level, which should further reduce window guidance on loan growth.
- In its [3Q25 Monetary Policy Report](#), PBOC highlighted that interest rates and their parity relationships play a crucial role to guide resource allocation. A key focus for PBOC is to resolve the distortion in the parity relationships, and it has been and will continue to regulate irrational loan and deposit pricing.

Notably, LPR cuts in 2025 were also much more modest than the market-expected – both one-year and five-year LPR were cut only 10bps, which was also a sign of change in policy direction, in our view.

We believe several factors will lead to some gradual rebound in new loan and financial asset yields

- 1) We believe tighter loan supply following further reduction in policy push for loan growth evidenced in the de-emphasizing of M2 and TSF targets, which should support loan and financial asset yields.
- 2) New floors on loan pricing set by the Bank Self-Discipline Association and a push for more risk-based pricing by policy makers should gradually push for some rebound in loan

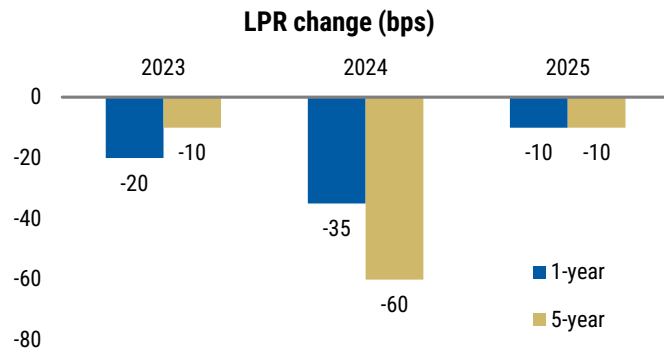
yields over time, due to overly low credit risk premium in current loan pricing.

3) At the PBOC's 2026 Work Conference, the Central Bank indicates it will guide financial firms to better communicate comprehensive finance cost to both corporate and individual borrowers. We think this is an effort to increase public awareness of the cost behind loan pricing as well as already low loan yield relative to the various costs, including credit risks and capital requirements, which should help more rational loan pricing. In our view, a reasonable level of average loan yield in China will need to be >4% (vs. 3.2% currently) to cover various costs and maintain adequate internal capital generation and shareholder return at the banks.

4) The gradual reduction in PPI pressure and return to a low inflation environment should also pave the way for rebound in financial asset yield over time, particularly given still reasonable nominal GDP growth of around 4% and credit demand that will support around 6% loan growth and 7-8% TSF growth.

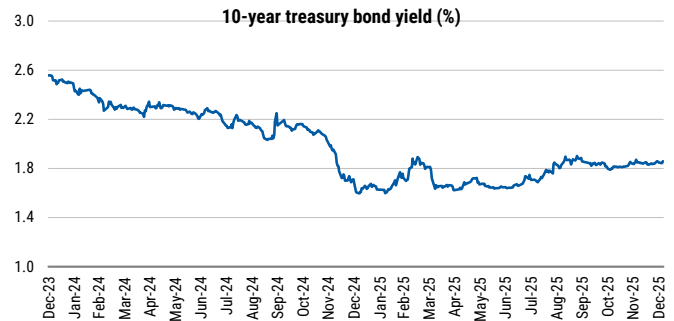
We continue to see potentially a 50-70bp rebound in new loan rates and overall financial asset yields in our bull case. Deposit costs could also see an upper trend as loan yields rise, but there could be some lag due to longer periods of repricing, up ~20bps in our bull case.

Exhibit 12: Both one-year and five-year LPR have been cut 10bps in 2025



Source: CEIC, Morgan Stanley Research

Exhibit 13: 10-year T-bond yield has rebounded to 1.8%-1.9% recently



Source: CEIC, Morgan Stanley Research

Exhibit 14:

Estimate of a reasonable level of average loan yield in China to cover various costs and maintain adequate internal capital generation and shareholder return at the banks

Cost component of loan rate (%)		Assumptions	
Funding cost	1.90	Slightly lower than 2023 funding cost at 2%, considering deposit rate cut and normalized term/demand mix	
Credit cost	0.95 to 1.65	Lower bound	Upper bound
Operating cost	0.50	1.90	3.30
Bank profit	0.75	Final loss content at 50%	0.95 to 1.65
Average loan rate, corp	4.10 to 4.80	20% cost income ratio, lower than average due to scalability of corp business	
		0.75 ROA to be maintained (2023)	

Source: Morgan Stanley Research

NIM pressure should moderate in 2026 with a rebound in

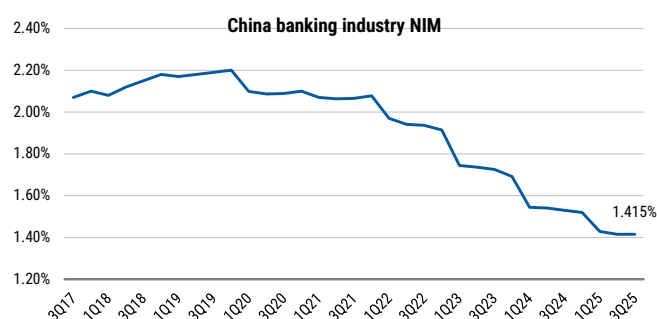
mid-size banks

With stabilizing of and gradual rebound in financial asset yields, we expect a trough in banking sector NIM in 1H26 with some rebound starting in 2H26, which should also be supported by some delayed repricing of deposit costs. While we also expect some modest further slowdown in loan and bank balance sheet growth to 6% and 7%, respectively, from 6.2% and 8% in 2025, a more stable NIM will support a rebound in revenue growth at banks over 2026. In addition, we also expect stable and improving investment spreads at Chinese insurance companies over time. This, combined with mid to high teen insurance premium growth, should also support double digit revenue and income growth at Chinese insurance firms.

We believe the downward pressure on bank NIM will continue to moderate in 2026 as re-pricing effects from LPR cuts in 2025 (which were much modest than 2024) gradually fade, supported by stabilizing and rebounding loan and financial asset yields. In addition, we expect funding cost will continue to go down as deposit rate cuts of the past three years gradually pass through.

As a result, we expect 1bp NIM decline on average for banks we cover in 2026 vs. ~10bps decline in 2025, mainly driven by stabilizing loan yields amid modest LPR cuts in 2025 and more risk-based loan pricing. This should lead to mid-single-digit growth in NII growth in 2026 given our expectation of still >7% total credit growth.

Exhibit 15: NIM for China's banks declined to 1.415% in 2Q25 and remained flat in 3Q25



Source: NFRA, CEIC, Morgan Stanley Research

Exhibit 16: Cumulative deposit rate cuts since 2023

	Deposit rate cut since 2023			
	Demand deposit	Term deposit		
		1-year	2-year	3-year/5-year
June 2023	-5bps		-10bps	-15bps
Aug 2023		-10bps	-20bps	-25bps
Dec 2023		-10bps	-20bps	-25bps
July 2024	-5bps	-10bps	-20bps	-20bps
Oct 2024	-5bps	-25bps	-25bps	-25bps
May 2025	-5bps	-15bps	-15bps	-25bps
Cumulative	-20bps	-70bps	-110bps	-135bps

Source: PBOC, Morgan Stanley Research

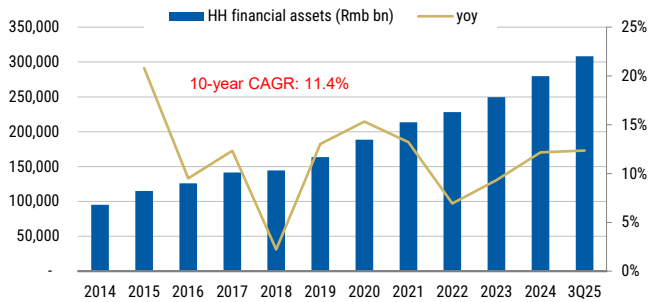
Continued strong household financial asset growth and active capital markets should support healthy fee income growth

Household financial asset growth remained strong over past 10 years or so, recording 11.4% CAGR in 2014-2024. Notably, the annual growth in 2024 and 2025 reached 12%, and we expect over 10% growth in 2026, given the continued savings need in China, growing investment and diversification demand, as well as healthy capital market activities. Among all types of financial products, we continue to expect some shift in new household financial assets to insurance, funds and bank wealth management products due to increasing demand for steady returns and potential upside, which will also support high

single digit fee income growth at China banks.

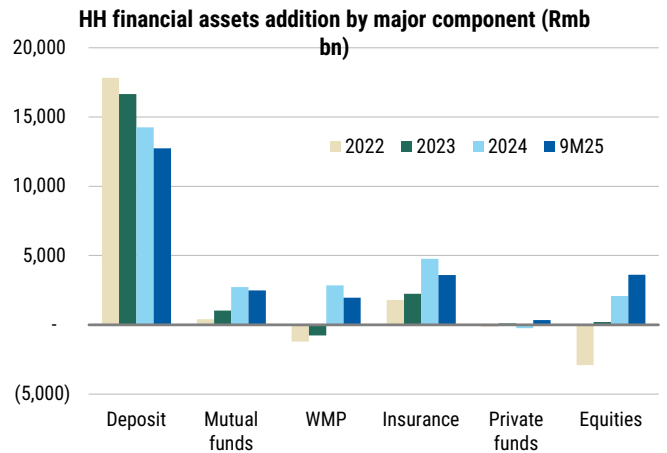
This will also support mid to high teen insurance premium growth, which, combined with stable and improving investment spreads at China insurance companies, should also support double digit growth at China insurance firms.

Exhibit 17: HH financial assets recorded 11.4% CAGR in 2014-2024



Source: CEIC, WIND, PBOC, SSE, Trust Association, AMAC, NFRA, China Bank Association, Morgan Stanley Research

Exhibit 18: Insurance products and equities increased in recent years



Source: CEIC, WIND, PBOC, SSE, Trust Association, AMAC, NFRA, China Bank Association, Morgan Stanley Research

Investment return for insurance firms should also remain stable and healthy

Listed insurers' long-term investment return assumption has been revised down to 4.0% since end 2024, but we believe this will not be further adjusted downward in the next few years and will not bring further negative impact on key value metrics, such as VNB (value of new business) or EV (embedded value). As we have seen China's 10Y treasury bond yield stabilizing at ~1.8%, and insurers actively allocating more funds towards the stock market and high-dividend stocks, we believe insurance firms' net investment yield downward trend could moderate and gross investment yield will likely be much higher due to healthy equity market sentiment. As a result, we think insurers could maintain healthy ROEs in 2026.

Manageable risks with continued digestion in retail, industrial and property sectors

Credit growth ex government bonds has slowed to 6% with more rational industrial, property and SME growth, supporting our view that financial risks have completely shifted from expansion to digestion and moderation. This, combined with an annual Rmb3-4tn NPL digestion by the Chinese banking system through write-offs, sales, and recoveries, should help further reduce high risk financial assets to 3% of total financial assets by 2027 from around close to 5% as of end-2025.

We continue to believe that China's financial system has the time and room to digest industrial credit risks related to its overcapacity issues, and the current pace of funding tightening to high risk sectors should lead to a process of gradual capacity digestion. Overall, we expect stable credit costs at Chinese financial firms in 2026 while the system continues to digest the remaining high risk financial assets.

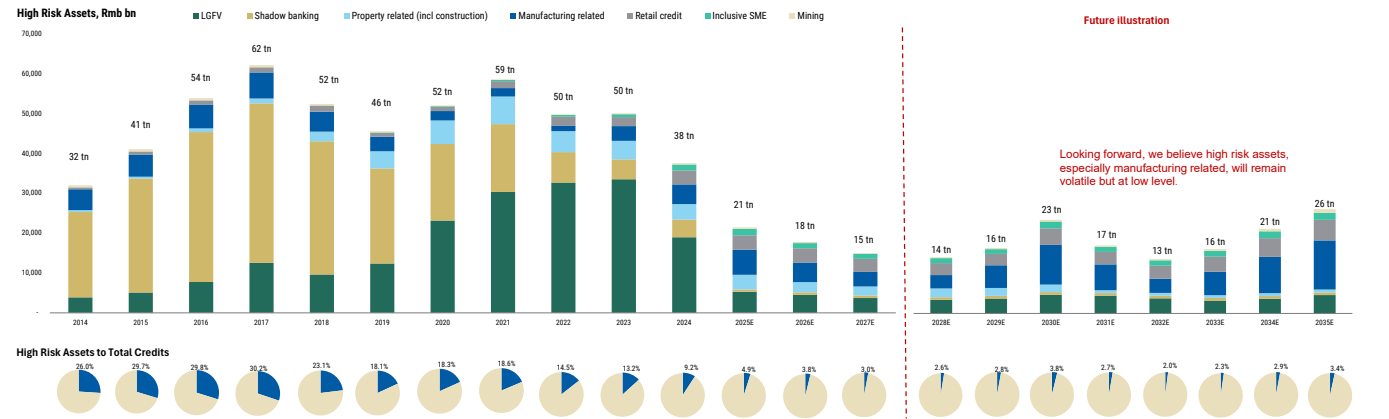
We expect high risk financial assets to fall to ~Rmb15tn, or 3% of total financial assets, in a couple of years

Years of policy stimulus and unregulated financial innovation between 2008 and 2018 led to a ballooning of perceived high risk financial assets. They reached Rmb62tn or 30.2% of total financial assets in 2017 covering high risk credit related to industrial sectors with overcapacity, property, LGFV, shadow banking, retail and inclusive SME.

Ten years of financial cleanup efforts have reduced high risk financial assets to Rmb21tn or 4.9% of total financial assets in 2025. Despite more moderate GDP growth and still some PPI pressure, moderated loan growth, TSF mix shift to government bonds and heightened focus on anti-involution efforts, should further reduce high risk financial assets to around Rm15tn or 3% of financial assets by end-2027. This will help further reduce the risk premium of China financial stocks over the next two years.

We do not expect major stimulus via an aggressive credit policy that could lead to new waves of high risk credit. We expect more rational credit growth via most major financial channels to keep high risk assets at a relatively low level at 2-4% of total financial assets with some volatility in manufacturing-related high risk assets.

Exhibit 19: Perceived high risk asset movements

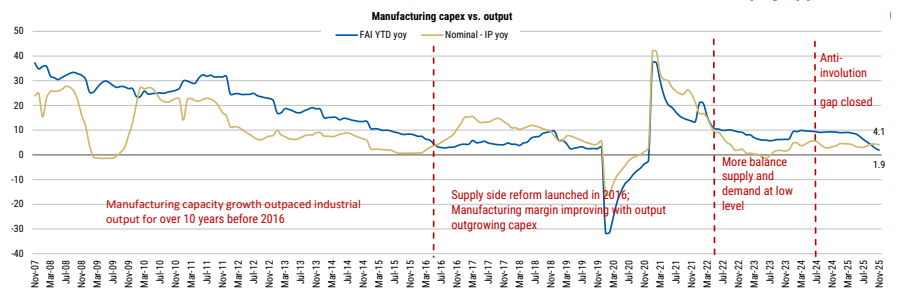


Source: CEIC, PBoC, Wind, SSE, Trust Association, AMAC, NFRA, China Bank Association, Morgan Stanley Research

Industrial risks: notable progress in risk containment amid continued anti-involution efforts

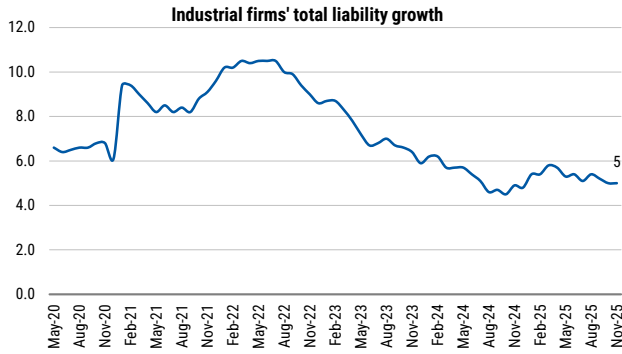
Capex rationalization started in 2H24 with the State Council's publication of Rules for Fair Competition Review and abating loan window guidance, and we have seen notable progress since then. Notably, industrial medium-/long-term loan growth slowed to 9.7% in 3Q25, from 12.6% in 2024, or above 30% in 2023. Meanwhile, industrial firms' total liability growth also moderated further to 5% YTD in November 2025, with **new funding control on payables reduction in 2H25**. These helped to close the gap between FAI and IP since September 2025, driven by continued slowdown in FAI growth. We believe industrial loan growth will further rationalize amid continued anti-involution efforts, which should lead to better corporate earnings and lower new risk formation.

Exhibit 20: The gap between manufacturing FAI and IP has closed since September 2025 with continued moderation in manufacturing FAI growth



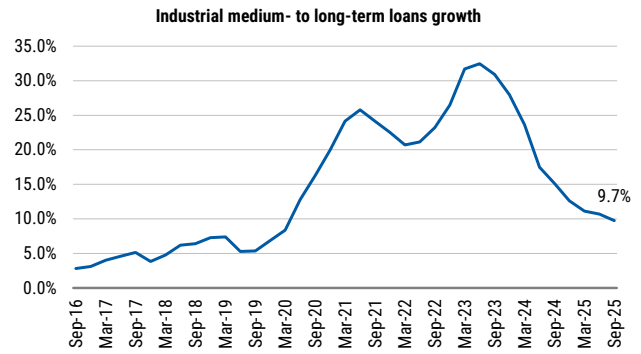
Source: NBS, CEIC, Morgan Stanley Research

Exhibit 21: Industrial firms' total liability growth further moderated to 5% yoy in Nov 2025



Source: NBS, CEIC, Morgan Stanley Research

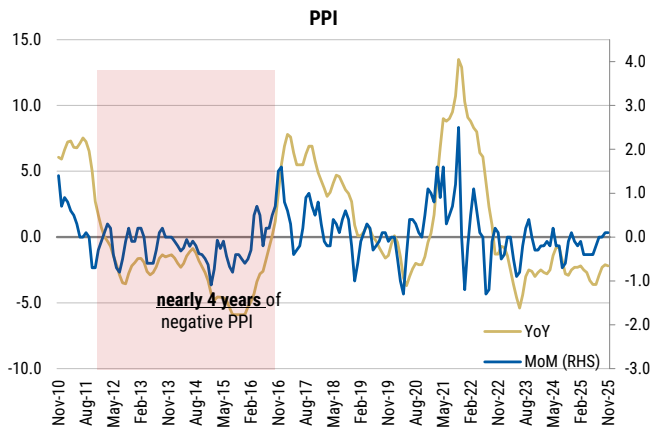
Exhibit 22: Industrial medium- to long-term loan growth has continued to moderate since end-2023



Source: PBOC, CEIC, Morgan Stanley Research

In fact, there are already signs of improvement on the profitability side for the industrial sector. Manufacturing profit growth turned positive since Jan 2025 despite some volatility across months, partly due to a low base in 2024. PPI also rebounded MoM in both October and November 2025, the first time since end 2024, with yoy decline furthering narrowing to around -2%. By sector data also showed similar trend - 78.9% (of total liability) of sectors saw capex moderation in November 2025 vs. 1H25; 39.2% of sectors showed profit improvement.

Exhibit 23: PPI remained flat MoM in recent months and YoY decline contracted



Source: NBS, CEIC, Morgan Stanley Research

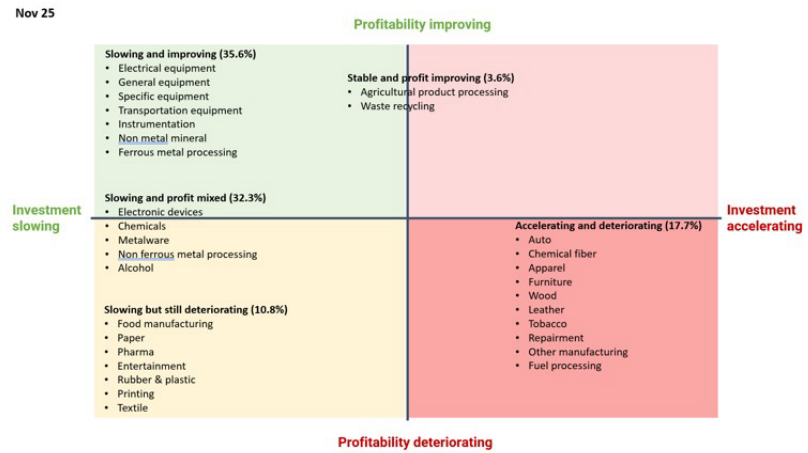
Exhibit 24: Manufacturing profit growth turned positive since Jan 2025



Source: NBS, CEIC, Morgan Stanley Research

Exhibit 25:

78.9% (in terms of liabilities) of sectors slowed capex in Nov 2025 vs. 1H24; 39.2% of sectors showed better profit trends in November 2025



Note: number in () represents their mix in total manufacturing liabilities

Source: NBS, CEIC, Morgan Stanley Research. Note: number in () represents their mix in total manufacturing liabilities.

On the risk front, we believe annual risk digestion will be quite manageable for banks. As of November 2025, we estimate ~10% of industrial-related credit could have been at risk via the assessment of 31 sub-sectors and we expect a smooth digestion process with continued efforts as mentioned above to reduce capacity. Given the different approach being taken now to when supply-side reforms were last implemented in 2016, **we could see a very different pace of capacity and risk digestion within different sectors based on their cash flows and balance sheet strength.** We estimate 1.9% additional annual risk digestion or ~Rmb1.1tn p.a. over three years, which is still manageable for banks.

Exhibit 26: We believe ~10% of industrial-related credit could have been at risk as of end November 2025

	Medium risk	High risk	Potential % of credit at risk	% of manufacturing credit
Electrical equipment			12%	10.8%
Auto			12%	10.0%
Chemicals			20%	8.3%
Ferrous metal processing			12%	6.4%
Non ferrous metal processing			12%	4.2%
Non metal mineral			12%	6.2%
Fuel processing			12%	3.7%
Agri sideline products			12%	2.9%
Metal			12%	3.2%
Rubber & plastic			12%	2.2%
Paper			20%	1.3%
Disposal mgmt			20%	0.6%
Fiber			20%	1.0%
Wood			12%	0.5%
The rest			4%	38.5%
Overall potential manufacturing credit at risk:				9.9%

Source: NBS, CEIC, PBOC, Morgan Stanley Research

Exhibit 27: NPLs could be digested over a three-year period (Rmb1.9tn/year), which would be ~Rmb1.1tn above the 2021-2024 annual pace of digestion

Potential high risk credit to be digested	9.9%
To be digested in:	3 years
Annual digestion	3.3%
Annual digestion in 2021-2024	1.4%
Annual digestion in excess of previous level	1.9%
Total manufacturing related loan size, 2025	56,951
Total annual risk digestion since 2025	1,879
Annual digestion in excess of previous level, bn	1,093

Source: NBS, NFRA, CEIC, PBOC, Morgan Stanley Research

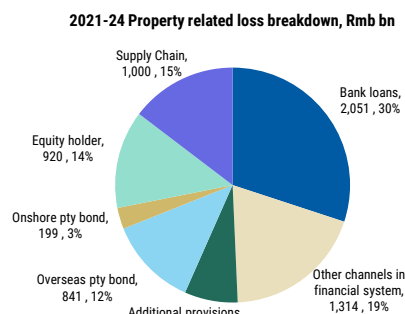
Property risks: most risks have been digested despite some lingering effects

Most property-related losses digested

Despite some likely further declines in property prices and property sales volume in 2026, we think most credit risks from the property sector have been well digested by various market participants. We estimate that ~Rmb7tn in losses related to all "dead inventory" from the

property sector have been digested over the past four years, with Rmb3.4tn borne by the financial sector; ~Rmb1tn each by property bond issuers, equity holders, and supply chains; and an additional provision charge from banks of Rmb500bn-Rmb1tn on special mentioned loans related to the property sector. While some housing projects under construction will likely become dead inventory over time, we expect gradual and smooth digestion of credit losses over the next 2-3 years by various market participants.

Exhibit 28: Breakdown of property-related losses in 2021-2024



Source: Company data, PBOC, NFRA, Trust association, China Banking Association, WIND, Morgan Stanley Research

Exhibit 29: We estimate around Rmb3.4tn of property-related credit risk was digested during 2021-2024 by the financial system

Rmb bn	2021	2022	2023	2024	Cumulatively
Bank loans in property and construction	15,140	15,996	18,548	19,875	
NPL formation rate	3.20%	3.60%	3.20%	2.83%	
NPL formation	468	545	512	525	2,051
Property credit in other channels, incl. trust loans, entrusted loans and other non-bank channels	6,770	6,411	6,327	6,258	
NPL formation rate	4.80%	5.40%	4.80%	4.25%	
NPL formation	372	366	308	269	1,314
Total risk digestion, 21-24					3,365

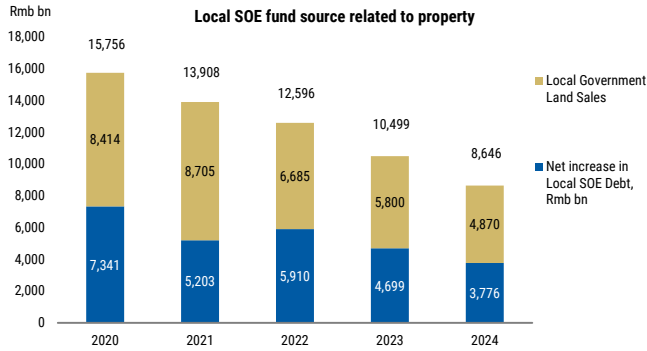
Source: Company data, PBOC, NFRA, Trust Association, China Banking Association, Morgan Stanley Research

Second derivative of the property deflation cycle – local government funding – bottomed in 2024

Local government risk had been a key negative second derivative impact from the deflation of China's property bubble, owing to local governments' reliance on revenue from land sales and the increases in LGFV debt seen in recent years. With the bottoming of the property sector, we think the most painful period of adjustment is likely behind.

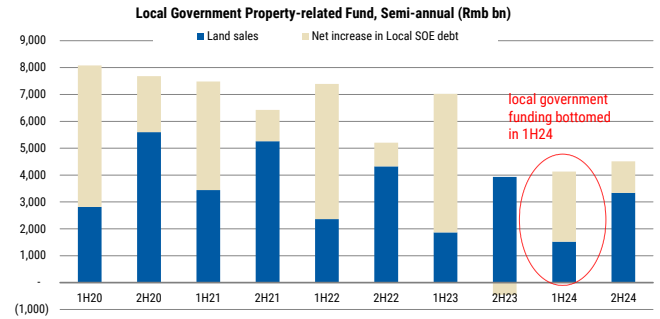
On local government funding related to the property sector, we think the worst has passed after local government income from property fell Rmb7tn from Rmb15.7tn in 2020 to Rmb8.6tn in 2024. The biggest YoY decline happened in 1H24 and by 2H24 we had started to see stabilization.

Exhibit 30: Painful but necessary adjustments to property-related funding at local governments now complete



Source: CEIC, PBOC, NAFR, MoF, Morgan Stanley Research

Exhibit 31: Fall in property-related income to local governments likely bottomed in 1H24



Source: CEIC, PBOC, NAFR, MoF, Morgan Stanley Research

[China's 3D Journey – Financials: Biggest drag in China credit risk cycle bottomed in 2024 \(25 Feb 2025\)](#)

[China Financials: Addressing questions on potential financial cycle bottom \(24 Mar 2025\)](#)

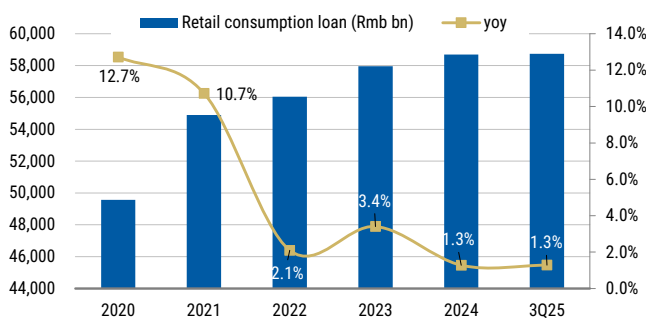
Retail risks: new risk formation to moderate in 2H26 after years of loan growth moderation and more prudent risk control

Retail risks have emerged in recent years due to higher NPL formation after aggressive loan extension and weak demand. Notably, retail NPL ratio picked up from 0.77% in 1H21 to 1.17% in 1H25 for our covered banks.

Despite higher risks, banks became more prudent in risk control and risk digestion. Credit card and consumption loans growth continued to moderate after 2021 - credit card growth slowed to 4.3% yoy in 2024 from 8.8% in 2021, and consumption loan growth declined to 1.3% yoy in 3Q25 from >10%. In addition, retail risk digestion is typically at a high pace.

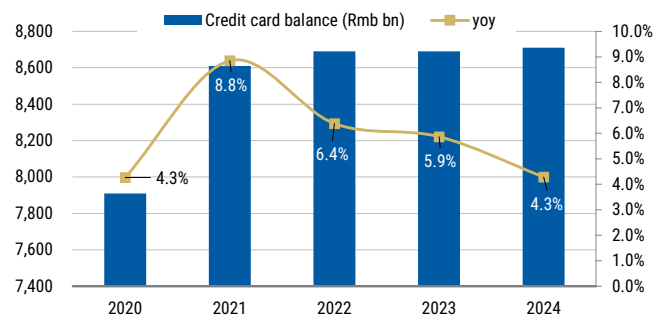
We expect NPL formation for credit card and consumption loans to decline in 2H26 with moderating PPI pressure and household income recovery, leaving room for banks to digest NPLs in SME and inclusive financing loans.

Exhibit 32: Retail consumption loan growth slowed to below 4% since 2022 from >10%



Source: PBOC, Morgan Stanley Research

Exhibit 33: Credit card growth also moderated



Source: PBOC, Morgan Stanley Research

We expect credit costs for banks under our coverage to remain largely stable during the continued risk asset digestion

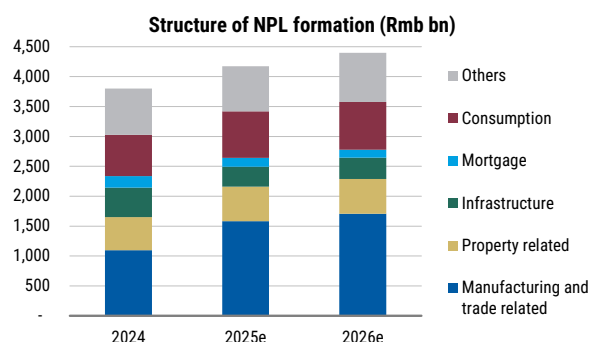
First, we believe new risk formation will be lower, especially with most risks under control, reduced window guidance on loan growth and continued anti-involution efforts. Notably, LGFV risks have seen decent recoveries with new risks well controlled over the past several years. While retail and property NPL pressure persists and there could be periodic volatility, it is not accelerating. Mortgage NPL formation remains stable, while other retail NPL formation has stabilized at elevated levels. New risks from industrial sectors should remain at a relatively high but steady level with dedicated control in overcapacity.

Second, banks' risk digestion ability should be improved once revenue growth gradually improves amid recovering financial asset yields. Notably, banks have been digesting close to Rmb3-4tn NPLs annually in recent years through write-offs, sales, and recoveries, even when NIM trended down.

We break down NPL formation by sector and expect: 1) manufacturing NPL formation to remain relatively high but stable through 2026; 2) retail NPL formation to moderate slightly in 2H26; 3) lower NPL formation for infrastructure due to higher quality; and 4) NPL formation to gradually decline

for property and mortgage sectors in 2026e. Manufacturing-related NPLs will become a major part of risk digestion in 2025 and 2026, which will push up total system NPL formation by ~Rmb600bn towards 2026, which will be offset by moderating NPL formation in other areas. We expect credit costs to largely remain stable for major banks, which will also support profit growth while revenue growth rebounds into 2026.

Exhibit 34: Manufacturing-related NPLs will remain a major part of risk digestion in 2025e and 2026e, which will push up total system NPL formation by ~Rmb600bn towards 2026e



Source: Company data, PBOC, NAFR, Morgan Stanley Research

Capital market outlook: institutional franchise and capital deployment will be key differentiators in ROE

For 2026, we expect a steadily improving market environment combined with a supportive regulatory backdrop and some incremental relaxation for brokers, making 2026 the second year of a proper recovery cycle.

After the 62% surge in average daily turnover (ADT) and 36% increase in margin finance in 2025, we now forecast ADT and overall margin finance to stay at this level and to post 4-5% growth annually in 2026 and 2027. This should support modest but stable growth for the brokerage and margin business. Particularly, 1H26 should see an easier comp in ADT and margin hence supporting yoy earnings growth.

Exhibit 35: Market assumptions for brokers

Rmb bn unless indicated otherwise	New				Old			Change			Growth (New)			
	2024	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2024	2025E	2026E	2027E
Brokerage														
Average A share daily trading turnover	1,047	1,692	1,775	1,850	1531	1625	1,700	11%	9%	9%	19%	62%	4.9%	4.2%
Investment banking														
Equity financing	315	1,078	1,158	1,452	1,166	1,197	1,501	-8%	-3%	-3%	-72%	242%	7%	25%
IPO	67	132	380	500	182	380	500	-28%	0%	0%	-81%	96%	188%	32%
Refinancing	248	947	778	952	983	817	1,001	-4%	-5%	-5%	-68%	282%	-18%	22%
Debt financing	26,016	28,814	29,394	30,733	27,762	28,885	30,347	4%	2%	1%	6%	11%	2%	5%
Margin finance														
	1,861	2,533	2,655	2,786	2,292	2,401	2,456	11%	11%	13%	13%	36%	5%	5%

Source: CEIC, WIND, Morgan Stanley Research

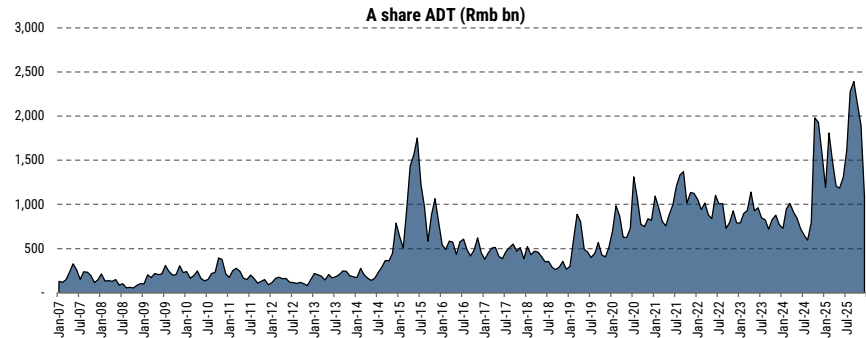
More importantly, we highlight below key themes we anticipate for brokers in 2026, which could potentially be more important drivers for ROE differentiation and stock performance.

We expect a further recovery of fundraising activity in the A share market to benefit the top ranked underwriters

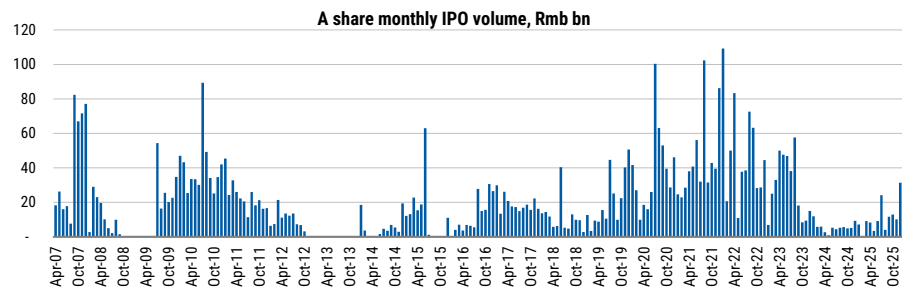
As of mid Dec 2025, YTD 2025 A share ADT stood at close to Rmb1.7tn, up 60% vs. 2024 at Rmb1tn. Notably, 2H25 is about 50% higher than 1H25. The active turnover implies a continued recovery of risk appetite, in our view, and should support a further rebound in fundraising activity in 2026. We believe market share will increasingly be consolidated to the top IBD franchises.

While 2025 A share IPOs at ~Rmb130bn lagged our expectation, there was a notable acceleration in 2H25, up 150% HoH. We think likely more time is needed for the pipeline to rebuild and deals to flow through, as regulators are making prudent assessments to ensure deal quality. We reiterate our confidence on more IPO and follow-on activities in 2026 given:

- The emphasis on supporting tech and innovation in the 15th Five-Year Plan;
- CSRC's important pivot on IPO stance since mid 2025, and supportive tone recently;
- Continued innovation in various industries in China;
- Elevated market trading activity.

Exhibit 36: A-share monthly ADT

Source: CEIC

Exhibit 37: A-share monthly IPO volume

Source: WIND

Rising institutionalization will generate more flows and sophisticated product opportunities for brokers

We believe institutional investors have been a major driver behind the surge in equity market trading activity in 2025. Notably,

- Insurers' equity investment rose Rmb1.57tn in 9M25 (including mark to market gains/loses) from the start of the year, compared to a Rmb515bn increase in 2024;
- Private securities funds (hedge funds) AUM rose Rmb1.8tn from Jan-Nov 2025, driven by both quant funds and fundamental equity funds investing both on and offshore;
- Equity and hybrid mutual funds AUM rose Rmb2.1tn for full year 2025, with passive funds accounting for 70% of the increase.

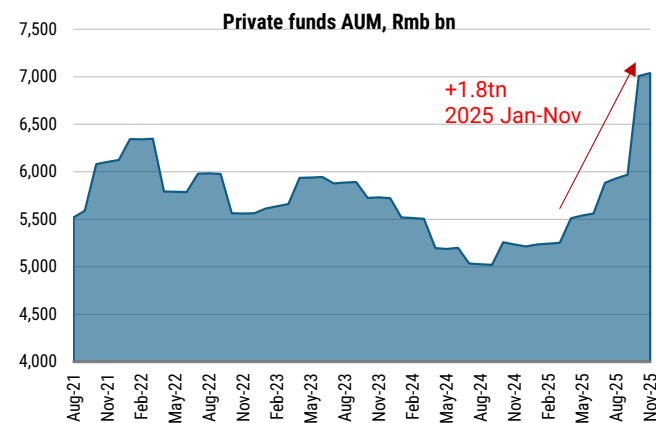
Looking ahead, as pointed out in [China Financials: Mutual Funds: Long Runway Still Ahead \(3 Dec 2025\)](#), we expect recovering retail investor risk appetite along with a healthier fee structure will lead to more notable rebound in active equity fund AUM, thus further strengthening the institutionalization trend in the A share market.

Increasing dry powder at major institutional investors will continue to generate more trading flows for brokers, and lead to higher demand for more sophisticated products, such as equity derivatives, stock borrowing, cross-border trading, block trades, etc., in order to implement diverse investment strategies and risk management tactics.

We also think the regulators are fully aware of the increasing demand from institutional

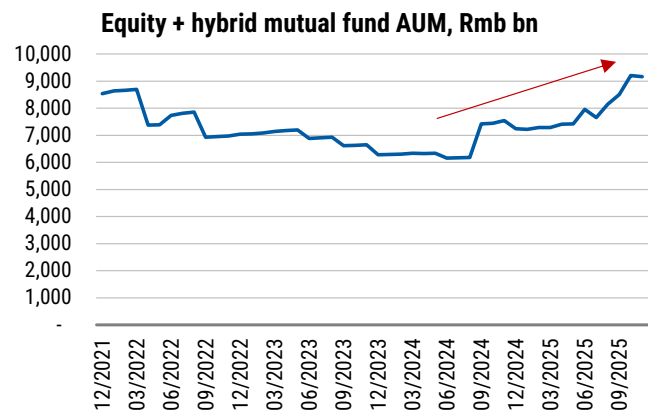
investors and hence could gradually lift some restrictions previously implemented, such as the effective ban on short selling. If these things happen, it will be positive for leading brokers.

Exhibit 38: Private securities funds (hedge funds) AUM rose Rmb1.8tn from Jan-Nov 2025



Source: CEIC, AMAC, Morgan Stanley Research

Exhibit 39: Equity and hybrid mutual funds AUM rose Rmb1.9tn from Jan-Nov 2025, mainly driven by passive



Source: CEIC, WIND, Morgan Stanley Research

Industry consolidation could potentially accelerate especially where commercial viability and top-down supports are both present

The securities regulator continues to encourage the development of market leaders, targeting to forging 2-3 leading investment banks with global competitiveness by 2035. Additionally, the recent Central Economic Work Conference (CEWC) also explicitly indicated a push to reduce the number of mid-to-small financial institutions. This sets a supportive regulatory backdrop for more broker industry consolidations to take place in 2026.

As of Oct 2025, there were 151 brokers in China (including ~30 broker-affiliated asset management firms). 53 brokers are listed – 51 in A shares (including those dual listed in HK), and 2 in HK. We think many of the smaller brokers rely on brokerage commissions and proprietary trading as main revenue sources, whereas the market share of underwriting, derivatives and more complicated institutional services is increasingly concentrating to the top brokers. From the acquirer's perspective, we think potential commercial drivers for mergers could arise from:

- Weakening profitability from simple stock brokerage given declining fee rates;
- Poor prop trading results due to market volatility or talent loss;
- Balance sheet impairment due to failed investments;
- The main shareholders having cash flow issues and looking to divest.

From an acquirer's perspective, a merger will make commercial sense if:

- The acquiree has valuable branch networks and a solid client base in certain regions that complement the acquirer's franchise;
- The acquiree has under-utilized capital that can be better utilized and generate higher ROE by the acquirer.

That being said, it's worth noting that since many of the brokers are local or central SOEs, the merger will also heavily depend on local governments' willingness to sell, or the willingness of higher level government (such as provincial government) and their capability to integrate resources.

We think CICC's recently announced merger with Dongxing and Cinda Securities is a good example combining both commercial viability and top-down support (please see [China International Capital Corp. Ltd.: Proposed Merger Details Announced; Stay OW \(17 Dec 2025\)](#)).

Capital deployment will be crucial to differentiate ROE and secure market share in light of rising institutional demand

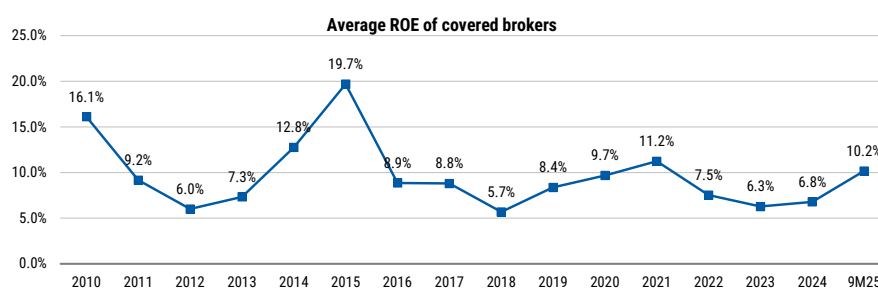
As equity market activity as well as demand from institutional investors continues to expand, we think brokers with a stronger capital base will be better positioned to grab market share. We expect these brokers to allocate more of their capital base into derivatives, cross border and other client trading facilitation services, as well as investing for offshore franchise.

A bigger capital base will also make the brokers more financially resilient against market volatility. Hence we expect more brokers could potentially leverage the good secondary market condition to replenishment capital, which will also be helped by their recovering ROE and valuation in 2025.

On the other hand, investors could potentially view capital raising as dilutive as the ROE earned from new capital is somewhat uncertain and hinges on the market environment. In this regard, we think the overhang for CICC is largely behind due to the announced merger which can meaningfully replenish its capital with limited dilution.

In summary, we highlight CICC-H, CITICS-A and GFS-H as potential winners in 2026 given their strengths in various institutional business.

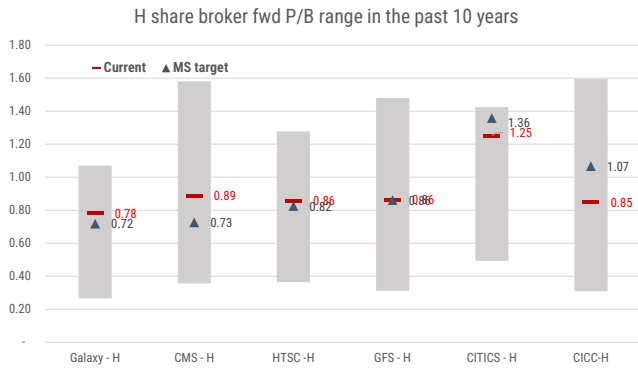
Exhibit 40: Average ROE of covered traditional brokers



Source: Company data

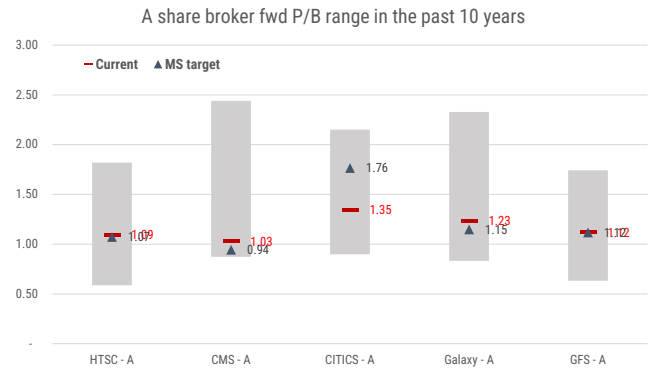
Covered brokers include CITICS, CICC, HTSC, CMS, GFS, Galaxy

Exhibit 41: Forward P/B valuation for H-share brokers



Source: Factset, Morgan Stanley Research
As of close of 6 Jan 2026

Exhibit 42: Forward P/B valuation for A-share brokers



Source: Factset, Morgan Stanley Research
As of close of 6 Jan 2026

We continue to expect strong performance in insurance names, steady performance at banks and periodic opportunities in brokers and HKEx

We continue to expect reduced financial system risks and still relatively low rates in China to reduce cost of equity for China financial stocks. This, combined with some profit rebound, will drive some further re-rating for the sector.

Insurance remains our preferred sector within China financials and we reiterate Ping An as our top pick. Long-term structural growth potential is still underestimated by the market given strong China household asset growth over the medium term, more attractive insurance products over other retirement savings alternatives, and value added health and senior care options will support strong VNB and insurance companies for many years to come.

We expect bank profit growth to trend higher, more in-line with nominal GDP growth in 2026 and potentially outpace nominal GDP growth in 2027, mainly driven by rebound in NII growth and healthy fee income growth supported by asset and wealth management related fees amid strong household financial asset growth. Bank of Ningbo remains our top pick in banks for its double digit revenue and profit growth, and continued market share gains. We continue to see a good turnaround opportunity in Minsheng Bank and steady positive performance for key SOE banks.

Banks to see gradual recovery with stabilizing asset yield and smooth risk digestion

We expect stabilizing NIM and a smooth risk digestion process to support bank profits

We see several factors supporting bank revenue growth: 1) more stable NIM from stabilizing financial asset yields; 2) slightly moderating loan growth supported by infra and government credit; 3) healthy high single digit fee income growth supported by strong household financial assets and active capital market in 2026, and 4) more stable fee rates.

This, along with relatively stable credit cost as banks still have room and a sufficient cushion to digest the industrial credit risks, should support bank profits. We expect earnings growth for our covered banks to pick up to 4.9% and 7.0% in 2026 and 2027, respectively, while ROE slightly declines to 9.34% in 2027.

Exhibit 43: We expect NPAT growth to recover in 2026 and 2027 for our covered banks

Rmb mn	2024	2025E	2026E	2027E	YoY	YoY	YoY	YoY	vs Published	vs Published	vs Published
					2024	2025E	2026E	2027E	2025E	2026E	2027E
NPAT											
ICBC	365,863	366,662	376,067	396,500	0.5%	0.2%	2.6%	5.4%	-0.6%	-1.0%	-0.6%
CCB	335,577	337,349	349,112	365,991	0.9%	0.5%	3.5%	4.8%	0.1%	-0.3%	-0.8%
ABC	282,083	286,277	296,238	310,941	4.7%	1.5%	3.5%	5.0%	0.5%	0.6%	0.5%
BOC	237,841	240,332	246,918	256,547	2.6%	1.0%	2.7%	3.9%	0.9%	1.4%	1.1%
BoCom	93,586	94,794	96,542	99,143	0.9%	1.3%	1.8%	2.7%	0.8%	0.7%	0.3%
CMB	148,391	149,718	155,860	168,049	1.2%	0.9%	4.1%	7.8%	-0.9%	-2.8%	-3.0%
Citic	69,576	70,548	75,867	83,322	2.3%	2.9%	7.5%	9.8%	1.3%	0.0%	0.1%
Minsheng	32,296	32,315	34,046	37,928	-9.6%	0.1%	5.4%	11.4%	-1.8%	-5.8%	-7.1%
CRCB	11,513	11,895	12,440	13,064	5.6%	3.3%	4.6%	5.0%	-0.1%	1.0%	1.1%
Ningbo	27,127	29,377	32,357	35,609	6.2%	8.3%	10.1%	10.0%	0.8%	0.8%	-0.1%
Hangzhou	16,862	19,242	21,173	23,358	18.1%	13.3%	10.0%	10.3%	-1.8%	-0.6%	-0.4%
Industrial	77,205	78,316	83,427	90,495	0.1%	1.4%	6.6%	8.5%	0.1%	0.7%	0.4%
PAB	44,508	43,300	44,703	47,969	-4.2%	-2.7%	3.2%	7.3%	0.0%	-0.2%	-3.1%
CEB	41,696	41,370	41,625	43,780	2.2%	-0.8%	0.6%	5.2%	0.9%	-1.1%	-0.7%
SPDB	45,257	49,453	54,224	59,491	23.3%	9.3%	9.6%	9.7%	0.9%	0.9%	0.1%
Huaxia	27,676	26,745	27,173	28,899	5.0%	-3.4%	1.6%	6.4%	1.2%	1.2%	1.8%
PSBC	86,479	86,738	90,672	96,439	0.2%	0.3%	4.5%	6.4%	0.1%	0.3%	0.3%
Chengdu	12,858	13,520	14,552	16,044	10.2%	5.1%	7.6%	10.2%	-2.2%	-2.6%	-3.1%
Beijing	25,831	26,224	26,987	27,776	0.8%	1.5%	2.9%	2.9%	0.5%	1.0%	1.5%
Average	104,281	105,483	109,473	115,860	3.7%	2.3%	4.9%	7.0%	0.0%	-0.3%	-0.6%

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 44: We expect NIM to slightly decline by 1bp in 2026 on average and rebound in 2027

NIM	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
	ICBC	1.42%	1.26%	1.20%	1.24%	-19	-16	-7
CCB	1.51%	1.39%	1.30%	1.33%	-19	-16	-5	3
ABC	1.42%	1.29%	1.24%	1.27%	-18	-19	-5	3
BOC	1.40%	1.26%	1.22%	1.26%	-20	-14	-4	4
BoCom	1.27%	1.20%	1.19%	1.23%	-1	-7	-1	5
CMB	1.98%	1.85%	1.80%	1.84%	-17	-12	-6	4
Citic	1.77%	1.63%	1.66%	1.73%	-2	-13	3	7
Minsheng	1.39%	1.43%	1.45%	1.51%	-6	3	3	5
CRCB	1.61%	1.57%	1.59%	1.62%	-12	-4	2	3
Ningbo	1.86%	1.77%	1.82%	1.89%	-2	-8	5	7
Hangzhou	1.41%	1.39%	1.35%	1.39%	-9	-6	0	3
Industrial	1.82%	1.71%	1.75%	1.80%	-11	-11	4	3
PAB	1.87%	1.79%	1.76%	1.81%	-5	-8	-3	4
CEB	1.54%	1.40%	1.41%	1.45%	-20	-14	0	4
SPDB	1.42%	1.45%	1.49%	1.54%	-10	3	3	6
Huaxia	1.59%	1.56%	1.57%	1.61%	-22	-3	1	4
PSBC	1.87%	1.67%	1.66%	1.69%	-15	-20	-1	4
Chengdu	1.66%	1.59%	1.57%	1.62%	-15	-7	-12	5
Beijing	1.47%	1.28%	1.26%	1.28%	-7	-19	-2	2
Average	1.59%	1.50%	1.49%	1.53%	-15	-10	-1	4

Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 45: We expect a slowdown in loan growth to 6-7% in 2026 and 2027

Rmb mn	Loan gross				YoY	YoY	YoY	YoY
	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
ICBC	28,372,229	30,601,077	32,572,603	34,727,141	8.8%	7.9%	6.4%	6.6%
CCB	25,843,294	29,048,430	29,881,126	31,848,540	8.3%	8.5%	6.5%	6.6%
ABC	24,906,187	27,176,483	29,049,163	30,923,465	10.1%	9.6%	6.5%	6.5%
BOC	21,594,068	23,382,022	24,770,990	26,186,005	8.2%	8.3%	5.9%	5.7%
BoCom	8,576,078	9,181,714	9,553,398	9,941,297	7.5%	7.1%	4.0%	4.1%
CMB	6,887,968	7,283,436	7,714,243	8,195,415	5.8%	5.7%	5.9%	6.2%
Citic	5,720,128	5,938,245	6,241,086	6,592,988	4.0%	3.8%	5.1%	5.6%
Minsheng	4,488,440	4,595,800	4,797,292	5,074,378	1.5%	2.4%	4.4%	5.8%
CRCB	714,273	770,442	806,050	843,071	5.6%	7.9%	4.6%	4.6%
Ningbo	1,476,063	1,703,489	1,914,836	2,145,442	17.8%	15.4%	12.4%	12.0%
Hangzhou	937,499	1,036,765	1,144,449	1,263,202	16.2%	10.6%	10.4%	10.4%
Industrial	5,736,610	6,033,609	6,407,796	6,798,706	5.0%	5.2%	6.2%	6.1%
PAB	3,374,103	3,497,887	3,697,169	3,928,795	-1.0%	3.7%	5.7%	6.3%
CEB	3,946,275	4,121,490	4,300,571	4,489,537	3.9%	4.4%	4.3%	4.4%
SPDB	5,361,530	5,826,347	6,326,271	6,873,501	7.4%	8.1%	8.6%	8.7%
Huaxia	2,366,317	2,443,137	2,518,961	2,595,995	2.1%	3.2%	3.1%	3.1%
PSBC	8,913,202	9,750,719	10,437,874	11,143,841	9.4%	9.4%	7.0%	6.8%
Chengdu	741,319	855,719	949,807	1,054,666	18.7%	15.4%	11.0%	11.0%
Beijing	2,209,975	2,442,007	2,613,078	2,781,525	9.6%	10.5%	7.0%	6.4%
Average	8,536,608	9,194,148	9,773,514	10,389,869	7.8%	7.7%	6.6%	6.7%

Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 46: We expect credit costs to slightly pick up as banks digest rising NPLs

Credit cost	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
	ICBC	0.47%	0.41%	0.43%	0.45%	-15	-6	2
CCB	0.49%	0.42%	0.39%	0.44%	-12	-7	-4	6
ABC	0.55%	0.46%	0.46%	0.52%	-9	-9	0	7
BOC	0.49%	0.44%	0.40%	0.48%	-7	-6	-4	8
BoCom	0.65%	0.60%	0.62%	0.70%	-10	-5	2	7
CMB	0.65%	0.65%	0.64%	0.73%	-9	0	-1	8
Citic	1.09%	0.98%	1.02%	1.07%	-8	-11	4	5
Minsheng	1.04%	1.11%	1.15%	1.16%	-7	7	5	0
CRCB	0.87%	0.74%	0.79%	0.86%	-4	-12	5	7
Ningbo	0.78%	0.90%	0.94%	1.03%	0	12	4	9
Hangzhou	0.95%	0.70%	0.71%	0.71%	23	-25	1	0
Industrial	1.08%	0.90%	0.91%	0.93%	-10	-17	0	3
PAB	1.46%	1.27%	1.29%	1.36%	-30	-18	2	7
CEB	1.05%	0.89%	0.94%	1.02%	-36	-15	5	8
SPDB	1.33%	1.25%	1.25%	1.27%	-21	-8	0	2
Huaxia	1.23%	1.04%	1.13%	1.22%	10	-19	10	8
PSBC	0.33%	0.33%	0.34%	0.37%	-1	0	1	3
Chengdu	0.44%	0.24%	0.25%	0.29%	-6	-19	0	5
Beijing	0.89%	0.80%	0.84%	0.91%	-17	-9	4	7
Average	0.83%	0.74%	0.76%	0.82%	-7	-8	2	5

Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 47: We expect banks' ROE will continue to decline but gradually stabilize

ROE	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
	ICBC	9.96%	9.42%	9.14%	9.04%	-71	-54	-28
CCB	10.75%	10.05%	9.70%	9.52%	-81	-69	-35	-18
ABC	10.51%	9.87%	9.58%	9.44%	-41	-65	-28	-14
BOC	9.56%	8.89%	8.49%	8.31%	-56	-67	-40	-17
BoCom	9.15%	8.24%	7.54%	7.36%	-54	-91	-70	-18
CMB	14.49%	13.22%	12.64%	12.45%	-174	-126	-59	-19
Citic	9.92%	9.30%	9.40%	9.70%	-88	-62	10	29
Minsheng	5.19%	5.00%	5.08%	5.49%	-90	-20	8	41
CRCB	9.09%	8.72%	8.51%	8.37%	-19	-36	-21	-15
Ningbo	13.75%	13.17%	13.22%	13.18%	-130	-58	5	-5
Hangzhou	16.02%	14.90%	13.65%	13.25%	45	-112	-125	-41
Industrial	9.89%	9.67%	9.93%	10.00%	-75	-22	26	7
PAB	10.07%	9.20%	8.89%	8.92%	-130	-87	-32	3
CEB	7.93%	7.37%	7.00%	7.06%	-57	-59	-37	6
SPDB	6.28%	6.55%	6.88%	7.19%	107	27	33	31
Huaxia	8.87%	8.07%	7.81%	7.81%	15	-80	-26	1
PSBC	10.05%	8.84%	8.13%	8.16%	-97	-122	-70	3
Chengdu	17.39%	15.50%	14.84%	14.11%	-165	-189	-66	-74
Beijing	8.74%	8.26%	8.26%	8.66%	-65	-37	-12	-20
Average	10.40%	9.70%	9.40%	9.34%	-66	-70	-30	-7

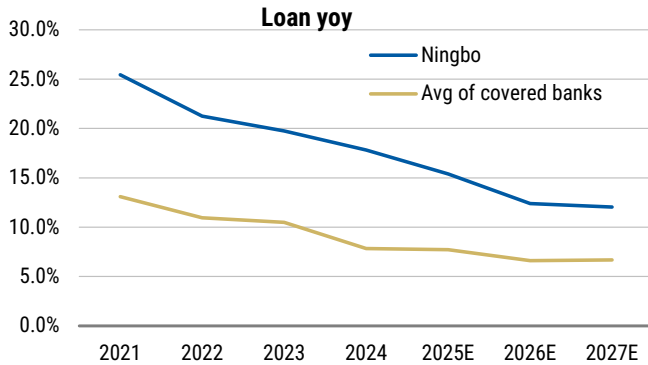
Source: Company data, Morgan Stanley Research estimates (E)

We see more opportunities at mid-sized banks amid more rational loan growth and recovering financial asset yields

We reiterate our top pick of **Bank of Ningbo (002142.SZ, OW)**, forecasting ~10% earnings growth in 2026 and 2027, leveraging more of its competitive advantages:

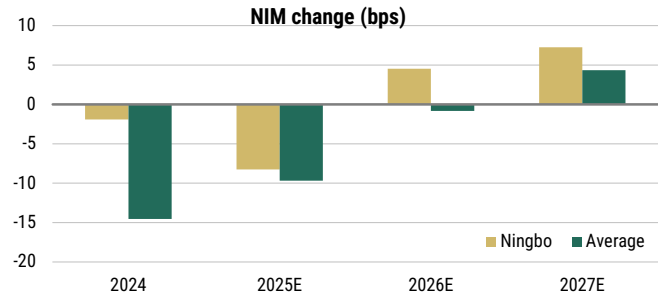
- 1) solid loan growth and continued market share gains with superior client service and comprehensive product offering;
- 2) quicker and more meaningful NIM rebound amid more market-oriented competition;
- 3) stable asset quality helped by in-depth KYC (know-your-customer).

Exhibit 48: We expect loan growth at Bank of Ningbo to be quicker than the average of our covered banks



Source: Company data, Morgan Stanley Research estimates (E)

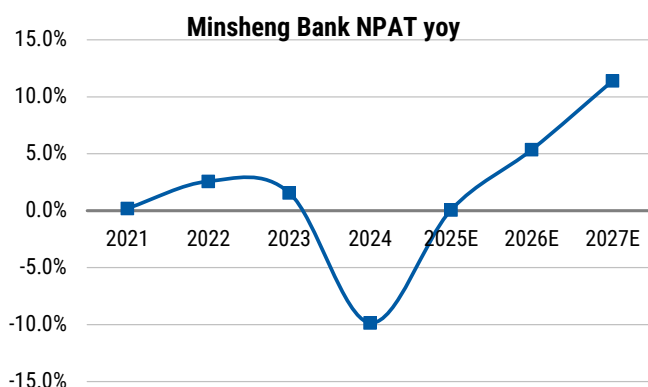
Exhibit 49: NIM rebound should also be more notable than peers



Source: Company data, Morgan Stanley Research estimates (E)

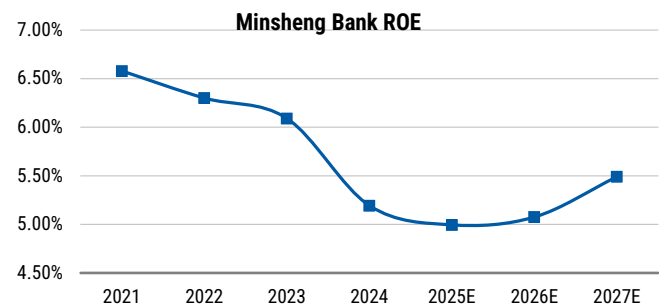
We also see growth potential at **Minsheng Bank (1988.HK, OW)**, driven by likely earlier-than-peers NIM rebound with the focus on loan quality and improving client base. Minsheng has set multiple KPIs to incentivize staff for better loan pricing, deposit cost reduction and increase of demand deposits. While it will likely take another two years or so for risk digestion from retail and property sectors, we believe credit costs should gradually moderate over time. We expect 5.4% net profit growth at the bank in 2026, with a 3bps NIM rebound and 5bps higher credit costs, followed by 11.4% profit growth in 2027 with a 5bps NIM rebound and flat credit costs. As a result, ROE should gradually pick up to 5.5% in 2027. We remain OW on Minsheng Bank with a target 2026E PB at 0.39x.

Exhibit 50: We expect 5.4% and 11.4% profit growth in 2026 and 2027E at Minsheng Bank



Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 51: ROE gradually improves to ~5.5%



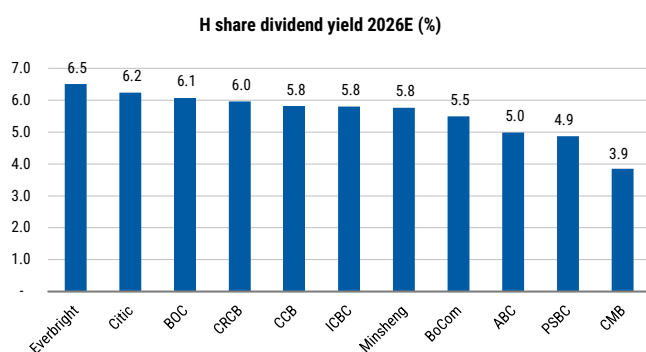
Source: Company data, Morgan Stanley Research estimates (E)

Key SOE banks should remain attractive on positive profit growth and ~6% dividend yields

We think large SOE banks could see positive and accelerating profit growth in 2026 and 2027, mainly driven by stabilizing NIM and more stable fee rates, especially with reduced window guidance on loan growth and loan yields in specific sectors. Among SOE banks,

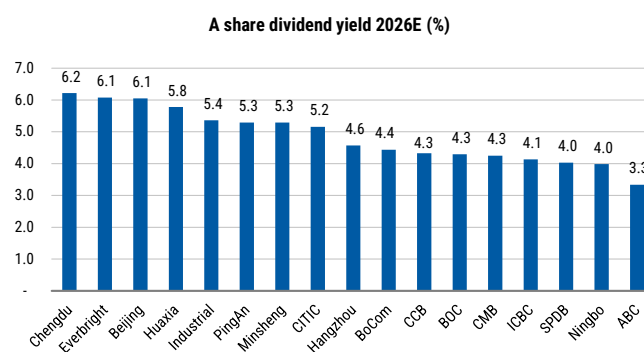
we prefer BOC-H and CCB-H, with still attractive dividend yields of around 6%.

Exhibit 52: 2026E H-share dividend yields



Source: Morgan Stanley Research estimate (E). Close price as of January 5, 2026.

Exhibit 53: 2026E A-share dividend yields



Source: Morgan Stanley Research estimate (E). Close price as of January 5, 2026.

HK/China insurance: Strong growth, improved quality and further valuation upside

The insurance sector outperformed the market in 2025, mainly helped by a strong market rally and some alleviation of interest rate spread loss risks. Considering a more stable financial asset yield and continued healthy stock market sentiment, we believe investors will have an increased focus on the liability side and will care more about fundamentals, and not focus solely on insurers' asset side.

VNB growth could be strong in 2026, with improved business quality. We believe solid household wealth growth, inelastic and high demand for senior care, as well as rising demand for premium healthcare services could act as key drivers of insurance demand in the medium term. Insurance products are more attractive among financial assets considering the relatively low interest rate backdrop and their unique product designs with both guaranteed yields and floating returns. We are also expecting business quality to further improve in 2026, including more par products in the mix, increased margins esp. in the banca channel, restricted expense management as well as less VNB/EV sensitivity to interest rate drops.

ROE across the HK/China insurance sector to see an upward trend. Most insurers saw extraordinary ROEs in 2025, ranging from 20% to 40% across most insurers in 9M25 (annualized). Although this is mainly contributed by the strong equity market rally and we do not expect such high ROE levels to be maintained into 2026 and beyond, we do expect with continued strong VNB growth and improving CSM (contractual service margin) balance trends, insurers' operating ROE could see an upward trend in the next few years.

High-quality insurers could see further valuation upside in 2026. Even after the share price rebound, H share China life names are still trading at only slightly higher than 1x P/B (or only a high single-digit P/E). Considering their over mid-teens sustainable ROE and very strong VNB growth, along with less concerns on asset risk and interest rate spread loss risk, we do believe there is further valuation upside. We reiterate Ping An H (2318.HK, see

our note [Reaching New Pinnacles](#)) as our top pick. China Life (2628.HK) and CPIC (2601.HK) can also benefit from strong sales momentum, favorable investment environment and appealing valuation. AIA (1299.HK), as the high-quality regional player, can benefit from recovered strong growth in China and continued healthy HK growth.

Qifu (QFIN.O, OW): Short-term uncertainties remain from potential micro loan rate cap but valuation looks undemanding

We see several factors industry-wide weighing on loan volume and elevating credit risks for Qifu, especially in 4Q25 and 1Q26:

- The implementation of new rules effective from October 1. Management indicated that all new loans are within 24% yield since October 1, which will weigh on volume in 4Q and following quarters;
- Quicker-than-expected exit from loans with >24% loans by other players, bringing higher volatility and tightened liquidity for the overall industry;
- Loan portfolio adjustment from the potential rate cap of 20% on average for consumer finance companies, which could add pressure on risk mitigation for Qifu.
- The latest regulatory move (see: [here](#)) to potentially cap loan yields (inclusive of fees) of micro loan firms at 4x LPR (vs. 12% currently) by end-2027.

We previously estimated net take rate could normalize at ~4% over time (our base case for our Qifu model), from ~5% in 1H25, by assuming the following:

- Blended loan yield declines further, to slightly below 20%, and
- The requirement for micro loan firms to maintain at least 50% of loan book at <12% (4x LPR) materializes.

If the micro loan yield is further capped at 12%, we expect additional take-rate pressure of about 30bps on Qfin vs. our previously estimated normalized level of ~4%. The micro loan rate cap, which was reported at the end of December 2025, requires that loan yields (inclusive of fees) of micro loan firms at 4x LPR (vs. 12% currently) by end-2027.

Our understanding of recent rounds of regulatory changes:

We believe this round of examination of consumer finance companies' practices and policy guidance on average rates is aimed at strengthening their core lending business and enhancing pricing capability. Part of the goal is to guide consumer finance companies to streamline the lending process and be more efficient in their core lending business to help reduce overall borrowing costs.

For micro loan lending rate cap, we think regulators are keen to reduce the number of micro loan firms in China, **drive them to de-risk and refocus on serving local borrowers** (as per 2025 CEWC).

Stock still attractive given valuation already discounted the overhangs while the firm has market share consolidation potential in the long run

Despite the likely lower average loan yields after this round of changes and the near-term impact on loan volumes, we believe there is a viable market for consumption loans at rates around 20%, particularly loans with average size of just under Rmb10,000 and average duration of 9-10 months. This is Qifu's key loan product but a segment underserved by major financial firms owing to risk appetite and 18% yield on credit card loans.

Over time, we believe Qifu could gain market share as the micro loan and loan facilitation industry consolidates further. In particular, funding costs via ABS/ABN are currently as low as 2-3% for Qifu's micro loan firms, which could support reasonable profitability even with yields below 12% and allow Qifu to take share from other micro loan providers.

Lastly, attractive shareholder returns at 11.6% helped by continued share buybacks and dividend payout should provide near-term support to the share price.

Exhibit 54: Net take rate by loan type: before stopping loans with >24 yield%
2Q25, before stopping >24% loans

On BS		Guarantee	
Yield	21.5	Yield	20.6
Funding cost	2.8	Funding cost	3.3
Opex	5.2	Opex	5.2
Credit cost	7.3	Credit cost	8.0
Net take rate	6.20	Net take rate	4.09

Profit sharing		ICE	
Yield	23.0	Yield	30
% share	28%		
Revenue take rate	6.44		
Opex	3.4		
Net take rate	3.04	Net take rate	5.5

Overall	5.0
+ SBC	0.25
Blended net take rate	5.24

Source: Company data, Morgan Stanley Research estimates

Exhibit 55: Net take rate by loan type: After running off >24% loans, yield down to 20, on-balance-sheet down to 24 of the mix %

After running off >24% loans, yield down to 20%, on BS mix down to 24%

On BS		Guarantee	
Yield	18.0	Yield	21.5
Funding cost	2.8	Funding cost	3.3
Opex	5.0	Opex	5.0
Credit cost	5.0	Credit cost	8.5
Net take rate	5.20	Net take rate	4.68

Profit sharing		ICE	
Yield	20.0	Yield	24
% share	28%		
Revenue take rate	5.60		
Opex	3.0		
Net take rate	2.60	Net take rate	4.0

Overall	4.0
+ SBC	0.15
Blended net take rate	4.12

Source: Company data, Morgan Stanley Research estimates

HKEx (0388.HK, OW): good opportunities towards 2H26 with more clear sign of moderating PPI pressure in a low rate environment

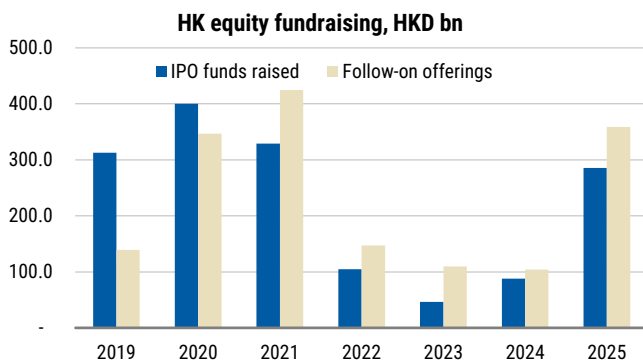
We believe HKEx is well-positioned for easing PPI pressure gradually, which will boost market sentiment and raise market confidence in China's development mode – a key support to trading volume. While HKEx may lag in 1H26 given a high base and some volatility in the path of slow deflation, we see good investment opportunities in 2H26 with more clear signs of moderating PPI pressure.

Strong IPO with more favorable policy to support ADV

HK IPO funds raised were up over 220% yoy to HK\$286bn in 2025. We expect IPOs to remain strong in coming years, reflecting:

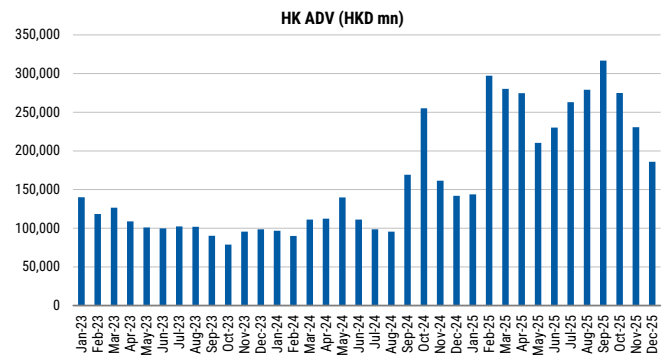
- 1) More A+H listings, helped by resilient market performance, increasing southbound flows, and CSRC encouragement;
- 2) More IPO applications from consumer and service-oriented tech companies, as well as companies along supply chains (which are more favorable to capital markets);
- 3) Loosening IPO criteria from CSRC and improving rules for mainland companies listing in HK.

Exhibit 56: HK equity fundraising



Source: HKEx, Morgan Stanley Research

Exhibit 57: HK ADV



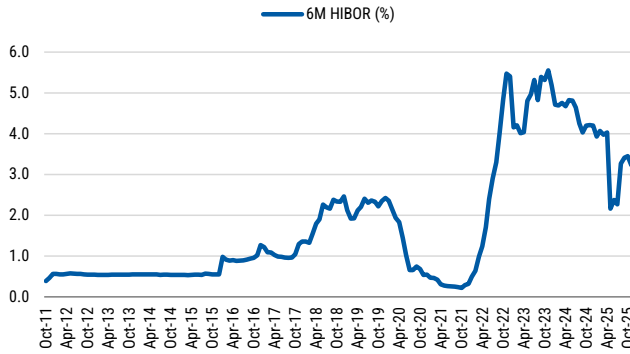
Source: HKEx, Morgan Stanley Research

Low rate environment in China, potential Fed rate cuts should help support fund flows to HK market and benefit HKEx ADV

While HIBOR rebounded after a sharp decline in May, it could get lower if the Fed eventually cuts rates, which could support more fund flows to the HK equity market and support HKEx's valuation. Our US economists expect additional Fed rate cuts in January and April, dependent on the December employment report. If rate cuts happen, we would expect HK capital markets to benefit from more global fund inflows and high velocity over time.

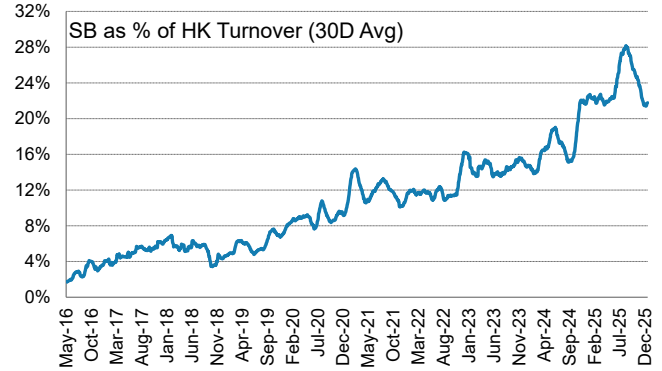
In addition, the low rate environment in China should drive continued strong southbound flows to Hong Kong, as evidenced by rising southbound contributions in HKEx ADV.

Exhibit 58: 6-month HIBOR rebounded after sharp drop in May



Source: CEIC, Morgan Stanley Research

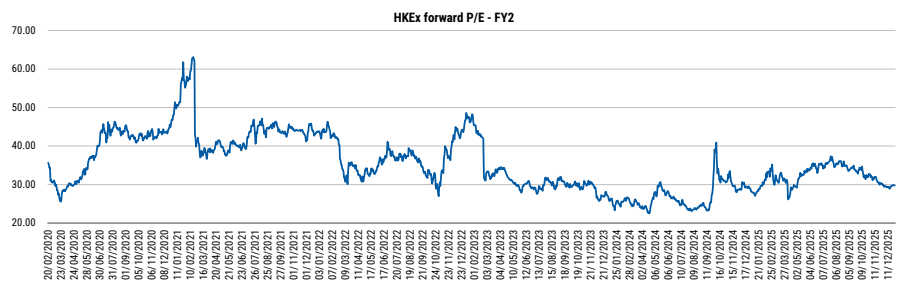
Exhibit 59: Southbound total volume % of HK turnover remained high



Source: HKEx, CEIC, as of December 29, 2025

We remain OW on HKEx on strong ADV, more room for derivative products and **potential FIC opportunities**. Our price target of HK\$508 implies a P/E of 37.5x based on our 2026 EPS estimate, toward the high end of its range since 2021.

Exhibit 60: HKEx forward P/E



Source: FactSet, Morgan Stanley Research

Brokers: we expect 2026 to be the second year of a proper recovery cycle

CICC-H: We think there's more to go for CICC-H in terms of the ROE rebound and multiple rerating. CICC-H's ROE and multiple will continue to be helped by rising trading volume and IPO deals in the HK market. In 2025, CICC's held #1 market share in HK IPOs with a record high underwriting amount of >HK\$60bn, evidencing its franchise strength. We forecast ROE to rebound from 5.5% in 2024 to 10.3% in 2026, which should lead to rerating to around or above 1x P/B.

The recently announced merger with Dongxing and Cinda Securities should lead to synergies for CICC:

- CICC's net capital base will see notable strengthening after the merger, with limited dilution to existing shareholders.
- CICC's wealth franchise should benefit meaningfully – branch numbers are seen increasing 78% to 436 post merger, notably strengthening CICC's presence in key regions such as Fujian, Zhejiang and Guangdong.
- The two big AMC shareholders (China Orient and Cinda) have large balance sheets

and could potentially collaborate further with CICC in capital market services, per CICC management.

- Cost synergies by reducing overlapping investments and opex. It indicated that both DX and Cinda have clean balance sheets and no major potential write-offs.

CITICS: We expect CITICS to be the main beneficiary of the onshore regulatory environment bottoming out. The company's strong franchise in both institutional and retail broking makes it well positioned to drive revenue growth when ADT, fundraising and derivatives volume pick up. CITICS also ranks at the top in bull case ROE, at 13.7%, among our covered brokers, and hence we think this warrants the highest P/B multiple. We prefer CITICS-A to CITICS-H as its A share could potentially see more upside in valuation (CITICS-A peaked at ~2.2x P/B vs. a peak of 1.4x P/B for the H share in the last 10 years).

GFS & CITICS: These are brokers with larger asset management exposure, and could outperform as we expect retail demand for active equity funds to potentially pick up meaningfully. We think pressure from the management fee rate cut and negative mix shift should largely be digested by the end of 2025, and a healthier fee structure around mutual fund distribution should pave the way for a longer and more sustainable rebound in fund managers' revenue.

Exhibit 61: China – Banks Valuation comps

Ticker	Price	P/E		P/B		Div Yield		ROE		ROA			
		25E	26E	25E	26E	25E	26E	25E	26E	25E	26E		
Chinese Banks													
H Share Banks													
ABC	OW	1288.HK	5.53 HKD	6.9	6.3	0.66	0.59	4.7	5.1	9.9	9.6	0.6	0.6
ICBC	OW	1398.HK	6.10 HKD	5.7	5.4	0.53	0.48	5.6	5.9	9.4	9.1	0.7	0.6
CCB	OW	0939.HK	7.61 HKD	5.4	5.2	0.53	0.49	5.8	5.9	10.1	9.7	0.8	0.7
BOC	OW	3988.HK	4.42 HKD	5.8	5.5	0.49	0.46	5.7	6.1	8.9	8.5	0.6	0.6
PSBC	OW	1658.HK	5.07 HKD	6.4	6.4	0.57	0.50	5.2	5.0	8.8	8.1	0.4	0.4
CMB	OW	3968.HK	50.40 HKD	8.3	7.6	1.05	0.92	3.6	4.0	13.2	12.6	1.1	1.1
Citic	OW	0998.HK	6.88 HKD	5.3	4.8	0.48	0.44	5.8	6.3	9.3	9.4	0.7	0.7
Minsheng	OW	1988.HK	3.89 HKD	5.5	5.1	0.27	0.26	5.4	5.8	5.0	5.1	0.4	0.4
BoCom	UW	3328.HK	6.40 HKD	5.9	5.7	0.45	0.42	5.9	5.6	8.2	7.5	0.6	0.5
Everbright	UW	6818.HK	3.59 HKD	5.3	5.2	0.33	0.31	6.4	6.6	7.4	7.0	0.5	0.5
CRCB	UW	3618.HK	5.92 HKD	5.3	4.9	0.45	0.40	5.7	6.2	8.7	8.5	0.8	0.7
Average				6.0	5.7	0.53	0.48	5.4	5.7	9.0	8.7	0.6	0.6
A Share Banks													
PingAn	OW	000001.SZ	11.51	5.5	5.3	0.49	0.46	5.2	5.3	9.2	8.9	0.7	0.7
Minsheng	OW	600016.SS	3.83	6.0	5.6	0.29	0.28	5.0	5.3	5.0	5.1	0.4	0.4
Industrial	OW	601166.SS	20.92	5.9	5.6	0.57	0.53	5.1	5.4	9.7	9.9	0.7	0.7
CMB	OW	600036.SS	41.58	7.4	7.0	0.94	0.84	4.1	4.3	13.2	12.6	1.1	1.1
Ningbo	OW	002142.SZ	28.68	6.5	6.0	0.82	0.75	3.5	3.9	13.2	13.2	0.9	0.8
Chengdu	OW	601838.SS	16.23	5.1	4.8	0.75	0.68	5.8	6.2	15.5	14.8	1.0	1.0
ABC	EW	601288.SS	7.44	10.2	9.5	0.94	0.88	3.2	3.4	9.9	9.6	0.6	0.6
ICBC	EW	601398.SS	7.69	8.0	7.6	0.74	0.67	4.0	4.2	9.4	9.1	0.7	0.6
CCB	EW	601939.SS	9.09	7.2	7.0	0.71	0.65	4.3	4.4	10.1	9.7	0.8	0.7
BOC	EW	601988.SS	5.52	7.8	7.7	0.70	0.63	4.0	4.4	8.9	8.5	0.6	0.6
CITIC	EW	601998.SS	7.41	6.4	5.8	0.59	0.53	4.7	5.3	9.3	9.4	0.7	0.7
SPDB	EW	600000.SS	11.54	8.5	7.1	0.56	0.49	3.5	4.1	6.7	7.0	0.5	0.5
Beijing	EW	601169.SS	5.53	5.1	5.0	0.42	0.40	5.9	6.0	8.4	8.3	0.5	0.5
Hangzhou	EW	600926.SS	15.75	5.5	5.6	0.79	0.71	4.6	4.5	15.0	13.7	0.8	0.8
BoCom	UW	601328.SS	7.09	7.3	7.0	0.56	0.52	4.7	4.5	8.2	7.5	0.6	0.5
Everbright	UW	601818.SS	3.47	5.6	5.6	0.36	0.34	6.0	6.1	7.4	7.0	0.5	0.5
Huaxia	UW	600015.SS	6.79	4.4	4.3	0.35	0.32	5.7	5.8	8.1	7.8	0.6	0.5
Average				6.6	6.3	0.62	0.57	4.7	4.9	9.8	9.5	0.7	0.7

Source: Factset, Morgan Stanley Research (E) estimates; closing prices as of January 8, 2026.

Exhibit 62: China – Brokers: Valuation Comps

Ticker	Price	P/E		P/B		ROE		
		25E	26E	25E	26E	25E	26E	
Chinese Brokers								
H Share								
		HKD						
CITICS	6030.HK	29.10	13.1	12.0	1.29	1.19	9.9%	9.8%
HTSC	6886.HK	19.72	9.5	8.6	0.85	0.79	8.7%	8.8%
CICC	3908.HK	22.12	11.3	10.2	0.87	0.85	7.6%	7.9%
GFS	1776.HK	18.68	9.2	8.4	0.89	0.81	9.2%	9.0%
CMS	6099.HK	15.17	10.0	9.3	0.89	0.83	9.1%	9.0%
Galaxy	6881.HK	10.90	7.7	7.1	0.83	0.75	9.7%	9.3%
Average			10.1	9.2	0.94	0.87	9.0%	9.0%
A Share								
		Rmb						
CITICS	600030.SS	28.54	14.4	13.1	1.41	1.31	9.6%	9.8%
HTSC	601688.SS	23.95	12.9	11.6	1.15	1.07	8.6%	8.8%
GFS	000776.SZ	22.26	12.2	11.1	1.18	1.08	9.1%	9.0%
CMS	600999.SS	17.14	12.4	11.5	1.11	1.03	9.0%	9.0%
Galaxy	601881.SS	16.04	12.6	11.6	1.36	1.23	9.5%	9.3%
East Money	300059.SZ	24.00	30.9	27.4	4.18	3.78	14.2%	14.4%
Average			15.9	14.4	1.73	1.58	10.0%	10.0%

Source: Factset, Morgan Stanley Research (E) estimates; closing prices as of January 8, 2026.

Exhibit 63: HK/China Insurers Valuation Comps

Company	TRSL	CCY	Price	Market Cap	Turn-over	Rat-ing	PT	Up-side	P/Group EV		P/B		P/E		Dividend Yield %	
									2025 E	2026 E	2025 E	2026 E	2025 E	2026 E	2025 E	2026 E
Regional Life Insurers																
AIA	1299-HK	HKD	83.20	115,248	290.0	O	96.0	15%	1.4	1.2	2.6	2.3	15.7	13.9	2.3	2.6
FWD	1828-HK	HKD	38.50	7,263	3.6	O	46.5	21%	0.9	0.8	1.0	0.9	47.6	19.5	NA	NA
Chinese Life insurers																
Ping An	2318-HK	HKD	70.45	164,651	321.8	O	89.0	26%	0.7	0.7	1.1	1.0	7.9	7.7	4.3	4.6
China Life	2628-HK	HKD	31.60	114,630	184.2	O	25.7	-19%	0.5	0.5	1.4	1.3	9.6	11.3	2.6	2.7
China Pacific	2601-HK	HKD	38.70	47,832	64.6	O	37.0	-4%	0.5	0.5	1.1	1.0	7.4	8.2	3.3	3.5
PICC Group	1339-HK	HKD	7.33	41,603	39.2	O	7.6	4%	0.7	0.7	1.0	0.9	6.3	6.4	2.7	3.2
China Taiping	966-HK	HKD	21.26	9,806	21.8	E	17.7	-17%	0.4	0.3	0.8	0.7	7.5	8.2	2.2	2.5
New China Life	1336-HK	HKD	61.60	24,663	85.8	U	37.9	-38%	0.6	0.5	1.8	1.7	7.7	10.7	3.9	2.8
Non-Life Insurers																
PICC P&C	2328-HK	HKD	16.64	47,502	62.5	O	21.6	30%	NA	NA	1.1	1.0	8.5	8.4	4.1	4.6
Zhong An	6060-HK	HKD	17.15	3,235	62.8	O	24.7	44%	NA	NA	1.0	0.9	19.1	19.1	NA	NA
A share Insurers																
Ping An	601318-CN	CNY	69.80	182,079	480.5	O	85.0	22%	0.8	0.7	1.3	1.1	8.7	8.6	3.9	4.1
China Pacific	601601-CN	CNY	46.80	64,562	178.9	O	43.4	-7%	0.7	0.7	1.5	1.4	9.9	11.0	2.4	2.6
China Life	601628-CN	CNY	48.98	198,313	88.3	E	42.8	-13%	0.9	0.8	2.5	2.3	16.7	19.6	1.5	1.5
PICC Group	601319-CN	CNY	9.87	62,526	92.4	E	9.0	-9%	1.1	1.0	1.4	1.3	9.5	9.6	1.8	2.1
New China Life	601336-CN	CNY	81.24	36,304	168.3	U	58.0	-29%	0.9	0.8	2.7	2.5	11.3	15.7	2.6	1.9

Source: Factset, Morgan Stanley Research (E) estimates; closing prices as of January 8, 2026.

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(as of December 31, 2025)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1519	41%	415	48%	27%	674	42%
Equal-weight/Hold	1583	43%	362	42%	23%	720	45%
Not-Rated/Hold	4	0%	1	0%	25%	1	0%
Underweight/Sell	564	15%	87	10%	15%	216	13%
Total	3,670		865			1611	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (01/09/2026)
Chiyao Huang		
China International Capital Corp. Ltd. (3908.HK)	O (02/28/2025)	HK\$22.54
China Merchants Securities Co Ltd (600999.SS)	U (09/29/2022)	Rmb17.22
China Merchants Securities Co Ltd (6099.HK)	U (10/29/2024)	HK\$15.47
CITIC Securities Co. (6030.HK)	E (10/29/2024)	HK\$29.18
CITIC Securities Co. (600030.SS)	O (08/07/2025)	Rmb28.57
East Money Information Co Ltd (300059.SZ)	E (09/19/2025)	Rmb24.13

Futu Holdings Ltd (FUTU.O)	O (11/18/2024)	US\$180.08
Galaxy Securities (6881.HK)	E (02/27/2020)	HK\$10.90
Galaxy Securities (601881.SS)	U (09/29/2022)	Rmb16.08
GF Securities (000776.SZ)	E (08/07/2025)	Rmb22.31
GF Securities (1776.HK)	E (01/06/2023)	HK\$18.44
HTSC (601688.SS)	E (09/23/2024)	Rmb23.95
HTSC (6886.HK)	E (09/23/2024)	HK\$19.74
Noah Holdings Ltd (NOAH.N)	U (04/16/2025)	US\$11.04
Richard Xu, CFA		
Agricultural Bank of China Limited (601288.SS)	E (05/07/2019)	Rmb7.41
Agricultural Bank of China Limited (1288.HK)	O (10/19/2020)	HK\$5.53
Bairong Inc. (6608.HK)	E (09/09/2025)	HK\$12.34
Bank of Beijing Co Ltd (601169.SS)	E (08/17/2022)	Rmb5.51
Bank of Chengdu Co Ltd (601838.SS)	O (08/17/2022)	Rmb16.12
Bank of China Limited (601988.SS)	E (05/07/2019)	Rmb5.49
Bank of China Limited (3988.HK)	O (01/10/2020)	HK\$4.39
Bank of Communications (3328.HK)	U (05/20/2022)	HK\$6.42
Bank of Communications (601328.SS)	U (09/05/2014)	Rmb7.07
Bank of Hangzhou Co Ltd (600926.SS)	E (08/17/2022)	Rmb15.44
Bank of Ningbo Co. Ltd (002142.SZ)	O (08/17/2022)	Rmb28.15
China CITIC Bank Corporation Limited (601998.SS)	E (04/16/2025)	Rmb7.39
China CITIC Bank Corporation Limited (0998.HK)	O (04/16/2025)	HK\$6.87
China Construction Bank Corp. (0939.HK)	O (10/11/2012)	HK\$7.59
China Construction Bank Corp. (601939.SS)	E (05/07/2019)	Rmb9.06
China Everbright Bank Co Ltd (6818.HK)	U (05/12/2023)	HK\$3.58
China Everbright Bank Co Ltd (601818.SS)	U (05/20/2022)	Rmb3.45
China Merchants Bank (600036.SS)	O (01/07/2019)	Rmb41.30
China Merchants Bank (3968.HK)	O (09/20/2018)	HK\$50.15
China Minsheng Banking Corp. (600016.SS)	O (08/28/2025)	Rmb3.82
China Minsheng Banking Corp. (1988.HK)	O (05/12/2023)	HK\$3.86
Chongqing Rural Commercial Bank (3618.HK)	U (05/12/2023)	HK\$5.98
Hua Xia Bank (600015.SS)	U (06/30/2015)	Rmb6.77
Industrial and Commercial Bank of China (1398.HK)	O (08/09/2013)	HK\$6.13
Industrial and Commercial Bank of China (601398.SS)	E (09/19/2022)	Rmb7.71
Industrial Bank Co. Ltd. (601166.SS)	O (02/25/2019)	Rmb20.84
Lufax (LU.N)		US\$2.72
Ping An Bank (000001.SZ)	O (05/07/2019)	Rmb11.46
Postal Savings Bank of China Co Ltd (1658.HK)	O (11/01/2016)	HK\$5.06
Qifu Technology Inc (QFIN.O)	O (08/25/2020)	US\$18.14
Shanghai Pudong Development Bank (600000.SS)	E (08/05/2025)	Rmb11.54

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.