Comparative Study on Business Structure and Profit Models of Different Types of Banking in China

Qinyang Song[1]

[1] *Wuhan University, Wuhan 430072, China*

ABSTRACT

Different types of commercial banks show differences in customer market, sources of funds and risk constraints. Based on the representative samples in the 2024 public annual report and course materials, this article compares large state-owned commercial banks, national joint-stock banks, city commercial banks, rural commercial banks, village banks and private banks, and analyses their business and profit logic. It is found that large banks mainly rely on stable liabilities, comprehensive customer relationships and strong asset allocation capabilities. Joint-stock banks form differentiated income through retail, wealth management and specialized corporate finance. The profitability of local small and medium-sized banks depends more on regional credit demand and deposit-loan spreads. Although private and digital banks have reached the long-tail customer base through online channels and data risk control, they have high debt cost and great risk management pressure. There is no uniform optimal profit model for different banks. Operating efficiency depends on the matching degree between its own resources, customer structure and business boundaries.

Keywords: *Commercial banks, Business structure, Profit model, Net interest margin, Differentiated operations.*

1. INTRODUCTION

China's commercial banking system has obvious multi-level characteristics. Large state-owned commercial banks undertake basic financial services and financing functions in key areas. Joint-stock banks mainly participate in national market competition. City commercial banks, rural commercial banks and rural banks pay more attention to regional and county customers [1]. Private banks rely on online channels to form differentiated business models. Different types of banks are not only different in size [2]. Its customer acquisition, capital stability and profit space are also different.

In recent years, downward interest rates and loan repricing have continuously reduced bank spreads. The profit space of traditional credit expansion has gradually narrowed, and the change of financing structure has also put forward new requirements for the organization of funds [3]. Large banks need to maintain income in sound operation; Small and medium-sized banks need to balance regional concentration, debt cost and asset quality; Digital banks are faced with problems such as online customer acquisition and model risk [4].

Based on this, this article combines the business structure with the profit model, investigates the asset-liability structure and income sources of different types of banks, and analyses the business logic behind them. It also judges the matching degree of profit models of various banks with customer base, capital capacity and risk-taking methods.

2. SAMPLE SELECTION AND COMPARISON FRAMEWORK

Based on the publicly disclosed annual reports and related financial data of banks in 2024, this article selects representative samples according to the nature and operating characteristics of institutions. Large state-owned commercial banks are represented by ICBC; the national joint-stock banks are represented by China Merchants Bank; City commercial banks and rural commercial banks are represented by Shanghai Bank and Chongqing

Rural Commercial Bank respectively. The village bank analyses the public disclosure information of Bank of China Fudeng Village Bank. Private and digital banks mainly investigate the online operation characteristics of institutions such as Weizhong Bank.

"Table 1" lists the core indicators of four representative banks with complete disclosure caliber. The first size gradient of different types of banks. The total assets of ICBC are much higher than other samples; China Merchants Bank is at the second level; Shanghai Bank and Chongqing Rural Commercial Bank reflect the scale characteristics of regional banks. Scale differences will affect the cost of capital, customer coverage and business diversification.

Table 1. Core Financial Indicators of Representative Sample Banks in 2024

Bank Type	Representative Bank	Total Assets	Total Loans	Net Profit
State-owned Large Commercial Bank	ICBC	48.82 trillion yuan	28.37 trillion yuan	366.946 billion yuan
National Joint-stock Commercial Bank	CMB	12.15 trillion yuan	6.89 trillion yuan	148.391 billion yuan
City Commercial Bank	Bank of Shanghai	3.23 trillion yuan	1.41 trillion yuan	23.560 billion yuan
Rural Commercial Bank	CQRCB	1.51 trillion yuan	714.273 billion yuan	11.789 billion yuan
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a Source: Compiled from the 2024 annual reports and publicly disclosed financial data of the sample banks.

Note: In this article, banks operating mainly through an internet-based model are treated as one form of private banking for comparative analysis of digital business characteristics, rather than as a separate regulatory category.

3. COMPARISON OF BUSINESS STRUCTURE OF DIFFERENT TYPES OF BANKS

From the asset side, the core characteristics of large banks are wide allocation range and relatively low concentration in a single industry and a single region [5]. According to the annual report of ICBC in 2024, various loans amounted to about 28.37 trillion yuan. Loans are the most important interest-bearing assets, and they also hold large-scale bond investments and liquid assets. This configuration enables it to adjust between corporate loans, personal loans and financial market assets [6]. When the demand for a certain type of loan weakens, the asset portfolio still has a certain buffer space. "Figure 1" compares the total assets of four representative samples, and the scale difference is very obvious. However, scale itself is not equal to profitability. Its value is more reflected in customer coverage and risk diversification.

The asset structure of joint-stock banks pays more attention to the balance between income and capital efficiency. China Merchants Bank has a strong retail customer base and expands its comprehensive income through wealth management, investment banking and other businesses. Compared with state-owned banks, joint-stock banks rely more on market-oriented operation and risk pricing to form differentiated advantages.

The asset allocation of city commercial banks and rural commercial banks is closely related to the regional economy. They mainly serve local enterprises, residents and county, agriculture-related and small and micro customers. Regional deep ploughing helps to give full play to information advantages, but it also improves the sensitivity of management to local economic fluctuations. Rural banks focus on counties and small and micro markets, with small business scale and high requirements for risk management ability.

Private and digital banks show obvious online and small-scale characteristics. They mainly carry out consumer credit and small and micro loans through digital channels. Online mode can reduce operating and customer acquisition costs, but profit performance is sensitive to the stability of business scenarios [7].

State-owned banks and joint-stock banks with strong retail base usually have relatively stable customer deposits. The sources of liabilities of local banks and rural banks are more influenced by

regional markets. Some private and digital banks rely more on market-oriented funds. When the return on assets is under pressure, the difference in debt cost will further affect the net interest margin and profitability.

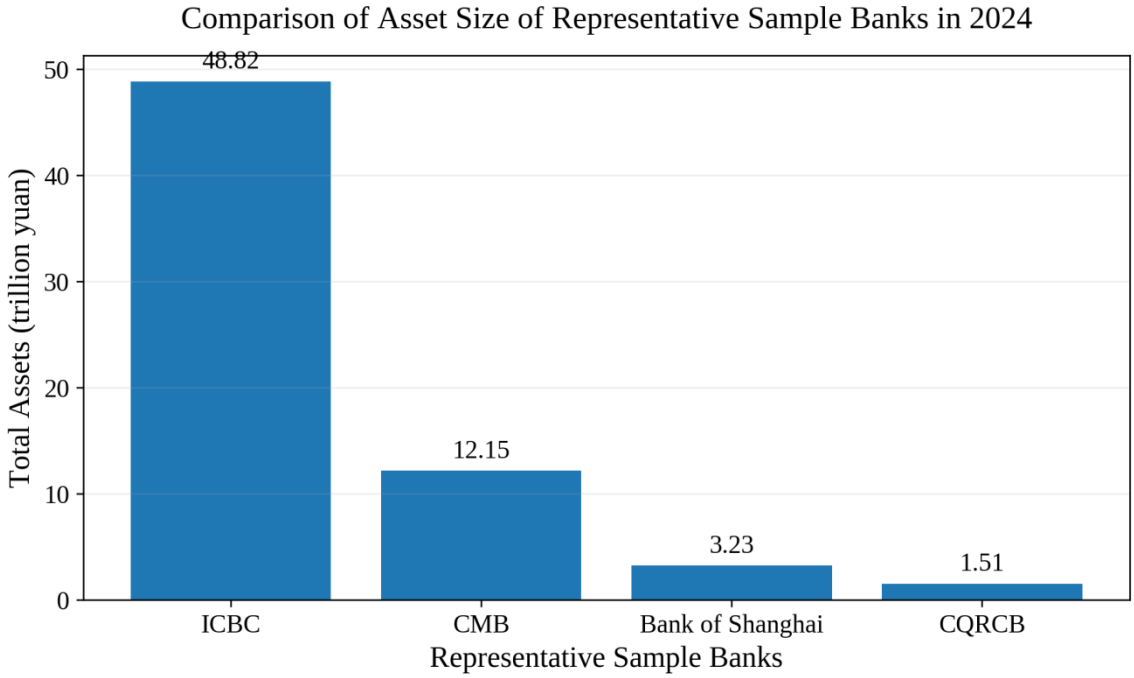


Figure 1 Comparison of Asset Size of Representative Sample Banks in 2024.

a Source: Drawn by the author based on data from the 2024 annual reports of the sample banks.

4. COMPARISON OF PROFIT MODELS OF DIFFERENT TYPES OF BANKS

The profits of commercial banks mainly come from net interest income and non-interest income. There are obvious differences in the income structure of different types of banks. Large state-owned commercial banks are still based on net interest income, and at the same time rely on customer base and comprehensive operating ability to develop non-interest business. In the context of narrowing the net interest margin, the focus is on improving the comprehensive operating efficiency of customers [8].

Joint-stock banks put more emphasis on specialized management and customer value mining. China Merchants Bank, as the representative, has a strong retail business foundation and expands its income sources through wealth management, investment banking and other businesses. Compared with large banks, joint-stock banks have higher profit elasticity, but they are also more susceptible to market competition.

The profit of city commercial banks depends more on regional deposit and loan business, and local customer relations and information advantages help to form certain competitiveness. Its profit model optimization should be based on regional advantages and moderately expand non-interest income [9]. The profit sources of rural commercial banks and rural banks are more concentrated in net interest income, mainly relying on county, agriculture-related and small and micro customers.

Private and digital banks mainly rely on online credit to obtain interest income and reduce operating costs through digital technology. However, its non-interest income base is weak, and its profit performance is sensitive to capital cost and risk control ability. “Table 2” compares the customer base, asset structure, liability characteristics and main profit sources of different types of banks. Local and long-tail market institutions are more dependent on spreads and risk pricing. Banks with stable customer base and wide business scope are more qualified to expand non-interest income.

Table 2. Comparison of Business Structure and Profit Model Characteristics of Different Types of Banks

Bank Type	Main Customer Base	Asset-side Focus	Liability Characteristics	Main Profit Sources	Main Constraints
State-owned Large Commercial Banks	Large enterprises, institutions, and broad retail customers	Corporate and retail lending; bond investment	Stable core deposits and relatively low funding costs	Net interest income plus diversified intermediary business	Narrowing net interest margin and scale efficiency pressure
National Joint-stock Commercial Banks	Urban retail customers, private firms, and wealth clients	Retail lending, corporate finance, and market business	Relatively strong retail deposit base but sensitive competition	Interest income plus wealth management and investment banking income	Homogeneous competition and pressure on risk pricing
City Commercial Banks	Local enterprises, residents, and key regional projects	Regional lending and bond investment	Mainly local deposits supplemented by active liabilities	Regional deposit-loan spread plus some intermediary income	Regional concentration and constraints in capital and talent
Rural Commercial Banks / Village Banks	County-level, agriculture-related, micro and small businesses, and self-employed borrowers	Agriculture-related and micro/small lending	Mainly local deposits with limited deposit-gathering radius	Net interest income dominates	Credit risk, cost pressure, and regional volatility
Private / Digital Banks	Online long-tail individual and small-business customers	Consumer loans and online micro/small business loans	Relatively weak deposit base and greater reliance on market-based funding	Mainly interest income from online lending	Funding costs, scenario dependence, and model risk

a Source: Summarized by the author based on the operating characteristics and publicly disclosed information of different types of banks.

5. FORMATION MECHANISM OF PROFIT MODEL DIFFERENCE

Resource endowment determines business boundaries. State-owned banks rely on a broad customer base and stable liabilities to carry out comprehensive operations; Joint-stock banks are better at focusing on subdivision business; Local banks rely on regional information and customer relationships to form advantages; Private and digital banks make up for the lack of offline channels with technical capabilities. The business choices of various banks need to match their own funds, customers and risk control capabilities.

Debt structure has a direct effect on profit space. Low-cost core deposits need long-term customer relationship accumulation; large banks have more advantages in capital stability; Local small and medium-sized banks and digital banks are more vulnerable to changes in financing costs. Debt cost management has become an important factor affecting profitability.

The risk cost will affect the actual income. Small and micro, consumer and county loans are usually priced higher. But at the same time, it also has higher management costs. The return on assets of large banks is relatively low, but they can maintain profits with relatively stable asset quality.

Digitalization is reshaping the cost structure of banks. Large banks mainly rely on technology to improve customer management and operational efficiency. Local banks use it more for risk control and customer access. Private banks regard digital technology as an important basis of their business model. Whether the digital investment is effective or not ultimately depends on whether the operating cost can be reduced.

6. CONCLUSION

Different types of banks in China have formed a clear division of business structure and profit model. Large state-owned commercial banks rely on stable liabilities and comprehensive operating ability to maintain income resilience; Joint-stock banks enhance customer value through retail finance and specialized business; City commercial banks, rural commercial banks and rural banks are more closely linked to the regional credit market; Private and digital banks rely on online channels to expand decentralized financial services.

All kinds of banks should define their development priorities in combination with their own resource endowments. Large banks need to improve the efficiency of comprehensive financial services. Joint-stock banks should consolidate the advantages of customer stickiness. City commercial banks and rural commercial banks should continue to play their regional information advantages. Rural banks need to control risk concentration. Private and digital banks should reduce their dependence on a single scenario.

Whether the profit model can be sustained depends on whether the asset income, capital cost, risk level and business structure can be coordinated. Different types of banks should form clear business choices on the basis of their own advantages, so as to match the growth rate with capital and risk control capabilities.

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