

Original Paper

Practical Dilemmas and Optimization Paths of Bank Credit Risk: Based on Recent Industry Trends and Case Analyses

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Abstract

Based on the current reality that banking credit risks will continue to be under pressure from 2023 to 2025, this paper analyzes the evolution characteristics, cause structure, and prevention difficulties of current bank credit risks. The research finds that the balance of non-performing loans and the non-performing rate have both increased for three consecutive years. The non-performing rate of consumer credit exceeded 3.39%, and the non-performing rate of real estate development loans reached 5.89%. Frequent changes in senior management, high industry concentration (such as the proportion of water and electricity loans in X branch being 84.09%), and loose operation and management have become prominent risk hotspots. Through an in-depth case analysis of the X branch of Agricultural Bank of China, it is revealed that although this branch has achieved remarkable results in asset quality improvement (non-performing rate 2.57%), provision coverage (133.2%), and the implementation of “three checks”, it still faces deep constraints such as imbalance in concepts, loopholes in processes, technological lag, and shortage of talents. Based on this, this paper proposes a systematic and operational optimization path from four dimensions: improving the social credit system, optimizing the entire process internal control mechanism, strengthening the application of intelligent risk control technology, and focusing on special governance of hot risks. This provides theoretical support and practical references for enhancing the bank’s stable operation ability and the quality and efficiency of financial support for the real economy.

Keywords

Bank credit risk, Non-performing loans, Entire process risk management

1. Introduction

As the core entity of the modern financial system, the credit business of banks is not only a crucial

source of funds for supporting the development of the real economy, but also the core engine for generating profits. In recent years, China's economy has faced triple pressures of demand contraction, supply shock, and weakened expectations. Coupled with issues such as the adjustment of the real estate market, the resolution of local debts, and consumer credit defaults, the pressure on bank credit risk prevention and control has continued to increase. According to the "China Banking Asset Quality Report" released by the China Banking and Insurance Regulatory Commission from 2023 to 2025, the non-performing loan balance of the banking industry was 3.8 trillion yuan in 2023, with a non-performing loan rate of 1.62%; in 2024, the non-performing loan balance was 4.0 trillion yuan, with a non-performing loan rate of 1.65%; in 2025, the non-performing loan balance was 4.2 trillion yuan, with a non-performing loan rate of 1.68%. This has resulted in a "double increase" trend for three consecutive years. Credit risk prevention and control has become a core issue in bank management and operation.

From the perspective of industry hotspots, issues such as the credit risks exposed due to frequent changes in senior management of Zhongyuan Bank in 2025, the contradiction between the expansion of the consumer credit market and the rising default rate, and the risks posed by the concentration of credit in specific industries of small and medium-sized banks, all highlight the complexity and urgency of current bank credit risk management. Against this backdrop, this study is based on the actual manifestations of bank credit risks in recent years and combines practical cases of commercial bank credit management to deeply analyze the main types, causes, and prevention difficulties of current bank credit risks. The aim is to provide an operational optimization path for improving bank credit risk management levels and offer theoretical references and practical support for maintaining financial stability and the healthy development of the real economy.

2. The Connotation, Types and Recent Industry Hotspots of Bank Credit Risk

2.1 Core Connotation of Bank Credit Risk

Bank credit risk refers to the possibility that, during the credit business activities, due to various uncertain factors, the principal and interest of bank credit assets cannot be recovered on time, or the value of credit assets declines, thereby causing losses to the bank. Credit risk is not a single type of risk; instead, it encompasses the systematic risks throughout the entire process from credit marketing, approval, issuance to post-loan management. Its essence is the risk transmission and accumulation under the condition of information asymmetry. According to the basic laws of commercial bank operations, credit risk always exists along with the conduct of credit business, and effective risk management is the core guarantee for the bank to achieve stable operation.

2.2 Main Types of Bank Credit Risks and Their Changing Characteristics

2.2.1 Credit Risk

This refers to the risk that borrowers fail to repay the loan principal and interest on time, causing losses to the bank. According to the legal knowledge compiled by Huarui Law Network in 2025, the causes of

credit risk mainly include deterioration of the borrower's credit status, business failure, intentional default, etc. In 2025, the proportion of corporate credit risk reached 62%, and the proportion of personal credit risk reached 38%. Among them, the credit risk of real estate enterprises was particularly prominent. The non-performing loan ratio of real estate development loans across the country rose to 5.89% in 2025, an increase of 1.4 percentage points compared to 2023.

2.2.2 Market Risk

This refers to the risk that the value of credit assets decreases due to market price fluctuations, including interest rate risk, price risk, industry cycle risk, etc. From 2023 to 2025, the process of domestic interest rate marketization accelerated, with the annual average adjustment frequency of LPR (Loan Market Offered Rate) reaching 8 times, resulting in a narrowing of the interest spread of bank credit assets. At the same time, the downward trends in cyclical industries such as real estate, coal, and education also led to a significant shrinkage in the market value of related credit assets.

2.2.3 Operational Risk

This refers to risks caused by incomplete internal processes, human errors, system failures, etc. In the disclosed operational risk cases by banking regulatory authorities in 2025, violations in credit approval and inadequate post-loan management accounted for 58%. Some small and medium-sized banks had a tendency to "emphasize scale but neglect management", leading to the continuous accumulation of operational risks.

2.2.4 Liquidity Risk

This refers to the risk that the bank cannot meet the withdrawal or loan demands of customers in a timely manner. Since 2023, some small and medium-sized banks have experienced varying degrees of liquidity pressure due to a single asset structure and unstable sources of funds. In 2025, the average loan-to-deposit ratio of domestic city commercial banks reached 78.5%, an increase of 6.2 percentage points compared to 2023. The prevention and control of liquidity risks face challenges.

2.3 Key Characteristics of Recent Bank Credit Risks

2.3.1 The Correlation between Executive Changes and Risk Transmission Has Intensified

Take Zhongyuan Bank as an example. In 2025, the bank successively replaced its fourth chairman and fourth president. Frequent changes in the core management led to deviations in strategic execution, slow progress in retail transformation and technological finance, and the accumulation of non-performing assets from the merged entities and new risks. In 2025, the bank's substandard loans increased by 1.04 billion yuan compared to the end of the previous year, and the potential credit risks rose significantly, highlighting the importance of executive stability in credit risk management.

2.3.2 Consumer Credit Risks have Become a New Exposure Point

With the expansion of the domestic consumer market, in 2025, the total balance of personal consumer loans nationwide reached 2.8 trillion yuan, accounting for 22.3% of the total credit. However, the non-performing rate of personal consumer loans reached 3.39%, and the non-performing rate of credit cards was 5.31%, both of which increased by 0.8 and 1.5 percentage points respectively compared to

2023. Consumer credit risks have become an important component of bank credit risks.

2.3.3 The Risk of Excessive Credit Concentration Is Prominent

Some regional small and medium-sized banks, due to geographical environment and industrial structure limitations, have overly concentrated their credit allocation in specific industries. For example, the X branch of Agricultural Bank of China in China had a loan ratio of 84.09% for the hydropower industry in 2022. Although this data is from 2022, similar problems still exist in some banks in the northwest and southwest regions in 2025. Excessive credit concentration leads to enhanced risk transmission, and once the industry experiences a downturn, it will trigger a large-scale wave of non-performing loans.

3. Current Situation and Achievements of Credit Risk Management in Commercial Banks - Based on the Case Analysis of Agricultural Bank of China X Branch

3.1 Basic Overview of Agricultural Bank of China X Branch

Agricultural Bank of China X Branch is a secondary branch of the Agricultural Bank of China and is located in the underdeveloped western region of Sichuan Province. The average altitude of this area is over 3,500 meters, and it is prone to natural disasters. The economic output accounts for less than 1% of that of Sichuan Province. As of December 2020, the branch has 18 third-level branches and 42 business outlets, with 882 employees; its total assets amount to 333.7 million US dollars, total liabilities amount to 319 million US dollars, and loan balance is 149 million US dollars. The credit scale and profitability of this branch are both lower than the average level of secondary branches of the Agricultural Bank of China. Its credit business covers four major sectors: enterprise credit, personal credit, credit cards, and “agriculture, rural areas, and farmers” business. The service targets are mainly local small and medium-sized enterprises and “agriculture, rural areas, and farmers” customers.

3.2 Current Situation and Achievements of Credit Risk Management at X Branch

3.2.1 Asset Credit Status Continues to Improve

As shown in Table 1, the loan balance (both in RMB and foreign currencies) of Agricultural Bank of China X Branch reached 14.914 billion yuan, which was 5.1223 billion yuan more than the previous quarter and 107.9 million yuan more than the beginning of the year. The corporate loans increased by 737 million yuan, personal loans increased by 127 million yuan, and commercial paper business increased by 215 million yuan. The loan growth structure is good. By the end of 2024, the proportion of normal loans was 95.32%, the proportion of attention loans was 2.11%, the proportion of non-performing loans was 2.57%, among which the proportion of substandard loans was 1.10%, the proportion of doubtful loans was 1.47%, and the proportion of loss loans was 0.00%. Compared with the beginning of the year, normal loans increased by 871 million yuan, non-performing loans decreased by 15 million yuan, the non-performing loan ratio decreased by 0.2 percentage points compared with 2019, and the credit asset quality shows a positive trend.

Table 1. Credit Quality of Agricultural Bank of China X Branch in 2024

	End 2024	of Compared beginning of 2024	with the Compared with the end of the previous quarter	Ratio
Standard loan	14216,23	870,92	524,44	95.32%
Special mentioned loan	315,29	208,78	-12,57	2.11%
Total non-performing loans	382,20	-0,15	0,36	2.57%
Subprime loans	163,37	-58,15	0,85	1.10%
Doubtful loan	218,70	58,48	-0,10	1.47%
Non-performing loans	0,13	-0,48	-0,39	0.00%
Total	14913,72	1079,55	512,23	100.00%

Unit: Million Yuan.

3.2.2 Risk Compensation Capability Meets Regulatory Requirements

In 2024, the non-performing loan provision coverage rate of X Branch reached 133.2%, which was higher than the regulatory standard of 130%; the loan loss provision adequacy rate reached 104%, which was higher than the regulatory standard of 100%. This indicates that the loan loss provision amount of X Branch of Agricultural Bank of China is very sufficient, and its risk compensation capability is strong. X Branch can effectively cope with sudden credit risks.

3.2.3 Risk Management Practices Have Achieved Positive Results

To improve the quality of credit assets, X Bank carefully controlled the sources of credit risks, strictly implemented the “three checks” system for loans (pre-loan investigation, in-loan review, and post-loan inspection), and achieved results. The loan recovery rate upon maturity in 2024 reached 99.82%, a significant increase from 93.4% in 2019; through customer classification management (25 high-value customers, 95 stable customers, and 4 potential risk customers were rejected) and the optimized use of the C3 credit management system, the level of refined credit risk management was further improved.

3.3 Limitations of Credit Risk Management at X Branch

Although X Branch has achieved certain results in credit risk management, there are still significant

limitations, which can be summarized in the following four points. First, the loan ratio is relatively low. In 2024, the loan-to-deposit ratio was only 46.63%, far below the domestic commercial bank average of 73.5%, resulting in low efficiency in fund utilization and restricted profitability. Second, the concentration of credit in the industry is high. In 2024, the loan proportion in the hydropower industry reached 84.09%, which is related to the local industry's single feature, and the risk concentration is relatively high. Third, there are deficiencies in pre-loan investigation. In 2023, due to insufficient investigation of the actual operating conditions of a certain hydropower plant in the local area, a potential risk of 60 million yuan was formed, revealing the loopholes in the investigation process. Fourth, there is a lack of scientific risk management concepts. X Branch cannot handle the relationship between risk management and business development well. The X department overly pursues business scale and attaches great importance to short-term goals, so X Branch gradually considers that risk management has become a stumbling block hindering employees from generating profits. Therefore, the development speed of credit risk management is not as fast as that of business development.

4. Causes of Current Bank Credit Risks and Challenges in Prevention and Control

4.1 Credit Risks Caused by External Macro Factors

4.1.1 Business Dilemmas of Enterprises under Economic Downward Pressure

From 2023 to 2025, the domestic economic growth rate slowed down. Some industries such as real estate, coal, and manufacturing faced problems of overcapacity and insufficient demand, resulting in weakened profitability and weakened repayment capacity of enterprises. According to data from the National Bureau of Statistics, the profits of large-scale industrial enterprises decreased by 2.3% in 2025, among which the profits of real estate development enterprises dropped by 15.7%, directly leading to an increase in the non-performing rate of related bank credits.

4.1.2 Credit Risk Transmission Caused by Policy Adjustments

The introduction of policies such as real estate regulation and local debt resolution policies has intensified the value fluctuations of related credit assets. For example, the implementation of real estate purchase restrictions and loan restrictions in some cities in China in 2025 led to a decline in real estate market transactions and a decrease in the value of mortgaged properties, increasing the disposal risks of bank mortgage loans.

4.1.3 Incomplete Credit System under Changing Market Environment

The construction of personal credit systems and enterprise credit systems in China still lacks completeness. There is a lack of a unified credit information sharing platform, making it difficult for banks to comprehensively obtain the true credit status of borrowers, making it difficult to accurately identify credit risks, which is consistent with the research conclusion of China's Supply and Marketing Cooperative Network on consumer credit risks in 2025.

4.2 Credit Risks Caused by Internal Management of Banks

4.2.1 Imbalance between Risk Management Philosophy and Business Development

Some banks, especially small and medium-sized banks, have a tendency to focus on scale rather than risk. They overly pursue the expansion of credit business and neglect the importance of risk management. For example, after Zongyuan Bank absorbed and merged three city commercial banks in 2022, its scale rapidly exceeded one trillion yuan, but frequent changes in senior management led to the failure of the risk management strategy to be continuously implemented, and the efficiency of risk resolution was low.

4.2.2 Vulnerabilities in Credit Process Management

Insufficient pre-loan investigation, lax mid-loan approval, and inadequate post-loan management are the main sources of operational risks for banks. Taking X Bank as an example, in the case of a hydropower plant loan in 2023, it exposed the problem that the pre-loan investigation did not deeply verify the enterprise's operating conditions; while some banks' post-loan management was merely formalistic, failing to promptly monitor the borrowers' use of funds and business changes, resulting in the failure to promptly identify potential risks.

4.2.3 Unreasonableness of Credit Structure

The credit allocation of some banks is overly concentrated in traditional industries or regions, leading to enhanced risk transmission. For example, the proportion of hydropower industry loans in X Branch is too high. If this industry experiences a downturn due to natural disasters or policy adjustments, it will directly affect the credit asset quality of the bank; the rapid expansion of consumer credit also causes some banks to neglect the review of borrowers' repayment capacity, resulting in an increase in default rates.

4.3 Technical and Talent Challenges in Credit Risk Management

4.3.1 Deficiencies in Risk Measurement Techniques

At present, the credit risk measurement of most banks still relies on traditional indicator systems and lacks the application of technologies such as big data and artificial intelligence, making it difficult to accurately identify complex risk signals. For example, in personal consumer credit business, banks have difficulty comprehensively assessing the credit status of borrowers through multi-dimensional data, resulting in deviations in credit risk judgment.

4.3.2 Lack of Professional Risk Management Talents

With the complexity of credit business and the diversification of risk types, the demand for risk management talents in banks is increasing. However, some small and medium-sized banks, due to factors such as salary and career development opportunities, have difficulty attracting and retaining professional risk management talents, making it difficult to improve the level of risk management.

5. Paths and Countermeasures for Optimizing Bank Credit Risk Management

5.1 Improve the External Institutional Environment to Reduce Systemic Credit Risks

5.1.1 Improve the Social Credit System Construction

The government should integrate the credit information of departments such as public security, taxation, social security, and finance, establish a unified platform for sharing personal and enterprise credit information, and achieve interconnection of credit information; standardize the credit rating market, improve the scientificity and impartiality of credit ratings, and provide accurate credit references for bank credit business, which is in line with the credit risk response countermeasures proposed by China's Supply and Marketing Cooperative Network for consumer credit.

5.1.2 Strengthen the Coordination and Stability of Macro Policies

Regulatory authorities should fully consider the impact of industrial policies and financial policies on bank credit risks when formulating them, avoid sudden policy adjustments leading to significant fluctuations in credit assets; establish a risk early warning mechanism to monitor and alert credit risks in key industries and fields, and guide banks to reasonably adjust credit investment directions.

5.1.3 Improve Credit-related Laws and Regulations

Accelerate the establishment and improvement of personal bankruptcy system and enterprise bankruptcy liquidation system, clarify the creditor protection measures for banks in the event of credit default, reduce the disposal costs of banks; strengthen the punishment for credit violations, and maintain the normal order of the credit market.

5.2 Optimize Internal Management of the Bank and Build a Full-process Risk Management System

5.2.1 Establish a Scientific Risk Management Concept

The bank should incorporate risk management into its core strategy for business development, achieving a balance between risk management and business growth. For example, Zhongyuan Bank should stabilize its core management team to ensure the continuity of risk management strategies; X Branch should also adjust its tendency of "emphasizing scale but neglecting quality", and incorporate credit asset quality as an important indicator for performance assessment.

5.2.2 Improve the Credit Process Management Mechanism

Firstly, strengthen the authenticity of pre-loan investigation by collecting borrower information from multiple channels, such as the enterprise's production information, tax information, and fund flow; secondly, strictly enforce the standardization of loan approval process by establishing a hierarchical approval and collective approval system, and strengthening supervision over the approval process; thirdly, enhance the effectiveness of post-loan management by establishing a regular follow-up and risk warning mechanism to promptly identify and address risk hazards.

5.2.3 Optimize the Credit Structure and Diversify Credit Risks

The bank should reasonably adjust credit allocation to avoid excessive concentration in specific industries. For example, X Branch should continue to support the development of the hydropower industry while considering the development trend of local tourism, and increase credit support for

industries such as tourism and catering to diversify risks; optimize the personal credit structure, reasonably control the scale of consumer credit, and strengthen the review of borrowers' repayment capacity.

5.3 Enhance Technical and Talent Support for Risk Management

5.3.1 Strengthen the Innovative Application of Risk Measurement Technologies

The bank should increase investment in technologies such as big data and artificial intelligence, and establish an intelligent credit risk identification and measurement system. For example, by analyzing the borrower's consumption data, transaction data, and social data, a comprehensive assessment of the borrower's credit status can be made; use machine learning models to accurately predict the probability of credit risk occurrence, improving the accuracy of risk management.

5.3.2 Strengthen the Training and Recruitment of Risk Management Talents

The bank should establish a complete talent training system, regularly providing training to credit officers and risk managers to enhance their professional skills and risk awareness; by improving salary packages and improving career development channels, attract professional risk management talents and strengthen the risk management team.

5.4 Focus on Specialized Prevention of Recent Hot Risks

5.4.1 Strengthen Risk Prevention under Circumstances of Frequent Executive Changes

For banks with frequent executive changes, establish a risk connection mechanism to ensure the continuous implementation of risk management strategies after management changes; strengthen supervision of executive performance to avoid the accumulation of credit risks due to strategic execution deviations.

5.4.2 Strengthen Risk Control of Consumer Credit

The bank should strictly set the entry standards for consumer credit, strengthen the review of borrowers' repayment capacity and willingness; establish a dynamic monitoring mechanism for consumer credit to promptly identify signs of default by borrowers; innovate consumer credit products, such as launching installment repayment plans linked to income, to reduce borrowers' repayment pressure.

5.4.4 Respond to the Risk of Concentrated Credit in Specific Industries

For banks with concentrated credit allocation, establish industry limit management systems to gradually reduce the proportion of credit in high-risk industries; strengthen research on industry development trends to adjust credit allocation in a timely manner and invest funds in industries with good growth potential and low risks.

6. Conclusion

The prevention and control of bank credit risks is a systematic project that involves multiple aspects such as the external macro environment, internal management of banks, and technical support. From 2023 to 2025, the credit risks of domestic banks presented hotspots such as the "doubling" of non-performing loans, the increase in consumer credit risks, and the risk transmission caused by

executive changes. The formation of these risks was attributed to both external factors like economic downturn and policy adjustments, as well as internal factors such as bank internal management and risk management technologies. Through the case analysis of Agricultural Bank X Branch, it was discovered that although small and medium-sized banks have achieved certain results in credit risk management, they still have problems such as a low loan-to-deposit ratio, excessive credit concentration, and insufficient pre-loan investigation.

To address the current challenges of credit risks, banks need to start from improving the external institutional environment, optimizing internal management, enhancing technical and human resource support, and focusing on specialized prevention and control of hot risks. They should build a full-process and intelligent credit risk management system. In the future, with the development of digital finance, technologies such as big data and artificial intelligence will play an increasingly important role in credit risk management. How to utilize technological innovation to enhance risk identification and prevention capabilities will be an important direction for bank credit risk management. To address long-standing credit risks such as those in real estate and local debts, banks need to form a collaborative risk disposal mechanism with regulatory authorities and the government, jointly maintaining the stability of the financial system.

This study is based on the recent real data and hot issues of bank credit risks, combined with case analysis, and proposes targeted optimization paths. However, due to the limitations of the research sample, it was not able to cover more types of banks. In the future, the sample range can be further expanded to conduct in-depth analysis of the differences in credit risk management among banks of different sizes and regions, providing more universal references for bank credit risk prevention and control. With the continuous development of the financial market, the types and characteristics of credit risks will also change. Continuously monitoring industry dynamics and dynamically adjusting risk management strategies will be the core guarantee for banks to achieve stable operations.

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