

# Analysis on the factors influencing the profitability of city commercial banks

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**Abstract:** *With the slowdown of China's economic growth, the accelerated reform of interest rate marketization, the increasingly intensified trend of financial disintermediation, under the background of downward pressure on the economy, the business activities of urban commercial banks are facing a severe form. Compared with other domestic commercial banks, China's urban commercial banks have significant differences in profitability due to history, operation and management ability, local environment and other reasons. Therefore, it is a topic of strong theoretical and practical significance to explore which specific factors will affect the profitability of urban commercial banks and the extent of the impact. Factors influencing the city commercial bank profitability can be divided into internal and external, this paper assumes that the degree of assets, the credit ratio, capital strength, degree of non-interest income growth, operational efficiency and credit risk is the internal factors affect the profitability of the, while the external factors for economic development degree and the diversity of market demand. Based on the balance panel data of 10 urban commercial banks from 2013 to 2017, this paper conducts empirical analysis to verify the impact of various factors on the profitability of urban commercial banks. Based on the empirical research conclusions on the factors affecting the profitability of relevant sample city commercial banks, this paper puts forward strategies to improve the profitability of city commercial banks from five aspects: capital strength, cost management, credit risk, characteristic operation and regional economy.*

**Keywords:** *City commercial bank; Profitability; Influencing factors; Panel data model*

## 1. Introduction

### 1.1. Background

The core of urban commercial banks is to serve local areas, which has played a vital role in promoting the healthy development of the local real economy and the development of inclusive finance. Commercial banks have their particularity in business objects, but they also have the characteristics of ordinary enterprises. Their business activities aim at making profits, and their ultimate goal is to create value through daily independent business activities. One of the operating principles of commercial banks is profit-making, which enables commercial banks to maintain their business activities, resist external economic risks, seek their own development and enhance their core competitiveness. Therefore, city commercial banks need to maintain and improve their profitability in their daily operation and management activities.

With the deepening of interest rate liberalization reform in China's economy in recent years, China's economy is facing downward pressure, which leads to a decline in the growth rate of the financial industry. According to the China Banking Regulatory Commission, the return on assets of Chinese city commercial banks was 13.41 percent in 2017, down 0.98 percentage points from 2016. The non-performing loan ratio showed an upward trend from 2012 to 2016. The NPL ratio in 2017 was 1.66%, up 0.06 percentage points from 2016. Under such economic background, the profitability of city commercial banks is facing severe challenges.

At the current stage in China, due to the different development basis of commercial banks in different cities, the status quo of commercial banks in different cities varies greatly, so the profitability of commercial banks in different cities varies significantly. Therefore, it is necessary to make a detailed analysis of the profitability of urban commercial banks in order to explore the influencing factors and degree of the profitability of urban commercial banks. Thus, the profitability promotion strategy is put forward in line with the status quo of urban commercial development.

### **1.2. Research Significance**

With the development of Chinese city commercial banks, their role in China's financial system is becoming more and more important. However, in recent years, due to the exposure of regional and industrial credit risks of urban commercial banks and the influence of their own risk control and management capabilities, more and more small and medium-sized urban commercial banks with local characteristics have experienced a decline in the growth rate of net profits, and a very few of them are falling into development difficulties.

**Theoretical significance.** Through the empirical analysis and research on the factors affecting the profitability of urban commercial banks, the conclusion is a supplement to the existing research results, but also provides a theoretical basis for how to improve the profitability of urban commercial banks in the future.

**Practical significance.** This paper analyzes the profitability of the city commercial banks from the internal factors of the bank and the external factors brought by the macroeconomic form to analyze the impact of each factor on the profitability of the city commercial banks, and in view of how to improve the profitability of the city commercial banks put forward suggestions at various levels.

### **1.3. Foreign research trends**

**Internal Influencing Factors of Urban Commercial Banks:** Berger and Bouwman (2013)<sup>[1]</sup> The results of the study on Bank of America show that increasing capital is beneficial to improving the profitability of small-scale banks in both crisis and non-crisis periods, while increasing capital is beneficial to improving the profitability of medium-sized or large banks in bank crisis periods. Nicholas Apergis (2014)<sup>[2]</sup> The data of 1725 American financial institutions from 2000 to 2013 are selected for research. The research results show that non-interest business has a positive impact on the profitability of banks, but at the same time, it will increase the risk of bankruptcy of banks.

**External Influencing Factors of Urban Commercial Banks:** Giovanni Ferri (2009)<sup>[3]</sup> Select 20 city commercial bank in China is studied, and according to the city commercial Banks according to the western area, central and eastern are classified and the results show that in eastern, central and western city commercial bank profitability gradually strengthen, suggesting that the improvement of local economic growth rate of city commercial Banks profit ability get promoted. Wilko Bolt et al. (2012)<sup>[4]</sup> This paper mainly studies how bank profitability changes with the economic cycle, and the results show that bank profitability is significantly affected by the economic recession, and during the economic recession, the loss caused by the increase of the non-performing loan ratio is an important reason for the decline of bank profitability.

### **1.4. Domestic research trends**

**Internal Influencing Factors of Urban Commercial Banks:** Jiang Yue (2013)<sup>[5]</sup> Using the systematic generalized moment estimation method to select the data of 32 Chinese commercial banks from 2003 to 2011 for empirical research, it is concluded that the impact of bank profitability on asset size is u-shaped. Cao Zhipeng, Song Juanjuan (2014)<sup>[6]</sup> By using principal component analysis method to select the data of 16 listed commercial banks in China in 2011, the research shows that the profitability of commercial banks becomes stronger with the increase of asset-liability ratio. Li Minghui et al. (2014)<sup>[7]</sup> The dynamic panel data model is adopted to select the data samples of 144 Commercial banks in China from 1998 to 2012 as the research object. The research results show that non-interest business has no significant impact on the improvement of bank profitability. Ma Jin (2013)<sup>[8]</sup> By selecting the panel data of 14 listed banks from 2004 to 2011, it is concluded that the improvement of profitability of small and medium-sized listed commercial banks lies in the concentration of the largest shareholder. Jiang Jian, Zhao Yang (2012)<sup>[9]</sup> Data samples of 36 commercial banks from 2004 to 2009 were selected for empirical study. The results show that bank profitability can be significantly improved with the increase of capital adequacy ratio. Fu Yong et al. (2011)<sup>[10]</sup> The data samples of 13 small and medium-sized commercial banks in 2005 were selected by factor analysis method. The results show that the expansion of asset scale can significantly improve the performance and profitability of banks. Huang Jinqiu et al. (2006)<sup>[11]</sup> The empirical analysis on the profitability of 14 Chinese commercial banks in 1998 draws the opposite conclusion, that is, the expansion of bank's asset scale is not conducive to the improvement of profitability.

**External Influencing Factors of Urban Commercial Banks:** Zhao Xijun, Chen Lijie (2012) and Chen Hongbin (2016)<sup>[12]</sup> It is concluded that the regional economic growth rate will significantly affect the

operational performance of urban commercial banks. Xing Tiancai et al. (2013) and Zhang Kun (2013)<sup>[13]</sup> However, the opposite conclusion is drawn that GDP growth rate will not significantly affect its profitability. Xiao-yan zhang (2008)<sup>[14]</sup>. According to the research, the macroeconomic situation has no significant impact on the sample profitability of commercial banks in selected cities. Zhu Hongquan et al. (2014) and Li Yuan (2014)<sup>[15]</sup> The research shows that the macro economy has a significant impact on bank profitability. Liu Hong, Min Dan (2010) and Hu Yu (2015)<sup>[16]</sup> Research shows that bank concentration has a negative impact on bank profitability. He Guosheng, Liu Peng (2016)<sup>[17]</sup> Research shows that under the background of stable macroeconomic operation, listing can improve its profitability.

### 1.5. Research Review

There are abundant research results on the factors affecting the profitability of commercial banks at home and abroad. Foreign scholars pay more attention to the selection of data for empirical analysis, and its unique research perspective and ideas are worth our reference and learning. In recent years, many achievements have been made in the analysis and research of factors affecting the profitability of commercial banks, but most of the domestic research objects are non-urban commercial banks. Domestic scholars hold different views on the factors influencing the profitability of urban commercial banks. Urban commercial banks differ significantly from large state-owned banks and joint-stock banks in terms of operation and scale. Therefore, it is necessary to study the factors affecting the profitability of urban commercial banks. Explore the influencing factors and degree of the profitability of urban commercial banks, and provide reference for them to improve their own profitability.

## 2. Development status and profit status of urban commercial banks

### 2.1. Development status of urban commercial banks

City commercial bank is the predecessor of the city credit union established in the 1980s. In the mid-1990s, the central government established city commercial banks on the basis of city credit cooperatives. By the end of June 2017, there were 133 urban commercial banks in China, with 21,000 branches, covering 75% of the country and employing 410,000 people. The rapid development of city commercial banks also promotes the formation of China's diversified financial system. City commercial banks have become an integral part of China's economy.

Table 1: Change trend of total assets and liabilities of urban commercial banks from 2012 to 2017

year	Total assets			Total liabilities		
	Total Assets (100 million Yuan)	Growth rate (%)	Proportion of Financial Institutions in the Banking Sector (%)	Total Liabilities (100 million YUAN)	Growth rate (%)	Proportion of Financial Institutions in the Banking Sector (%)
2012	12.34	23.66	9.24	11.53	23.81	9.24
2013	15.17	22.93	10.03	14.18	22.89	10.04
2014	18.08	19.15	11.38	21.13	25.51	11.48
2015	21.36	18.16	11.95	26.18	23.94	12.01
2016	26.08	22.12	12.15	31.96	22.11	14.68
2017	32.15	23.26	14.26	39.37	23.20	15.11

\* Data source: official website of China Banking Regulatory Commission (<http://www.cbrc.gov.cn>)

From 2012 to 2017, the growth rate of total assets and liabilities of urban commercial banks slowed down along with the slowdown of China's economic growth (see Table 1). By the end of 2017, the total assets of city commercial banks reached 3.215 billion yuan, up 23.26 percent from 2016. The total assets accounted for 14.26% of the total assets of banking financial institutions, up 2.11 percentage points compared with 2016. By the end of 2017, total liabilities of city commercial banks totaled 3.937 billion yuan, up 23.20 percent from 2016. Total liabilities accounted for 15.11% of banking financial institutions, 0.43 percentage points higher than that in 2016. Urban commercial banks have become an important part of China's financial system.

### 2.2. Profit level of urban commercial banks

Between 2012 and 2017, the total after-tax profits of city commercial banks continued to rise (see Table 2), while profits grew, but continued to decline due to the slowdown in macroeconomic growth. By the end of 2017, city commercial banks made after-tax profits of 258.2 billion yuan. The growth rate

was 13.26%, or 30.2 billion yuan or 1.15 percentage points higher than that of 2016.

Table 2: Total profit trend of urban commercial banks from 2011 to 2015

year	Profit after tax of City Commercial Bank (%)	Growth rate (%)
2012	1367	20.04
2013	1641	20.00
2014	1859	13.28
2015	1993	15.59
2016	2280	14.41
2017	2582	13.26

\* Data source: 2012-2017 Compiled by The Banker

### 2.3. Profitability of urban commercial banks

Compared with other types of commercial banks in China, city commercial banks have certain particularity. On the whole, the profitability of Urban commercial banks in China is not good. The profitability of urban commercial banks is obviously lower than the overall level of commercial banks (see Table 3 and Table 4). From 2012 to 2017, its profit margin on assets and profit margin on capital generally showed a continuous downward trend. By the end of 2017, urban commercial banks' profit margin on assets was 1.04%, 0.02 percentage points higher than 2016 and 0.08 percentage points lower than the average level of commercial banks. Profit margin on capital 13.99%, 0.22 percentage points lower than 2016, 0.36 percentage points lower than the average level of commercial banks. Therefore, the profitability of city commercial banks needs to be improved.

Table 3: Change trend of profit margin on assets of urban commercial banks from 2012 to 2017

year	City Commercial Bank		Commercial Banks	
	Profit margin on Assets (%)	Range of change (percentage points)	Profit margin on Assets (%)	Range of change (percentage points)
2012	1.21	-	1.28	-
2013	1.12	0.09	1.27	0.01
2014	1.16	0.04	1.23	0.04
2015	0.98	0.18	1.10	0.13
2016	1.02	0.04	1.08	0.02
2017	1.04	0.02	1.12	0.04

\* Data source: official website of China Banking Regulatory Commission (<http://www.cbrc.gov.cn>)

Table 4: Change trend of capital profit margin of urban commercial banks from 2012 to 2017

year	City Commercial Bank		Commercial Banks	
	Profit margin on capital (%)	Range of change (percentage points)	Profit margin on capital (%)	Range of change (percentage points)
2012	18.59	0.27	19.85	0.55
2013	18.19	0.40	19.17	0.68
2014	16.57	1.62	17.59	1.58
2015	14.30	2.27	14.98	2.61
2016	14.21	0.09	14.56	0.42
2017	13.99	0.22	14.35	0.21

\* Data source: official website of China Banking Regulatory Commission (<http://www.cbrc.gov.cn>)

City commercial bank is a local joint-stock commercial bank formed on the basis of city credit cooperative and absorbing local finance and enterprise equity. In recent years, the city commercial bank industry as a whole develops rapidly. At present, urban commercial banks in China have total assets of 3.215 billion yuan and total liabilities of 3.937 billion yuan. City commercial banks are gaining market share. From 2012 to 2017, after-tax profits of urban commercial banks continued to increase, but profit growth continued to decline. From the perspective of profitability indicators, the profitability of urban commercial banks from 2012 to 2017 shows that the overall profitability of commercial banks is significantly higher than that of urban commercial banks, and the profitability of urban commercial banks still needs to be improved.

### 3. Strategies and suggestions for improving the profitability of urban commercial banks

The main internal factors affecting the profitability of urban commercial banks are cost-income ratio,

non-performing loan ratio and capital strength. The external macro factor affecting the profitability of urban commercial banks is the economic growth rate. Its daily business activities can improve its capital strength, reduce the cost-income ratio, reduce the non-performing loan ratio, and improve its profitability according to the actual macroeconomic development by constantly increasing its deposit market share.

### ***3.1. Capital strength***

In the process of enhancing their own capital strength, establish a comprehensive and detailed capital management framework. At the same time of increasing endogenous capital, we should also strengthen the ability of supplementing external capital and establish an effective capital supplementing mechanism suitable for our own development. At the same time, city commercial banks strengthen their ability to withstand external risks by supplementing capital.

#### ***3.1.1. Pay attention to capital accumulation and management***

City commercial banks can use profit transfer to increase retained earnings, or appropriately reduce the dividend ratio to increase retained earnings. By using these two methods to increase retained earnings, urban commercial banks can establish endogenous capital replenishment mechanism. For the development of urban commercial banks, the most effective capital replenishment mechanism is sustainable internal capital replenishment. The daily operation of urban commercial banks should not only pay attention to the accumulation of endogenous capital, but also strengthen capital management and advocate the development path of green finance. At present, the development of asset business of urban commercial banks is still mainly based on traditional credit business, which is not sustainable. Urban commercial banks can gradually change the development mode of asset business to capital light business, such as intermediate business transformation of indirect business such as retail business or other banking business with low capital occupation. In the process of transformation, city commercial banks should rationally allocate all kinds of risk assets in their limited economic capital, strengthen the corresponding risk restraint mechanism and improve the efficiency of capital operation.

#### ***3.1.2. Increase capital strength***

At present, only a few city commercial banks can supplement their capital by listing. Most city commercial banks are not qualified for listing financing. Listing financing not only has certain requirements on the operation capacity and governance scale of urban commercial banks, but also can select the appropriate listing place and time for the external market. Therefore, city commercial banks are faced with the problem of high threshold of listing and issuing. Therefore, it is difficult for most small and medium-sized city commercial banks to replenish capital through listing financing. Second, in the long run, the majority of city firms through the way of capital increase and share expansion to supplement capital is unfavorable. Because increase capital expansion will dilute shareholders' rights and interests. Third, merger. City commercial banks can merge with small financial institutions. Through mergers and acquisitions, we can expand scale and become more competitive in an increasingly fierce market. In short, all kinds of external channel financing methods have certain advantages and disadvantages. The city commercial bank should strengthen the feasibility study of various capital supplement channels and construct the capital supplement channels with its own development characteristics.

### ***3.2. Cost management***

Only by strengthening cost-benefit management and reducing administrative expenses can the cost-benefit ratio be reduced and its profitability be improved. City commercial banks should adhere to the finer and finer management concept, make full use of the existing resources and tools, strengthen cost-effectiveness management and achieve cost reduction. Thus achieving action and efficiency.

#### ***3.2.1. Optimize internal system***

In the aspect of the personnel structure of urban commercial banks, the internal governance system and related systems should be constantly improved and optimized. Can draw lessons from domestic and foreign large Banks advanced management experience to strengthen themselves, improve their corporate governance structure, make the enterprise system perfecting is advanced, and the deficiency existing in the architecture is strengthened, the lack of link to the intensive operation implementation mechanism, reduce the radius of management, improve work efficiency, to realize low cost operation and management.

#### ***3.2.2. Optimizing business processes***

In terms of business processes, it takes customer demand and experience as the core and uses Internet thinking to reshape the business processes of urban commercial banks. Online transactions through the Internet can not only reduce the input of urban commercial banks to the cost factor, but also improve the convenience of financial services. For example, in electronic transactions, the use of big data thinking to analyze customer information can not only solve the problem of information asymmetry by focusing on the batch processing of microfinance and microfinance business. It can meet customers' demand for loan financing in the first time; In terms of settlement, we will build a double first-class settlement and payment network system with efficiency and security. In the aspect of marketing, through in-depth mining and analysis of financial data such as customers' frequent trading behavior, targeted marketing is carried out. The Internet information technology is adopted to continuously optimize the business framework and improve the business efficiency of daily business activities through a more intelligent and convenient workflow.

### ***3.2.3. Optimize resource allocation***

In terms of resource allocation, asset allocation should be at the strategic level. Through detailed analysis of resource consumption of different business lines (such as retail business, small and micro finance business, and green finance business), the division of labor and cooperation among business personnel should be strengthened. On the premise of effective risk control, differentiated cost-benefit ratio control should be implemented from the level of resource allocation. For example, by integrating the retail business of urban commercial banks, it can meet the needs of customers for financial services while coping with the challenges brought by network finance. City commercial banks can also explore microfinance and microfinance service model of loan-investment linkage. By providing more diversified financial services to customers in daily business activities, it is not only beneficial to the healthy development of smes, but also conducive to realizing their own equity investment returns, thus achieving a win-win situation.

### ***3.2.4. We will strengthen talent development and management***

Urban commercial banks should subdivide the positions according to the nature of different positions, clarify relevant qualifications, and establish professional talent teams suitable for their transformation and development. According to different positions, we will constantly improve the competitive selection performance appraisal system and salary incentive mechanism, and establish a scientific and fair appraisal standard system. Further arouse the enthusiasm and initiative of employees, improve employee labor productivity.

## ***3.3. Credit risk***

Non-performing loan ratio is the key factor affecting the healthy development of urban commercial banks. Influenced by the slowdown of economic growth and industrial restructuring, the economic growth rate of most cities in China has decreased significantly. Companies in some related industries are struggling. It is the most important risk that city commercial bank will face at present stage. Therefore, urban commercial banks should constantly improve and coordinate corresponding credit policies and implement them in their daily business activities, strengthen credit risk management, establish sound management processes and optimize credit risk management system, so as to effectively identify, control, detect and report credit risks within their daily business scope.

### ***3.3.1. Strengthen forward-looking management of credit risks***

Forward-looking management plays an important role in urban commercial banks. By giving full play to the role of credit risk monitoring and early warning mechanism in daily management and operation, Internet technology credit risk monitoring system can be adopted. In the process of credit business, we should constantly follow up the suspicious risk points, pay attention to the early warning signals of credit customers dynamically, and implement the hierarchical management strategy for the early warning signals of risk, so as to enhance the sensitivity to credit risks.

### ***3.3.2. Strengthen credit risk management and control***

After the implementation of credit, risk management of credit assets shall be carried out according to classification, and management of corresponding credit assets shall be strengthened according to classification results. At the same time, we should strengthen regular supervision over the production and operation of loan enterprises, dynamically grasp the production and operation and profitability of loan enterprises, and fully reflect the loan quality in a timely and realistic manner. It provides a solid foundation for urban commercial banks to effectively resolve credit risks in the future.

### ***3.3.3. We will work harder to defuse credit risks***

In view of different credit environment customers, city commercial banks should use a variety of means to strengthen the resolution of credit risks. For enterprises that may form non-performing loans in the difficult period of operation, reasonable and objective analysis should be made according to the actual situation of production and operation, without blindly borrowing or borrowing, and differentiated policies should be adopted according to the existing problems. In different business conditions, such as the use of compression or loan extension and other ways. For high-quality enterprises with future development prospects and better management to improve operating conditions, various measures can be taken, such as joint issuance of credit, asset replacement or debt-equity swap can be used to help companies operating under bad conditions to tide over difficulties. For part of recoverable non-performing loans, they can cooperate with local financial asset management companies or recover them by themselves. So as to further improve the recovery efficiency of non-performing loans. Non-performing loans can also be dealt with in batches by means of restructuring or securitization of credit assets.

### ***3.4. Characteristic operation***

A key index to measure the competitiveness of urban commercial banks is the deposit market share, which is also a key factor affecting their profitability. Through characteristic operation, further improve profitability, enhance core competitiveness, and achieve characteristic development.

#### ***3.4.1. Characteristic management***

Urban commercial banks should adhere to characteristic management, deeply understand and grasp the differences between their own development and other types of banks, and choose the appropriate development path and development mode according to the actual situation of their own development. Targeting business areas where big banks have weak will and small banks lack capacity. Looking for their own advantages of business development direction, with dislocation competition to achieve their own characteristics. Through the study of the market, the existing businesses in the market are deeply excavated and subdivided, and then improve the depth and breadth of financial services, expand the coverage of financial services, in order to achieve long-term healthy development and maintain the goal of characteristic competitive advantages.

#### ***3.4.2. We will build an Internet ecosystem***

Because urban commercial banks are limited by their business scope, they should strengthen the construction of Internet ecosystem based on big data sharing. Expand the financial service chain, coordinate online and offline service channels, expand the scope of financial services, and improve the efficiency of financial services. For example, the establishment of intelligent customer information management system, through big data in-depth mining of customer demands, to provide accurate services to meet customer needs; In terms of customer financing needs, a new online direct financing model can be adopted to solve the problem of information asymmetry. Through cooperation with third-party online payment, such as strengthening cooperation with third-party platforms such as wechat and Alipay, to improve customer experience as the target of its business activities. Gradually build a multi-channel integrated Internet ecosystem to meet customers' diverse needs and experience of financial services, improve customers' versatility and experience value, so as to further enhance the advantages of urban commercial banks in the competitive market to maintain differentiation.

#### ***3.4.3. We will strengthen innovation in financial products***

At present, only by improving service efficiency, reducing costs, providing customers with better products, better services and more price advantages can its profitability be improved. With the increasing competition among banks in China, the financial products of both good and bad are emerging in the financial market. In the face of fierce competition, urban commercial banks should adapt to the needs of different types of economy and develop innovative financial products according to their own development status, market competition characteristics and personalized financial products. For example, city commercial banks develop financial products according to the different development trends and characteristics of small and micro enterprises. Innovate supply chain financial products suitable for small and micro enterprises and their upstream and downstream enterprises, and provide more convenient financial services for small and micro enterprises.

### **3.5. Economic situation**

Economic growth rate directly affects the profitability of city commercial banks. However, as an external factor, it is difficult for commercial banks to influence the speed trend of regional economic development. Especially at present, the new normal of China's economy and finance is developing, economic growth is slowing down, and the economic development of some old industrial areas is at a low ebb. Therefore, urban commercial banks should adapt to the regional economic situation and seek effective countermeasures to cope with economic recession.

#### **3.5.1. Adapt to local economic development and support local economic development**

City commercial banks should adapt to the changes of economic environment under the background of macro-economic trend, and make use of the advantages of being familiar with the local financial market to actively connect with local economy. With the local industrial structure and transformation, the new business space cultivated by the new industry has put forward an urgent demand for its financial services. Therefore, urban commercial banks should do a good job in the study of local industrial policies, accurately grasp the local industrial policies, strengthen management strategy research, deeply involve in the upgrading and optimization process of local industrial structure, and find that the profit growth point of new industries overlaps with its own business development, so as to achieve the improvement of profitability. For example, on the basis of considering the actual operation status and development direction of the local industry, and combining with local development policies, actively participate in the upgrading of the local industrial structure and the transformation of characteristic enterprises. Focus on helping the optimization and upgrading of regional economic industry chain, participate in the adjustment of local industrial structure through daily credit activities, and participate in local economy as a financial supporter.

#### **3.5.2. We will actively promote strategic innovation and transformation of banks**

In the process of promoting innovation transformation, urban commercial banks should strengthen the exploration of development mode. In the process of transition to specialization, the core competitive advantages of commercial banks in different cities are used to deeply explore and subdivide customer groups, forming special financial business development models with their own characteristics, such as green finance, inclusive finance, poverty alleviation finance and pension finance. In the process of exploring the development mode of characteristic financial business, the local market is refined and penetrated with the help of high-quality services. For example, urban commercial banks expand business outlets to cover blank areas of financial services, improve weak links of financial services and develop inclusive finance. As well as expanding their customer reach, they also benefit vulnerable populations that lack access to financial services. Grow up together with local people and give full play to the economic role of serving local people. In line with the local economic transformation, to achieve sustainable development, on the basis of constantly promoting innovative development, to create brand characteristics and competitive advantages.

#### **3.5.3. Strengthen union, realize cross - district management**

Facing the gloomy macroeconomic situation and increasingly fierce industry competition, it is necessary to invest a lot of resources in the research and development of financial products and intelligent information technology systems. However, at present, urban commercial banks have a certain gap in strength, talent and technology control, and are restricted by the region of operation. City commercial banks will face greater challenges in individual battles. With the implementation of the national policy to allow cross-regional operation, urban commercial banks follow the market rules in daily operation and break through the single urban operation mode. Independently explored and developed new modes of cooperation with industry to achieve cross-regional coordinated development. For example, we should establish complementary mechanisms for business qualification platforms for different types of business. Through the joint development of regional business, we can carry out the business which cannot be carried out due to the limited resources of each of us, and strengthen the joint efforts to enable the city commercial banks to better provide higher-level local financial services.

## **4. Conclusion**

Based on the empirical conclusion, this paper believes that improving capital strength, reducing the ratio of capital assets, and reducing the ratio of non-performing assets are the key to improving profitability, and the regional economic growth rate also has a significant impact on profitability.



Therefore, we should establish a long-term capital replenishment mechanism, attach importance to the accumulation of endogenous capital, strengthen capital management, enrich capital through capital market, and enhance capital strength. Second, we should strengthen cost-benefit management, optimize internal systems, optimize business and service processes, optimize resource allocation, strengthen talent team construction and management level, and improve fine management level. Third, we should strengthen credit risk management, strengthen credit risk management and reduce bad debt rate by increasing the classification and control of credit asset risk and strengthening credit risk dissolving. Fourth, from the characteristics of management, building a multi-channel integrated Internet ecosystem, strengthening financial product innovation and other aspects to improve market share and competitiveness. Fifth, we should adapt to the macroeconomic situation, actively connect with local economic development strategies, support local economic development, actively promote the innovation of banking strategy, realize cross-regional management, in order to cope with the downward pressure of regional economy.

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