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S&P Global
China Ratings

Credit Rating Report

China Construction Bank Corporation

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

September 18, 2020

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* This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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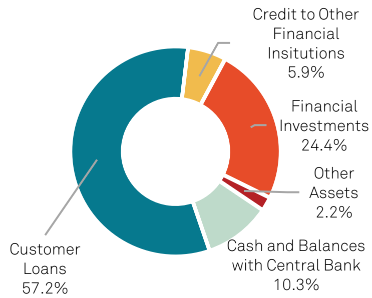
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
China Construction Bank Corporation	Issuer Credit Rating	AAA_{spc}	September 18, 2020	Stable

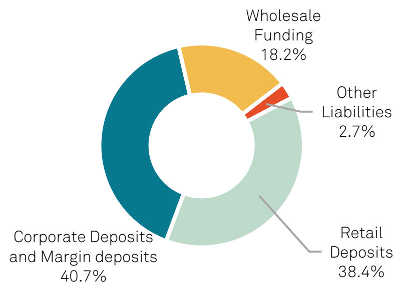
Industry Classification: Commercial Bank

Company Overview: China Construction Bank Corporation ("CCB") is the second largest bank in China, and one of the six state-owned mega banks. It has a balanced and strong business franchise in both corporate and retail lending. As of the end of 2019, it reported total assets of RMB 25.4 trillion and delivered a return on equity of 13.2% in 2019.

Asset Breakdown as of End of 2019



Liability Breakdown as of End of 2019



Economy and Industry Trends:

China is gradually recovering from the economic blow caused by COVID-19. For 2020 we now forecast much slower GDP growth than previously anticipated before the outbreak. Having said that, economic growth in China turned positive in the second quarter, and we expect China to achieve a U-shaped economic recovery by 2021. Despite the pandemic, we believe that the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of an U-shaped economic recovery. Although China's commercial banking sector delivered stable asset quality performance in the first half of 2020, we continue to expect higher pressure on credit cost and profitability going forward because of the pandemic. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe that the credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future. We believe the government is vigilant and responsive to the potential risks lying ahead for regional banks and is taking measures to ensure the stability of the banking sector. Three major measures currently underway include government-led capital injection, improvements to corporate governance and a clean-up of legacy bad debt.

Credit Highlights:

As one of China's six state-owned mega banks, CCB is China's second largest bank. It has superior business stability, adequate capitalization, stable asset quality, a diverse and large funding base and superior liquidity profile. The COVID-19 outbreak is likely to put pressure on CCB's asset quality and profitability, but we believe it is resilient enough to maintain its good capitalization and overall creditworthiness. In addition, we believe the likelihood of the bank receiving timely and sufficient extraordinary support from the central government in times of need is extremely high.

Key Metrics of CCB

	2016	2017	2018	2019	2020.06
Total assets (bil)	20,963.71	22,124.38	23,222.69	25,436.26	27,655.25
Customer deposits (bil)	15,402.92	16,363.75	17,108.68	18,366.29	20,402.16
Net income (bil)	232.39	243.62	255.63	269.22	138.94
Reported capital adequacy ratio (%)	14.94	15.50	17.19	17.52	16.62
Reported Return on average equity (%)	15.44	14.80	14.04	13.18	12.65
Non-performing loans ratio (%)	1.52	1.49	1.46	1.42	1.49
Reserve coverage ratio (%)	150.36	171.08	208.37	227.69	223.47
Customer deposits/total liabilities (%)	79.50	80.50	80.58	79.16	80.47

Source: CCB, collected and adjusted by S&P Global (China) Ratings.

Rating Snapshot

Anchor	bbb+
— Business Position	+3
— Capital and Earnings	0
— Risk Position	0
— Funding and Liquidity	+2
Stand-alone Credit Profile	aa_{spc}
Government Support	+2
Issuer Credit Rating	AAA_{spc}
Outlook	**Stable**

Business Position: CCB is China's second largest bank. It has a balanced and strong business franchise in corporate and retail banking with a strong edge in infrastructure finance and mortgage lending.

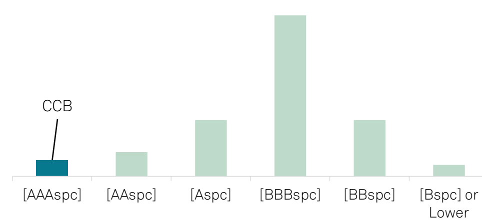
Capital and Earnings: CCB has adequate capitalization and healthy profitability. Given its status as a global systematically important bank (G-SIB), we expect it to continue to strengthen its capitalization. Although COVID-19 will have a negative impact on its earnings, we believe its capitalization will remain resilient.

Risk Position: The risk profile of the bank's loan portfolio is consistent with the industry average. Its asset quality is under pressure due to COVID-19 but the risk is mitigated by its large proportion of high-quality infrastructure development loans and mortgage loans.

Funding and Liquidity: CCB has a solid and sticky corporate and retail deposit base, and its use of wholesale funding is limited. As a state-owned mega bank, it also benefits from "flight to quality" when the market has credit risk concerns over the banking sector. Therefore, its funding and liquidity stability is much better than the industry average.

External Support: We believe that CCB is extremely likely to receive support from the central government in times of need, considering its status as a state-owned mega bank and its important role in maintaining financial stability in China and providing financing to China's infrastructure development and other important government initiatives.

CCB's Relative Issuer Credit Rating Position Among Financial Institutions In China



Note: this chart serves as a hypothetical example of S&P Global (China) Ratings' rating distribution of financial institutions. Rating below [AAA_{spc}] can be adjusted by "+" and "-".

Peer Group Comparison

(The peer group is the six state-owned mega banks in China, including CCB, ICBC, ABC, BOC, PSBC and BoCom.)

(2017-2019 three-year average)	CCB	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**23,594.45**	27,965.34	9,491.68	19,108.08	21,725.01	22,007.60
Customer deposits (bil)	**17,279.58**	21,316.51	5,803.87	14,219.60	16,170.76	16,032.97
Net income (bil)	**256.15**	299.85	53.71	180.00	212.58	198.00
Reported regulatory capital adequacy ratio (%)	**16.74**	16.74	13.26	15.01	15.33	14.96
Return on average equity (%)	**13.54**	13.54	10.63	12.30	12.60	12.43
Non-performing loans ratio (%)	**1.46**	1.60	0.83	1.38	1.44	1.47
Reserve coverage ratio (%)	**202.38**	353.67	166.54	220.57	210.04	189.38
Customer deposits/total liabilities (%)	**80.08**	95.23	66.22	80.60	80.76	81.31

Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
China Construction Bank Corporation	Issuer Credit Rating	AAA_{spc}	September18, 2020	Stable

Stand-alone Credit Profile	aa_{spc}
Anchor	bbb+
Business Position	+3
Capital & Earnings	0
Risk Position	0
Funding & Liquidity	+2
Holistic Adjustment	0

+

External Support	+2
Government Support	+2

Issuer Credit Rating
AAA_{spc} / Stable

Credit Highlights

Strengths	Weaknesses
— The bank is extremely likely to receive central government support in times of stress.	— COVID-19 has put pressure on asset quality.
— It is the second largest commercial bank in China with a very strong and stable business franchise.	— Profitability may be weakened by higher credit cost and lower net interest margins.
— It has a very stable deposit base and superior liquidity profile.	

Rating Outlook

The stable outlook reflects our expectation that CCB's business operations and financial strength will remain stable over the next two years or beyond. We also anticipate that its critical importance to the central government will remain stable.

Downside Scenario: We may consider lowering its issuer credit rating ("ICR") if we believe that its importance to the central government has declined, which is highly unlikely in our view. We may also consider lowering its stand-alone credit profile ("SACP") if CCB fails to effectively manage the credit risk of its lending business, resulting in a significant deterioration of asset quality metrics, or if its capital adequacy ratios can no longer meet minimum regulatory requirements and there is no plausible plan for immediate and effective remediation.

Upside Scenario: We may consider raising its SACP if its capital adequacy ratios adjusted by us rise significantly above the industry average, and its management is committed to maintaining capitalization high on a sustainable basis, or if it improves its asset quality performance to a level significantly better than the industry average.

Related Methodologies, Models & Research

Methodology Applied:

- S&P Global (China) Ratings Financial Institutions Methodology.
- S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking.

Model Applied: None.

Anchor

Macro-Economic and Industry Trends

Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "bbb+" to commercial banks in China.

China is gradually recovering from the economic blow caused by COVID-19. For 2020, we now forecast much slower GDP growth than previously anticipated before the outbreak. Nevertheless, economic growth already turned positive in the second quarter of 2020, and we expect China to achieve a U-shaped economic recovery by 2021.

Despite the pandemic, we believe that the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of a U-shaped economic recovery.

Although China's commercial banking sector delivered stable asset quality performance in the first half of 2020, we continue to expect higher pressure on credit cost and profitability going forward because of the pandemic. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe that the credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future.

We believe the government is vigilant and responsive to the potential risk lying ahead for regional banks and is taking measures to ensure the stability of the banking sector. Three major measures currently underway include government-led capital injection, improvements to corporate governance and a clean-up of legacy bad debt.

Stand-alone Credit Profile

CCB is the second largest commercial bank in China and one of the country's six state-owned mega banks. It has solid and massive corporate and retail customer bases in China. As of the end of 2019, it reported total assets of RMB 25.44 trillion and a regulatory capital adequacy ratio of 17.52%. In 2019, it delivered a return on equity of 13%. As of the end of 2019, 57% of CCB's shares were controlled by Central Huijin Investment Ltd ("Central Huijin"), making Central Huijin its controlling shareholder.

Business Position

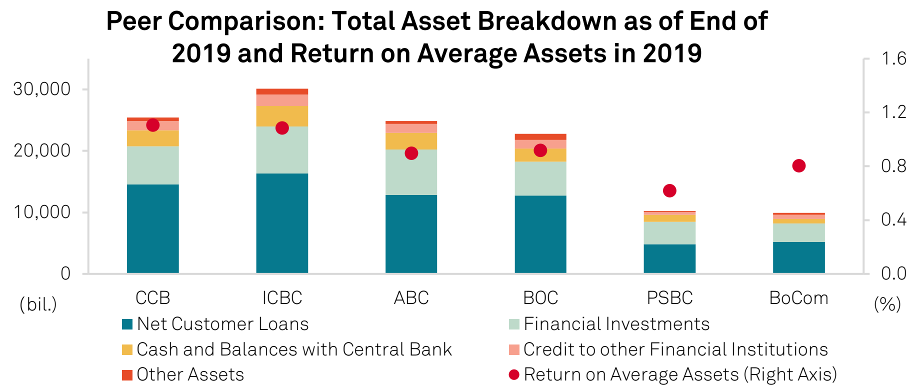
CCB is China's second largest commercial bank.

We apply a three-notch upward adjustment for its business position to reflect its superior business stability in China.

CCB is the second-largest commercial bank in China by assets. As of the end of 2019, it had 11.56% and 9.27% market share of loans and deposits, respectively. The bank has one of the most extensive domestic banking networks in China, operating over 14,000 branches within China and 33 branches overseas.

CCB's lending business growth rate is consistent with its peers. As of the end of 2019, it had a gross loan portfolio of RMB 15 trillion, up by 9% YoY. To help the real economy recover from COVID-19, its gross loan portfolio grew to RMB 16.5 trillion as of the end of June 2020, up by 9.7% compared to the end of 2019.

Chart 1



Note 1: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2] *100%

Note 2: ICBC- Industrial and Commercial Bank of China Ltd., ABC - Agricultural Bank of China Ltd., BOC - Bank of China Ltd., PSBC - Postal Savings Bank of China Co., Ltd., BoCom - Bank of Communications Co., Ltd.

Sources: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

Table 1

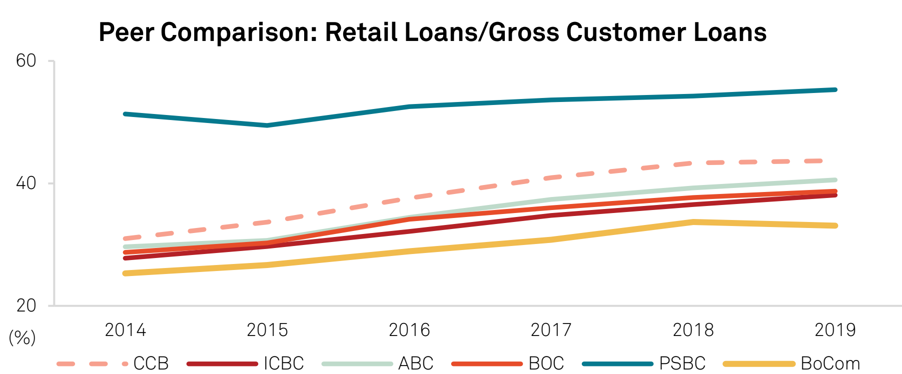
CCB -- Market Share

(%)	2016	2017	2018	2019	2020.06
Total assets/total assets of China's commercial banking industry	11.54	11.24	11.06	10.62	10.74
Gross customer loans/total loans of China's commercial banking industry	13.56	13.20	12.44	11.56	11.65
Customer deposits/total deposits of China's commercial banking industry	9.90	9.67	9.37	9.27	9.58
Retail deposits/total domestic retail deposits of China's commercial banking industry	11.67	11.17	11.00	10.86	11.04

Sources: CCB, CBIRC and PBOC, collected and adjusted by S&P Global (China) Ratings.

Compared to its peers, CCB has a well-established edge in infrastructure finance and residential mortgages. As of the end of 2019, infrastructure finance and residential mortgages accounted for 25% and 36% of its gross loans respectively. Due to its strong franchise in mortgage lending, its retail loan portfolio accounted for about 44% of its gross loans as of the end of 2019.

Chart 2



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

CCB has a balanced business revenue mix. In 2019, 46% of its pre-tax profits came from its retail business, 28% capital market business, and 22% corporate and commercial banking. Due to its diversified business mix, it has a meaningful commission and fee income which accounted for 19% of its revenue in 2019, up by 0.8 percentage points compared to 2018.

COVID-19 doesn't have a significant negative impact on the day-to-day operations of CCB and its peers. Having established good online banking services over the past decade, social distancing does not have a significant impact on the day-to-day operations of the bank. Due to the increase of online banking, its electronic banking revenue increased by 16.7% in the first half of 2020.

Table 2

CCB -- Business Position

	2016	2017	2018	2019	2020.06
Total assets (bil)	20,963.71	22,124.38	23,222.69	25,436.26	27,655.25
Year-over-year growth of total assets (%)	14.25	5.54	4.96	9.53	N.A.
Gross customer loans (bil)	11,757.03	12,903.44	13,783.05	15,022.83	16,474.15
Year-over-year growth of gross customer loans (%)	12.13	9.75	6.82	8.99	N.A.
Customer deposits (bil)	15,402.92	16,363.75	17,108.68	18,366.29	20,402.16
Year-over-year growth of customer deposits (%)	12.69	6.24	4.55	7.35	N.A.
Operating income (bil)	605.09	621.66	658.89	705.63	389.11
Year-over-year growth of operating income (%)	(0.02)	2.74	5.99	7.09	N.A.
Net income (bil)	232.39	243.62	255.63	269.22	138.94
Year-over-year growth of net income (%)	1.53	4.83	4.93	5.32	N.A.
Net fees and commissions income/operating income (%)	19.59	18.95	18.67	19.46	20.57

Source: CCB, collected and adjusted by S&P Global (China) Ratings.

Table 3

Peer Comparison -- Business Position

(2017-2019 three-year average)	CCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**23,594.45**	27,965.34	9,491.68	19,108.08	21,725.01	22,007.60
Year-over-year growth of total assets (%)	**6.68**	8.34	5.65	7.25	7.43	7.49
Gross customer loans (bil)	**13,903.11**	15,471.56	4,293.73	10,419.39	11,995.80	11,967.68
Year-over-year growth of customer loans (%)	**8.52**	18.23	8.52	10.84	10.11	9.20

Customer deposits (bil)	**17,279.58**	21,316.51	5,803.87	14,219.60	16,170.76	16,032.97
Year-over-year growth of customer deposits (%)	**6.05**	8.86	6.05	7.84	7.69	8.18
Operating income (bil)	**662.06**	785.15	213.71	502.48	578.37	549.91
Year-over-year growth of operating income (%)	**5.27**	13.74	4.39	7.58	7.06	6.95
Net income (bil)	**256.15**	299.85	53.71	180.00	212.58	198.00
Year-over-year growth of net income (%)	**5.03**	15.42	3.15	6.23	5.26	4.93
Net fees and commissions income/operating income	**19.03**	19.62	5.79	15.66	16.48	18.03

Note: We have chosen the five other state-owned mega banks in China, including ICBC, ABC, BOC, PSBC and BoCom, as the peers of CCB, for peer comparison purpose. The weights for the asset-weighted average calculation are the three-year average of total assets of these banks from 2017 to 2019. Therefore, the weights of CCB, ICBC, ABC, BOC, PSBC and BoCom are 20.58%, 24.39%, 19.93%, 18.46%, 8.36% and 8.28% respectively.

Sources: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

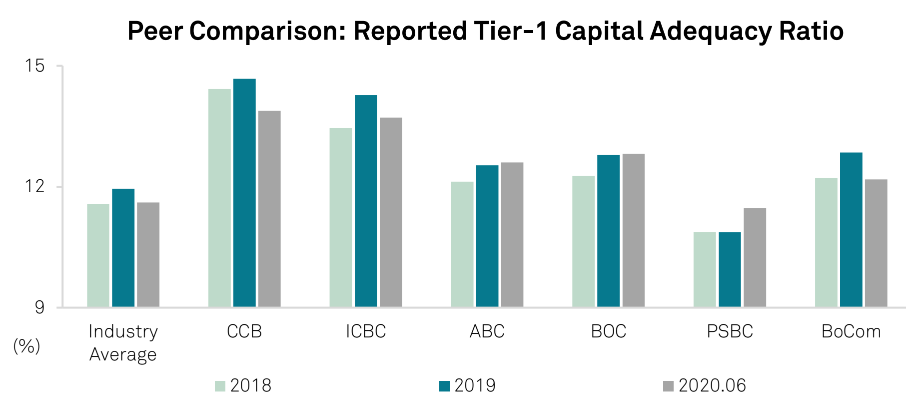
Capital and Earnings

CCB has the highest regulatory capital adequacy ratios among its mega bank peers. As of the end of June 2020, its reported regulatory tier -1 capital adequacy ratio was 13.88%, 1.10 percentage points higher than the mega bank average and 2.27 percentage points higher than the industry average.

CCB has sound capitalization and robust earnings, and we expect its capitalization to remain consistent with the industry average and its mega bank peers.

Therefore, there is no notching adjustment for its capital and earnings.

Chart 3



Sources: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

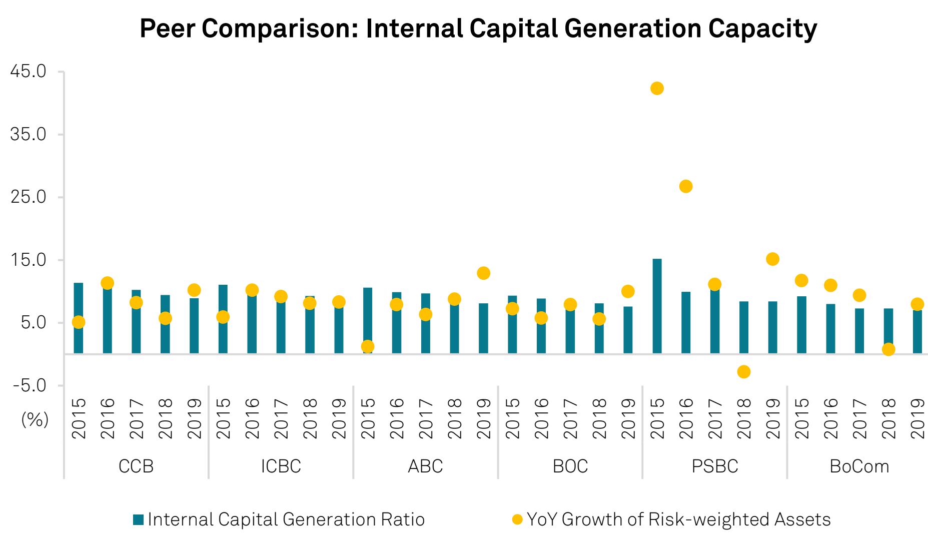
We expect CCB to increase its capitalization as it is a globally systemically important bank ("G-SIB") and subject to the higher capital requirements of the Financial Stability Board ("FSB"). According to FSB requirements, CCB is expected to increase its total loss absorbing capacity ("TLAC") to 19.5% of its risk-weighted assets at the beginning of 2025, before a further increase to 21.5% at the beginning of 2028.

CCB has multiple ways to raise capital. It is listed on both the A -share market in mainland China and the H-share market in Hong Kong. In addition, it has been issuing hybrid bonds, both tier-2 and tier-1 bonds, in the international and domestic bond markets. Furthermore, the bank has been optimizing its capital use through efficient asset and liability management. Its capital quality is better than most of its peers. As of the end of June 2020, its core tier-1 capital was 79% of its total capital.

In our opinion, CCB's capitalization is adequate and consistent with the industry average. Together with ICBC, ABC, BOC and BoCom and China Merchants Bank, CCB uses an internal rating-based ("IRB") approach to calculate regulatory capital ratios. Compared with the standard approach used by other Chinese banks beyond these six, the IRB approach typically leads to higher regulatory capital ratios. To ensure comparability among banks, we typically adjust capital ratios calculated using the IRB approach to the standard approach. After such an adjustment, CCB's tier-1 capital adequacy ratio under the standard approach as of the end of 2019 was about 2-3 percentage points lower than its reported ratio under the IRB approach.

CCB has good earning capacity to maintain healthy business growth and stable capital adequacy ratio. In 2019, its internal capital generation ratio was about 9%, generally keeping pace with its RWA growth rate.

Chart 4



Note: Internal capital generation ratio = (net income – cash dividend)/average total equity.
Sources: Public information of banks, collected & adjusted by S&P Global (China) Ratings.

The pandemic may slow down CCB's progress in meeting higher FSB TLAC requirements, as intensified lending activities and lower short-term profitability caused by COVID-19 have led to higher-than-usual capital consumption. Its tier-1 capital ratio dropped by 0.8 percentage points in the first half of 2020, but we expect capital consumption to slow down as the Chinese economy recovers and fewer extraordinary measures are needed. We expect CCB's tier-1 capital adequacy ratio under the IRB approach to be about 14% as of the end of 2020 and see further improvement by the end of 2021.

Table 4

CCB -- Capital Adequacy Forecast by S&P Global (China) Ratings

	2018A	2019A	2020E	2021F
Total risk-weighted assets (bil)	13,659.5	15,053.3	16,929.4	18,233.8
- Credit risk (bil)	12,473.5	13,788.7	15,581.3	16,827.8
- Market risk (bil)	120.5	123.7	138.8	136.2
- Operational risk (bil)	1,065.4	1,140.8	1,209.3	1,269.8
Tier 1 capital (bil)	1,969.1	2,209.7	2,346.0	2,578.8
Tier 1 capital adequacy ratio forecast (%)			13.9	14.1

Note:

This forecast is under IRB approach.

As of the end of June 2020, outstanding off-balance sheet wealth management products (WMPs) accounted for 11% of CCB's gross loans, and only a small portion of the underlying assets were non-standard products. Considering the growth of net asset value-based products, we don't expect these outstanding WMPs to have a significant impact on the bank's overall capitalization.

S&P Global (China) Ratings' base case assumptions include: 1. total assets growing by 11.4% and 6.9% in 2020 and 2021 respectively; 2. by the end of 2021, NPL ratio remaining below 2% and reserve coverage ratio at about 225%; 3.NIM at around 2.1%; 4. cost-to-income ratio remaining about 25%; 5. return on average equity at about 10.5% for 2021; and 6. annual dividend payout ratio remaining around 30%.

In addition, CCB plans to issue an RMB 66 billion Tier-2 capital bond later this year. We expect this bond issuance to boost its total capital adequacy ratio to close to 17% by the end of 2020.

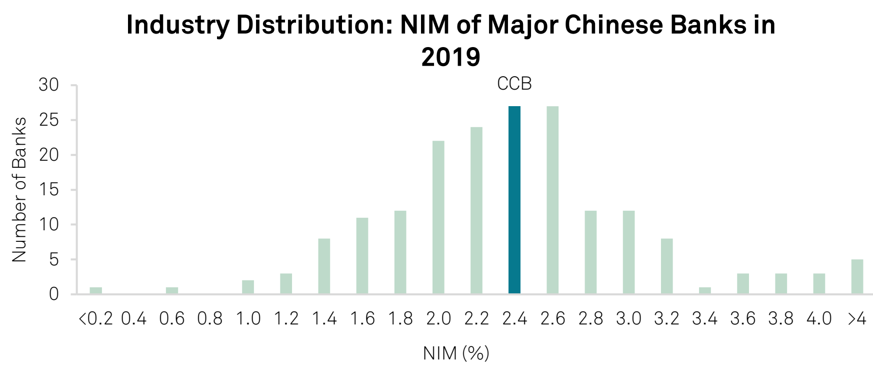
Note 1: A-actual; E-expected; F-forecast.

Note 2: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2]

Source: CCB, S&P Global (China) Ratings.

CCB's net interest margin ("NIM") is consistent with the industry average and its mega bank peers. In 2019, it had a reported NIM of 2.26%. In 2020, amid a government push for lower borrowing costs for the real economy during the COVID-19 period, CCB's NIM in the first half of the year dropped 13 bps to 2.14% compared to the same period of 2019.

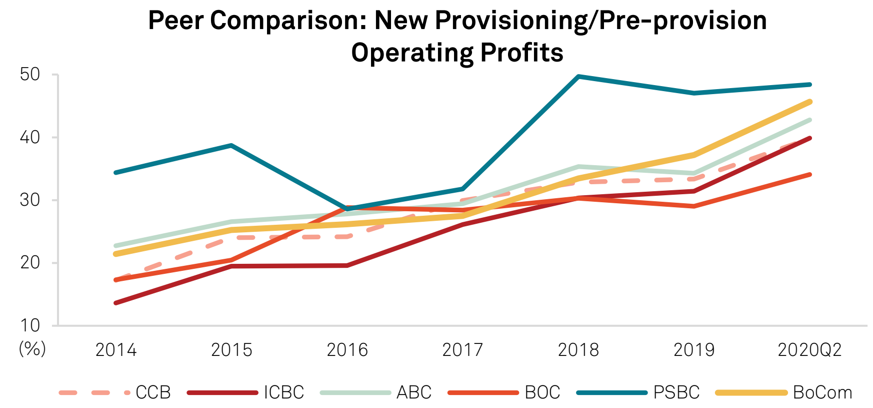
Chart 5



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Asset quality cost pressure is increasing CCB's credit cost. In 2019, its new provisioning was 33% of its pre-provision operating profits. In the first half of 2020, this ratio increased to 40%, leading to lower short-term profitability. We expect the pandemic to further increase its credit cost in 2020 and 2021. It remains too early to tell the full extent of the impact of COVID-19. But we believe CCB has sound buffers in terms of earnings, reserves and capital to cope with pandemic-induced asset quality pressure.

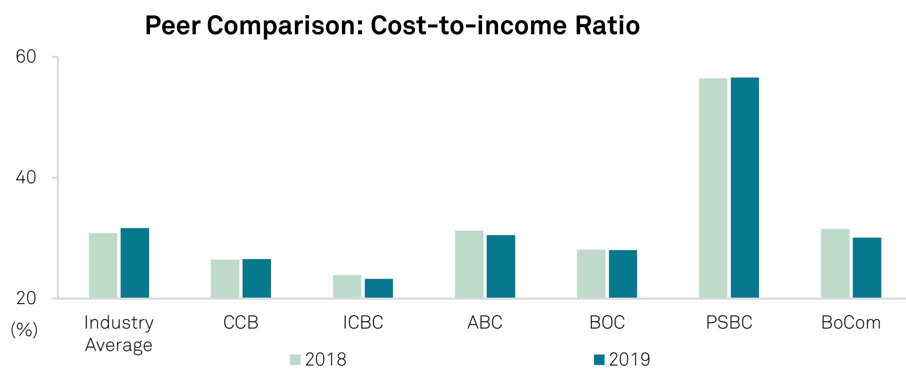
Chart 6



Sources: Public information of banks, collected & adjusted by S&P Global (China) Ratings.

CCB's effective cost control and good economies of scale have contributed to its good profitability. Its average cost-to-income ratio from 2017 to 2019 was 27%, 7 percentage points lower than the mega bank average and 5 percentage points lower than the industry average. In the first half of 2020, its cost-to-income ratio was 21%, 5 percentage points lower than 2019.

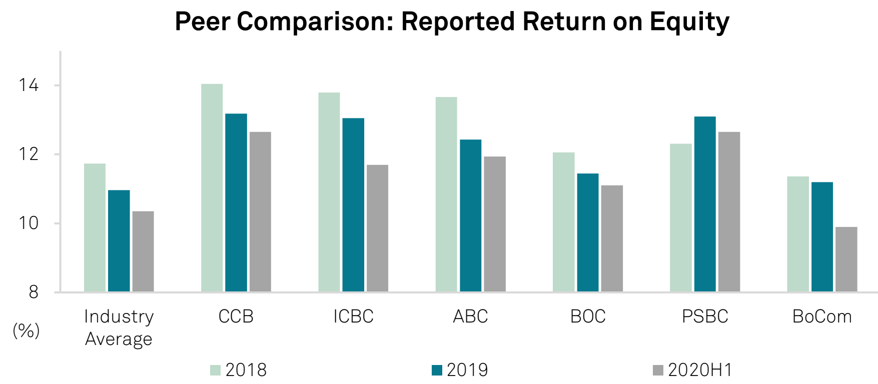
Chart 7



Sources: CBIRC, public information of banks, collected & adjusted by S&P Global (China) Ratings.

CCB has a profitability level better than its peers and the industry in general. Its average return on equity was 14% from 2017 to 2019, 1 percentage point higher than the mega bank average, and 2 percentage points higher than the industry average. In the first half of 2020, its annualized ROE was 12.7%, down by 3 percentage points compared to the same period last year.

Chart 8



Note: ROE for the first half of 2020 has been annualized.

Sources: CBIRC, public information of banks, collected & adjusted by S&P Global (China) Ratings.

Table 5

CCB -- Capital and Earnings

	2016	2017	2018	2019	2020.06
Reported regulatory capital adequacy ratio (%)	14.94	15.50	17.19	17.52	16.62
Reported regulatory tier 1 capital adequacy ratio (%)	13.15	13.71	14.42	14.68	13.88
Reported net interest margin (%)	2.20	2.21	2.31	2.26	2.14
Cost-to-income ratio (%)	25.26	25.60	25.38	25.44	19.49
Asset provisioning/pre-provision operating profits (%)	24.17	29.93	32.86	33.34	39.79
Loan provisioning/average gross customer loans (%)	0.81	1.00	1.07	1.03	N.A.
Return on average assets (%)	1.18	1.13	1.13	1.11	N.A.
Reported return on equity (%)	15.44	14.80	14.04	13.18	12.65

Note: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2]

Source: CCB, collected and adjusted by S&P Global (China) Ratings.

Table 6

Peer Comparison -- Capital and Earnings

(2017-2019 three-year average)	CCB	Peer Group				
		Max	**Min**	**Average**	**Asset-weighted average**	**Median**
Reported regulatory capital adequacy ratio (%)	**16.74**	16.74	13.26	15.01	15.33	14.96
Reported Tier 1 capital adequacy ratio (%)	**14.27**	14.27	10.47	12.51	12.83	12.33
Net Interest Margin adjusted by S&P Global (China) Ratings (%)	**2.13**	2.38	1.47	2.01	2.04	2.13
Cost-to-income ratio (%)	**25.47**	58.18	23.88	32.85	29.89	29.00

Asset provisioning/pre-provision operating profits (%)	**32.04**	42.82	29.25	33.19	32.00	32.38
Loan provisioning/average gross customer loans (%)	**1.04**	1.04	0.85	0.95	0.96	0.94
Return on average assets (%)	**1.12**	1.12	0.58	0.92	0.98	0.94
Return on average equity (%)	**13.54**	13.54	10.63	12.30	12.60	12.43

Note 1: The peer group includes the six state-owned mega banks.

Note 2: Net Interest Margin (NIM) adjusted by S&P Global (China) Ratings = adjusted interest income/ [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year)/2]

Note 3: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2]

Note 4: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2]

Source: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

Risk Position

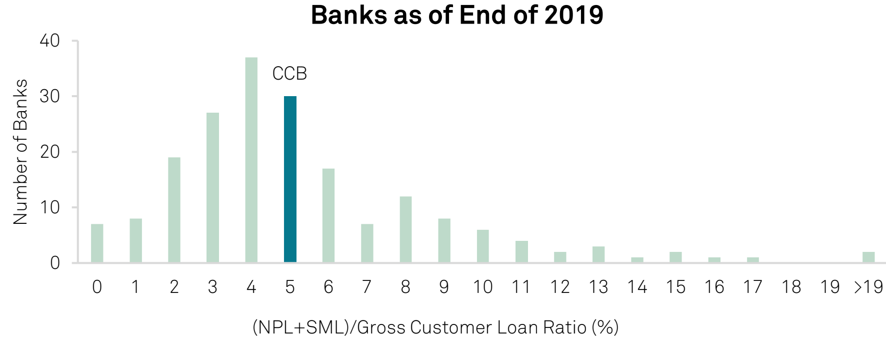
Before the pandemic, CCB's asset quality performance was similar to its peers and the industry average, and we believe this is consistent with its status as China's second largest bank with very large exposure to the real economy. Its average non-performing loan ("NPL") ratio from 2017 to 2019 was 1.46%, 2 bps higher than the mega bank weighted average and 35 bps lower than the industry average. Its average NPL + special mention loan ("SML") ratio from 2017 to 2019 was 4.32%, 21 bps higher than the mega bank weighted average and 70 bps lower than the industry average.

CCB's asset quality metrics are in line with the industry average and its mega bank peers.

Therefore, there is no notching adjustment for its risk position.

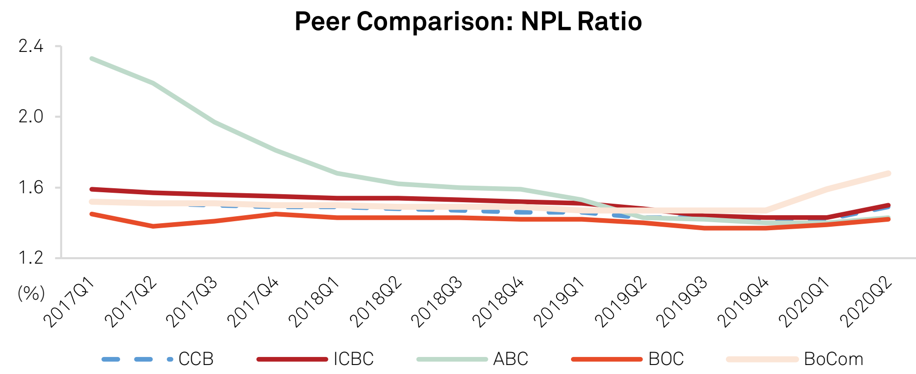
Chart 9

Industry Distribution: (NPL+SML) Ratio of Major Chinese Banks as of End of 2019



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 10

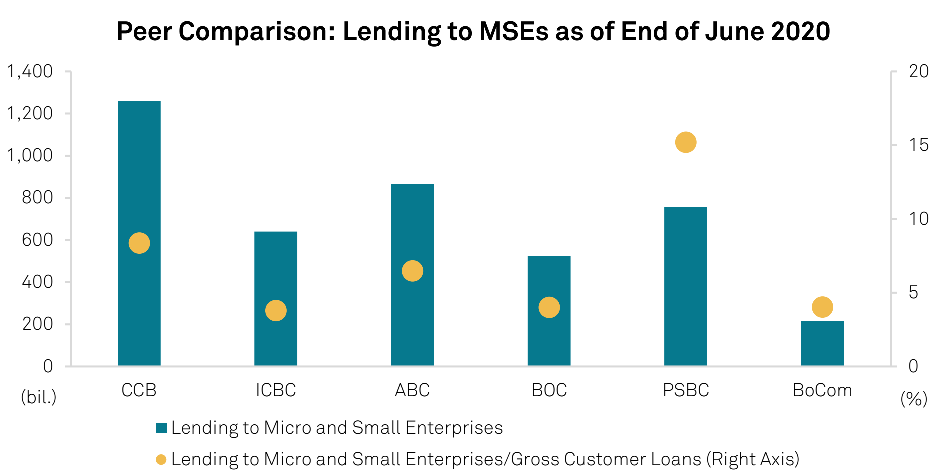


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We expect CCB's asset quality to remain under pressure in 2020 and 2021 due to COVID-19. As of the end of June 2020, CCB's NPL ratio was 1.49%, only 7 bps higher than the end of 2019; its NPL+SML ratio was 4.49%, 14 bps higher than six months earlier. The stable asset quality in the first half of this year is partially attributable to the lagging effect of NPL recognition, fast growth of new lending and writing off efforts. Having said that, we also believe the steady economic recovery and effective control of the pandemic in China have prevented severe asset quality deterioration of banks.

We expect more asset quality pressure related to micro and small enterprise ("MSE") loans. In the first half of the year, CCB rapidly increased its lending to MSEs as required by the government. As of the end of June 2020, CCB's loans to MSEs were worth RMB 1.26 trillion, up by 31% compared to the end of 2019, and accounting for 8% of its gross loan portfolio; and its MSE loan portfolio had an NPL ratio of 1.56%, up by 11 bps compared to the end of 2019. In our view, there is some uncertainty around the asset quality performance of these MSE loans, with performance depending on both the lending standards of the bank and the progress of the economic recovery.

Chart 11



Sources: Public information of banks, collected & adjusted by S&P Global (China) Ratings.

In our view, asset quality pressure is mitigated by CCB's large portfolio of strong corporate borrowers and its high proportion of infrastructure financing and mortgage lending, which account for about 60% of its loan portfolio. These sectors are expected to remain resilient against the COVID-19 outbreak. As of the end of June 2020, CCB's infrastructure development loan portfolio had an NPL ratio of 1.40%, and a ratio of 0.25% for mortgage lending.

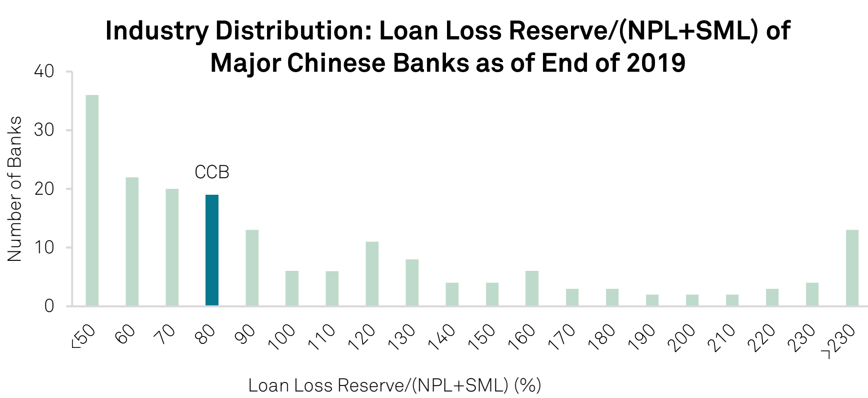
CCB has significant exposure to real estate, but we believe the associated risk is controllable. The majority of its real estate related loans are mortgages (accounting for 36% of its loan portfolio as of the end of 2019), which typically have very good asset quality performance due to good granularity of the portfolio and high underwriting standards. As of the end of 2019, CCB had a real estate development loan portfolio of RMB 659 billion, accounting for 4% of its gross loans， and 88% of loans in this portfolio were for property development in first and second tier cities. As of the end of June 2020, its NPL ratio of real estate development portfolio was 1.08%, lower than its total NPL ratio of 1.49%.

We believe CCB has a prudent and stringent approach to NPL recognition. As of the end of June 2020, loans 90+ days overdue accounted for 52% of its NPLs. In our opinion, the forbearance measures given to MSE clients following the COVID-19 outbreak make current bad debt classification measures less responsive than during normal times, probably postponing some of the NPL recognition to 2021. As of the end of June 2020, CCB has provided forbearance measures to about 150,000 micro, small and medium-sized enterprises.

CCB has stepped up its efforts concerning bad debt disposal. In 2019, it wrote off bad debt worth RMB 49 billion, accounting for 0.34% of its average gross loans that year. In the first half of 2020, it wrote off another RMB 27 billion, up by 6% compared to the same period last year. In addition, it issued NPL asset-backed securities of RMB 5 billion and RMB 4 billion in 2019 and the first half of 2020 respectively.

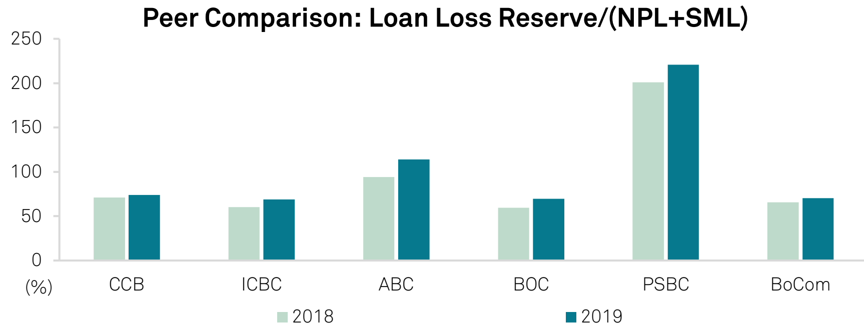
CCB has high NPL coverage from its reserves, but provisioning pressure would still exist if more SMLs migrate to NPLs. As of the end of June 2020, its NPL coverage ratio was 223% and its loan loss reserve coverage of both NPLs and SMLs was 74%. We expect asset quality pressure to lead to high provisioning cost in both 2020 and 2021.

Chart 12



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 13



Sources: Public information of banks, collected & adjusted by S&P Global (China) Ratings.

We believe that the credit risk of CCB's large investment portfolio is small. As of the end of June 2020, about 81% of its investment portfolio was bonds issued by central and regional governments, policy banks and the central bank.

Table 7

CCB -- Risk Position

	2016	2017	2018	2019	2020.06
Non-performing loan ratio (%)	1.52	1.49	1.46	1.42	1.49
(Non- performing loans + special mention loans)/gross customer loans (%)	4.39	4.32	4.28	4.35	4.49
Overdue loans/gross customer loans (%)	1.51	1.29	1.28	1.15	1.14
Loan loss reserves/gross customer loans (%)	2.29	2.55	3.04	3.23	3.34
Reserve coverage ratio (%)	150.36	171.08	208.37	227.69	223.47
Loan loss reserves/(non-performing loans + special mention loans) (%)	52.09	58.97	71.15	74.24	74.43

Source: CCB, collected and adjusted by S&P Global (China) Ratings.

Table 8

Peer Comparison -- Risk Position

(2017-2019 three-year average)	CCB	Peer Group				
		Max	**Min**	**Average**	**Asset-weighted average**	**Median**
Non-performing loan ratio (%)	**1.46**	1.60	0.83	1.38	1.44	1.47
(Non-performing loans + special mention loans)/gross customer loans (%)	**4.32**	4.70	1.48	3.82	4.11	4.20
Overdue loans/gross customer loans (%)	**1.24**	1.91	1.00	1.55	1.58	1.69
Loan loss reserves/gross customer loans (%)	**2.94**	3.95	2.46	2.90	2.94	2.79
Reserve coverage ratio (%)	**202.38**	353.67	166.54	220.57	210.04	189.38
Loan loss reserves/ (non-performing loans + special mention loans) (%)	**68.12**	197.57	57.53	89.91	79.46	65.40

Note: The peer group includes the six state-owned mega banks.

Sources: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

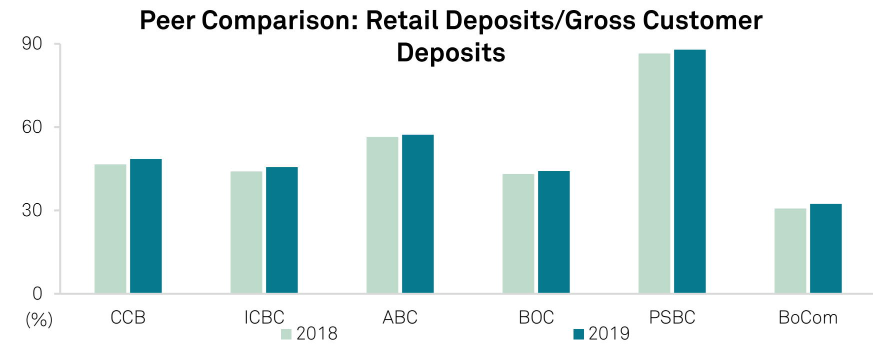
Funding and Liquidity

CCB has one of the largest deposit bases among Chinese banks. It has limited use of wholesale funding. It also benefits from "flight to quality" when market liquidity tightens.

Therefore, there is a two-notch uplift for its funding and liquidity.

CCB has a very stable funding structure thanks to its large and sticky corporate and retail deposit bases in China. It has a balanced deposit structure. As of the end of 2019, 49% of its deposits were retail deposits; in addition, 55% of its domestic deposits were demand deposits, which is another sign of the bank's good deposit stability.

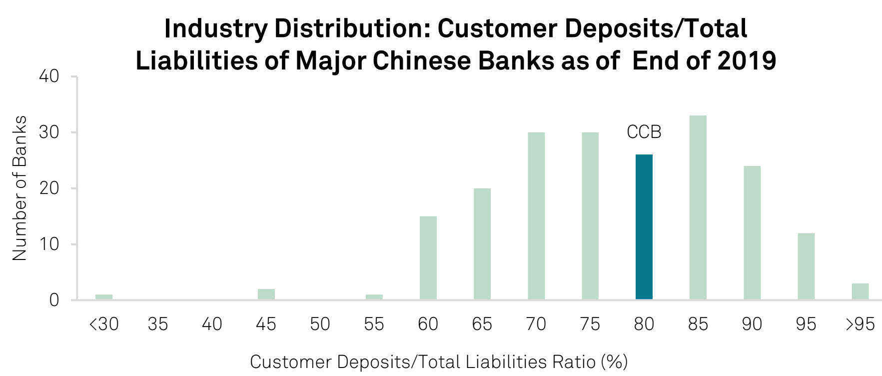
Chart 14



Sources: Public information of banks, collected & adjusted by S&P Global (China) Ratings.

Thanks to its large deposit base, CCB funds most of its business with deposits, and use of wholesale funding is limited. As of the end of 2019, 79% of its liabilities were customer deposits, and its use of wholesale funding represented about 18% of its total liabilities, lower than the industry average.

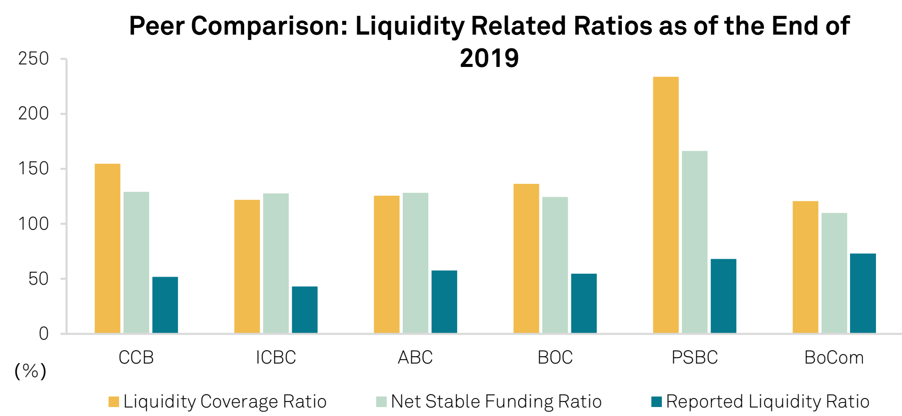
Chart 15



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

CCB has good liquidity metrics. The bank's daily average liquidity coverage ratio was 155% in the fourth quarter of 2019, much higher than the minimum regulatory requirement of 100%. Its net stable funding ratio was 129%, also higher than the minimum regulatory requirement of 100%.

Chart 16



Source: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

In addition, as a state-owned mega bank, in our view, CCB also benefits from the phenomenon of "flight to quality" when general market confidence in the financial sector weakens. Therefore, we believe CCB and its mega bank peers have a stronger and more stable liquidity profile than other smaller banks which are more susceptible to erosion of market confidence.

Table 9

CCB – Funding and Liquidity

(%)	2016	2017	2018	2019	2020.06
Customer loans/customer deposits	76.33	78.85	80.56	81.80	80.75
Customer deposits/total liabilities	79.50	80.50	80.58	79.16	80.47
Wholesale funding /total liabilities	17.62	16.49	17.14	18.17	16.85
Retail deposits/customer deposits	45.94	44.51	46.59	48.56	48.95
Liquidity coverage ratio	120.27	121.99	140.78	154.83	142.66
Net stable funding ratio	-	-	126.48	129.12	126.40

Note: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions+ financial assets sold for repurchase + transactional monetary liabilities + bonds payable.

Source: CCB, collected and adjusted by S&P Global (China) Ratings.

Table 10

Peer Comparison -- Funding and Liquidity

(2017-2019 three-year average) (%)	CCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/customer deposits	**80.40**	84.57	49.33	72.69	73.94	76.49
Customer deposits/total liabilities	**80.08**	95.23	66.22	80.60	80.76	81.31
Wholesale funding /total liabilities	**17.27**	31.46	3.51	16.98	16.67	16.32
Retail deposits/customer deposits	**46.55**	86.51	31.17	51.54	49.64	45.52
Liquidity coverage ratio	**139.20**	201.61	114.31	139.43	134.68	128.50

Note: The peer group includes the six state-owned mega banks.

Source: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

CCB is assigned an SACP of aa_{spc}, five notches higher than its anchor of bbb+. Its SACP reflects its superior business franchise and very strong funding and liquidity profile.

Issuer Credit Rating

External Support

In our opinion, as the second largest bank in China, CCB is of critical importance to the central government for its role in maintaining the country's financial stability. Together with other state-owned mega banks, CCB is very important for the government in its execution of major economic and financial policies. For example, during the pandemic, CCB increased its financing support to the real economy following government guidance. CCB provided support to MSEs in particular, and made concessions to the real economy to help economic recovery.

CCB has close ties with the central government through its ownership structure. As of the end of 2019, the central government held about 57% of the bank's shares through Central Huijin. In addition, the central government appoints or nominates the majority of the bank's board of directors and senior management.

Overall, we believe that the likelihood of CCB receiving extraordinary government support is extremely high, and we assign an ICR of AAA_{spc} to CCB, representing a two-notch uplift from its SACP of aa_{spc}.

We believe that as the second largest bank in China, CCB is of critical importance to the central government for its role in maintaining financial stability in China.

The extremely high likelihood of government support results in a two-notch uplift from its SACP of aa_{spc} and we assign an ICR of AAA_{spc} to CCB.

Appendix 1: Key Financial Data

CCB -- Key Financial Data	2016	2017	2018	2019	2020.06
Business Position					
Total assets (bil)	20,963.71	22,124.38	23,222.69	25,436.26	27,655.25
Gross customer loans (bil)	11,757.03	12,903.44	13,783.05	15,022.83	16,474.15
Customer deposits (bil)	15,402.92	16,363.75	17,108.68	18,366.29	20,402.16
Total equity (bil)	1,589.65	1,795.83	1,991.59	2,235.13	2,301.32
Operating income (bil)	605.09	621.66	658.89	705.63	389.11
Net income (bil)	232.39	243.62	255.63	269.22	138.94
Total assets / total assets of China's commercial banking industry (%)	11.54	11.24	11.06	10.62	10.74
Customer loans/total loans of China's commercial banking industry (%)	13.56	13.20	12.47	11.59	11.68
Customer deposits/total deposits of China's commercial banking industry (%)	9.90	9.67	9.37	9.27	9.58
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	14.94	15.50	17.19	17.52	16.62
Reported regulatory tier-1 capital adequacy ratio (%)	13.15	13.71	14.42	14.68	13.88
Reported net interest margin (%)	2.20	2.21	2.31	2.26	2.14
Cost-to-income ratio (%)	25.26	25.60	25.38	25.44	19.49
Asset provisioning/pre-provision operating profits (%)	24.17	29.93	32.86	33.34	39.79
Loan provisioning/average gross customer loans (%)	0.81	1.00	1.07	1.03	N.A.
Return on average assets (%)	1.18	1.13	1.13	1.11	N.A.
Reported return on equity (%)	15.44	14.80	14.04	13.18	12.65
Risk Position					
Non-performing loan ratio (%)	1.52	1.49	1.46	1.42	1.49
(Non-performing loans + special mention loans)/gross customer loans (%)	4.39	4.32	4.28	4.35	4.49
Overdue loans/gross customer loans (%)	1.51	1.29	1.28	1.15	1.14
Loan loss reserve/gross customer loans (%)	2.29	2.55	3.04	3.23	3.34
Reserve coverage ratio (%)	150.36	171.08	208.37	227.69	223.47
Loan loss reserve/ (non-performing loans + special mention loans) (%)	52.09	58.97	71.15	74.24	74.43
Funding and Liquidity					
Customer loans/customer deposits (%)	76.33	78.85	80.56	81.80	80.75
Customer deposits/total liabilities (%)	79.50	80.50	80.58	79.16	80.47
Wholesale funding /total liabilities (%)	17.62	16.49	17.14	18.17	16.85
Retail deposits/customer deposits (%)	45.94	44.51	46.59	48.56	48.95
Liquidity coverage ratio (%)	120.27	121.99	140.78	154.83	142.66

Note 1: In our view, CCB has a clear business model and sound financial management. Its annual financial reports have been audited by PricewaterhouseCoopers (2016 - 2018) and Ernst & Young (since 2019). We haven't conducted any material adjustments to its financial data.
Note 2: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2]
Source: CCB, collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Peer Comparison Data

Peer Comparison Data

(2017-2019 three-year average)	CCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	**23,594.45**	27,965.34	9,491.68	19,108.08	21,725.01	22,007.60
Gross customer loans (bil)	**13,903.11**	15,471.56	4,293.73	10,419.39	11,995.80	11,967.68
Customer deposits (bil)	**17,279.58**	21,316.51	5,803.87	14,219.60	16,170.76	16,032.97
Total equity (bil)	**2,007.52**	2,392.65	483.85	1,509.85	1,758.69	1,723.79
Operating income (bil)	**662.06**	785.15	213.71	502.48	578.37	549.91
Net income (bil)	**256.15**	299.85	53.71	180.00	212.58	198.00
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	**16.74**	16.74	13.26	15.01	15.33	14.96
Reported regulatory tier 1 capital adequacy ratio (%)	**14.27**	14.27	10.47	12.51	12.83	12.33
Net interest margin adjusted by S&P Global (China) Ratings (%)	**2.13**	2.38	1.47	2.01	2.04	2.13
Cost-to-income ratio (%)	**25.47**	58.18	23.88	32.85	29.89	29.00
Asset provisioning/pre-provision operating profits (%)	**32.04**	42.82	29.25	33.19	32.00	32.38
Loan provisioning/average gross customer loans (%)	**1.04**	1.04	0.85	0.95	0.96	0.94
Return on average assets (%)	**1.12**	1.12	0.58	0.92	0.98	0.94
Return on average equity (%)	**13.54**	13.54	10.63	12.30	12.60	12.43
Risk Position						
Non-performing loan ratio (%)	**1.46**	1.60	0.83	1.38	1.44	1.47
(Non-performing loans + special mention loans)/gross customer loans (%)	**4.32**	4.70	1.48	3.82	4.11	4.20
Overdue loans/gross customer loans (%)	**1.24**	1.91	1.00	1.55	1.58	1.69
Loan loss reserves/gross customer loans (%)	**2.94**	3.95	2.46	2.90	2.94	2.79
Reserve coverage ratio (%)	**202.38**	353.67	166.54	220.57	210.04	189.38
Loan loss reserve/ (non-performing loans + special mention loans) (%)	**68.12**	197.57	57.53	89.91	79.46	65.40
Funding and Liquidity						
Customer loans/customer deposits (%)	**80.40**	84.57	49.33	72.69	73.94	76.49
Customer deposits/total liabilities (%)	**80.08**	95.23	66.22	80.60	80.76	81.31
Wholesale funding/total liabilities (%)	**17.27**	31.46	3.51	16.98	16.67	16.32
Retail deposits/customer deposits (%)	**46.55**	86.51	31.17	51.54	49.64	45.52
Liquidity coverage ratio (%)	**139.20**	201.61	114.31	139.43	134.68	128.50

Note 1: In this report, we have chosen the five other state-owned mega banks as the peers of CCB for peer comparison purpose. The weights for the asset-weighted average calculation are the three-year average of total assets of these six banks from 2017 to 2019. Therefore, the weights of CCB, ICBC, ABC, BOC, PSBC and BoCom are 20.58%, 24.39%, 19.93%, 18.46%, 8.36% and 8.28% respectively.
Note 2: Net interest margin adjusted by S&P Global (China) Ratings (%) = Net Interest Income/ [(total interest-bearing assets at the beginning of the year +total interest-bearing assets at the end of the year)/2]
Note 3: Return on average assets =net income/ [(total assets at the beginning of the year +total assets at the end of the year)/2]
Note 4: Return on average equity =net income/ [(total equity at the beginning of the year +total equity at the end of the year)/2]
Source: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

Appendix 3: Rating History of CCB

Issuer Credit Ratings

Rating Type	Ratings	Outlook	Rating Date	Analysts	Related Reports
Initial Rating	AAA_{spc}	Stable	2020-9-18	Longtai Chen, Yifu Wang, Cong Cui, Xuefei Zou	Current Report

Note: these ratings are conducted based on S&P Global (China) Ratings Financial Institutions Methodology, and no quantitative model is used.