

Credit Rating Report

Shanghai Rural Commercial Bank Co. Ltd.

Issuer Credit Rating*: AA_{spc}-; Outlook: Stable

March 15, 2021

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* This rating is an Issuer Credit Rating (ICR). An ICR typically 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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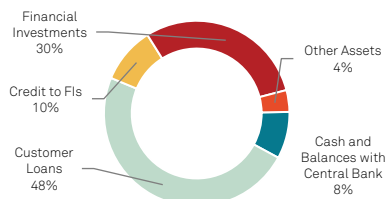
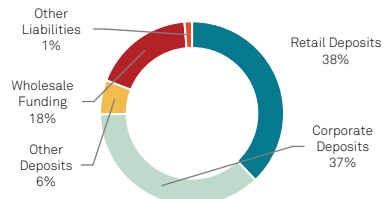
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Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
Shanghai Rural Commercial Bank Co. Ltd.	Issuer Credit Rating	AA _{spc} -	March 15, 2021	Stable

Industry Classification: Commercial Bank

Company Overview: Incorporated in 2005, Shanghai Rural Commercial Bank Co. Ltd. ("SRCB") has a solid business franchise in Shanghai. As of the end of June 2020, the bank reported total assets of 994 billion RMB, net loans of 486 billion RMB, and customer deposits of 745 billion RMB. It generated a net income of 8.9 billion RMB and reported a ROE of 13% in 2019.

Asset Breakdown as of End of 2019**Liability Breakdown as of End of 2019**

Economy and Industry Trends: China is recovering from the slowdown in economic growth caused by COVID-19. China achieved a YoY GDP growth of 2.3% in 2020. We expect China to complete its U-shaped economic recovery in 2021. Despite the pandemic, we believe the overall credit outlook for commercial banks in China will remain stable because of strong government support and the robust economic recovery. Although China's commercial banking sector reported stable asset quality performance in 2020, we expect pressure on credit impairment charges and profitability going forward because of the pandemic and legacy bad debts. State-owned mega banks and major joint-stock banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure in terms of asset quality and capitalization. In addition, we have also witnessed increasing divergence in regional asset quality performance. Therefore, we believe the stand-alone credit profiles of regional banks are likely to show greater differentiation between well-developed regions and less developed ones. We have seen several cases of regional governments, together with central government, supporting troubled regional banks by cleaning up their legacy bad debts and injecting new capital. Therefore, in our view, the chances of any large regional bank defaults in China in 2021 are unlikely, but there will be more government-led mergers and restructuring of small and mid-sized banks.

Credit Highlights: Operating in one of China's most developed regions, SRCB is a leading rural commercial bank in China. Thanks to the good credit environment in Shanghai and the bank's prudent risk management, its asset quality metrics are better than the industry average despite the asset quality pressure due to COVID-19. The bank has a solid deposit base in Shanghai and a low reliance on wholesale funding, leading to a good funding and liquidity profile. In our view, as a leading state-owned rural bank operating in China's financial center, serving micro and small enterprises ("MSE") and the agricultural sector, the bank is highly likely to receive government support in times of stress.

Key Metrics of SRCB:

	2016	2017	2018	2019	2020.6
Total assets (bil)	710.88	802.06	833.71	930.29	993.84
Customer deposits (bil)	553.77	609.08	644.91	692.35	744.99
Net income (bil)	5.98	6.66	7.12	8.94	4.55
Reported regulatory capital adequacy ratio (%)	12.39	14.27	15.86	15.57	14.60
Reported return on average equity (%)	13.42	13.83	13.25	13.14	N.A.
Non-performing loan ratio (%)	1.29	1.30	1.13	0.90	1.02
Reserve coverage ratio (%)	221.27	253.60	342.28	431.31	394.77
Customer deposits/total liabilities (%)	83.50	81.31	83.87	80.87	81.28

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

Rating Snapshot

Anchor	bbb+
— Business Position	0
— Capital and Earnings	0
— Risk Position	+1
— Funding and Liquidity	+1
Stand-alone Credit Profile	a_{spc}
Government Support	+2
Issuer Credit Rating	AA_{spc}-
Outlook	Stable

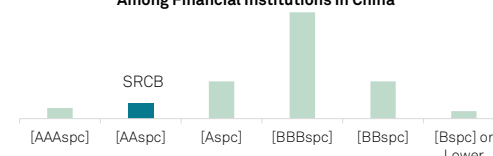
Business Position: SRCB has an extensive network and solid customer base in Shanghai, with particularly strong network coverage in suburban Shanghai. It has maintained robust deposit and loan growth.

Capital and Earnings: SRCB keeps a good balance between business expansion and capital adequacy, and its capital and earnings profile is consistent with the industry average. Although capital consumption was accelerated amid COVID, we believe its capitalization will remain adequate and stable.

Risk Position: Thanks to the resilient credit environment in Shanghai and the bank's prudent risk management, SRCB has maintained asset quality metrics better than the industry average. We expect its asset quality to remain good in the next 12 months despite the pressure from COVID-19.

Funding and Liquidity: Thanks to its solid deposit base in Shanghai and prudent liquidity management, SRCB has low reliance on wholesale funding, resulting in a funding structure more stable than the industry average. It enjoys an inter-bank market funding cost lower than average regional banks in China.

External Support: SRCB is state-owned with close ties with Shanghai government. It has a solid market position in Shanghai and plays an important role in serving local MSEs and the agricultural sector. We consider the likelihood of SRCB receiving support from governments in times of stress as high.

SRCB'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 categories below [AAAspc] can be adjusted by "+" and "-".

Peer Group Comparison

(2017-2019 three-year average)

	SRCB	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	855.35	961.77	312.05	704.46	791.63	826.54
Customer deposits (bil)	648.78	648.78	211.74	484.39	545.83	581.72
Net income (bil)	7.58	9.39	2.43	6.35	7.11	7.07
Reported regulatory capital adequacy ratio (%)	15.23	15.23	13.50	14.59	14.52	14.89
Return on average equity (%)	12.73	16.15	10.17	13.43	13.58	13.34
Non-performing loan ratio (%)	1.11	2.47	0.62	1.34	1.20	1.17
Reserve coverage ratio (%)	342.40	688.46	181.36	359.95	390.13	339.79
Customer deposits/total liabilities (%)	82.02	82.02	67.81	73.62	74.05	72.98

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

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

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Shanghai Rural Commercial Bank Co. Ltd.	Issuer Credit Rating	AA _{spc} -	March 15, 2021	Stable

Stand-alone Credit Profile a_{spc}	+	External Support +2	Issuer Credit Rating AA _{spc} - / Stable
Anchor bbb+		Government Support +2	
Business Position 0			
Capital & Earnings 0			
Risk Position +1			
Funding & Liquidity +1			
Holistic Adjustment 0			

Credit Highlights

Strengths	Weaknesses
<ul style="list-style-type: none"> — Very high likelihood of receiving government support in times of stress. — Asset quality metrics better than the industry average. — Solid deposit base and a funding structure more stable than the industry average. 	<ul style="list-style-type: none"> — Fierce banking competition in Shanghai limits its growth potential.

Rating Outlook

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

Downside Scenario: We may consider lowering the ICR if we believe that the bank's importance to the government declines, which is highly unlikely in our view in the foreseeable future. We may also consider lowering its SACP if its asset quality significantly deteriorates due to the pandemic or for any other reasons; or its capital base is significantly eroded by bad debts, falling short of minimum regulatory requirements and there is no reliable plan for immediate and effective remediation measures; or its reliance on wholesale funding increases significantly.

Upside Scenario: We may consider raising the ICR if the bank's importance to the government increases significantly. We may consider raising the SACP if its market share significantly increases; or its capital adequacy ratios rise significantly above the industry average and its management is committed to maintaining a high capitalization on a sustainable basis.

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

China is recovering from the slowdown in economic growth caused by COVID-19. China achieved a YoY GDP growth of 2.3% in 2020. We expect China to complete its U-shaped economic recovery in 2021.

Despite the pandemic, we believe the overall credit outlook for commercial banks in China will remain stable because of strong government support and the robust economic recovery. In addition, the banking sector has demonstrated great operational resilience amid measures to contain the pandemic, thanks to its long-term commitment to information technology and online banking.

Although China's commercial banking sector reported stable asset quality performance in 2020, we expect pressure on credit impairment charges and profitability going forward because of the pandemic and legacy bad debts. The debt moratoriums have spread out credit costs over years beyond 2020.

State-owned mega banks and major joint-stock banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure in terms of asset quality and capitalization. In addition, we have also witnessed increasing divergence in regional asset quality performance. Therefore, we believe the stand-alone credit profiles of regional banks are likely to show greater differentiation between well-developed regions and less developed ones.

In early 2021, CBIRC issued new regulations to restrict regional banks' main business operations to within their home regions. The regulator has made it clear that regional banks should focus on serving the regional economy in their home bases. In our view, the regulatory intention to restrain regional banks' national level expansion plays to the strengths of the leading regional banks in well-developed regions because regional banks' business stability and financial performance will be further tied up with their home regional economy.

We have seen several cases of the regional governments, together with central government, supporting troubled regional banks by cleaning up their legacy bad debts and injecting new capital. Therefore, in our view, the chances of any large regional bank defaults in China in 2021 are unlikely, but there will be more government-led mergers and restructuring of small and mid-sized banks.

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

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.

Stand-alone Credit Profile

Based in one of China's most developed regions, SRCB is one of the leading rural commercial banks in China. It was incorporated in the year of 2005 through the merger of 234 rural credit cooperatives in Shanghai. It has 36 subsidiaries, including 35 community banks and one financial leasing company, Yangtze United Financial Leasing. As of the end of June 2020, the bank reported total assets of 993.84 billion RMB, customer deposits of 744.99 billion RMB, and net customer loans of 486.41 billion RMB. In 2019, the bank generated an operating revenue of 21.27 billion RMB.

and a net income of 8.94 billion RMB and reported a return on equity ("ROE") of 13.14%.

SRCB is a state-owned bank, with about 62% of the bank's equity owned by state-owned entities. As of the end of July 2020, Shanghai State-owned Assets Management, China COSCO SHIPPING Corporation Limited and Baoshan Iron & Steel Co., Ltd. each held 9.22% of the bank's equity.

Business Position

SRCB has a solid market share in Shanghai and has an average asset size compared with major Chinese commercial banks. As of the end of June 2020, its loan market share in Shanghai was about 6% and its national market share by loan size was about 0.4%. During the pandemic, SRCB maintained robust business growth and operations. As of the end of June 2020, its total assets were 994 billion RMB, up by 7% compared to the end of 2019.

SRCB has an extensive network and highly competitive business franchise in Shanghai. As of the end of June 2020, the bank had 437 outlets, which had a good coverage over local villages and townships in Shanghai. Nevertheless, banking competition in Shanghai is fierce given its status as the financial center of China. In our opinion, this highly competitive local market may limit the bank's growth potential.

Given Shanghai's position as one of the most affluent and economically diversified regions in China, we believe SRCB will further solidify its position as one of the strongest regional banks considering the current regulatory policy of discouraging geographic diversification of regional banks beyond their home regions.

Table 1

SRCB -- Market Share					
(%)	2016	2017	2018	2019	2020.6
Total assets / total assets of China's commercial banking industry	0.39	0.41	0.40	0.39	0.39
Gross customer loans / total loans of China's commercial banking industry	0.39	0.38	0.37	0.36	0.36
Customer deposits / total deposits of China's commercial banking industry	0.36	0.36	0.35	0.35	0.35
Gross customer loans / total loans of financial institution denominated in local and foreign currencies in Shanghai	5.64	5.56	5.59	5.85	6.16
Gross customer deposits / total deposits of financial institution denominated in local and foreign currencies in Shanghai	5.01	5.41	5.32	5.21	5.16

Sources: SRCB, industry data published by CBIRC and PBOC, Shanghai Statistical Bulletin, collected and adjusted by S&P Global (China) Ratings.

Based in one of the most developed regions in China, SRCB is one of China's largest rural commercial banks.

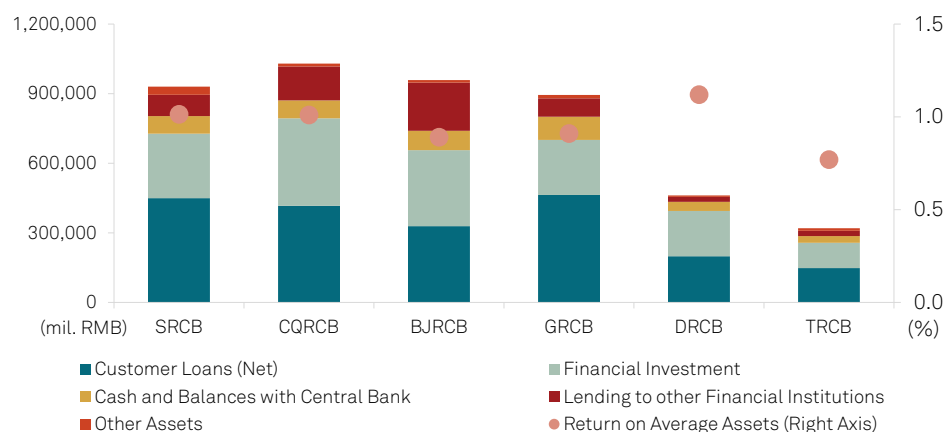
With a national market share of 0.4%, the bank has an average asset size compared with major Chinese banks.

There is no notching adjustment for its business position.

Chart 1

SRCB is One of the Biggest Rural Banks in China

Peer Comparison: Total Assets as of the End of 2019 and Return on Average Assets in 2019



Note 1: CQRCB - Chongqing Rural Commercial Bank, BJRCB - Beijing Rural Commercial Bank, GRCB - Guangzhou Rural Commercial Bank, DRCB - Dongguan Rural Commercial Bank, and TRCB - Tianjin Rural Commercial Bank.

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

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

SRCB generates half of its revenue from its corporate and commercial banking business. It focuses its lending business on serving local MSEs and the agricultural sector. As of the end of June 2020, micro, small and medium-sized corporate loans accounted for 53% of total loans.

SRCB's retail business accounts for about one quarter of its revenue. As of the end of June 2020, 28% of its loan book was retail loans; of which 74% were mortgage, 6% small business loans and 12% consumer loans.

Table 2

SRCB -- Business Position

	2016	2017	2018	2019	2020.6
Total assets (bil)	710.88	802.06	833.71	930.29	993.84
Year-over-year growth of total assets (%)	21.10	12.83	3.95	11.58	N.A.
Gross customer loans (bil)	338.10	373.64	409.91	466.87	505.59
Year-over-year growth of gross customer loans (%)	13.71	10.51	9.71	13.90	N.A.
Customer deposits (bil)	553.78	609.08	644.91	692.35	744.99
Year-over-year growth of customer deposits (%)	22.96	9.99	5.88	7.36	N.A.
Operating income (bil)	15.70	17.92	20.15	21.27	11.26
Year-over-year growth of operating income (%)	2.70	14.17	12.41	5.59	N.A.
Net income (bil)	5.98	6.66	7.12	8.94	4.55
Year-over-year growth of net income (%)	2.91	11.49	6.93	25.46	N.A.
Net fees and commission income/operating income (%)	14.86	17.73	16.09	12.99	14.56

Note: N.A. - Not applicable.

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

Table 3

Peer Comparison -- Business Position

(2017-2019 three-year avg.)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	855.35	961.77	312.05	704.46	791.63	826.54
Year-over-year growth of total assets (%)	9.45	10.73	1.78	8.40	9.08	9.64
Gross customer loans (bil)	416.81	416.81	143.35	301.80	336.77	346.69
Year-over-year growth of gross customer loans (%)	11.37	25.04	3.75	13.01	13.72	12.34
Customer deposits (bil)	648.78	648.78	211.74	484.39	545.83	581.72
Year-over-year growth of customer deposits (%)	7.74	15.89	3.34	9.83	10.03	8.60
Operating income (bil)	19.78	25.58	7.88	16.75	18.78	18.57
Year-over-year growth of operating income (%)	10.72	18.65	3.13	10.38	11.34	9.60
Net income (bil)	7.58	9.39	2.43	6.35	7.11	7.07
Year-over-year growth of net income (%)	14.62	15.71	6.87	11.24	11.97	11.24
Net fees and commission income/operating income (%)	15.60	15.60	2.81	9.70	10.11	9.65

Note: We have selected five rural commercial banks, including Chongqing Rural Commercial Bank, Beijing Rural Commercial Bank, Guangzhou Rural Commercial Bank, Dongguan Rural Commercial Bank and Tianjin Rural Commercial Bank, as the peers of SRCB, for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2017 to 2019. Therefore, the weights of SRCB, CQRCB, BJRCB, GRCB, DRCB and TRCB are 20.24%, 22.75%, 20.95%, 18.87%, 9.81% and 7.38% respectively.

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

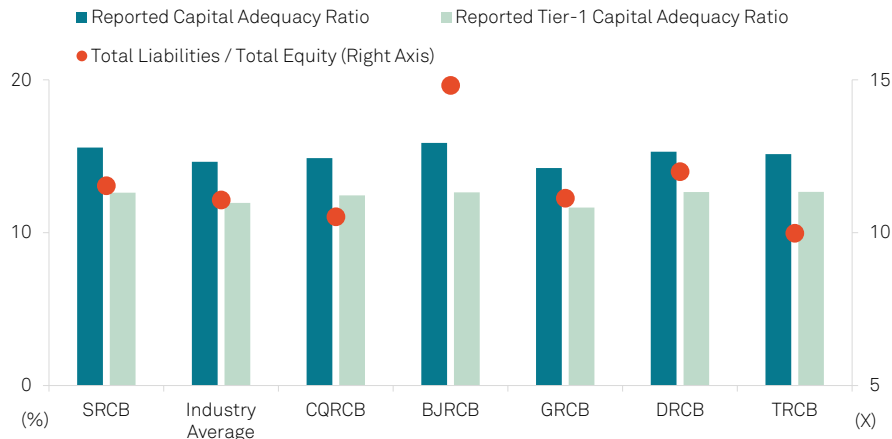
Capital and Earnings

SRCB has adequate capitalization. As of the end of June 2020, the bank reported a regulatory capital adequacy ratio and tier-1 capital adequacy ratio of 14.6% and 11.8% respectively, comfortably above the minimum regulatory requirements of 10.5% and 8.5%.

Chart 2

SRCB's Capitalization is Consistent with its Peers

Peer Comparison: Regulatory Capital Adequacy and Leverage Level as of End of 2019



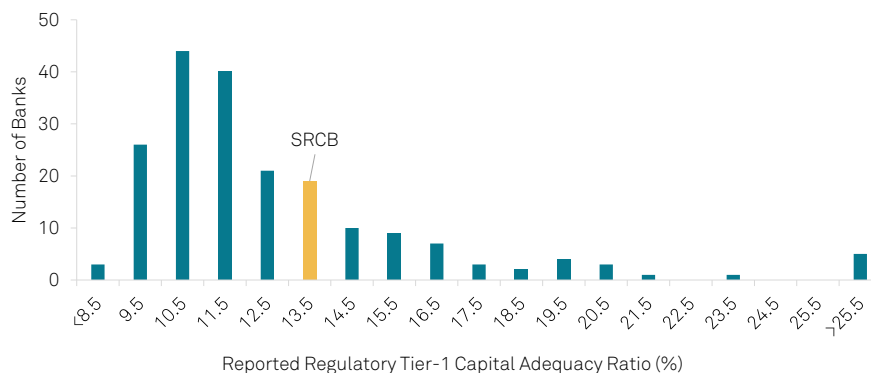
Note: CQRCB - Chongqing Rural Commercial Bank, BJRCB - Beijing Rural Commercial Bank, GRCB - Guangzhou Rural Commercial Bank, DRCB - Dongguan Rural Commercial Bank, and TRCB - Tianjin Rural Commercial Bank.

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

Chart 3

SRCB's Capital Adequacy Ratio is Healthy Compared to the Industry Average

Industry Distribution: Reported Regulatory Tier-1 Capital Adequacy Ratio of Major Chinese Banks as of End of 2019



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

Similar to its peers, its capital consumption accelerated in 2020 due to the increase of lending activities to support the real economy amid COVID. As the economy further recovers and loan demand returns to a pre-pandemic normal level, we expect SRCB's capital consumption pace to moderate, and it will maintain a stable and adequate capital adequacy level in 2021.

SRCB has adequate capitalization and healthy profitability.

We expect its capitalization to remain adequate and in line with the industry average.

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

Table 4

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

	2018A	2019A	2020E	2021F
Total risk-weighted assets (bil)	502.4	573.3	675.3	735.8
- Credit risk (bil)	467.0	531.9	630.3	686.3
- Market risk (bil)	3.1	5.3	5.2	5.6
- Operational risk (bil)	32.3	36.1	39.7	43.9
Tier 1 capital (bil)	63.8	72.3	79.5	87.4
Tier 1 capital adequacy ratio forecast (%)			11.8	11.9

Note: Most of the underlying assets in SRCB's off-balance sheet wealth management products (WMPs) are bonds and only a small portion is non-standardized fixed income products. Meanwhile, the bank is working on transforming its wealth management business under the new asset management regulation. We don't expect its WMPs to have any significant impact on its overall capitalization.

S&P Global (China) Ratings' base case assumptions for the capital adequacy ratio forecast include: 1) the growth rate of total assets is about 12.5% in 2020 and then slow down to a more sustainable level of 7% in 2021; 2) NPL ratio remains around 1% and reserve coverage ratio remain above 300%; 3) NIM is around 1.8% in 2020 and 2021; 4) cost-to-income ratio is controlled around 30% or below; 5) return on average equity is around 12% in 2020 and 2021; 6) annual dividend payout ratio stays at 20%; 7) as for any hybrid bonds that are approaching optional early redemption date in the next 12 month, we assume the hybrid bonds will be fully repaid at the redemption day, and new hybrid bonds with similar nature and amount will be issued to replace them. Meanwhile, we have not considered any new common equity injection in our forecast. If the bank conducts an IPO on the A-share market in 2021, it will further enhance its capital position.

Note: A-actual; E-estimated; F-forecast.

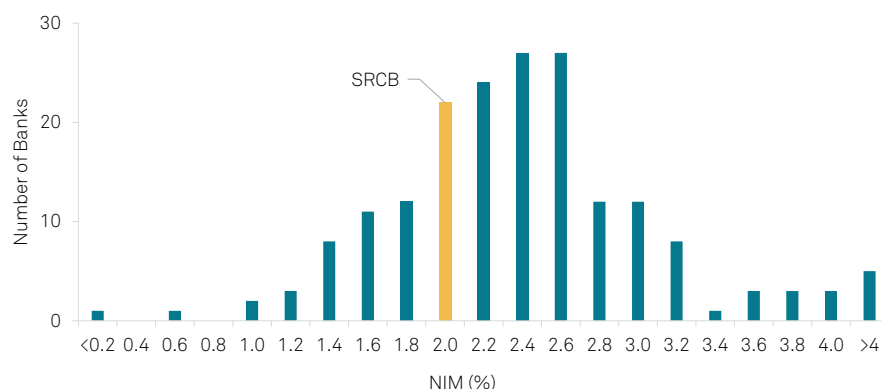
Sources: SRCB, S&P Global (China) Ratings.

In our view, the generally good credit qualities of borrowers in Shanghai and the fierce banking competition in the region attribute to its below-industry average NIM level. Nevertheless, we believe its NIM level is sustainable in terms of maintaining healthy profitability. The bank's reported NIM was 1.84% in 2019, lower than the industry average of 2.20%. In the first half of 2020, despite sector-wide NIM compression pressure, it reported a NIM of 1.88%, up by 4 bps compared to 2019, mainly thanks to its effective control over deposit costs.

Chart 4

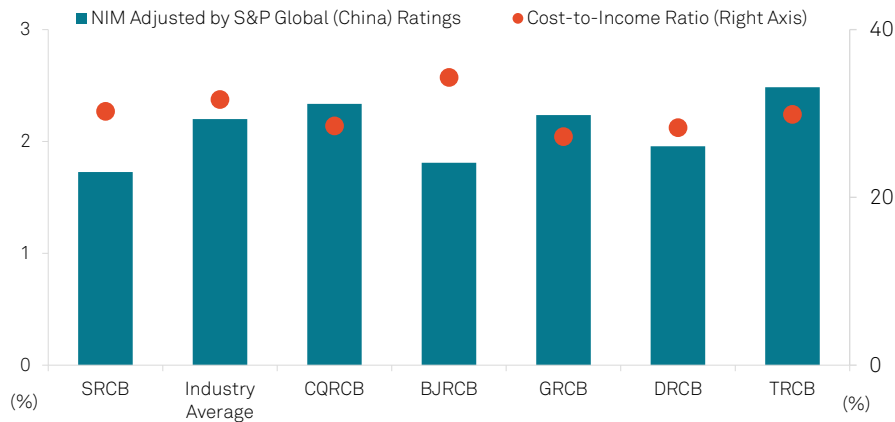
SRCB's NIM Slightly Lower than the Industry Average

Industry Distribution: Reported Net Interest Margin of Major Chinese Banks in 2019



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

Chart 5

SRCB's NIM is Lower than its Peers due to its Lower Interest Yield from its Good Quality Assets**Peer Comparison: Net Interest Margin and Cost-to-Income Ratio in 2019**

Note 1: CQRCB - Chongqing Rural Commercial Bank, BJRCB - Beijing Rural Commercial Bank, GRCB - Guangzhou Rural Commercial Bank, DRCB - Dongguan Rural Commercial Bank, and TRCB - Tianjin Rural Commercial Bank.

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

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

We expect SRCB's credit cost to remain controllable thanks to its low bad debt level and high reserve level. Its provisioning cost as a percentage of pre-provisioning operating profit was 27% in 2019 and 34% in the first half of 2020 as it took a more prudent approach to provisioning during COVID.

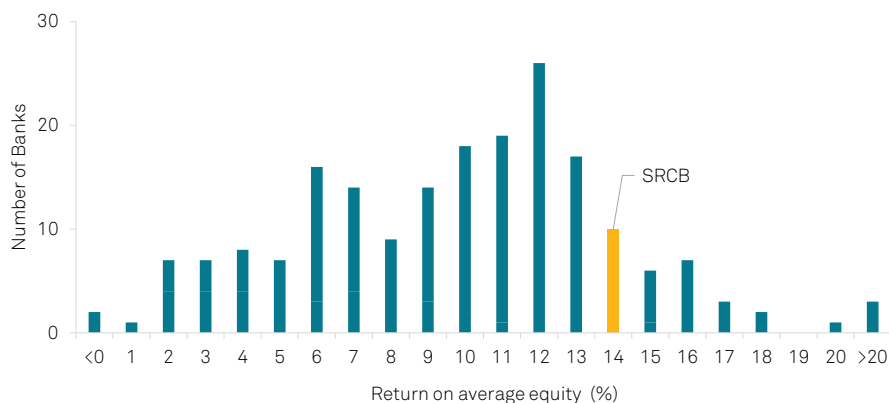
SRCB has effective control over its operating costs, which contributes to its earnings stability. Its cost-to-income ratio was 30.37% in 2019 and 28.20% in the first half of 2020.

We believe its earning quality is high and its earning stability is good thanks to its good asset quality and high reserve buffer. In 2020, it maintained a healthy earning level despite the pandemic. It reported an annualized ROE of 12% in the first half of 2020. While we expect a high credit cost for the banking industry going forward, we believe that SRCB's earning and provisioning pressure is much more controllable than most regional banks in China.

Chart 6

SRCB Has a Healthy ROE

Industry Distribution: Return on Average Equity of Major Chinese Banks in 2019



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

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

Table 5

SRCB -- Capital and Earnings

(%)	2016	2017	2018	2019	2020.6
Reported regulatory capital adequacy ratio	12.39	14.27	15.86	15.57	14.60
Reported regulatory tier 1 capital adequacy ratio	10.56	10.97	12.70	12.62	11.82
Reported Net interest margin	1.75	1.71	2.01	1.84	1.88
Net interest margin adjusted by S&P Global (China) Ratings	1.65	1.64	1.85	1.73	N.A.
Reported cost-to-income ratio	37.52	33.80	32.00	30.37	28.20
Asset provisioning / pre-provisioning operating profits	23.06	30.23	35.59	26.93	33.90
Loan provisioning/ average gross customer loans	0.66	0.95	1.22	0.75	N.A.
Return on average assets	0.92	0.88	0.87	1.01	N.A.
Return on average equity	13.13	13.23	12.09	12.86	N.A.

Note 1: N.A.- not applicable.

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

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

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

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

Table 6

Peer Comparison -- Capital and Earnings

(2017-2019 three-year avg.) (%)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported capital adequacy ratio	15.23	15.23	13.50	14.59	14.52	14.89
Reported Tier 1 capital adequacy ratio	12.10	12.10	10.97	11.62	11.59	11.72
Net Interest Margin adjusted by S&P Global (China) Ratings	1.74	2.42	1.74	2.05	2.01	1.95
Cost-to-income ratio	31.99	34.87	30.00	31.72	31.93	31.29
Asset Provisioning / pre-provision operating profits	30.92	39.70	22.07	30.07	29.24	30.92
Loan provisioning / average gross customer loans	0.97	1.37	0.56	1.01	0.99	1.03
Return on average assets	0.92	1.15	0.79	0.94	0.94	0.91
Return on average equity	12.73	16.15	10.17	13.43	13.58	13.34

Note 1: The peer group include SRCB, Chongqing Rural Commercial Bank, Beijing Rural Commercial Bank, Guangzhou Rural Commercial Bank, Dongguan Rural Commercial Bank and Tianjin Rural Commercial Bank.

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

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

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

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

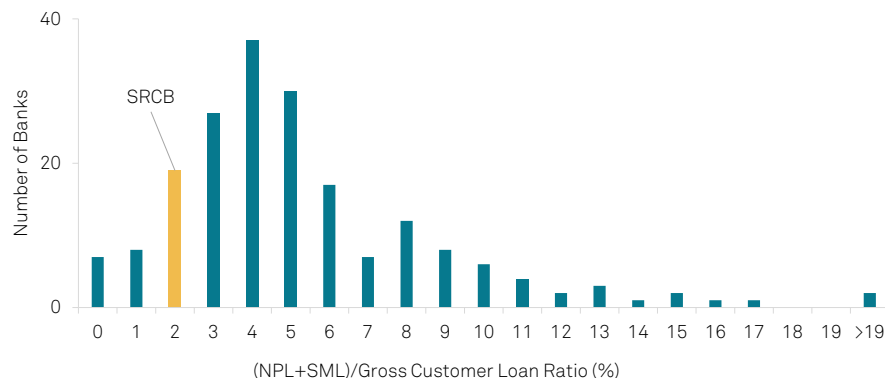
Risk Position

Thanks to the good credit environment in Shanghai and the bank's prudent risk management, SRCB has maintained asset quality metrics above the industry average. As of the end of June 2020, its non-performing loan (NPL) ratio was 1.02%, lower than the industry average of 1.94%; and its special-mention loans (SML) accounted for 0.91% of its gross loans, significantly lower than the industry average of 2.75%. In our view, its low SML level puts it in a comfortable position to deal with any remaining COVID uncertainty in 2021.

Chart 7

SRCB Has a Lower-than-Industry-Average NPL+SML Ratio

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



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

We view SRCB's loan classification practice as disciplined and prudent. As of the end of June 2020, the ratio of loans overdue by more than 90 days to NPLs was 97.6%, and the ratio of loans overdue by less than 90 days to SMLs was 43.7%.

The pandemic's impact on SRCB's asset quality has been controllable. In the first half of 2020, its NPL ratio rose from 0.90% to 1.02%, and its SML ratio had a mild increase to 0.91% from 0.76%. Its unconsolidated SML migration rate (indicating percentage of SML migrating to NPL) was about 22% in 2019 and had a moderate increase to 25% in the first half of 2020. Its unconsolidated normal loan migration rate (indicating percentage of normal loans migrating to SML and NPL) was 0.85% in the first half of 2020, similar to the level of 0.82% in 2019. In 2020, similar to other banks, the bank gave debt moratoriums to COVID-affected small business borrowers according to the requirements of the government. We believe the bank will be able to maintain its overall good asset quality during the gradual phaseout of the forbearance measures in 2021 given that only a small portion of its clients needed support on debt in 2020.

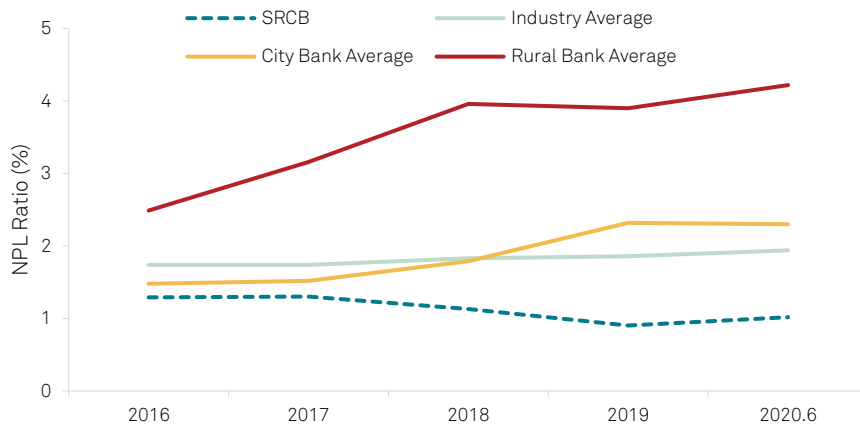
Thanks to the good credit environment in Shanghai and the bank's prudent risk management, SRCB's asset quality metrics are above the industry average.

It managed to maintain good asset quality amid COVID.

Therefore, there is one-notch uplift adjustment for its risk position.

Chart 8

COVID's Impact on SRCB's Asset Quality has been Controllable Comparison of NPL Ratios During the Peak of the Pandemic



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

About 94% of SRCB's loans are concentrated in Shanghai, where the well-developed and diversified economy has significantly mitigated its concentration risk as a regional bank.

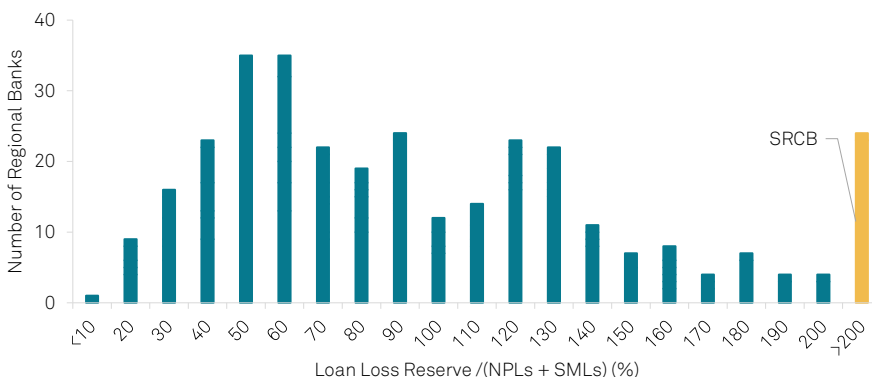
SRCB's real estate-related lending is relatively high, but the credit risk exposure is limited because of Shanghai's solid property market. As of the end of 2019, its real estate development loans accounted for 20% of its loan book, with an NPL ratio of 0.85%; its household mortgage loans accounted for 21% of the loan book, with an NPL ratio of 0.28%. We believe the bank will reduce its real estate loan concentration level in 2021.

We believe SRCB has a reserve buffer high enough to absorb any further asset quality uncertainty in 2021. As of the end of June 2020, its reserve coverage ratio was 395%, its ratio of loan loss reserve to NPLs plus SMLs was 209%, and its ratio of loan loss reserve to overdue loans was 289%.

Chart 9

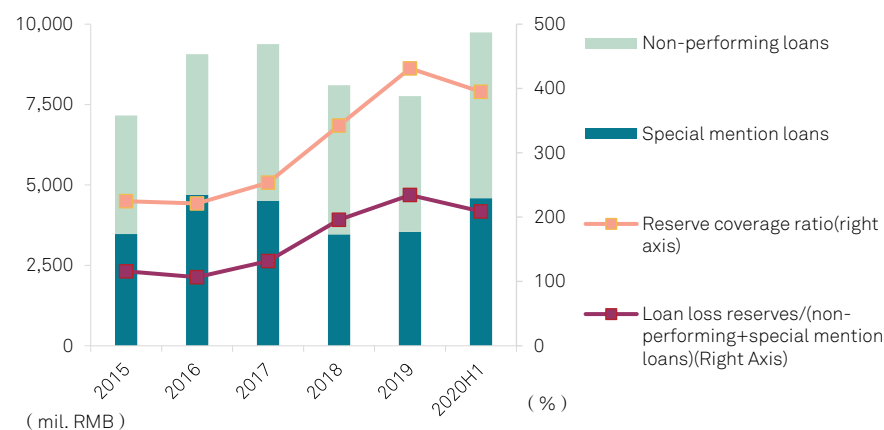
SRCB's Reserve Coverage of Problem Loans is Much Stronger than Average Regional Banks

Industry Distribution: Loan Loss Reserve/(NPLs+SMLs) of Major Regional Banks as of End of 2019



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

Chart 10

SRCB Has Strong Reserve Buffer Against Future Asset Quality Uncertainty**SRCB: Asset Quality and Reserve Coverage Ratios**

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

SRCB has substantially improved the asset quality of its community bank subsidiaries. The bank's NPL ratio decreased by 0.23 percentage points in 2019 mainly due to a cleanup of bad debts of its community bank subsidiaries. The bank had 35 community banks located in Beijing, Shanghai, Shenzhen, Shandong, Hunan and Yunnan. As of the end of 2019, the total bad debts of its community bank subsidiaries were 446 million RMB, down by 42% compared to the end of 2018.

In recent years, SRCB has significantly improved the asset quality of its investment portfolio and non-standard products only accounted for roughly 8% of its investment portfolio as of the end of 2019, down by 7 percentage points compared to the end of 2018. As of the end of 2019, government bonds accounted for 32% of its investment portfolio; financial institution bonds (including NCD) 44%; corporate bonds 9%. Thanks to its increasingly prudent investment risk appetite, SRCB's overall asset quality has remained healthy. As of the end of June 2020, its unconsolidated non-performing asset ratio was 0.59%.

Table 7

SRCB -- Risk Position					
(%)	2016	2017	2018	2019	2020.6
Non-performing loan ratio	1.29	1.30	1.13	0.90	1.02
(Non-performing loans + special mention loans)/ gross customer loans	2.68	2.51	1.98	1.66	1.93
Overdue loans / gross customer Loans	1.76	1.56	1.32	1.15	1.39
Loan loss reserve / gross customer loans	2.86	3.30	3.87	3.90	4.02
Reserve coverage ratio	221.27	253.60	342.28	431.31	394.77
Loan loss reserve / (non-performing loans + special mention loans)	106.68	131.62	195.92	234.32	208.77
Net write-offs/ average customer loans	0.14	0.20	0.32	0.22	N.A.

Note: N.A. - not applicable.

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

Table 8

Peer Comparison -- Risk Position

(2017-2019 three-year avg.) (%)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio	1.11	2.47	0.62	1.34	1.20	1.17
(Non-performing loans + special mention loans)/ gross customer loans	2.05	11.01	1.29	4.22	3.40	3.38
Overdue loans / gross customer loans	1.34	4.70	0.87	2.08	1.74	1.58
Loan loss reserve / gross customer loans	3.69	4.48	3.32	3.92	3.87	3.79
Reserve coverage ratio	342.40	688.46	181.36	359.95	390.13	339.79
Loan loss reserve / (non-performing loans + special mention loans)	187.29	373.03	40.88	154.84	175.37	124.30
Net write-offs/ average gross customer loans	0.25	1.42	0.09	0.51	0.41	0.38

Note: The peer group include SRCB, Chongqing Rural Commercial Bank, Beijing Rural Commercial Bank, Guangzhou Rural Commercial Bank, Dongguan Rural Commercial Bank, and Tianjin Rural Commercial Bank.

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

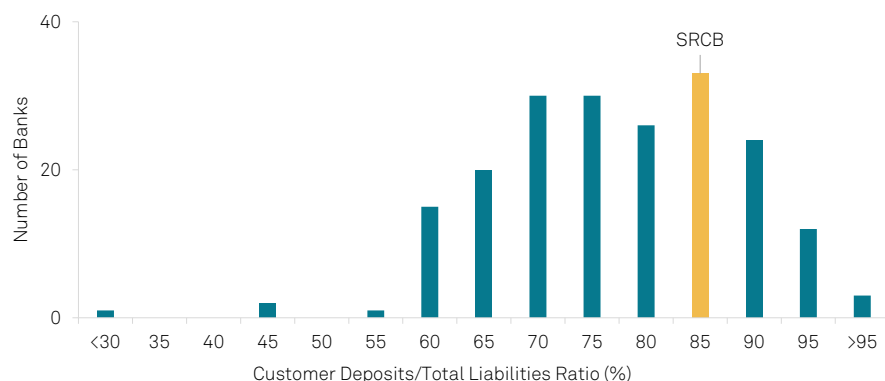
Funding and Liquidity

The funding structure of SRCB has better stability compared with the industry average thanks to its solid deposit base and limited use of wholesale funding. As of the end of June 2020, 81% of its total liabilities was customer deposits, and wholesale funding only contributed to 18% of its total liabilities. Its good funding position is attributed to its well-established depositing network in the affluent suburban and rural areas of Shanghai and its prudent funding and liquidity management.

Chart 11

SRCB Has Limited Use of Wholesale Funding

Industry Distribution: Customer Deposits/Total Liabilities of Major Chinese Banks as of End of 2019



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

SRCB has a solid deposit base in Shanghai, and a low reliance on wholesale funding, indicating a funding profile better than the industry average.

It also maintains very good liquidity metrics.

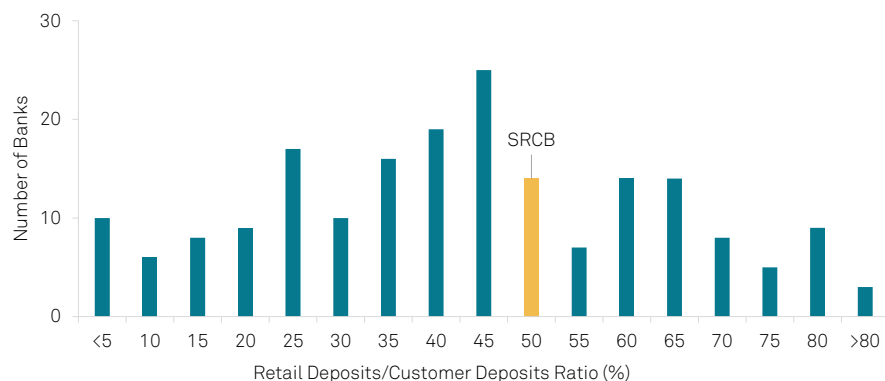
Therefore, there is a one-notch uplift adjustment for its funding and liquidity.

We believe SRCB has a strong and stable deposit base. As of the end of June 2020, it had a retail deposit of 350 billion RMB, accounting for 47% of its total deposits. Its retail deposit base is stronger than the regional bank average and consistent with its rural bank peers. Thanks to its solid relationship with local corporates and institutions, we believe its corporate deposit base is also sticky.

Chart 12

SRCB Has a Strong Retail Deposit Base

Industry Distribution: Retail Deposits/Customer Deposits of Major Chinese Banks as of End of 2019

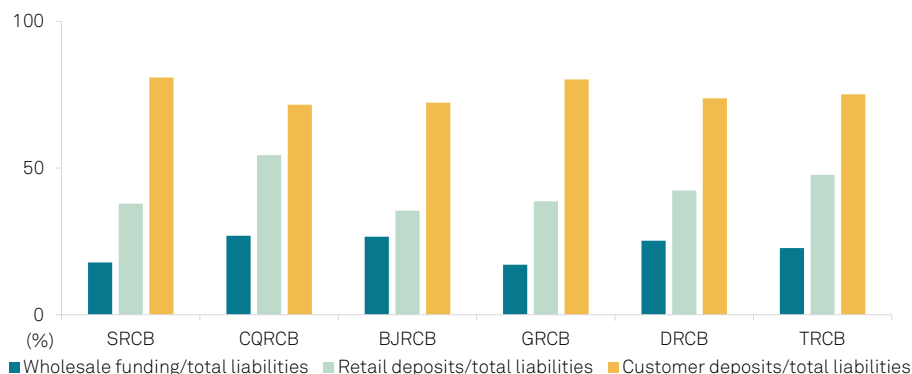


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 13

Leading Rural Banks Tend to Have Very Stable Funding Structure

Peer Comparison: Funding Structure as of End of 2019



Note: CQRCB - Chongqing Rural Commercial Bank, BJRCB - Beijing Rural Commercial Bank, GRCB - Guangzhou Rural Commercial Bank, DRCB - Dongguan Rural Commercial Bank, and TRCB - Tianjin Rural Commercial Bank.

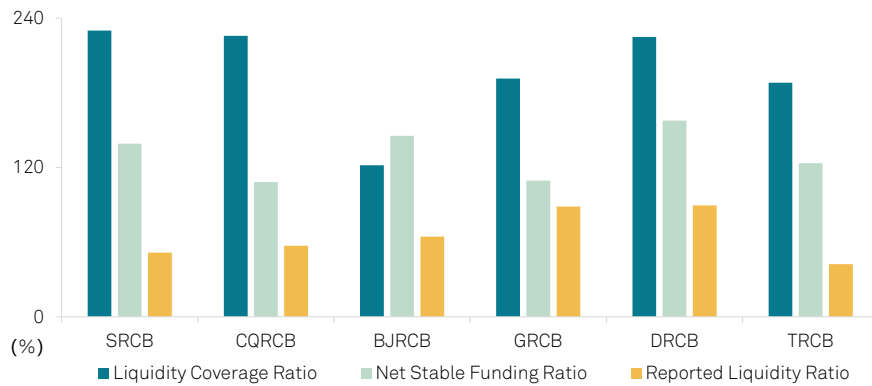
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We assess the liquidity position of SRCB as strong, with a liquidity coverage ratio better than the industry average. As of the end of June 2020, its liquidity coverage ratio was 178%, much higher than the minimum regulatory requirement of 100% and the industry average of 142%. Its net stable funding ratio was 135% as of the end of June 2020, also much higher than the minimum regulatory requirement of 100%.

Chart 14

SRCB Has Good Liquidity-related Ratios Compared to its Peers

Peer Comparison: Liquidity Related Ratios as of End of 2019



Note: CQRCB - Chongqing Rural Commercial Bank, BJRCB - Beijing Rural Commercial Bank, GRCB - Guangzhou Rural Commercial Bank, DRCB - Dongguan Rural Commercial Bank, and TRCB - Tianjin Rural Commercial Bank.

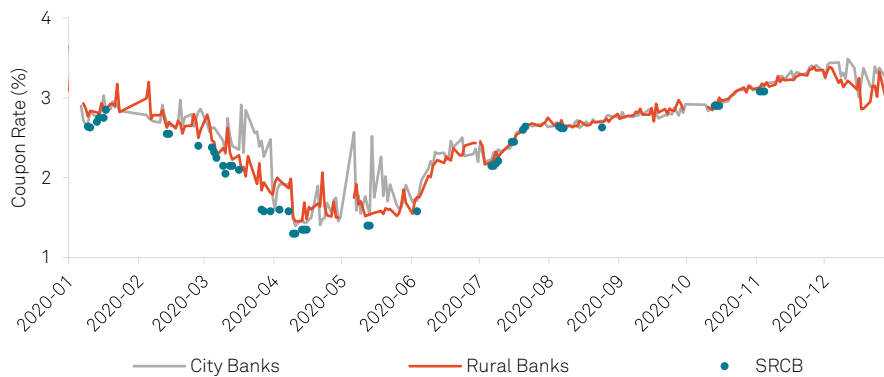
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Based on observed market data, SRCB's credit spread is low compared with other regional banks. In our view, its low funding cost reflects its easy access to funding in the inter-bank market thanks to its status as one of the top rural banks in China.

Chart 15

SRCB Enjoys a Wholesale Funding Cost Lower than Regional Bank Average

Issue Rate of 3-month NCDs of Regional Banks in 2020



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

Table 9

SRCB – Funding and Liquidity					
(%)	2016	2017	2018	2019	2020.6
Customer loans/ customer deposits	61.05	61.35	63.56	67.43	67.87
Customer deposits/ total liabilities	83.50	81.31	83.87	80.87	81.28
Wholesale funding /total liabilities	14.17	16.29	14.05	17.80	17.79
Retail deposits/ customer deposits	42.56	42.46	44.73	46.88	46.92
Liquidity coverage ratio	121.23	132.43	241.76	229.95	178.42

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

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

Table 10

Peer Comparison -- Funding and Liquidity						
(2017-2019 three-year avg.) (%)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans / customer deposits	64.11	67.65	51.45	63.06	62.03	64.85
Customer deposits / total liabilities	82.02	82.02	67.81	73.62	74.05	72.98
Wholesale funding / total liabilities	16.05	30.59	16.05	24.34	23.90	25.06
Retail deposits / customer deposits	44.69	74.09	44.69	54.82	54.66	52.94
Liquidity coverage ratio	201.38	321.56	115.63	206.29	206.32	202.94

Note: The peer group include SRCB, Chongqing Rural Commercial Bank, Beijing Rural Commercial Bank, Guangzhou Rural Commercial Bank, Dongguan Rural Commercial Bank and Tianjin Rural Commercial Bank.

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

SRCB is assigned an SACP of a_{spc} , two notches higher than our bank anchor of bbb+, reflecting its better-than-average asset quality and superior funding and liquidity profile.

Issuer Credit Rating

External Support

In our five-point importance level scale, we believe SRCB's importance to the Shanghai government is "2/high", which is typically the highest importance level we give to a regional bank related to its regional government.

SRCB plays an important role in providing financial services to local MSEs and the local agriculture sector. It has substantial market share in Shanghai.

It is a state-owned regional rural bank with close ties with the Shanghai government. As of the end of July 2020, 62% of its equity was held by state-owned entities. Shanghai International Group Co., Ltd and its subsidiaries are together identified as the largest shareholder, holding 10% of the bank's total equity.

The Shanghai government plays an important role in the management of SRCB. According to "Guidelines on Clarifying the Management Responsibilities of Rural Credit Cooperatives" issued by the State Council, the management of rural credit cooperatives (including rural commercial banks) is the responsibility of regional governments. The senior management of SRCB are recommended by Shanghai government and approved by CBIRC. The senior management of the bank is also subject to performance evaluation by Shanghai government.

In addition, we believe SRCB may also receive support from the central government in times of stress. In our five-point importance level scale, we believe the bank's importance to the central government is "3/moderate", which is typically the highest importance level assessment we give to a regional bank related to the central government. As one of the leading rural banks in the country based in China's financial center, we believe SRCB is likely to receive central government support in times of need.

Therefore, we believe that SRCB is highly likely to receive extraordinary support from the Shanghai government and/or the central government in times of stress. Therefore, we assign an ICR of AA_{spc}- to SRCB, representing a two-notch uplift for government support from its SACP of a_{spc}.

As a state-owned regional rural bank, SRCB has a significant market share in Shanghai. Its importance to Shanghai government is high.

As one of the leading rural banks in China, we believe SRCB is also likely to receive central government support in time of need.

Therefore, we give it a two-notch uplift for government support and assign it an ICR of AA_{spc}-.

Appendix 1: Key Financial Data

SRCB -- Key Financial Data					
	2016	2017	2018	2019	2020.06
Business Position					
Total assets (bil)	710.88	802.06	833.71	930.29	993.84
Gross customer loans (bil)	338.10	373.64	409.91	466.87	505.59
Customer deposits (bil)	553.78	609.08	644.91	692.35	744.99
Total equity (bil)	47.69	53.02	64.80	74.21	77.26
Operating income (bil)	15.70	17.92	20.15	21.27	11.26
Net income (bil)	5.98	6.66	7.13	8.94	4.55
Total assets / total assets of China's commercial banking industry (%)	0.39	0.41	0.40	0.39	0.39
Customer loans/ total loans of China's commercial banking industry (%)	0.39	0.38	0.37	0.36	0.36
Customer deposits/ total deposits of China's commercial banking industry (%)	0.36	0.36	0.35	0.35	0.35
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	12.39	14.27	15.86	15.57	14.60
Reported regulatory tier 1 capital adequacy ratio (%)	10.56	10.97	12.70	12.62	11.82
Reported net interest margin (%)	1.75	1.71	2.01	1.84	1.88
Net interest margin adjusted by S&P Global (China) Ratings (%)	1.65	1.64	1.85	1.73	N.A.
Reported cost-to-income ratio (%)	37.52	33.80	32.00	30.37	28.20
Asset provisioning/pre-provision operating profits (%)	23.06	30.23	35.59	26.93	33.90
Loan provisioning/average gross customer loans (%)	0.66	0.95	1.22	0.75	N.A.
Return on average assets (%)	0.92	0.88	0.87	1.01	N.A.
Return on average equity (%)	13.13	13.23	12.09	12.86	N.A.
Risk Position					
Non-performing loan ratio (%)	1.29	1.30	1.13	0.90	1.02
(Non-performing loans + special mention loans)/ customer loans (%)	2.68	2.51	1.98	1.66	1.93
Overdue loans/gross customer loans (%)	1.76	1.56	1.32	1.15	1.39
Loan loss reserve/gross customer loans (%)	2.86	3.30	3.87	3.90	4.02
Reserve coverage ratio (%)	221.27	253.61	342.28	431.31	394.77
Loan loss reserve/ (non-performing loans + special mention loans) (%)	106.68	131.62	195.92	234.32	208.77
Net write-offs/ average customer loans (%)	0.14	0.20	0.32	0.22	N.A.
Funding and Liquidity					
Customer loans/ customer deposits (%)	61.05	61.35	63.56	67.43	67.87
Customer deposits/ total liabilities (%)	83.50	81.31	83.87	80.87	81.28
Wholesale funding / total liabilities (%)	14.17	16.29	14.05	17.80	17.79
Retail deposits/ customer deposits (%)	42.56	42.46	44.73	46.88	46.92
Liquidity coverage ratio (%)	121.23	132.43	241.76	229.95	178.42

Note 1: N.A. -not applicable.

Note 2: In our view, SRCB has clear business model and sound financial management. Therefore, we haven't conducted any material adjustments to its financial data.

Note 3: Its annual financial reports have been audited by Deloitte Touche Tohmatsu.

Note 4: 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 as of the end of the year)/2].

Note 5: Return on average assets =net income/ [(total assets at the beginning of the year +total assets as of the end of the year)/2].

Note 6: Return on average equity =net income/ [(total equity at the beginning of the year +total equity as of the end of the year)/2].

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

Appendix 2: Peer Comparison Data

Peer Comparison Data						
(2017-2019 three-year avg.)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	855.35	961.77	312.05	704.46	791.63	826.54
Gross customer loans (bil)	416.81	416.81	143.35	301.80	336.77	346.69
Customer deposits (bil)	648.78	648.78	211.74	484.39	545.83	581.72
Total equity (bil)	64.01	75.29	25.41	51.13	57.11	55.84
Operating income (bil)	19.78	25.58	7.88	16.75	18.78	18.57
Net income (bil)	7.58	9.39	2.43	6.35	7.11	7.07
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	15.23	15.23	13.50	14.59	14.52	14.89
Reported regulatory tier 1 capital adequacy ratio (%)	12.10	12.10	10.97	11.62	11.59	11.72
Net interest margin adjusted by S&P Global (China) Ratings (%)	1.74	2.42	1.74	2.05	2.01	1.95
Cost-to-income ratio (%)	31.99	34.87	30.00	31.72	31.93	31.29
Asset provisioning/pre-provision operating profits (%)	30.92	39.70	22.07	30.07	29.24	30.92
Loan provisioning/average gross customer loans (%)	0.97	1.37	0.56	1.01	0.99	1.03
Return on average assets (%)	0.92	1.15	0.79	0.94	0.94	0.91
Return on average equity (%)	12.73	16.15	10.17	13.43	13.58	13.34
Risk Position						
Non-performing loan ratio (%)	1.11	2.47	0.62	1.34	1.20	1.17
(Non-performing loans + special mention loans)/ customer loans (%)	2.05	11.01	1.29	4.22	3.40	3.38
Overdue loans / gross customer loans(%)	1.34	4.70	0.87	2.08	1.74	1.58
Loan loss reserves/gross customer loans (%)	3.69	4.48	3.32	3.92	3.87	3.79
Reserve coverage ratio (%)	342.40	688.46	181.36	359.95	390.13	339.79
Loan loss reserve/ (non-performing loans + special mention loans) (%)	187.29	373.03	40.88	154.84	175.37	124.30
Net write-offs/ average customer loans (%)	0.25	1.42	0.09	0.51	0.41	0.38
Funding and Liquidity						
Customer loans/ customer deposits (%)	64.11	67.65	51.45	63.06	62.03	64.85
Customer deposits/ total liabilities (%)	82.02	82.02	67.81	73.62	74.05	72.98
Wholesale funding/ total liabilities (%)	16.05	30.59	16.05	24.34	23.90	25.06
Retail deposits/ customer deposits (%)	44.69	74.09	44.69	54.82	54.66	52.94
Liquidity coverage ratio (%)	201.38	321.56	115.63	206.29	206.32	202.94

Note 1: In this report, we have selected five rural commercial banks in China, including CQRCB, BJRCB, GRCB, DRCB and TRCB, as the peers of SRCB, for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2017 to 2019. Therefore, the weights of SRCB, CQRCB, BJRCB, GRCB, DRCB and TRCB are 20.24%, 22.75%, 20.95%, 18.87%, 9.81% and 7.38% 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 as of the end of the year)/2].

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

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

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

Appendix 3: Rating History of SRCB

Issuer Credit Ratings

Rating Type	Ratings	Outlook	Rating Date	Analysts	Related Reports
Initial Rating	AA _{spc} -	Stable	2020-01-14	Yifu Wang, Xiaochen Luan, Cong Cui	Credit Rating Report: Shanghai Rural Commercial Bank Co., Ltd.
Surveillance Rating	AA _{spc} -	Stable	2021-03-15	Yifu Wang, Xiaochen Luan, Cong Cui	Current Report

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

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