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S&P Global
China Ratings

Credit Rating Report

Shanghai Rural Commercial Bank Co., Ltd.

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

Rating Date: March 15, 2023

Date of Expiry: March 14, 2024

Analysts:
Xiaochen Luan, CFA, FRM: +86-10-6516-6069, Collins.Luan@spgchinaratings.cn
Jiancheng Yang, FRM: +86-10-6516-6072, Allen.Yang@spgchinaratings.cn
Jiachuan Xu: +86-10-6516-6018, Jiachuan.Xu@spgchinaratings.cn

Contents

*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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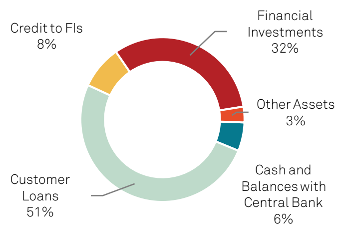
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Date of Expiry	Outlook/CreditWatch
Shanghai Rural Commercial Bank Co., Ltd.	Issuer Credit Rating	AAspc-	March 15, 2023	March 14, 2024	Stable

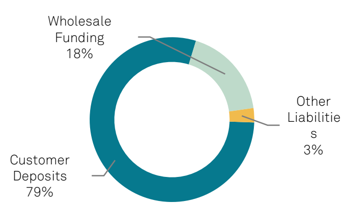
Industry Classification: Commercial Bank.

Company Overview: Incorporated in 2005, Shanghai Rural Commercial Bank Co., Ltd. ("SHRCB") has a solid business franchise in Shanghai. As of the end of September 2022, the bank reported total assets of 1,231.1 billion RMB, net loans of 624.1 billion RMB, customer deposits of 891.8 billion RMB. It generated a net income of 10.0 billion RMB in 2021, with a ROAE of 11.30%.

Asset Breakdown as of the End of 2022Q3



Liability Breakdown as of the End of 2022Q3



Economy and Industry Trends: We expect China's 2023 GDP growth to recover significantly from 2022. The economic recovery would build momentum from the easing of COVID restrictions and stronger domestic consumption and investment growth. Increasing domestic demand may see inflation rise, but it should remain within the targeted range. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support and the economic recovery. China's commercial banking sector continues to report stable capital and asset quality metrics, but we continue to expect pressure on credit cost and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while small- and medium-sized banks face more pressure. Therefore, we believe the stand-alone credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future. Certain regional banks have weak capital positions, with risks around loan forbearance measures under COVID interlapping with real estate and LGFV risks. Certain banks' provisioning is insufficient, leaving their capital increasingly exposed. In our opinion, ongoing strong regulatory and government support for the banking sector should keep overall credit quality stable.

Key Metrics of SHRCB:

	2018	2019	2020	2021	2022.09/1-9
Total asset (bil.)	833.71	929.94	1,056.98	1,158.38	1,231.09
Customer deposits (bil.)	644.91	692.35	748.99	838.14	891.85
Net income (bil.)	7.12	8.94	8.42	10.05	9.32
Reported capital adequacy ratio (%)	15.86	15.57	14.40	15.28	15.67
Reported return on equity (%)	12.09	12.86	10.89	11.30	N/A
Non-performing loan ratio (%)	1.13	0.90	0.99	0.95	0.96
Reserve coverage ratio (%)	342.28	431.31	419.17	442.50	439.15
Customer deposits/total liabilities (%)	83.87	80.91	76.70	78.99	80.62

Source: SHRCB, 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	aspc
External Support	+2
Issuer Credit Rating	AAspc-
Outlook	Stable

Business Position: SHRCB is one of the largest rural banks in China. It has an extensive network and solid customer base in Shanghai, especially in the municipality's suburbs. Its deposit and loan books have maintained steady growth.

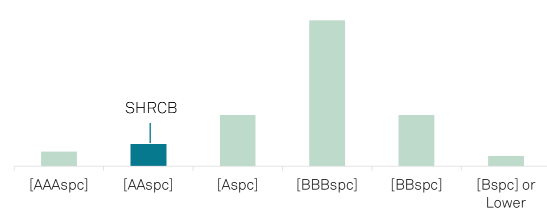
Capital and Earnings: The bank has a solid capital base. Its sufficient provisioning reinforces its capital resilience and profit quality. We expect the bank to continue maintaining adequate capital under new capital management measures, meeting regulatory requirements and supporting its business development.

Risk Position: Thanks to the good credit environment in Shanghai and the bank's prudent risk management, SHRCB has been able to maintain asset quality metrics better than the industry average. The bank's exposure to real estate risk is controllable.

Funding and Liquidity: Thanks to its solid deposit base in Shanghai and prudent liquidity management, SHRCB has a low reliance on wholesale funding, with a stable funding structure. Its interbank market financing costs are lower than average for regional banks.

External Support: As a state-owned bank with close ties to the Shanghai government, SHRCB plays an important role in serving local small and micro enterprises and the agricultural sector. We consider the likelihood of SHRCB receiving government support in times of stress as high.

SHRCB'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 [AAAspc] can be adjusted by "+" and "-".

Peer Comparison:

	2020			2021		
	SHRCB	Commercial Bank Average	Rural Bank Average	SHRCB	Commercial Bank Average	Rural Bank Average
Total asset (bil.)	1,056.98	149.57	258.37	1,158.38	158.13	286.94
Net income (bil.)	8.42	1.09	1.87	10.05	1.20	2.08
Reported regulatory capital adequacy ratio (%)	14.40	14.70	12.37	15.28	15.13	12.56
Return on average assets (%)	0.85	0.77	0.62	0.91	0.79	0.60
Non-performing loan ratio (%)	0.99	1.84	3.88	0.95	1.73	3.63
Reserve coverage ratio (%)	419.17	184.47	122.19	442.50	196.91	129.48

Note: Total asset and net income rural bank average values based on the top 50 rural banks, other data based on overall data for rural banks published by the CBIRC.

Source: SHRCB, CBIRC, Wind, industry data 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, 2023	Stable

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

Credit Highlights

Strengths	Weaknesses
— Very high likelihood of receiving government support in times of stress.	— Fierce banking competition in Shanghai.
— Asset quality metrics better than the industry average. It has sufficient reserves and good capital resilience and profit quality.	
— Solid deposit base and a funding structure more stable than the industry average.	

Rating Outlook

The stable outlook reflects our expectation that SHRCB'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 the SACP if its asset quality significantly deteriorates; 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; 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

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.

We expect China's 2023 GDP growth to recover significantly from 2022. The economic recovery would build momentum from the easing of COVID restrictions and stronger domestic consumption and investment growth. Increasing domestic demand may see inflation rise, but it should remain within the targeted range. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support and the economic recovery. While capital and asset quality performance indicators have remained stable, we expect pressure to continue on credit cost and profitability. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, but medium and small sized banks face greater pressure. Regional banks on the other hand face more pressure on asset quality and capital. For this reason, commercial banks' stand-alone credit profiles are becoming increasingly differentiated. Certain regional medium and small sized lenders have weak capital positions. Risks around loan forbearance measures granted during COVID have overlapped with risks from real estate and weak LGFVs. Some banks lack sufficient reserves, weakening their already fragile capital positions. However, the stable, loose monetary policy environment and ample market liquidity have given high-risk banks more time to address their problems. Under the strict oversight of regulators and the government, the credit quality of the banking sector should overall remain stable.

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

Stand-alone Credit Profile

Based in one of China's most developed regions, SHRCB 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 is a rural commercial bank majority-owned by the state, with 62% of its equity held by state-owned enterprises as of the end of June 2022. By the end of September 2022, the bank reported total assets of 1,231.1 billion RMB and customer deposits of 891.8 billion RMB. In 2021, the bank generated an operating revenue of 24.2 billion RMB and a net income of 10.0 billion RMB, and reported a return on average equity ("ROAE") of 11.30%. In the first nine months of 2022, the bank achieved operating revenue of 19.5 billion RMB and net income of 9.3 billion RMB.

Business Position

SHRCB is one of China's largest rural commercial banks, with an asset size comparable to major Chinese banks. As of the end of September 2022, the bank had a market share nationwide of 0.4% in terms of its total assets and loan book. Its market share for deposits was 0.3%. The bank's loans and deposits are primarily distributed across Shanghai, where it maintains significant market share. By the end of 2022, the market share of its loan book ranked fifth in Shanghai, and its deposit book ranked sixth.

SHRCB maintained steady business growth during the epidemic, and we expect easing COVID policy in 2023 to benefit the bank's development. By the end of September 2022, its total assets, deposits and loans were 1,231.1 billion RMB, 891.8 billion RMB and 650.0 billion RMB respectively, up 6% YoY.

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

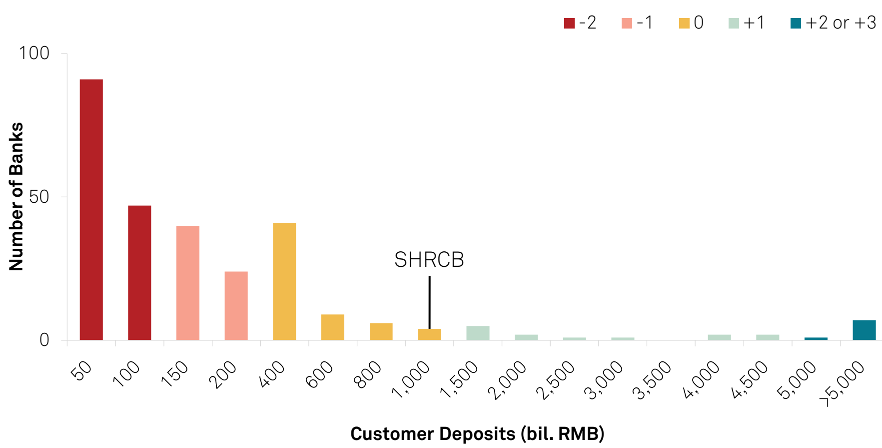
With a national market share of 0.4%, the bank has an average asset size compared with major Chinese banks.

There is no notching adjustment for its business position.

Chart 1

SHRCB's Deposit Market Share is Around 0.3%

Industry Comparison: Distribution of Deposit Sizes of Major Banks in China as of End of 2021



Note: The preliminary business position notching based on deposit size only serves as a starting point for our assessment. Our final business position notching may be different from the preliminary one because of other factors we consider.

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

SHRCB has an extensive network and highly competitive business franchise in Shanghai. As of the end of June 2022, the bank had 366 outlets, 359 of which were in Shanghai. which had good coverage over local villages and townships in Shanghai.

SHRCB is looking to consolidate its competitive advantages and has formulated a clear strategic plan accordingly. The bank plans to develop three core areas of service in the Shanghai and Yangtze River Delta regions. These three services are MSE finance, fintech, and finance catering to the needs of agriculture, rural areas and farmers. As of the end of September 2022, the bank's inclusive micro loans and agricultural loans accounted for around 10% of its total loan book. The bank has a reasonable loan structure, with 57% of its loans to corporates, 32% retail loans and the rest trade bills.

SHRCB's business is primarily traditional banking. In the first half of 2022, 51.54% of its revenue came from its corporate banking business, 33.28% from retail banking and the remaining 15.18% from its financial markets business and others. The bank's subsidiaries diversify the scope of its business. As of the end of June 2022, the bank had 36 subsidiary companies, 35 of which were community banks, and one being a financial leasing company, Yangtze United Financial Leasing Co., Ltd.

Table 1

SHRCB -- Market Share

(%)	2018	2019	2020	2021	2022.9
Total assets / total assets of China's commercial banking industry	0.40	0.39	0.40	0.40	0.39
Gross customer loans / total loans of China's commercial banking industry	0.37	0.36	0.36	0.37	0.36
Customer deposits / total deposits of China's commercial banking industry	0.35	0.35	0.34	0.35	0.34
Gross customer loans / total loans of financial institution denominated in local and foreign currencies in Shanghai	5.59	5.85	6.27	6.39	6.34
Gross customer deposits / total deposits of financial institution denominated in local and foreign currencies in Shanghai	5.32	5.21	4.90	4.77	4.67

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

Capital and Earnings

SHRCB has adequate capitalization and healthy profitability.

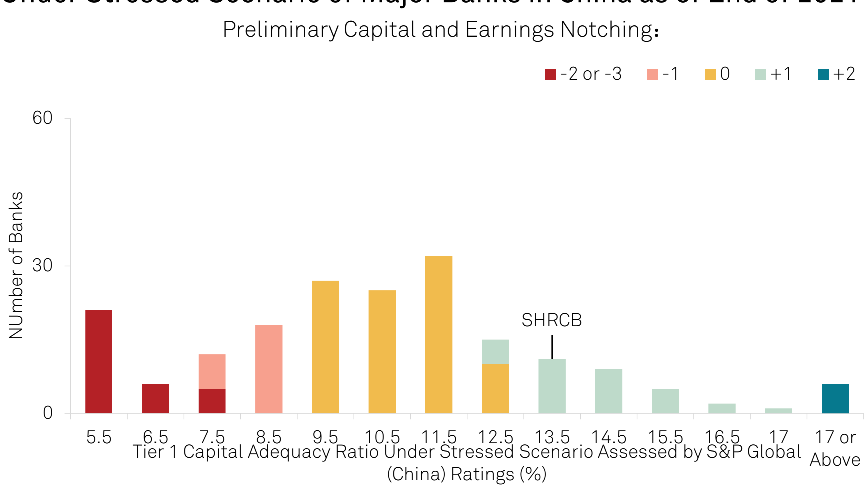
Therefore, there is no notching adjustment for capital and earnings.

SHRCB has very good asset quality, with abundant reserves and healthy profitability, ensuring adequate capitalization under a stress scenario. As of the end of September 2022, the bank reported a regulatory capital adequacy ratio and tier-1 capital adequacy ratio of 15.7% and 13.2% respectively, comfortably above the minimum regulatory requirements of 10.5% and 8.5%. The capital oversight system, mentioned in February 2023's draft administrative measures for commercial banks' capital, is set to be implemented by January 1, 2024. Considering the bank's current high capital adequacy ratio and prudent approach to operations and management, we expect the bank's capital adequacy ratio to fully meet both the new oversight system's regulatory requirements as well as its own future development needs.

Chart 2

SHRCB's Capital is Adequate and Resilient

Industry Comparison: Distribution of Tier 1 Capital Adequacy Ratio Under Stressed Scenario of Major Banks in China as of End of 2021



Note 1: The major stress we apply to the capital ratio includes all special mention loan ("SML") migrating to non-performing loan ("NPL"), 30%-50% of extended loans become bad debts, and a final recovery rate of 30% for bad debts.

Note 2: The preliminary capital & earnings notching based on stressed Tier 1 capital ratio only serves as a starting point for our assessment. Our final capital & earnings notching may be different from the preliminary one because of other factors we consider. After having considered SHRCB's medium- and long-term capital plans and the future impact of new banking industry capital management measures, for the sake of caution and forward-looking considerations, we apply no notching adjustments for SHRCB's capital and earnings. The bank's tier-1 capital adequacy ratio is currently above the usual threshold required for an upward adjustment.

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

Table 2

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

(Bil. RMB, %)	2022E		2023F		Base case assumptions
	Amount	YoY Change	Amount	YoY Change	
Risk-weighted assets	795.4	9%	885.7	11%	1) After COVID's impact recedes over 2023, loan demand is expected to recover and RWA increase by 11% YoY.
Tier-1 capital	103.3	8%	111.6	8%	2) The bank's NIM is about 1.8%, the cost-income ratio is about 30%, and loan loss reserve/gross customer loans is about 4.2%. ROAE is expected to be around 11%. 3) The dividend payout ratio is around 30%.
Tier-1 capital adequacy ratio forecast	13%		12%-13%		We expect the bank's tier-1 capital adequacy ratio to be between 12%-13% in 2023, with abundant capital.

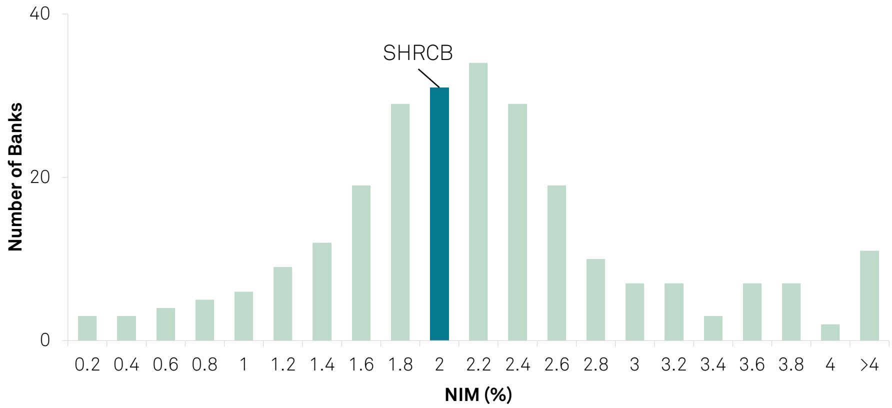
Note:E - estimated; F - forecast.
Sources: SHRCB, collected and adjusted by S&P Global (China) Ratings.

SHRCB's net interest margin ("NIM") is in line with the industry average. The bank's reported NIM was 1.86% in 2021, slightly lower than the industry average of 2.08%. Its NIM tends to be lower due to intense competition in Shanghai's financial services sector, while its customers generally have good credit quality, resulting in a lower credit risk premium. Amid industry-wide NIM compression, the bank takes active measures to control its deposit cost to ease downward NIM pressure. We expect the bank's NIM in 2022 to stay level with the previous year.

Chart 3

SHRCB's NIM Is Consistent with the Industry Average

Industry Comparison: Net Interest Margin of Major Banks in China in 2021



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

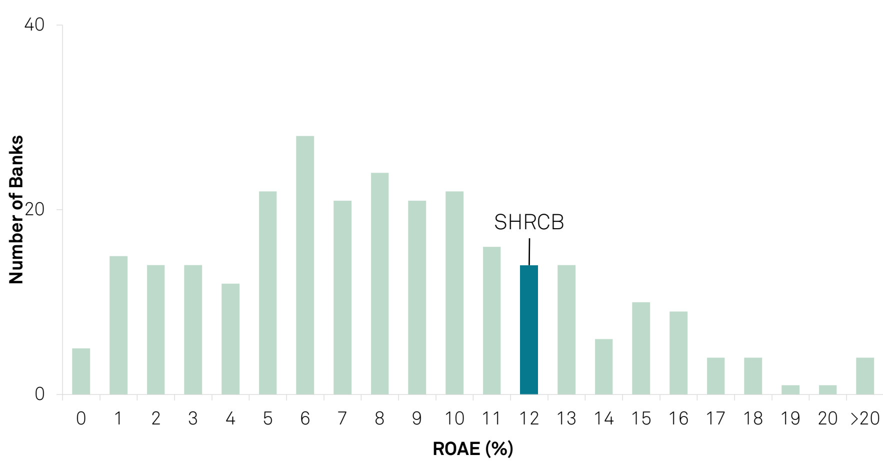
Thanks to its good asset quality and sufficient reserves, SHRCB's credit cost is controllable. Pressure on provisioning is much lower than the average level of regional banks. In 2021, the bank's credit cost (current loan provisioning/average total loans) was 0.79%, and provisioning cost as a percentage of pre-provisioning profit was 27%. In the first three quarters of 2022, the bank's provisioning cost accounted for 18% of pre-provisioning profit, 9.4 percentage points lower than 2021. In addition, SHRCB's operating costs are stable. In the first three quarters of 2022 its cost-to-income ratio was 29%, largely consistent with the industry average of 30%.

Due to its good asset quality and sufficient reserves, we believe SHRCB has high-quality, resilient profitability. The bank's ROAE in 2021 was 11.30%. In the first three quarters of 2022, the bank achieved net income of 9.3 billion RMB, up 17% YoY. Its profitability remained stable in 2022.

Chart 4

SHRCB's Profitability Remains Robust

Industry Comparison: Return on Average Equity of Major Banks in China in 2021



Source: Public information of 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 approach to risk management and operations, SHRCB has maintained asset quality metrics above the industry average. Asset quality remained stable throughout the COVID period. As of the end of September 2022, its non-performing loan (NPL) ratio was 0.96%, lower than the industry average of 1.66%. Its special-mention loans (SML) accounted for 0.63% of its gross loans, significantly lower than the industry average of 2.23%. The bank has long maintained overdue loans at a stable level. In 2019, 2020, 2021 and June 2022, its overdue loans ratios were 1.15%, 1.34%, 1.08% and 1.32% respectively.

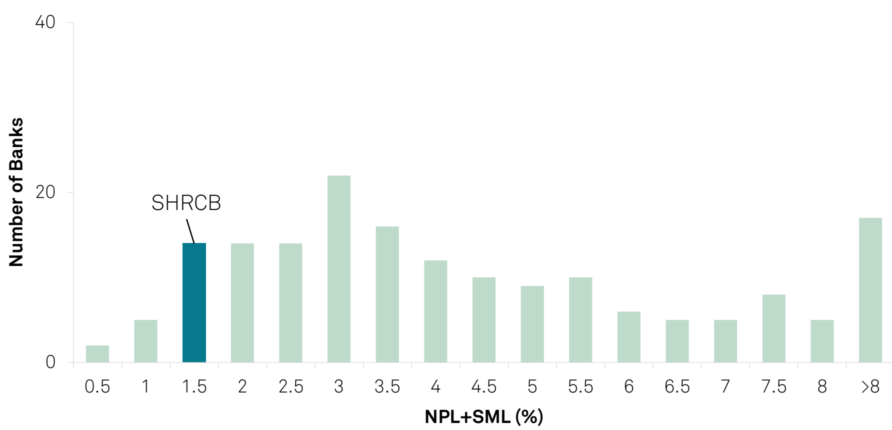
Thanks to the good credit environment in Shanghai and the bank's prudent risk management, SHRCB's asset quality metrics are above the industry average. Its abundant reserves reinforce the resilience of its profitability and capitalization.

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

Chart 5

SHRCB's Assets Quality is Better than Industry Average

Industry Comparison: Distribution of NPL+SML Ratio of Major Banks in China as of End of 2021



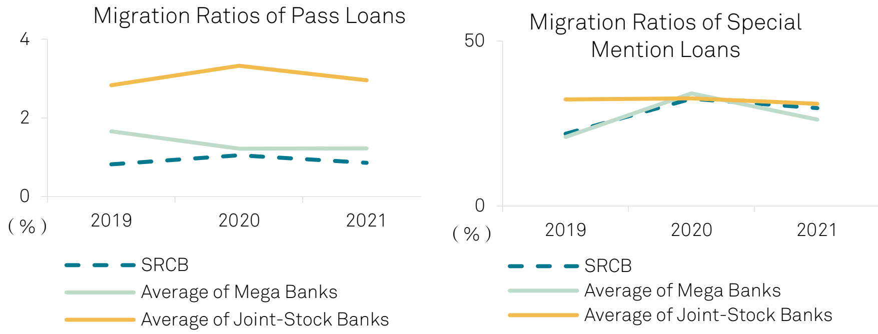
Source: Public information of banks, S&P Global (China) Ratings.

We view SHRCB's loan classification practice as disciplined and prudent. New regulations on commercial banks' loan classification practices will not have a major impact on the bank's current loan risk indicators. As of the end of June 2022, the ratio of loans overdue by more than 90 days to NPLs was 95%, and the ratio of loans overdue by less than 90 days to SMLs was 61%. Its unconsolidated pass loan migration ratio was 0.86% in 2021, down 0.19 percentage points YoY. Its unconsolidated SML migration ratio was 29.86% in 2021, down 2.84 percentage points YOY.

Chart 6

SHRCB Performs Well in Terms of Loan Migration

SHRCB: Migration Ratios of Loans



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

The pandemic's impact on SHRCB's asset quality has been controllable. As debt moratoriums can't be extended any later than June 2023, we expect the scale of loans affected by such forbearance measures to rapidly decline over 2023. Considering the bank's abundant reserves, we believe the bank can digest any existing exposures to COVID-induced bad debts over the course of 2023. Furthermore, in the first half of 2022, the bank had issued an accumulated 1.9 billion RMB loan renewals without principal repayment. This is small in scale and wouldn't have a major negative impact on overall asset quality.

More than 90% of SHRCB's loans are concentrated in Shanghai, where the well-developed and diversified economy has significantly mitigated its concentration risk as a regional bank. The Shanghai government's fiscal position is very strong with minimal hidden debt exposures. We believe the bank's exposure to LGFV risk is very small.

SHRCB's real estate-related exposure is relatively high, but credit risk is controllable because of Shanghai's solid property market. As of the end of June 2022, its real estate development loans accounted for 16.17% of its loan book, with an NPL ratio of 1.32%, up slightly YoY by eight percentage points with asset quality remaining stable.

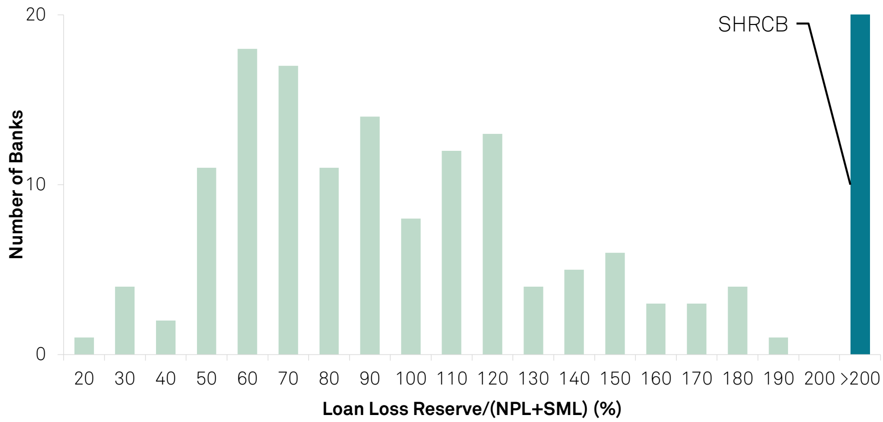
SHRCB's retail loans have good asset quality. By the end of 2021, personal consumer loans accounted for 5.93% of its loan book. Personal business loans accounted for 6.41%, credit card loans 1.80% and residential mortgage loans 16.59%. As of the end of June 2022, the average non-performing ratio of the bank's retail loans was 0.72%, up 0.1 percentage points from the end of last year.

We believe SHRCB has a reserve buffer high enough to absorb asset quality uncertainty and maintain its resilient profitability and capitalization. As of the end of September 2022, its reserve coverage ratio was 439.15%, much higher than the rural commercial bank average of 139.60% and the overall commercial bank average of 205.54%. Its ratio of loan loss reserves to NPLs plus SMLs was 265.49%, sufficient to absorb any pressure from SML loan migration. Under new financial instrument standards, the definition of stage-II loans covers a wider scope than SMLs. This means that more of the bank's loans are classified as stage-II loans. We believe that the bank's provisioning for such loans is sufficient. By the end of June 2022, the bank's stage-II loans accounted for 4.20% of its loan book, and stage-III loans 1.02%. Loan loss reserves covered 80% of stage-II and stage-III loans.

Chart 7

SHRCB's Reserve Buffer is Higher than Industry Average Level

Industry Comparison: Distribution of Loan Loss Reserve/(NPL+SML) Ratio of Major Banks in China as of End of 2021



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

The asset quality of SHRCB's investment portfolio remains good, with sufficient provisioning. Non-standard products only accounted for roughly 8% of its investment portfolio as of the end of June 2022. Government bonds accounted for 33% of its investment portfolio; financial institution bonds (including NCDs) 43%; corporate bonds 7%. Investments in stage-II and stage-III assets accounted for 0.00% and 0.31% of its investment portfolio respectively. Asset loss reserves provided coverage of 90% of its stage-II and stage-III assets.

SHRCB has continued to improve the asset quality of its community and village bank subsidiaries through operational improvements and tightened risk control. The bank has 35 community banks located in Beijing, Shanghai, Shenzhen, Shandong, Hunan and Yunnan. As of the end of June 2022, the total bad debts of its community bank subsidiaries were 0.24 billion RMB, with an NPL ratio of 1.22% and reserve coverage ratio of 333.3%.

Yangtze United Financial Leasing, SHRCB's financial leasing subsidiary, has controllable asset quality risk. As of the end of June 2022, Yangtze United Financial Leasing's financial lease receivables amounted to 33.3 billion RMB, with an NPL ratio of 1.52%. The bank has also conducted equity investments in Jiangsu Haimen Rural Commercial Bank. As of the end of June 2022, it had already invested 434 million RMB in Jiangsu Haimen Rural Commercial Bank, holding 8.96% of its equity.

Funding and Liquidity

SHRCB has a solid deposit base, limited use of wholesale funding and more stable funding than the industry average. Its good funding position is attributed to its well-established deposit network in the suburban and rural areas of Shanghai and its prudent funding and liquidity management. As of the end of September 2022, 79% of its total liabilities were customer deposits, and wholesale funding only contributed to 18% of its total liabilities.

We believe SHRCB has a strong and stable deposit base. As of the end of September 2022, it had a retail deposit base of 449.3 billion RMB, accounting for 50.38% of its total deposits. Its retail deposit base is stronger than the industry 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.

We assess the liquidity position of SHRCB as strong, with a liquidity coverage ratio better than the industry average. As of the end of September 2022, its liquidity coverage ratio was 161%, higher than the minimum regulatory requirement of 100% and the industry average of 143%. Its net stable funding ratio was 132% as of the end of June 2022, also higher than the minimum regulatory requirement of 100%.

Based on observed market data, SHRCB'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 interbank market thanks to its status as one of the top rural banks in China.

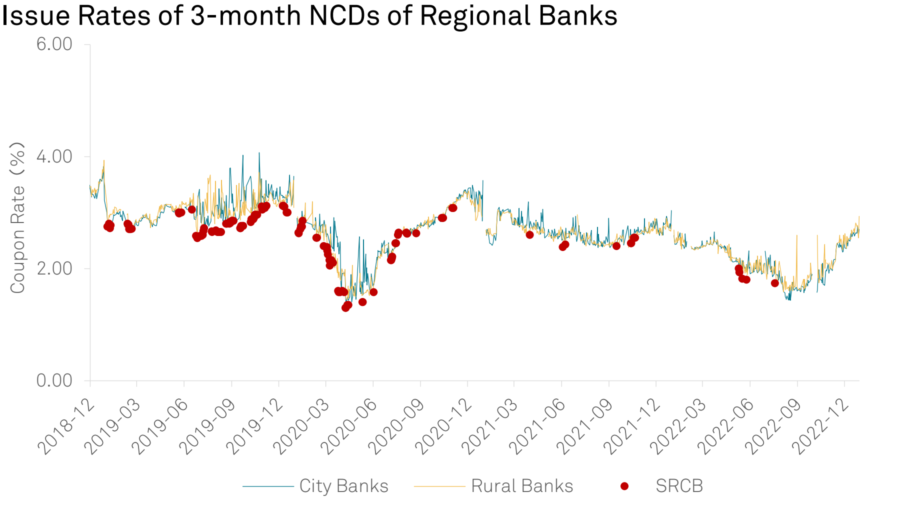
SHRCB has a solid deposit base in Shanghai, and a low reliance on wholesale funding, indicating a funding profile better than the industry average. It also maintains very good liquidity metrics.

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

Chart 8

SHRCB Enjoys a Wholesale Funding Cost Lower than Regional Bank Average

Issue Rates of 3-month NCDs of Regional Banks



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

SHRCB 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

Considering the bank's equity structure and its important role in the local financial market, we believe SHRCB is high in importance to the Shanghai Municipal Government. The bank has played an important role in providing financial services to local MSEs and the local agriculture sector, and has a significant market share in Shanghai. The bank is a state-owned regional rural commercial bank, and has a close relationship with Shanghai Municipal Government. As of the end of June 2022, 62% of the bank's equity was held by state-owned entities, the largest being Shanghai International Group Co., Ltd. and its subsidiaries, which together held 9% of its equity.

SHRCB: 10 Largest Shareholder, End of June 2022

Shareholder Name	Holding (%)
Shanghai State-owned Assets Management Co., Ltd	8.36
China COSCO Shipping Corporation Limited	8.29
Baoshan Iron & Steel Co., Ltd	8.29
Shanghai Jiushi (Group) Co., Ltd	7.61
China Pacific Life Insurance Co., Ltd	5.81
Shanghai Guosheng Group Assets Co., Ltd	4.94
Zhejiang Expressway Co., Ltd	4.85
China Taiping Life Insurance Co., Ltd	4.30
Shanghai Shendi (Group) Co., Ltd	3.71
Lanhai Holdings (Group) Co., Ltd	3.48
Total	59.64

Note: Shanghai International Group Co., Ltd. holds 100% of Shanghai State-owned Assets Management Co., Ltd.

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

The Shanghai government plays an important role in the management of SHRCB. 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 SHRCB are recommended by Shanghai government and approved by CBIRC. The senior management of the bank is also subject to performance evaluation by Shanghai government.

Considering SHRCB's status as one of China's leading rural banks, as well as its location in China's financial center, we believe the bank may also receive extraordinary support from the central government when necessary.

We believe that SHRCB 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 SHRCB, representing a two-notch uplift from its SACP of a_{spc}.

As a state-owned regional rural bank, SHRCB 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 SHRCB is also likely to receive central government support in times 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

SHRCB: Key Financial Data and Ratios

	2018	2019	2020	2021	2022.09
Business Position					
Total assets (bil.)	833.71	929.94	1,056.98	1,158.38	1,231.09
Total assets YoY growth (%)	3.95	11.54	13.66	9.59	N/A
Customer loans (bil.)	409.91	466.87	530.67	613.58	650.03
Customer loans YoY growth (%)	9.71	13.90	13.67	15.62	N/A
Customer deposits (bil.)	644.91	692.35	748.99	838.14	891.85
Customer deposits YoY growth (%)	5.88	7.36	8.18	11.90	N/A
Operating income (bil.)	20.15	21.27	22.04	24.16	19.54
Operating income YoY growth (%)	12.41	5.59	3.61	9.64	N/A
Net income (bil.)	7.13	8.94	8.42	10.05	9.32
Net income YoY growth (%)	6.93	25.46	(5.82)	19.34	N/A
Net fees and commission income/operating income (%)	16.09	12.99	10.58	8.96	8.95
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	15.86	15.57	14.40	15.28	15.67
Reported regulatory Tier 1 capital adequacy ratio (%)	12.70	12.62	11.70	13.10	13.16
Reported net interest margin (%)	1.86	1.76	1.91	1.87	N/A
Cost-to-income ratio (%)	31.95	30.26	28.78	29.89	28.62
Asset provisioning/pre-provision operating profits (%)	35.59	26.93	36.32	26.99	17.59
Loan provisioning/average gross customer loans (%)	1.22	0.75	0.99	0.76	N/A
Return on average assets (%)	0.87	1.01	0.85	0.91	N/A
Reported return on equity (%)	12.09	12.86	10.89	11.30	N/A
Risk Position					
Non-performing loan ratio (%)	1.13	0.90	0.99	0.95	0.96
(Non-performing loans + special mention loans) /gross customer loans (%)	1.98	1.66	1.75	1.42	1.58
Loan loss reserve/gross customer loans (%)	3.87	3.90	4.14	4.20	4.21
Reserve coverage ratio (%)	342.28	431.31	419.17	442.50	439.15
Loan loss reserve/ (non-performing loans + special mention loans) (%)	195.92	234.32	236.67	296.94	265.49
Net write-off amount/ average customer loans (%)	0.28	0.20	0.23	0.10	N/A
Funding and Liquidity					
Customer loans/customer deposits (%)	63.56	67.43	70.85	73.21	72.89
Customer deposits/total liabilities (%)	83.87	80.91	76.70	78.99	79.15
Wholesale funding /total liabilities (%)	14.05	17.81	20.78	18.27	18.05
Retail deposits/customer deposits (%)	44.73	46.88	47.90	47.96	50.38
Liquidity coverage ratio (%)	241.76	229.95	265.58	247.65	160.91

Note 1: We believe that SHRCB has a clear business model and strict financial management, and we have not made significant adjustments to the bank's financial data.

Note 2: The bank's 2017-2021 financial statements were audited by Deloitte Touche Tohmatsu.

Note 3: 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 4: Cost-to-income ratio = business and management fees/operating income.

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

Appendix 2: Rating History of SHRCB by S&P Global (China) Ratings

Issuer Credit Ratings	Outlook	Rating Date	Analysts	Related Reports
AA_{spc}-	Stable	2020-01-14	Yifu Wang, Xiaochen Luan, Cong Cui	Credit Rating Report: Shanghai Rural Commercial Bank Co., Ltd., January 14, 2020
AA_{spc}-	Stable	2021-03-15	Yifu Wang, Xiaochen Luan, Cong Cui	Credit Rating Report: Shanghai Rural Commercial Bank Co., Ltd., March 15, 2021
AA_{spc}-	Stable	2022-03-15	Longtai Chen, Xiaochen Luan, Cong Cui	Credit Rating Report: Shanghai Rural Commercial Bank Co., Ltd., March 15, 2022
AA_{spc}-	Stable	2023-03-15	Xiaochen Luan, Jiancheng Yang, Jiachuan Xu	Current Report