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S&P Global
China Ratings

Credit Rating Report

Postal Savings Bank of China Co., Ltd.

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

October 9, 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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This document is prepared in both English and Chinese. The English translation is for reference only, and the Chinese version will prevail in the event of any inconsistency between the English version and the Chinese version.

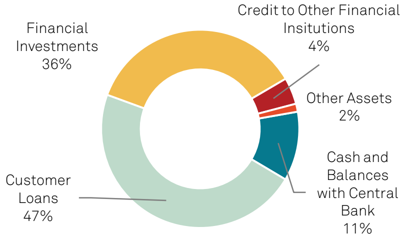
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
Postal Savings Bank of China Co., Ltd.	Issuer Credit Rating	AAA_{spc}	October 9, 2020	Stable

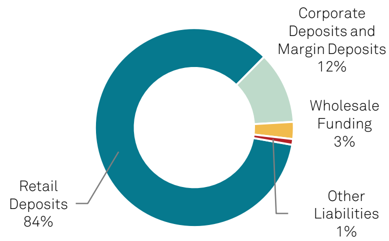
Industry Classification: Commercial Bank

Company Overview: Postal Savings Bank of China Co., Ltd. ("PSBC") is one of the six state-owned mega banks in China. It is a leading retail bank in China and plays a very important role in providing banking access to rural and remote areas across the country by using China's postal network. As of the end of June 2020, it reported total assets of about 11 trillion RMB, ranking fifth among China's commercial banks.

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 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 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 the six state-owned mega banks of China, PSBC is a leading retail bank in China. It is China's fifth largest bank in terms of both assets and deposits, and the fourth largest in terms of retail deposits. It has a unique "proprietary branches + agency outlets" arrangement with China Post Group, and it covers 99% of China's counties. The bank's asset quality metrics are better than those of its mega bank peers and the industry average. Its solid and sticky retail deposit base makes the bank's funding structure more stable than the industry average. PSBC is indirectly owned by the central government through its parent China Post Group, which is 100% owned by China's Ministry of Finance. We believe the possibility of PSBC receiving central government support in times of stress is extremely high.

Key Metrics of PSBC

	2016	2017	2018	2019	2020.06
Total assets (bil)	8,265.62	9,012.55	9,516.21	10,216.71	10,966.19
Customer deposits (bil)	7,286.31	8,062.66	8,627.44	9,314.07	9,866.58
Net income (bil)	39.78	47.71	52.38	61.04	33.67
Reported regulatory capital adequacy ratio (%)	11.13	12.51	13.76	13.52	13.97
Reported Return on average equity (%)	13.44	13.07	12.31	13.10	12.65
Non-performing loans ratio (%)	0.87	0.75	0.86	0.86	0.89
Reserve coverage ratio (%)	271.69	324.77	346.80	389.45	400.12
Customer deposits/total liabilities (%)	92.01	93.96	95.43	96.30	95.57

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

Rating Snapshot

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

Business Position: PSBC is China's fifth largest bank by assets, and the fourth largest by retail deposits. Its outlets network covers 99% of China's county areas, and its retail customers account for about 40% of China's total population.

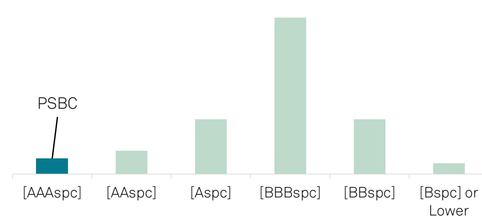
Capital and Earnings: PSBC has sufficient capital and healthy profitability, but the fast growth of its loan book will continue to be capital-intensive. Despite the short-term impact of COVID-19 on its profitability, we expect its capital to remain sufficient and consistent with the industry average.

Risk Position: PSBC's asset quality metrics are better than the industry average and its mega bank peers. Although bad debt pressure is set to increase due to the pandemic, we expect it to maintain sound asset quality in the next 24 months.

Funding and Liquidity: Thanks to its extensive network for taking retail deposits, PSBC has a very solid and sticky retail deposit base, and its use of wholesale funding is very limited. Therefore, its funding and liquidity profile is much better than the industry average.

External Support: We believe that PSBC is extremely likely to receive central government support in times of need, considering its status as a state-owned mega bank, its strong retail franchise, and its important role in providing banking access to rural and remote areas in China.

PSBC'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. Ratings below [AAA_{spc}] can be adjusted by "+" and "-".

Peer Group Comparison

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

(2017-2019 three-year average)	PSBC	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**9,581.82**	27,965.34	9,491.68	19,108.08	21,725.01	22,007.60
Customer deposits (bil)	**8,668.06**	21,316.51	5,803.87	14,219.60	16,170.76	16,032.97
Net income (bil)	**53.71**	299.85	53.71	180.00	212.58	198.00
Reported regulatory capital adequacy ratio (%)	**13.26**	16.74	13.26	15.01	15.33	14.96
Return on average equity (%)	**11.93**	13.54	10.63	12.30	12.60	12.43
Non-performing loans ratio (%)	**0.83**	1.60	0.83	1.38	1.44	1.47
Reserve coverage ratio (%)	**353.67**	353.67	166.54	220.57	210.04	189.38
Customer deposits/total liabilities (%)	**95.23**	95.23	66.22	80.60	80.76	81.31

Note: Data in this table has been adjusted by S&P Global (China) Ratings.

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Postal Savings Bank of China Co., Ltd.	Issuer Credit Rating	AAA$_{spc}$	October 9, 2020	Stable

Stand-alone Credit Profile (SACP)	aa$_{spc}$
Anchor	bbb+
Business Position	+2
Capital & Earnings	0
Risk Position	+1
Funding & Liquidity	+2
Holistic Adjustment	0

\+

External Support	+2
Government Support	+2

Issuer Credit Rating (ICR)
AAA$_{spc}$ / Stable

Credit Highlights

Strengths	Weaknesses
— It is of critical importance to the central government, and extremely likely to receive government support in times of stress.	— PSBC started its loan lending business only a decade ago and its lending business franchise is smaller than other mega banks.
— Taking advantage of China's postal network, PSBC is a leading retail deposit taker in China and thus enjoys a retail deposit-dominated funding structure which is significantly more stable than the industry average.	— Its operational cost is higher than the industry average because it maintains an extensive network in rural and remote areas.
— Its asset quality metrics are the best among its mega bank peers and better than the industry average.	— COVID-19 has put pressure on earnings and asset quality.

Rating Outlook

The stable outlook reflects our expectation that PSBC'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 the bank's 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 the bank 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 rise significantly above the industry average and its management is committed to maintaining its capitalization high 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 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 quality 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 clean-up of legacy bad debt.

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

PSBC is one of the six state-owned mega banks in China. It is a leading retail bank in China and has a very important role in providing banking access to rural and remote areas in China by leveraging its extensive network. As of the end of June 2020, it reported total assets of 11 trillion RMB, ranking fifth among China's commercial banks.

PSBC is indirectly owned by the central government of China through its parent group, China Post Group, which owned 65.18% of the bank as of the end of June 2020. China Post Group is 100% owned by the Ministry of Finance.

PSBC is China's fifth largest commercial bank by assets, and the fourth largest by retail deposits.

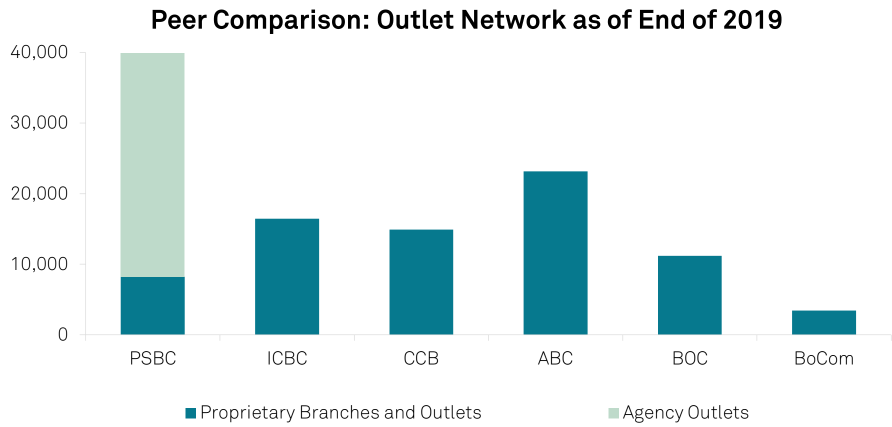
Business Position

Because of its unique network arrangement of "proprietary branches + agency outlets", PSBC has one of the country's most extensive deposit-taking networks, covering 99% of Chinese counties. Agency outlets are postal offices operated by China Post Group, which provide retail deposit-taking and other basic banking services on behalf of PSBC. As of the end of June 2020, PSBC had 7,882 proprietary branches and outlets and 31,750 agency outlets.

It has the most extensive retail deposit-taking network in rural and remote areas, covering 99% of Chinese counties.

We apply a two-notch upward adjustment for its business position to reflect its large asset size and very strong franchise in retail banking.

Chart 1



Note: We consider the other five state-owned mega banks as the peers of PSBC, including Industrial and Commercial Bank of China Limited ("ICBC"), China Construction Bank Corporation ("CCB"), Agricultural Bank of China Limited ("ABC"), Bank of China Limited ("BOC"), and Bank of Communications Co., Ltd. ("BoCom"),

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

Thanks to its unique network, PSBC has a very strong franchise in the retail deposit business with a retail customer base of about 613 million people, representing more than 40% of China's total population. The bank provides retail banking services in rural and remote areas where banking competition is much weaker than in urban areas. As of the end of June 2020, it had retail deposits of about 8.6 trillion RMB, making it the fourth largest retail deposit taker in China, after ABC, ICBC and CCB. 65.99% of its operating income comes from its retail banking business.

Table 1

PSBC -- Market Share

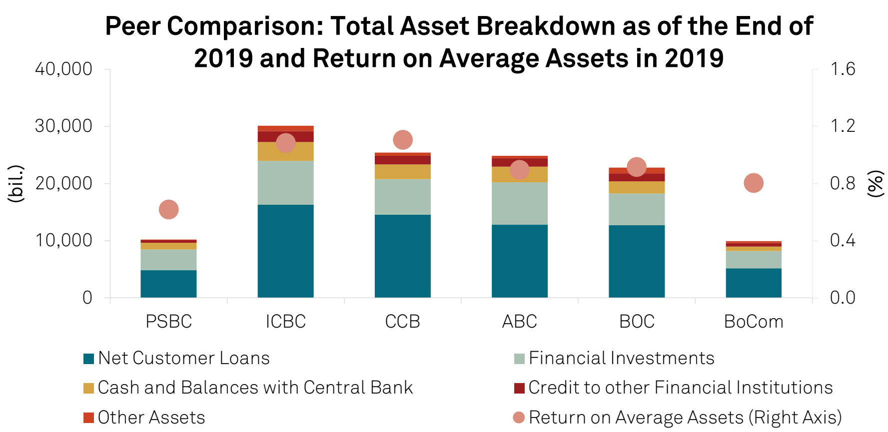
(%)	2016	2017	2018	2019	2020.06
Total assets /total assets of China's commercial banking industry	4.55	4.58	4.53	4.27	4.26
Gross customer loans/total loans of China's commercial banking industry	3.47	3.71	3.87	3.84	3.89
Customer deposits/total deposits of China's commercial banking industry	4.68	4.76	4.73	4.70	4.63
Retail deposits/total domestic retail deposits of China's commercial banking industry	10.24	10.52	10.31	9.96	9.51

Sources: PSBC, industry data released by CBIRC and PBOC, collected and adjusted by S&P Global (China) Ratings.

Compared with its very large retail deposit business, PSBC has a relatively small lending business, which was only established in 2008. We believe the bank's lending business is still at an early stage. As of the end of June 2020, the bank had a net loan book of 5.3 trillion RMB and a loan-to-deposit ratio of 55.6%, significantly lower than the average of 78.7% for the five other mega banks. Since the bank is developing its loan business, its loan-to-deposit ratio has gradually increased in recent years. As the youngest mega bank in China with a large retail deposit base and relatively low loan-to-deposit ratio, PSBC enjoys faster growth of its lending business than its peers.

PSBC's lending business focuses on very large enterprises, micro and small enterprises ("MSE"), and retail clients. As of the end of June 2020, about 55% of its loans were retail loans, and 14% micro-financing loans. The bank's large enterprise clients are typically very large SOEs controlled by the central government and leading players in important sectors. As part of efforts to accelerate the economy's recovery from the effects of COVID-19, the government requires banks to expand their lending to the real economy (especially micro, small, and mid-sized enterprises). As of the end of June 2020, PSBC reported total customer loans of 5.5 trillion RMB, up by 10% from the end of 2019. Its loans to MSEs were worth 756.6 billion RMB, representing an increase of 14%.

Chart 2



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

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

Because the bank has a relatively low loan-to-deposit ratio, it has a large investment portfolio. As of the end of June 2020, its financial investment portfolio accounted for 36% of its total assets. In addition, its ample funding sources make it one of the largest and most active players in China's interbank market for interbank lending and borrowing.

The bank's main business is traditional deposit taking and lending, and its operating income is dominated by interest income. In the first half of 2020, its net fees and commissions income accounted for 7% of its operating income, lower than the average of 19% for the five other mega banks. We don't necessarily view the lack of non-interest income as credit negative, as its strong franchise in traditional commercial banking can sustain a stable income flow in the foreseeable future. In addition, PSBC has been placing a strategic emphasis on developing its non-interest income business.

COVID-19 did not have a major impact on the business development of PSBC, mainly because the bank has been investing heavily in financial technology, especially mobile technology. Customers could use their mobile phones to conduct banking services, thus social isolation has limited impact on the bank's business processing.

Table 2

PSBC -- Business Position

	2016	2017	2018	2019	2020.06
Total assets (bil)	8,265.62	9,012.55	9,516.21	10,216.71	10,966.19
Year-over-year growth of total assets (%)	13.28	9.04	5.59	7.36	N.A.
Gross customer loans (bil)	3,010.65	3,630.14	4,276.87	4,974.19	5,481.10
Year-over-year growth of gross customer loans (%)	21.80	20.58	17.82	16.30	N.A.
Customer deposits (bil)	7,286.31	8,062.66	8,627.44	9,314.07	9,866.58
Year-over-year growth of customer deposits (%)	15.56	10.65	7.00	7.96	N.A.
Operating income (bil)	188.81	224.57	261.00	276.81	146.35
Year-over-year growth of operating income (%)	(0.47)	18.94	16.22	6.06	N.A.
Net income (bil)	39.78	47.71	52.38	61.04	33.67
Year-over-year growth of net income (%)	14.11	19.94	9.80	16.52	N.A.
Net fees and commissions income/operating income (%)	6.09	5.67	5.53	6.17	6.65

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

Table 3

Peer Comparison -- Business Position

(2017-2019 three-year avg.)	PSBC	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	**9,581.82**	27,965.34	9,491.68	19,108.08	21,725.01	22,007.60
Year-over-year growth of total assets (%)	**7.33**	8.34	5.65	7.25	7.43	7.49
Gross customer loans (bil)	**4,293.73**	15,471.56	4,293.73	10,419.39	11,995.80	11,967.68
Year-over-year growth of customer loans (%)	**18.23**	18.23	8.52	10.84	10.11	9.20
Customer deposits (bil)	**8,668.06**	21,316.51	5,803.87	14,219.60	16,170.76	16,032.97
Year-over-year growth of customer deposits (%)	**8.54**	8.86	6.05	7.84	7.69	8.18
Operating income (bil)	**254.13**	785.15	213.71	502.48	578.37	549.91
Year-over-year growth of operating income (%)	**13.74**	13.74	4.39	7.58	7.06	6.95
Net income (bil)	**53.71**	299.85	53.71	180.00	212.58	198.00

Year-over-year growth of net income (%)	**15.42**	15.42	3.15	6.23	5.26	4.93
Net fees and commissions income/operating income (%)	**5.79**	19.62	5.79	15.66	16.48	18.03

Note: We have chosen the other five state-owned mega banks in China, including ICBC, CCB, ABC, BOC and BoCom, as the peers of PSBC, 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 PSBC, ICBC, CCB, ABC, BOC and BoCom are 8.36%, 24.39%, 20.58%, 19.93%, 18.46% and 8.28% respectively.

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

Capital and Earnings

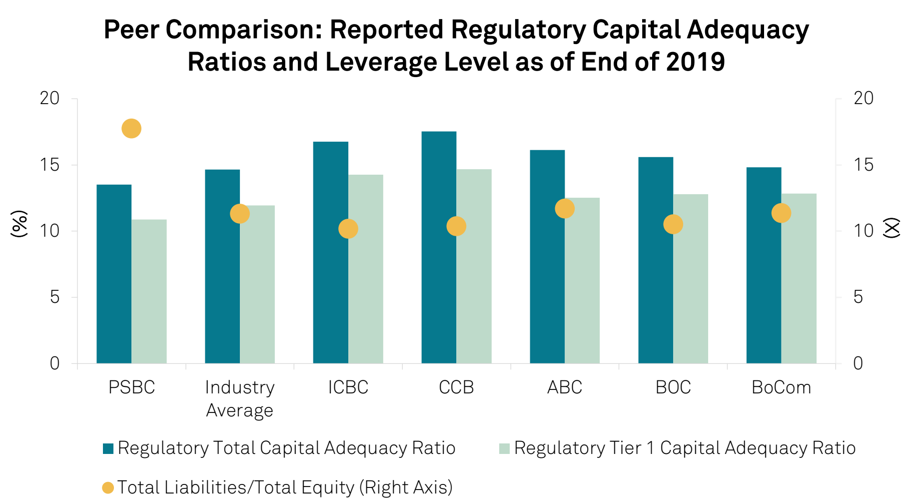
In our opinion, PSBC's capitalization is consistent with the industry average. Its reported regulatory capital adequacy ratio was 13.97% as of the end of June 2020, comfortably above the minimum regulatory requirement of 10.5%. Its reported regulatory capital ratios are the lowest among the six mega banks, but we believe this difference is partly attributable to different regulatory capital calculation methods. PSBC uses the standard approach for risk-weighted asset calculation while the five other mega banks use their own internal models to decide on risk weighting. This difference renders capital adequacy ratios less comparable among the mega banks. Due to its issuance of perpetual bonds, the capital adequacy ratios of PSBC improved in the first half of 2020. The bank issued 80 billion RMB of perpetual bonds in the first half of the year and a further 60 billion RMB perpetual bond issuance is expected in the second half of 2020. As of the end of June 2020, its tier-1 capital adequacy ratio was 11.47%, 0.6 percentage point higher than the end of 2019.

In our view, PSBC has adequate capitalization and healthy profitability.

Meanwhile, the fast growth of its loan book will continue to be capital-intensive.

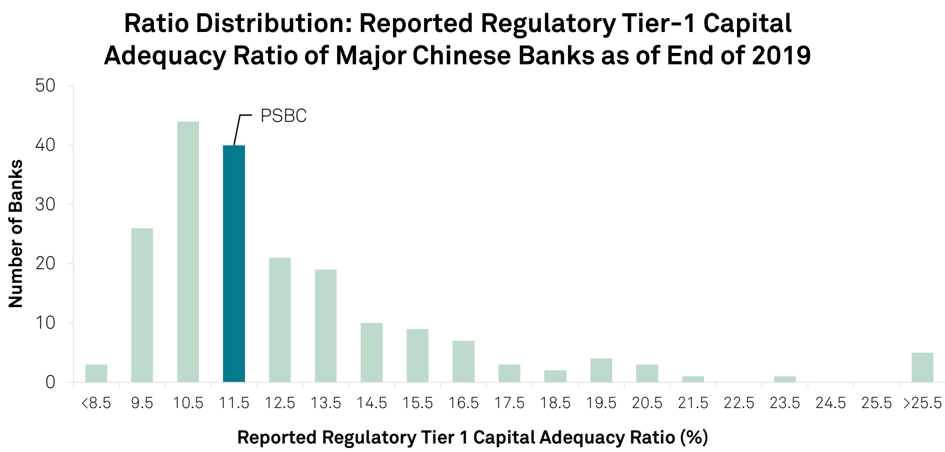
Its capital position is expected to be in line with the industry average. There is no notching adjustment for capital and earnings.

Chart 3



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

Chart 4



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

Although PSBC's capital consumption is expected to remain intensive as it expands its loan book, we believe it can maintain adequate capitalization given its good asset and earning quality, as well as its access to both the A-share and H-share markets and its plans to issue more hybrid bonds.

Table 4

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

	2018A	2019A	2020E	2021E
Total risk-weighted assets (bil)	4,316.22	4,969.66	5,918.97	6,527.24
- Credit risk (bil)	3,974.79	4,582.34	5,462.15	6,035.67
- Market risk (bil)	50.92	52.66	68.62	72.30
- Operational risk (bil)	290.51	334.67	388.21	419.27
Tier 1 capital (bil)	469.61	540.16	706.85	776.14
Tier 1 capital adequacy ratio forecast (%)			11.9	11.9

Note: As of the end of June 2020, outstanding off-balance sheet wealth management products ("WMPs") accounted for 17% of its gross total loans, and the dominant part of its underlying assets are bonds; only about 7% is non-standardized products. With more WMPs based on net value without implicit bank guarantees, we believe that the bank can successfully complete the transition from WMPs as required by the New Asset Management Rules by the extended deadline of end of 2021. We do not expect these outstanding WMPs to have any significant impact on the bank's overall capitalization.

S & P Global (China) Ratings' base case assumptions include: 1. total assets grow at a rate of 7.7% between 2019 and 2021; 2. by the end of 2021, the non-performing loan ("NPL") ratio is about 1% and reserve coverage ratio is about 390%; 3.NIM will be within a range of 2.3% to 2.4% ; 4. cost-to-income ratio remains about 55%; 5. annual dividend payout ratio stays about 30%; 6. return on average equity would go down to 8% in 2020 and recover to 12% in 2021.

Meanwhile, we have included issuance of tier-1 perpetual bonds (maximum 60 billion RMB) in the latter half of 2020 into our forecast. For tier 2 capital instruments that enter the redemption period, we typically assume that the bank would call the option and issue supplementary instruments with the same amount and the same level of capital contents, as required by hybrid bond regulations.

Note: A-actual; E-expected.

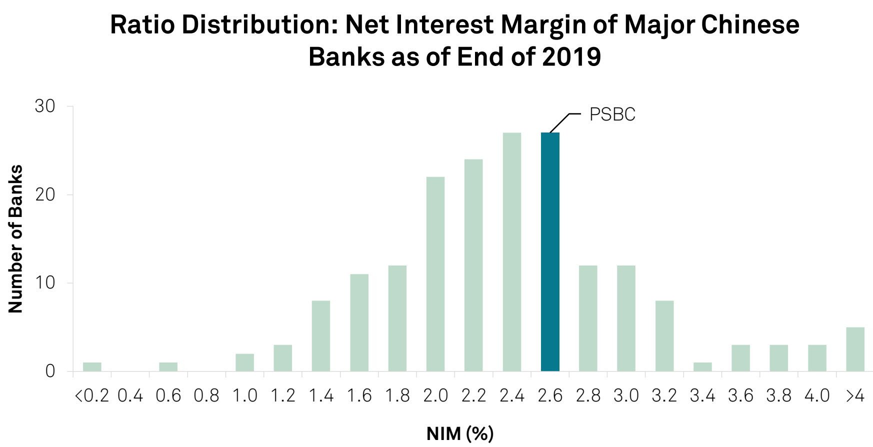
Sources: PSBC, S&P Global (China) Ratings.

Thanks to its low-cost sticky retail deposit funding base, the net interest margin ("NIM") of PSBC is above the industry average. In the first half of 2020, it had a NIM of

2.42%, 0.33 percentage points higher than the industry average and 0.47 percentage points higher than the average for the other five mega banks.

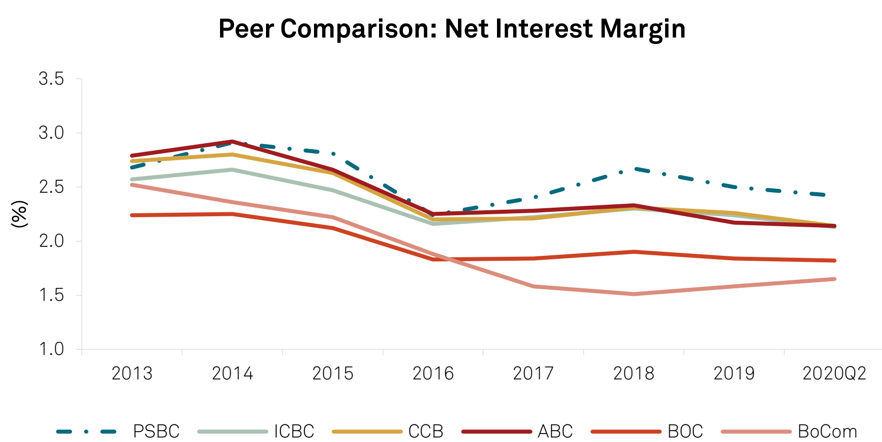
In the first half of 2020, due to the COVID-19 pandemic, the government required banks to reduce funding costs in the real economy. Interbank market interest rates fell sharply due to central bank operations, causing downward interest yield pressure for both loan business and interbank lending business. Deposit interest rates did not change much, resulting in NIM compression. In the first half of 2020, PSBC's reported NIM dropped by 13 basis points compared with the same period last year. With the steady recovery of the domestic economy and the normalization of monetary policy operations, we expect PSBC's interbank lending business to see better yields in the second half of the year. Its loan yield may continue to face downward pressure due to the implementation of the Loan Prime Rate mechanism.

Chart 5



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

Chart 6

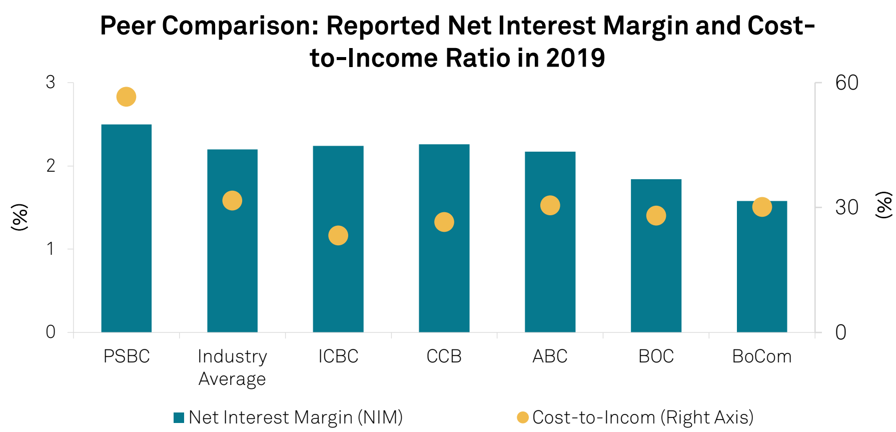


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

PSBC's credit cost has increased in the first half of 2020 as it stepped up its provisioning efforts. Its provisioning as a percentage of pre-provision operating profits increased to 48.4% in the first half of 2020 from 47% in 2019. As its loan loss reserve can comfortably cover its non-performing loans ("NPL") and special mention loans ("SML"), we don't expect any significant increase in provisioning costs in the next 24 months.

PSBC's operational cost is higher than its peers because it needs to maintain an extensive network in rural and remote areas. Although the low-cost sticky retail deposit base helps it maintain a healthy NIM, accessing that client base is expensive in terms of operations. This cost is mainly reflected in the agency fee it pays to China Post Group for agency outlets' work collecting deposits on its behalf. Typically, this agency fee accounts for about half of its total operating expenses. This unique cost leads to a high cost-to-income ratio, which was 52% as of the end of June 2020, higher than the industry average of 27% and the average of 23% for the five other mega banks.

Chart 7



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

Because of the high agency fee expenses in its cost structure, PSBC has a low return on assets ratio compared with its peers. In 2019, its return on assets was 0.62%, lower than the industry average of 0.87% and the average of 0.96% for the five other mega banks.

PSBC's profitability has seen a mild drop due to the impact of COVID-19 in the first half of 2020. However, considering its good asset quality, adequate reserve buffer, and the normalization of the central bank's monetary policy operations, we expect PSBC's future credit costs and NIM pressure to be controllable, thus its profitability would gradually recover in 2021. In 2019, the bank's return on equity was 13.1%, higher than the average of 12.3% for the five other mega banks. Because of the narrowing NIM in the first half of 2020, its annualized ROE dropped to 12.7%.

Table 5

PSBC -- Capital and Earnings

	2016	2017	2018	2019	2020.06
Reported regulatory capital adequacy ratio (%)	11.13	12.51	13.76	13.52	13.97
Reported regulatory tier 1 capital	8.63	9.67	10.88	10.87	11.47

adequacy ratio (%)					
Reported net interest margin (%)	2.24	2.40	2.67	2.50	2.42
Cost-to-income ratio (%)	66.47	61.57	56.41	56.57	51.76
Asset provisioning/pre-provision operating profits (%)	28.58	31.75	49.69	47.03	48.41
Loan provisioning/average gross customer loans (%)	0.74	0.64	1.09	1.03	N.A.
Return on average assets (%)	0.51	0.55	0.57	0.62	N.A.
Reported return on equity (%)	13.44	13.07	12.31	13.10	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: PSBC, collected and adjusted by S&P Global (China) Ratings.

Table 6

Peer Comparison -- Capital and Earnings

(2017-2019 three-year avg.)	PSBC	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported regulatory capital adequacy ratio (%)	**13.26**	16.74	13.26	15.01	15.33	14.96
Reported tier 1 capital adequacy ratio (%)	**10.47**	14.27	10.47	12.51	12.83	12.33
Net Interest Margin adjusted by S&P Global (China) Ratings (%)	**2.38**	2.38	1.47	2.01	2.04	2.13
Cost-to-income ratio (%)	**58.18**	58.18	23.88	32.85	29.89	29.00
Asset provisioning/pre-provision operating profits (%)	**42.82**	42.82	29.25	33.19	32.00	32.38
Loan provisioning/average gross customer loans (%)	**0.92**	1.04	0.85	0.95	0.96	0.94
Return on average assets (%)	**0.58**	1.12	0.58	0.92	0.98	0.94
Return on average equity (%)	**11.93**	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

Although COVID-19 has had a major impact on the economy, PSBC continues to outperform the industry in terms of asset quality. As of the end of June 2020, its reported NPL ratio was 0.89%, up by 3 basis points from the end of 2019; its combined NPL + SML ratio was 1.42%, 10 basis points lower compared to the end of 2019. We

Despite asset quality pressure from the pandemic, PSBC's asset quality metrics remain better than the industry average and its mega bank peers.

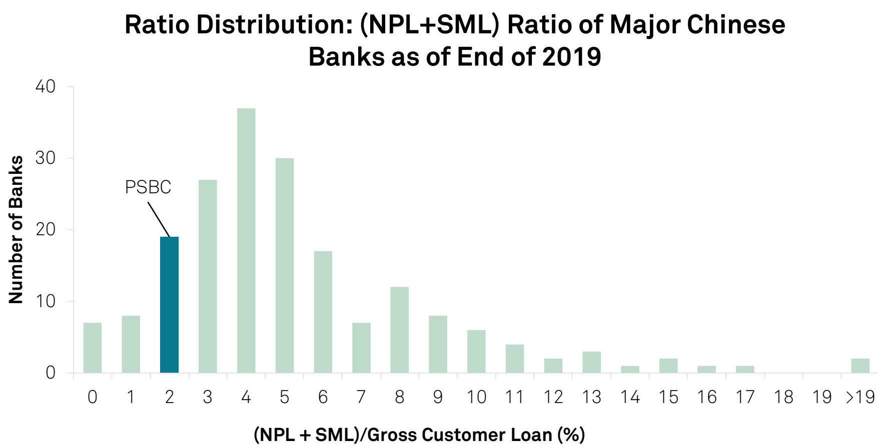
Its loan book is exposed to credit risk of MSEs, but we expect it to maintain good asset quality in the next 24 months.

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

expect the asset quality impact of the COVID-19 pandemic to further manifest in the second half of this year and into 2021. As of the end of June 2020, PSBC's combined NPL + SML ratio was significantly lower than the industry average of 4.7% and the average of 3.7% for the five other mega banks.

The bank's credit exposure to MSEs, which are more vulnerable to COVID-19, may put asset quality pressure on PSBC. As of the end of June 2020, its MSE loan portfolio accounted for 13.8% of its loan book and its MSE NPL ratio was 2.09%. Another important reason for PSBC's good asset quality metrics is its large lending exposure to retail customers (particularly mortgage customers) and very strong SOEs. The asset quality of such loan exposures has remained good during the pandemic.

Chart 8



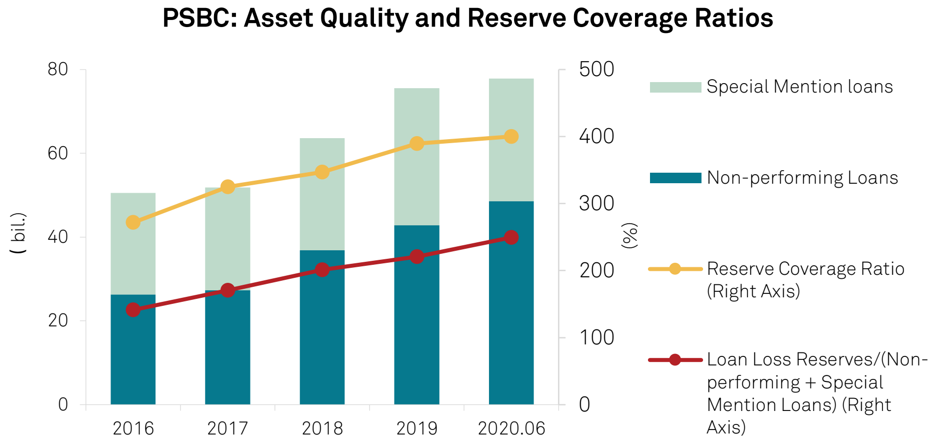
Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

We believe that PSBC takes a disciplined approach in its loan credit risk classification. Because loans under forbearance measures only account for a very small percentage of its loan book, we believe the extension of loans following COVID-19 did not have a major impact on the accuracy of its overall loan risk classification. Besides, as of the end of June 2020, only 0.01% of PSBC's loans were restructured loans.

PSBC's credit exposure to the real estate industry has generally good asset quality. As of the end of June 2020, the bank's mortgage lending portfolio accounted for 34% of its loan book, with an NPL ratio of 0.43%; its loans to the real estate industry only accounted for 1.5% of its total loans, with almost no non-performing loans.

Although the overall asset quality metrics of PSBC remained stable in the first half of the year, COVID-19 has affected the composition of its NPLs. As Hubei was hit hardest by the epidemic in the first quarter, the bank's NPLs in the Central China region increased significantly in the first half of the year from 7.5 billion RMB at the end of 2019 to 14.1 billion RMB as of the end of June 2020, and the ratio of NPLs in Central China/total NPLs increased from 17.5% to 29.0%. With the outbreak brought under effective control, we believe that the credit environment of the Central China region will gradually improve in the second half of the year. In addition, as the cash flow of aviation and other transportation industries was severely impacted by COVID-19, the bank's NPLs in the transportation industry increased from 120 million RMB at the end of the previous year to 7.1 billion RMB at the end of this June.

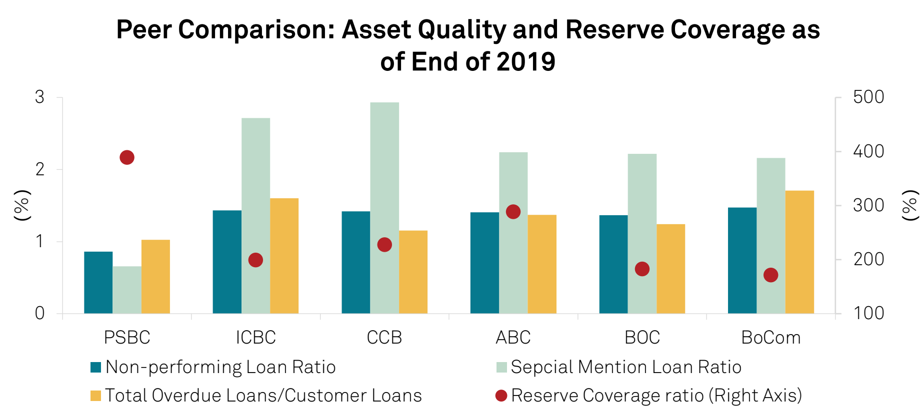
Chart 9



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

Thanks to strong asset quality metrics and prudent provisioning policies, PSBC's reserve coverage of bad debts is better than its peers. We believe its good reserve buffer can help it cushion any further asset quality impact from the pandemic. As of the end of June 2020, its loan loss reserves were 400.12% of its non-performing loans, and 250% of its NPLs + SMLs, representing improvements of 10.7 and 28.7 percent points on the end of 2019 respectively.

Chart 10



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

We believe the credit risk of PSBC's large investment portfolio is manageable. As of the end of June 2020, about 84% of its investment portfolio was credit exposure to governments and financial institutions. In addition, about 84% of its investment portfolio is bonds, so its exposure to non-standardized fixed income products is limited.

Table 7

PSBC -- Risk Position

	2016	2017	2018	2019	2020.06
Non-performing loan ratio (%)	0.87	0.75	0.86	0.86	0.89
(Non- performing loans + special mention loans)/gross customer loans (%)	1.68	1.43	1.49	1.52	1.42
Overdue loans/gross customer loans (%)	0.96	0.97	0.99	1.03	0.88
Loan loss reserves/gross customer loans (%)	2.37	2.44	2.99	3.35	3.54
Reserve coverage ratio (%)	271.69	324.77	346.80	389.45	400.12
Loan loss reserves/ (non-performing loans + special mention loans) (%)	141.33	170.78	201.08	220.84	249.55

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

Table 8

Peer Comparison -- Risk Position

(2017-2019 three-year avg.)	PSBC	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio (%)	**0.83**	1.60	0.83	1.38	1.44	1.47
(Non- performing loans + special mention loans)/gross customer loans (%)	**1.48**	4.70	1.48	3.82	4.11	4.20
Overdue loans/gross customer loans (%)	**1.00**	1.91	1.00	1.55	1.58	1.69
Loan loss reserves/gross customer loans (%)	**2.93**	3.95	2.46	2.90	2.94	2.79
Reserve coverage ratio (%)	**353.67**	353.67	166.54	220.57	210.04	189.38
Loan loss reserves/ (non-performing loans + special mention loans) (%)	**197.57**	197.57	57.53	89.91	79.46	65.40

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.

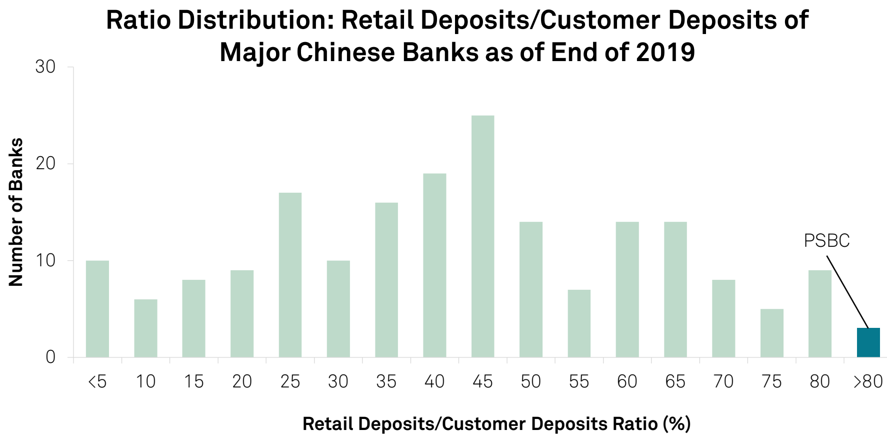
Funding and Liquidity

In our opinion, PSBC has a very stable funding structure thanks to its large sticky retail deposit base, and the stability of its funding structure is significantly better than the industry average. Retail deposits are its dominant funding source. As of the end of June 2020, 96% of its liabilities were customer deposits, and 87% of its deposits were retail deposits. Its use of wholesale funding was less than 4% of its total liabilities, significantly lower than its peers and the industry average.

PSBC has a very solid and sticky retail deposit base in China, and its funding structure is dominated by retail deposits. Its funding and liquidity profiles are significantly better than the industry average.

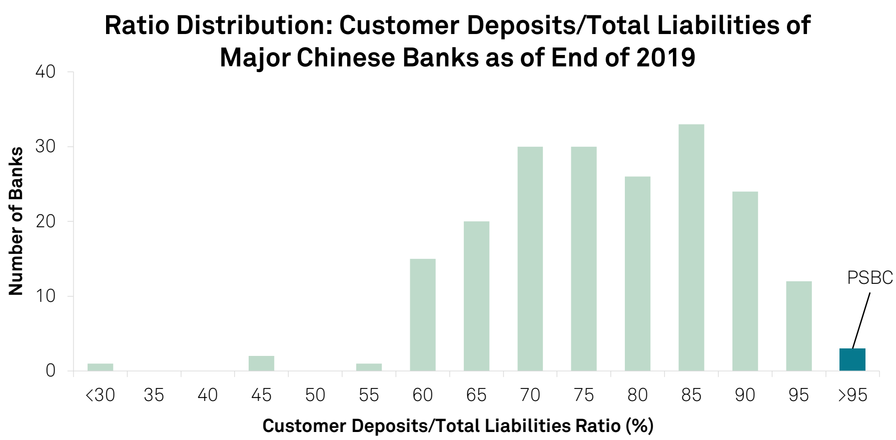
Therefore, there is a two-notch uplift for funding and liquidity.

Chart 11



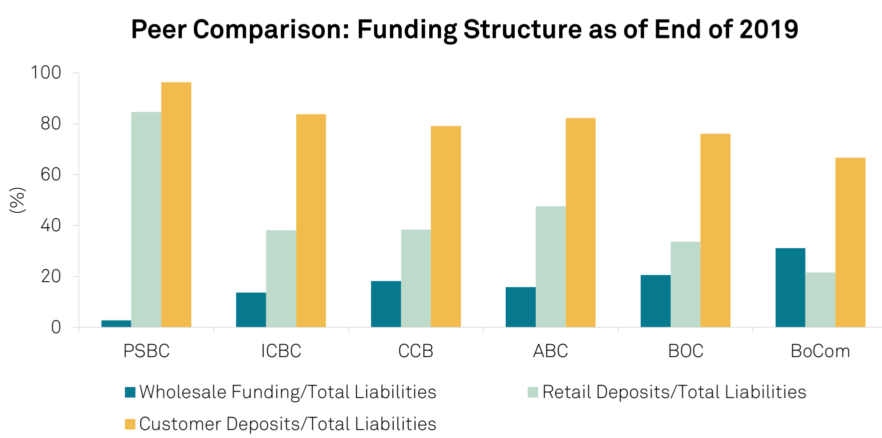
Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 12



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

Chart 13

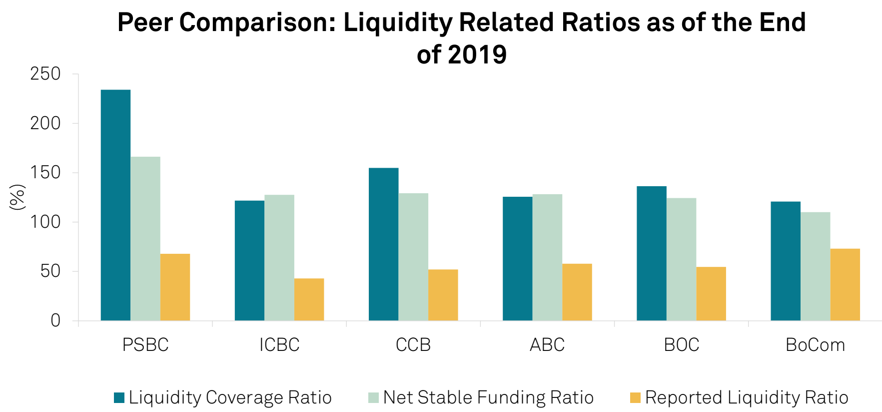


Source: Public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

Because of its low loan-to-deposit ratio and large bond investment portfolio, the bank's overall asset structure has a better liquidity profile compared with the industry average. As of the end of June 2020, its loan portfolio represented 48% of its assets, while 26% of its assets were invested into government bonds and policy bank bonds, which generally have good liquidity.

PSBC has the best liquidity metrics among its peers. As of the end of June 2020, the bank's liquidity coverage ratio was 197%, significantly higher than the average of 138% for the other five mega banks.

Chart 14



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

Table 9

PSBC – Funding and Liquidity

	2016	2017	2018	2019	2020.06
Customer loans/customer deposits (%)	41.32	45.02	49.57	53.41	55.55
Customer deposits/total liabilities (%)	92.01	93.96	95.43	96.30	95.57
Wholesale funding /total liabilities (%)	6.20	4.13	3.62	2.78	3.59
Retail deposits/customer deposits (%)	85.23	85.10	86.56	87.86	87.21
Liquidity coverage ratio (%)	128.19	145.79	225.20	233.84	197.45
Net stable funding ratio (%)			163.91	166.28	164.24

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

PSBC is assigned an SACP of aa_{spc}, five notches higher than its anchor of bbb+. Its SACP reflects its very strong business franchise as a leading retail bank in China, good asset quality, and very strong funding and liquidity profile.

Table 10

Peer Comparison -- Funding and Liquidity

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

Issuer Credit Rating

External Support

As one of the six state-owned mega banks, we believe PSBC is of critical importance to the central government for its role in maintaining financial and social stability in China.

We believe that PSBC has a unique role in providing basic financial services to China's rural and remote areas, and it is very important for the central government's goal of achieving financial inclusiveness. The bank has about 613 million retail clients, representing 40% of the total Chinese population, and its services cover 99% of China's counties.

In our view, the central government's indirect ownership of PSBC through China Post Group is long-term and strategic. China Post Group held 65% of the bank's equity as of the end of June 2020. China Post Group is 100% owned by the Ministry of Finance of China, and is entrusted by the central government with providing universal postal services in China. As of the end of 2019, the bank accounted for 97% of the group's total assets, and its net income accounted for 119% of the group's net income in 2019. If PSBC gets into stress, we expect extraordinary support to directly come from the central government instead of the parent group, because the bank is critically important to the government.

Overall, we believe that the likelihood of PSBC receiving extraordinary government support is extremely high, due to its very large size and important social role. Therefore, we assign an ICR of AAA_{spc} to PSBC, representing a two-notch uplift from its SACP of aa_{spc}.

We believe that as one of the six state-owned mega banks in China, PSBC is of critical importance to the central government for its role in maintaining financial and social stability in China.

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

Appendix 1: Key Financial Data

PSBC -- Key Financial Data	2016	2017	2018	2019	2020.06
Business Position					
Total assets (bil)	8,265.62	9,012.55	9,516.21	10,216.71	10,966.19
Gross customer loans (bil)	3,010.65	3,630.14	4,276.87	4,974.19	5,481.10
Customer deposits (bil)	7,286.31	8,062.66	8,627.44	9,314.07	9,866.58
Total equity (bil)	346.89	431.36	475.31	544.88	641.72
Operating income (bil)	188.81	224.57	261.00	276.81	146.35
Net income (bil)	39.78	47.71	52.38	61.04	33.67
Total assets /total assets of China's commercial banking industry (%)	4.55	4.58	4.53	4.27	4.26
Customer loans/total loans of China's commercial banking industry (%)	3.47	3.71	3.87	3.84	3.89
Customer deposits/total deposits of China's commercial banking industry (%)	4.68	4.76	4.73	4.70	4.63
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	11.13	12.51	13.76	13.52	13.97
Reported regulatory tier 1 capital adequacy ratio (%)	8.63	9.67	10.88	10.87	11.47
Reported net interest margin (%)	2.24	2.40	2.67	2.50	2.42
Asset provisioning/pre-provision operating profits (%)	28.58	31.75	49.69	47.03	48.41
Loan provisioning/average gross customer loans (%)	0.74	0.64	1.09	1.03	N.A.
Cost-to-income ratio (%)	66.47	61.57	56.41	56.57	51.76
Return on average assets (%)	0.51	0.55	0.57	0.62	N.A.
Reported return on equity (%)	13.44	13.07	12.31	13.10	12.65
Risk Position					
Non-performing loan ratio (%)	0.87	0.75	0.86	0.86	0.89
(Non-performing loans + special mention loans)/gross customer loans (%)	1.68	1.43	1.49	1.52	1.42
Overdue loans/gross customer loans (%)	0.96	0.97	0.99	1.03	0.88
Loan loss reserve/gross customer loans (%)	2.37	2.44	2.99	3.35	3.54
Reserve coverage ratio (%)	271.69	324.77	346.80	389.45	400.12
Loan loss reserve/ (non-performing loans + special mention loans) (%)	141.33	170.78	201.08	220.84	249.55
Funding and Liquidity					
Customer loans/customer deposits (%)	41.32	45.02	49.57	53.41	55.55
Customer deposits/total liabilities (%)	92.01	93.96	95.43	96.30	95.57
Wholesale funding /total liabilities (%)	6.20	4.13	3.62	2.78	3.59
Retail deposits/customer deposits (%)	85.23	85.10	86.56	87.86	87.21
Liquidity coverage ratio (%)	128.19	145.79	225.20	233.84	197.45

Note1: In our view, PSBC has a clear business model and sound financial management. Its annual financial reports have been audited by PricewaterhouseCoopers. Therefore, 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: PSBC, collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Peer Comparison Data

Peer Comparison Data

(2017-2019 three-year avg.)	PSBC	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	**9,581.82**	27,965.34	9,491.68	19,108.08	21,725.01	22,007.60
Gross customer loans (bil)	**4,293.73**	15,471.56	4,293.73	10,419.39	11,995.80	11,967.68
Customer deposits (bil)	**8,668.06**	21,316.51	5,803.87	14,219.60	16,170.76	16,032.97
Total equity (bil)	**483.85**	2,392.65	483.85	1,509.85	1,758.69	1,723.79
Operating income (bil)	**254.13**	785.15	213.71	502.48	578.37	549.91
Net income (bil)	**53.71**	299.85	53.71	180.00	212.58	198.00
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	**13.26**	16.74	13.26	15.01	15.33	14.96
Reported regulatory tier 1 capital adequacy ratio (%)	**10.47**	14.27	10.47	12.51	12.83	12.33
Net interest margin adjusted by S&P Global (China) Ratings (%)	**2.38**	2.38	1.47	2.01	2.04	2.13
Cost-to-income ratio (%)	**58.18**	58.18	23.88	32.85	29.89	29.00
Asset provisioning/pre-provision operating profits (%)	**42.82**	42.82	29.25	33.19	32.00	32.38
Loan provisioning/average gross customer loans (%)	**0.92**	1.04	0.85	0.95	0.96	0.94
Return on average assets (%)	**0.58**	1.12	0.58	0.92	0.98	0.94
Return on average equity (%)	**11.93**	13.54	10.63	12.30	12.60	12.43
Risk Position						
Non-performing loan ratio (%)	**0.83**	1.60	0.83	1.38	1.44	1.47
(Non-performing loans + special mention loans)/gross customer loans (%)	**1.48**	4.70	1.48	3.82	4.11	4.20
Overdue loans/gross customer loans (%)	**1.00**	1.91	1.00	1.55	1.58	1.69
Loan loss reserves/gross customer loans (%)	**2.93**	3.95	2.46	2.90	2.94	2.79
Reserve coverage ratio (%)	**353.67**	353.67	166.54	220.57	210.04	189.38
Loan loss reserve/(non-performing loans + special mention loans) (%)	**197.57**	197.57	57.53	89.91	79.46	65.40
Funding and Liquidity						
Customer loans/customer deposits (%)	**49.33**	84.57	49.33	72.69	73.94	76.49
Customer deposits/total liabilities (%)	**95.23**	95.23	66.22	80.60	80.76	81.31
Wholesale funding/total liabilities (%)	**3.51**	31.46	3.51	16.98	16.67	16.32
Retail deposits/customer deposits (%)	**86.51**	86.51	31.17	51.54	49.64	45.52
Liquidity coverage ratio (%)	**201.61**	201.61	114.31	139.43	134.68	128.50

Note 1: In this report, we have chosen the other five state-owned mega banks, including ICBC, CCB, ABC, BOC and BoCom as the peers of PSBC 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 PSBC, ICBC, CCB, ABC, BOC and BoCom are 8.36%, 24.39%, 20.58%, 19.93%, 18.46% 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 PSBC

Issuer Credit Ratings

Rating Type	Ratings	Outlook	Rating Date	Analysts	Related Reports
Initial Rating	AAA_{spc}	Stable	2020-01-03	Ying Li, Yifu Wang, Longtai Chen, Zheng Li	Credit Rating Report: Postal Savings Bank of China Co., Ltd., January 3, 2020
Surveillance	AAA_{spc}	Stable	2020-10-09	Yifu Wang, Longtai Chen, Zheng Li	Current Report

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