

## Credit Rating Report

# Shanghai Rural Commercial Bank Co., Ltd.

Issuer Credit Rating\*: AA<sub>spc</sub>-; Outlook: Stable

January 14, 2020

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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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## Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
Shanghai Rural Commercial Bank Co., Ltd.	Issuer Credit Rating	AA <sub>spc</sub> -	January 14, 2020	Stable

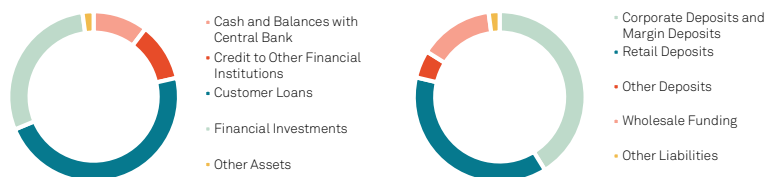
## Industry Classification:

Commercial Bank

## Company Overview:

Incorporated in 2005, Shanghai Rural Commercial Bank Co., Ltd. ("SRCB") is one of the leading rural commercial banks in China. It has a solid business franchise in Shanghai. As of the end of 2018, the bank reported total assets of 833.7 billion RMB, net loans of 394.0 billion RMB, customer deposits of 644.9 billion RMB. It generated a net income of 7.1 billion RMB in 2018.

## Asset and Liability breakdown as of the end of 2018



## Economy and Industry Trends:

In our view, China's GDP growth rate may further slow down in 2020 as the government pays more attention to the quality of the economic development, rather than the growth rate of GDP. Should the GDP growth drop become too drastic, we believe that China still has policy space to maintain economic and financial stability. In our view, financial stability is a priority for the government, and this means avoiding blow-out stimulus. We believe that the overall credit profile of the commercial banks in China will remain stable, while their asset quality could still feel downward pressure as the economic growth slows down. In our opinion, small and medium-sized banks may continue to face high funding cost and challenges in liquidity management in 2020. Many of these small banks may also face legacy bad debt problems in previous years. Meanwhile, state-owned mega banks are expected to maintain stable operations and resilient profitability. Therefore, we believe that the credit profiles of the commercial banks are likely to show greater differentiation in the foreseeable future. We believe that the government is aware of the risks faced by regional banks and measures are taken to stabilize their operations.

## Credit Highlights:

Operating in one of the most developed regions in China, SRCB is a leading rural commercial bank. Thanks to good credit environment in Shanghai and the bank's prudent risk management, it enjoys asset quality metrics better than the industry average. 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 state-owned rural bank serving small and micro enterprises and the agriculture sector, the bank is highly likely to receive government support in time of stress.

## Key Metrics of SRCB:

	2015	2016	2017	2018
Total assets (bil)	587.01	710.88	802.06	833.71
Customer deposits (bil)	450.37	553.78	609.08	644.91
Net income (bil)	5.81	5.98	6.66	7.13
Reported regulatory capital adequacy ratio (%)	12.50	12.39	14.27	15.86
Reported return on weighted average equity (%)	14.08	13.09	13.24	13.08
Non-performing loan ratio (%)	1.37	1.29	1.30	1.13
Reserve coverage ratio (%)	202.42	221.27	253.60	342.28
Customer deposits/total liabilities (%)	82.84	83.50	81.31	83.87

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

## Rating Snapshot

Anchor	bbb+
— Business Position	0
— Capital and Earnings	0
— Risk Position	+1
— Funding and Liquidity	+1
<b>Stand-alone Credit Profile</b>	<b>a<sub>spc</sub></b>
<b>Government Support</b>	<b>+2</b>
<b>Issuer Credit Rating</b>	<b>AA<sub>spc</sub>-</b>
<b>Outlook</b>	<b>Stable</b>

## Business Position:

SRCB has an extensive network and solid customer base in Shanghai. Its Renminbi deposit and loan market shares in Shanghai ranked the 5<sup>th</sup>. Thanks to the well-developed local economy, SRCB is a leading rural bank in China.

## Capital and Earnings:

In our view, SRCB is able to keep a good balance between business expansion and capital adequacy, and its capital and earnings profile is consistent with the industry average level. Good asset quality ensures good quality of capital and earnings.

## Risk Position:

Thanks to the good credit environment in Shanghai and the bank's prudent risk management, SRCB has been able to maintain asset quality metrics better than the industry average. We expect such momentum to continue over the next two years.

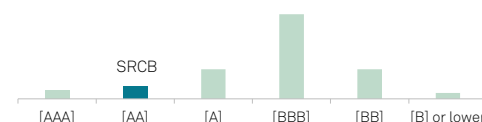
## Funding and Liquidity:

Thanks to its solid deposit base in Shanghai, SRCB has a low reliance on wholesale funding, resulting in a funding structure more stable than the industry average.

## External Support:

As one of the leading state-owned rural commercial banks in China, SRCB has a solid market position in Shanghai and plays an important role in serving local small and micro enterprises and the agricultural sector. We consider the likelihood of SRCB receiving support from governments in time 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 [AAA] can be adjusted by "+" and "-".

## Peer Group Comparison

(The peer group has six rural commercial banks in China, including SRCB, CQRCB, BJRCB, GRBC, DRBC, WHRCB)

(2016-2018 three-year average)	SRCB	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	<b>782.22</b>	886.08	254.03	637.70	724.84	751.10
Customer deposits (bil)	<b>602.59</b>	602.59	195.33	439.00	498.66	520.16
Net income (bil)	<b>6.59</b>	8.73	2.38	5.71	6.40	6.15
Reported regulatory capital adequacy ratio (%)	<b>14.18</b>	14.97	12.82	13.84	13.81	14.00
Return on average equity (%)	<b>12.82</b>	17.09	11.70	14.12	14.17	14.16
Non-performing loan ratio (%)	<b>1.24</b>	2.56	0.61	1.39	1.22	1.29
Reserve coverage ratio (%)	<b>272.38</b>	685.30	212.09	356.34	381.12	287.18
Customer deposits/total liabilities (%)	<b>82.90</b>	83.90	64.76	74.27	73.84	72.47

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&amp;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 <sub>spc</sub> -	January 14, 2020	Stable

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

## Credit Highlights

Strengths	Weaknesses
— Asset quality metrics better than the industry average.	— Fierce banking competition in Shanghai limits its growth potential.
— Solid deposit base and a funding structure more stable than the industry average.	
— Very high likelihood to receive government support in time of stress.	

## 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 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](#).

### Related Research & Commentary:

- [S&P Global \(China\) Ratings General Considerations on Rating Modifiers and Relative Ranking](#).

**Model Applied:** None.

## Anchor

### Macro-Economic and Industry Trends

In our view, China's GDP growth rate may further slow down in 2020 as the government pays more attention to the quality of the economic development, rather than the growth rate of GDP. Nevertheless, should the GDP growth drop become too drastic, we believe that China still has policy space to maintain economic and financial stability. In our view, financial stability is a priority, and this means avoiding blow-out stimulus.

We expect the economy of Shanghai to grow steadily. As one of the most developed regions in China, Shanghai is a center of finance, trading, shipping, and technological innovation. In 2018, Shanghai's GDP grew by 6.6% to 3.3 trillion RMB, accounting for 3.6% of China's total GDP, ranking the 11<sup>th</sup> among all the provinces, municipalities and autonomous regions in China; its GDP per capita reached 135,000 RMB, ranking the 2<sup>nd</sup>.

We believe that the overall macro economy of China will remain stable in 2020 despite the slowing down of GDP growth, and therefore, the general credit profile of China's commercial banking industry would also remain largely unchanged.

We expect asset quality deterioration to remain a challenge for commercial banks over the next two years as the economic restructuring continues. We expect private sector defaults to remain elevated in 2020; while banks still need more time to clean up their legacy bad debt problems accumulated from previous years.

Due to increasing challenges in asset quality control, we believe that the credit quality of commercial banks is likely to show greater differentiation in the foreseeable future. State-owned mega banks have demonstrated great resilience in both business operations and financial performance. In contrast, some smaller banks, especially those with very aggressive risk appetite in previous years or those mainly operating in regions with weaker economy, may face liquidity difficulties and capital base erosion over the next two years.

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

### Stand-alone Credit Profile

Based in one of most developed regions in China, 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. As of the end of 2018, the bank reported total assets of 833.7 billion RMB, customer deposits of 644.9 billion RMB, and net customer loans of 394.0 billion RMB. The sizes of its customer deposits and loans rank the first among all the rural commercial banks in China. In 2018, the bank generated an operating revenue of 20.1 billion RMB and a net income of 7.1 billion RMB.

SRCB is a state-owned bank. Shanghai International Group Co., Ltd and its subsidiaries are its largest shareholder, and they together held 18.46% of the bank's equity as of the end of May 2019. In addition, 68.49% of the bank's equity was owned by state-owned entities as of the end of May 2019.

## 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 2018, its deposit and loan market shares in Shanghai were both above 5%; and its national market share in terms of total assets was 0.4%.

SRCB has an extensive network and highly competitive business franchise in Shanghai. As of the end of 2018, the bank had 370 outlets in Shanghai, which covered 98% of local villages and townships and its Renminbi deposit and loan market shares ranked the 5<sup>th</sup> in Shanghai. Nevertheless, banking competition in Shanghai is fierce given Shanghai's status as the financial center of China. In our opinion, this highly competitive local market may limit the bank's growth potential.

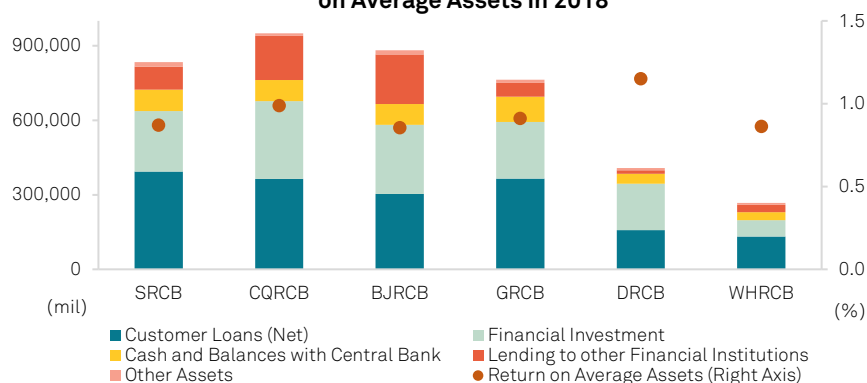
Table 1

SRCB -- Market Share				
(%)	2015	2016	2017	2018
Total assets /total assets of China's commercial banking industry	0.38	0.39	0.41	0.40
Gross customer loans/total loans of China's commercial banking industry	0.39	0.39	0.38	0.37
Customer deposits/total deposits of China's commercial banking industry	0.32	0.36	0.36	0.35
Gross customer loans/total loans of financial institution denominated in local and foreign currencies in Shanghai	5.57	5.64	5.56	5.59
Gross customer deposits /total deposits of financial institution denominated in local and foreign currencies in Shanghai	4.34	5.01	5.42	5.32

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

Chart 1

**Peer Comparison: Total Assets as of the End of 2018 and Return on Average Assets in 2018**



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

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

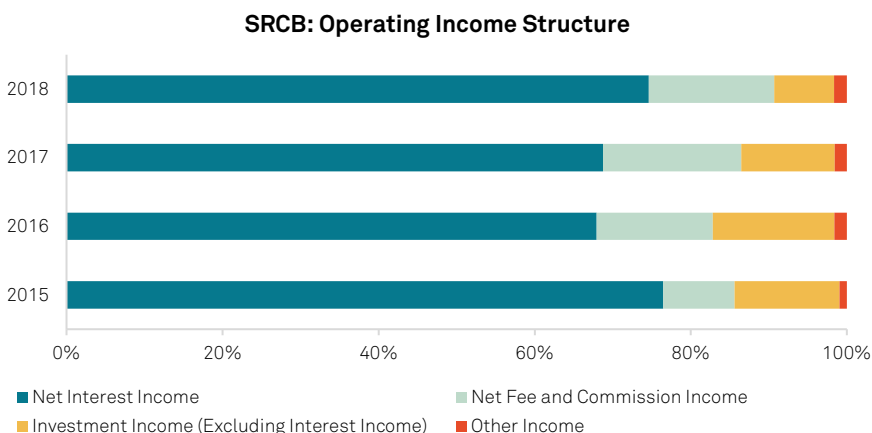
**With a national market share of 0.4%, the bank has an average asset size compared with major Chinese commercial banks.**

**There is no notching adjustment for its business position.**

SRCB focuses its lending business on serving local small and micro enterprises and the agriculture sector and has a leading market share in Shanghai for both sectors. As of the end of 2018, agriculture-related loans accounted for 12% of its gross loan and small and micro enterprise loans accounted for 31%.

SRCB has well-developed intermediary business lines including bank cards, settlement and bond underwriting, leading to rapid growth of fee and commission income. Net fee and commission accounted for 16% of its operating income in 2018. It has an income structure more diversified than other rural banks.

Chart 2



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

Table 2

<b>SRCB -- Business Position</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Total assets (bil)	587.01	710.88	802.06	833.71
Year-over-year growth of total assets (%)	20.96	21.10	12.83	3.95
Gross customer loans (bil)	297.33	338.10	373.64	409.91
Year-over-year growth of gross customer loans (%)	14.77	13.71	10.51	9.71
Customer deposits (bil)	450.37	553.78	609.08	644.91
Year-over-year growth of customer deposits (%)	13.82	22.96	9.99	5.88
Operating income (bil)	15.29	15.70	17.92	20.15
Year-over-year growth of operating income (%)	8.01	2.70	14.17	12.41
Net income (bil)	5.81	5.98	6.66	7.13
Year-over-year growth of net income (%)	15.85	2.91	11.49	6.93
Net fees and commission income/operating income (%)	9.15	14.86	17.73	16.09

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

Table 3

## Peer Comparison -- Business Position

(2016-2018 three-year avg.)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	<b>782.22</b>	886.08	254.03	637.70	724.84	751.10
Year-over-year growth of total assets (%)	<b>12.62</b>	16.96	9.49	11.98	11.39	11.44
Gross customer loans (bil)	<b>373.88</b>	373.88	123.98	262.62	295.50	295.19
Year-over-year growth of gross customer loans (%)	<b>11.31</b>	19.36	5.86	12.18	12.00	11.84
Customer deposits (bil)	<b>602.59</b>	602.59	195.33	439.00	498.66	520.16
Year-over-year growth of customer deposits (%)	<b>12.94</b>	14.08	8.96	11.28	10.89	11.14
Operating income (bil)	<b>17.92</b>	23.94	8.05	15.27	17.11	16.17
Year-over-year growth of operating income (%)	<b>9.76</b>	14.46	2.56	8.99	9.56	9.49
Net income (bil)	<b>6.59</b>	8.72	2.38	5.71	6.40	6.15
Year-over-year growth of net income (%)	<b>7.11</b>	11.84	0.04	7.36	8.54	7.72
Net fees and commission income/operating income (%)	<b>16.28</b>	16.28	3.81	10.94	11.32	11.45

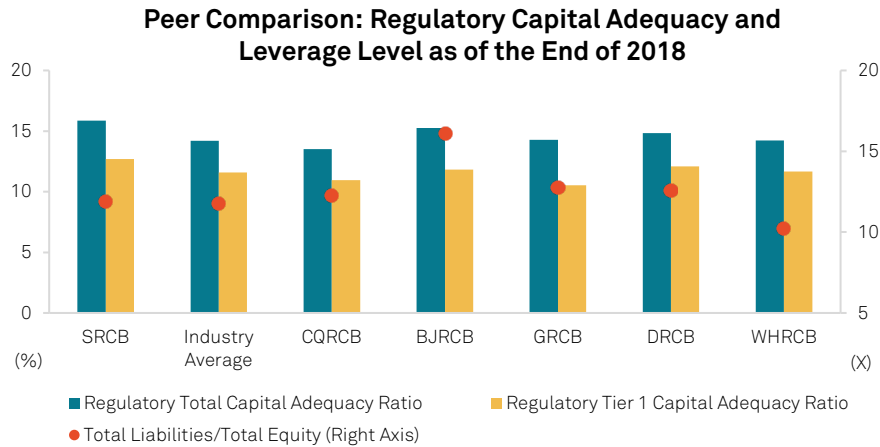
Note: We have selected five rural commercial banks, including Chongqing Rural Commercial Bank (CQRCB), Beijing Rural Commercial Bank (BJRCB), Guangzhou Rural Commercial Bank (GRCB), Dongguan Rural Commercial Bank (DRCB) and Wuhan Rural Commercial Bank (WHRCB), as the peers of SRCB, for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2016 to 2018. Therefore, the weights of SRCB, CQRCB, BJRCB, GRCB, DRCB and WHRCB are 20.44%, 23.16%, 21.10%, 18.82%, 9.84% and 6.64% 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 2018, the bank reported a regulatory capital adequacy ratio and a tier 1 capital adequacy ratio of 15.9% and 12.7%. Based on its capital management plan, we expect its capital to remain adequate and consistent with the industry average.

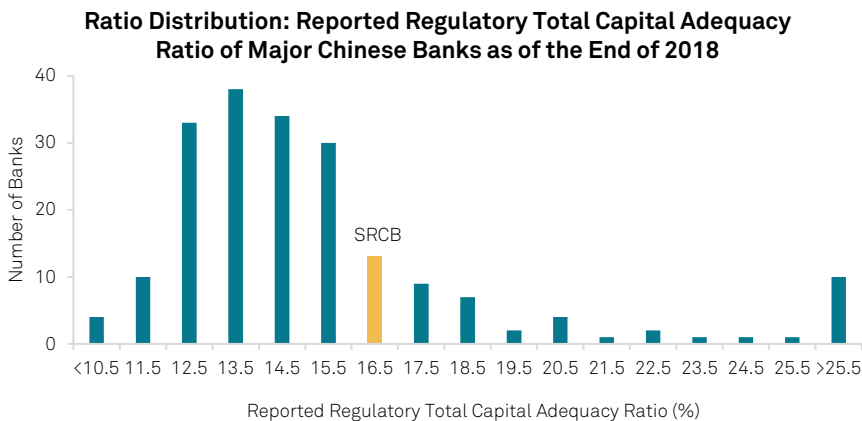
Chart 3



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

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

Chart 4



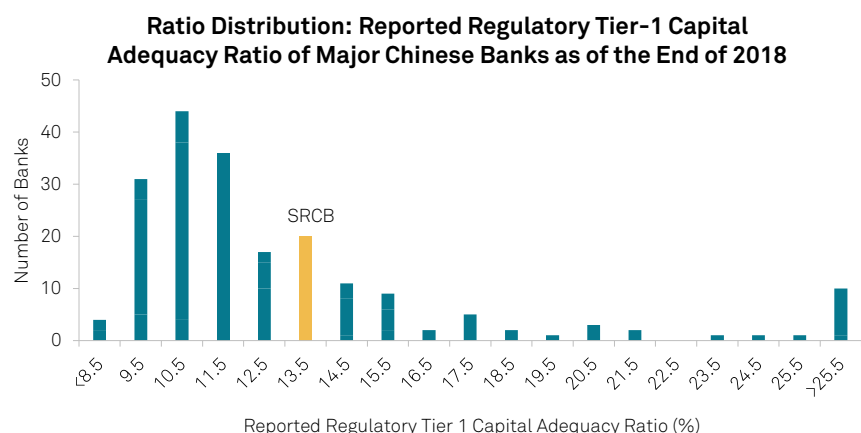
Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

**In our view, SRCB has adequate capitalization and healthy profitability.**

**We expect its capitalization to be in line with the industry average and therefore there is no notching adjustment for capital and earnings.**



Chart 5



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

Table 4

SRCB -- Capital Adequacy Forecast by S&P Global (China) Ratings				
	2017A	2018A	2019E	2020E
Total risk-weighted assets (bil)	473.6	502.4	581.8	648.5
- Credit risk (bil)	445.8	467.0	544.7	610.1
- Market risk (bil)	1.7	3.1	4.6	4.9
- Operational risk (bil)	26.1	32.3	32.4	33.5
Total capital (bil)	67.6	79.7	86.7	94.1
Tier 1 capital (bil)	52.0	63.8	69.9	76.4
Total capital adequacy ratio forecast (%)	-	-	<b>14.9</b>	<b>14.4</b>
Tier 1 capital adequacy ratio forecast (%)	-	-	<b>12.0</b>	<b>11.7</b>

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 include: 1. total assets grow at a compound rate of 7% from 2018 to 2020; 2. gross loans grow at a compound rate of 15% from 2018 to 2020; 3. as of the end of 2020, NPL ratio is around 1% and reserve coverage ratio is above 300%; 4. NIM is around 1.7% in 2020; 5. cost-to-income ratio stays at 32%; 6. return on average asset is 0.9%, and return on average equity is above 11%; 7. annual dividend payout ratio stays between 25%-30%; 8. Our estimation took the acquisition of Yangtze United Financial Leasing into consideration.

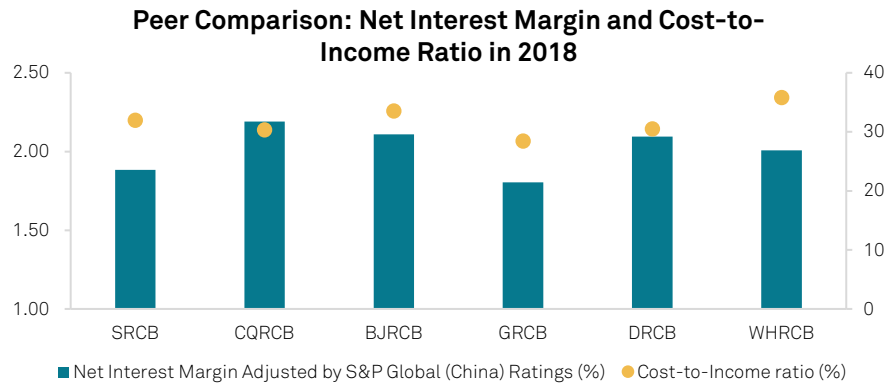
Meanwhile, we have not considered any capital injection in our forecast. If the bank conducts an IPO on the A-share market in 2020, its total capital adequacy ratio is expected to rise to 16% as of the end of 2020.

Note: A-actual; E-expected; 2017 and 2018 data are based on regulatory filings of SRCB.

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

The Net Interest Margin (“NIM”) of SRCB is consistent with the industry average and a little bit lower than its peers. In our view, the generally good credit qualities of borrowers in Shanghai and the fierce banking competition in that region attribute to its lower NIM. Its reported NIM was 2.01% in 2018.

Chart 6

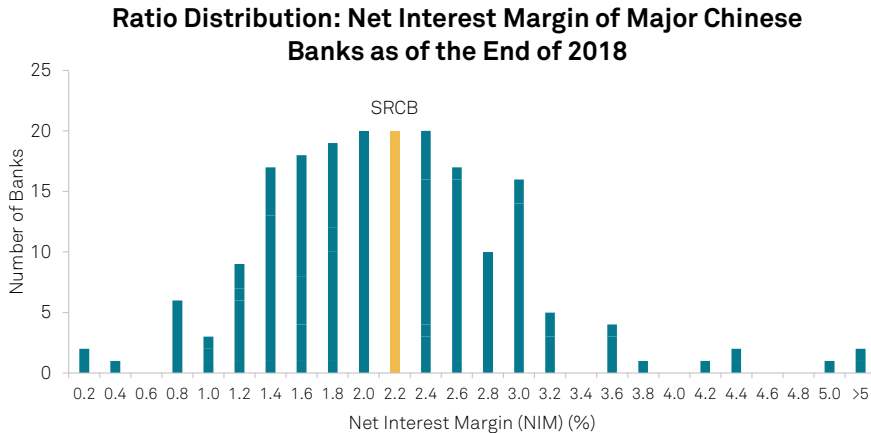


Note 1: CQRCB - Chongqing Rural Commercial Bank, BJRCB - Beijing Rural Commercial Bank, GRCB - Guangzhou Rural Commercial Bank, DRCB - Dongguan Rural Commercial Bank, and WHRCB - Wuhan Rural Commercial Bank.

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].

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

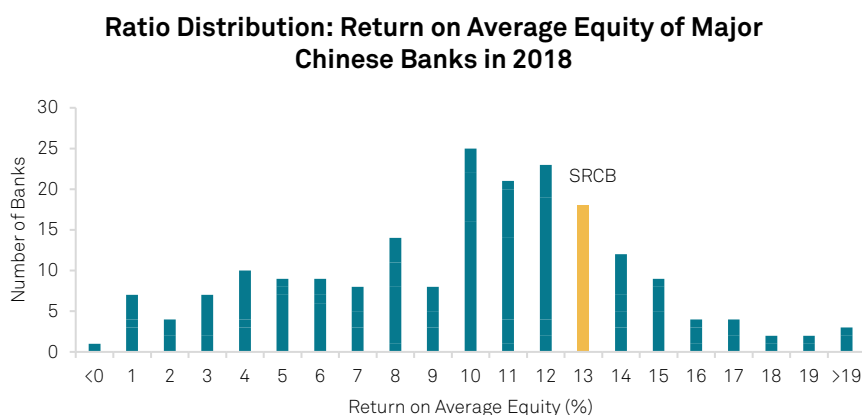
Chart 7



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

SRCB has a prudent provisioning policy and has stepped up its provisioning efforts. Its provisioning cost as a percentage of pre-provisioning operating profit increased from 20% in 2016 to 36% in 2018. Because of its good asset quality we expect its future credit cost to remain controllable.

Chart 8



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: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

The earning capability of SRBC is consistent with the industry average. In 2018, its return on average assets was 0.9% and its return on average equity was 12.1%, similar to the industry average. Thanks to its good asset quality and adequate loss reserve, we consider its earnings quality as solid.

Table 5

### SRCB -- Capital and Earnings

	2015	2016	2017	2018
Reported regulatory tier 1 capital adequacy ratio (%)	11.36	10.56	10.97	12.70
Reported regulatory capital adequacy ratio (%)	12.50	12.39	14.27	15.86
Reported Net interest margin (%)	2.28	1.75	1.71	2.01
Net interest margin adjusted by S&P Global (China) Ratings (%)	2.23	1.67	1.67	1.88
Cost-to-income ratio (%)	35.53	37.37	33.74	31.95
Provisioning/pre-provisioning operating profits (%)	20.08	23.06	30.23	35.59
Return on average assets (%)	1.08	0.92	0.88	0.87
Return on average equity (%)	14.26	13.13	13.23	12.09
Reported return on weighted average equity (%)	14.08	13.09	13.24	13.08

Note 1: 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 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].

Note 3: 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

(2016-2018 three-year avg.)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported Tier 1 capital adequacy ratio (%)	<b>11.41</b>	11.77	10.39	11.14	10.98	11.26
Reported regulatory capital adequacy ratio (%)	<b>14.18</b>	14.97	12.82	13.84	13.81	14.00
Net Interest Margin adjusted by S&P Global (China) Ratings (%)	<b>1.74</b>	2.45	1.74	2.01	2.00	1.99
Provisioning/pre-provisioning operating profits (%)	<b>29.63</b>	41.72	18.23	28.13	26.48	27.17
Cost-to-income ratio (%)	<b>34.36</b>	36.28	30.53	33.39	33.76	33.22
Return on average assets (%)	<b>0.89</b>	1.19	0.83	0.97	0.94	0.95
Return on average equity (%)	<b>12.82</b>	17.09	11.70	14.12	14.17	14.16

Note 1: The peer group include SRCB, Chongqing Rural Commercial Bank (CQRCB), Beijing Rural Commercial Bank (BJRCB), Guangzhou Rural Commercial Bank (GRCB), Dongguan Rural Commercial Bank (DRCB) and Wuhan Rural Commercial Bank (WHRCB).

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 good credit environment in Shanghai and the bank's prudent risk management, SRCB has maintained asset quality metrics better than the industry average. As of the end of 2018, SRCB's nonperforming loan (NPL) ratio was 1.13%, lower than the industry average of 1.8%; and its special-mention loans (SMLs) accounted for 0.85% of its gross loans, lower than the industry average of 3.1%.

94% of SRCB's loans are concentrated in Shanghai, and the well-developed and diversified economy in Shanghai has significantly mitigated its concentration risk as a regional bank. In our view, compared with many other regional banks, SRCB has a better risk position for concentrating its business in one of China's richest regions.

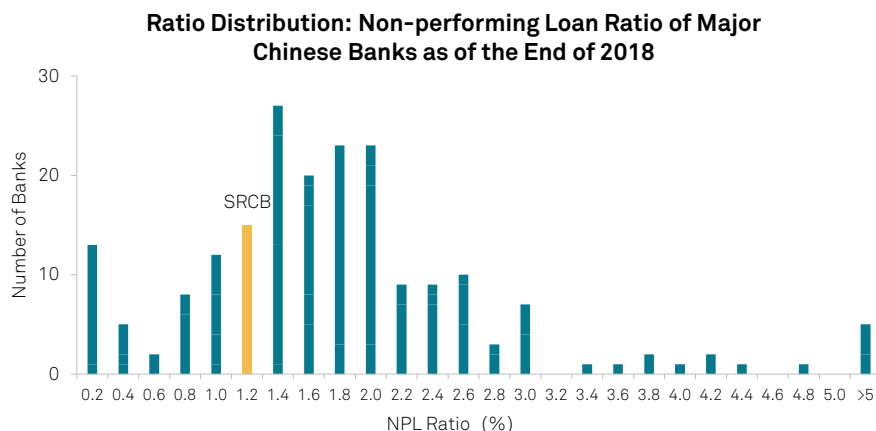
We view SRCB's loan classification practice as disciplined and prudent. As of the end of 2018, the ratio of loans overdue above 90 days to NPLs was 97%, and the ratio of loans overdue less than 90 days to SMLs was 27%.

We assess any latent credit risk exposure of SRCB's loans as limited and controllable. As of the end of 2018, its restructured loans accounted for 0.01% of its gross loans, all of which had been classified as substandard loans; its extended loans accounted for 0.36% of its gross loans.

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

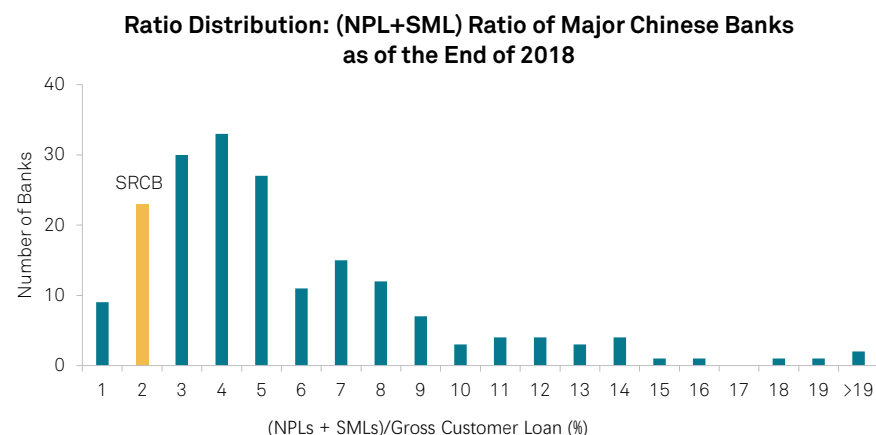
**Therefore, there is one notch uplift adjustment for its risk position.**

Chart 9



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

Chart 10

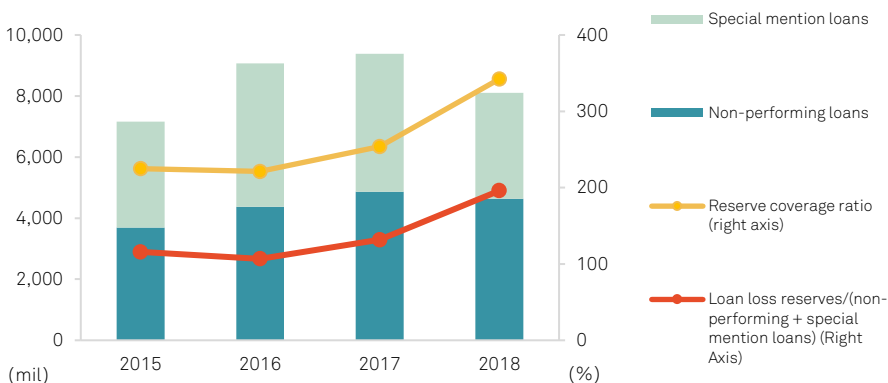


Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

SRCB's real estate-related lending is high, but the credit risk exposure is limited and controllable because of the solid property market in Shanghai. Its real estate-related portfolio has better-than-industry-average asset quality. As of the end of 2018, its real estate related corporate loans accounted for 20% of total loans, with an NPL ratio of 0.97%; household mortgage loans accounted for 22%, with an NPL ratio of 0.22%.

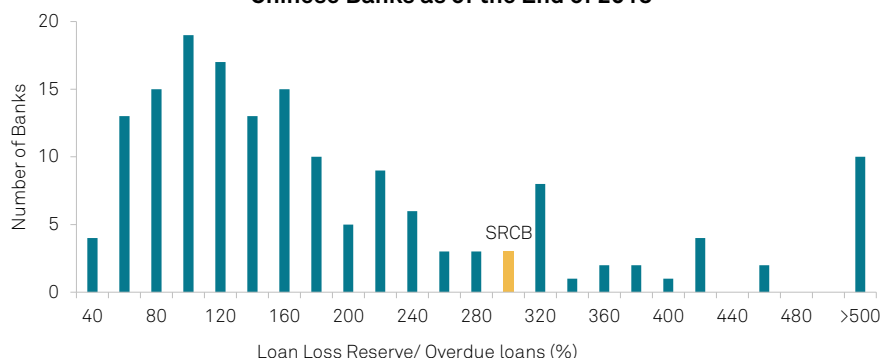
Provisioning of SRCB is adequate, which is demonstrated by its high coverage ratio of loss reserve over NPLs and SMLs. As of the end of 2018, the reserve coverage ratio was 342%, and ratio of loan loss reserve over (NPLs + SMLs) was 196%, the ratio of loan loss reserve over overdue loans was 292%. Its reserve coverage level is higher than the industry average.

Chart 11

**SRCB: Asset Quality and Reserve Coverage Ratios**

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

Chart 12

**Ratio Distribution: Loan Loss Reserve/ Overdue Loans Ratio of Major Chinese Banks as of the End of 2018**

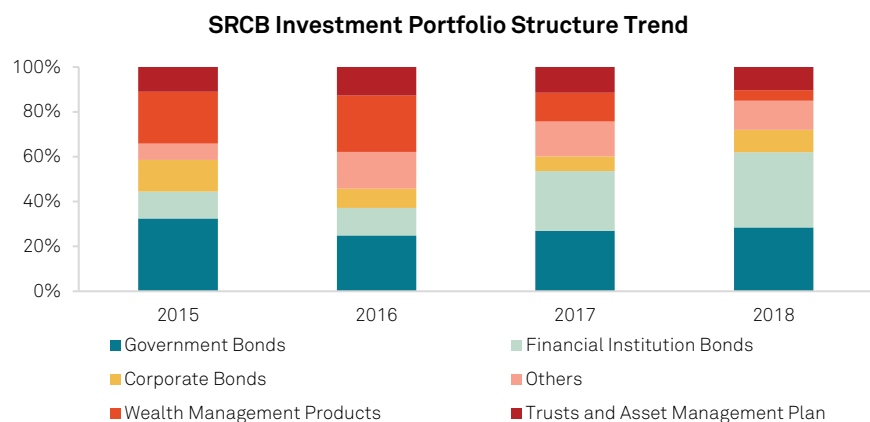
Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

SRCB's subsidiary community banks has seen a deterioration of credit risk and therefore generally suffered losses. The credit environment of most of the regions where these community banks locates (Shandong, Yunnan, Hunan and so on) are weaker than that of Shanghai. As of the end of 2018, assets of the 35 community banks together reported at 27.4 billion RMB, accounting for 3.3% of the total assets of comprehensive statement, with an NPL ratio of 6.4%; operating revenue in 2018 was 1.0 billion RMB, accounting for 5.1% of comprehensive operating revenue; net loss in 2018 was 0.4 billion RMB, accounting for -5.3% of comprehensive net income. In our view, as SRCB has strengthened risk control over its subsidiary community banks, the existing risk of community banks has generally finished exposing and therefore future incremental risks are controllable.

SRCB turned down the proportion of non-standard investments in recent years as a result of the regulatory intervention, which is conducive to reining in the impact of shadow banking on its credit exposure. As of the end of 2018, government bond accounted for 29% of its investment portfolio; financial institution bonds (mainly policy bank bonds) accounted for 34%; corporate bonds accounted for 9.9%;

proportion of wealth management products shrank to 5% from 25% as of the end of 2016.

Chart 13



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

Table 7

<b>SRCB -- Risk Position</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Non-performing loan ratio (%)	1.37	1.29	1.30	1.13
(Non-performing loans + special mention loans)/ customer loans (%)	2.52	2.68	2.51	1.98
Overdue loans/ customer Loans (%)	1.97	1.76	1.56	1.32
Loan provision rate (%)	2.78	2.86	3.30	3.87
Reserve coverage ratio (%)	202.42	221.27	253.60	342.28
Loan loss reserve/ (non-performing loans + special mention loans) (%)	115.75	106.68	131.62	195.92
Provisioning/ average customer Loans (%)	0.64	0.66	0.95	1.22
Net write-offs/ average customer loans (%)	0.19	0.14	0.20	0.32

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

Table 8

## Peer Comparison -- Risk Position

(2016-2018 three-year avg.)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio (%)	<b>1.24</b>	2.56	0.61	1.39	1.22	1.29
(Non-performing loans + special mention loans)/ customer loans (%)	<b>2.39</b>	8.92	0.97	4.01	3.31	3.67
Overdue loans/ customer Loans (%)	<b>1.55</b>	7.12	0.70	2.64	2.01	1.98
Loan provision rate (%)	<b>3.35</b>	6.18	3.17	4.09	3.82	3.78
Reserve coverage ratio (%)	<b>272.38</b>	685.30	212.09	356.34	381.12	287.18
Loan loss reserve/ (non-performing loans + special mention loans) (%)	<b>144.74</b>	405.45	72.96	154.73	172.99	114.72
Loan loss reserve/ total overdue loans (%)	<b>222.02</b>	599.28	102.91	252.85	286.86	199.28
Provisioning/ average customer loans (%)	<b>0.94</b>	1.69	0.37	1.07	0.98	1.13
Net write-offs/ average customer loans (%)	<b>0.22</b>	0.58	0.07	0.35	0.29	0.34

Note: The peer group include SRCB, Chongqing Rural Commercial Bank (CQRCB), Beijing Rural Commercial Bank (BJRCB), Guangzhou Rural Commercial Bank (GRCB), Dongguan Rural Commercial Bank (DRCB) and Wuhan Rural Commercial Bank (WHRCB).

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



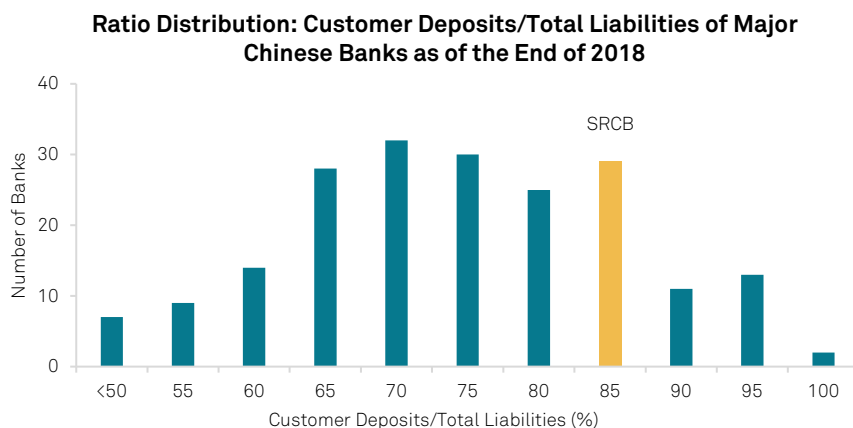
## Funding and Liquidity

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 2018, 84% of its total liability was customer deposits, and retail deposit accounted for 45% of its total deposits. Wholesale funding only contributed to 14% of its total liabilities.

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

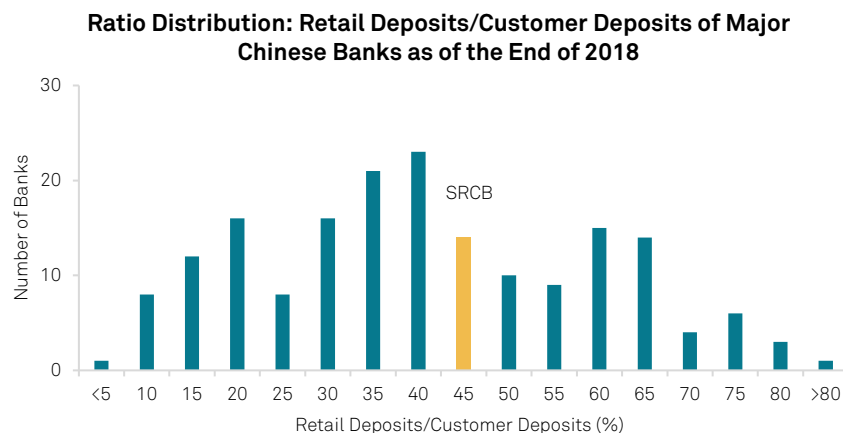
**Therefore, there is one notch uplift adjustment for funding and liquidity.**

Chart 14



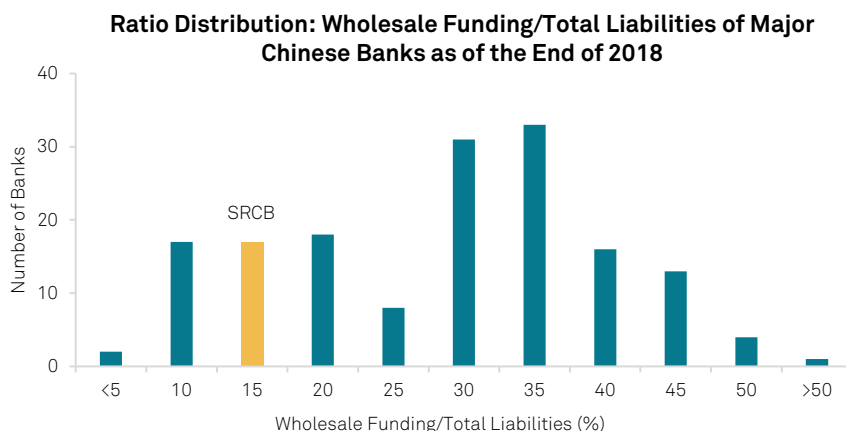
Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

Chart 15



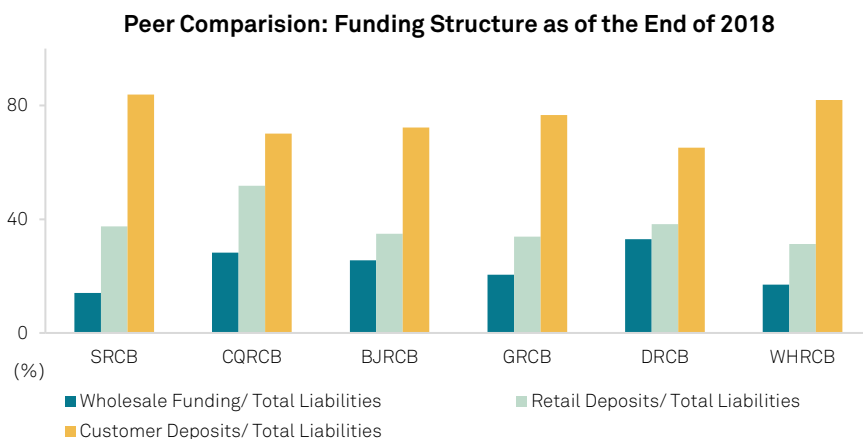
Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

Chart 16



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

Chart 17



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

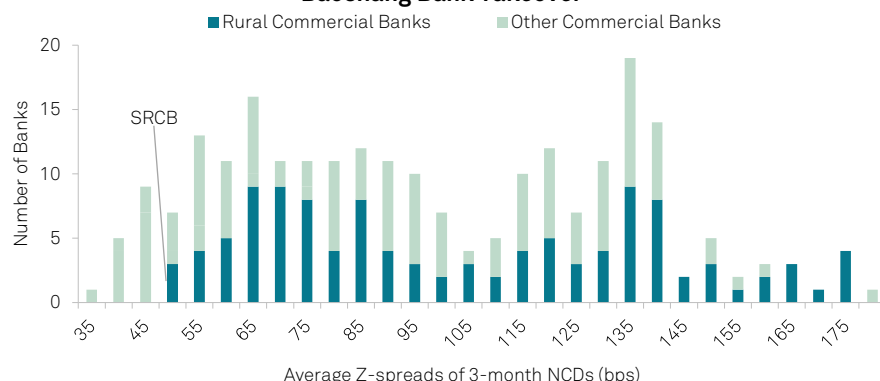
Sources: public data of peer banks, collected and adjusted by S&P Global (China) Ratings.

We assess the liquidity position of SRCB as adequate, with a liquidity coverage ratio better than the industry average. As of the end of 2018, its liquidity coverage ratio was 242%, much higher than the minimum regulatory requirement of 100% and the industry average of 138%.

Based on observed market data, SRCB's credit spread is low compared with other commercial banks. In our view, its low credit spread reflects its easy access to funding in the interbank market.

Chart 18

### Average Issuance Spreads of 3-month NCDs of Banks after Baoshang Bank Takeover



Note 1: The samples in the chart include 5 mega banks, 12 joint-stock banks, 108 city banks, 111 rural banks and 10 foreign bank subsidiaries who issued 3-month NCD from the period from June 1st, 2019 to November 30, 2019.

Note 2: Issuance spread = 3M NCD issuance rate - 3M treasury note spot rate.

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

Table 9

### SRCB – Funding and Liquidity

	2015	2016	2017	2018
Customer loans/ customer deposits (%)	66.02	61.05	61.35	63.56
Customer deposits/ total liabilities (%)	82.84	83.50	81.31	83.87
Wholesale funding /total liabilities (%)	14.60	14.17	16.29	14.05
Retail deposits/ customer deposits (%)	45.35	42.56	42.46	44.73
Liquidity coverage ratio (%)	130.76	121.23	132.43	241.76

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

(2016-2018 three-year avg.)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/ customer deposits (%)	<b>61.99</b>	64.93	51.18	60.68	59.69	62.31
Customer deposits/ total liabilities (%)	<b>82.90</b>	83.90	64.76	74.27	73.84	72.47
Wholesale funding / total liabilities (%)	<b>14.84</b>	33.40	14.65	23.57	23.90	24.75
Retail deposits/ customer deposits (%)	<b>43.25</b>	73.27	35.96	50.98	52.73	46.39

Note: The peer group include SRCB, Chongqing Rural Commercial Bank (CQRCB), Beijing Rural Commercial Bank (BJRCB), Guangzhou Rural Commercial Bank (GRCB), Dongguan Rural Commercial Bank (DRCB) and Wuhan Rural Commercial Bank (WHRCB).

Sources: public data of peer 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 funding structure.**

## Issuer Credit Rating

### External Support

SRCB is a state-owned regional rural bank. As of the end of May 2019, 68% 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 18.46% of the bank's total equity.

SRCB plays an important role in providing financial services to local small and micro enterprises and the local agriculture sector. It has substantial market share in Shanghai. Therefore, we believe its importance level to the Shanghai Government is high.

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 local 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 its municipal government.

As one of the leading rural commercial banks in China, SRCB has a market share of 0.4% in terms of total assets in China. We believe that its importance to the central government is moderate.

We believe that SRCB is highly likely to receive extraordinary support from Shanghai Government and/or central government in time of stress. Therefore, we assign an ICR of AA<sub>spc</sub>- to SRCB, representing two-notch uplift from its SACP of A<sub>spc</sub>.

**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, SRCB's importance to central government is moderate.**

**We assess the likelihood of it receiving support from the government in time of stress as very high. Therefore, we assign an ICR of AA<sub>spc</sub>- to SRCB.**

## Appendix 1: Key Financial Data

SRCB -- Key Financial Data				
	2015	2016	2017	2018
<b>Business Position</b>				
Total assets (bil)	587.01	710.88	802.06	833.71
Gross customer loans (bil)	297.33	338.10	373.64	409.91
Customer deposits (bil)	450.37	553.78	609.08	644.91
Total equity (bil)	43.33	47.69	53.02	64.80
Operating income (bil)	15.29	15.70	17.92	20.15
Net income (bil)	5.81	5.98	6.66	7.13
Total assets / total assets of China's commercial banking industry (%)	0.38	0.39	0.41	0.40
Customer loans/ total loans of China's commercial banking industry (%)	0.39	0.39	0.38	0.37
Customer deposits/ total deposits of China's commercial banking industry (%)	0.32	0.36	0.36	0.35
<b>Capital and Earnings</b>				
Reported regulatory capital adequacy ratio (%)	12.50	12.39	14.27	15.86
Reported regulatory tier 1 capital adequacy ratio (%)	11.36	10.56	10.97	12.70
Reported net interest margin (%)	2.28	1.75	1.71	2.01
Net interest margin adjusted by S&P Global (China) Ratings (%)	2.23	1.67	1.67	1.88
Cost-to-income ratio (%)	35.53	37.37	33.74	31.95
Reported return on assets (%)	1.08	0.92	0.88	0.87
Reported return on equity (%)	14.26	13.13	13.23	12.09
Reported return on weighted average equity (%)	14.08	13.09	13.24	13.08
<b>Risk Position</b>				
Non-performing loan ratio (%)	1.37	1.29	1.30	1.13
(Non-performing loans + special mention loans)/ customer loans (%)	2.52	2.68	2.51	1.98
Loan provision rate (%)	2.78	2.86	3.30	3.87
Reserve coverage ratio (%)	202.42	221.27	253.61	342.28
Loan loss reserve/ (non-performing loans + special mention loans) (%)	115.75	106.68	131.62	195.92
Loan loss reserve/ total overdue loans (%)	141.29	162.42	211.30	292.33
Net write-offs/ average customer loans (%)	0.19	0.14	0.20	0.32
<b>Funding and Liquidity</b>				
Customer loans/ customer deposits (%)	66.02	61.05	61.35	63.56
Customer deposits/ total liabilities (%)	82.84	83.50	81.31	83.87
Wholesale funding / total liabilities (%)	14.60	14.17	16.29	14.05
Retail deposits/ customer deposits (%)	45.35	42.56	42.46	44.73

Note1: In our view, SRCB has clear business model and sound financial management. Its annual financial reports have been audited by Deloitte Touche Tohmatsu. Therefore, we haven't conducted any material adjustments to its financial data.

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

## Appendix 2: Peer Comparison Data

Peer Comparison Data						
(2016-2018 three-year avg.)	SRCB	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	782.22	886.08	254.03	637.70	724.84	751.10
Gross customer loans (bil)	373.88	373.88	123.98	262.63	295.50	295.19
Customer deposits (bil)	602.59	602.59	195.33	439.00	498.66	520.16
Total equity (bil)	55.17	63.42	21.54	43.23	48.51	46.43
Operating income (bil)	17.92	23.94	8.05	15.27	17.11	16.17
Net income (bil)	6.59	8.73	2.38	5.71	6.40	6.15
Capital and Earnings						
Reported regulatory capital adequacy ratio (%)	14.18	14.97	12.82	13.84	13.81	14.00
Reported regulatory tier 1 capital adequacy ratio (%)	11.41	11.77	10.39	11.14	10.98	11.26
Net interest margin adjusted by S&P Global (China) Ratings (%)	1.74	2.45	1.74	2.01	2.00	1.99
Cost-to-income ratio (%)	34.36	36.28	30.53	33.39	33.76	33.22
Return on average assets (%)	0.89	1.19	0.83	0.97	0.94	0.95
Return on average equity (%)	12.82	17.09	11.70	14.12	14.17	14.16
Risk Position						
Non-performing loan ratio (%)	1.24	2.56	0.61	1.39	1.22	1.29
(Non-performing loans + special mention loans)/ customer loans (%)	2.39	8.92	0.97	4.01	3.31	3.67
Loan provision rate (%)	3.35	6.18	3.17	4.09	3.82	3.78
Reserve coverage ratio (%)	272.38	685.30	212.09	356.34	381.12	287.18
Loan loss reserve/ (non-performing loans + special mention loans) (%)	144.74	405.45	72.96	154.73	172.99	114.72
Loan loss reserve/ total overdue loans (%)	222.02	599.28	102.91	252.85	286.86	199.28
Net write-offs/ average customer loans (%)	0.22	0.58	0.07	0.35	0.29	0.34
Funding and Liquidity						
Customer loans/ customer deposits (%)	61.99	64.93	51.18	60.68	59.69	62.31
Customer deposits/ total liabilities (%)	82.90	83.90	64.76	74.27	73.84	72.47
Wholesale funding/ total liabilities (%)	14.84	33.40	14.65	23.57	23.90	24.75
Retail deposits/ customer deposits (%)	43.25	73.27	35.96	50.98	52.73	46.39

Note 1: In this report, we have selected five rural commercial banks in China, including Chongqing Rural Commercial Bank (CQRCB), Beijing Rural Commercial Bank (BJRCB), Guangzhou Rural Commercial Bank (GRCB), Dongguan Rural Commercial Bank (DRCB) and Wuhan Rural Commercial Bank (WHRCB), 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 2016 to 2018. Therefore, the weights of SRCB, CQRCB, BJRCB, GRCB, DRCB and WHRCB are 20.44%, 23.16%, 21.10%, 18.82%, 9.84% and 6.64% 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.

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