Bank of Communications Co., Ltd.'s 2019 Tier-2 Capital Bond

Ratings

Long-term credit rating of the issuer: AAA

Credit rating of the tier-2 capital bond: AAA

Rating outlook: Stable

Rating Assigned Date

August 2, 2019

Key data:

Item	End of March 2019	End of 2018	End of 2017	End of 2016
Total assets (CNY 100mn)	97,857.47	95,311.71	90,382.54	84,031.66
Shareholders' equity (CNY 100mn)	7,258.82	7,053.08	6,762.71	6,324.07
NPL ratio (%)	1.47	1.49	1.50	1.50
Provision coverage ratio (%)	173.47	173.13	154.73	153.61
Loan loss provision coverage ratio (%)	2.56	2.59	2.31	2.30
Liquidity ratio (%)	-	67.28	58.66	50.92
Shareholders' equity/total assets (%)	7.42	7.40	7.48	7.53
Capital adequacy ratio (%)	14.23	14.37	14.00	14.02
Tier-1 capital adequacy ratio (%)	12.23	12.21	11.86	12.16
Core tier-1 capital adequacy ratio (%)	11.20	11.16	10.79	11.00
Item	**Jan. to Mar. 2019**	**2018**	**2017**	**2016**
Operating income (CNY 100mn)	621.00	2,126.54	1,960.11	1,931.94
Total profit before provision (CNY 100mn)	352.27	1,295.81	1,147.34	1,163.22
Net profit (CNY 100mn)	213.47	741.65	706.91	676.51
Net interest margin (%)	-	1.56	1.55	1.89
Cost/income ratio (%)	-	31.50	31.85	30.90
ROA before provision (%)	-	1.40	1.32	1.50
Average rate of return on assets (%)	-	0.80	0.81	0.87
Weighted average rate of return on net assets (%)	-	11.17	11.40	12.22

Note: 1Q2019 financial data are unaudited.
Source: Bank of Communication's 2016-2018 annual reports and 1H2019 report, compiled by Lianhe Ratings

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Rationale

The Bank of Communications Co., Ltd. (hereinafter referred to as "BankComm" or the "Company") is one of the five state-controlled commercial banks in China, widely recognized as a systematically important player and an industry leader among Chinese banking financial institutions. BankComm has a sound corporate governance system, a well-defined setup of internal organizations, clear division of responsibilities, a fully developed internal management system, and effective internal control mechanisms. In recent years, its core businesses developed steadily and the product system has been further developed. The Company has gained strong competitiveness and an excellent reputation for many of its businesses, and has consistently improved its innovation capacity and business structure. Through integrated operations and strategic expansion into overseas markets, its brand value and synergistic effects of inter-business development have become increasingly visible. The Company replenished capital by offering preferred shares and tier-two capital bonds in recent years, and pushed forward development of less capital-intensive businesses with a view to maintaining capital adequacy at a high level. The quality of its credit assets remained high, as a result of effective credit restructuring, rigorous post-loan management and integrated use of different non-performing asset (NPA) disposal methods such as clearance, write-off and asset securitization. Through structural diversification of earnings, intermediary businesses have grown healthily, and their contributions to total operating income have increased steadily. To a certain extent, BankComm's exceptional cost control capability mitigated the adverse effects of narrowing interest margins and a spike in provision accruals. On the other hand, the Company's profitability has declined and will be under considerable pressure

in the future, due to an increase in asset depreciation provisions resulting from narrowing interest margins in traditional deposit and lending businesses, rising liability-side funding cost and credit expansion. Interest rate liberalization and other factors have resulted in a slowdown in the growth of customer deposits, and tightening regulation of financial market businesses will impose a constraint on investment business development in the future.

China Lianhe Credit Rating Co., Ltd. has decided to assign the "AAA" long-term credit rating to Bank of Communication Co., Ltd., and the "AAA" credit rating to its proposed 2019 tier-2 capital bond (worth CNY 40 billion). The Outlook is Stable. The rating affirmation indicates that the default risk of BankComm's latest tier-2 capital bond is extremely low.

Strengths

1. As a major state-controlled commercial Bank, BankComm is widely noted as a systematically important player and an industry player in the banking system, and receives strong support from government agencies. It is highly competitive in many business segments, and boasts a long corporate history, widespread distribution channels, and a fully developed product system, as well as an extensive customer base.
2. Its core businesses have developed steadily, and business restructuring efforts have delivered positive results. Through integrated operations and strategic expansion into overseas markets, the Company's brand value and synergistic effects of inter-business development becomes increasingly visible.
3. BankComm has a sound corporate governance framework and an effective internal control system, while its risk management capacity has improved consistently.
4. The quality of its credit assets has continued to improve and outperformed the industry average, as a result of effective credit restructuring, rigorous post-loan management and integrated use of different non-performing asset (NPA) disposal methods such as clearance, write-off and asset securitization. The adequacy of provisions stands at a high level.
5. The Company has highly diversified financing channels and exceptional debt-raising capacity. It has replenished capital through various means, and pushed forward development of less capital-intensive businesses to maintain capital adequacy at a high level.

Concerns

1. The Company's profitability has declined and will be under considerable pressure in the future, due to an increase in asset depreciation provisions resulting from narrowing interest margins in traditional deposit and lending businesses, rising liability-side funding cost and credit expansion.
2. Business globalization and integrated operations have put the Company's management capabilities to the test.
3. Commercial banks will come under pressure in terms of operation, due to a slowdown in economic growth, economic restructuring, interest liberalization and tightening financial regulation.