

## Bank Of Changsha Company Limited's 2019-1 Special Financial Bonds on Small and Micro-sized Enterprises

### Ratings

**Long-term credit rating of the issuer: AAA**

**Credit rating of the financial bond: AAA**

**Rating Outlook: Stable**

### Rating assigned date:

October 14, 2019

### Key data

Item	End of 2016	End of 2017	End of 2018	End of June 2019
Total assets (CNY 100mn)	3835.05	4705.44	5266.30	5781.06
Shareholders' equity (CNY 100mn)	203.62	239.97	317.81	332.23
NPL ratio (%)	1.19	1.24	1.29	1.29
Provision coverage ratio (%)	263.05	260.00	275.40	285.64
Loan loss provision coverage ratio (%)	3.13	3.21	3.56	3.69
Liquidity ratio (%)	39.67	34.36	57.53	56.01
Shareholders' equity/total assets (%)	5.31	5.10	6.03	5.75
Capital adequacy ratio (%)	12.28	11.74	12.24	11.64
Tier-1 capital adequacy ratio (%)	9.00	8.72	9.55	9.07
Core tier-1 capital adequacy ratio (%)	8.99	8.70	9.53	9.05
Item	2016	2017	2018	Jan-Jun 2019
Revenue (CNY 100mn)	100.40	121.28	139.41	81.58
Total profit before provision (CNY 100mn)	64.68	78.93	90.19	56.34
Net profit (CNY 100mn)	32.52	39.85	45.78	27.05
Cost/income ratio (%)	32.08	33.67	34.12	-
ROA before provision (%)	1.93	1.85	1.81	-
Average rate of return on assets (%)	0.97	0.93	0.92	-
Average rate of return on net assets (%)	17.03	17.97	16.41	-

Note: The data in the 1H2019 report have been reviewed but not audited.  
 Source: Bank of Changsha's 2016-2018 annual reports and 1H2019 report, compiled by Lianhe Ratings

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### Rationale

The rating of Bank Of Changsha Company Limited (hereinafter referred to as "Bank of Changsha") given by China Lianhe Credit Rating Co., Ltd (hereinafter referred to as "Lianhe Ratings") reflects that Bank of Changsha boasts advantages in company governance and internal control, business operation, risk management, and capital strength. Bank of Changsha successfully floated itself on the A-share market in September 2018. With its market popularity and capital strength further enhanced, the Bank has set up a more solid foundation for the sustainable development of their business. Meanwhile, Lianhe Ratings also noted the possible adverse effects that might be exerted on its business development and credit level, brought up by the factors such as the increasing downward pressure on the quality of its credit assets, and the increase of provision as well as loan write-offs.

In the future, Bank of Changsha will benefit from favorable policies rolled out by implementation of related national development strategies, its strong competitiveness in the region, and the continuous transformation and optimization of its business. Besides, the Bank is expected to further expand its business and enhance its capability to acquire new customers. At the same time, as a listed company, Bank of Changsha will optimize its information disclosure and corporate governance scheme on basis of standards set for listed companies. On the other hand, against the backdrop of a macroeconomic slowdown, the rise in credit asset risk forces Bank of Changsha to increase its provision for loan loss, and to keep a watchful eye on the impact of such risks on its profitability.

In conclusion, Lianhe Ratings has decided to assign the "AAA" long-term credit rating to Bank of Changsha, and the "AAA" credit rating to its proposed 2019-1 special financial bonds on small and micro-sized enterprises (worth CNY 3.5 billion). The outlook is Stable. The ratings reflect that the default risk associated with the current issuance of

the special financial bonds on small and micro-sized enterprises by Bank of Changsha is extremely low.

### Strengths

1. As the first and largest legal person in the field of finance in Hunan Province, Bank of Changsha boasts prominent competitive advantages in service qualification, business network, brand influence and decision-making efficiency.
2. Bank of Changsha, as a local bank, benefits from favorable policies rolled out by implementation of related national development strategies. As the economies of Hunan province and Changsha are quite promising, the Bank is provided with large room for sustainable development.
3. In addition to abundant government-related financial business, Bank of Changsha maintains a leading position in terms of helping medium, small, and micro-sized financial businesses. On top of that, solid customer base has been built for the development of its traditional deposit and loan businesses.
4. Bank of Changsha has gained a sound momentum for business development, achieved tangible results in business transformation, and kept a relatively sound level of the quality credit assets with strong profitability, thus creating a favorable internal mechanism for self-improved capital strength.
5. The core capital of Bank of Changsha has been greatly enhanced since its IPO, an increase which is conducive to the sustainable development of future business.

### Concerns

1. The write-offs of non-performing assets by Bank of Changsha have increased significantly,

exerting a negative impact on current net profit.

2. The investment in wealth management products, asset management and trust programs of Bank of Changsha stays at a high level, rendering it necessary to keep a close eye on related risks.
3. Bank of Changsha features a higher leverage and its Tier 1 capital faces certain pressure of replenishment.
4. As MPA and the policy of “de-leveraging and strict supervision” are being implemented, the expansion of Bank of Changsha’s asset and liability is about to slow down, with pressures on profit growth of the Bank in the future.