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## China Credit Spotlight: Diverging Credit Quality Could Result In Varying Degrees Of Resilience For The Top 50 Banks

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# China Credit Spotlight: Diverging Credit Quality Could Result In Varying Degrees Of Resilience For The Top 50 Banks

As China's economic growth decelerates and some industry sectors face growing oversupply issues, the risks from China's recent credit boom appear to be rising to the surface for the country's banks. In Standard & Poor's Ratings Services' view, the top 50 banks' profitability is set to decline over the next few years, though from a strong starting point. Rising credit costs, compressing interest margins, and growing pressures on noninterest incomes are likely to constitute a triple-hit to bank earnings.

In particular, we think it is highly likely that the banks could incur substantially higher credit losses in the coming years. If the government pushes more vigorously for consolidation of industries afflicted by oversupply, this could lead to unexpected substantial rises in the banks' credit losses, despite China's still comparatively strong economic growth. In addition, we believe that liquidity management among China's top banks is becoming increasingly strained. Should those regional banks that have relied heavily on interbank financing suffer severe credit losses and potential depositor runs, we would expect there to be wider negative repercussions for the banking sector as a whole.

## Overview

- The top 50 banks delivered strong financial performances in 2012 on account of rapid asset expansion, largely stable net interest margins, and benign credit provision costs.
- However, rapid on- and off-balance-sheet asset and credit expansion is likely to weigh on banks' capitalization, risk positions, and liquidity profiles, particularly as China's economy slows and policy uncertainty increases.
- The gap between the strongest and weakest banks' credit standing has been widening due to the differing pace of asset expansion on- and off-balance-sheet. The divergence in the banks' capitalization and liquidity profiles is particularly pronounced.
- We believe increasing polarization across the top banks resembles a similar trend for the entire banking sector, and could undermine China's banking industry stability in the next two to three years.
- For most top banks we rate, we believe their business positions, capital and earnings, risk positions, and funding and liquidity profiles still support their stand-alone credit profiles.

In this 2013 survey of China's top 50 banks by asset size, we assess the credit outlook for China's banking sector. We believe China's top banks will demonstrate varying levels of resilience amid the more challenging operating conditions. The mega banks and national banks appear to be better-placed to withstand China's economic downturn. In contrast, capitalization is likely to weaken for the majority of smaller players, and some may even witness significantly deteriorated funding and liquidity profiles.

Table 1

Business Positions And Financial Profiles Of The Top 50 Banks				
Financial profile	--Business position--			Total
	Below average	Average	Above average	
<b>Above average</b>				
Sub-total	2	8	6	16
	(24) Chongqing Rural Commercial Bank	(9) Industrial Bank	(1) Industrial and Commercial Bank of China	
	(32) Huishang Bank	(10) China Minsheng Banking Corp.	(2) China Construction Bank	
		(11) Shanghai Pudong Development Bank	(3) Agricultural Bank of China	
		(12) China CITIC Bank	(4) Bank of China	
		(20) Bank of Shanghai	(6) Bank of Communications	
		(30) Bank of Nanjing	(8) China Merchants Bank	
		(35) HSBC Bank (China)		
		(49) Standard Chartered Bank (China)		
<b>Average</b>				
Sub-total	7	8	1	16
	(29) Guangzhou Rural Commercial Bank	(18) China Guangfa Bank	(5) China Development Bank	
	(31) Bank of Hangzhou	(19) Bank of Beijing		
	(36) Harbin Bank	(21) Bank of Jiangsu		
	(39) Bank of Chengdu	(25) Beijing Rural Commercial Bank		
	(43) Baoshang Bank	(26) China Zheshang Bank		
	(46) Longjiang Bank	(27) Bank of Ningbo		
	(47) Bank of Kunlun	(28) Shanghai Rural Commercial Bank		
		(44) Bank of East Asia (China)		
<b>Below average</b>				
Sub-total	6	7		13
	(34) Bank of Tianjin	(13) Agricultural Development Bank of China		
	(37) Bank of Dalian	(14) China Everbright Bank		
	(41) Bank of Jilin	(15) Ping An Bank		
	(42) Tianjin Rural Commercial Bank	(16) The Export-Import Bank of China		
	(45) Xiamen International Bank	(17) Hua Xia Bank		
	(50) Bank of Changsha	(22) Evergrowing Bank		
		(23) China Bohai Bank		
Total	15	23	7	

Note: The table illustrates relative business positions and financial profiles. We have determined these against the context of the Chinese banking sector and the banks' stand-alone credit profiles. The business positions are based on market position and diversification, while the financial profile is based on capitalization and earnings, risk position, and funding and liquidity. The figures in parenthesis denote the rankings of the top 50 banks by asset size (see table 2 for details).

## Top Of The Rankings

The composition of the top 50 banks in this year's survey has changed from our survey last year (see table 2). For the first time the top banks list includes policy banks and the Postal Savings Bank of China, which led to the removal of four small regional banks. The number of foreign bank subsidiaries on the list decreased to three from four, and their ranking on the list is generally lower due to lackluster asset growth. A few small and midsized banks either ascended up the list or made a debut thanks to their ballooning interbank business.

The top 50 banks fall into five main groups:

- Mega banks: The "big five" commercial banks in this group are head and shoulders above most other banks in terms of asset size and branch network (A).
- National banks: The nine joint-stock commercial banks (JSCBs) with a nationwide presence and adequate financial disclosure for peer comparison purposes (B).
- Regional banks: This group includes three small JSCBs with effectively regional operations and 26 leading city or rural commercial banks. The group is subdivided into large regional banks (C1) with total assets above US\$50 billion and other regional banks (C2).
- Foreign bank subsidiaries (D).
- Policy banks and the Postal Savings Bank of China. These banks play a policy or quasi-policy role for the government through their financing of certain mandated economic segments (E).

**Table 2**

China's Top 50 Banks By Assets				
Rank	Bank	Total assets 2012 (mil. RMB)	Total assets 2011 (mil. RMB)	Group
1	Industrial and Commercial Bank of China Ltd.	17,542,217	15,476,868	A
2	China Construction Bank Corp.	13,972,828	12,281,834	A
3	Agricultural Bank of China Ltd.	13,244,342	11,677,577	A
4	Bank of China Ltd.	12,680,615	11,830,066	A
5	China Development Bank Corp.	7,519,594	6,251,506	E
6	Bank of Communications Co. Ltd.	5,273,379	4,611,177	A
7	Postal Savings Bank of China Co. Ltd.	4,915,338	4,120,000	E
8	China Merchants Bank Co. Ltd.	3,408,219	2,794,971	B
9	Industrial Bank Co. Ltd.	3,250,975	2,408,798	B
10	China Minsheng Banking Corp. Ltd.	3,212,001	2,229,064	B
11	Shanghai Pudong Development Bank Co. Ltd.	3,145,707	2,684,694	B
12	China CITIC Bank Co. Ltd.	2,959,939	2,765,881	B
13	Agricultural Development Bank of China	2,293,079	1,953,467	E
14	China Everbright Bank Co. Ltd.	2,279,295	1,733,346	B
15	Ping An Bank Co. Ltd.	1,606,537	1,258,177	B
16	The Export-Import Bank of China	1,555,893	1,199,055	E
17	Hua Xia Bank Co. Ltd.	1,488,860	1,244,180	B
18	China Guangfa Bank Co. Ltd.	1,168,150	918,982	B
19	Bank of Beijing Co. Ltd.	1,119,969	956,499	C1
20	Bank of Shanghai Co. Ltd.	816,904	655,800	C1

**Table 2**

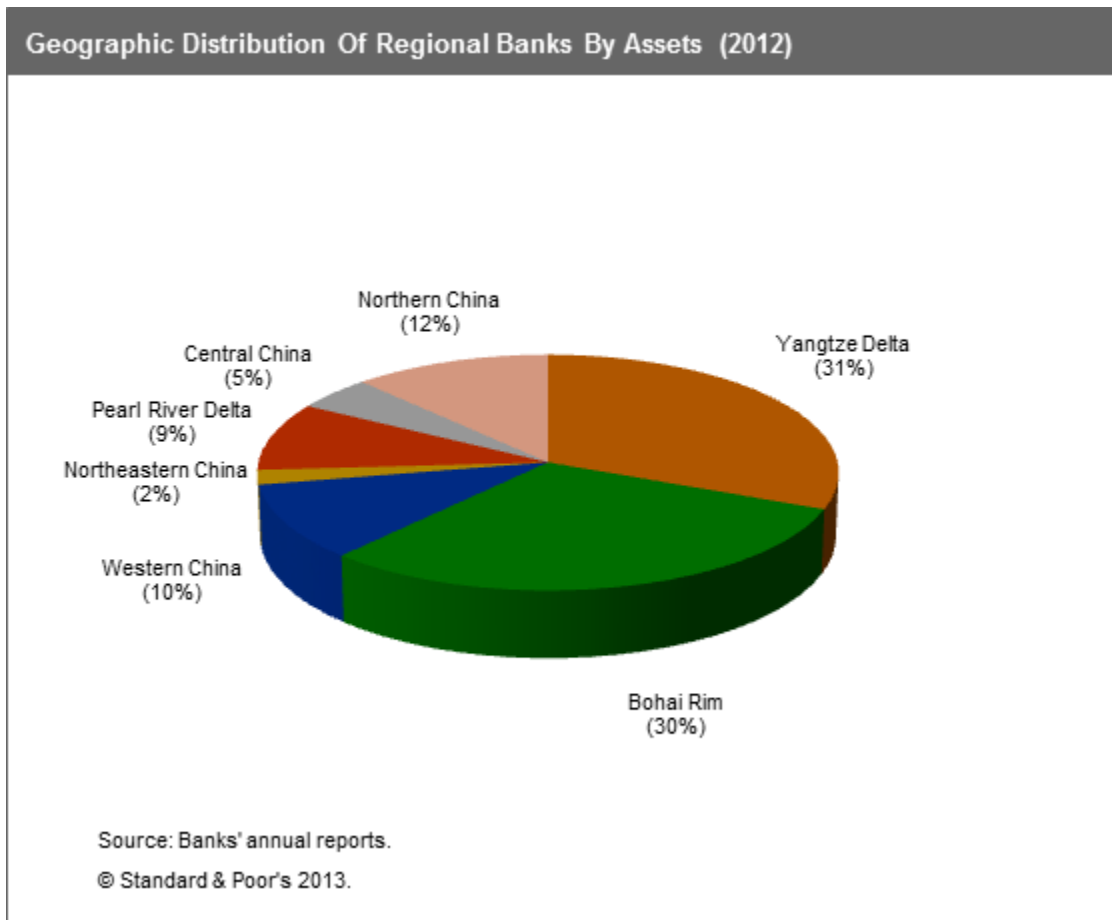
China's Top 50 Banks By Assets (cont.)				
21	Bank of Jiangsu Co. Ltd.	650,238	514,146	C1
22	Evergrowing Bank Co. Ltd.	617,950	437,289	C1
23	China Bohai Bank Co. Ltd.	472,102	312,488	C1
24	Chongqing Rural Commercial Bank Co. Ltd.	433,822	344,820	C1
25	Beijing Rural Commercial Bank Co. Ltd.	424,358	377,316	C1
26	China Zheshang Bank Co. Ltd.	393,839	301,858	C1
27	Bank of Ningbo Co. Ltd.	373,537	260,498	C1
28	Shanghai Rural Commercial Bank Co. Ltd.	361,968	309,927	C1
29	Guangzhou Rural Commercial Bank Co. Ltd.	347,455	273,737	C1
30	Bank of Nanjing Co. Ltd.	343,792	281,792	C1
31	Bank of Hangzhou Co. Ltd.	324,984	243,937	C1
32	Huishang Bank Co. Ltd.	324,224	256,982	C1
33	Shengjing Bank Co. Ltd.	313,204	221,170	C2
34	Bank of Tianjin Co. Ltd.	302,346	235,360	C2
35	HSBC Bank (China) Co. Ltd.	298,508	269,015	D
36	Harbin Bank Co. Ltd.	270,090	203,622	C2
37	Bank of Dalian Co. Ltd.	256,800	187,893	C2
38	Bank of Guangzhou Co. Ltd.	251,800	205,985	C2
39	Bank of Chengdu Co. Ltd.	240,299	181,394	C2
40	Chengdu Rural Commercial Bank Co. Ltd.	221,524*	187,698	C2
41	Bank of Jilin Co. Ltd.	220,757	186,428	C2
42	Tianjin Rural Commercial Bank Co. Ltd.	214,752	149,899	C2
43	Baoshang Bank Co. Ltd.	207,618	175,124	C2
44	The Bank of East Asia (China) Limited	206,966	174,403	D
45	Xiamen International Bank Co. Ltd.	206,565	105,096	C2
46	Longjiang Bank Co. Ltd.	186,055	153,019	C2
47	Bank of Kunlun Co. Ltd.	184,815	130,295	C2
48	Dongguan Rural Commercial Bank Co. Ltd.	171,500	149,000	C2
49	Standard Chartered Bank (China) Ltd.	168,812	173,152	D
50	Bank of Changsha Co. Ltd.	162,596	123,769	C2

\*As of end-June 2012. Source: Banks' annual reports.

### Geographic distribution

The geographic distribution of the top 29 regional banks has barely changed and largely mirrors the economic development of the country. The 17 leading banks located in the Yangtze delta region, Bohai Rim, and the Pearl River delta region accounted for about 70% of the total assets of the top regional banks at the end of 2012 (see chart 1).

Chart 1



## Information Risk Is Still Prevalent

Accounting and disclosure standards have steadily improved among China's banks since the Ministry of Finance issued a new set of Chinese accounting standards (China GAAP 2006), which are largely aligned with international norms. The China Banking Regulatory Commission (CBRC) has pushed Chinese banks to adopt China GAAP 2006 and public disclosure of relevant financial statements. The number of top banks with readily available financial data for 2012 stood at 45.

We view the degree of transparency and disclosure with respect to the 17 listed banks' financials and ownership as adequate. Eight banks are domestically listed, while the rest are dual-listed in Hong Kong and mainland China. Listed banks in aggregate represented 64.61% of the banking sector's total assets at the end of 2012. Domestically listed banks disclose their annual and semi-annual financial statements in accordance with China GAAP 2006. Most of them also voluntarily publish financial statements in accordance with International Financial Reporting Standards (IFRS) and typically mandate global accounting firms to conduct audits. All listed banks disclose brief financial information on a quarterly basis.

Unlisted banks' public disclosure improved in 2012, although we believe standards are still relatively weak. Of the 29 top regional banks, 20 periodically publish what we believe are fairly detailed annual reports on their websites. The top three foreign banks publish annual financial statements prepared in accordance with China GAAP 2006 on their websites. In our view, however, these reports are not timely and there is a lack of interim reports. For those banks that only publish abridged financial statements, we believe these lack sufficient detail. In general, large regional banks performed better than their smaller peers in this regard. Except for China Development Bank, we believe the other two policy banks' financial statements lack sufficient information, while the Postal and Savings Bank of China has yet to publish its first financial statement.

Information risk, therefore, remains an issue despite significant improvement in disclosure standards. This issue is particularly pertinent for some national banks and many regional banks. While the adoption of China GAAP 2006 represented a leap forward, accounting standards are not always consistently applied and can still be subject to arbitrary interpretations, making peer comparisons difficult for certain items. For example, we believe many banks have disguised their sizable corporate credit exposure as investments in wealth management products (WMPs) or other receivables. By issuing WMPs, these banks have managed to reduce credit exposures on their balance sheets. In many cases, these practices could lead to an understated nonperforming loan (NPL) ratio. This heightens risks for asset quality as well as liquidity management if economic conditions deteriorate significantly.

Although the data we used to rank the country's top 50 banks is likely to distort some of the averages presented in this study, we believe it produces reasonably good indicators and trends.

## Amid Rapid Credit Expansion, The Top Banks' Market Share Continues To Slide

Besides Chinese banks' rapid asset expansion over the past few years, another striking phenomenon has been the continued slide of the top banks' combined market share in the whole banking sector. In aggregate, the top banks' total assets grew by 17.1% from end-2011 to Chinese renminbi (RMB) 112.61 trillion (US\$17.92 trillion) at the end of 2012. But the top banks accounted for 84.3% of total assets in the banking system as of end-2012, compared with 84.9% a year earlier.

The drop in market share primarily reflects modest growth of the mega banks' assets (see chart 2). Indeed, all other



banking segments besides megabanks and foreign bank subsidiaries increased their market shares, thanks to their above-average asset growth of 20%-35% (see chart 3 and table 3).

**Chart 2**

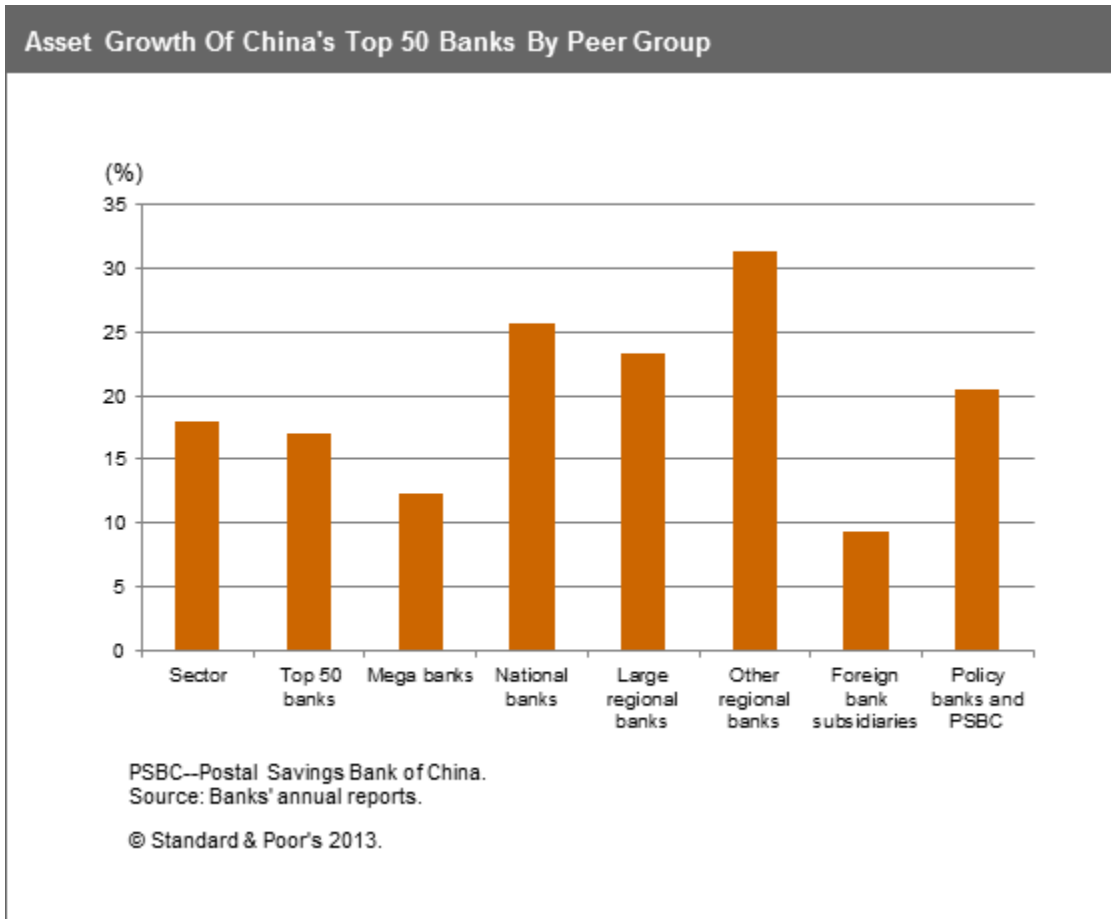


Chart 3



Table 3

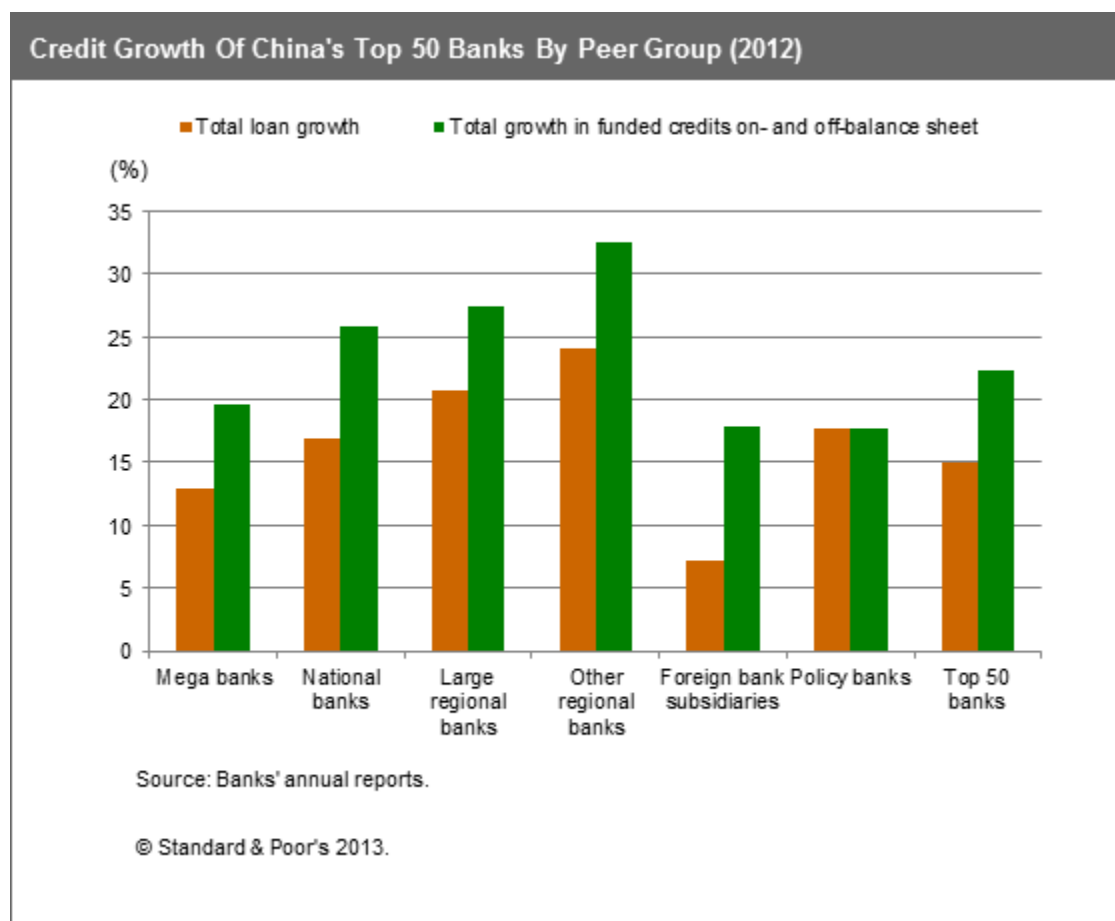
Top 10 Banks By Asset Growth		
Rank	Bank	Asset growth (%)
1	Xiamen International Bank	96.55
2	China Bohai Bank	51.08
3	China Minsheng Banking Corp.	44.10
4	Bank of Ningbo	43.39
5	Tianjin Rural Commercial Bank	42.52
6	Bank of Kunlun	41.84
7	Evergrowing Bank	41.31
8	Bank of Dalian	36.67
9	Industrial Bank	34.96
10	Bank of Hangzhou	33.22

Source: Banks' annual reports.

## Faster Credit Growth Leaves Smaller Banks More Exposed

Differences in credit growth across the segments could be even larger when we consider off-balance-sheet credits. Growth in the banks' regular off-balance-sheet credits, such as loan commitments, bankers' acceptances (or time drafts), and letters of credit moderated in 2012 to 10.3%, from the compound annual growth rate of 44.6% between 2006 and 2011. But many small and mid-sized banks continue to pursue aggressive credit growth through interbank funding and unconventional off-balance-sheet accounting practices. For example, by using WMPs to shuffle assets and liabilities off their balance sheets, the banks are able to expand their credit volume while satisfying tight regulatory requirements, such as a loan-to-deposit ceiling ratio of 75% and new loan growth quotas. We estimate the mega banks' aggregate growth in funded credits on and off the balance sheet (including loans, entrusted loans, and credits in WMPs) at 17.6% in 2012, while the national and large regional banks' growth rates could be as high as 25.8% and 27.5%, respectively (see chart 4).

**Chart 4**



The difference in the pace of the top banks' credit and asset expansion has far-reaching credit implications, in our opinion. The mega banks managed to enhance their capitalization and preserve their funding and liquidity strength through modest credit growth and retained profits, which could place them on a stronger footing to withstand China's

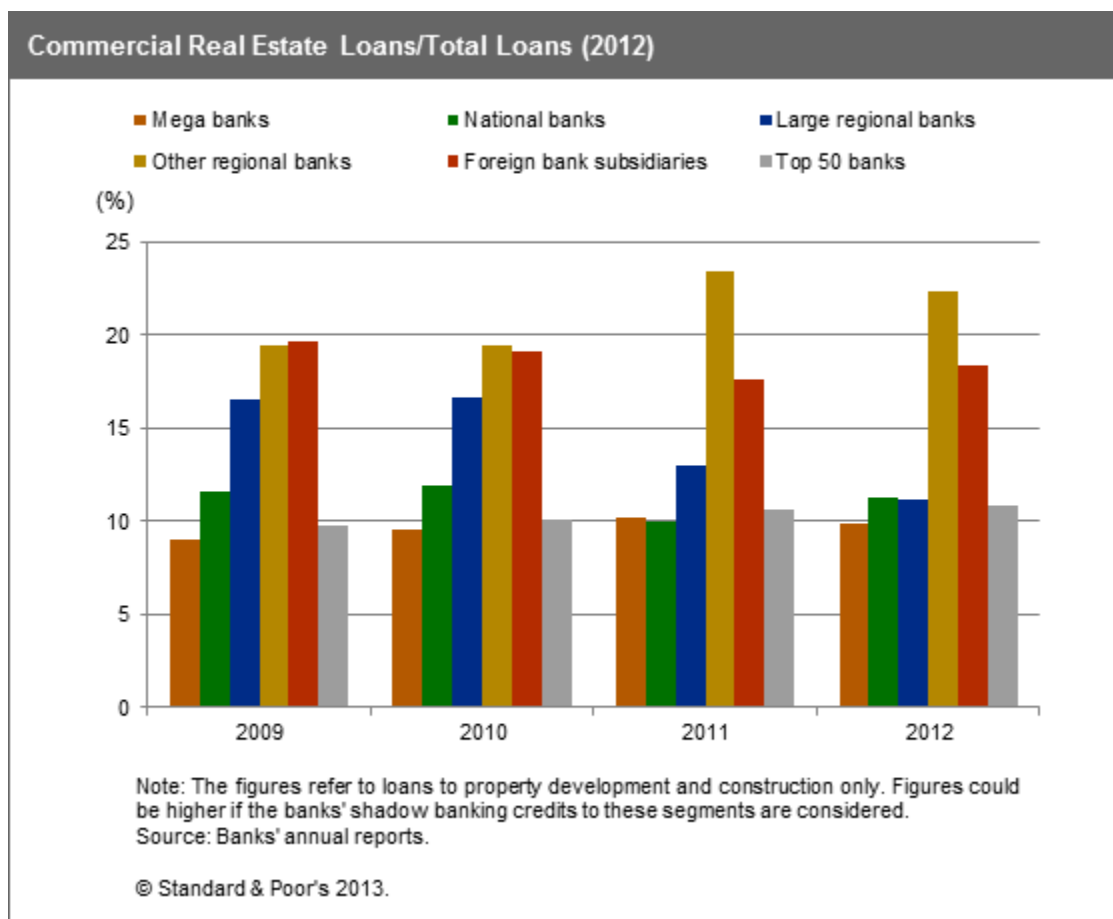
economic downturn. On the contrary, the majority of smaller players are likely to experience a further weakening of capitalization. Some may even see significantly deteriorated funding and liquidity profiles due to their unabated credit binge. Should these aggressive players be either overly leveraged or lack sophisticated risk management, we think they are highly likely to be caught off guard when market conditions change drastically. An example of such dislocations occurred in China's interbank market liquidity crunch in late June (see "Tight Interbank Liquidity Tests China's Delicate Dance Between Bank Discipline And Stability," June 24, 2013, on RatingsDirect on the Global Credit Portal).

## **A Spike In Credit Losses Is Highly Likely**

We see a high likelihood that the banks could incur substantially higher credit losses in the coming years. As a result, we view the majority of the top banks' risk positions as moderate. This is despite the banks' low ratio of NPLs and generally good track record in maintaining low credit losses over the past five years.

Our view reflects China's high credit-to-GDP ratio and excessive debt leverage in certain economic segments, the banks' unproven risk management capabilities amid strong credit growth, and for some regional banks their fairly high concentration of risks (see chart 5). In particular, if the government takes a firmer policy stance and presses ahead with consolidation of industries afflicted by oversupply, this could lead to unexpected substantial rises in the banks' credit losses, despite China's still comparatively strong economic growth.

Chart 5



In our view, the majority of top banks remain vulnerable to credit shocks stemming from a hard-landing scenario for the Chinese economy, despite their current low level of NPLs. Although the banks' credit risk awareness is improving, most entities still have an incentive to allocate excessive credit for fixed-asset investments, particularly those that the government or state-owned enterprises back.

This is because the deposit rate ceiling in China offers low lending rates for corporate clients and an exaggerated incentive for banks to lend for infrastructure projects. The understated credit risks for many state-owned corporate clients encouraged strong credit demand from and lavish credit allocation to uneconomical projects. China's huge stimulus package following the global financial crisis in 2008-2009 shackled the banks' risk positions as the banking sector served as the government's chief instrument in this stimulus.

Since 2010, shadow banking activities in China have played an instrumental role in maintaining financing for local government projects, property development, and other risky segments in the economy. The banking sector turned out to be a key source of shadow banking credits (see "Why Shadow Banking Is Yet To Destabilize China's Financial System," March 27, 2013). For example, total bank loans to local government financing platforms (LGFPs) stood at RMB9.7 trillion as of end-June 2013. We estimate the sector's total credit exposures to this risky segment to be RMB14 trillion-RMB15 trillion, or around 20% of the banking system's total loans, with the balance comprising debt investment

and trust loans.

This unabated credit binge, particularly via shadow banking, has helped the banks contain their credit losses over the past few years. But we expect that as China's economy slows and demand for China's exports slackens, their balance sheets are likely to see some deterioration. China's real GDP growth moderated to 7.5% year on year in the second quarter of 2013, the second lowest rate in five years, and well below the average of 9%-10% in 2006-2011. Our base-case scenario is for real GDP growth to drop to 7.3% in 2013 and 2014.

This deceleration in economic growth is likely to lead to a significant decline in aggregate demand for China's manufacturers, thus straining their debt-repayment capacity. Indeed, there has been a sharp jump in the proportion of loss-making industrial companies since late 2011, despite seasonal fluctuations (see chart 6). Our recently published study of China's top 151 corporations has highlighted the trend of weakening credit indicators (see "China Credit Spotlight: High Leverage And Slowing Growth Increase Top Corporates' Credit Risks," Aug. 18, 2013).

**Chart 6**



Signs are growing that the banking sector's loan quality is slipping. Although the sector's NPL ratio stayed largely flat at 0.96% as of end-June 2013, the outstanding amount has increased by 26% since end-2011. The banks' overdue loans grew even faster in 2012, and accounted for 1.1% of total loans. The banks have accumulated sizable

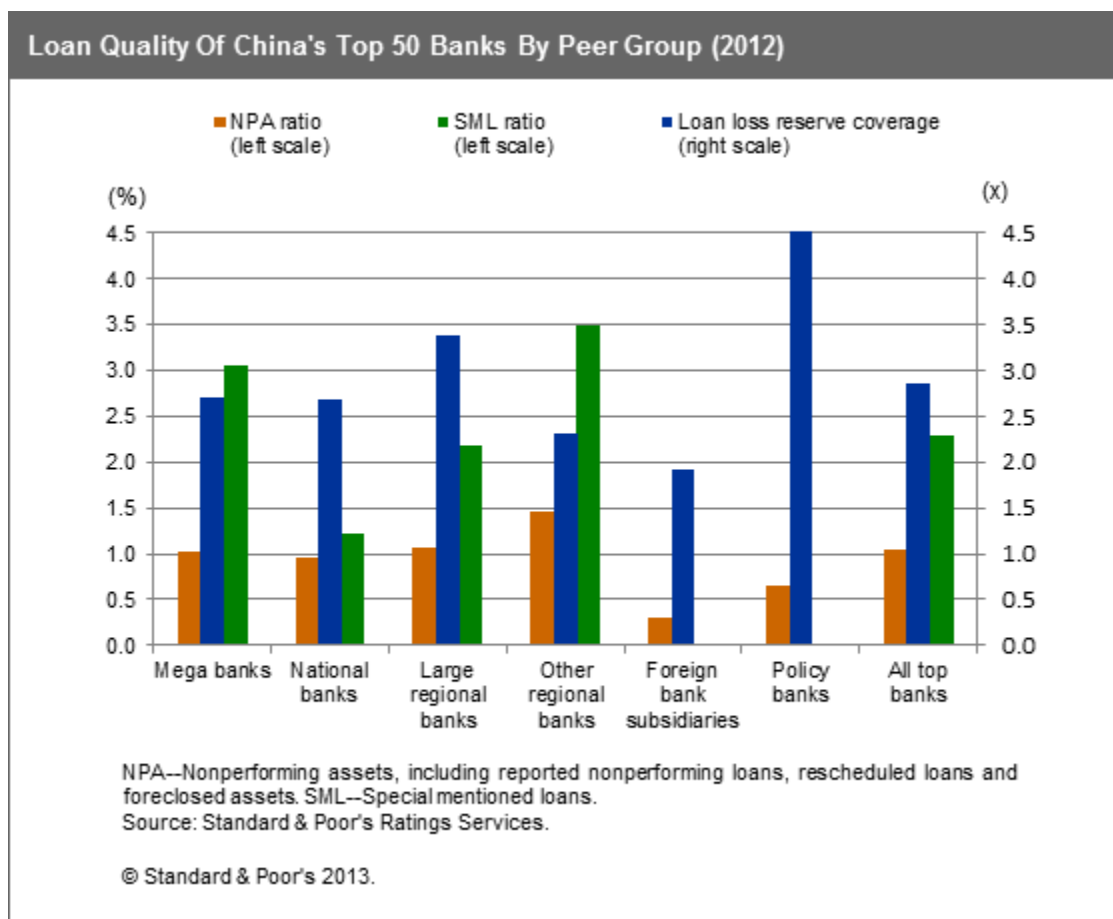
counter-cyclical credit loss reserves over the past few years as a result of the local regulator's relentless push. Nevertheless, assuming the asset mix of the top banks remains unchanged, we project the ratio of normalized credit losses to total assets for the top banks at 67 basis points (bps), based on our risk-adjusted capital (RAC) framework. Since our normalized loss forecast is over a cycle, the actual losses will rise above the normalized level if actual losses remain subdued for an extended period due to benign conditions. The actual weighted-average credit cost of the top banks was just 33 bps in 2012.

The central government's strong financial flexibility and effective macroeconomic policies could be a key factor to avoid a hard landing for the economy, and could contain the severity of what we think is an inevitable spike in credit losses. We expect the sector's NPL ratio to be below 3% by the end of this year.

However, the government appears more determined to address oversupply issues in various industries, at the cost of slower economic growth. Certain borrower segments could see their liquidity positions deteriorate further from already precarious conditions. This constitutes the main downside risk to our base-case scenario. The borrowers most at risk include LGFPs, property developers, and a few industries heavily exposed to the domestic construction boom, such as steelmaking, cement, and shipbuilding.

In our view, policy banks and small regional banks, in particular those located in inland China, are more exposed to a credit loss shock than mega and national banks. This is despite broadly similar official NPL ratios among the top banks (see chart 7).

Chart 7



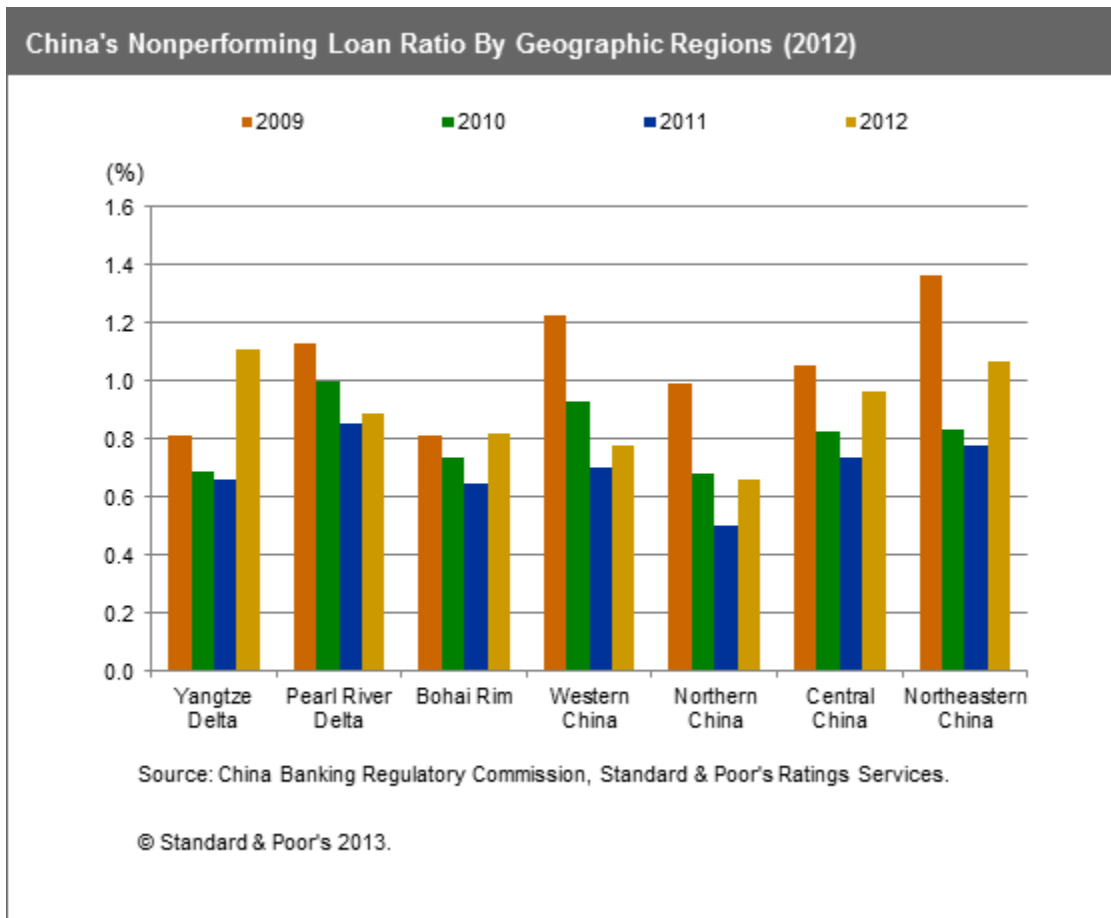
Our view that policy banks and small regional banks are more exposed to credit losses takes into account the following factors:

- Quality of information varies. While listed banks, some large regional banks, and foreign banks release adequate classifications and disclosures of their assets, the figures that policy banks and many regional banks provide appear much less reliable, in our view.
- Policy banks and regional banks operating in inland China tend to have higher exposure to local project investments because of their policy mandates or limited lending opportunities in the narrow local economies in which they operate.
- The regional banks have generally worse NPL ratios than their peers. Regional banks' asset quality is largely linked to their location (see chart 8). Banks mainly operating in certain affluent coastal areas--particularly Beijing, Shanghai, Jiangsu, Zhejiang, and Fujian--tend to report lower NPLs than those operating inland.

Banks operating in export-heavy coastal regions could incur higher credit losses than peers over the next 12-18 months because of their exposure to exporters. But the level of their losses on average is unlikely to exceed normalized credit losses, in our view. It's the true level of exposure to LGFPs, property developers, and industries with a supply glut that will determine the resilience of the top banks' credit quality and therefore their risk positions over the next few years.



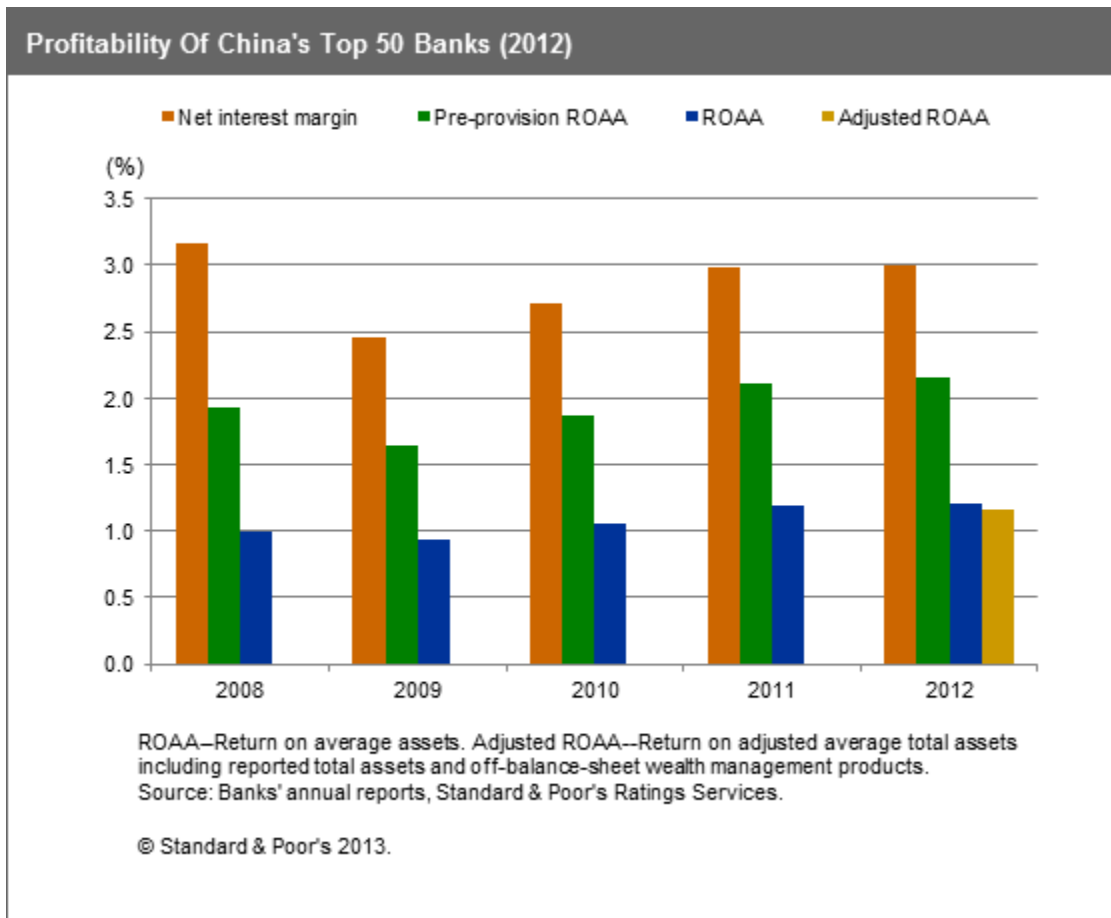
Chart 8



## Banks Face A Triple-Whammy Hit To Profitability

Strong asset expansion, low credit provisioning costs, and good growth in fee income continued to swell the top banks' earnings in 2012. The top banks' net profits in aggregate rose by 19.7% to RMB1199 billion in 2012, representing 79.4% of the sector's total profits. The return on average assets (ROAA) of the 45 banks featured in our study increased on average to 1.21% in 2012 from 1.19% in 2011 (see chart 9). That said, the rapidly growing wealth management business somewhat inflated the banks' profitability, in our view. After adjusting for the banks' off-balance-sheet wealth management products, we estimate the banks' ROAA to be 1.16% in 2012.

Chart 9



In our view, the top 50 banks' profitability is set to slump over the next few years, though from a strong starting point. Rising credit costs, compressing interest margins, and growing pressures on noninterest incomes are likely to constitute a triple-whammy hit on earnings.

Risks to profitability mainly hinge on the banks' loan performances. Chinese banks' strong profits have come at a cost in that the banks have built up massive latent credit risks. This calls into question the sustainability of their profitability in the long run. In our view, the massive infrastructure and manufacturing capacity built up over the years through bank lending could cause trouble for unprepared banking creditors if economic growth decelerates sharply. If we apply the normalized credit loss ratio, the top banks' ROAA in 2012 would be 0.87%, rather than the actual 1.21%.

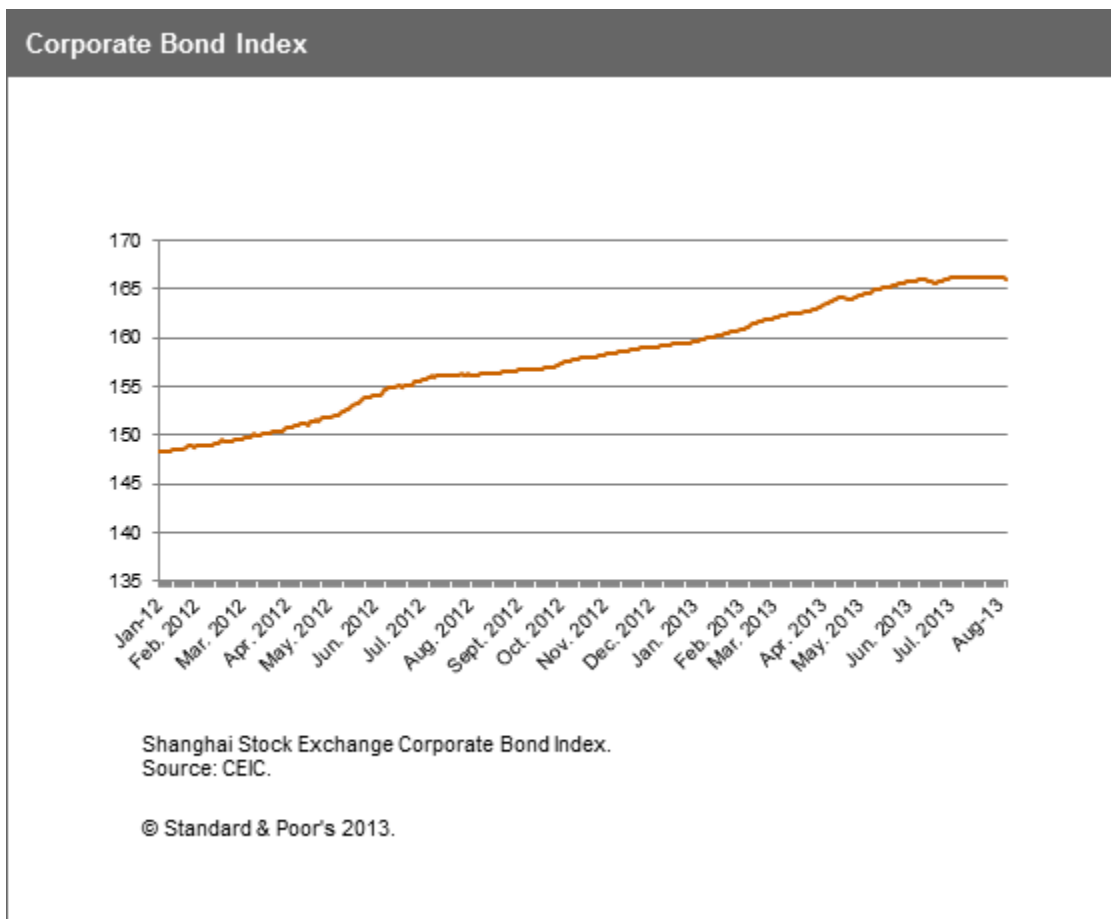
Fierce competition for deposits has been pushing up the banks' funding costs. Even the largest players now set their deposit rate schedules very close to the deposit ceiling imposed by the Chinese central bank. To deal with pressure from unfolding financial disintermediation, the banks have resorted to WMPs to stabilize their funding base. We believe the banks' actual funding costs would be at least 10 bps higher if we include costlier off-balance-sheet WMPs in their "deposit base."

Should China's policymakers decide to remove the deposit rate ceiling, particularly for short-term saving accounts, this

could have a much greater impact on the banks' profitability. While the regulation on deposit rates can support Chinese banks' operating profitability, the arbitrarily low funding costs could discourage more conservative loan pricing and encourage excessive demand for the banks' WMPs. That said, we believe the pace of China's deposit rate liberalization will be gradual and will provide sufficient time for banks to absorb losses. In our opinion, Chinese policymakers have tried to strike a delicate balance between deregulating deposit rates and protecting Chinese banks' earning capacity and their ability to absorb credit losses.

Revaluation losses could be the third channel that affects many top banks' financial performances in the next one to two years. The central bank's policy to maintain relatively tight interbank liquidity--to support the government's efforts to rebalance the economy--has sent interbank rates noticeably higher than in the first quarter of 2013. The credit risk premium that bond investors are demanding also seems to be rising. These factors could lead to a drop in corporate bond prices, as indicated by a plateauing in the corporate bond index since June 2013 (see chart 10).

Chart 10

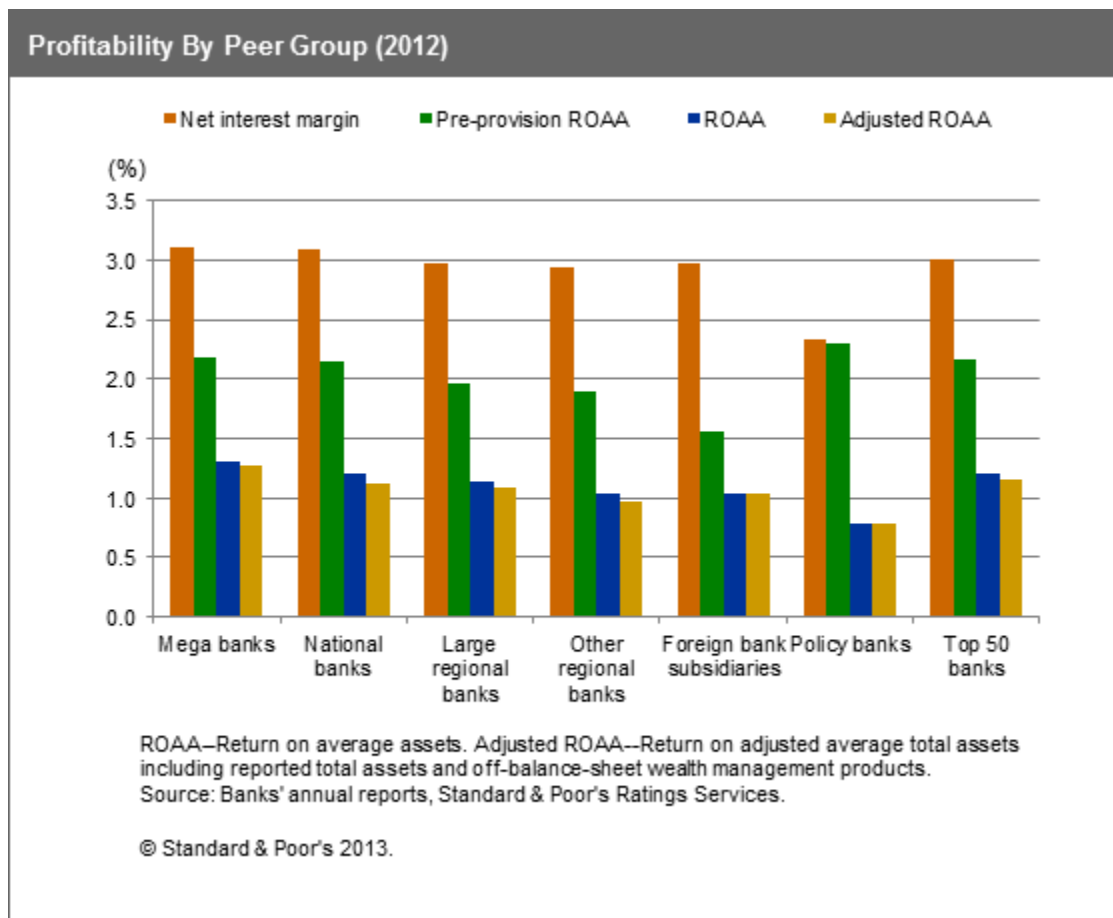


## Some Banks Are Likely To Be More Resilient Than Others

Given the top banks' varying earnings capacity (see chart 11), the impact of the above-mentioned factors could be

unequal. The mega banks have proportionally lower exposure to corporate loans than smaller banks and below-average credit growth. Although such an asset mix could affect asset yields, the mega banks are the most profitable group because of their low funding costs and ability to generate fee incomes due to their strong franchises.

Chart 11



We believe mega banks are better positioned than most of their smaller peers given their relatively diversified credit portfolio, proportionally higher exposure to the highly rated sovereign, substantially stronger fee-based businesses, and superior funding base. Likewise, in our opinion, many leading national banks have a better chance to maintain their track record of below-average credit losses, thanks to their selective underwriting standards and significant diversification in their credit portfolio.

Table 4

Top 10 Performers By ROAA		
Rank	Bank	ROAA (%)
1	China Construction Bank	1.47
2	China Merchants Bank	1.46
3	Huishang Bank	1.45
4	Industrial and Commercial Bank of China	1.44
5	China Minsheng Banking Corp.	1.38

**Table 4**

<b>Top 10 Performers By ROAA (cont.)</b>		
6	Chongqing Rural Commercial Bank	1.38
7	HSBC Bank (China)	1.35
8	Guangzhou Rural Commercial Bank	1.31
9	Bank of Changsha	1.30
10	Bank of Ningbo	1.28

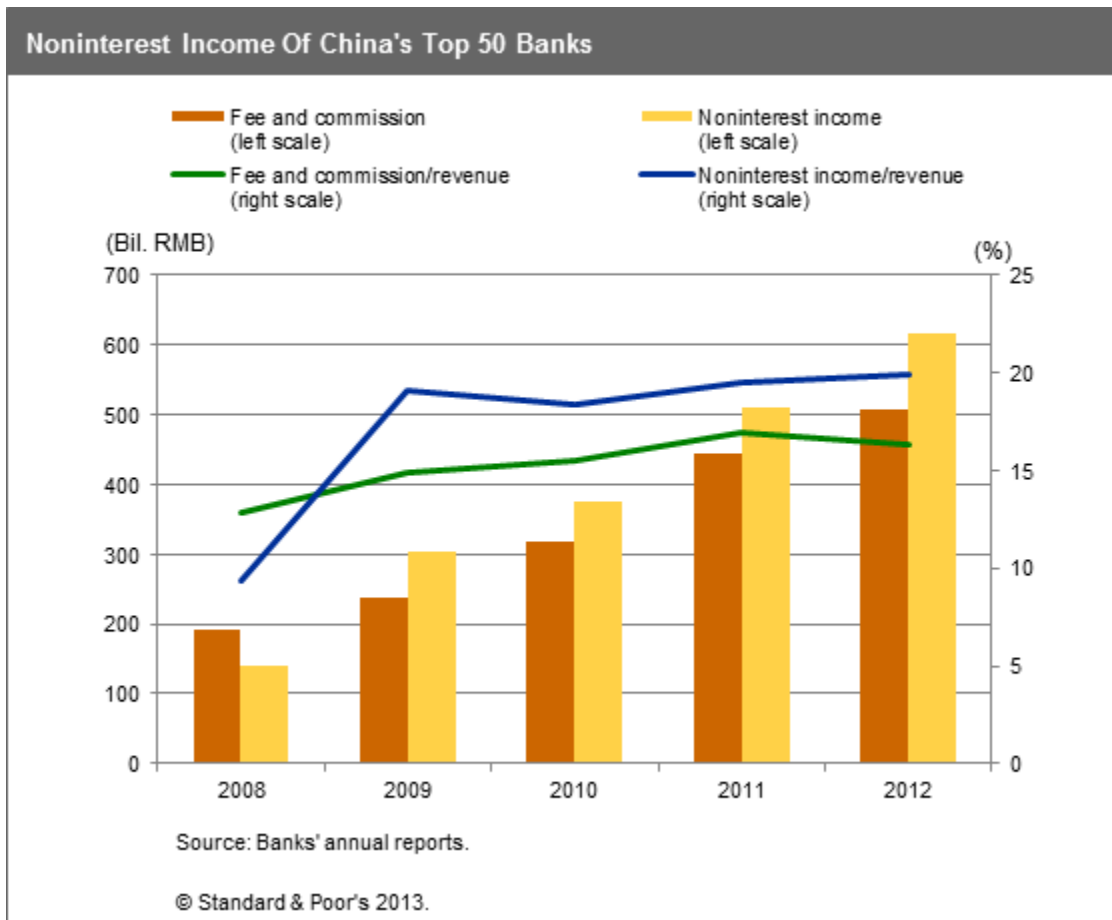
ROAA--Return on average assets. Source: Banks' annual reports.

The financial impact from financial disintermediation and deposit competition is likely to remain modest and manageable for the largest banks. But for many national and regional banks with narrow funding bases that are skewed toward corporate deposits and wholesale interbank finance, the impact to their interest spreads could be significant, in our view.

Revaluation losses could be insignificant for mega banks and a few smaller players with solid funding profiles. However, we expect some national banks and regional banks to register high mark-to-market losses for their disproportionately high investment portfolios, which are often backed by interbank borrowing.

The banks' ability to generate fee income also varies. The mega banks, a few national banks, and foreign bank subsidiaries have significantly stronger fee-based businesses than others, which could make their revenue base more stable. The top banks' fee-based income has been growing rapidly, and represented 16.4% of their operating revenue mix in 2012 (see chart 12). Notably, the top 20 banks accounted for 96.1% of the top banks' net fee income, with little left for the smaller players. Some national banks and most regional banks remain heavily reliant on interest income from corporate banking, with a high portion of their fee income being directly related to credit commitments or WMPs, which makes their profitability more susceptible to an economic downturn.

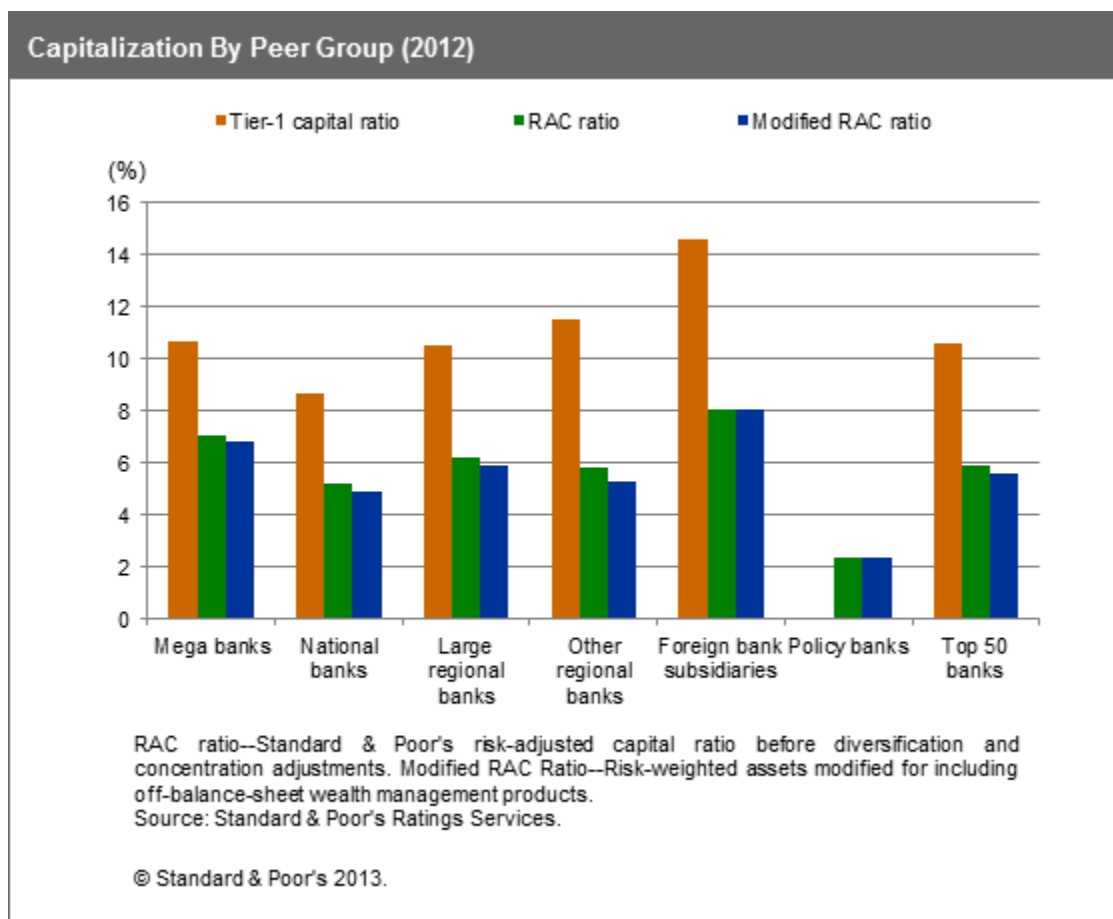
Chart 12



## Capitalization Levels Are Diverging

Significant differences in the top banks' asset expansion and earnings capacity has led to a diverging trend in banks' capital strength. A few top banks, including mega banks, the foreign bank subsidiaries, and some leading national banks managed to strengthen their capital position through modest credit growth, good internal capital accruals, or equity issuance. But most banks on the top list saw some deterioration in their capitalization throughout the year, as measured by our RAC ratio before diversification and concentration adjustments (see chart 13).

Chart 13



In addition, unabated asset growth, together with earnings pressure, could further undermine these banks' capitalization in the absence of capital injections. Based on our projections, 16 top banks' RAC ratios would be below 5% by end-2014, a level that would suggest a "weak" capitalization under our criteria. By comparison, there were 11 banks with RAC ratios below 5% as of end-2012 and just six banks a year earlier. Although we expect to see a clear downward trend in ratios for the majority of the remaining banks, we believe they will likely maintain a RAC ratio in the 5%-7% range (which we assess as "moderate" capitalization).

The deterioration in many top banks' capitalization could be more severe if we take into consideration the impact from these lenders' wealth management business. Although in a strict legal sense the banks are not liable for any underperformance of the WMPs they originated and issued, they are mostly obliged to assume payment of both investment principal and the prospective yields for the sake of preserving market reputation. In our view, most of these WMPs serve as a handy tool for Chinese banks to circumvent various administrative controls in China's banking business, rather than a tool to offload credit risks. Off-balance-sheet WMPs in aggregate accounted for 5.21% of the top banks' total balance sheet assets. We estimate their impact on top bank segments' RAC ratios to be up to 54 bps (see chart 13).

Our assessment of the top banks' capitalization stands in contrast to the banks' generally satisfactory Tier-1 capital

adequacy ratios. Excluding policy banks which are not subject to regulatory capital requirements, most banks' Tier-1 ratios were above 8.5% at the end of 2012, which are comparable to banks' in many other systems. Compared with major commercial banks, policy banks have been thinly capitalized from the beginning, and their strong business growth is driven by policy mandates which are barely profitable on a risk-adjusted basis.

The contradiction reflects three major issues: the top banks' rapid credit growth, their sizable off-balance-sheet credits, and the higher economic risks in China. The higher economic risks imply increased credit risks, volatility, and imbalances for the banks, and therefore lead to high capital charges for credit exposure in the system. Specifically, we assign a risk weighting of 121% to corporate credit exposures without eligible financial collateral in China. The risk weighting applied to property development and construction loans in China is even higher, at 363%.

These factors have led to a significant gap between the banks' Tier-1 capital ratios and our RAC ratios. They also contribute to insufficient accrual of internal capital for asset growth from a risk-adjusted perspective. Depending on the banks' profitability in the long term, retained profits appear barely sufficient to support credit growth of more than 15%, in our view.

Among commercial banks, national banks appear to have the worst capitalization in the study because of their generally tight capital management in the past. Nonetheless, this group's capitalization is likely to significantly improve with constant capital infusions, because most national banks are listed companies with good franchise in the market, which makes them more attractive to potential investors in the market than regional banks. A few national banks have already proposed rights issues or private placements to shore up their capitalization.

Among the least capitalized commercial banks, regional banks dominate (see table 5). The regional banks have on average less-than-adequate capitalization. Nevertheless, there is notable variance across the banks, particularly among those that we have put into a sub-group called "other regional banks" (ORBs). The ORBs' generally above-average credit growth, significant geographic and industry concentration, and high information risks don't bode well for maintaining their current capitalization.

**Table 5**

<b>Top 10 Least Capitalized Commercial Banks*</b>				
<b>Rank</b>	<b>Bank</b>	<b>RAC Ratio as of end-2012 (%)</b>	<b>Projected RAC Ratio As of end-2014 (%)</b>	<b>Tier-1 capital ratio (%)</b>
1	Bank of Dalian	3.96	3.78	8.25
2	China Bohai Bank	4.28	3.57	9.63
3	Bank of Changsha	4.35	4.59	N.A.
4	China Everbright Bank	4.65	4.57	8.00
5	Evergrowing Bank	4.68	4.68	9.66
6	Beijing Rural Commercial Bank	4.84	4.29	9.29
7	Hua Xia Bank	4.87	4.46	8.18
8	China Zheshang Bank	4.97	4.26	9.84
9	Bank of Jiangsu	5.02	4.78	8.45
10	Xiamen International Bank	5.04	4.52	9.96

\*We have assumed the banks' respective credit growth to be the average of the past two years', their respective returns on equity to be 80% of the average of the past two years', and the dividend payout rate to be zero for unlisted banks, 20% for listed national and regional banks, and 30% for mega banks. N.A.--Not available. Source: Standard & Poor's Ratings Services, banks' annual reports.



## **Contagion Risks Are Rising**

The funding and liquidity profiles of the top banks appear adequate overall, in our view. Excluding policy banks, the top banks' aggregate loan-to-deposit ratio increased to 67.8% at the end of 2012, from 66.9% a year earlier. The rise was mainly due to subdued deposit growth relative to strong loan growth. We expect the top banks' aggregate loan-to-deposit ratio to edge up in the next few years. This reflects our expectation that depositors will further shift toward WMPs for higher yield.

However, the aggregate ratios conceal major variation in the banks' funding and liquidity profiles (see charts 14 and 15). While the three largest mega banks and many regional banks report very low loan-to-deposit ratios and very solid liquidity ratios, the majority of the remaining top banks have been running a loan-to-deposit ratio very close to the regulatory ceiling.

The variance in funding and liquidity ratios among the top banks mainly reflects different levels of public confidence. The mega banks have a much stronger liquidity position as a result of public confidence. Strong government support enables policy banks to access cheap wholesale funding regardless of their poor funding and liquidity ratios. Smaller banks may have ratios that are similar to or better than those of the mega banks, but public confidence in these smaller institutions, especially the OBRs, is lower than that in the mega banks.

Chart 14

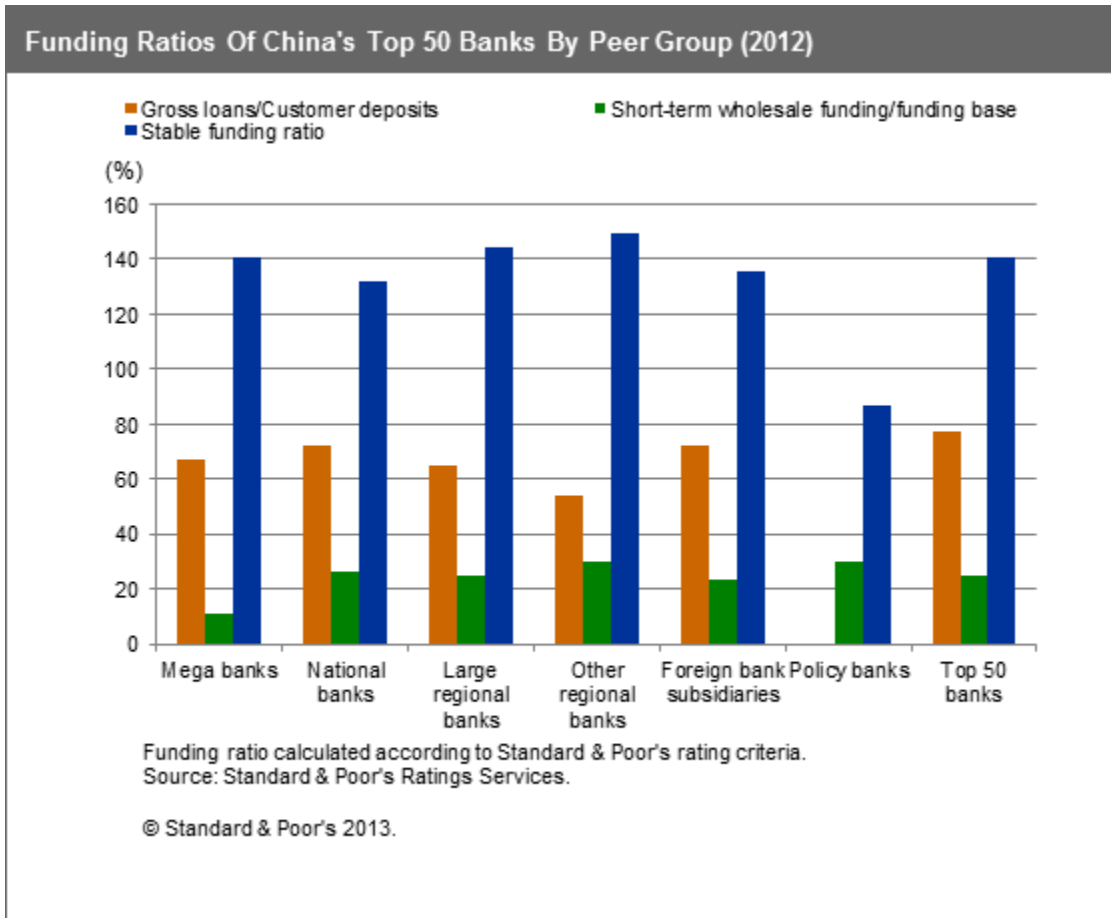
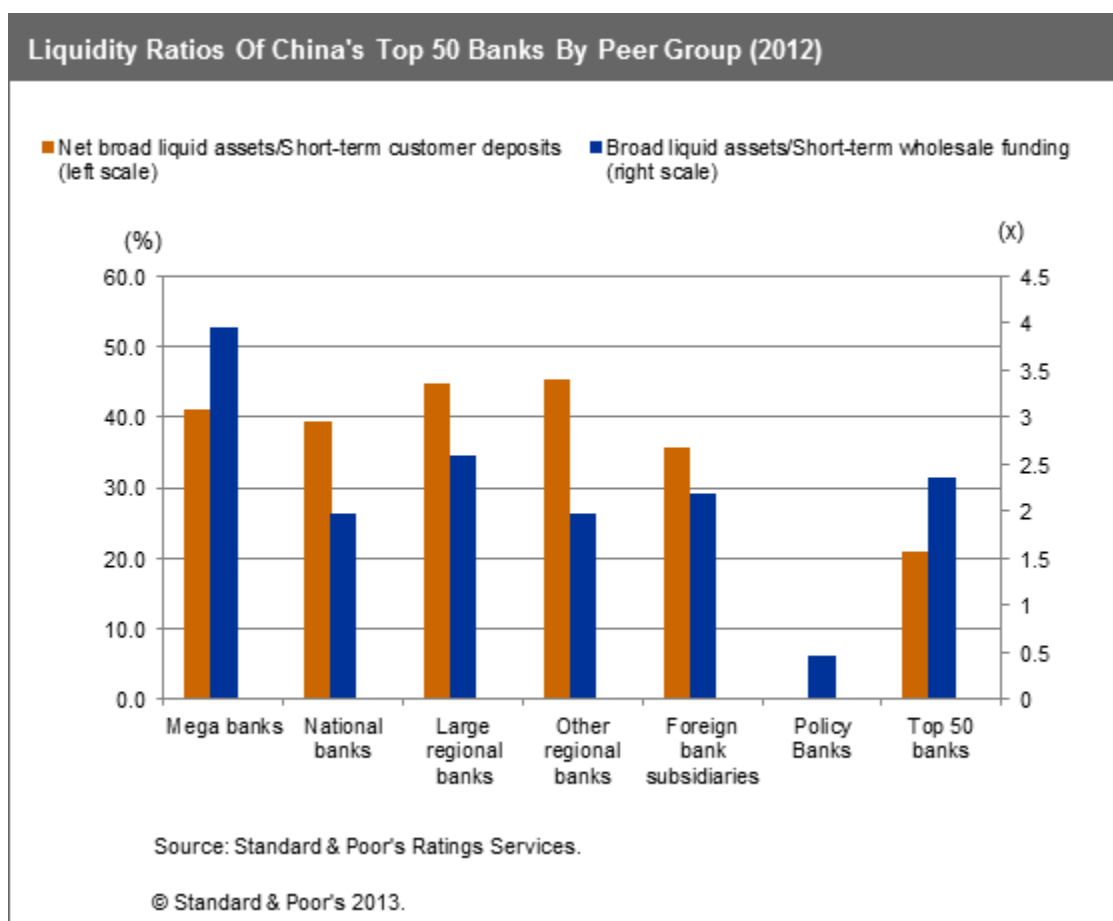


Chart 15



More importantly, such figures overlook the impact from the banks' accounting tricks in relation to both on-balance-sheet and off-balance-sheet activities. Although the impact from accounting tricks may be insignificant for mega banks, it could make a big difference for those banks that operate at the borderline of liquidity requirements. The interbank liquidity shock in late June showed the tightness of some banks' liquidity buffers.

Table 6

Top 10 Commercial Banks With The Heaviest Reliance On Interbank Funding				
Rank	Bank	Interbank liability/Funding base (%)	Interbank liability growth in 2012 (%)	Broad liquid assets/Short-term wholesale funding (x)
1	Xiamen International Bank	50.50	261.70	1.09
2	China Bohai Bank	50.39	75.74	1.15
3	Evergrowing Bank	45.34	26.66	1.63
4	Industrial Bank	37.82	39.42	1.54
5	Bank of Kunlun	36.97	46.65	1.95
6	Bank of Ningbo	35.92	138.83	1.57
7	Longjiang Bank	34.63	18.15	2.13
8	Baoshang Bank	33.47	37.82	1.74

**Table 6**

Top 10 Commercial Banks With The Heaviest Reliance On Interbank Funding (cont.)				
9	China Minsheng Banking Corp.	30.61	173.34	1.71
10	China Everbright Bank	30.31	84.60	1.40

Source: Standard & Poor's Ratings Services.

These ratios do not capture the risks of a behavioral shift among depositors under a stressed situation. Such risks are particularly pertinent for many regional banks. It's not yet apparent if the top regional banks' good funding and liquidity ratios could stand up under a distressed scenario of a run on deposits. While such a situation looks remote at present, it can't be ruled out completely if the sector suffers a substantial spike in credit losses. The government's long-contemplated introduction of a formal deposit insurance scheme, in spite of all the merits it would carry, could leave smaller banks more vulnerable to bad news or rumors. We would expect deposits to move to mega banks and other stronger national franchises from smaller or weaker banks in a flight-to-quality scenario.

In our view, changing depositor behavior alone is unlikely to shake the system's stability. Most banks' loan-to-customer deposit ratios remain far below 100%. The banks' stable funding ratios across the segments also appear to be healthy, in our view. Although we think the banks would have to improve liquidity management via stress testing and contingency plans if reputation risks increase in the future, we see plenty of room for Chinese policymakers to adjust the regulatory requirements or inject liquidity into the market as a response to unexpected liquidity shocks in the system.

However, rapidly growing interbank exposures could be a game-changer for smaller banks (see chart 14). In our view, there are growing contagion risks stemming from the banks' expanding interbank businesses. Some national banks and a growing number of small regional banks have aggressively grown their interbank borrowing to maximize profits. This has not only stretched their own capitalization and liquidity management, it has also left a much greater number of even smaller banks being exposed to significant counterparty risks. Should these small banks at the center of interbank financing be badly affected by severe credit losses and ensuing depositor runs, we would expect a noticeable repercussion for a wider segment of the banking sector.

## Despite Falling Market Share, Mega Banks Maintain Solid Business Positions

The business positions of the top 50 banks vary widely even though their market shares are becoming less divergent. Compared with five years ago, the top banks' businesses are becoming more diversified across regions, industries, and products. But a huge gap remains when comparing small regional banks and foreign bank subsidiaries with the major Chinese banks. Moreover, apart from diversification in business, geography, and revenue, it's the banks' brand recognition in the market and quality of corporate governance--which drives management and strategy--that make a difference in our assessment of a bank's business position. In our opinion, many top banks are still at an early stage of institutional reform. The rapid expansion of credit exposure indicates to us that most banks still prioritize expansion of their asset base over sustainable long-term growth.

In our view, mega banks maintain solid business positions in the industry despite the falling trend in their combined

market share. These banks' long-established nationwide networks and a superior level of public confidence translate into low funding costs and a distinct competitive advantage over their smaller rivals. The drop in the combined market share mainly reveals the smaller lenders' aggressive business expansion. The mega banks' strong customer bases, large networks, and scale of economy provide a solid foundation to develop cross-selling platforms with various non-loan products. As the mega banks spearhead Chinese banks' ambitions overseas, their market position in large corporate lending, transactional banking, and high-end individual banking could be further enhanced.

Complicated operational hierarchies and substantial state ownership continue to constrain the mega banks' operational flexibility and efficiency. As interest rate liberalization proceeds and market rates become more volatile, the mega banks will have to charge more conservative credit risk premiums and enhance their market and liquidity risk management, which will not be an easy task. In particular, the mega banks have an ongoing responsibility to balance commercial decisions with the government's broader economic and social objectives. The government maintains heavy influence over banks' decision-making through its major shareholder status. The overlapping and often rotating roles of party members in government and bank positions hinder the establishment of arm's length relationships and effective corporate governance practices.

## **National Banks Have Been Slowly Shifting Their Business Focus**

In general, we view national banks' business positions as average, given their meaningful market share, established nationwide brand recognition, and good operating flexibility. The remarkable increase in their combined asset share attests to a business strategy focused on acquiring corporate clients. While such a strategy could become less viable over the next two to three years as China's bond market grows rapidly, we note many national banks, particularly the leading players, have been shifting their business focus to small and midsize enterprise (SME) banking and retail banking from the corporate segment. However, the long-term impact of such a shift in the banks' operating stability is yet to be seen. In particular, SME banking could be intrinsically vulnerable to economic volatilities.

Like the mega banks, most national banks are more advanced in the reform process than regional banks. They have established basic corporate governance frameworks and have been strengthening their risk management and internal controls. Controls over the branch networks of the mega banks and national banks have significantly improved because of more centralized auditing and credit approval functions. But there's still plenty of room for further progress, in our view, specifically in introducing dual reporting structures to enhance checks and balances. For many national banks, the strong drive for profits could lead to unsustainable business strategies.

## **Regional Banks' Business Positions Remain Constrained**

Compared with mega and national banks, regional banks face corporate governance issues and other difficult challenges, which lead to our "below-average" assessment for most of these banks' business positions. Corporate governance reform is a complicated issue at regional banks. The ownership structures of most regional banks appear to be more diverse than larger top lenders' after consolidation and capital injections from new investors. But the level of some local government interference remains high. With the prospect of local officials jumping in to fund pet projects

that damage balance sheets, controlling private shareholders are often more inclined to realize short-term gains at the cost of developing sustainable business models.

Other constraints on the business positions of regional banks include their negligible market share, significant geographic concentration, and aggressive balance-sheet expansion. Compared with larger banks, their profiles generally reflect weaker franchises, limited customer bases, and insufficiently experienced talent. As such, regional banks face a severe competitive squeeze from their bigger rivals and foreign banks. It's difficult for most city-based regional banks to develop a viable retail banking business, given their limited distribution network. Rural banks could fare better because market competition is less keen. But the profitability of the retail business is uncertain in the long run, given the high associated operating costs.

## **Policy Banks And Foreign Bank Subsidiaries Continue To Benefit From Their Well-Entrenched Niche Positions**

In our view, the policy banks and foreign bank subsidiaries have well-established positions in their respective niche markets, although their niche positions have very different origins. Policy banks have been building on their respective policy mandates, which provide these banks preferential access to cheap funding and stable revenue streams no matter how risky and unprofitable their businesses could be. However, an underdeveloped credit culture, bureaucratic management, and often inadequate checks and balances undermine these banks' business positions.

Foreign bank subsidiaries have played to their strengths in selective business lines and products like trade finance and high-end retail banking, sophisticated risk management, and strong governance and management. Asset expansion has been conservative over the past two years. These attributes could help them to avoid disastrous mistakes in business strategy and preserve their credit strength in a difficult operating environment. The top foreign bank subsidiaries also have significant business and geographic diversification compared with most regional banks. However, the foreign banks are still far from being a true threat to major Chinese banks, given their still limited geographic outreach in China.

## **Weakening Conditions May Well Lead To Significant Consolidation**

The top banks' credit resilience will be put to the test over the next few years. They will find it tougher to maintain good profits and adequate asset quality as the economy slows and as policy-driven consolidations across many manufacturing industries are likely to unfold. Meanwhile, the push toward financial liberalization has been subtly but decisively redefining the operating landscape and could undermine the banks' net interest margins.

We expect aggressive but unprepared players--particularly smaller banks without a competitive niche--to be hardest hit by the weakening conditions. This could significantly erode public confidence in small and underperforming lenders. Much depends on whether banking regulators maintain rigid adherence to liquidity requirements. If they do, we believe a liquidity shock for small banks could occur--despite the banks' seemingly comfortable liquidity ratios.

In our view, small banks will try hard to avoid such a fate through consolidation in coming years. Many larger and

stronger banks will see a good opportunity to snap up smaller and weaker players to strengthen their market positions. We believe the top banks, particularly national banks and large regional banks, could spearhead massive market-driven consolidation, which proved to be hard to achieve in a buoyant market. The pace of consolidation will hinge on the severity of the present credit downturn. Massive market-driven consolidation may be on the cards for many players as credit quality becomes dramatically polarized.

Our analysis of China's banking industry country risk assessment and individual banks' capitalization and risk positions already factors in high financial volatility. For policy banks and major commercial banks that we rate, their credit standings also benefit from potential extraordinary support from the Chinese government, which would make them more resilient in a credit downturn than other smaller players. But a sharp economic slowdown and a jump in NPLs that is more severe than we expect could lead to a bleaker outlook for the sector. In this context, the risk of a policy-induced liquidity squeeze either for lenders or borrowers may prove the tipping point.

Table 7

Credit Statistics Of The Top 50 Banks													
Rank	Bank	Year	Balance sheet data (mil. RMB)				Earnings		Capital (%)		Asset quality (%)		
			Total assets	Customer loans	Customer deposits	Common shareholder equity	Net profit (mil. RMB)	NIM (%)	Tier-1 capital ratio	(LLR+Common equity)/ gross loans	NPAs/ customer loans	LLR/ NPAs	Cr...
1	Industrial and Commercial Bank of China Ltd.	2012	17,542,217	8,803,692	13,642,910	1,124,997	238,532	3.14	10.62	15.28	0.87	288.40	
		2011	15,476,868	7,788,897	12,219,793	956,742	208,265	3.08	10.07	14.79	0.96	261.03	
		2010	13,458,622	6,790,506	11,134,389	820,430	165,156	2.89	9.97	14.54	1.12	219.94	
		2009	11,785,053	5,728,626	9,771,277	673,893	128,645	2.74	9.90	14.30	1.56	162.69	
		2008	9,757,146	4,571,994	8,223,446	602,675	110,841	3.41	10.75	16.16	2.35	126.68	
2	China Construction Bank Corp.	2012	13,972,828	7,512,312	11,343,079	941,732	193,179	3.33	11.32	15.23	1.02	265.28	
		2011	12,281,834	6,496,411	9,987,450	811,141	169,258	3.25	10.97	15.12	1.12	235.36	
		2010	10,810,317	5,669,128	9,075,369	696,792	134,844	2.96	10.40	14.82	1.17	215.00	
		2009	9,623,355	4,819,773	8,001,323	555,475	106,756	2.95	9.31	14.16	1.61	163.58	
		2008	7,555,452	3,793,943	6,375,915	465,966	92,599	3.80	10.17	15.19	2.36	123.08	
3	Agricultural Bank of China Ltd.	2012	13,244,342	6,433,399	10,862,935	749,815	145,094	3.47	9.67	16.01	1.35	322.78	
		2011	11,677,577	5,628,705	9,622,026	649,601	121,927	3.55	9.50	15.62	1.56	262.21	
		2010	10,337,406	4,956,741	8,887,905	542,071	94,873	3.13	9.75	14.34	2.03	168.02	
		2009	8,882,588	4,138,187	7,497,618	342,819	64,992	2.78	7.74	11.35	2.91	105.37	
		2008	7,014,351	3,100,159	6,097,428	290,445	51,474	3.60	8.04	12.12	4.32	63.53	
4	Bank of China Ltd.	2012	12,680,615	6,864,696	8,947,128	824,677	139,432	2.57	10.54	14.27	0.97	231.57	
		2011	11,829,789	6,342,814	8,679,081	723,914	124,182	2.50	10.07	13.62	1.02	216.87	
		2010	10,459,865	5,660,621	7,668,838	644,165	104,418	2.41	10.09	13.55	1.13	191.62	
		2009	8,748,177	4,910,358	6,620,552	511,226	81,068	2.46	9.07	12.71	1.57	146.86	

Table 7

Credit Statistics Of The Top 50 Banks (cont.)												
		2008	6,951,680	3,296,146	5,102,111	464,258	64,360	3.11	10.81	17.32	2.85	113.37
5	China Development Bank Corp.	2012	7,519,594	6,417,578	519,348	495,673	62,866	2.26	6.86	10.54	0.40	703.99
		2011	6,251,506	5,525,872	412,599	442,777	45,784	2.09	7.35	10.24	0.53	422.06
		2010	5,111,087	4,509,689	393,185	400,095	37,374	1.90	7.86	10.96	0.84	247.75
		2009	4,539,860	3,708,410	385,714	377,799	33,226	1.95	8.83	12.20	1.35	149.02
		2008	3,820,102	2,898,555	245,411	346,581	25,298	2.73	N.A.	13.95	1.31	152.24
6	Bank of Communications Co. Ltd.	2012	5,273,379	2,947,299	3,728,412	379,918	58,373	2.95	11.24	15.19	0.93	246.79
		2011	4,611,177	2,561,750	3,283,232	271,802	50,735	2.88	9.27	12.81	0.87	253.71
		2010	3,951,593	2,236,927	2,867,847	222,773	39,042	2.77	9.37	12.03	1.15	181.10
		2009	3,309,137	1,839,314	2,372,055	163,848	30,118	2.60	8.15	10.96	1.54	133.40
		2008	2,682,947	1,328,590	1,865,815	149,662	28,393	3.21	9.57	13.51	2.20	101.75
7	Postal Savings Bank of China Co. Ltd.	2012	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2011	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2010	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2009	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
8	China Merchants Bank Co. Ltd.	2012	3,408,219	1,904,463	2,532,444	200,434	45,273	3.35	8.49	12.68	0.61	356.67
		2011	2,794,971	1,641,075	2,220,060	164,997	36,129	3.42	8.22	12.29	0.52	431.05
		2010	2,402,507	1,431,451	1,897,178	134,006	25,769	2.95	8.04	11.41	0.65	312.67
		2009	2,067,941	1,185,822	1,608,146	92,783	18,235	2.55	6.63	9.85	0.85	239.02
		2008	1,571,797	874,362	1,250,648	79,515	21,077	3.69	6.56	11.57	1.11	222.10
9	Industrial Bank Co. Ltd.	2012	3,250,975	1,229,165	1,813,266	169,577	34,718	2.93	9.29	15.80	0.58	347.93
		2011	2,408,798	983,254	1,345,279	115,209	25,505	2.79	8.20	13.17	0.53	274.42
		2010	1,849,673	854,339	1,132,767	91,995	18,521	2.82	8.80	12.15	0.79	173.28
		2009	1,332,162	701,597	900,884	59,597	13,282	2.67	7.91	9.87	0.84	163.41
		2008	1,020,899	499,386	632,426	49,022	11,385	3.20	8.94	11.70	1.99	94.72
10	China Minsheng Banking Corp.	2012	3,212,001	1,384,610	1,926,194	163,077	37,563	2.94	8.13	14.17	1.07	223.82
		2011	2,229,064	1,205,221	1,644,738	129,597	27,920	3.14	7.87	12.99	0.87	256.41
		2010	1,823,737	1,057,571	1,416,939	104,108	17,688	6.11	8.07	11.72	1.02	184.29
		2009	1,426,392	882,979	1,128,329	88,034	12,108	3.18	8.92	11.70	1.44	119.93
		2008	1,054,350	658,360	786,177	53,880	7,893	3.69	6.60	9.99	2.21	81.42
11	Shanghai Pudong Development Bank Co. Ltd.	2012	3,145,707	1,554,488	2,134,365	177,497	34,186	2.92	8.97	13.73	0.79	292.21
		2011	2,684,694	1,331,436	1,866,769	148,891	27,286	2.92	9.20	13.37	0.48	451.80
		2010	2,191,411	1,146,489	1,638,680	122,996	19,177	2.74	9.37	12.68	0.55	354.49



Table 7

Credit Statistics Of The Top 50 Banks (cont.)												
		2009	1,622,718	928,855	1,295,342	67,953	13,217	2.63	6.90	9.29	0.88	224.45
		2008	1,309,425	697,565	947,294	41,679	12,516	3.31	5.03	8.31	1.30	180.06
12	China CITIC Bank Co. Ltd.	2012	2,959,939	1,662,901	2,255,141	198,356	31,032	3.08	9.89	14.05	0.75	281.88
		2011	2,765,881	1,434,037	1,968,051	174,496	30,819	3.10	9.91	13.79	0.61	263.76
		2010	2,081,314	1,264,245	1,730,816	120,175	21,509	2.87	8.45	10.95	0.71	203.02
		2009	1,776,276	1,065,649	1,341,927	104,043	14,319	2.75	9.17	11.19	1.00	141.60
		2008	1,319,570	730,386	1,027,325	119,366	13,296	3.82	12.32	18.26	1.50	128.02
13	Agricultural Development Bank of China	2012	2,293,079	2,185,077	386,200	49,796	14,292	3.46	N.A.	5.36	0.99	309.72
		2011	1,953,467	1,875,550	367,524	35,513	6,779	3.18	N.A.	4.26	1.46	161.78
		2010	1,750,816	1,671,065	339,549	28,734	3,622	2.30	N.A.	3.47	2.79	62.78
		2009	1,656,824	1,451,260	273,890	25,020	2,247	2.07	N.A.	2.74	3.61	28.12
		2008	1,354,649	1,219,280	183,285	22,773	1,627	3.00	N.A.	2.88	3.80	26.71
14	China Everbright Bank Co. Ltd.	2012	2,279,295	1,023,187	1,384,324	114,178	23,591	2.99	8.00	13.69	0.75	335.18
		2011	1,733,346	889,825	1,178,800	96,034	18,068	2.97	7.89	13.16	0.67	353.97
		2010	1,483,950	778,828	1,029,711	81,364	12,790	2.73	8.15	12.79	0.79	298.68
		2009	1,197,696	647,916	799,644	48,107	7,643	2.25	6.84	9.86	1.18	206.73
		2008	851,838	464,574	605,170	33,232	7,316	3.33	5.98	10.18	1.80	167.77
15	Ping An Bank Co. Ltd.	2012	1,606,537	720,780	1,021,108	84,799	13,403	2.92	8.59	13.50	1.54	112.38
		2011	1,258,177	620,642	850,845	73,311	10,279	3.28	8.46	13.51	0.77	221.33
		2010	727,207	407,391	562,912	33,198	6,247	2.73	7.10	9.73	0.92	170.56
		2009	587,811	359,517	454,635	20,470	5,031	2.73	5.52	6.79	1.40	78.27
		2008	474,440	283,741	360,514	16,401	614	3.41	5.30	6.49	2.69	26.45
16	The Export-Import Bank of China	2012	1,558,933	1,183,032	70,266	20,038	3,776	0.98	N.A.	1.69	0.58	N.A.
		2011	1,199,057	914,301	57,706	16,119	3,124	1.04	N.A.	1.76	0.75	N.A.
		2010	887,077	707,563	55,235	12,844	2,800	0.73	N.A.	1.82	0.93	N.A.
		2009	792,138	591,885	51,277	10,189	2,521	0.50	N.A.	1.72	1.38	N.A.
		2008	641,570	442,464	44,183	7,583	2,222	0.65	N.A.	1.71	1.55	N.A.
17	Hua Xia Bank Co. Ltd.	2012	1,488,910	720,168	1,036,000	74,787	12,796	3.03	8.18	13.20	0.96	293.30
		2011	1,244,180	611,463	896,024	63,992	9,221	3.08	8.72	13.29	1.02	277.68
		2010	1,040,334	527,937	767,622	35,606	5,990	2.75	6.65	9.22	1.30	190.39
		2009	845,595	430,226	581,678	30,381	3,760	2.32	6.84	9.57	1.75	142.56
		2008	731,599	355,478	485,350	27,605	3,071	2.95	7.46	10.53	2.24	122.99
18	China Guangfa Bank Co. Ltd.	2012	1,168,150	615,750	856,166	63,528	11,220	2.82	8.37	12.83	1.54	163.79
		2011	918,982	540,163	742,538	52,706	9,586	3.23	8.05	12.85	1.37	225.56
		2010	814,390	466,839	628,858	42,882	6,189	3.02	8.30	12.48	1.65	199.77
		2009	666,487	380,875	543,890	22,190	3,387	2.48	5.62	9.56	2.52	148.25

Table 7

Credit Statistics Of The Top 50 Banks (cont.)												
		2008	546,015	311,699	404,655	19,602	2,784	3.72	6.67	10.57	3.39	126.46
19	Bank of Beijing Co. Ltd.	2012	1,119,969	496,720	713,772	71,617	11,675	2.74	10.90	17.09	0.72	370.11
		2011	956,499	405,610	614,241	50,383	8,947	2.58	9.59	14.77	0.69	341.67
		2010	733,211	334,732	557,724	42,546	6,803	2.65	10.51	14.84	0.98	218.41
		2009	533,469	273,481	446,939	37,559	5,633	2.63	12.38	15.94	1.42	155.27
		2008	417,021	193,074	315,840	33,794	5,417	3.31	16.42	20.29	2.15	129.97
20	Bank of Shanghai Co. Ltd.	2012	816,904	390,540	545,032	41,954	7,517	2.50	9.23	13.13	0.88	272.51
		2011	655,800	316,230	471,076	35,129	5,806	2.58	8.74	13.98	1.25	228.86
		2010	566,775	289,675	412,515	29,487	5,028	2.82	8.92	13.06	1.45	198.61
		2009	466,039	244,704	333,421	21,512	3,623	2.62	8.47	11.48	1.82	147.24
		2008	367,736	178,002	266,363	18,840	3,077	3.27	9.11	13.60	10.27	29.31
21	Bank of Jiangsu Co. Ltd.	2012	650,238	352,215	531,863	34,140	7,036	3.86	8.45	12.36	1.02	261.46
		2011	514,146	290,825	434,278	27,812	5,834	4.05	8.73	12.11	0.97	261.78
		2010	430,456	239,530	359,585	22,692	4,185	3.63	8.66	11.70	0.64	347.20
		2009	330,505	193,710	278,740	15,038	2,621	3.55	7.27	10.06	1.45	158.51
		2008	225,239	134,393	199,852	11,230	2,251	7.45	7.29	11.12	1.82	151.70
22	Evergrowing Bank Co. Ltd.	2012	617,950	171,592	306,507	25,569	5,779	2.31	9.66	17.20	0.84	271.86
		2011	437,289	144,655	202,686	19,834	4,135	2.25	9.74	15.47	0.81	216.77
		2010	274,160	120,154	172,397	15,370	2,281	2.48	9.35	14.05	0.48	260.99
		2009	213,889	93,729	133,338	10,208	1,207	1.84	10.01	11.70	1.08	74.89
		2008	150,996	65,756	85,137	4,103	934	3.24	6.92	7.34	2.34	46.35
23	China Bohai Bank Co. Ltd.	2012	472,102	141,479	213,421	19,812	3,339	2.19	9.63	15.86	0.15	1,208.84
		2011	312,488	112,547	162,043	16,509	1,838	1.51	9.52	16.37	0.16	1,059.73
		2010	265,086	92,432	134,318	9,416	778	2.27	7.94	11.70	0.23	647.31
		2009	117,516	69,735	101,590	5,242	256	2.96	7.43	8.72	0.10	1,204.38
		2008	62,211	34,749	48,653	4,990	127	3.21	13.18	15.50	0.25	447.77
24	Chongqing Rural Commercial Bank Co. Ltd	2012	433,822	173,448	294,510	31,921	5,361	3.94	12.02	21.77	1.07	313.09
		2011	344,820	144,097	246,141	27,856	4,246	3.91	13.71	22.99	1.63	224.40
		2010	285,546	121,025	205,563	22,345	3,064	3.61	14.78	21.69	2.95	109.17
		2009	201,361	99,332	153,776	9,477	1,888	3.50	8.14	12.07	4.97	50.72
		2008	167,268	73,091	117,282	7,892	1,995	4.20	9.31	12.00	29.02	4.07
25	Beijing Rural Commercial Bank Co. Ltd.	2012	424,358	202,618	355,056	18,853	3,242	2.32	9.29	14.03	3.12	150.20
		2011	377,316	169,385	336,071	16,240	2,237	2.57	9.52	15.02	5.05	106.33
		2010	331,397	139,180	297,007	12,787	967	2.58	9.02	14.40	6.89	73.92
		2009	284,312	122,147	262,244	7,863	773	2.74	7.40	11.32	10.20	46.49

Table 7

Credit Statistics Of The Top 50 Banks (cont.)												
		2008	227,616	117,830	121,798	7,433	633	3.56	6.99	9.76	7.85	42.60
26	China Zheshang Bank Co. Ltd.	2012	393,839	182,306	266,888	22,709	4,026	3.16	9.84	14.41	0.48	411.62
		2011	301,858	148,985	214,682	20,686	2,850	3.50	10.87	15.60	0.28	621.72
		2010	217,312	112,954	156,809	17,816	1,643	2.95	13.28	17.21	0.20	718.70
		2009	163,418	87,444	121,381	8,700	867	2.91	8.50	11.11	0.29	401.84
		2008	83,803	51,388	71,468	4,302	591	3.53	7.57	9.58	0.39	307.38
27	Bank of Ningbo Co. Ltd.	2012	373,537	145,618	207,577	22,117	4,068	3.45	11.49	17.28	0.99	212.57
		2011	260,498	122,745	176,737	18,714	3,254	3.10	12.17	16.88	0.91	179.53
		2010	263,274	101,574	145,828	15,877	2,322	2.80	12.50	16.99	0.95	142.59
		2009	163,352	81,864	110,752	9,742	1,457	3.20	9.58	13.24	0.86	154.89
		2008	103,263	49,156	76,222	8,805	1,332	4.03	14.60	19.32	1.04	134.27
28	Shanghai Rural Commercial Bank Co. Ltd.	2012	361,968	195,425	292,100	28,742	3,724	3.57	13.57	17.53	1.66	169.21
		2011	309,927	167,255	247,548	24,993	3,187	3.51	13.36	17.92	1.40	212.42
		2010	252,101	141,742	212,323	23,173	2,220	3.20	15.19	18.43	1.45	143.58
		2009	212,115	118,778	179,935	13,022	1,971	3.22	10.21	12.81	2.11	87.55
		2008	170,382	93,130	147,888	11,217	3,651	4.04	11.28	14.12	2.86	72.02
29	Guangzhou Rural Commercial Bank Co. Ltd.	2012	347,455	138,253	265,511	23,328	4,059	3.41	11.56	19.35	1.09	225.40
		2011	273,737	121,417	212,517	20,740	2,901	3.41	12.81	19.16	1.12	184.71
		2010	211,469	108,026	178,334	13,920	2,498	3.13	11.20	14.13	1.33	92.49
		2009	172,634	92,867	145,367	11,828	1,562	N.A.	11.62	13.74	1.75	56.85
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
30	Bank of Nanjing Co. Ltd.	2012	343,792	125,269	213,656	24,618	4,013	2.84	12.13	22.29	0.90	293.46
		2011	281,792	102,805	166,424	21,644	3,212	2.96	11.76	23.58	0.80	314.48
		2010	221,493	83,892	139,724	18,834	2,311	2.82	13.75	24.72	1.01	225.32
		2009	149,566	67,028	102,127	12,039	1,544	2.95	12.77	20.08	1.32	160.20
		2008	91,911	40,180	62,731	11,296	1,456	3.49	20.68	30.91	1.72	161.95
31	Bank of Hangzhou Co. Ltd.	2012	324,984	152,139	220,689	17,457	3,552	3.78	9.52	13.97	1.32	189.74
		2011	243,937	126,846	182,045	14,379	2,691	3.61	9.16	13.45	0.78	271.39
		2010	217,429	106,508	152,317	11,938	1,911	3.12	8.76	12.78	0.61	259.43
		2009	149,991	85,765	124,279	10,363	1,366	3.18	10.19	13.55	0.75	195.73
		2008	99,617	58,106	82,043	4,809	1,277	3.78	7.11	9.79	0.77	196.95
32	Huishang Bank Co. Ltd.	2012	324,224	163,795	239,543	20,481	4,215	2.72	10.30	14.86	0.62	381.02
		2011	256,982	137,413	203,580	17,084	3,544	2.77	10.87	14.97	0.50	511.64
		2010	208,976	117,034	159,582	14,357	2,702	2.95	11.19	14.81	0.62	410.88
		2009	162,400	96,521	132,561	12,809	1,755	2.78	11.15	15.79	0.97	260.93

Table 7

Credit Statistics Of The Top 50 Banks (cont.)												
		2008	131,309	76,736	100,249	11,957	1,261	3.31	13.61	18.15	1.27	203.00
33	Shengjing Bank Co. Ltd.	2012	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2011	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2010	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2009	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
34	Bank of Tianjin Co. Ltd.	2012	302,346	122,795	201,316	16,698	2,634	2.71	10.39	16.88	0.72	454.68
		2011	235,360	96,064	164,725	14,263	2,119	2.55	10.24	18.10	0.93	349.58
		2010	203,850	78,436	153,452	10,857	1,727	2.72	9.92	17.25	7.81	43.62
		2009	149,670	63,905	128,335	8,274	1,309	3.05	10.48	16.25	10.56	31.29
		2008	122,835	50,032	99,811	7,956	1,292	3.27	11.24	19.66	23.07	16.27
35	HSBC Bank (China) Co. Ltd.	2012	298,508	132,129	182,309	24,841	3,824	2.78	16.70	19.00	0.12	175.61
		2011	269,015	111,369	156,546	19,478	3,424	2.83	13.90	17.67	0.10	170.87
		2010	205,620	94,757	143,116	13,055	922	1.87	12.10	14.17	0.26	150.00
		2009	162,052	65,451	117,624	12,254	718	1.76	15.70	19.12	0.40	100.00
		2008	153,002	54,195	100,094	11,644	1,799	N.A.	15.70	21.99	0.77	65.61
36	Harbin Bank Co. Ltd.	2012	270,090	87,264	186,642	16,765	2,864	3.53	12.10	21.46	0.72	311.97
		2011	203,622	65,439	145,962	11,386	1,723	3.60	12.47	19.64	0.79	283.41
		2010	127,170	54,025	112,892	5,174	1,308	3.07	9.37	11.10	1.09	140.16
		2009	84,606	43,537	74,997	3,892	796	N.A.	10.22	10.53	0.99	161.10
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	9.98	N.A.	N.A.
37	Bank of Dalian Co. Ltd.	2012	256,800	101,400	173,938	10,778	1,750	3.04	8.25	13.11	2.28	108.80
		2011	187,893	86,113	136,304	9,052	1,723	3.21	8.19	13.37	1.06	269.63
		2010	172,760	72,651	138,794	7,251	1,316	3.00	8.41	12.49	1.02	245.79
		2009	126,829	58,708	103,628	6,175	951	2.80	9.22	12.97	1.96	124.49
		2008	85,548	46,480	70,495	5,270	893	4.39	8.99	14.79	12.36	26.21
38	Bank of Guangzhou Co. Ltd	2012	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2011	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2010	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2009	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
39	Bank of Chengdu Co. Ltd.	2012	240,299	94,252	164,192	12,881	2,542	3.06	11.62	16.27	1.18	219.58
		2011	181,394	80,636	134,799	10,929	2,404	3.37	11.87	16.23	1.26	211.67
		2010	151,320	67,899	122,480	9,013	1,625	3.35	12.32	15.91	1.02	257.82
		2009	104,346	54,969	91,404	7,748	1,079	3.13	13.58	16.29	2.38	90.94
		2008	72,512	40,430	62,908	6,669	915	4.84	16.86	21.80	4.51	116.54

Table 7

Credit Statistics Of The Top 50 Banks (cont.)												
40	Chengdu Rural Commercial Bank Co. Ltd.	2012	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2011	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2010	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2009	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
41	Bank of Jilin Co. Ltd.	2012	220,757	111,504	160,111	13,845	2,305	3.91	10.39	15.89	2.15	160.23
		2011	186,428	95,123	138,424	12,143	1,524	4.65	10.58	15.84	3.06	99.19
		2010	148,081	79,204	116,655	10,619	1,189	4.38	10.69	15.68	2.56	87.73
		2009	108,138	64,055	86,176	7,776	827	N.A.	10.17	14.32	3.30	65.23
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
42	Tianjin Rural Commercial Bank Co. Ltd.	2012	214,752	89,462	142,160	11,717	1,380	2.12	9.78	16.53	3.56	96.18
		2011	150,686	77,650	122,140	9,728	1,173	3.02	9.01	16.64	3.52	116.52
		2010	133,044	65,539	110,871	7,984	126	N.A.	9.18	16.00	3.96	95.79
		2009	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
43	Baoshang Bank Co. Ltd.	2012	207,618	58,493	122,974	17,494	2,173	3.93	15.52	31.91	0.86	232.27
		2011	175,124	48,413	110,394	15,380	2,084	1.72	13.35	33.16	0.48	286.15
		2010	114,844	34,985	94,216	6,780	1,412	2.22	9.72	20.45	0.59	182.94
		2009	81,649	27,948	67,604	3,552	914	2.12	9.38	13.89	0.71	166.47
		2008	61,936	23,162	47,768	3,021	788	1.62	8.10	14.21	0.77	151.82
44	The Bank of East Asia (China) Limited	2012	206,966	104,032	154,137	14,719	1,286	2.74	12.57	14.81	0.25	259.72
		2011	174,403	95,982	139,480	13,383	1,314	3.08	13.26	14.61	0.10	700.55
		2010	153,029	91,595	117,885	12,027	1,004	2.56	12.61	13.40	0.07	396.33
		2009	120,996	84,865	83,603	11,167	902	N.A.	N.A.	N.A.	N.A.	N.A.
		2008	120,429	81,618	66,516	10,290	1,020	N.A.	N.A.	N.A.	N.A.	N.A.
45	Xiamen International Bank Co. Ltd.	2012	206,565	66,142	95,761	9,204	1,002	1.02	9.96	15.32	0.42	332.90
		2011	105,096	53,099	72,076	3,881	590	1.79	10.34	8.52	0.27	452.03
		2010	70,902	44,200	55,072	3,332	538	1.92	N.A.	8.44	0.35	258.12
		2009	46,893	28,614	41,930	2,813	413	1.73	N.A.	10.91	0.63	171.16
		2008	43,989	27,968	37,524	2,410	369	0.00	N.A.	9.91	0.84	154.21
46	Longjiang Bank Co. Ltd.	2012	186,055	35,481	114,095	9,049	1,698	3.38	13.77	28.01	0.82	306.03
		2011	153,019	25,646	93,373	6,270	1,110	3.35	11.89	26.45	1.12	178.97
		2010	83,107	20,040	66,676	4,021	377	3.44	12.60	21.59	2.81	54.03
		2009	40,526	15,649	36,020	3,097	17	N.A.	17.80	22.94	2.08	150.46
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Table 7

Credit Statistics Of The Top 50 Banks (cont.)												
47	Bank of Kunlun Co. Ltd.	2012	184,815	41,363	104,830	14,513	1,944	2.19	13.72	37.47	1.80	132.38
		2011	130,295	20,995	74,224	12,773	1,234	2.25	19.18	62.75	0.07	2,899.34
		2010	82,604	12,000	57,056	6,494	689	2.42	16.36	55.16	0.11	930.45
		2009	21,577	9,836	17,663	3,107	70	1.46	20.07	32.14	0.08	731.97
		2008	3,835	725	3,185	239	38	N.A.	20.48	34.36	1.09	132.25
48	Dongguan Rural Commercial Bank Co. Ltd.	2012	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2011	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2010	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2009	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		2008	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
49	Standard Chartered Bank (China) Ltd.	2012	168,812	87,125	111,716	15,894	1,581	3.56	14.50	19.02	0.55	142.22
		2011	173,152	94,495	124,973	14,387	883	3.20	12.70	15.78	0.39	140.63
		2010	169,023	96,192	123,311	11,378	384	2.70	11.10	12.24	0.32	129.89
		2009	131,167	74,092	77,952	10,992	424	2.29	14.10	15.34	0.50	100.00
		2008	124,168	64,877	69,016	8,311	650	3.60	13.00	13.30	0.52	92.93
50	Bank of Changsha Co. Ltd.	2012	162,596	48,862	113,103	7,346	1,862	3.20	N.A.	17.68	1.48	178.69
		2011	123,769	41,171	87,215	5,677	1,461	3.48	N.A.	16.45	1.52	174.30
		2010	83,347	34,081	69,203	4,427	866	3.40	N.A.	15.86	2.25	126.85
		2009	64,522	26,834	51,584	2,402	779	2.92	N.A.	8.95	7.10	N.A.
		2008	57,157	22,155	39,726	1,744	739	N.A.	N.A.	7.87	7.77	N.A.

NIM--Net interest margin. RAC--Risk-adjusted capital. NPA--Nonperforming assets. LLR--Loan loss reserves. N.A.--Not available. Source: Bank data.

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