Credit Opinion

22 July 2026

Bank of Communications Co., Ltd.

Initial credit rating report

Ratings	
Category	Financial Institution
Domicile	China
Rating Type	Unsolicited Rating
Long-Term Credit Rating	AA_g+
Outlook	Stable

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CCXAP assigns first-time long-term credit rating of AA_g+ to Bank of Communications Co., Ltd., with stable outlook.

Summary

The AA_g+ long-term credit rating of Bank of Communications Co., Ltd. ("BOCOM" or the "Bank") is underpinned by the Bank's (1) systemic importance in China's financial system as a designated Global and Domestic Systemically Important Bank; (2) solid asset quality supported by structural diversification and a conservative investment portfolio; and (3) robust funding profile anchored by an expansive core deposit base.

However, the rating is constrained by the Bank's (1) profitability strained by a decline in net interest margin ("NIM"); and (2) higher reliance on market-based wholesale funding relative to other larger state-owned commercial bank peers.

The rating also incorporates our expectation that the Bank has a high likelihood of receiving extraordinary support from the Chinese government given its (1) significant market position in China's financial system; and (2) dominant stake owned by the government.

The stable outlook on BOCOM's rating reflects our expectation that the willingness and ability of the Chinese government to provide support is unlikely to change, and that the Bank will sustain its leading market position and solid financial profile in the next 12 to 18 months.

Rating Drivers

- Profitability pressured by NIM compression
- Solid asset quality underpinned by declining NPLs and conservative investment portfolio
- Solid capital adequacy bolstered by state-led equity injection and robust capital market access
- Moderate funding structure with relatively high reliance on market funding
- Sufficient and high-quality liquidity resources
- Very high likelihood to receive government support in times of need

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government support increases; (2) the Bank's macro profile strengthens, such as higher sovereign rating for China, significant improvement in corporate debt leverage, or better credit condition in China; and (3) the Bank's finance profile improves, such as increase in profitability and stability, and better coverage in both problem loans and special-mention loans.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of receiving government support decreases; (2) the Bank's macro profile weakens, such as lower sovereign rating for China, heightened corporate debt level, or worsened credit condition in China; or (3) the Bank's finance profile deteriorates, such as hindered profitability, material deterioration in asset quality, and unexpected decline in liquidity.

Key Indicators

	2023FY	2024FY	2025FY
Total Assets (RMB billion)	14,060.5	14,900.7	15,548.4
Total Equity (RMB billion)	1,099.5	1,155.6	1,280.3
Operating Income (RMB billion)	257.6	259.8	265.1
Net Profit (RMB billion)	93.3	94.2	96.5
Pre-provision Operating Profit/Average Risk-weighted Assets (%)	1.8	1.7	1.7
Problem Loans/Total Loans (%)	1.33	1.31	1.28
Capital Adequacy Ratio (%)	15.3	16.0	16.0
High Liquid Assets/Total Assets (%)	36.4	35.5	34.8
Market Funding/Total Assets (%)	28.8	30.3	29.4

All ratios and figures are calculated using CCXAP's adjustments.

Source: Bank data, CCXAP research

Corporate Profile

Headquartered in Shanghai, BOCOM is the first state-owned commercial bank in China. The Bank was listed dually in the Shanghai Stock Exchange and the Hong Kong Exchanges and Clearing (Stock code: 601328.SH & 3328.HK). As of 31 December 2025, BOCOM operated over 2,800 domestic outlets and 24 overseas branches, subsidiaries, and representative offices, providing comprehensive financial services to 3.1 million corporate clients and 205 million retail clients. These services encompass deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management, bank cards, private banking, and treasury operations. The Bank is recognized as a global systemically important bank ("G-SIB") by the Financial Stability Board ("FSB"); a domestic systemically important bank ("D-SIB") by the People's Bank of China ("PBoC") and the National Financial Regulatory Administration ("NFRA"). As of 31 December 2025, BOCOM was 35.02% owned by the Ministry of Finance of the People's Republic of China ("MoF").

Corporate Profile

Macro Profile

BOCOM has substantial footprint in China. Its macro profile is underpinned by China's (1) robust economy and fiscal strength; (2) high but stabilizing systematic financial leverage; and (3) stable and reliable financial system. China has strong economic fundamentals and institutional strength. It is the second-largest economy in the world, with a gross domestic product ("GDP") of USD19.6 trillion in 2025. China has demonstrated long-term stability in its political environment and high efficiency of government.

BOCOM's macro profile also incorporates China's high but stabilizing systematic financial leverage, as measured by the domestic credit to private sector to GDP ratio of approximately 194.2% in 2024, representing an increase from 189.6% in 2023. China has a stable and effective financial system, with no material failure in the banking sector over the past 10 years. The Chinese authorities have a good track record in monitoring and regulating the banking sector. In 2022, China proposed the new Financial Stability Law （《金融稳定法》）, aiming to mitigate systemic shocks from the failure of smaller banks and curb contagion risk. In 2023, the regulator introduced the new rule on banks' asset risk classification, namely the Measures for the Classification of Financial Asset Risks of Commercial Banks （《商业银行金融资产风险分类办法》）, which is expected to strengthen banks' reporting standards and gradually reduce inconsistency in financial asset classification.

Funding conditions for Chinese banks remain favorable and have benefited from a stable deposit base and ample interbank liquidity conditions. Chinese banking assets and liabilities grew continuously in 2025, with a YoY increase of 9.2% for both. However, market competition has intensified as banks are adjusting against financial reform and innovation. The lowering interest rate environment in China also pressures banks' profitability, especially for small and medium banks like city commercial banks and rural commercial banks in China. The weighted average interest rate of newly issued corporate loans was around 3.1% in December 2025, which recorded the lowest level in history.

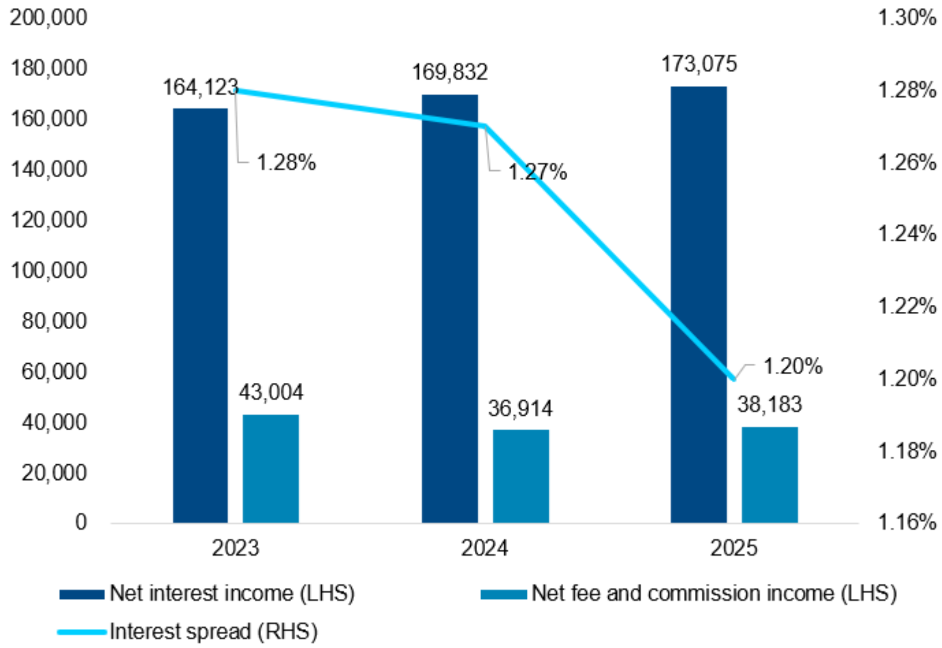
Financial Profile

Profitability pressured by NIM compression

BOCOM's profitability faces challenges from a declining NIM, driven by ongoing LPR cuts and intense industry competition. For the past three years, its reported ROA decreased to 0.63% in 2025 from 0.69% in 2023. Although expansion in interest-earning assets supported net interest income growth, BOCOM's NIM compressed from 1.14% in 2023 to 1.08% in 2025, remaining lower than that of its domestic state-owned commercial bank peers. Given that net interest income constitutes approximately 65% of its total revenue, the declining asset yields place material pressure on profitability. Earnings are further constrained by elevated credit costs (measured by impairment loss on loans to average total loans), which stood at 0.7% in 2025. Consequently, the Bank's pre-provision operating profit/average risk-weighted asset ratio weakened to 1.7% in 2025 from 1.8% in 2023.

We expect BOCOM to continue optimizing its asset-liability structure and lowering funding costs to alleviate NIM pressure over the next 12-18 months. Large banks like BOCOM have been lowering their deposit rates since 2023. The gradual repricing of deposits at lower costs could partially offset the decline in asset yield. Additionally, its net fee and commission income ratio (measured as a percentage of operating income) remained relatively high at 14.4% in 2025 compared with peers, helping stabilize profitability. Revenue growth and diversification in non-interest segment, such as settlement, personal banking, asset management, and trust services, will further insulate the Bank from narrowing margins. BOCOM's strong cost management also provides earning buffer, as demonstrated by its cost-to-income ratio improved to 29.3% in 2025.

Exhibit 1. BOCOM's revenue structure (RMB million) and NIM from 2023 to 2025



Source: Bank information, CCXAP research

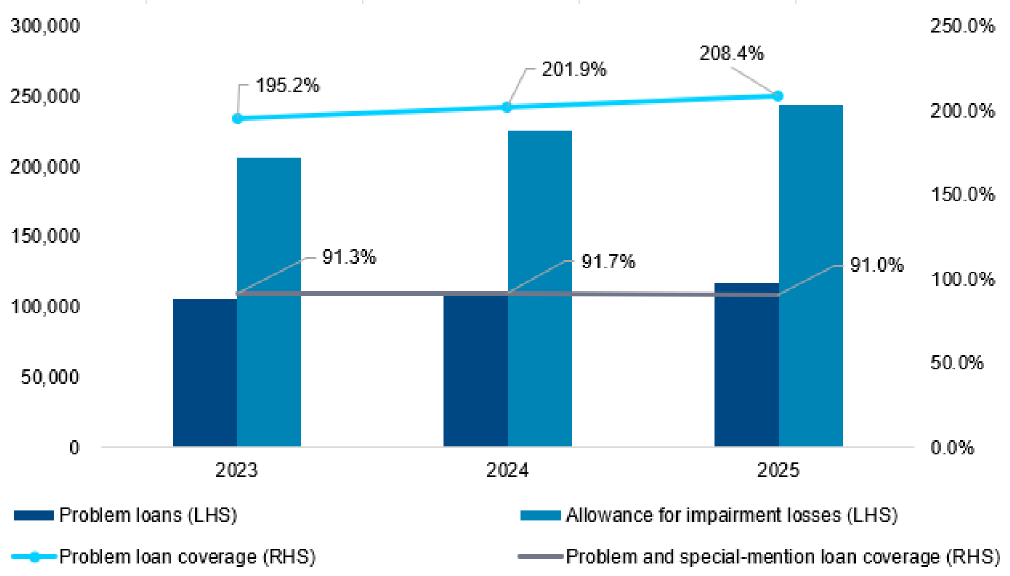
Solid asset quality underpinned by declining NPLs and conservative investment portfolio

BOCOM maintains solid asset quality, evidenced by a declining non-performing loan ("NPL") ratio driven by its prudent risk appetite and intensified recovery efforts for distressed assets. As of 31 December 2025, BOCOM's NPL ratio decreased to 1.28%, down from 1.31% at end-2024 and 1.33% at end-2023. Supported by its nationwide operations, BOCOM's top three industry exposures each accounted for less than 15% of total loans, while its credit concentrations to the single largest and top ten clients stood at 3.5% and 17.2% of BOCOM's net assets, respectively. However, the Bank's combined loans to the real estate sector, construction industry, and individual residential mortgage loans accounted for around 23.9% of total loans, of which individual residential mortgage loans represent 15.8% of total loans, indicating a relatively large risk exposure to real estate industry. The Bank has proactively cleared high-risk exposures through write-offs, asset transfers, and securitization, thereby strengthening its risk resolution capabilities.

Corporate loans remain the primary source for NPLs, particularly within sectors such as accommodation and catering, real estate, and wholesale and retail trade. As of 31 December 2025, corporate loans and retail loans accounted for 66.3% and 31.1% of BOCOM's total loan book, respectively. For retail loans, both the NPL balance and NPL ratio have been rising over the past three years, reaching 1.58% at the end of 2025. While the broader slowdown in China's economic growth poses ongoing risks to new problem loan formation, we do not expect a material deterioration in BOCOM's asset quality over the next 12-18 months, given its stringent client selection and robust risk-control framework.

BOCOM maintains adequate loss-absorption capacity, with its problem loan coverage ratio (allowance for impairment losses to problem loans) standing at a moderate 208.4% as of end-2025. The loan-loss reserve could mitigate the strain on the Bank's asset quality.

Exhibit 2. BOCOM's problem loans (RMB million) and coverage from 2023 to 2025



Source: Bank information, CCXAP research

Beyond its loan book, BOCOM maintains a low-risk appetite for its investment business, favoring a highly conservative portfolio. Adhering to a prudent investment strategy over recent years, the Bank has heavily concentrated its holdings in low-risk interest rate bonds. As of end-2025, the Bank's investment asset amounted to RMB4.5 trillion, comprising government bonds (70.8%), financial institution bonds (14.2%), and corporate bonds (4.8%). Other investments, including mutual funds and trusts accounted for a modest 4.1%. Overall, the investment portfolio exhibits strong safety and liquidity profiles, with minimal impairment risk.

Solid capital adequacy bolstered by state-led equity injection and robust capital market access

As a designated G-SIB and D-SIB, BOCOM consistently meets regulatory capital requirements. As of 31 December 2025, the Bank reported capital adequacy ratio (measured by CET1 capital/risk-weighted assets) of 12.7%, up from 12.1% at end-2024 and 12.2% at end-2023. This capital accretion was primarily driven by state-led equity injections, solid organic capital generation through profit retention, and the strategic issuance of capital instruments.

Following the announcement by Chinese regulatory authorities in September 2024 to inject equity capital into the six largest state-owned commercial banks, in June 2025, BOCOM completed a private placement of 14.1 billion A-shares to the Ministry of Finance of the People's Republic of China, China National Tobacco Corporation, and China Shuangwei Investment Co., Ltd., successfully raising RMB120 billion in core capital.

Moreover, the Bank has demonstrated robust access to onshore capital markets. It issued undated Additional Tier 1 capital bonds of RMB40 billion in May 2026, and Tier 2 capital bonds in April 2026 of RMB40 billion. The issuance of these capital instruments helps replenish its Tier 1 and total capital adequacy ratio.

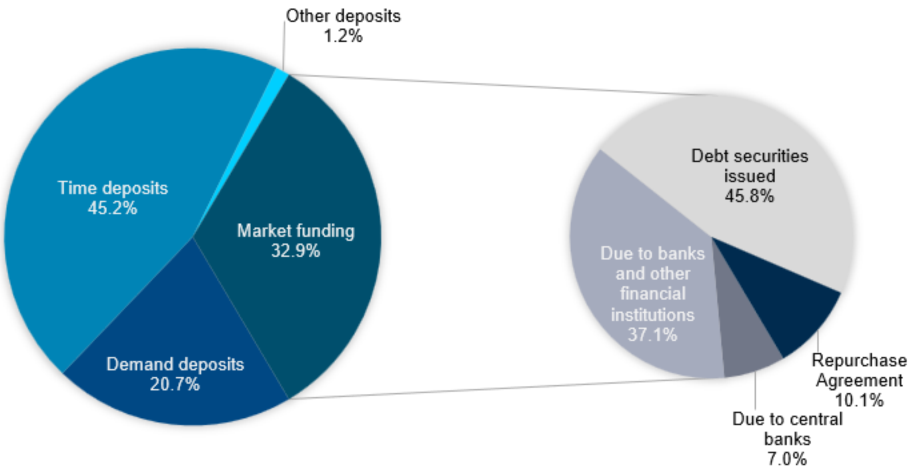
Meanwhile, as one of the domestically designated Global Systemically Important Banks (G-SIB), BOCOM issued TLAC bonds to help it gradually meet regulatory TLAC compliance requirements and strengthen its riskresilience capabilities. In 2025, the Bank issued three tranches of TLAC bonds, totaling RMB100 billion.

We expect the Bank to maintain its current level of capital adequacy over the next 12 to 18 months, given its stable profitability, good access to fresh capital, and the capital injection by the Chinese government.

Moderate funding structure with relatively high reliance on market funding

BOCOM's funding structure is supported by its large and high-quality deposit base in China. As of 31 December 2025, the Bank's total deposits amounted to RMB9.3 trillion, representing approximately 2.8% of China's total deposits. The deposits are dominated by time deposits and the proportion has increased during the past three years. The Bank has lowered posted deposit interest rates for 6 times since 2023 to control funding costs. Meanwhile, the Bank has a relatively high reliance on market funding relative to other larger state-owned commercial bank peers, with the market funding/total asset ratio remains at around 29.4% at end-2025. Its market funding is primarily fundings due to banks and other financial institutions, bond issued, and interbank borrowed funds. The large deposit is credit positive to the Bank as it provides a more stable and lower cost source of funds relative to market funding.

Exhibit 3. BOCOM's funding structure as of 31 December 2025



Source: Bank information, CCXAP research

Sufficient and high-quality liquidity resources

BOCOM has sufficient liquidity resources. Its liquidity ratio (measured by high liquid assets/total assets) was 34.8% as of end-2025. The Bank's liquidity resources were considered high-quality and reliable because most of them were liquid bond investments (around 70%) and excess fund placed in central banks (around 13%). The vast majority of BOCOM's bond portfolio comprises debts of government and policy banks, with very good liquidity in the market. The Banks also maintained adequate, liquidity coverage ratio of 123.0% as of 31 December 2025. BOCOM's status as a leading state-owned bank in China further solidifies its liquidity profile, positioning it as a net lender in the domestic interbank market and a key stabilizer of systemic liquidity during periods of market stress.

External Support

Very high likelihood to receive government support in times of need

We expect that BOCOM is very likely to receive strong government support in times of need. This expectation incorporates the following considerations: (1) BOCOM’s systemic importance and deeply entrenched market position within China’s financial framework; and (2) the central government’s dominant majority stake in the bank, which exceeded 48.1% as of 31 December 2025, primarily held through the MoF and the National Social Security Fund (NSSF). Given its status as one of the leading state-owned commercial banks, a D-SIB, and a designated G-SIB, any failure by BOCOM to honor its obligations would trigger severe repercussions across the domestic and international financial systems. Failure of the Bank may raise questions about the creditability of the Chinese government and the stability of China’s banking system, which will produce high reputation risk. The Bank's track record of receiving state-led capital injections, including the core capital replenishment completed in 2025, further reinforces this support mechanism. We believe that BOCOM's high strategic importance and the corresponding government backing will remain intact over the medium to long term.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Banks (November 2021).

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