China Banks

LGFV: cash flow improved; default risk alleviated

Equities

China

Banks, Ex-S&L

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LGFV debt problem: concerns lowered after central government-led bailout

Since 2023, our research (2023/2024 publications) has provided timely and in-depth tracking of Local Government Financing Vehicle (LGFV) developments. We use differentiated research that focuses on consistent monitoring, utilisation of Wind datasets and conducting debt-at-risk (DAR) analysis focused on micro-level interest servicing capacity. Following the central government bailout in Q424, LGFV default risk has fallen significantly as reflected by sharply compressed LGFV credit spreads. In this report, we reassess whether LGFVs have genuinely improved across debt growth, corporate arrears repayments, interest-servicing capacity and profitability. We believe LGFV developments have important implications for China's macroeconomic outlook, and the fiscal health of local governments and their largest creditors, the banks.

Improving debt servicing capability, but profitability remains weak

Based on a Wind sample of 2,468 LGFVs, we estimate the following. 1) **LGFV debt growth decelerating:** total interest-bearing debt reached Rmb68trn by H125 with YoY growth slowing to c3% (vs. the 10% 10-year CAGR). Adjusting for the sample changes as LGFVs were added/exited, total debt may have declined by 6.5%. 2) **Account payables growth moderated,** partly reflecting accelerating corporate arrears repayments. 3) **Interest-servicing capability improved:** net operating cash flow (OCF) turned positive in 2024, the first time in a decade, and expanded a notable Rmb1.3trn in H125. Our DAR analysis indicates LGFVs unable to cover interest payments with OCF fell from a peak of 84% in 2022 to 68% in H125, with notable improvements in the property and transportation sectors, and particularly lower-tier LGFVs at the county/prefecture levels; 21 out of 31 provinces showed a DAR improvement despite divergence. 4) **LGFVs remained largely unprofitable** with H125 annualised ROE at 0.15% and ROA at 0.36%, far below A-share corporates (ROE: 8.74%; ROA: 1.30%), highlighting the challenge of achieving market transformation.

Banks favour LGFV exposure with improved risk/reward

We estimate LGFV-related bank lending grew c6% YoY from H124 to H125, outpacing total LGFV debt growth of c3%, primarily driven by replacing higher cost, non-standard debt and public bonds. We estimate bank loans as of H125 account for c72% of total LGFV debt, up from 68% in H124. LGFV loan pricing turned out to be relatively resilient. Our checks with regional banks indicate the LGFV loan rate could be 3.5-5.5%, down from 4-6% at end-2024, but above the average new corporate loan yield (3.1% in March 2026). Coupled with a substantial decline in default risk, LGFV lending now appears to offer compelling risk-adjusted returns, supporting banks' net profit and ROE. This has incentivised banks to expand credit allocation to the sector, reinforcing their critical role in the restructuring cycle.

Implications for our coverage banks: beneficiaries and laggards; downgrade BOCD to Neutral and upgrade Huishang to Neutral

Within our coverage, we estimate regional banks have the highest LGFV exposure at an average 24.4% of loans, followed by large banks at 18.3% and Joint Stock Banks (JSBs) at 15.4%. Among large banks, Bank of China (BOC) stands out for its relatively high LGFV exposure, and combined with a resilient overseas business, we reiterate our Buy rating for BOC-H. Among small banks, Bank of Chengdu remains the most exposed to LGFVs (45.6% of loans by H125), but management has guided reducing LGFV concentration to rebalance credit growth in other key areas, likely at the cost of near-term profitability. Coupled with the recent earnings misses in 2025 & Q126, we downgrade from Buy to Neutral. We upgrade Huishang Bank from Sell to Neutral on stronger asset quality and stabilising operations.

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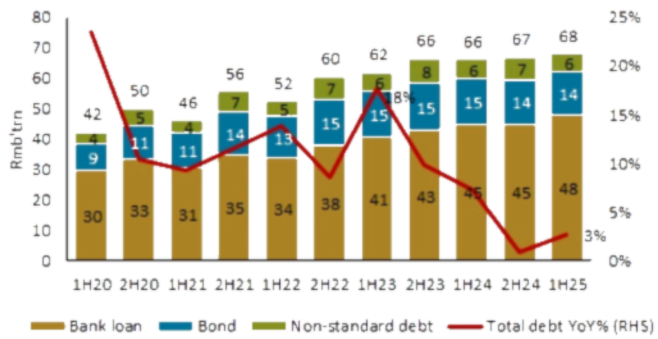
OUR THESIS IN PICTURES

AAA-rated LGFV bond spread (bp)	2018	2019	2020	2021	2022	2023	2024	2025
Jilin	175	210	306	342	483	130	93	56
Liaoning	208	223	361	367	436	216	113	n a
Heilongjiang	187	113	153	101	190	72	78	n a
Xinjiang	154	145	126	97	164	81	70	44
Ningxia	52	56	51	257	443	224	146	104
Gansu	348	232	241	213	345	174	119	63
Shaanxi	175	157	205	211	320	136	117	70
Guangdong	142	106	102	75	104	65	74	43
Guangxi	222	251	297	302	322	197	118	79
Hunan	216	207	252	232	304	160	99	45
Hubei	203	172	193	169	223	114	77	46
Henan	191	156	193	207	317	142	102	57
Shanxi	237	167	210	149	221	87	76	43
Hebei	171	171	152	118	193	104	77	62
Inner Mongolia	135	72	111	89	160	78	n a	n a
Tianjin	154	144	241	341	441	100	98	52
Beijing	125	82	84	58	98	51	52	31
Yunnan	297	275	314	320	501	289	151	89
Guizhou	180	156	223	245	400	224	165	112
Sichuan	285	257	308	272	343	157	106	61
Chongqing	205	191	233	235	311	151	91	50
Fujian	101	84	88	64	109	58	66	39
Jiangxi	264	218	266	259	323	167	95	54
Zhejiang	140	122	132	98	146	68	64	36
Anhui	196	141	178	143	221	105	86	47
Jiangsu	161	124	137	96	162	76	68	39
Shandong	169	151	162	131	210	118	88	54
Shanghai	95	67	60	47	87	52	58	29
China (average)	181	154	188	171	247	113	85	49

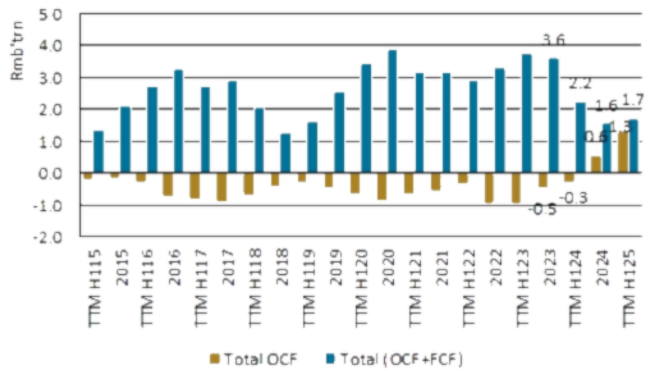
LGFV bond credit spreads narrowed significantly by almost 200bp on average for AAA-rated bonds across provinces between 2022 and 2025, indicating alleviated default risk.

LGFV total debt growth continued to decelerate

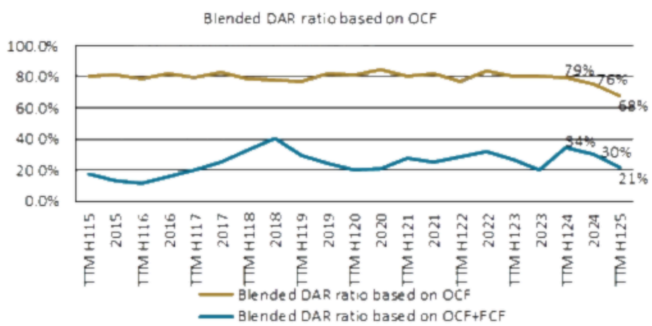


We estimate LGFV total debt growth slowed to 3% YoY in H125, while bank loans expanded 6% YoY, accounting for 71% of total debt (vs. 63% in 2022) and continuing to take share from bonds and non-standard debt.

OCF shifted to net inflow since H224; FCF inflow shrank



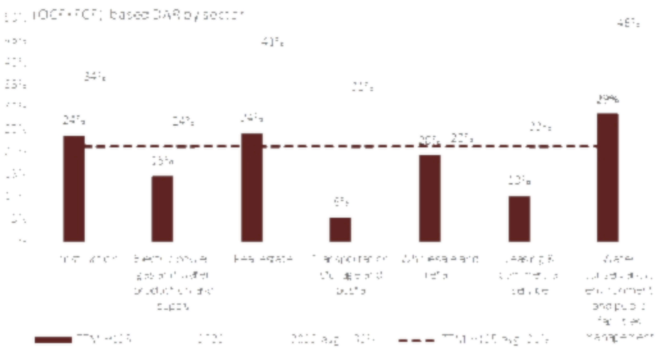
With proceeds from debt swaps, the sum of LGFV operating cash flow turned to net inflow from 2024, the first time in a decade, and expanded further in H125; financing cash inflow contracted.



With improving cash flow, the percentage of LGFVs unable to cover interest payments using OCF fell from a peak of 84% in 2022 to 68% in H125; (OCF + FCF)-based DAR ratio also recorded a notable improvement to 21% in H125.

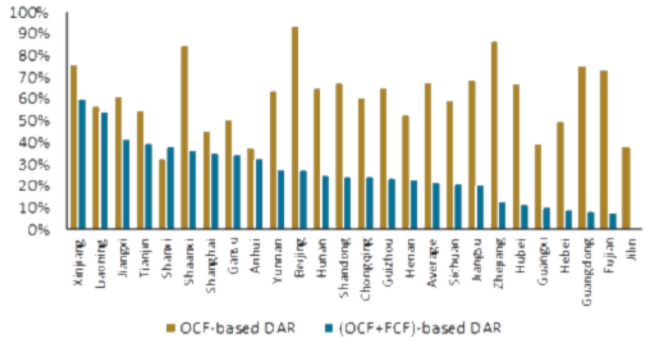
Sources for exhibits above: Company data, UBS Research

OUR THESIS IN PICTURES



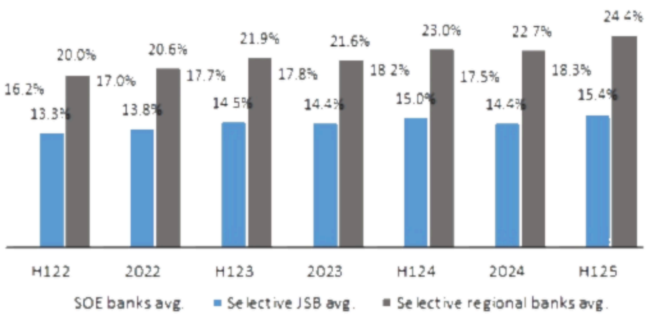
By sector, our DAR analysis indicates LGFV interest coverage capability using OCF + FCF recorded the most significant improvements in the property, transportation and water conservancy, environment and public facilities management sectors.

H125 DAR by region (with more than 5 local LGFVs)



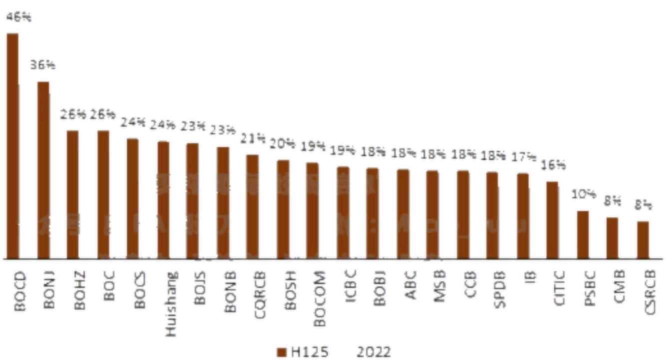
By province and excluding those with less than five local LGFVs, we flag that Xinjiang, Liaoning, Jiangxi, Tianjin and Shanxi appear to be relatively weak in interest coverage capability using OCF + FCF.

LGFV loan to total loan by bank type



Banks' LGFV exposure continued to rise amid the regulator's drive for financial institutions to participate more in LGFV debt resolution. We estimate regional banks have the largest exposure, followed by SOE banks and JSBs.

H125 vs 2022 LGFV loan as % of total loan



Given lower default risk and better yields, banks now favour LGFV exposure along with improved risk/reward. By individual bank, we estimate Bank of Chengdu (BOCD) and Bank of Nanjing (BONJ) had the largest LGFV exposure by H125; Changshu Rural Commercial Bank and China Merchants Bank had the least among our coverage.

Sources for exhibits above: Company data, UBS Research

China government further leverages up

"Recognized" implicit debt swapped into explicit

By end-2025, China's explicit government debt expanded to Rmb96.1trn (+17% YoY, 68.5% of 2025 GDP), comprising of Rmb41.2trn central government explicit debt (+19.2% YoY) and Rmb54.8trn local government explicit debt (+15.4% YoY). The total amount of "recognized" local government implicit debt at end-2025 was undisclosed, which likely recorded a notable downward trend given the ongoing "implicit-to-explicit debt swap" introduced since Q424. In fact, back in 2024, the "recognized" local government implicit debt already slipped by 26.6% YoY to Rmb10.5trn at end-2024, compared with a 15.2%/ 16.6% YoY increase in central/ local government explicit debt that year.

"Unrecognized" implicit debt up to Rmb70-80trn

Concurrently, China also maintains a sizable amount of "unrecognized" implicit debt, which we believe include a broader scope of LGFV debt, as well as corporate arrears. Despite the lack of disclosure, we estimate these two may carry a much larger debt scale of cRmb70-80trn in total. Excluding some overlaps, China's broad government debt scale, both recognized and unrecognized, could be as much as Rmb175trn, or 125% of GDP, and on par with major economies (G20 countries avg.at 118%; G7 countries at 123% based on IMF report in Apr 2025). Admittedly, the authorities have already paid attention to the debt issue beyond the recognized implicit debt, urging corporate arrears settlement, and for the first time including "LGFV operating debt" into debt management scope in the Dec 2025 Central Economic Work Conference. However, MOF & PBOC's identified LGFV operating debt at a scale of Rmb14.8trn by 2024 still falls far below market estimates.

"Unrecognized" implicit debt seek market solution

For the sizable "unrecognized" implicit debt, we expect limited fiscal support from local governments given their serious debt burden. In fact, local government debt-to-local financial resources ratio, which measures the local government debt against the revenue received, continues to deteriorate. By 2024, only one region (Shanghai) among the 31 provinces/autonomous regions/ municipalities reported a ratio below the 100% international alert threshold (Figure 4). The continuous slip in land sales acts as one of the key drags. As such, "market solutions" are considered more viable, likely through debt restructuring with extended maturity and lower interest rates.

Figure 1: Breakdown of China's recognized government debt

Recognized government debt (Rmb'trn)	2023	2024	2025	2024 vs 2023 YoY	2025 vs 2024 YoY
Central government explicit debt	30.0	34.6	41.2	15.2%	19.2%
Local government explicit debt	40.7	47.5	54.8	16.6%	15.4%
Total explicit government debt	**70.8**	**82.1**	**96.1**	**16.0%**	**17.0%**
Local government implicit debt	14.3	10.5	Undisclosed (UBSe: 7-7.5)	-26.6%	UBSe: -28% ~-30%
Total recognized government debt	**85.1**	**92.6**	**Undisclosed (UBSe: 103-104)**	**8.9%**	**UBSe: 11%-12%**

Source: Wind, UBS estimates

Figure 2: We expect broad debt-to-GDP ratio in China could be up to 125% in 2025, in line with major economies

Items		Rmb'trn
Explicit government debt (disclosed)	a	96.1
Local government implicit debt (UBSe)	b	7-7.5
Recognized government debt (UBSe)	**c=a+b**	**103-104**
LGFV debt (UBSe)	d	67.8
Corporate arrears (UBSe)	e	3.9
Unrecognized government debt (UBSe)	**f=d+e**	**71.7**
Broad government obligations (UBSe)	**g=c+f**	**175**
2025 GDP (disclosed)	h	140.19
Explicit government debt-to-GDP ratio (disclosed)	**i=a/h**	**68.5%**
Broad government debt-to-GDP ratio (UBSe)	**j=g/h**	**125%**

Source: Wind, UBS estimates

Figure 3: An increasing number of local governments report a debt-to-GDP ratio above the alert line of 60%

Local government debt-to GDP ratio	2018	2019	2020	2021	2022	2023	2024	2025
Qinghai	63%	70%	80%	81%	83%	87%	90%	93%
Guizhou	56%	56%	60%	60%	61%	70%	77%	82%
Tianjin	30%	35%	45%	49%	52%	65%	74%	--
Jilin	32%	36%	42%	47%	56%	64%	70%	--
Gansu	30%	34%	42%	46%	53%	58%	64%	--
Hainan	39%	41%	46%	46%	50%	54%	63%	--
Heilongjiang	31%	34%	41%	43%	45%	52%	58%	
Xinjiang	30%	33%	43%	39%	42%	46%	53%	--
Yunnan	33%	34%	38%	39%	41%	47%	52%	--
Inner Mongolia	40%	42%	47%	41%	39%	44%	46%	50%
Guangxi	28%	30%	34%	34%	37%	42%	46%	50%
Ningxia	39%	43%	46%	41%	39%	42%	45%	52%
Chongqing	21%	24%	27%	31%	35%	40%	45%	--
Tibet	9%	14%	19%	23%	25%	27%	44%	49%
Jiangxi	21%	22%	28%	30%	34%	39%	44%	48%
Hebei	22%	25%	30%	32%	36%	40%	44%	--
Liaoning	36%	35%	36%	36%	37%	41%	43%	--
Hunan	24%	26%	28%	30%	32%	36%	40%	44%
Sichuan	21%	22%	26%	28%	31%	33%	37%	41%
Anhui	20%	21%	25%	27%	29%	33%	37%	40%
Shaanxi	24%	25%	28%	29%	30%	32%	35%	39%
Henan	13%	15%	18%	21%	26%	30%	34%	37%
Shandong	17%	18%	32%	24%	26%	29%	33%	37%
Shanxi	18%	20%	25%	23%	25%	27%	32%	--
Hubei	16%	18%	23%	24%	26%	28%	31%	35%
Zhejiang	18%	19%	22%	23%	25%	27%	30%	34%
Fujian	15%	17%	19%	20%	23%	25%	28%	--
Beijing	12%	13%	16%	20%	23%	24%	25%	--
Guangdong	10%	11%	13%	16%	19%	22%	25%	28%
Jiangsu	14%	15%	16%	16%	17%	17%	21%	--
Shanghai	13%	14%	17%	16%	18%	17%	17%	18%
China local gov't debt	**20%**	**21%**	**25%**	**26%**	**28%**	**31%**	**35%**	**39%**
China total government debt (local+central)	**36%**	**38%**	**45%**	**46%**	**49%**	**55%**	**61%**	**69%**

Source: Wind, UBS. *Local government debt refers to officially recognized local government debt (excluding LGFV operating debt). A debt-to-GDP ratio exceeding 60% is often considered a warning line, marked in light red, which is an EU reference value under the Maastricht/EDP framework.

Figure 4: An increasing number of local governments report a local debt-to- comprehensive fiscal capacity ratio above the alert line of 100%

Local government debt-to-local financial resources	2018	2019	2020	2021	2022	2023	2024	2025
Qinghai	107%	113%	127%	137%	722%	735%	818%	924%
Guizhou	297%	146%	148%	154%	305%	333%	376%	387%
Tianjin	105%	109%	172%	186%	377%	414%	468%	--
Jilin	82%	90%	97%	113%	134%	144%	160%	--
Gansu	66%	77%	86%	107%	166%	498%	565%	--
Hainan	85%	88%	96%	110%	120%	133%	162%	--
Heilongjiang	87%	96%	103%	121%	493%	546%	581%	--
Xinjiang	77%	84%	108%	114%	360%	359%	367%	--
Yunnan	96%	96%	120%	132%	149%	173%	189%	--
Inner Mongolia	129%	136%	150%	154%	285%	301%	325%	379%
Guangxi	78%	87%	84%	101%	117%	149%	164%	185%
Ningxia	98%	115%	118%	118%	135%	371%	398%	461%
Chongqing	62%	72%	80%	181%	125%	131%	159%	--
Tibet	7%	83%	119%	183%	256%	241%	378%	409%
Jiangxi	56%	58%	71%	84%	204%	238%	296%	353%
Hebei	75%	83%	99%	121%	149%	282%	333%	--
Liaoning	121%	112%	110%	118%	158%	394%	402%	--
Hunan	89%	91%	111%	189%	240%	289%	388%	428%
Sichuan	66%	69%	75%	87%	96%	103%	124%	143%
Anhui	220%	249%	271%	163%	194%	240%	295%	349%
Shaanxi	95%	95%	102%	106%	179%	195%	141%	316%
Henan	55%	62%	62%	96%	231%	271%	327%	398%
Shandong	67%	70%	118%	93%	115%	137%	160%	191%
Shanxi	53%	56%	70%	78%	91%	166%	199%	--
Hubei	60%	69%	174%	87%	222%	230%	263%	297%
Zhejiang	58%	58%	61%	70%	83%	96%	133%	162%
Fujian	74%	83%	87%	103%	124%	144%	170%	--
Beijing	48%	54%	67%	89%	116%	136%	121%	--
Guangdong	43%	48%	53%	67%	91%	117%	156%	178%
Jiangsu	61%	63%	64%	62%	73%	81%	108%	--
Shanghai	45%	50%	54%	54%	72%	74%	78%	89%
China total	**70%**	**76%**	**91%**	**100%**	**122%**	**138%**	**165%**	**194%**

Source: Wind, UBS. *Local government debt refers to officially recognized local government debt (excluding LGFV operating debt). Local comprehensive fiscal capacity= local government fiscal revenue + transfer payment + income from government funds + operating income of SOE funds. A ratio exceeding 100% is often considered a warning sign in domestic regulatory practice, marked in light red. We further highlight whose with ratio above 300% in dark red.

Figure 5: Land sales revenue by local governments continued to decline nationwide

Land sales revenue(Rmb' bn)	2018	2019	2020	2021	2022	2023	2024	2025	2024 vs 2023 YoY	2025 vs 2024 YoY	2021-2024 3-year CAGR
Qinghai	9.4	19.8	14.5	17.1	6.8	4.5	3.3	2.2	-27.3%	-33.3%	-42.2%
Guizhou	125.0	162.2	186.1	210.7	195.0	192.2	174.9	100.8	-9.0%	-42.4%	-6.0%
Tianjin	98.6	136.1	86.1	108.7	37.9	53.7	59.3	--	10.3%	--	-18.3%
Jilin	45.2	59.3	94.6	84.4	28.9	49.6	40.8	--	-17.8%	--	-21.5%
Gansu	29.2	39.2	52.5	44.5	21.5	17.6	16.8	--	-4.6%	--	-27.7%
Hainan	30.2	36.8	44.3	30.5	40.0	39.1	33.7	--	-13.8%	--	3.5%
Heilongjiang	23.5	28.7	39.6	30.4	10.8	9.2	10.8	10.8	17.3%	0.3%	-29.3%
Xinjiang	47.7	39.0	52.7	50.0	34.7	33.1	36.3	--	9.8%	--	-10.1%
Yunnan	117.3	146.4	139.6	90.7	44.6	44.7	51.7	--	15.5%	--	-17.1%
Inner Mongolia	45.4	52.1	57.1	42.0	32.3	37.5	41.2	--	9.8%	--	-0.6%
Guangxi	121.8	156.7	182.7	157.7	94.8	70.7	54.5	36.9	-23.0%	-32.3%	-29.8%
Ningxia	8.2	8.3	12.2	12.8	10.3	7.9	8.3	8.6	6.0%	3.1%	-13.2%
Chongqing	110.8	89.5	220.2	204.4	156.2	169.5	152.8	--	-9.9%	--	-9.2%
Tibet	8.2	6.8	8.1	4.1	3.0	3.1	3.4	--	8.5%	--	-6.2%
Jiangxi	229.4	229.4	196.0	267.4	196.0	176.8	138.7	--	-21.5%	--	-19.6%
Hebei	234.9	271.8	276.7	245.4	172.0	191.2	158.4	--	-17.2%	--	-13.6%
Liaoning	79.3	108.2	121.1	105.1	42.6	35.6	40.7	--	14.3%	--	-27.1%
Hunan	189.3	265.6	319.5	360.5	295.3	228.3	145.9	116.1	-36.1%	-20.4%	-26.0%
Sichuan	343.7	377.7	436.7	444.1	428.1	395.2	318.3	314.7	-19.5%	-1.1%	-10.5%
Anhui	275.7	311.3	5.4	324.3	282.2	208.5	173.5	130.5	-16.8%	-24.8%	-18.8%
Shaanxi	106.6	142.7	174.6	191.3	159.2	156.8	146.7	85.6	-6.4%	-41.7%	-8.5%
Henan	331.0	351.5	327.3	297.0	193.1	161.8	147.8	106.9	-8.6%	-27.7%	-20.7%
Shandong	521.2	608.6	665.0	713.7	539.6	415.6	397.3	325.8	-4.4%	-18.0%	-17.7%
Shanxi	72.8	105.7	102.5	82.5	50.4	45.7	38.8	--	-15.1%	--	-22.2%
Hubei	316.3	310.4	290.8	344.5	245.3	230.7	243.1	231.3	5.4%	-4.9%	-11.0%
Zhejiang	774.9	826.0	1,027.4	1,037.2	833.6	647.0	472.1	434.6	-27.0%	-7.9%	-23.1%
Fujian	242.3	242.6	327.9	319.3	249.3	192.1	178.8	--	-6.9%	--	-17.6%
Beijing	182.0	203.4	218.8	254.2	210.1	194.7	192.1	--	-1.4%	--	-8.9%
Guangdong	537.5	552.9	803.2	786.1	466.6	381.8	269.9	241.6	-29.3%	-10.5%	-30.0%
Jiangsu	747.9	856.4	1,061.8	1,278.9	1,069.0	948.2	727.0	--	-23.3%	--	-17.2%
Shanghai	192.8	224.9	298.4	352.8	379.9	319.7	297.6	280.4	-6.9%	-5.8%	-5.5%
China total	**6,291.1**	**7,067.9**	**8,215.9**	**8,497.8**	**6,532.6**	**5,663.4**	**4,774.2**	--	**-15.7%**	--	**-17.5%**

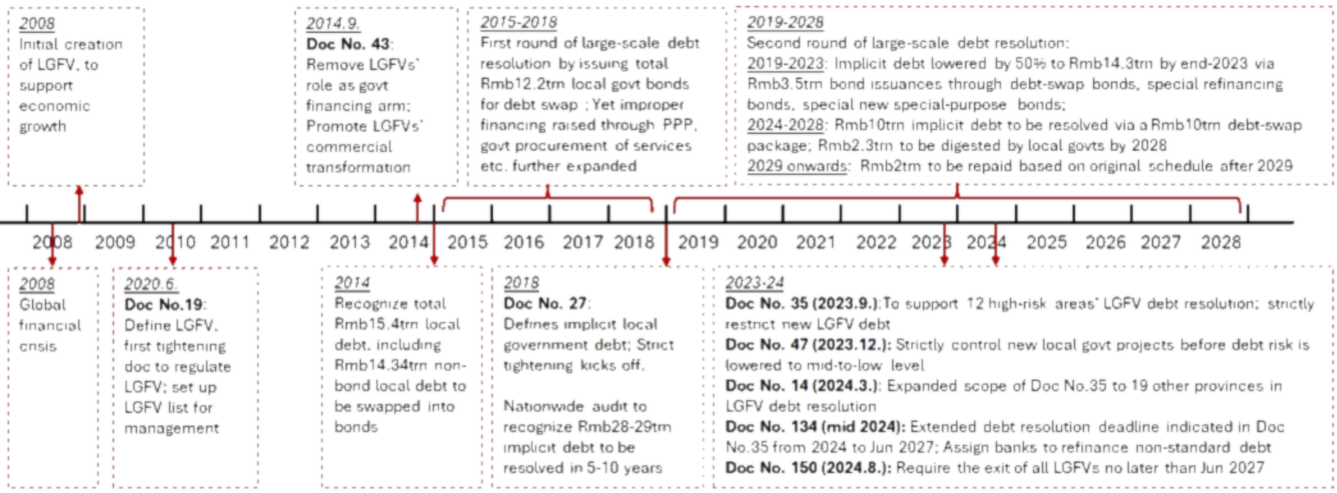
Source: Wind, UBS estimates. Year 2025 data for some provinces remain unavailable as of Apr 15, 2026.

Clean-up of "recognized" implicit debt progresses steadily

China has undergone two major rounds of implicit debt resolution

The first round commenced in 2015, involving the issuance of Rmb12.2trn in local government bonds to refinance Rmb14.3trn non-bond local debt recognized at end-2014. Later as local implicit debt grew rapidly, the central government in 2018 instructed local authorities to initiate a second round of large-scale debt resolution aimed at addressing all recognized implicit debt within a 5-10 year timeframe. In Q424, Finance Minister Mr. Lan Fo'an revealed that the implicit debt had been reduced to Rmb14.3trn by end-2023, representing a 50% decrease from the 2018 figure, which further declined to Rmb10.5trn by end-2024.

Figure 6: Timeline of key LGFV developments and regulation changes



Source: Public news, PBOC, MOF, UBS

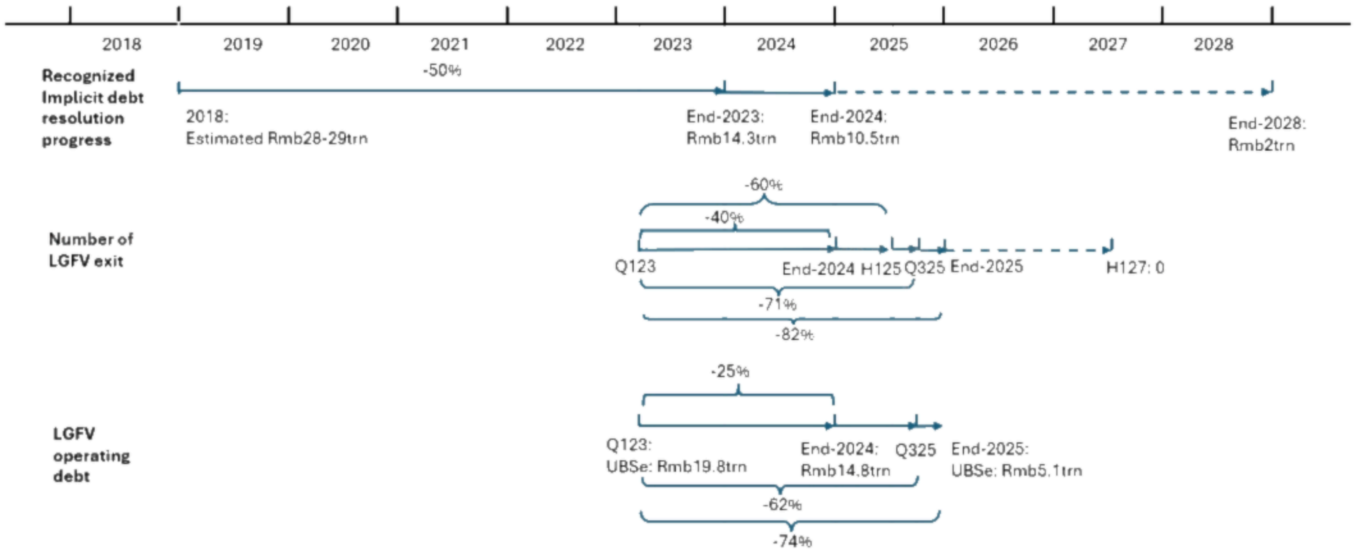
Rmb10trn debt-swap package in Q424 as a key measure this round

In Q424, the government arranged **1)** a one-time increase of **Rmb6trn** in local government debt limit: or Rmb2trn annually across 3 years (2024-2026) through special refinancing bonds issuance to swap implicit debt; **2) Rmb4trn** new special bonds quota allocated: or Rmb800bn annually across 5 years (2024-2028) through new local government special bonds issuance; **3) Rmb4.3trn** through self-resolution: Local governments are required to self-resolve Rmb2.3trn of implicit debt by 2028. Post-2029, **Rmb2trn** of implicit debt related to shantytown redevelopment shall be repaid under existing contracts. In practice, we note an even larger debt quota has been directed to local debt resolution. For example, in addition to the Rmb2.8trn originally planned debt swap quota for 2025, in Oct 2025, MOF announced an additional Rmb300bn local debt quota to support the resolution of exiting local government project debt and reduce corporate arrears - making full-year debt swap quota at least Rmb3.1trn.

Steady progress so far

So far, key progresses in addressing local debt problem include **1) Reduction of implicit debt**: In Sept 2025, Finance Minister Mr. Lan Fo'an disclosed that the local government implicit debt had decreased to Rmb10.5trn by end-2024 (vs Rmb14.3trn at end-2023). **2) Lower interest rates:** The newly issued local government bonds for debt swap could effectively lower average interest rates by more than 2.5ppt. **3) LGFV exit**: As of 2025, 82% of the LGFVs had discontinued their function as financing platforms for local governments compared with Q123, according to PBOC governor [Mr. Pan Gongsheng](). Document No.150 issued in August 2025 mandated the exit of local government financing platforms by June 2027. **4) Reduction of LGFV operating debt** by 74% as of 2025. **5) Settling corporate arrears** is also identified as a key priority.

Figure 7: Progress of the current round of local government debt resolution



Source: Public news, PBOC, MOF, UBS

Sizable "unrecognized" implicit debt - the next focus

We published a series of reports on LGFV debt - the "unrecognized" implicit debt based on Wind data: Since 2023, we have been monitoring the developments of LGFV debt problem using data sourced from the Wind database, with two in-depth reports published in May 2023 and Sept 2024, followed by timely First Reads (here and here). Wind follows such screening process to be included in its "LGFV" cohort: (1) manual assessment of LGFV-specific characteristics based on core business activities, ownership structure, construction agreements, and the fact that "real" LGFVs are limited to refinancing maturing bonds rather than issuing new ones; (2) incorporation of market opinion to verify discrepancies; (3) selective inclusion or exclusion of specific entities identified individually. We highlight that Wind sample could deviate from government's LGFV list given its own judgment.

Revisiting LGFV debt after government's debt resolution efforts: In our prior report, we estimated total LGFV debt at cRmb65trn as of H124, much higher than the government's recognized implicit debt of Rmb10.5trn in 2024. The discrepancy, arguably being unrecognized LGFV debt, may still be ultimately assumed as governments' obligations, in our opinion. As such, despite notable advancements in addressing "recognized" implicit debt since Q424, questions remain regarding how the scale of "unrecognized" LGFV debt has changed? Additionally, how has the interest-servicing capability of LGFVs evolved? We believe now is an opportune moment to provide an update assessing whether any improvement is evident within the LGFV cohort.

Authorities expand the scope of debt resolution to include "LGFVs' operating debt": In fact, authorities are increasingly focusing on mitigating the risks of part of the unrecognized implicit debt. The Central Economic Work Conference ("CEWC", Dec 10-11, 2025), while still advocating proactive measures to resolve local government debt issues and enforce strict controls on new implicit debt, it **for the first time included LGFVs' operating debt in the scope of debt resolution work**. Subsequently on Dec 22, 2025, state media Shanghai Securities News wrote in an article to highlight this expanded scope, noting the move from addressing implicit debt to the larger and more complex operating debt signals a new phase in local debt management. The scale of government's identified LGFV operating debt, however, appears relatively low (Rmb14.8trn by 2024) and is continuously decreasing along with the LGFV exit.

1. Sample change in line with LGFV exit trend

No. of LGFVs with available financials decreased from H124 to H125: In H125, Wind classified 3,565 entities with bond-issuance records as "LGFVs" (H125 sample), in which 2,468 had available financial data. Comparably, in H124, Wind identified 3,565 entities as LGFVs (H124 sample), with 2,711 reporting financials. Comparing the H125 with H124 samples, we note the number of LGFVs with available financials declined from 2,711 in H124 to 2,468 in H125. This net decrease reflects three key changes: 210+ entities exited the Wind LGFV sample, 240+ remained in the sample but ceased reporting financials, and 220+ entities were newly added to the LGFV sample.

Change of Wind sample aligns with government observation of LGFV exit: The change of Wind LGFV sample is likely driven by a combination of factors: (1) mergers and restructuring among LGFVs; (2) certain LGFVs transitioning into true market-based entities. Notably, Wind summarized that 298 LGFVs that self-reported their transformation into market-based entities between H224 and H125; and (3) LGFVs that fully repaid their outstanding bonds could subsequently cease reporting financials. This trend aligns with the Finance Ministry's observation of LGFV exit. However, we expect the number of LGFV reduction captured by Wind to be much smaller than government metrics, potentially due to (1) the exclusion of non-bond-issuing LGFVs from Wind's dataset; (2) inclusion of certain LGFVs that, according to Wind assessment, continue to perform government-related duties despite having self-claimed a transition to "market-based" entities.

Figure 8: Change of Wind sample of LGFVs, and LGFVs that report financials

	1H24 sample	1H25 sample	Note
No. of LGFVs identified by Wind	3565	3675	262 exited LGFV list. 372 new entities added to LGFV list
No. of LGFVs with reported financials	2711	2468	217 exited LGFV list. 247 still in the list but no longer report financials. 221 newly added to the list

Source: Wind, UBS estimates

Figure 9: Breakdown of H125 2,648 LGFV sample by sector, administrative level, region (by number)

By sector	No. of LGFVs	%
Construction industry	1,984	80.4%
Electric power, gas and water production and supply industry	71	2.9%
Real estate industry	32	1.3%
Transportation industry	48	1.9%
Wholesale and retail industry	80	3.2%
Leasing & commercial service	170	6.9%
Water conservancy, environment and public facilities management industry	50	2.0%
Others	33	1.3%
Total	**2,468**	**100.0%**

By administrative level	No. of LGFVs	%
State-level new area	36	1.5%
Province-level	57	2.3%
Prefecture-level	775	31.4%
County-level	1,597	64.7%
Others	3	0.1%
Total	**2,468**	**100.0%**

By region	No. of LGFVs	%
Jiangsu	511	20.7%
Zhejiang	384	15.6%
Sichuan	179	7.3%
Shandong	201	8.1%
Hunan	151	6.1%
Jiangxi	115	4.7%
Hubei	112	4.5%
Chongqing	100	4.1%
Anhui	133	5.4%
Henan	97	3.9%
Shaanxi	54	2.2%
Tianjin	28	1.1%
Guangxi	46	1.9%
Guizhou	71	2.9%
Fujian	55	2.2%
Guangdong	51	2.1%
Hebei	25	1.0%
Jilin	9	0.4%
Xinjiang	21	0.9%
Yunnan	38	1.5%
Shanghai	25	1.0%
Gansu	9	0.4%
Beijing	19	0.8%
Shanxi	9	0.4%
Tibet	4	0.2%
Liaoning	8	0.3%
Heilongjiang	3	0.1%
Ningxia	4	0.2%
Qinghai	2	0.1%
Inner Mongolia	3	0.1%
Hainan	1	0.0%
Total	**2,468**	**100.0%**

Source: Wind, UBS estimates

2. LGFV debt growth further decelerates

Sample debt still rose modestly on time series; but fell 5-7% adjusted for sample change: If we look at the H125 sample alone, the total interest-bearing debt actually continued to edge up, albeit at a low-to-mid single-digit growth. However, we think a more appropriate approach is to compare the data across the two samples to account for the impact of LGFV exit, as sample composition changes. As such, if we vertically compare the data of the same period for H125 sample and H124 sample, we note a 6.5% reduction in total debt as of H124.

Figure 10: Simple sum of interest-bearing debt of LGFVs in Wind sample

Simple sum of interest-bearing debt	Number of LGFVs	H124 (Rmb'trn)	H125 (Rmb'trn)	H125 vs H124 YoY
H125 sample	2,468	47.76	49.85	4.4%
H124 sample	2,711	51.07	--	--
H125 sample vs H124 sample difference	--	-6.5%	--	--

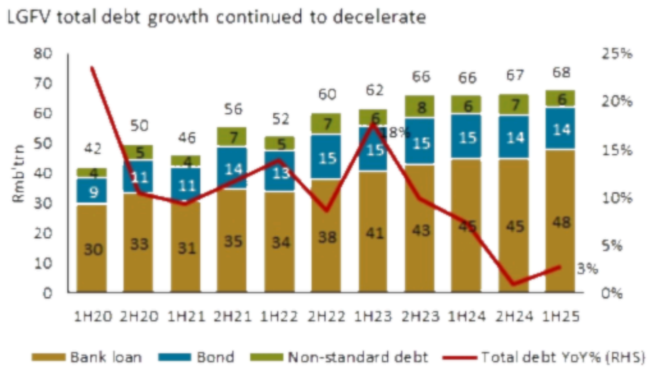
Source: Wind, UBS estimates

Estimated total LGFV debt growth decelerated to historical low of c3% YoY by H125: We estimate total LGFV debt scale as of H125 at c.Rmb68trn (c48.5% of annual GDP) adjusted from Wind's 2,468 LGFVs with available financials (H125 sample). The combined debt of these 2,468 LGFVs amounted to Rmb50trn, calculated as the simple sum of bank loan balances, bond payables, and non-standard debt ("NSD", including long-term payables, other current liabilities and leasing liabilities, primarily representing leasing, trust, investment plans and other NSD exposure). Adjustments are made for LGFVs without a record of bond issuance as well as those that had outstanding bonds prior to 2018 but subsequently ceased reporting financials - likely due to converting bonds into loans. We eventually arrive at a total LGFV debt figure of Rmb68trn by H125, reflecting continuous increase but at a notably slower growth (+3% YoY) vs +7% YoY by

H124 and 5-year CAGR of 10%.

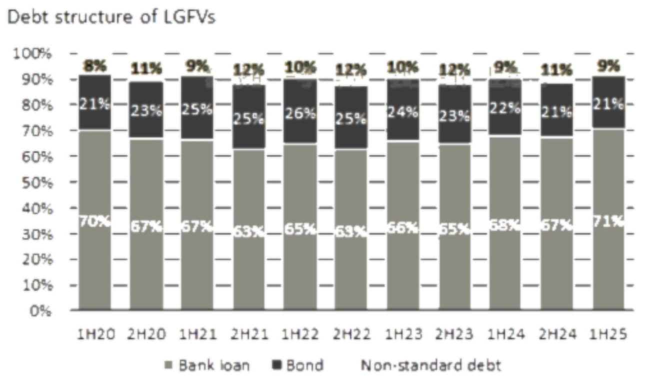
Bank loan share increased to 71% of LGFV debt, replacing bonds and NSD: By our estimates, the primary components of LGFV debt as of H125 included Rmb47.8trn bank loans (up 6% YoY, accounting for 71% of total debt), Rmb13.2trn bonds (down 6.7% YoY, 19% of total debt), Rmb5.8trn non-standardized debt exposure (down 6.8% YoY, 9% of total debt). As LGFV bond issuance remains strict (negative net issuance since Q423) and high-cost non-standard debt under tight control, bank loans have been quickly seizing the share since 2023. This is in line with the regulators' call to adopt financial means in debt resolution.

Figure 11: LGFV total debt continued to rise, albeit at slower pace



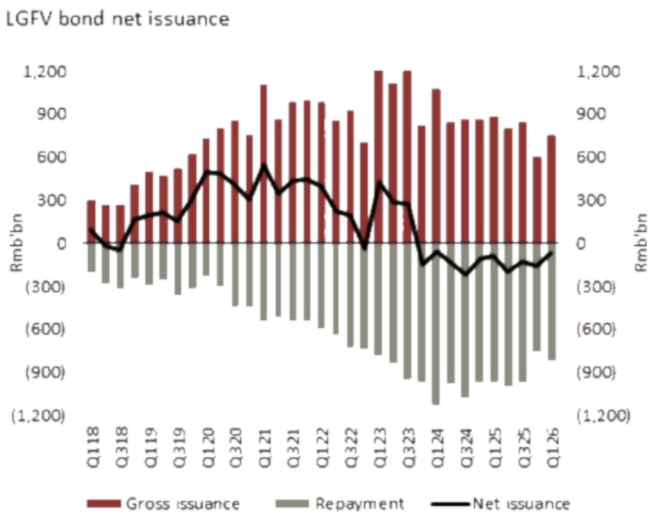
Source: Wind, UBS estimates. Total debt is adjusted on top of the sample sum of bank loan, bonds payable, and non-standard debt (long-term payables and leasing liabilities). We adjust for (1) LGFVs without bond issuance record (ie, 3,899-3,675); as well as (2) those that once had bonds outstanding but then no longer report financials since 2018, likely swapped the bonds into loans (3675-407) and arrive at the 3,492 LGFVs. Adjusted total debt is by proportionally scaling up the bank loans and non-standard debt (3,492 vs 2,468), while adding the same bonds payable of the 2,468 bond-issuing entities.

Figure 12: Bank loan keeps seizing share from bonds and NSD since 2023



Source: Wind, UBS estimates

Figure 13: LGFV net issuance by quarter stayed negative since Q423



Source: Wind, UBS, as of Q126

Figure 14: LGFV bond spread kept narrowing since 2023

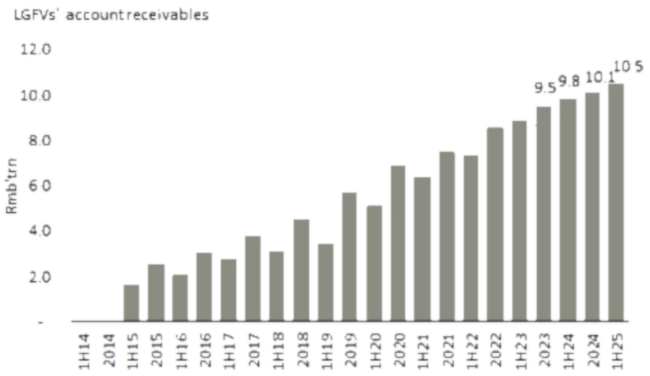
AAA-rated LGFV bond spread	2018	2019	2020	2021	2022	2023	2024	2025
Jilin	175	210	306	342	483	130	93	56
Liaoning	208	223	361	367	436	216	113	n a
Heilongjiang	187	113	153	101	190	72	78	n a
Xinjiang	154	145	126	97	164	81	70	44
Ningxia	52	56	51	257	443	224	146	104
Gansu	348	232	241	213	345	174	119	63
Shaanxi	175	157	205	211	320	136	117	70
Guangdong	142	106	102	75	104	65	74	43
Guangxi	222	251	297	302	322	197	118	79
Hunan	216	207	252	232	304	160	99	45
Hubei	203	172	193	169	223	114	77	46
Henan	191	156	193	207	317	142	102	57
Shanxi	237	167	210	149	221	87	76	43
Hebei	171	171	152	118	193	104	77	62
Inner Mongolia	135	72	111	89	160	78	n a	n a
Tianjin	154	144	241	341	441	100	98	52
Beijing	125	82	84	58	98	51	52	31
Yunnan	297	275	314	320	501	289	151	89
Guizhou	180	156	223	245	400	224	165	112
Sichuan	285	257	308	272	343	157	106	61
Chongqing	205	191	233	235	311	151	91	50
Fujian	101	84	88	64	109	58	66	39
Jiangxi	264	218	266	259	323	167	95	54
Zhejiang	140	122	132	88	146	68	64	36
Anhui	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	47
Jiangsu	161	124	137	96	162	76	68	39
Shandong	169	151	162	131	210	118	88	54
Shanghai	95	67	60	47	87	52	58	29
China (average)	**181**	**154**	**188**	**171**	**247**	**113**	**85**	**49**

Source: Wind, UBS. The spread is the average credit spread of AAA-rated LGFV bonds in specific provinces, weighted by outstanding volume, with the benchmark being China Development Bank bonds of matching maturities; this single value is derived by scientifically weighting spreads across different tenors

3. LGFV receivables and payables see moderated growth

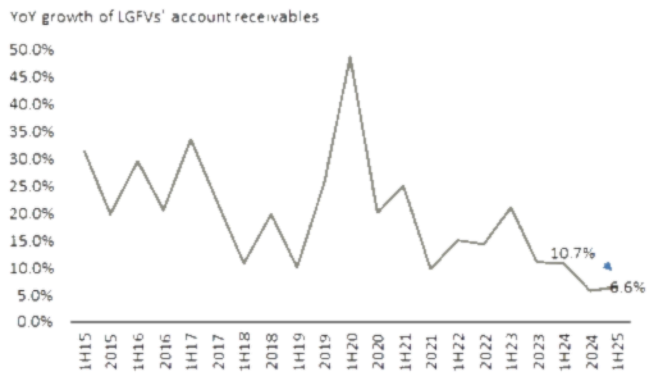
LGFVs' receivables and payables further accumulated, yet at a slower pace: LGFVs' account receivables are mostly against local governments, who tend to carry out social projects on behalf of local governments. Meanwhile, LGFVs' account payables are mainly against corporates, whose change could partially reflect the progress of local governments' repayment of corporate arrears. Although policies require local governments to speed up repaying corporate arrears, we calculate the sum of our LGFV sample's AP slightly accumulated to Rmb2.7trn by H125 from Rmb2.5trn in H124, as old arrears take time to repay and new receivables are still being generated through ongoing projects and delayed settlement. Adjusting for LGFVs without reported financials, we estimate total LGFV payables may have increased to c.Rmb3.9trn by H125. Yet, we also observe a slowdown in AP growth, from 14.5% YoY in H124 to 10.4% YoY in H125. This implies that new arrears are being better controlled and repayments are improving at the margin, even if they have not yet exceeded new additions. This pattern could reflect a transition stage from rapid accumulation to slower accumulation, before a possible shift to an actual decline in receivables.

Figure 15: Estimated total LGFVs' account receivables may continue to climb to Rmb10.5trn ...



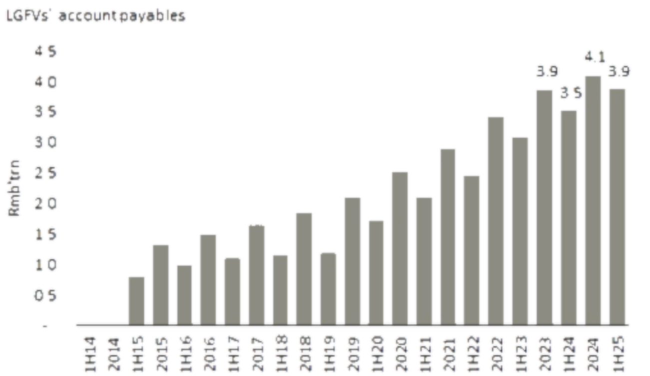
Source: Wind, UBS estimates

Figure 16: ...while the YoY growth continues to slow since 2023



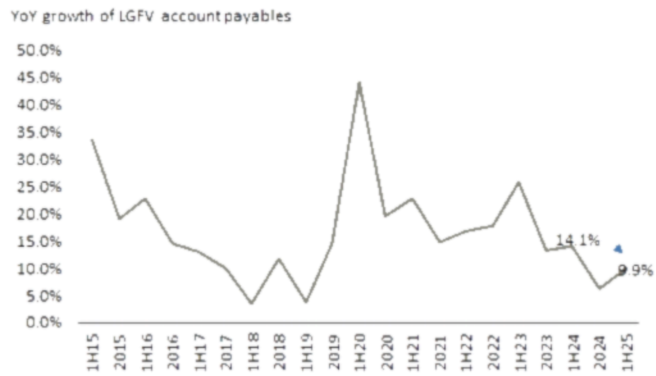
Source: Wind, UBS estimates

Figure 17: Estimated total LGFVs' account payables may continue to increase to Rmb4trn...



Source: Wind, UBS estimates

Figure 18: ...while the YoY growth also continues to slow since 2023



Source: Wind, UBS estimates

4. LGFVs remain largely unprofitable

LGFVs' ROA and ROE levels stay way lower than operational corporates: We estimate that the average annualized ROA and ROE of LGFVs continued to deteriorate, reaching 0.15% and 0.36% in H125, respectively, compared to 0.18% and 0.44% in H124. These figures remain significantly below the ROA at 1.30% and ROE at 8.74% reported by A-share listed corporates in H125.

LGFVs identifying themselves as "market-based" entities still face declining ROA and ROE: Since 2023, an increasing number of LGFVs have announced to transform into "market-based entities", particularly bond-issuing LGFVs. This shift is primarily driven by restrictions placed on "real" LGFVs, which are limited to refinancing maturing bonds only, and prohibited from issuing new debt. However, after reviewing the financials of 789 LGFVs that claim to be market-based entities since 2023, we observe their ROA and ROE have further declined to 0.22%/0.44% in H125, still well below the metrics of a typical operating corporate.

Figure 19: Comparison of LGFV and A-share corporates' ROA and ROE

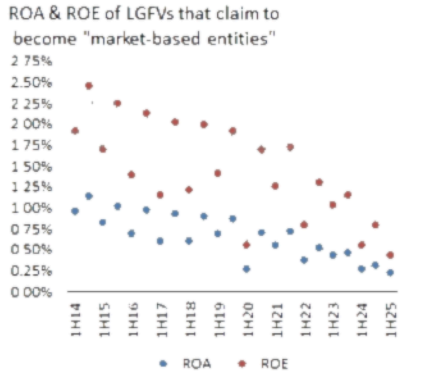
Annualized	1H24	2024	1H25
LGFVs (Rmb'bn)			
Total asset	122,599	126,501	127,836
Total equity	45,309	46,638	45,926
Net profit	111	409	93
Net profit to ordinary shareholders	101	382	82
Average ROA (annualized)	0.18%	0.33%	0.15%
Average ROE (annualized)	0.44%	0.81%	0.36%
A-share corporates			
Average ROA (annualized)	1.37%	1.21%	1.30%
Average ROE (annualized)	9.02%	7.97%	8.74%

Source: Wind, UBS estimates

Figure 20: An increasing number of LGFVs claim to become "market-based" entities since 2023

Source: Wind, UBS estimates

Figure 21: For 789 LGFVs that claim to be "market-based" entities, ROA and ROE remain way below corporates and continue edging down



Source: Wind, UBS estimates

5. LGFVs' debt-servicing capacity notably improved

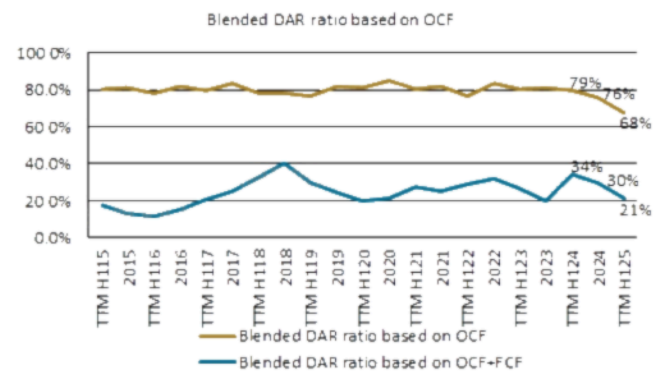
Methodology re-cap: We re-apply DAR analysis on LGFVs to assess their latest interest coverage ability. Similarly, we first calculate each entity's interest coverage by operating cash flow (OCF) and then the sum of OCF and financing cash flow (FCF), and we deem those failing to cover interest payments as poorly-performing companies. We then add up the debt of poorly-performing LGFVs and use the sum divided by total debt to arrive at the DAR ratio, or a proxy of cash flow NPL. We no longer use EBITDA and P&L-based interest expense in the calculation as: 1) EBITDA incorporates revenue and expense accruals that do not reflect actual cash flows; 2) LGFVs' P&L-based interest expense is biased downward for lack of adjustment of capitalised interest payments given limited disclosure.

OCF inflow and interest cuts led to improving LGFV DAR since H224: LGFVs' OCF-based DAR ratio used to be broadly stable at c.80% in the past decade through H124 (peaking at 85% in H220 and 84% in H222). This indicated that c80% of LGFVs were unable to cover interest payments using their generated OCFs. However, we note that this consistent pattern shifted starting from 2024, with OCF-based DAR improving notably to 76%/68% in 2024/TTM H125, driven by both OCF inflows and lower interest liabilities. A similar trend of improvement can be observed when incorporating FCF, even though the FCF inflow shrank to a 5-year low since 2020.

- **OCF turned into net inflow since 2024**: We calculate the simple sum of our LGFV sample's OCF net inflow recorded a positive Rmb561.6bn/ Rmb1.3trn in 2024/ TTM H125, reversing the consistent net outflow trend in the past decade. Further, the proportion of LGFVs with negative OCFs dropped by more than 10ppt YoY from 46%/48% in 2023/TTM H124 to 37%/36% in 2024/ TTM H125. We believe the major help comes from the higher cash receipts from local governments after the implementation of the debt swap program.
- **FCF inflow declined on increasing debt repayment:** Since 2023,LGFV bond issuance started to be restricted to refinancing only. Shadow banking financing remains under control. Bank loans, however, have contributed to majority of LGFVs' FCF inflow, as banks are encouraged to extend loans to swap LGFVs' high-cost maturing debt. Even so, with increasing amount of debt coming due and repaid, total FCF inflow dropped notably from Rmb3.7trn/ Rmb3.6trn in TTM H123/ TTM H124 to Rmb1.7trn in TTM H125.

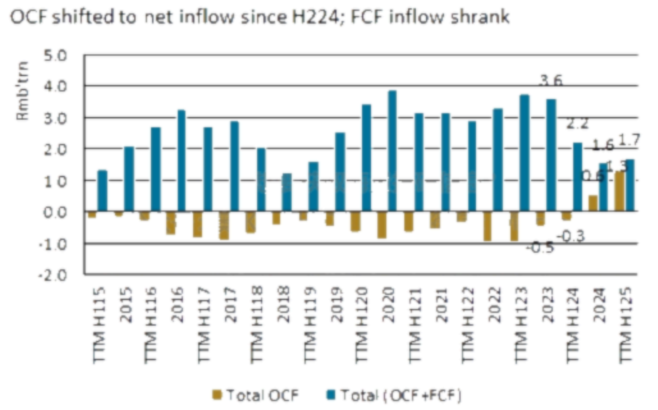
- **Blended interest rate on a cash basis declined slightly**. We calculate the interest rate declined by 30bps from 5.2% in TTM H124 to 4.9% in TTM H125, likely helped by the swap of NSD into lower-cost bank loans as well as the lower bond-issuance costs as default risk alleviates.

Figure 22: DAR ratio based on OCF and (OCF+FCF) both improved notably since H224



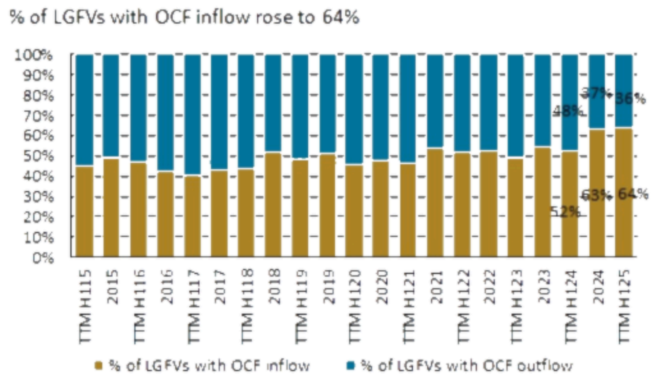
Source: Wind, UBS estimates

Figure 23: Sum of OCF turned into net inflow since 2024; FCF inflow shrank



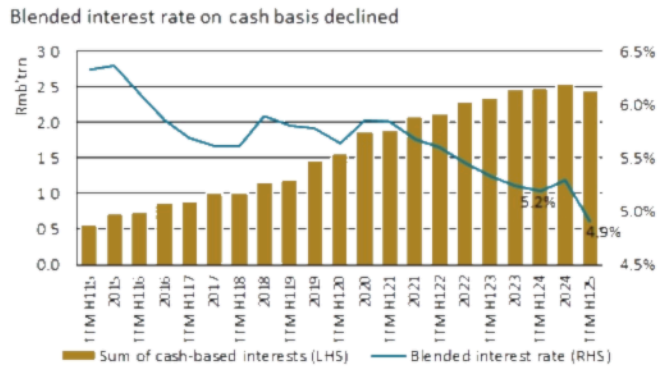
Source: Wind, UBS estimates

Figure 24: Percentage of LGFVs with OCF inflow rose to 64% in TTM H125 (vs 52% in TTM H124)



Source: Wind, UBS

Figure 25: Blended interest rate on cash basis continued to decline (-30bps YoY in TTM H125)



Source: Wind, US

Figure 26: Breakdown of key FCF changes

Rmb'trn	TTM H118	2018	TTM H119	2019	TTM H120	2020	TTM H121	2021	TTM H122	2022	TTM H123	2023	TTM H124	2024	TTM H125	2024 vs 2023	TTM H125 vs TTM H124
FCF inflow																Change	Change
Cash obtained from bank loans	7.6	7.1	8.1	10.3	12.8	14.1	15.1	15.2	16.2	16.4	18.6	19.5	19.5	19.6	20.4	0.1	0.9
Cash obtained from bond issuance	1.2	1.3	1.6	1.0	0.9	1.3	1.1	0.9	0.8	1.0	1.2	1.0	0.9	0.8	0.8	(0.2)	(0.1)
Cash obtained from other financing activities	3.1	3.1	3.3	3.7	4.1	4.5	4.9	5.0	5.4	5.1	5.1	5.2	5.3	5.5	5.7	0.3	0.5
FCF outflow																Change	Change
Cash outflow for debt repayment	(5.8)	(6.5)	(7.1)	(7.9)	(9.0)	(10.5)	(11.8)	(12.2)	(13.2)	(13.5)	(14.7)	(16.1)	(17.2)	(18.3)	(19.1)	(2.1)	(1.9)
Interest payment	(1.3)	(1.5)	(1.6)	(1.8)	(1.9)	(2.1)	(2.2)	(2.3)	(2.4)	(2.4)	(2.5)	(2.5)	(2.6)	(2.6)	(2.5)	(0.0)	0.1
Other financing cash outflow	(1.3)	(1.5)	(1.7)	(2.0)	(2.3)	(2.4)	(2.6)	(2.8)	(3.0)	(3.0)	(3.2)	(3.3)	(3.4)	(3.4)	(3.6)	(0.1)	(0.2)
Net FCF inflow	3.5	2.0	2.7	3.3	4.6	4.7	4.3	3.8	3.7	3.7	4.3	3.8	2.5	1.6	1.7	(2.2)	(0.8)

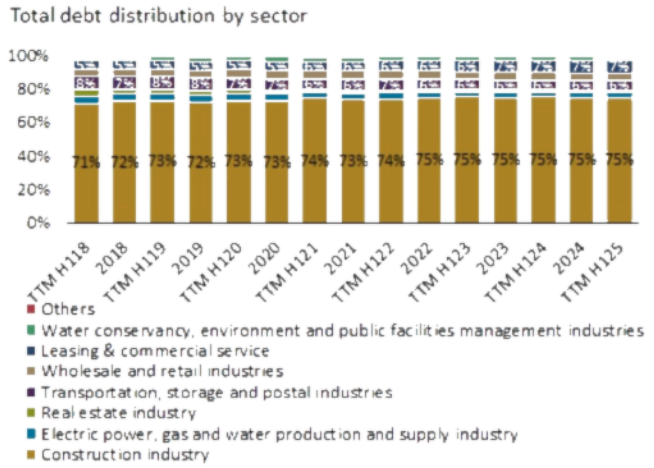
Source: Wind, UBS estimates

(1) DAR analysis by sector

Construction sector still dominates LGFV landscape, accounting for 80% of firms and 75% of total debt: Based on Wind's classification of LGFVs by sectors as of H125, 80% of entities fall under construction sector, which also holds the largest share of total debt at 75%. This proportion has remained largely stable over time. Consequently, significant improvements in the asset quality of the construction sector would have a noticeable impact on the overall DAR ratio. Sectoral distribution has remained broadly consistent between H124 and H125.

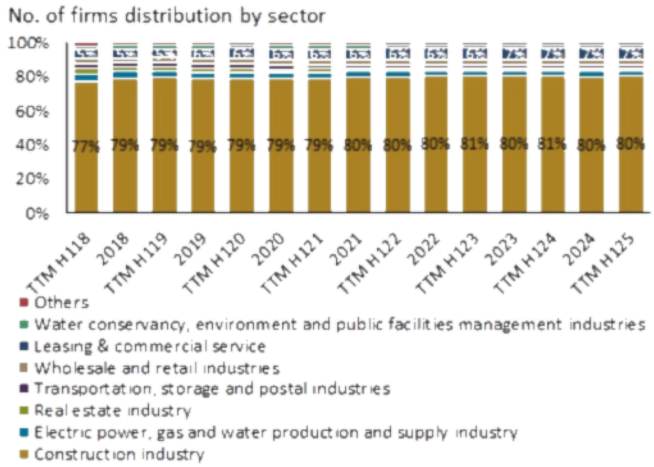
Interest coverage by OCF has improved across all sectors since 2024: Our analysis indicates a general upward trend in interest coverage by OCF across all sectors, albeit with varying degrees of improvement. In TTM H125, the construction and wholesale and retail sectors achieved the most substantial YoY progress, with DAR declining by over 10ppt. Additionally, sectors such as transportation, electric power/gas/water production and supply, and real estate experienced DAR reductions of at least 5ppt. If comparing across all sectors, real estate remains the weakest in terms of OCF-based interest coverage in TTM H125, with an OCF-based DAR of 85%. However, increased financing allocated to the real estate sector has helped lower its (OCF+FCF)-based DAR to 24%, just slightly worse than the average. The water conservancy, environment, and public facilities management sector presents the second-highest concern, with second-highest OCF-based DAR of 77% and the highest (OCF+FCF)-based DAR at 29%.

Figure 27: Debt distribution across different sectors stood stable



Source: Wind, UBS estimates

Figure 28: No. of firm distribution across different sectors also stood stable



Source: Wind, UBS estimates

Figure 29: Improving OCF and (OCF+FCF)-based DAR

OCF-based DAR by sector	TTM H118	2018	TTM H119	2019	TTM H120	2020	TTM H121	2021	TTM H122	2022	TTM H123	2023	TTM H124	2024	TTM H125	8-yr avg.
Construction industry	81%	82%	78%	83%	81%	86%	81%	85%	78%	84%	81%	83%	79%	76%	67%	80%
Electric power gas and water production and supply industry	71%	73%	76%	77%	71%	77%	81%	82%	64%	75%	76%	72%	76%	61%	71%	74%
Real estate industry	68%	82%	74%	76%	73%	81%	76%	77%	87%	94%	89%	94%	90%	86%	85%	82%
Transportation storage and postal industries	68%	49%	68%	72%	86%	85%	71%	61%	62%	74%	67%	53%	78%	70%	69%	69%
Wholesale and retail industries	77%	74%	88%	89%	88%	88%	83%	79%	78%	87%	78%	78%	76%	70%	66%	80%
Leasing & commercial service	84%	78%	77%	87%	82%	85%	79%	83%	81%	88%	86%	82%	84%	83%	67%	82%
Water conservancy environment and public facilities management industries	57%	69%	70%	74%	73%	87%	74%	78%	66%	75%	76%	77%	79%	83%	77%	74%
Others	72%	50%	61%	78%	64%	62%	74%	71%	75%	76%	86%	80%	71%	73%	68%	71%
Blended DAR ratio based on OCF	**78%**	**78%**	**77%**	**82%**	**81%**	**85%**	**80%**	**82%**	**77%**	**84%**	**81%**	**81%**	**79%**	**76%**	**68%**	**79%**

(OCF+FCF)-based DAR by sector	TTM H118	2018	TTM H119	2019	TTM H120	2020	TTM H121	2021	TTM H122	2022	TTM H123	2023	TTM H124	2024	TTM H125	8-yr avg.
Construction industry	36%	44%	32%	28%	22%	23%	28%	27%	30%	34%	28%	22%	36%	33%	24%	30%
Electric power gas and water production and supply industry	35%	33%	23%	11%	12%	15%	29%	39%	35%	24%	27%	24%	29%	22%	15%	25%
Real estate industry	15%	38%	37%	39%	34%	34%	28%	23%	28%	41%	35%	21%	21%	21%	24%	29%
Transportation. storage and postal industries	9%	9%	7%	5%	10%	10%	10%	11%	17%	31%	25%	7%	34%	6%	6%	13%
Wholesale and retail industries	54%	49%	26%	14%	8%	27%	49%	18%	38%	20%	22%	9%	28%	29%	20%	27%
Leasing & commercial service	24%	37%	24%	13%	15%	14%	18%	21%	23%	22%	22%	16%	25%	17%	10%	20%
Water conservancy environment and public facilities management industries	27%	42%	46%	23%	20%	17%	24%	11%	19%	46%	21%	17%	37%	36%	29%	28%
Others	11%	25%	25%	24%	7%	23%	24%	11%	10%	20%	19%	10%	27%	19%	15%	18%
Blended DAR ratio based on OCF+FCF	**33%**	**40%**	**30%**	**24%**	**20%**	**21%**	**28%**	**25%**	**29%**	**32%**	**27%**	**20%**	**34%**	**30%**	**21%**	**28%**

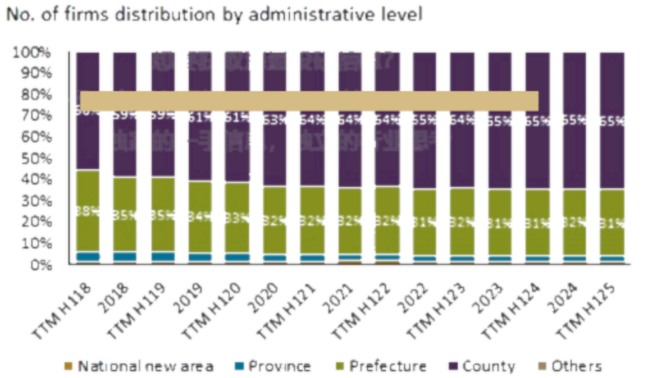
Source. Wind, UBS

(2) DAR analysis by administrative level

LGFVs at lower admin levels dominate LGFV cohort, with an expanding debt proportion: Since 2018, LGFVs at lower administrative levels, specifically county and prefecture levels, have consistently represented 94-97% of the total cohort. While the number of county-level entities has increased, prefecture-level entities have declined. Despite this shift, the aggregate debt of these two levels has grown significantly, rising from approximately 80% in 2018 to 92% as of H125. This growth is primarily driven by the expansion of county-level debt, which has outpaced the reduction in debt at the prefecture and provincial levels.

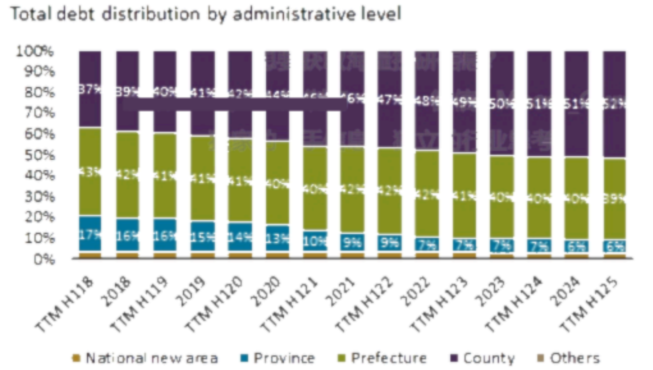
Lower-level LGFVs demonstrated the most notable improvement in interest-servicing capability: The OCF-based DAR, which evaluates interest coverage through OCF, improved across all administrative levels. TTM H125 DAR declined to 64-70%, compared to 70-82% during the TTM H124 period. Prefecture-level LGFVs exhibited the most notable progress, with OCF-based DAR improving by 15ppt, from 80% to 65%. Conversely, (OCF+FCF)-based DAR showed mixed trends. While lower-level LGFVs experienced substantial YoY improvement of up to 19ppt, LGFVs at the national new area level reported a decline in DAR by 10ppt. This divergence suggests that additional resources may have been allocated to lower-level LGFVs, which historically carried higher risk profiles.

Figure 30: LGFVs at lower administrative level account for a consistent 94-97% of LGFV cohort



Source: Wind, UBS estimates

Figure 31: LGFVs at lower administrative level carry expanded debt over time, along with shrinking debt proportion from provincial LGFVs



Source: Wind, UBS estimates

Figure 32: DAR ratio by administrative level based on OCF vs (OCF+FCF)

By administrative level	TTM H118	2018	TTM H119	2019	TTM H120	2020	TTM H121	2021	TTM H122	2022	TTM H123	2023	TTM H124	2024	TTM H125	8-yr avg.
National new area	97%	90%	96%	88%	88%	81%	77%	80%	76%	86%	82%	81%	82%	80%	69%	83%
Province	80%	73%	79%	77%	85%	86%	76%	77%	67%	65%	61%	63%	70%	78%	64%	73%
Prefecture	77%	78%	77%	83%	79%	83%	82%	82%	77%	87%	81%	80%	80%	75%	65%	79%
County	78%	78%	74%	83%	81%	87%	80%	84%	79%	84%	83%	84%	80%	76%	70%	80%
Blended DAR ratio based on OCF	**78%**	**78%**	**77%**	**82%**	**81%**	**85%**	**80%**	**82%**	**77%**	**84%**	**81%**	**81%**	**79%**	**76%**	**68%**	**79%**

By administrative level	TTM H118	2018	TTM H119	2019	TTM H120	2020	TTM H121	2021	TTM H122	2022	TTM H123	2023	TTM H124	2024	TTM H125	8-yr avg.
National new area	35%	49%	35%	7%	4%	15%	7%	17%	28%	25%	13%	9%	22%	38%	32%	23%
Province	21%	17%	13%	10%	14%	13%	34%	19%	21%	10%	9%	5%	20%	10%	17%	16%
Prefecture	32%	41%	30%	26%	19%	22%	28%	25%	28%	34%	30%	23%	40%	31%	21%	29%
County	39%	49%	35%	29%	24%	23%	28%	27%	31%	34%	27%	20%	32%	31%	22%	30%
Blended DAR ratio based on OCF+FCF	**33%**	**40%**	**30%**	**24%**	**20%**	**21%**	**28%**	**25%**	**29%**	**32%**	**27%**	**20%**	**34%**	**30%**	**21%**	**28%**

Source: Wind, UBS estimates

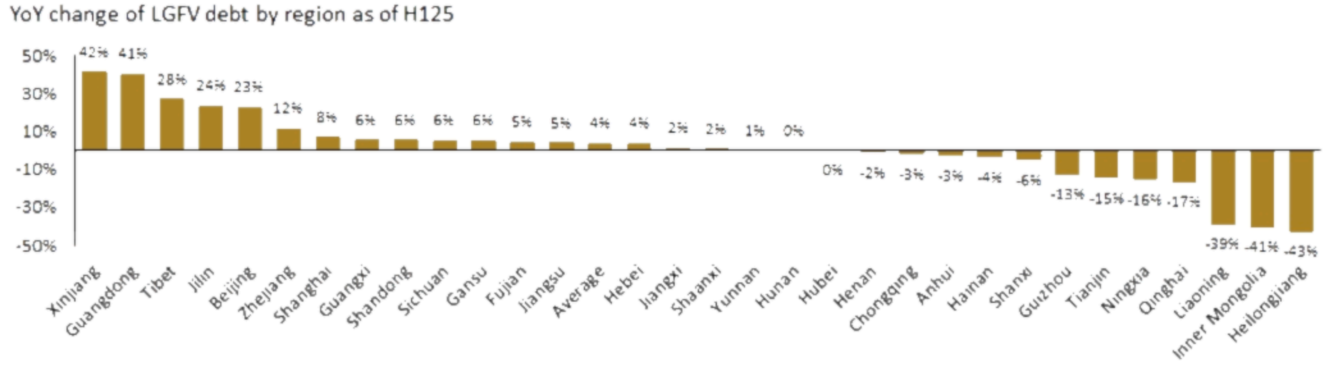
(3) DAR analysis by region

YoY change of total debt varies greatly across different regions: While total LGFV debt growth grew 4% YoY by H125, different provinces/autonomous regions/ municipalities demonstrate large variations. Xinjiang and Guangdong saw total LGFV debt up 40%+ by our calculation, while Inner Mongolia and Heilongjiang saw deepest YoY LGFV debt decline of 40%+. Majority of the regions (18 out of 31) recorded mild total debt change YoY within +/-6% YoY.

Jiangsu, Zhejiang and Sichuan remain the Top 3 provinces by total debt. Jiangsu remains the Top 1 province with most total debt proportion, accounting for 22% of total LGFV sample debt by H125, with the share relatively stable over the years. Zhejiang ranks No. 2 in terms of total LGFV debt share. However, it continues to leverage up in recent years, whose debt proportion rose to 20% by H125 (vs 18% by H124 and 9-10% in 2018). Sichuan and Shandong came in third and fourth places in terms of total debt share. Together, the four provinces account for 54% of total LGFV debt by H125.

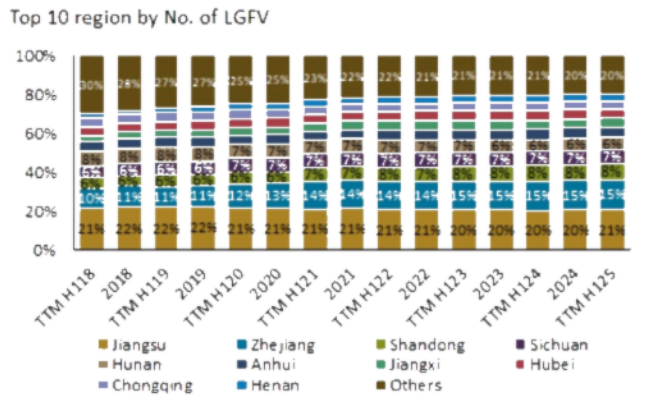
Most regions posted YoY improvements in DAR ratios: Based on data from Wind, among all 31 provinces/autonomous regions/municipalities in Chinese mainland, 21 of them saw steady or improving interest coverage capability based on OCF by H125 or 20 if based on OCF+FCF, likely helped by debt-swap proceeds. If comparing across regions, we highlight Jiangsu and Zhejiang, who carry higher-than average LGFV number and a poorer-than-average OCF-based DAR ratio. However, these two provinces do demonstrate strong capability to draw financing as their (OCF+FCF)-based DAR stood below national average. Regions worth more attention in terms of (OCF+FCF)-based DAR include Jiangxi, Anhui and Hunan.

Figure 33: YoY change of LGFV total debt varies greatly across provinces



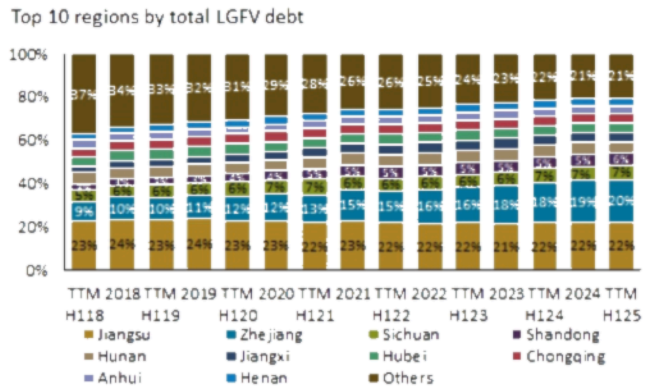
Source: Wind, UBS estimates

Figure 34: Jiangsu continued to lead in the number of LGFVs as of H125, with Zhejiang following and showing a growing proportion



Source: Wind, UBS estimates

Figure 35: Zhejiang's total LGFV debt share increases at the fastest pace, nearing Jiangsu, which holds the highest overall LGFV debt



Source: Wind, UBS estimates

Figure 36: OCF-based DAR ratio across 31 provinces/autonomous regions/municipalities in mainland China

OCF-based DAR	No. of LGFVs	TTM H118	2018	TTM H119	2019	TTM H120	2020	TTM H121	2021	TTM H122	2022	TTM H123	2023	TTM H124	2024	TTM H125
Anhui	133	80%	80%	81%	82%	82%	76%	78%	86%	81%	86%	80%	78%	73%	55%	38%
Beijing	19	98%	93%	85%	70%	91%	85%	90%	88%	38%	29%	84%	84%	85%	84%	94%
Fujian	55	79%	90%	86%	93%	87%	90%	84%	86%	91%	91%	87%	74%	66%	63%	73%
Gansu	9	97%	87%	60%	83%	72%	86%	79%	87%	87%	74%	74%	79%	64%	53%	51%
Guangdong	51	16%	22%	88%	82%	86%	88%	91%	80%	74%	58%	83%	58%	62%	79%	75%
Guangxi	46	73%	70%	61%	84%	81%	86%	82%	45%	28%	87%	78%	43%	90%	43%	40%
Guizhou	71	72%	87%	82%	82%	69%	72%	70%	83%	62%	69%	66%	70%	63%	72%	65%
Hainan	1	-	0%	0%	-	-	0%	100%	100%	100%	0%	0%	100%	100%	100%	100%
Hebei	25	84%	29%	31%	70%	75%	69%	66%	85%	91%	90%	92%	92%	73%	70%	49%
Henan	97	61%	69%	67%	76%	77%	82%	73%	73%	77%	95%	92%	80%	73%	63%	53%
Heilongjiang	3	74%	72%	61%	62%	50%	55%	73%	61%	48%	78%	59%	70%	52%	39%	62%
Hubei	112	84%	93%	91%	95%	91%	90%	89%	87%	72%	91%	87%	87%	84%	74%	67%
Hunan	151	83%	84%	74%	82%	77%	82%	80%	83%	72%	82%	79%	77%	77%	74%	65%
Jilin	9	92%	23%	44%	35%	65%	67%	31%	51%	75%	32%	29%	0%	43%	95%	38%
Jiangsu	511	79%	80%	79%	87%	84%	87%	82%	84%	80%	84%	80%	86%	85%	80%	69%
Jiangxi	115	72%	87%	86%	92%	74%	94%	88%	89%	81%	88%	83%	91%	84%	74%	61%
Liaoning	8	61%	54%	49%	56%	42%	51%	52%	20%	32%	39%	61%	25%	25%	45%	56%
Inner Mongolia	3	63%	44%	51%	52%	48%	18%	23%	68%	31%	27%	0%	0%	7%	10%	14%
Ningxia	4	0%	0%	66%	81%	100%	86%	32%	15%	65%	69%	34%	39%	62%	36%	37%
Qinghai	2	97%	[redacted]		65%	54%	22%	19%	30%	[illegible]	[illegible]	76%	75%	[illegible]	[illegible]	[illegible]
Shandong	201	69%	75%	79%	87%	82%	94%	85%	83%	71%	78%	78%	71%	69%	67%	67%
Shanxi	9	45%	83%	51%	34%	85%	81%	80%	73%	82%	93%	82%	93%	99%	41%	32%
Shaanxi	54	72%	63%	69%	79%	83%	83%	88%	89%	88%	93%	82%	89%	85%	85%	85%
Shanghai	25	91%	77%	81%	62%	64%	67%	56%	62%	46%	78%	81%	46%	43%	46%	45%
Sichuan	179	81%	68%	82%	88%	87%	93%	86%	88%	78%	88%	87%	82%	81%	75%	59%
Tianjin	28	91%	84%	74%	75%	78%	84%	83%	78%	87%	91%	70%	81%	83%	64%	55%
Tibet	4	-	100%	0%	100%	100%	100%	100%	100%	100%	100%	13%	87%	83%	0%	30%
Xinjiang	21	93%	86%	86%	61%	52%	95%	98%	89%	80%	86%	89%	76%	75%	78%	76%
Yunnan	38	81%	58%	68%	63%	68%	74%	64%	70%	62%	58%	35%	47%	47%	67%	64%
Zhejiang	384	79%	84%	83%	87%	86%	85%	81%	85%	86%	90%	90%	92%	89%	90%	87%
Chongqing	100	67%	87%	78%	85%	85%	91%	75%	87%	73%	73%	70%	72%	64%	67%	61%
Total	**2468**	**78%**	**78%**	**77%**	**82%**	**81%**	**85%**	**80%**	**82%**	**77%**	**84%**	**81%**	**81%**	**79%**	**76%**	**68%**

Source: Wind, UBS estimates; We circle out provinces/autonomous regions/municipalities in the chart with both 1) larger than average OCF-based DAR in TTM H125 and 2) No. of LGFVs above national simple average (i.e. 80 entities per location).

Figure 37: (OCF+FCF)-based DAR ratio across 31 provinces/autonomous regions/municipalities in mainland China

OCF+FCF based DAR	No. of LGFVs	TTM H118	2018	TTM H119	2019	TTM H120	2020	TTM H121	2021	TTM H122	2022	TTM H123	2023	TTM H124	2024	TTM H125
Anhui	133	35%	35%	45%	32%	27%	33%	37%	36%	23%	31%	34%	32%	49%	48%	32%
Beijing	19	34%	74%	52%	27%	48%	17%	45%	47%	23%	35%	40%	32%	58%	4%	27%
Fujian	55	23%	65%	51%	13%	21%	8%	23%	50%	31%	14%	21%	24%	54%	11%	8%
Gansu	9	77%	31%	14%	1%	2%	18%	51%	64%	19%	1%	34%	40%	39%	36%	34%
Guangzhou	51	7%	11%	9%	9%	3%	8%	7%	3%	3%	11%	6%	9%	7%	12%	8%
Guangxi	46	34%	61%	55%	24%	11%	5%	47%	24%	10%	61%	63%	15%	70%	19%	10%
Guizhou	71	23%	66%	55%	41%	39%	20%	37%	36%	28%	34%	32%	26%	20%	24%	23%
Hainan	1	0%	0%	100%	-	-	0%	0%	0%	100%	0%	0%	0%	0%	0%	0%
Hebei	25	24%	46%	32%	6%	9%	17%	30%	4%	11%	12%	9%	46%	42%	21%	9%
Henan	97	35%	36%	24%	24%	8%	32%	43%	7%	16%	20%	25%	14%	37%	23%	23%
Heilongjiang	3	31%	64%	39%	45%	49%	70%	95%	69%	86%	77%	88%	13%	35%	35%	38%
Hubei	112	23%	31%	37%	31%	31%	23%	23%	28%	19%	28%	20%	20%	33%	25%	12%
Hunan	151	39%	61%	46%	49%	29%	34%	29%	21%	26%	31%	29%	25%	37%	33%	25%
Jilin	9	20%	28%	22%	7%	19%	18%	17%	8%	7%	13%	0%	2%	46%	0%	0%
Jiangsu	511	37%	42%	26%	31%	24%	29%	30%	32%	41%	46%	33%	25%	38%	39%	20%
Jiangxi	115	25%	24%	31%	28%	7%	15%	15%	18%	28%	52%	38%	37%	57%	49%	42%
Liaoning	8	90%	88%	52%	57%	36%	22%	21%	12%	10%	11%	34%	28%	22%	10%	54%
Inner Mongolia	3	30%	81%	44%	64%	68%	55%	43%	37%	35%	26%	24%	0%	7%	59%	0%
Ningxia	4	0%	12%	0%	19%	10%	10%	73%	74%	77%	51%	0%	0%	12%	29%	17%
Qinghai	2	22%	57%	22%	50%	42%	22%	19%	30%	28%	25%	24%	100%	72%	77%	100%
Shandong	201	46%	45%	29%	22%	16%	18%	36%	33%	28%	22%	31%	22%	18%	27%	24%
Shanxi	9	40%	67%	27%	2%	9%	24%	1%	3%	76%	32%	66%	0%	22%	56%	38%
Shaanxi	54	17%	23%	9%	6%	9%	10%	16%	24%	41%	35%	35%	24%	44%	58%	36%
Shanghai	25	12%	14%	11%	7%	1%	22%	6%	3%	32%	14%	13%	11%	38%	7%	35%
Sichuan	179	18%	30%	22%	13%	11%	12%	23%	18%	21%	29%	22%	16%	21%	18%	21%
Tianjin	28	58%	43%	32%	18%	21%	28%	66%	40%	57%	26%	17%	4%	5%	18%	39%
Tibet	4	-	0%	0%	0%	0%	0%	0%	0%	100%	100%	13%	5%	88%	7%	64%
Xinjiang	21	13%	31%	30%	22%	8%	31%	67%	21%	25%	28%	21%	34%	46%	63%	60%
Yunnan	38	50%	39%	19%	28%	24%	21%	11%	45%	41%	52%	36%	32%	33%	14%	27%
Zhejiang	384	19%	30%	21%	17%	16%	12%	11%	11%	20%	22%	15%	9%	30%	24%	13%
Chongqing	100	30%	27%	19%	15%	15%	15%	17%	17%	28%	21%	22%	10%	22%	27%	24%
Total	**2468**	**33%**	**40%**	**30%**	**24%**	**20%**	**21%**	**28%**	**25%**	**29%**	**32%**	**27%**	**20%**	**34%**	**30%**	**21%**

Source: Wind, UBS estimates; We circle out provinces/autonomous regions/municipalities in the chart with both 1) larger than average (OCF+FCF)-based DAR in TTM H125 and 2) No. of LGFVs above national simple average (i.e. 80 entities per location).

Implications for individual banks

Regional lenders hold largest LGFV exposure among banks

From our understanding, LGFVs are generally scattered across such sectors as "construction", "transportation, storage and postal services", "Production and supply of electric power, gas and water", "water, environment and public utility management" and "leasing and commercial services". By extracting the loan balances in those five sectors from PBOC as captured by Wind (data disclosed as of 2023), we try to map with our earlier estimates of total LGFV loan of Rmb48trn in H125, and we eventually back derived that c32% of the first four sectors' loan sum shall be classified as LGFV, while 100% loans in leasing and commercial services are taken as LGFV. Applying this same percentage to individual banks' loans in relevant sector, we see regional banks with largest LGFV or government related exposure, followed by SOE banks. Over time, we note SOE banks/leading JSBs/ representative regional banks' LGFV loan exposure saw a continuous pickup to 18.3%/15.4%/ 24.4% of total loans by H125. On individual banks, we estimate CSRCB and CMB had the least LGFV exposure in H125 below 10%, while regional banks such as BOCD and BONJ had the highest exposure above 30%.

LGFVs could provide better risk-adjusted return to banks

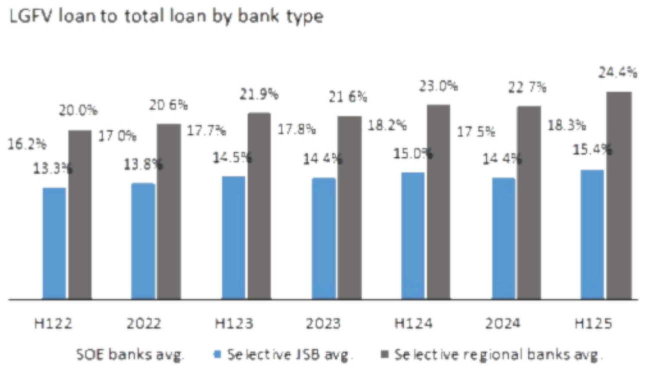
Based on our recent channel checks with regional banks, the current pricing of new loans to core-area LGFVs is c3.5-5.5%, with LGFVs in non-core areas bearing interest rates as high as 5-6%. While this loan pricing has come down from the 4-6% level at end-2024, it remains attractive amid a low-rate environment, compared with avg. 3.1% for new corporate loans in Mar 2026 based on PBOC data. In fact, LGFVs' interest rate reductions turned out smaller than our expectation, given LGFVs' robust demand for loans to repay existing debt (particularly non-standard debt) and fund some new projects. Post debt-swap initiative, LGFVs' default risk has sharply come down, as evidenced by significantly narrowing bond yield spread (Figure 14). Taking into account of limited credit cost from such exposure these days, particularly in more developed regions, the risk-adjusted return from LGFVs could pose a bigger support to banks' overall net profit and ROE. In this case, leading regional banks should benefit more, in our view.

Figure 38: China banks' estimated LGFV exposure picked up again in H125; regional banks with larger exposure

LGFV loan as % of total loan	H122	2022	H123	2023	H124	2024	H125
ICBC	17.6%	18.6%	19.2%	19.1%	19.1%	18.1%	18.6%
CCB	16.4%	17.2%	18.1%	17.8%	18.3%	17.2%	17.8%
ABC	16.7%	17.6%	18.6%	18.2%	18.9%	17.9%	18.2%
BOC	20.7%	21.4%	22.7%	23.6%	24.4%	24.1%	25.9%
BOCOM	17.7%	18.6%	18.8%	19.1%	19.6%	18.9%	19.4%
PSBC	7.9%	8.6%	8.9%	8.8%	9.2%	8.9%	9.8%
CMB	7.3%	7.8%	8.1%	7.8%	8.0%	7.5%	8.3%
IB	13.9%	14.5%	16.3%	16.6%	17.7%	17.0%	17.4%
MSB	16.8%	17.2%	17.5%	17.2%	17.1%	16.5%	17.8%
SPDB	14.1%	14.7%	15.2%	15.8%	16.7%	16.6%	17.6%
CITIC	14.2%	14.8%	15.2%	14.5%	15.6%	14.4%	15.8%
BONB	17.2%	17.6%	17.8%	17.1%	18.2%	19.2%	22.7%
CSRCB	6.5%	6.7%	6.9%	6.6%	7.3%	7.3%	7.7%
BONJ	33.4%	33.7%	35.4%	34.9%	35.8%	35.5%	35.9%
BOHZ	20.7%	21.8%	24.7%	24.7%	25.6%	24.4%	26.1%
BOSH	20.4%	20.8%	22.0%	21.1%	21.6%	20.7%	20.0%
BOJS	16.3%	16.8%	18.5%	18.3%	20.7%	20.3%	23.4%
CQRCB	17.9%	18.6%	19.5%	19.4%	19.3%	19.3%	21.0%
BOCD	34.4%	35.3%	36.4%	38.5%	43.1%	44.0%	45.6%
BOCS	14.7%	15.6%	17.0%	16.5%	19.5%	19.5%	24.2%
BOBJ	16.0%	16.7%	17.3%	17.1%	17.4%	17.3%	18.3%
Huishang	22.0%	23.3%	25.8%	23.1%	23.7%	22.4%	23.7%
SOE banks avg.	**16.2%**	**17.0%**	**17.7%**	**17.8%**	**18.2%**	**17.5%**	**18.3%**
Selective JSB avg.	**13.3%**	**13.8%**	**14.5%**	**14.4%**	**15.0%**	**14.4%**	**15.4%**
Selective regional banks avg.	**20.0%**	**20.6%**	**21.9%**	**21.6%**	**23.0%**	**22.7%**	**24.4%**

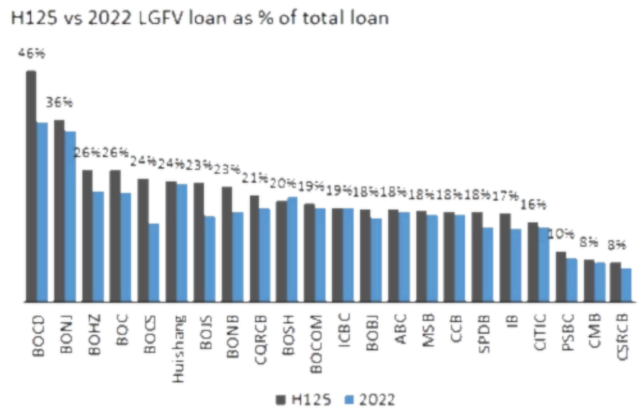
Source: Company data, UBS estimates

Figure 39: Banks' LGFV exposure continued to rise; Regional banks generally have larger exposure



Source: Company data, UBS estimates

Figure 40: We estimate BOCD & BONJ with largest LGFV exposure; CSRCB & CMB the least among our coverage



Source: Company data, UBS estimates

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Will growth slow in 2026?
Yes. The bank's Q126 results likely set the tone for the full-year 2026 performance. Slower deposit and loan growth, a reduced reliance on bond sales for MTM gains, a sequential rebound in NIM, a higher revenue contribution from net fee income and easing NPL formation collectively point to a strategic shift to quality earnings growth rather than pure asset expansion. A closer look at the results shows that loan growth moderated to 10.8% YoY in Q126, a 5.0ppt slowdown from end-2025, while asset growth declined to 10.5% YoY, down 1.4ppt over the same period. Despite softer balance sheet expansion, NII grew by a strong 17.3% YoY in Q1, significantly outpacing the 2025 trend, supported by a 3bp YoY rebound in NIM driven by lower deposit costs. Non-II declined a sharp 44.5% YoY in Q1, primarily due to lower investment gains amid substantially lower bond sales. On asset quality, the NPL ratio remained flat QoQ at 0.68%, while the SML ratio declined 3bp to 0.99%, signalling continued improvement trends carried over from 2025. Credit cost was largely stable YoY at 46bp, although the NPL coverage ratio edged down to 424.06%. Overall, these trends underscore the bank's preference for more measured and disciplined growth.

Q: Will BOCD maintain its superior ROE in 2026?
Yes. While ROE declined to 15.5% in 2025, it remained well above that of regional bank peers. We expect the bank to continue delivering better than peer ROE in 2026E, supported by its strategic shift to quality earnings growth rather than pure asset expansion, as well as its structurally lower than peer CIR stemming from its corporate and government banking franchise. Accordingly, we forecast the bank to achieve an ROE of 15.1% in 2026.

UBSVIEW

We downgrade Bank of Chengdu from Buy to Neutral and cut our P/B-ROE derived PT from Rmb23.30 to Rmb19.50. We revise down our 2026-29E EPS 5-0% following the updated 2025 numbers. While we raised our NII forecast, we lowered our other non-interest income estimates and increased our credit cost assumptions. With asset & loan growth expected to slow (UBSe), we view the current valuation as fair and believe that a re-rating would require a materially faster growth trajectory.

EVIDENCE

In Q126, revenue growth remained solid at 6.5% YoY, accelerating from 3.2% in Q125. However, net profit growth moderated to 4.8% YoY from 5.6% in Q125. While asset quality continued to improve, with both NPL and SML ratios declining further and credit cost held broadly flat at 46bp in Q126, the coverage ratio and LLR edged down sequentially.

WHAT´S PRICED IN?

BOCD is trading at 0.75x 2026EP/BV, 0.8SD below its historical trading average.

UPSIDE/DOWNSIDE SPECTRUM

Value drivers (2026E)	NIM	RoE	COE
Rmb23.50 upside	1.71%	18.[illegible]%	12.7%
Rmb19.50 base	1.66%	15.5%	12.7%
Rmb14.50 downside	1.61%	12.2%	12.7%

Source: UBS estimate

COMPANY DESCRIPTION

Bank of Chengdu (BOCD) was founded in 1996 and listed on Shanghai Stock Exchange in 2018. BOCD has over 70% of total loans outstanding and over 80% of total revenue generated in Chengdu, with the rest mainly in Sichuan province. BOCD had a total of 256 branches and an outstanding loan balance of Rmb858bn as of end-2025.

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Will Huishang bank be a potential dividend yield play?
Unlikely. After five years of de-risking following the legacy Baoshang Bank takeover, Huishang Bank turned around the bottom-line performance, delivering solid net profit growth of 7.2% YoY in 2025 and lowering NPL ratio to 0.98%. Asset quality continued to improve, with the Stage-3 loan ratio broadly aligned with the reported NPL ratio and provisions covering 76.2% of such loan classes. Overall LLR stood at 2.7%, broadly in line with regional bank peers. Credit cost declined steadily to 63bp in 2025, supporting a decent ROE of 11.6%. Due to the improving asset quality trends, net profit growth remained stable at around 7% over 2023-25. The bank has also steadily increased its payout ratio in recent years, reaching 22% in 2025. While the latest closing share price implies a dividend yield of 5.4%, slightly higher than H-share banks under our coverage, we remain cautious on the earnings outlook. Any increase in the payout ratio could be viewed as a positive catalyst.

Q: Will inclusion in Southbound Stock Connect drive further fund inflows?
Likely. Huishang Bank was included in Southbound Stock Connect in Q126. As a small regional bank with operations concentrated in Anhui province, its stock has recorded relatively light trading activity with an average daily turnover of HK$54m over the past one month. We believe that inclusion in Stock Connect, together with stable operating performance, would improve stock visibility and liquidity and potentially support incremental fund inflow over time.

UBSVIEW

We upgrade Huishang Bank from Sell to Neutral and raise our three-stage DDM-based PT from HK$3.25 to HK$5.40. We revise up our 2026-29E EPS 2-3% following the updated 2025 numbers. We raised our NII projections, the major driver of our estimates upgrade. We expect the bank to deliver net profit growth of 8.0-6.5% in 2026-30E. The stock is currently trading at 0.36x 2026E P/BV, a 31% discount to H-share banks under our coverage. However, its track record of consistently stable operating performance is relatively limited. As a result, we expect the share price to remain largely range bound in the near term amid still light investor positioning and a lack of near-term catalysts.

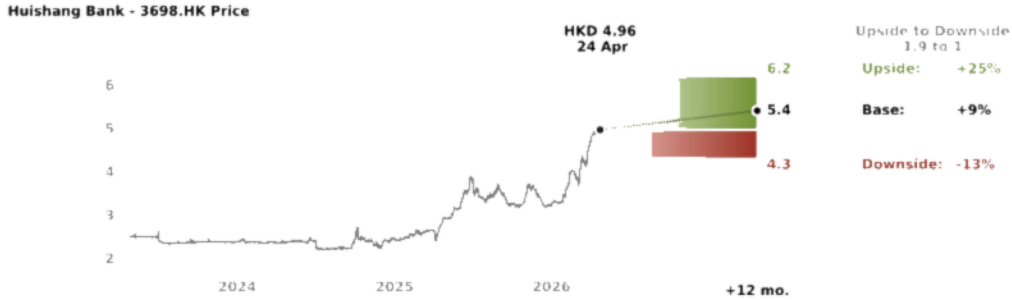
EVIDENCE

Following multiple years of de-risking and building up provisions, the bank's NPL ratio declined to 0.98% as of end-2025 while coverage ratio improved to 280.7%, broadly in line with regional bank peers. The Stage-3 coverage ratio stood at 76.2%. Against a backdrop of strengthening asset quality, the bank delivered stable net profit growth of c7% over 2023-25.

WHAT'S PRICED IN?

Huishang Bank is trading at 0.36x 2026E P/BV, broadly in line with its historical average.

UPSIDE/DOWNSIDE SPECTRUM



Value drivers (2026E)	NIM	NPAT growth	ROE
HK$6.20 upside	1.43%	9.5%	11.9%
HK$5.40 base	1.38%	6.7%	11.6%
HK$4.30 downside	1.33%	5.5%	11.5%

Source: UBS estimate

COMPANY DESCRIPTION

Huishang Bank was established in 2005 through a merger of city commercial banks and urban credit cooperatives in Anhui Province. Listed on the Hong Kong Exchange in 2013, Huishang Bank is one of the largest city commercial banks in central China. As of end-2025, Huishang had Rmb2.3trn in assets, Rmb1.1trn in loans and Rmb1.3trn in deposits.

SUMMARY OF FORECAST CHANGES

Figure 41: Bank of Chengdu

UBSe old vs new	2025A			2026E			2027E			2028E			2029E			2030E		
Rmb'mn	UBSe old	Actual	Difference	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change
Revenue	24,322	23,603	-3.0%	26,064	25,930	-0.5%	28,102	28,857	2.7%	30,563	32,212	5.4%	33,249	36,151	8.7%	na	40,172	na
PPOP	18,363	17,699	-3.6%	19,913	19,875	-0.2%	21,754	22,620	4.0%	23,970	25,749	7.4%	26,400	29,444	11.5%	na	33,212	na
Impairment losses	(2,013)	(2,031)	0.9%	(2,186)	(2,931)	34.1%	(2,659)	(4,191)	57.6%	(3,666)	(5,654)	54.2%	(4,401)	(7,431)	68.8%	na	(8,936)	na
Net profit to shareholders	13,618	12,995	-4.6%	14,790	14,114	-4.6%	15,953	15,376	-3.6%	16,981	16,793	-1.1%	18,423	18,424	0.0%	na	20,346	na

Source: Company data, UBS estimates

Figure 42: Huishang Bank

UBSe old vs new	2025A			2026E			2027E			2028E			2029E			2030E		
Rmb'mn	UBSe old	Actual	Difference	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change	UBSe old	UBSe new	Change
Revenue	37,607	37,289	-0.8%	39,982	40,352	0.9%	42,864	43,793	2.2%	46,034	46,395	0.8%	49,033	49,232	0.4%	51,664	52,512	1.6%
PPOP	27,265	25,882	-5.1%	29,387	28,448	-3.2%	31,762	31,531	-0.7%	34,203	34,425	0.6%	36,530	37,269	2.0%	38,593	40,434	4.8%
Impairment losses	8,155	7,077	-13.2%	9,085	7,823	-13.9%	9,985	9,490	-5.0%	10,767	10,940	1.6%	11,258	12,263	8.9%	11,645	13,891	19.3%
Net profit to shareholders	16,406	16,525	0.7%	17,461	17,795	1.9%	18,766	19,044	1.5%	20,234	20,318	0.4%	21,858	21,660	-0.9%	23,342	23,016	-1.4%

Source: Company data, UBS estimates

Valuation Method and Risk Statement

We derive our price targets for H-share China banks based on a three-stage dividend discount model (DDM). We derive our price targets for A-share China banks based on P/B to ROE valuation methodology.

We think major risks to China banks include: 1) deterioration in asset quality, underpinned by a soft macro environment and domestic property market activity; 2) risks related to capital adequacy and dilution led by refinancing; and 3) downside in interest rates and the consequent pressure on bank profitability.

For Bank of Chengdu (BOCD), we base our price target using the P/B - ROE methodology. We think major company-specific risks include: 1) asset quality deterioration, underpinned by a weaker macro environment and domestic property market activity; 2) interest rate cuts and asset repricing in the near to medium term, along with the consequent pressure on banks' profitability; 3) lower capital adequacy amid rapid balance sheet expansion.

For Huishang Bank, we derive our price target from a three-stage DDM method. We think the major upside risks are: 1) higher-than-expected profit growth driven by more resilient NIM, asset growth or asset quality; and 2) a notable increase in the dividend payout ratio without sizable negative impact on the CET1 ratio. We believe downside risks for Huishang Bank include: 1) worse-than-expected asset quality; 2) larger-than-expected operational risk; and 3) a macroeconomic slowdown, particularly in regions where HSB conducts its businesses.

For Bank of China (BOC), we base our price target for BOC-H on three-stage dividend discount model (DDM) methodology. We think major downside risks include: 1) deterioration in asset quality underpinned by a weaker macro environment and domestic property market activity; 2) regulatory risks related to capital, liquidity and off-balance-sheet activities of banks; 3) deterioration in funding structure and balance-sheet liquidity positions, driven by a potential rollover of loans and lengthening of asset durations; and 4) liberalisation of interest rates in the medium term and the consequent pressure on bank profitability. Upside risk include: 1) a significant improvement in asset quality; and 2) a higher-than-expected NIM due to benchmark rate hikes.