

July 19, 2009

BNP Paribas (China) Ltd.

Primary Credit Analyst:

Terry Sham, CFA, Hong Kong (852) 2533-3590; terry_sham@standardandpoors.com

Secondary Credit Analyst:

Ryan Tsang, CFA, Hong Kong (852) 2533-3532; ryan_tsang@standardandpoors.com

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BNP Paribas (China) Ltd.

Major Rating Factors

Strengths:

- Core member of BNP Paribas
- Good asset quality
- Solid capitalization

Counterparty Credit Rating

A+/Stable/A-1

Weaknesses:

- Heavy reliance on non-core deposit funding
- Concentration in the competitive and volatile wholesale banking business

Rationale

The ratings on BNP Paribas (China) Ltd. reflect the bank's status as a core subsidiary of BNP Paribas (BNP; AA/Negative/A-1+). On a stand-alone basis, the ratings reflect BNP (China)'s good asset quality and solid capitalization. These strengths are underpinned by the benefits the bank receives from its parent in terms of senior personnel, risk management, and a strong franchise in corporate and investment banking. These strengths are balanced by the bank's heavy reliance on non-core deposit funding and concentration in the highly competitive and volatile wholesale banking business. The ratings on BNP (China) are constrained by the banking industry country risks related to the Chinese operating environment, denoted by the sovereign rating on China (A+/Stable/A-1+).

Standard & Poor's regards BNP (China) as a core subsidiary of BNP. BNP (China) plays a pivotal role in implementing BNP's strategy in China, one of the parent's ambitious long-term growth targets.

BNP (China)'s overall asset quality is good, with most of its assets in highly rated central government or financial institutions. The bank focuses on top-tier large corporate entities in its lending business. Assuming the bank adheres to its existing business model, asset quality should remain good.

BNP (China) has a sound capital ratio, following a new capital injection by its parent in 2008. Capitalization may moderate over the next two to three years as the bank expands its balance sheet, with the effect being partly offset by its profit generation.

The bank relies heavily on non-core deposit funding. Similar to other local subsidiaries of foreign banks, meeting the local regulatory loan-to-deposit ratio requirement will remain a challenge for BNP (China). Given the bank's strong corporate client base, Standard & Poor's expects BNP (China) to continue to improve its funding and liquidity profile, though possibly at the expense of higher funding cost.

The bank's profitability was satisfactory in 2008, which is mainly attributable to strong trading income in the first half, generated from client-driven business and some proprietary trading. Trading income by its nature tends to be volatile, and customer demand on cash management and derivative products offered by the bank fluctuates with economic cycles. However, Standard & Poor's expects BNP (China) to maintain its satisfactory profitability, given BNP's expertise in treasury markets and track record in risk management.

Outlook

The stable outlook on BNP (China) primarily reflects the stable outlook on the sovereign rating on China. The ratings on BNP (China) could be raised if the sovereign rating is raised, thereby allowing the ratings on BNP (China) and BNP to converge. Similarly, the rating on BNP (China) could be lowered commensurate with a similar rating action on China. The ratings on BNP (China) could also be negatively affected if the bank is no longer regarded as a core subsidiary to BNP because of diminished commitment from the parent to operations in China. Standard & Poor's currently considers this unlikely.

Ratings Detail (As Of July 19, 2009)*	
BNP Paribas (China) Ltd.	
Counterparty Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A+/A-1
Counterparty Credit Ratings History	
16-Sep-2008	A+/Stable/A-1
Sovereign Rating	
China (People's Republic of)	A+/Stable/A-1+
Related Entities	
BNP Paribas	
Issuer Credit Rating	AA/Negative/A-1+
Certificate Of Deposit	
<i>Local Currency</i>	NR/NR
Commercial Paper	
<i>Foreign Currency</i>	A-1+
<i>CaVal (Mexico) National Scale Rating</i>	mxA-1+
<i>CaVal (Mexico) National Scale Rating</i>	mxA-1+
<i>Canadian National Scale Commercial Paper Rating</i>	A-1(HIGH)
Junior Subordinated (20 Issues)	A
Senior Unsecured (154 Issues)	AA
Senior Unsecured (1 Issue)	AAA
<i>CaVal (Mexico) National Scale Rating (3 Issues)</i>	mxAAA
Short-Term Debt (2 Issues)	A-1+
Subordinated (34 Issues)	AA-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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