Lianhe Ratings Global

Press Release

4 July 2023

Lianhe Global has assigned 'A-' global scale Long-term Issuer Credit Rating with Stable Outlook to Xiamen International Bank Co., Ltd.

HONG KONG, 4 July 2023 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'A-' global scale Long-term Issuer Credit Rating to Xiamen International Bank Co., Ltd. ("XIB" or "the bank"). The Outlook is Stable.

The Issuer Rating reflects XIB's established network in economically advanced regions in mainland China, as well as Hong Kong and Macau, stable funding sources and adequate liquidity. In addition, we expect that there is a high possibility that the Fujian Provincial People's Government ("the Fujian government") would provide strong support to XIB if needed, considering their strong linkage. The rating also considers XIB's under-pressure capital adequacy, asset quality and profitability.

The Stable Outlook reflects our expectation that XIB will maintain its established market position and its linkage with the Fujian government while maintaining the capital adequacy ratio and liquidity ratio at the level commensurate with its credit profile.

Key Rating Rationales

Local Franchise with International Expansion: XIB, headquartered in Fujian's Xiamen city, is one of the major city commercial banks in Fujian. The bank has an established network in economically advanced regions in China, such as Fujian Province, Guangdong Province, Yangtze River Delta Area, and Bohai Rim Region. XIB also has a subsidiary in Hong Kong (Chiyu Bank) and a subsidiary in Macau (Luso International Bank). The former has been deeply rooted in Hong Kong for over 70 years, while the latter is one of the major commercial banks in Macau. Two subsidiary banks enable XIB to provide comprehensive cross-border financial solutions, strengthening XIB's international positioning and synergy effect between onshore and offshore businesses.

Linkage with Local Government: XIB is one of three financial institutions under the Fujian government's administration, promoting local economic development and maintaining regional financial stability. The bank has a strong linkage with the government, including significant government ownership, senior management appointments and supervision of major strategic planning and decisions. At end-2022, among XIB's top ten shareholders, four were ultimately controlled by the Fujian government with an aggregate shareholding of 28.3%, while the Xiamen government ultimately controlled two with an aggregate shareholding of 7.8%.

In addition, XIB was the first Sino-foreign joint venture bank in China. Given XIB's unique background, the bank plays a special role in providing financial services to and uniting oversea Chinese individuals and corporates.

Funding Structure and Adequate Liquidity: XIB's funding sources were largely stable. The customer's deposits maintained steady growth in the past three years, most of which were time deposits. The personal deposits increased significantly in 2022 due to the enlarged retail client base during the year. XIB's liquidity was adequate, given that the bank maintained a sizeable amount of highly liquid assets such as government and financial bonds. Its liquidity coverage ratio remained relatively high in the past three years despite some fluctuation, which was 202.43% at end-2022, while the net stable fund ratio has been steady at between 105% and 110% over the same period. The bank's liquidity coverage ratio matching ratio also stayed at a relatively high level, which was 131.09% at end-2022.

The Development of Corporate Banking Segment: Corporate banking is XIB's most important business segment. However, its development was slowing down in the past three years. XIB's corporate loans balance growth rates were 6.8%, 1.2%, -0.2% in 2020, 2021, and 2022, respectively. This was because XIB was retreating corporate loans from provinces without branches under regulatory requirements, plus the Covid's impact on the economy suppressed credit demand in the past three years.

XIB refocus on developing local corporate customers in where the bank has branches such as Fujian, Guangdong, Shanghai and Beijing to fill the gap. In addition, XIB actively promotes loans to micro, small, and medium enterprises, following regulatory guidance, to expand its corporate customer base. We expect XIB's corporate banking segment to resume steady growth in the next two to three years as loans to corporate customers in provinces without branches have been largely exited.

Profitability: XIB's operating revenue fluctuated in the past three years, and its ROA and ROE were relatively low. The bank's operating revenue was mainly generated by net interest income and followed by investment income. Both XIB's net interest income and fee and commission income dropped in 2022, primarily due to the charge and rate cut policy to support the real economy and Covid's repetitive disruption in where XIB operates. XIB's net interest margin narrowed in 2022, following the trend of China's banking sector. XIB's funding costs were high as time deposits accounted for over 80% of the bank's total deposit. In addition, XIB's offshore subsidiaries faced rising deposit interest costs amid the US Federal Rate hikes.

Capital Adequacy and Asset Quality: XIB's capital adequacy indicators decreased in 2022, yet they met regulatory requirements with some buffers. The decrease was mainly due to the significant increase in risk-weight assets as the bank enlarged its loan assets to support the real economy while the bank's capital replenishment plan, such as new issuance of equity and capital bonds, was still in progress. At the same time, challenging market conditions, such as narrowing net interest margins and increasing impairment loss amid the economic downturn, weakened the current endogenous growth of the bank's capital. We expect the total capital adequacy of XIB to improve upon the new issuance of capital bonds, while the core Tier 1 capital adequacy ratio to be under pressure as the bank's profitability remains weak.

XIB experienced deterioration in loan quality in 2022, with increases in special mention loans and non-performing loans as proportions of the total loan portfolio. This was mainly because the weak economy amid the Covid pandemic and property market downturn has impaired some borrowers' repayment ability. Nevertheless, XIB's NPL ratio (1.26%) was lower than the average level of city commercial banks (1.85%). However, given XIB's current low allowance coverage ratio, we expect the bank to face high assets impairment charge pressure, which could suppress its profitability in the next one to two years.

Rating Sensitivities

We would consider downgrading XIB's rating if there is 1) a significant decrease in its capital adequacy and liquidity, or 2) a notable deterioration in its asset quality and profitability, or 3) a weakened funding structure, or 4) a perceived weakening linkage between the Fujian government and XIB.

We would consider upgrading XIB's rating if it were to 1) improve its capital adequacy and asset quality significantly, and 2) improve its profitability, and 3) improve its business mix and loan portfolio diversification.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this XIB's rating is Lianhe Global's Banking Rating Criteria published on 20 March 2023 which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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