

**Lianhe Ratings Global Limited has assigned ‘A+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Henan Zhongyu Credit Promotion Co., Ltd.**

HONG KONG, 12 December 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A+’ global scale Long-term Issuer Credit Rating to Henan Zhongyu Credit Promotion Co., Ltd. (“HZCP” or “the company”). The Outlook is Stable.

The Issuer Rating reflects HZCP’s strong franchise and market position as the sole credit enhancement company in Henan Province (“Henan”) as well as its strong capital base for future business growth. The rating also considers its concentrated business profile, diversified revenue resources, increasing profitability and low debt burden. Besides, the People’s Government of Henan Province (“Henan government”) would provide strong support to HZCP if needed, in light of its majority ownership of HZCP, HZCP’s strategic importance as the sole provincial credit enhancement company in Henan, the linkage between the Henan government and HZCP and ongoing financial and policy support. In addition, the Henan government may face significant negative impact on its reputation and financing activities if HZCP encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that HZCP will maintain its monopoly market position in Henan’s credit enhancement market and an adequate funding and liquidity position which is commensurate with its credit profile.

**Key Rating Rationales**

***The Sole Credit Enhancement Company in Henan with Monopoly Market Position and Pivotal Strategic Role:*** HZCP, as the only provincial-level credit enhancement company in Henan, has its operations centered in Henan. It primarily focuses on credit enhancement and investment activities, holding a certain level of importance within the financial system of Henan Province. The company has a monopoly position in the credit enhancement field in Henan, providing it with significant advantages in business operations. Additionally, the company plays a crucial and irreplaceable role in expanding financing channels, facilitating the financing needs of local enterprises, and boosting the financing activities in the bond market in Henan.

***Rapid Business Growth with Substantial Capacity and Minimal Claim History, but High Concentration:*** As of end-September 2023, the company’s credit enhancement business balance significantly increased to RMB13.7 billion from RMB1.7 billion at end-2022, all of which were provided to local investment and development companies (“LIDC”) in Henan. The outstanding guarantees to capital ratio remained low at 1.12x, indicating substantial potential for future business expansion. Having said that, HZCP currently operates with a relatively small scale, accompanied by a modest provision for credit enhancement reserves. It has not encountered any instances of compensation, likely attributed to its short operating history. All

credit enhancement operations have been conducted exclusively within Henan, indicating a high regional concentration. As of end-September 2023, the combined credit enhancement balance of the top five customers was RMB3.1 billion, accounting for 22.6% of the total balance, demonstrating a moderate level of borrower concentration.

**Prudent Risk Management:** HZCP is enhancing its risk management framework, focusing on industry and client selection, diverse business channels, and personalized risk mitigation measures. It prioritizes municipal-level LIDCs in Henan, with additional attention to high-quality district-level LIDCs in industry and client selection. Tailored risk mitigation measures are implemented based on borrower types. For core municipal LIDCs, counter-guarantee measures may be relaxed, whereas district-level LIDCs might need to provide extra collateral, such as land, real estate, receivables, and stocks. The credit products are mainly comprised of corporate bonds (37.5%), medium-term notes (23.3%), and certificate of deposit secured loans (27.9%), with other products accounting for around 10%, as of end-September 2023.

**Increasing Profitability on Expanding Business Scale:** With significant growth in the credit enhancement business in the first nine months of 2023, HZCP achieved a total profit of RMB256.5 million, with annualized average return on asset (“ROA”) of 3.20% (2022: 2.23%). Given the moderately low guarantee exposures, the future holds substantial potential for business growth and an increase in profitability, especially considering the company's unique position as the exclusive credit enhancement entity in Henan. Besides, the company's venture into investment activities and entrusted loan business would further enhance profitability.

**Strong Capital Base and Low Leverage:** HZCP’s equity capital rose to RMB12.1 billion (RMB4.1 billion at end-June 2023) and shareholders increased to 19 from 6 following the introduction of strategic investors in September 2023 (including 14 core LIDCs in Henan and provincial financial institutions) injecting RMB8 billion of new capital. As in the early development stage, HZCP had a relatively small debt scale of RMB573 million (all short-term) at end-September 2023.

**Strong External Support from Henan Government:** We expect HZCP is likely to receive strong support from the Henan government if needed. The Henan Provincial State-owned Assets Supervision and Administration Commission (“Henan SASAC”) holds the majority of HZCP’s shares via Central Plains Yuzi Investment Holding Group Co., Ltd. (“Yuzi Group”), a local investment and development company acting as the sole provincial-level investment and financing entity for urbanization and affordable housing construction in Henan. Henan SASAC is the actual controller of the company and the Henan government has the final decision-making authority and supervises the company on a regular basis. As the sole credit enhancement entity in Henan, HZCP benefits from ongoing support in capital and business expansion from the Henan government. With its expanding operations, HZCP’s significance in maintaining economic and financial stability in Henan is anticipated to grow. In addition, the Henan government may face significant negative impact on its reputation and financing activities if HZCP encounters any operational and financial difficulties.

## Rating Sensitivities

We would consider downgrading HZCP's rating if there is 1) significant deterioration in its credit profile, such as notably weakened capital adequacy, significant increase in compensation rate, and weakened funding structure etc., or 2) there is perceived weakening in support from the Henan government, particularly due to its reduced strategic importance with diminished government functions, or (3) there is a downgrade in our internal credit assessment on the Henan government.

We would consider upgrading HZCP's rating if there is an upgrade in our internal credit assessment on the Henan government.

## 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 HZCP's rating is Lianhe Global's Non-Bank Financial Institutions Criteria published on 21 November 2023 which can be found at the website [www.lhratingsglobal.com](http://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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