

Xiamen International Bank Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Banking
Date	29 August 2024

Lianhe Global has affirmed ‘A-’ global scale Long-term Issuer Credit Rating of Xiamen International Bank Co., Ltd. (“XIB” or “the bank”); Issuer Rating is Outlook Stable

Summary

The Issuer Rating reflects Xiamen International Bank Co., Ltd. (“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 XIB’s strong linkage with the Fujian government as a provincial financial institution in Fujian. The rating also considers XIB’s new issuance of equity and Tier 2 capital bonds to replenish capital. However, its core Tier 1 capital adequacy is under pressure, along with weakening asset quality and profitability.

The Stable Outlook reflects our expectation that XIB will maintain its established market position, strategic importance in local financial system and its linkage with the Fujian government.

Rating Rationale

Established 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. In 2023, the bank continued to focus on deepening business development in provinces where it has branches.

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.

Strong Linkage with Local Government and Importance: XIB is one of three financial institutions under the Fujian government’s administration. 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-March 2024, among XIB’s top ten shareholders, four were ultimately controlled by the Fujian government with an aggregate shareholding of 27.79%, while the Xiamen government ultimately controlled two with an aggregate shareholding of 7.68%.

As a major city commercial bank in Fujian, XIB has a relatively high importance in local financial system, and plays an important role in promoting local economic development and maintaining regional financial stability. In addition, XIB is 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 overseas Chinese individuals and corporates.

Major Operating Data of XIB

(RMB billion)	2022	2023
Total Asset	1,088.11	1,120.42
Operating Revenue	17.13	12.51
Net Profit	5.87	0.97
ROA	0.56%	0.09%
ROE	7.11%	1.13%
Net Interest Margin	1.47%	0.78%
Non-Performing Loan Ratio	1.26%	1.96%
Allowance Coverage Ratio	168.42%	116.18%
Capital Adequacy Ratio	11.69%	12.78%
Core Tier-1 Capital Adequacy Ratio	9.03%	8.83%

Source: XIB and Lianhe Global

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Applicable Criteria

Banking Rating Criteria
(20 March 2023)

Stable Funding Sources and Adequate Liquidity: XIB's funding sources remained largely stable. The customer's deposits maintained steady growth in the past three years, most of which were time deposits. The personal deposits have increased significantly since 2022 due to the enlarged retail client base. XIB's liquidity remained 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, which was 180.43% at end-2023 (end-2022:202.43%).

Issuance of equity and Tier 2 Capital Bonds to replenish Capital; but Asset Quality under Pressure: XIB's total capital adequacy ratio increased to 12.78% at end-2023 from 11.69% at end-2022, after the issuance of equity of RMB1,094 million and Tier 2 capital bonds amounting to RMB12 billion in 2023. However, its core Tier 1 capital adequacy ratio continued to decrease, lowered to 8.81% from 9.03% over the same period. The bank's risk-weighted assets continued to grow with the business development, yet the deteriorating asset quality and weakening profitability hampered the endogenous growth of the bank's capital.

XIB's loan quality was still under pressure in 2023. The non-performing loans ("NPLs") balance increased by 59.2% to RMB12,333 million at end-2023 from RMB7,749 million at end-2022, pushing up its NPLs ratio to 1.96% (end-2022:1.26%). The rising NPL was mainly due to the weak recovery of economy after Covid and SME borrowers continued in facing some difficulties in operations. At end-2023, the parent company's allowance coverage ratio was 155.64%, fulfilling regulatory requirement of 150%.

Weakening Profitability: XIB's net interest margin narrowed significantly to 0.78% in 2023 from 1.47% in 2022, dragging down the bank's operating revenue to RMB12,513 million from 17,128 million. This mainly was the result of interest rate and fee cut policies to support real economy. At the same time, XIB lowered its risk appetite for new lending, leading to a lower return on loans. The weak economy property market downturn has also impaired some borrowers' solvency, which may further lessen the bank's interest income. In addition, XIB recorded high provision for credit losses to boost its safety buffers, as well as the bank actively disposed its existing distressed assets to enhance its risk resistance ability. The bank's fund costs, however, decreased at a slower rate, due to the high proportion of time deposits, while its offshore subsidiary banks continued to suffer high interest costs amid the US Federal Rate hikes.

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 the diversification of business and loan portfolio.

Company Profile

XIB, headquartered in Fujian's Xiamen city, was China's first Sino-foreign joint venture bank. The bank was established in 1985. In 2013, XIB was restructured as a Chinese-funded city commercial bank and subject to the administration of the Fujian government. After an array of capital raise and share expansions, XIB's registered capital was enlarged to RMB15.5 billion. Among XIB's top ten shareholders, four were ultimately controlled by the Fujian

government with an aggregate shareholding of 27.79%, while the Xiamen government ultimately controlled two with an aggregate shareholding of 7.68%.

Appendix I: XIB's Shareholder Structure at end-March 2024

	Shareholder	%
1	福建省福投投资有限责任公司	11.82
2	闽信集团有限公司	8.69
3	珠海铎创投资管理有限公司	4.96
4	中国工商银行股份有限公司	4.25
5	福建投资企业集团公司	4.12
6	厦门国贸控股集团有限公司	3.85
7	厦门建发集团有限公司	3.83
8	福建发展高速公路股份有限公司	3.16
9	苏州苏高新科技产业发展有限公司	2.99
10	华丽家族股份有限公司	2.87

Source: XIB

Appendix II: XIB's Rating Factors

Rating Factors	Weight	Initial Rating
I. Operating Environment	20%	bbb+
II. Business Profile	15%	bb
III. Governance and Management	10%	bb+
IV. Risk Management and Exposures	20%	bb
V. Financial Profile	35%	bbb-
Stand-Alone Creditworthiness		bbb-
VI. External Support		
Government Support		Strong
Issuer Credit Rating		A-

Source: Lianhe Global

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