

Credit Rating Report

ICBC Financial Leasing Co., Ltd.

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

July 4, 2022

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Contents

| | |
|--|----|
| Tear Sheet..... | 2 |
| Rating Summary | 3 |
| Macro-Economic and Industry Trend..... | 4 |
| Business Position | 5 |
| Capital and Earnings | 7 |
| Risk Position..... | 10 |
| Funding and Liquidity | 12 |
| External Support | 13 |
| Appendix 1: Key Financial Data | 15 |
| Appendix 2: Rating History of ICBCFL by S&P Global (China) | |
| Ratings | 16 |

*This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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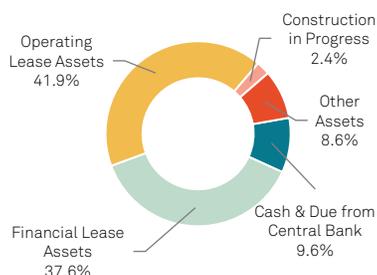
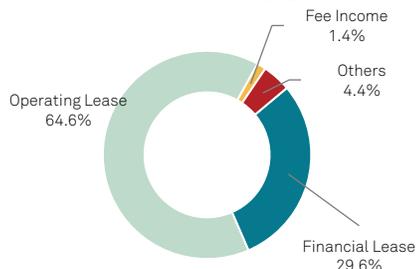
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Tear Sheet

| Company Name | Rating Type | Current Rating | Rating Date | Outlook/CreditWatch |
|----------------------------------|----------------------|--------------------|--------------|---------------------|
| ICBC Financial Leasing Co., Ltd. | Issuer Credit Rating | AAA _{spc} | July 4, 2022 | Stable |

Industry Classification: Finance Company

Company Overview: ICBC Financial Leasing Co., Ltd. ("ICBCFL") is one of the leading financial leasing companies in China. ICBCFL is a wholly owned subsidiary of Industrial and Commercial Bank of China Limited ("ICBC"). ICBCFL's main leasing business lines include aviation, shipping and other financial leasing businesses. As of end of 2021, it reported total assets of 295.4 billion RMB.

Asset Breakdown as of the end of 2021**Gross Operating Income Breakdown in 2021**

Economy and Industry Trends: In 2021, China's ongoing control measures over COVID remained effective, as the economy continued to recover at a healthy pace. However, 2022 has seen new waves of COVID impact on economic activity, leading to weaker growth. While industrial production has been hit less hard than service sector activity, supply disruptions have been substantial, and turbulent market conditions highlight refinancing risk. Looking beyond COVID, we believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

Recent years have seen increasingly tighter regulation of the leasing industry, a move we see as positive for the industry's long-term development. The COVID-19 outbreak has had a negative impact on the asset quality of the leasing industry, but we expect the impact to be controllable. Meanwhile, accommodative monetary policy has helped high credit quality leasing companies to have ample liquidity and reduce funding costs. We expect the credit quality of the leasing industry to remain stable.

Key Metrics of ICBCFL

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------|--------|--------|--------|--------|
| Total assets (bil) | 230.61 | 272.49 | 271.21 | 284.30 | 295.36 |
| Gross operating income (bil) | 16.03 | 17.00 | 18.86 | 17.39 | 17.59 |
| Net income (bil) | 3.57 | 3.02 | 3.83 | 3.22 | 2.20 |
| Regulatory capital adequacy ratio (%) | 14.70 | 12.49 | 13.61 | 13.09 | 13.71 |
| Return on average equity (%) | 8.30 | 9.81 | 11.19 | 8.67 | 5.65 |
| Non-performing financial lease receivable ratio (%) | 1.19 | 1.10 | 1.08 | 1.13 | 1.51 |
| Total debts/total equity (X) | 6.33 | 6.89 | 5.77 | 5.88 | 5.97 |

Note: 2017 data was restated in the 2018 annual report.

Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

Rating Snapshot

| | |
|--|--------------------------|
| Initial Anchor | bb+ |
| Adjusted Anchor | bbb- |
| — Business position | +2 |
| — Capital and Earnings | +1 |
| — Risk position | +1 |
| — Funding and Liquidity | +1 |
| Stand-alone Credit Profile (SACP) | a_{spc}+ |
| Group support | +4 |
| Issuer credit rating (ICR) | AAA_{spc} |
| Outlook | Stable |

Business position: ICBCFL is a leading financial leasing company in China. It has developed strong business franchises for aviation, shipping and financial leasing. It has close business cooperation with its parent ICBC.

Capital and Earnings: ICBCFL has maintained adequate capital ratios. Its stable asset size and healthy profitability help it keep capitalization adequate going forward. We expect its parent to supplement its capital as required for it to maintain development growth and capital adequacy.

Risk position: ICBCFL aligns itself with ICBC in terms of risk culture and risk management. Its asset quality metrics have remained stable in recent years. While COVID and the Russia-Ukraine conflict have impacted on asset quality of its aviation leasing business, we expect any losses to be controllable.

Funding and Liquidity: The duration of ICBCFL's leasing assets is much longer than that of its debts, causing a mismatch. But thanks to ongoing support from ICBC and its diversified sources of funding, we believe ICBCFL's liquidity risk is highly controllable.

Group support: We believe ICBCFL is a core subsidiary of ICBC. Regulations and the company's Articles of Association both require parental support if ICBCFL experiences capital or liquidity difficulties.

ICBCFL's Relative Issuer Credit Rating Position Among Financial Institutions In China

Note: this chart serves as a hypothetical example of S&P Global China Ratings rating distribution of financial institutions. Rating below [AA]spc could be adjusted by "+" and "-".

| Peer Comparison (2021) | ICBCFL | CDBFL | BoComFL | CMBFL | CCBFL |
|---|--------|--------|---------------|--------|--------|
| Total assets (bil) | 295.36 | 341.84 | 318.89 | 226.56 | 133.85 |
| Gross operating income (bil) | 17.59 | 23.32 | 21.33 | 13.85 | 8.34 |
| Net income (bil) | 2.20 | 3.92 | 3.53 | 2.89 | 1.78 |
| Reported Regulatory capital adequacy ratio (%) | 13.71 | 11.93 | 12.29 | 13.18 | 16.76 |
| Return on average equity (%) | 5.65 | 13.83 | 10.44 | 12.02 | 8.32 |
| Non-performing financial lease receivable ratio (%) | 1.51 | 0.45 | Not available | 0.39 | 1.05 |
| Total debts/total equity (X) | 5.97 | 9.69 | 7.19 | 7.32 | 4.61 |

Note: CMBFL's 2021 non-performing financial lease receivable ratio is its lease asset non-performing ratio.

Source: ICBCFL, public information of peer companies, collected and adjusted by S&P Global (China) Ratings.

Rating Summary

| Company Name | Rating Type | Current Rating | Rating Date | Outlook/Credit Watch |
|---------------------------------|----------------------|--------------------|--------------|----------------------|
| ICBC Financial Leasing Co., Ltd | Issuer Credit Rating | AAA _{spc} | July 4, 2022 | Stable |

| Stand-alone Credit Profile (SACP) | a _{spc} + | + | External Support | +4 | Issuer Credit Rating (ICR) |
|-----------------------------------|--------------------|---|------------------|----|-----------------------------|
| Initial Anchor | bb+ | | Group Support | +4 | AAA _{spc} / Stable |
| Adjusted Anchor | bbb- | | | | |
| Business Position | +2 | | | | |
| Capital & Earnings | +1 | | | | |
| Risk Position | +1 | | | | |
| Funding & Liquidity | +1 | | | | |
| Holistic Adjustment | 0 | | | | |

Credit Highlights

| Strengths | Weaknesses |
|--|---|
| <ul style="list-style-type: none"> ICBCFL receives strong and reliable ongoing support from ICBC for its business development, capitalization and liquidity. | <ul style="list-style-type: none"> The pandemic has led to economic uncertainties. ICBCFL's business development, asset quality and earnings are under pressure, particularly its aviation-related business. |
| <ul style="list-style-type: none"> ICBCFL is one of the leading leasing companies in China with strong franchises in both its financial lease and operating lease businesses. | |
| <ul style="list-style-type: none"> ICBCFL has close alignment with ICBC in terms of risk culture and risk management practices, it has in place a rigorous risk management framework. | |

Rating Outlook

The stable outlook on ICBCFL reflects our expectation that the company will remain a core subsidiary of ICBC over the next two years or beyond.

Downside scenario: We might consider the possibility of lowering the Issuer Credit Rating of ICBCFL if we believe the credit profile of ICBC deteriorates significantly, or if we no longer view ICBCFL as a core subsidiary of its parent and we expect weakening liquidity and capital support from ICBC. We see the possibility of such developments as very low over the next two years or beyond. We might also consider the possibility of lowering ICBCFL's Stand-alone Credit Profile if the asset quality of its aviation leasing business worsens far beyond our expectations; or if we observe a significant increase of risk appetite, such as meaningful expansion into high-risk market.

Upside scenario: We may consider raising ICBCFL's Stand-alone Credit Profile if ICBCFL achieves and maintains a much stronger capital position; or if it significantly reduces its risk appetite and credit cost.

Related Methodologies, Models & Research

Methodology Applied:

- S&P Global (China) Ratings Financial Institutions Methodology, January 31, 2019.
- S&P Global (China) Ratings General Considerations On Rating Modifiers And Relative Ranking, May 21, 2019.

Model Applied: None.

Anchor

Macro-Economic and Industry Trend

In 2021, China's ongoing control measures over COVID remained effective, as the economy continued to recover at a healthy pace. However, 2022 has seen new waves of COVID impact on economic activity, leading to weaker growth. While industrial production has been hit less hard than service sector activity, supply disruptions have been substantial, and turbulent market conditions highlight refinancing risk. Looking beyond COVID, we believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

The impact of COVID on lessees' cash flows has varied from segment to segment. The pandemic's impact has been felt in particular in aviation, services and among small and medium-sized enterprises, but the overall impact is controllable.

We expect potential losses in aviation leasing to be contingent on COVID prevention and control measures worldwide, as well as on governments' support for their respective aviation sectors. International aviation leasing businesses face challenges from the pandemic and the Russia-Ukraine conflict. So far, most Chinese airlines are able to make lease payments, but some small and medium-sized international airlines are struggling. Furthermore, aviation leasing business related to Russia are now clouded in uncertainty.

The financial leasing industry's risk exposures are generally concentrated in domestic manufacturing, infrastructure and public utilities. In our view, the risk profiles of those assets resemble those of banks' loan portfolio, and the overall risk situation remains stable.

While aviation leasing may continue to face pressure in 2022, we expect resulting negative impact on large financial leasing companies to be mainly reflected in profitability, with their capital adequacy ratios and overall credit quality set to remain stable. Considering strong shareholder support, we expect the credit quality of the financial leasing industry to remain stable in the next 12 months.

For ICBCFL, we apply an anchor of "bbb-". This anchor reflects the average stand-alone credit quality of regulated non-banking finance companies in China, particularly the financial leasing industry regulated by China Banking and Insurance Regulatory Commission ("CBIRC").

Stand-alone Credit Profile

ICBCFL is a leading financial leasing company in China. It has three major leasing business lines: aviation, shipping and financial leasing businesses. ICBCFL was established in 2007 and is registered in Tianjin. After being set up as part of a pilot program under the State Council, it was the first bank-affiliated financial leasing company to be licensed by China Banking Regulatory Commission ("CBRC"), the predecessor of CBIRC. Its total assets were 295.4 billion RMB by the end of 2021. It

Based on the regulatory, funding and business conditions of the financial leasing industry, we typically apply an anchor of "bbb-" to leasing companies licensed by CBIRC.

reported a gross operating income of 17.6 billion RMB and a return on average equity of 5.7% in 2021.

ICBCFL is a wholly owned subsidiary of Industrial and Commercial Bank of China Ltd. (“ICBC”), the largest commercial bank in China. ICBCFL is one of ICBC’s largest non-bank subsidiaries in terms of asset size. We view ICBCFL as a core subsidiary of its parent and we believe there is strong business synergy between ICBC and ICBCFL. ICBC has provided ICBCFL with significant ongoing support in terms of client acquisition, capital injection, risk management, funding and liquidity support.

Business Position

ICBCFL, a highly competitive bank-affiliated financial leasing company, is one of the leading leasing companies in China in terms of asset size, business strength and profitability.

Chart 1

ICBCFL is one of the leading leasing companies in China

Peer Comparison: Total Assets as of End of 2021



Note: Other assets include cash and balance with Central Bank, due from banks, others liquid assets and construction in progress, etc.

Sources: Public data of peer companies, collected and adjusted by S&P Global (China) Ratings.

ICBCFL attaches significant importance to its operating lease business. It has a specialized subsidiary for aviation, a dedicated business unit for shipping, and three geographically divided business units for domestic leasing business covering transportation, energy, large equipment and other leasing business. It has a diverse and balanced business franchise across different sectors.

The overall size of ICBCFL’s leasing business remained stable in 2021. Its aviation-related business growth slowed under the impact of COVID, while it maintained a prudent growth strategy towards its financial lease business. As of the end of 2021, ICBCFL’s net leasing assets were 234.7 billion RMB, consistent with the previous year. For 2022, we expect its leasing business size to remain stable, with moderate growth potential.

Operating leasing has been identified by ICBCFL as a key sector with strategic importance. Compared to financial leasing, operating leasing can provide leasing

ICBCFL is one of the leading financial leasing companies in China.

ICBCFL has built a strong franchise in aviation, shipping and domestic financial leasing business.

ICBCFL’s business development is strongly supported by its parent.

Its market position is much stronger than average financial companies, and it has a two-notch uplift for business position.

companies with higher margins and stronger competitive strengths. About half of the company's lease assets are operating lease assets. In 2021, 65% of its gross operating income was from operating leasing, unchanged from the previous year.

ICBCFL is a leader in aviation leasing. ICBCFL has airline clients across the world, with a concentration in China and Asia-Pacific. As of the end of 2021, ICBCFL owned and managed an aircraft fleet worth approximately 140 billion RMB (not including assets under construction) and the value of its fleet ranks the first in China. Despite the significant impact of COVID on aviation leasing, we remain positive about the sector's medium- and long-term prospects.

Financial leasing products are similar to loan products, and face strong competition from banks, shadow banking institutions and the bond market. Therefore, although financial leasing remains a meaningful part of ICBCFL's business, its contribution to total revenue is relatively low. By the end of 2021, the company held financial lease assets of around 111 billion RMB. In 2021, around 30% of its gross operating income was generated from financial leasing interest income.

Offshore leasing business is an important part of ICBC's efforts to expand international franchise. Among ICBCFL's business lines, aviation is more internationalized, while large equipment leasing is predominantly with its domestic client base.

Before 2018, ICBC's assets and debts related to its offshore leasing business were held by ICBC International Leasing ("ICBCIL"). ICBCFL has management control over ICBCIL, as ICBCFL serves as the centralized decision-maker for ICBC's leasing business. In 2014, regulatory restrictions related to overseas subsidiaries were removed, making it possible for bank-affiliated financial leasing companies to consolidate their offshore and onshore businesses.

In 2018, ICBCFL set up its aviation leasing subsidiary, ICBC Aviation Leasing, in Hong Kong, to consolidate ICBC group's offshore and onshore aviation lease assets. This was the main reason for ICBCFL's asset expansion in 2018.

An efficient business referral and cooperation mechanism has been set up between ICBCFL and ICBC. ICBCFL has been able to fully utilize the strong client base and nationwide network of its parent bank. ICBC branches across China refer their corporate clients to ICBCFL when their clients need leasing products. Energy, transportation and large equipment lease financing is typically sourced from client referral from ICBC branches which cover diverse regions, industries and client groups. Given the more specialized nature of aviation and shipping leasing, ICBCFL typically conducts its own marketing and sales efforts for these two sectors.

Table 1

| ICBCFL -- Business Position | | | | | |
|--|--------|---------|--------|---------|---------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Total assets (bil) | 230.61 | 272.49 | 271.21 | 284.30 | 295.36 |
| Net lease assets (bil) | 203.52 | 226.58 | 215.99 | 234.33 | 234.66 |
| Growth rate of net lease assets (%) | 49.97 | 11.33 | (4.68) | 8.49 | 0.14 |
| Gross operating income (bil) | 16.03 | 17.00 | 18.86 | 17.39 | 17.59 |
| YoY growth of gross operating income (%) | 70.04 | 6.03 | 10.97 | (7.80) | 1.15 |
| Net income (bil) | 3.57 | 3.02 | 3.83 | 3.22 | 2.20 |
| YoY growth of net income (%) | 57.58 | (15.43) | 26.70 | (15.91) | (31.81) |
| Gross income from financial lease/gross operating income (%) | 35.21 | 30.87 | 25.44 | 27.15 | 29.60 |
| Gross income from operating lease/gross operating income (%) | 55.32 | 55.94 | 61.82 | 64.51 | 64.57 |

Note 1: Net lease assets include net finance lease receivables, net operating lease assets and prepaid lease assets.

Note 2: 2017 data was restated in the 2018 annual report.

Note 3: The rapid growth of net lease assets, gross operating income and net income in 2017 were caused by the consolidated of offshore aviation assets.

Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

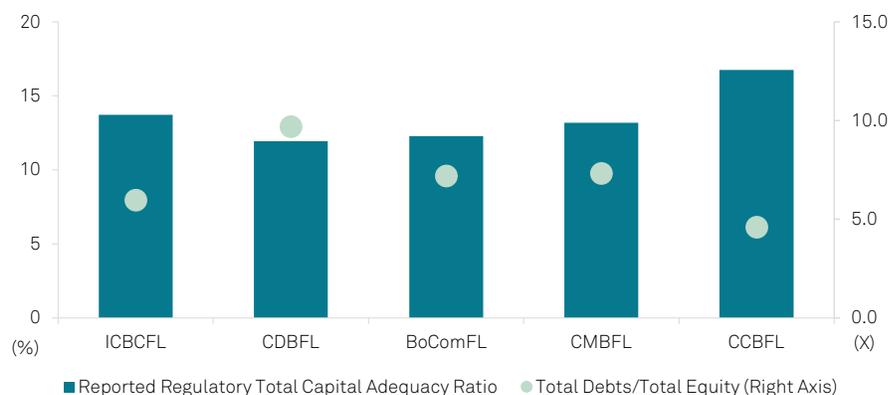
Capital & Earnings

Thanks to its stable asset size and healthy profitability, ICBCFL's capitalization has remained comfortably adequate in recent years. As of the end of 2021, its tier-1 capital adequacy ratio was 13.27%, up 0.75 percentage points from the end of 2020, higher than the minimum regulatory requirement. We expect its capital adequacy ratio to remain stable over the next 12 months.

Chart 2

ICBCFL has maintained stable leverage and sound capital adequacy ratio

Peer Comparison: Capital Adequacy Ratio and Leverage Ratio as of End of 2021



Sources: ICBCFL, public data of peer companies, collected and adjusted by S&P Global (China) Ratings.

ICBCFL is expected to maintain adequate capitalization.

We expect ICBC to replenish ICBCFL's capital when necessary.

Its capitalization is more stable and robust than average financial companies, therefore it has a one-notch uplift for capital and earnings.

As required by Chinese regulations, ICBC shall provide capital support to ICBCFL when necessary. “Rules Governing Financial Leasing Companies” issued by CBRC in 2014 requires capital support from controlling shareholders for their financial leasing companies. To comply with this regulation, ICBCFL amended its Articles of Association the same year.

Through the years, ICBC has provided repeated capital injections into ICBCFL and has not required any dividend payouts from ICBCFL, allowing the company to continue developing business while meeting regulatory requirements. When created in 2007, ICBCFL had a capital position of 2 billion RMB. During the past 14 years, ICBC has injected capital three times, with 3 billion RMB injected each time. Furthermore, ICBC has not taken any dividends from ICBCFL, and ICBCFL’s earnings have been 100% retained on its balance sheet to support further business growth.

To support the development of its offshore leasing business, ICBCFL has been providing credit support to ICBCIL and its subsidiaries in the form of keep-well arrangements. Considering the capital support from ICBC, we do not expect such contingent liabilities to have material impact on ICBCFL’s capital adequacy.

Table 2

| ICBCFL -- Capital Adequacy and Leverage | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Reported regulatory tier-1 capital adequacy ratio (%) | 14.01 | 11.87 | 12.87 | 12.52 | 13.27 |
| Reported regulatory total capital adequacy ratio (%) | 14.70 | 12.49 | 13.61 | 13.09 | 13.71 |
| Tier-1 capital/total capital (%) | 95.34 | 95.03 | 94.51 | 95.63 | 96.82 |
| Reported regulatory risk-weighted assets/total assets (%) | 102.94 | 100.74 | 102.18 | 105.64 | 101.94 |
| Total debts/total equity (X) | 6.33 | 6.89 | 5.77 | 5.88 | 5.97 |

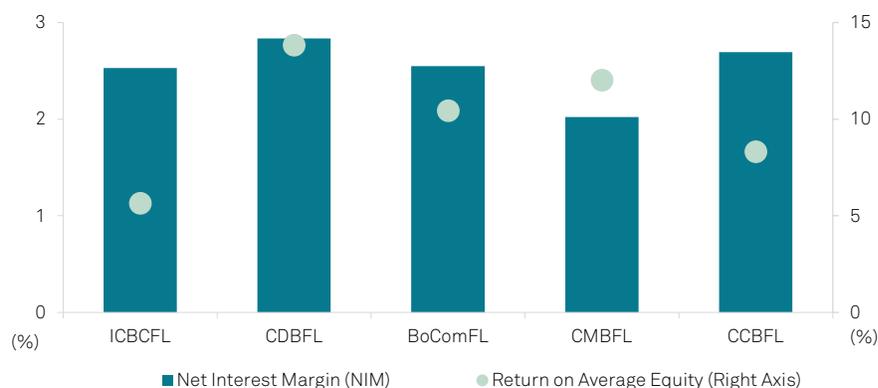
Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

Thanks to ample systemwide liquidity, ICBCFL’s funding cost remained stable with a slight decline, and it maintained a stable NIM. In 2021, ICBCFL’s NIM was 2.5%, unchanged from the previous year. The ratio of interest payment to average interest-paying debts decreased from 2.5% in 2020 to 2.3% in 2021.

Chart 4

ICBCFL's NIM is comparable with its peers

Peer Comparison: Net Interest Margin and Return on Average Equity in 2021



Note: NIM = (net interest income + net operating leasing income)/average interest-generating assets.

Sources: ICBCFL, public data of peer companies, collected and adjusted by S&P Global (China) Ratings.

ICBCFL increased provisioning in 2021 in response to COVID-induced asset quality pressure on its aviation leasing business. In 2021, it booked an asset impairment charge of 3.5 billion RMB, up by 69% YoY. This included a 1.7 billion RMB impairment charge on lease payment receivables and 1.8 billion RMB on operating leasing assets. The ratio of new provisioning to operating income increased from 29% in 2020 to 50% in 2021. In our view, this prudent approach to provisioning will help the company protect its capitalization.

Due to the sharp increase in provisioning for its aviation and other leasing businesses, ICBCFL's profitability declined in 2021, but the overall profitability level has remained healthy. In 2021, the company achieved a net income of 2.2 billion RMB, down 32% YoY. Return on average equity decreased from 8.7% in 2020 to 5.7% in 2021. While COVID has impacted on profitability, we expect it to maintain good capital position, considering its prudent growth strategy and provisioning approach.

Table 3

| ICBCFL -- Profitability | | | | | |
|--|------|-------|-------|-------|-------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Net interest margin (%) | 2.21 | 1.60 | 1.99 | 2.53 | 2.53 |
| Interest income/average interest-generating assets (%) | 8.09 | 6.54 | 6.84 | 6.57 | 6.56 |
| Interest payment/average interest-paying debt (%) | 4.40 | 3.70 | 3.47 | 2.48 | 2.33 |
| Cost-to-income ratio (%) | 9.83 | 8.62 | 9.37 | 8.63 | 10.28 |
| Provisioning/operating income (%) | 4.28 | 12.87 | 16.53 | 28.74 | 50.29 |
| Return on average assets (%) | 1.17 | 1.20 | 1.41 | 1.16 | 0.76 |
| Return on average equity (%) | 8.30 | 9.81 | 11.19 | 8.67 | 5.65 |

Note1: 2017 data was restated in the 2018 annual report.

Note2: Cost-to-income ratio=operation and administrative expense/operating income.

Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

Risk Position

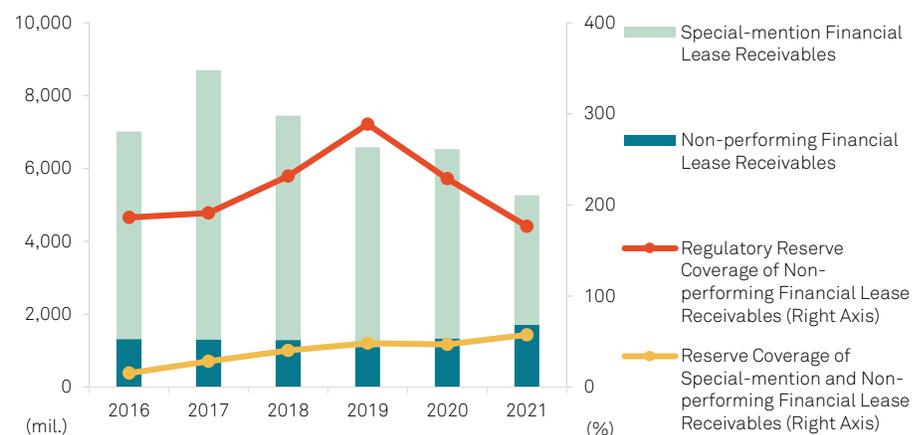
The pandemic has continued to put the asset quality of aviation leasing business under pressure. ICBCFL's reserve for impairment of operating lease assets increased from 2.4 billion RMB as of the end of 2020 to 3.7 billion RMB as of the end of 2021, with incremental reserves mostly allocated to its aviation leasing assets. The ongoing impact of COVID-19 and the Russia-Ukraine conflict might continue to put pressure on its aviation leasing assets in 2022. However, we believe its profitability is resilient enough to absorb any additional credit costs going forward.

ICBCFL has managed to maintain stable and healthy asset quality metrics for its financial lease business through effective risk management. As of the end of 2021, the company's non-performing financial lease receivable ratio was 1.51%, up by 0.38 percentage points YoY; special mention assets ratio were 3.1%, down by 1.26 percentage points. Its reserve coverage for non-performing financial lease receivables stood at 176.65% as of the end of 2021.

Chart 4

Asset quality of ICBCFL's financial leasing business remained stable despite COVID

ICBCFL: Asset Quality of Financial Lease Receivables



Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

Due to its sound asset quality, ICBCFL's net write-off level of its financial lease business are far lower than the banking industry average. Its five-year average net write-off ratio (net written off financial lease receivables/average receivables) over 2017-2021 was only 0.21%. In 2021, it wrote off bad debts worth 215 million RMB, and the net write-off ratio was 0.19%.

We view ICBCFL's risk governance framework as effective. Its integrated risk management fits its business profile and is fully integrated into the risk management framework of ICBC. Most senior management members and board directors of ICBCFL are veteran bankers from ICBC. ICBCFL uses the same risk control requirements, industry lending policies and internal rating models as ICBC. Its leasing business exposures to clients are integrated into the credit limit management of its parent. In addition, it has close cooperation with ICBC branches across China for client risk surveillance and bad debt collection.

ICBCFL has aligned itself with ICBC in terms of risk management practices. It has in place an effective and prudent risk management framework.

Its risk position is stronger than average financial companies given the ongoing support from its parent in risk mitigation, resulting in a one-notch uplift for risk position.

We believe there is positive synergy between the company and its parent on bad debt collection. Although its own physical network is limited, it can leverage the wide network of ICBC branches to identify, mitigate and resolve credit risk of its clients.

Table 4

| ICBCFL -- Risk Position | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Growth rate of net financial lease receivables (%) | 17.80 | (1.81) | (14.69) | 16.82 | (2.66) |
| Growth rate of net operating lease assets (%) | 139.67 | 29.33 | 4.68 | 0.98 | 4.44 |
| Growth rate of total assets (%) | 39.34 | 18.16 | (0.47) | 4.83 | 3.89 |
| Maximum single customer concentration (%) | 18.75 | 14.26 | 10.62 | 11.24 | 18.54 |
| Maximum single group customer concentration (%) | 25.73 | 17.35 | 10.62 | 17.01 | 18.54 |
| Non-performing financial lease receivable ratio (%) | 1.19 | 1.10 | 1.08 | 1.13 | 1.51 |
| Special mention financial lease receivable ratio (%) | 6.70 | 5.22 | 5.38 | 4.39 | 3.13 |
| Regulatory reserve coverage of non-performing financial lease receivables (%) | 191.01 | 231.57 | 288.79 | 228.96 | 176.65 |
| Reserve coverage of special mention + non-performing financial lease receivables (%) | 28.30 | 40.17 | 48.10 | 46.74 | 57.47 |
| Reserve coverage of financial lease receivables (%) | 2.09 | 2.57 | 3.18 | 2.63 | 2.68 |
| Net write-offs of financial lease receivables/average financial lease receivables (%) | - | 0.04 | 0.47 | 0.35 | 0.19 |

Note: 2017 data was restated in the 2018 annual report.

Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

Funding and Liquidity

ICBCFL is largely reliant on wholesale funding from sources such as interbank market borrowing, bank loans and bond markets. As of the end of 2021, it had total debts of 237.3 billion RMB, 91% of which was bank and other borrowings, and 9% bonds.

Due to its very good credit profile and strong investor confidence, ICBCFL's funding structure remains stable. The company has access to a wide range of bank financing channels and enjoys a strong and stable relationship with many major banks in China. As of the end of 2021, the company had obtained credit lines of more than 500 billion RMB, with unused credit lines much larger than its total debts.

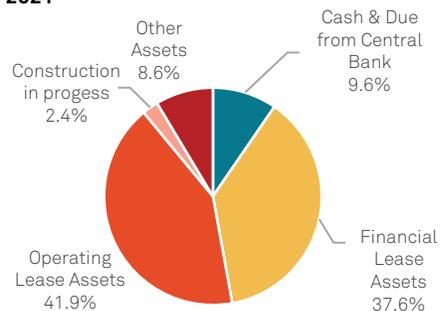
A significant portion of ICBCFL's funding structure is comprised of short-term bank loans. Because of the long-term nature of lease assets due to their life cycles, there is clear tenor mismatch between its assets and liabilities. As of the end of 2021, the company's ratio of short-term debts to total debts was 63%. Considering ICBCFL's stable financing channels and reliable parent bank support, we do not expect this tenor mismatch to result in high liquidity risk.

Although ICBCFL has a significant maturity mismatch between its assets and liabilities, its leading position in the industry and ongoing liquidity support from its parent mean it has very stable access to diverse financing channels. Refinancing risk is low and liquidity is very ample.

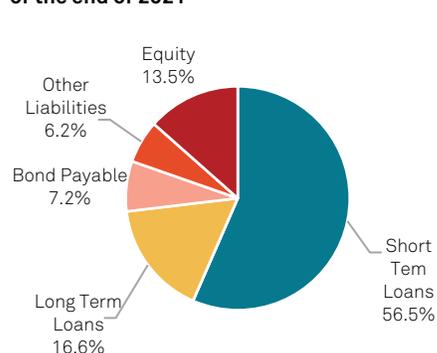
Chart 5

There is a tenor mismatch between its assets and liabilities

Asset Breakdown as of the end of 2021



Liabilities and Equity Breakdown as of the end of 2021



Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

The regulator and ICBCFL's *Articles of Association* require liquidity support from ICBC if ICBCFL experiences liquidity difficulties. According to the "*Rules Governing Financial Leasing Companies*" and "*Implementation Rules on Administrative Licensing of Non-Bank Financial Institutions*", two regulations released in 2014 and 2020, respectively, by CBIRC and its predecessor, controlling shareholders shall provide liquidity support for financial leasing companies in cases of payment difficulties, and such arrangement shall be put into the financial leasing companies' *Articles of Association*. Therefore, ICBCFL states in its *Articles of Association* that its shareholder should provide liquidity support in times of need.

The company's funding and liquidity is therefore much better than average financial companies, leading to a one-notch uplift for funding and liquidity.

ICBC is China's largest commercial bank and is highly capable of and willing to provide sufficient and timely liquidity support to ICBCFL when needed. At the same time, ICBCFL has diversified its funding sources and controlled its reliance on parental funding to within 40% of its total funding.

Considering ICBCFL's prudent liquidity management and reliable liquidity support from its parent bank, we expect ICBCFL to continue maintaining ample liquidity. In addition, due to its large business scale and slowing new business growth, it enjoyed net cash inflow in 2021. Its cash inflow from interest, fees and commission income was 5.6 billion RMB, and cash inflow from operating lease rent payments was 9.6 billion RMB in 2021. Over the same period, cash outflow for purchase of fixed assets, intangible assets and other long-term assets was 13.7 billion RMB.

Table 5

| ICBCFL -- Funding and Liquidity | | | | | |
|------------------------------------|-------|-------|-------|-------|-------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Short-term debts/total debts (%) | 72.45 | 71.79 | 61.57 | 66.46 | 62.95 |
| Total debts/total equity (X) | 6.33 | 6.89 | 5.77 | 5.88 | 5.97 |
| Total debts/profits before tax (X) | 43.37 | 55.29 | 44.00 | 50.39 | 86.41 |

Note: 2017 data was restated in the 2018 annual report.

Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

Issuer Credit Rating

External Support

ICBC is the largest commercial bank in China and a global systemically important bank. ICBC has the most extensive commercial banking operation network and an extremely strong brand in China. ICBC has a solid and extensive client base for both retail and corporate business. As of the end of 2021, ICBC reported total assets of 35 trillion RMB. It has over 9.69 million corporate clients and 700 million retail clients. Despite COVID, it has maintained good capital adequacy, profitability and asset quality. As of the end of 2021, ICBC's reported regulatory capital adequacy ratio stood at 18.02%. Its NPL and SML ratios were 1.42% and 1.99% respectively, and it reported ROE of 12.15% in 2021.

ICBC plays a vital role in maintaining the overall stability of China's financial system. ICBC's largest shareholder is the central government and we believe the government's shareholding is long-term and strategic. Therefore, we believe ICBC is of critical importance to the central government, and the likelihood of government support in a crisis scenario would be almost certain. As a result, we view ICBC's overall credit quality as extremely high, equivalent to our rating of "AAA_{spc}".

ICBCFL is wholly owned by ICBC, and it is one of the largest non-bank subsidiaries of ICBC. We believe ICBCFL is a core subsidiary of ICBC. ICBCFL's business is an integral part of the ICBC group in terms of providing a full package of financial services to its corporate clients. Leasing is an important supplement for bank lending. The products and services offered by ICBCFL can provide significant added value to large corporate clients in aviation, shipping, energy, transportation and infrastructure industries.

Thanks to its leading business position, strong capital position, prudent risk management, very stable funding base, and strong liquidity position, ICBCFL is assigned an SACP of "a_{spc}+", five notches higher than its anchor of "bbb-".

We believe ICBCFL is a core subsidiary of ICBC and is critical to its parent. Given the extremely high credit quality of ICBC, an Issuer Credit Rating of "AAA_{spc}" is assigned to ICBCFL, which represents a four-notch uplift from its SACP of "a_{spc}+".

A reasonable and effective corporate governance framework has been set up between ICBCFL and its parent. ICBC has set up a board of directors to oversee the subsidiary and appoint its management team. ICBC monitors the key business and financial performance of ICBCFL, ensures consistency of risk appetite, underwriting standards and exposure limit management between the parent and the leasing subsidiary. In our view, ICBC has provided effective ongoing support to the company in terms of business development, capital injection and funding support.

Liquidity and capital support from the parent to ICBCFL in times of stress is required by Chinese regulations. ICBCFL's Articles of Association stipulate that its shareholder shall provide support to the company's business development when required, provide liquidity support in case of payment difficulties, and replenish capital where operational losses lead to erosion of capital.

Considering the abovementioned factors, we believe ICBCFL is almost certain to receive extraordinary support of its parent bank in times of stress. As a result, ICBCFL's ratings are closely aligned with ICBC's issuer credit quality. Given the extremely high credit quality of ICBC, we assign an Issuer Credit Rating of "AAA_{spc}" to ICBCFL.

Appendix 1: Key Financial Data

| ICBCFL: Key Financial Data | | | | | |
|---|------------|------------|------------|------------|------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Total assets (mil) | 230,605.80 | 272,489.25 | 271,208.91 | 284,298.86 | 295,360.34 |
| Net lease assets (mil) | 203,518.36 | 226,582.34 | 215,987.39 | 234,332.42 | 234,659.33 |
| Growth rate of net lease assets (%) | 49.97 | 11.33 | (4.68) | 8.49 | 0.14 |
| Gross operating income (mil) | 16,030.59 | 16,997.55 | 18,862.57 | 17,390.50 | 17,590.37 |
| YoY growth of gross operating income (%) | 70.04 | 6.03 | 10.97 | (7.80) | 1.15 |
| Net income (mil) | 3,573.30 | 3,021.86 | 3,828.68 | 3,219.35 | 2,195.39 |
| YoY growth of net income (%) | 57.58 | (15.43) | 26.70 | (15.91) | (31.81) |
| Gross financial lease revenue/gross operating income (%) | 35.21 | 30.87 | 25.44 | 27.15 | 29.60 |
| Gross income from operating lease/gross operating income (%) | 55.32 | 55.94 | 61.82 | 64.51 | 64.57 |
| Reported regulatory tier-1 capital adequacy ratio (%) | 14.01 | 11.87 | 12.87 | 12.52 | 13.27 |
| Reported regulatory total capital adequacy ratio (%) | 14.70 | 12.49 | 13.61 | 13.09 | 13.71 |
| Tier-1 capital/total capital (%) | 95.34 | 95.03 | 94.51 | 95.63 | 96.82 |
| Reported regulatory risk-weighted assets/total assets (%) | 102.94 | 100.74 | 102.18 | 105.64 | 101.94 |
| Total debts/total equity (X) | 6.33 | 6.89 | 5.77 | 5.88 | 5.97 |
| Net interest margin (%) | 2.21 | 1.60 | 1.99 | 2.53 | 2.53 |
| Interest income/average interest-generating assets (%) | 8.09 | 6.54 | 6.84 | 6.57 | 6.56 |
| Interest payment/average interest-paying debt (%) | 4.40 | 3.70 | 3.47 | 2.48 | 2.33 |
| Cost-to-income ratio (%) | 9.83 | 8.62 | 9.37 | 8.63 | 10.28 |
| Provisioning/operating income (%) | 4.28 | 12.87 | 16.53 | 28.74 | 50.29 |
| Return on average assets (%) | 1.17 | 1.20 | 1.41 | 1.16 | 0.76 |
| Return on average equity (%) | 8.30 | 9.81 | 11.19 | 8.67 | 5.65 |
| Non-performing financial lease receivable ratio (%) | 1.19 | 1.10 | 1.08 | 1.13 | 1.51 |
| Special mention financial lease receivable ratio (%) | 6.70 | 5.22 | 5.38 | 4.39 | 3.13 |
| Regulatory reserve coverage of non-performing financial lease receivables (%) | 191.01 | 231.57 | 288.79 | 228.96 | 176.65 |
| Reserve coverage of special mention + non-performing financial lease receivables (%) | 28.30 | 40.17 | 48.10 | 46.74 | 57.47 |
| Reserve coverage of financial lease receivables (%) | 2.09 | 2.57 | 3.18 | 2.63 | 2.68 |
| Net write-offs of financial lease receivables/average financial lease receivables (%) | - | 0.04 | 0.47 | 0.35 | 0.19 |
| Short-term debts/total debts (%) | 72.45 | 71.79 | 61.57 | 66.46 | 62.95 |
| Total debts/profits before tax (X) | 43.37 | 55.29 | 44.00 | 50.39 | 86.41 |

Note 1: We believe ICBCFL has a clear business model, rigorous financial management, and is under the effective governance of the parent. Therefore, we did not make any significant adjustment to its reported financial data.

Note 2: ICBCFL's annual financial reports from 2017 to 2020 were audited by KPMG Huazhen LLP. The 2021 annual financial report was audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP. The external auditors have issued standard unqualified opinions for all these annual reports.

Note 3: The historical data of 2017 in this report is based on the restated numbers in the 2018 annual report of ICBCFL; and the historical data of other years is based on the end-of-year numbers in the corresponding annual reports. We notice that some historical numbers have been restated. In our view, these restatements are insignificant and none of the restatements have any material impact on our view of the related financial ratios.

Source: ICBCFL, collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Rating History of ICBCFL by S&P Global (China) Ratings

| Issuer Credit Ratings | Outlook | Rating Date | Analysts | Related Reports |
|------------------------------|----------------|--------------------|---------------------------------|--|
| AAA _{spc} | Stable | 2019-7-11 | Ying Li, Longtai Chen, Zheng Li | Credit Rating Report: ICBC Financial Leasing Co., Ltd., July 11, 2019 |
| AAA _{spc} | Stable | 2020-7-10 | Longtai Chen, Zheng Li | Credit Rating Report: ICBC Financial Leasing Co., Ltd., July 10, 2020 |
| AAA _{spc} | Stable | 2020-11-2 | Longtai Chen, Zheng Li | Credit Rating Report: ICBC Financial Leasing Co., Ltd., November 2, 2020 |
| AAA _{spc} | Stable | 2021-5-10 | Longtai Chen, Zheng Li | Credit Rating Report: ICBC Financial Leasing Co., Ltd., May 10, 2021 |
| AAA _{spc} | Stable | 2021-7-8 | Longtai Chen, Zheng Li | Credit Rating Report: ICBC Financial Leasing Co., Ltd., July 8, 2021 |
| AAA _{spc} | Stable | 2022-7-4 | Longtai Chen, Xiaochen Luan | Current Report |

Note: these ratings are conducted based on [S&P Global \(China\) Ratings Financial Institutions Methodology](#), and no quantitative model is used.

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