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S&P Global
China Ratings

Credit Rating Report

ICBC Financial Leasing Co., Ltd.

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

June 1, 2023

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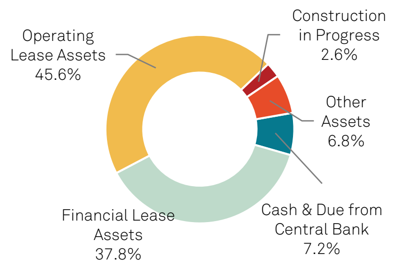
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
ICBC Financial Leasing Co., Ltd.	Issuer Credit Rating	AAA_{spc}	June 1, 2023	Stable

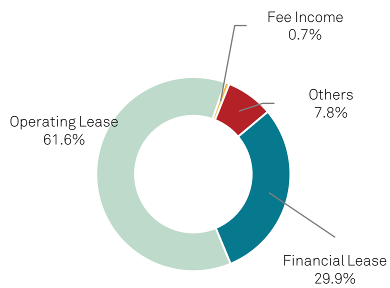
Industry Classification: Finance Company

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, maritime and other financial leasing businesses. As of the end of 2022, it reported total assets of 293.1 billion RMB.

Asset Breakdown as of the end of 2022



Gross Operating Income Breakdown in 2022



Economy and Industry Trends: We expect China's 2023 GDP growth to recover significantly from 2022. 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 tightened regulation of the leasing industry, a move we see as positive for the industry's long-term development. The global pandemic 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. In addition, we expect the group support for the leasing companies to remain stable. Taking all into consideration, we expect the credit quality of the leasing industry to stay stable.

Key Metrics of ICBCFL

	2018	2019	2020	2021	2022
Total assets (bil)	272.49	271.21	284.30	295.36	293.08
Gross operating income (bil)	17.00	18.86	17.39	17.59	17.98
Net income (bil)	3.02	3.83	3.22	2.20	0.20
Regulatory capital adequacy ratio (%)	12.49	13.61	13.09	13.71	14.33
Return on average equity (%)	9.81	11.19	8.67	5.65	0.50
Non-performing financial lease receivable ratio (%)	1.10	1.08	1.13	1.51	1.49
Total debts/total equity (X)	6.89	5.77	5.88	5.97	5.57

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, maritime and other financial leasing. It has close business cooperation with its parent ICBC.

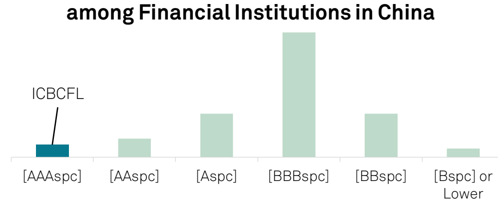
Capital and Earnings: ICBCFL has maintained adequate capital ratios. Although profitability has declined in recent years, we do not see a significant negative impact on the company's capital adequacy. We expect its parent to supplement its capital as required for it to maintain development growth and 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 global pandemic and the Russia-Ukraine conflict have impacted the asset quality of its aviation leasing business, we expect any losses to be controllable.

Funding and Liquidity: A mismatch appears between the duration of ICBCFL's leasing assets and that of its debts. But thanks to ongoing support from ICBC and its diversified sources of funding, we believe ICBCFL's funding is stable with liquidity adequate.

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



Peer Comparison (2022)	ICBCFL	CDBFL	BoComFL	CMBFL	CCBFL
Total assets (bil)	**293.08**	354.72	358.98	260.19	128.40
Gross operating income (bil)	**17.98**	25.05	23.51	17.35	7.85
Net income (bil)	**0.20**	3.35	3.81	3.27	0.81
Reported Regulatory capital adequacy ratio (%)	**14.33**	12.46	12.36	13.28	18.45
Return on average equity (%)	**0.50**	10.41	9.92	11.94	3.56
Non-performing financial lease receivable ratio (%)	**1.49**	0.73	Not available	0.36*	2.49
Total debts/total equity (X)	**5.57**	8.60	6.99	7.16	4.14

Note*: CMBFL disclosed its total leasing asset non-performing ratio as 0.36%, instead of non-performing ratio of its financial leasing assets, so comparability is limited.
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}	June 1, 2023	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
— ICBCFL receives strong and reliable ongoing support from ICBC for its business development, capitalization and liquidity.	— Global pandemic and Russia-Ukraine conflict have impacted the international aviation leasing industry, leading to asset quality and earnings pressure.
— ICBCFL is one of the leading leasing companies in China with strong franchises in both its financial lease and operating lease businesses.	— The rapid interest rate hike of the US dollar causes the rise of US dollar financing costs, affecting its earnings.
— 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 we observe a significant increase in risk appetite, such as meaningful expansion into high-risk markets.

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, May 15, 2023.

— 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

Based on the regulatory, funding and business conditions of the financial leasing industry in China, we typically apply an anchor of "bbb-" to leasing companies licensed by the National Administration of Financial Regulation ("NAFR", the successor of CBIRC).

We expect China's 2023 GDP growth to recover significantly from 2022. 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 tightened regulation of the leasing industry, a move we see as positive for the industry's long-term development despite the growth of financial leasing business is likely to slow down. In 2022, China Banking and Insurance Regulatory Commission (CBIRC) issued the "Notice on Strengthening the Regulation of Financial Leasing Business of Financial Leasing Companies" to strengthen the regulations of using structures as leasing assets and guide the reduction of structures leasing businesses step by step. The notice requires that the balance of structures leasing business of each financial leasing company by the end of 2022 should not be higher than 75% of that as of the end of 2021.

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 portfolios, and the overall risk situation remains stable. In 2023, attentions need to be paid to the impact of tail LGFVs on the asset quality of financial leasing companies.

The asset quality of the international aviation leasing industry has improved with the end of the global pandemic, but the risk of losing aircraft leasing assets due to the Russia-Ukraine conflict remains significant and presents a huge shock to the profitability and asset quality of leasing companies with exposures to the Russian market. However, we expect the 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, taking group support into account.

In addition, the loose monetary policy environment in China is conducive to maintaining sufficient liquidity for high-credit quality financial leasing companies, and we expect the group support to remain stable. Considering all these factors, 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 the National Administration of Financial Regulation.

Stand-alone Credit Profile

ICBCFL is a leading financial leasing company in China. It has three major leasing business lines: aviation, maritime 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 293.1 billion RMB as of the end of 2022.

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 is one of the leading financial leasing companies in China.

ICBCFL has built a strong franchise in aviation, maritime 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.

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.

ICBCFL attaches significant importance to its operating lease business. It has a specialized subsidiary for aviation, a dedicated business unit for maritime leasing, 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.

Operating leasing has been identified by ICBCFL as a key sector with strategic importance. Operating leasing can provide leasing companies with higher margins and stronger competitive strengths than financial leasing. About half of the company's lease assets are operating lease assets. In 2022, 62% of its gross operating income was from operating leasing.

ICBCFL is a leader in aviation leasing. ICBCFL has airline clients from 40 countries, with a concentration in China and Asia-Pacific. As of the end of 2022, ICBCFL owned and managed 779 aircraft. The company's aviation assets are worth approximately 156 billion RMB (excluding assets under construction) and the value of its fleet ranks first in China.

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. In addition, the CBIRC has strengthened the regulations of using structures as leasing assets in 2022, which slows the growth of financial leasing business. By the end of 2022, the company held financial lease assets of around 111 billion RMB, unchanged from last year. In 2022, around 30% of its gross operating income was generated from financial leasing interest income. We expect the company to further decrease the business using structures as leasing assets in 2023.

The offshore leasing business is an important part of ICBC's efforts to expand international franchises. 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 (including aviation and maritime businesses) 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. The company plans to eventually consolidate the group's offshore maritime business as well.

ICBCFL is one of the most influential maritime leasing institutions in China. The company has further optimized its asset structure, with a decrease in the number of inland bulk carriers and an increase in the proportion of high-value-added and long-term chartered vessels.

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 a 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 are typically sourced from client referrals from ICBC branches which cover diverse regions, industries and client groups. Given the more specialized nature of aviation and maritime leasing, ICBCFL typically conducts its own marketing and sales efforts for these two sectors.

Given the slowdown of the international aircraft leasing business and the strengthening of the regulations on structures used by domestic financial leasing businesses, ICBCFL's leasing business remained generally stable in 2022. As of the end of 2022, the company's total leasing assets were 244.5 billion RMB, an increase of 4.20% YoY. At the same time, its leasing business revenue totaled 16.6 billion RMB, down 1.43% from the previous year. We expect ICBCFL's leasing business to rise steadily in 2023.

Capital & Earnings

ICBCFL is expected to maintain adequate capitalization. We expect ICBC to replenish ICBCFL's capital when necessary to meet the needs of business development.

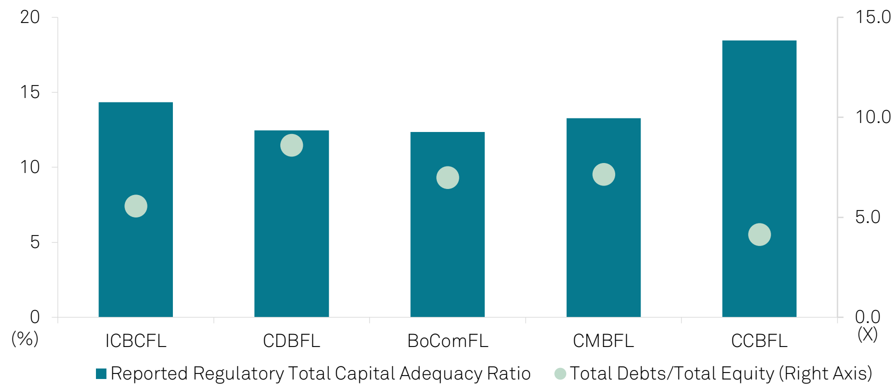
Given the ongoing support of parent company, its capitalization is more stable and robust than average financial companies, therefore it has a one-notch uplift for capital and earnings.

Thanks to its stable asset size and healthy profitability, ICBCFL's capitalization has remained comfortably adequate in recent years. As of the end of 2022, its tier 1 capital adequacy ratio was 13.75%, up 0.48 percentage points from the end of 2021, higher than the minimum regulatory requirement. The exchange differences for the overseas aviation subsidiaries due to the appreciation of the US dollar in 2022 was a gain, positive for owner's equity in 2022.

Chart 1

ICBCFL has maintained stable leverage and sound capital adequacy ratio

Peer Comparison: Capital Adequacy Ratio and Leverage Ratio as of End of 2022



Note: CDBFL - China Development Bank Financial Leasing Co., Ltd., BoComFL – Bank of Communications Financial Leasing Co. Ltd., CMBFL - CMB Financial Leasing Co., Ltd., and CCBFL- CCB Financial Leasing Co., Ltd.

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

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. We think ICBC will continue to provide reliable ongoing capital support for ICBCFL to meet its business development needs. ICBCFL is expected to maintain adequate capitalization.

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.

The rise in ICBCFL's US dollar financing costs due to the interest rate hike is faster than the rise in yields on leasing assets. At the same time, financial industry in China has seen NIM narrowing in recent years. As a result, ICBCFI's NIM fell to 1.8% in 2022, down 0.73 percentage points YoY. The ratio of interest payment to average interest-paying debts increased from 2.3% in 2021 to 2.8% in 2022, mainly because of higher US dollar financing costs. At the same time, the interest income/average interest-earning assets ratio decreases from 6.6% in 2021 to 6.4% in 2022. By the end of 2022, about 50% of the company's financing is in U.S. dollars.

Looking forward to 2023, we expect that the pressure on net interest margin will continue to affect the company's profitability, but the interest rate risk will not have a significant negative impact on the company's capital. The remarkable maturity mismatch of assets and liabilities of leasing companies may pile pressure on NIM amid rising interest rates. A big portion of the company's financing will be due within one year, while the average repricing cycle in operating leasing business is much longer. Based on the analysis of ICBCFL's interest rate sensitivity, the company's profit before tax will decrease by 640 million RMB under the assumption that the interest rate rises by 100 bps. So far in 2023, the Federal Reserve has further raised interest rates by 75 bps. The negative impact of interest rate risk on the company's profits is likely to continue.

ICBCFL maintained high provisioning in 2022. It booked an asset impairment charge of 3.4 billion RMB in 2022, down by 3.6% YoY. This included a 1.3 billion RMB impairment charge on lease payment receivables and around 2 billion RMB on operating leasing assets. The ratio of new provisioning to operating income increased from 50% in 2021 to 62% in 2022. In our view, this prudent approach to provisioning will help the company protect its capital and asset quality in the long run, despite it may affect the company's profitability in the short term.

ICBCFL's profitability declined in 2022 due to various factors. The ratio of income tax to total operating income increased from 3.1% in 2021 to 5.9% in 2022, as its NIM declined and credit costs remained high. In 2022, the company achieved a net income of 200 million RMB, decreasing significantly compared to last year. Return on average equity decreased from 5.7% in 2021 to 0.5% in 2022. We believe the temporary decline in profitability would not have a significant negative impact on the company's capital adequacy and credit quality, considering its prudent growth strategy and provisioning approach, as well as the ongoing capital support from ICBC.

Risk Position

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 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.

We believe there is a 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 the credit risk of its clients.

The pandemic has continued to put the asset quality of the aviation leasing business under pressure. ICBCFL's reserve for impairment of operating lease assets increased from 3.7 billion RMB as of the end of 2021 to 6.1 billion RMB as of the end of 2022, with incremental reserves mostly allocated to its aviation leasing assets.

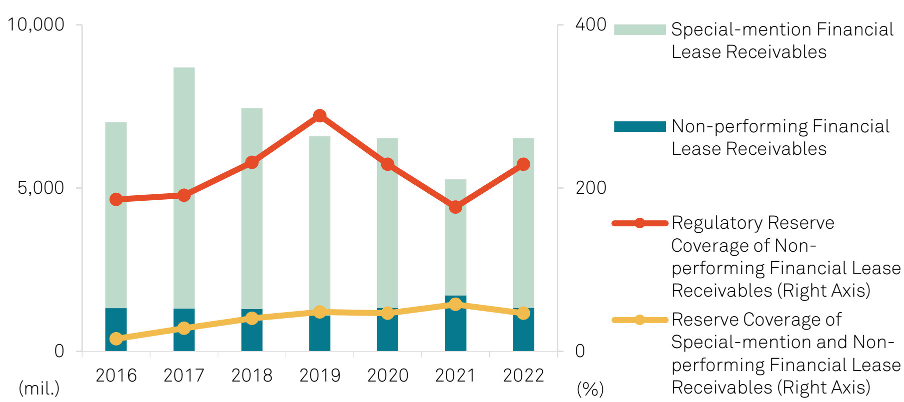
The impairment of aircraft leasing business is mainly due to two reasons. Firstly, the credit loss caused by the restructured leases of some overseas airlines due to the pandemic; secondly, some aircraft in Russia cannot be picked up because of the Russia-Ukraine conflict, resulting in the credit loss (resulting loss was approximately 0.66 billion RMB in 2022). We expect that the negative impact of the pandemic on international aircraft leasing assets has generally factored in, but the probability of aircraft pickup in Russia is still unclear. 14 aircraft owned by the company have not been picked up from the Russian airline since the leases were terminated in compliance with the EU sanctions order. The net book value of these aircraft was approximately 2.84 billion RMB (accounted for less than 1% of the company's total assets). However, if the aircraft could not be picked up, the above assets would face full loss in the worst scenario. We believe even in the extreme scenario of a total loss of aircraft above, further provisioning may impact the company's profitability, but would not have a significant negative impact on the overall capital adequacy and credit quality.

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 2022, the company's non-performing financial lease receivable ratio was 1.49%, down by 0.02 percentage points YoY; the special-mention assets ratio was 3.25%, up by 0.12 percentage points from last year. Its provision coverage for financial leasing receivables stood at 203.9% as of the end of 2022, up by 27 percentage points YoY. The reserve coverage of non-performing and special-mention finance lease receivables was 63.9%, up 6.47 percentage points from last year.

Chart 2

Asset quality of ICBCFL's financial leasing business remained stable

ICBCFL: Asset Quality of Financial Lease Receivables and Reserve Coverage



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 2018-2022 was only 0.45%. In 2022, it increased the amount of write-off bad debts to approximately 1.38 billion RMB.

The interest rate risk faced by ICBCFI comes from the mismatch between the maturities of interest-generating assets and interest-paying liabilities and the reset dates. Due to the interest rate hike of US dollars, the interest rate risk of related businesses increases. We believe that the impact on the company is mainly reflected in the earnings and does not put pressure on its capital. Combined with the ongoing support of its parent, ICBCFI's capital will continue to remain at an adequate level.

We believe that the foreign exchange rate risk of ICBCFI is controllable, mainly because the company supports the leasing business denominated in US dollars through US dollar financing, while supporting the domestic RMB leasing business with domestic financing, and no significant currency mismatch risk is observed.

Funding and Liquidity

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.

We apply a one-notch uplift for its funding and liquidity.

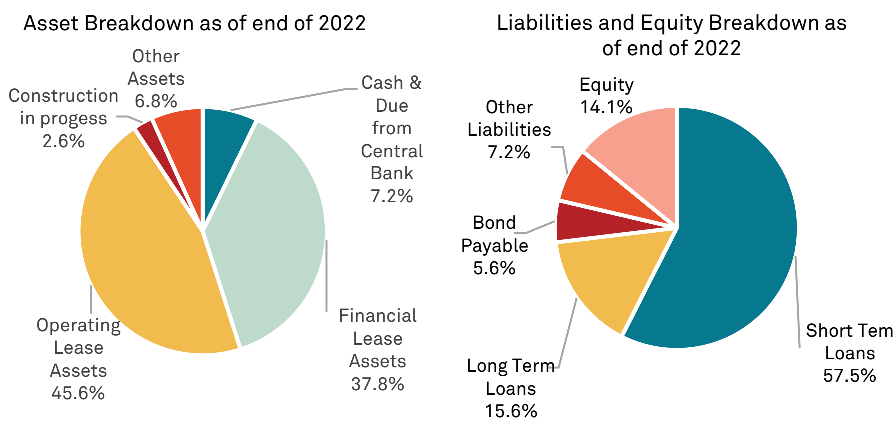
ICBCFL is largely reliant on wholesale funding from sources such as interbank market borrowing, bank loans and bond markets. As of the end of 2022, it had total debts of 230.5 billion RMB, 93% of which was borrowings from banks and other financial institutions, and 7% bonds.

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 2022, the company had obtained credit lines of over 600 billion RMB, with unused credit lines of over 400 billion RMB, 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 a clear tenor mismatch between assets and liabilities. Considering ICBCFL's stable financing channels and reliable parent bank support, we do not expect this tenor mismatch to result in high liquidity risk. As of the end of 2022, the company's ratio of short-term debts to total debts was 66%.

Chart 3

There is a tenor mismatch between its assets and liabilities



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.

Considering ICBCFL's prudent liquidity management and reliable liquidity support from its parent bank, we expect ICBCFL to continue maintaining ample liquidity. ICBC 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.

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-".

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 2022, ICBC reported total assets of 40 trillion RMB. It has over 9.69 million corporate clients and 700 million retail clients.

ICBC has maintained good capital adequacy, profitability and asset quality. As of the end of 2022, ICBC's reported regulatory capital adequacy ratio stood at 19.26%. Its NPL and SML ratios were 1.38% and 1.95% respectively, and it reported ROE of 11.43% in 2022, higher than the industry average of 9.33%.

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.

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, maritime, energy, transportation and infrastructure industries.

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

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}+".

financial performance of ICBCFL and 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 from 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

	2018	2019	2020	2021	2022
Total assets (mil)	272,489.25	271,208.91	284,298.86	295,360.34	293,076.97
Net lease assets (mil)	226,582.34	215,987.39	234,332.42	234,659.33	244,526.42
Growth rate of net lease assets (%)	11.33	(4.68)	8.49	0.14	4.20
Gross operating income (mil)	16,997.55	18,862.57	17,390.50	17,590.37	17,980.34
YoY growth of gross operating income (%)	6.03	10.97	(7.80)	1.15	2.22
Net income (mil)	3,021.86	3,828.68	3,219.35	2,195.39	204.45
YoY growth of net income (%)	(15.43)	26.70	(15.91)	(31.81)	(90.69)
Gross financial lease revenue/gross operating income (%)	30.87	25.44	27.15	29.60	29.86
Gross income from operating lease/gross operating income (%)	55.94	61.82	64.51	64.57	61.60
Reported regulatory tier 1 capital adequacy ratio (%)	11.87	12.87	12.52	13.27	13.75
Reported regulatory total capital adequacy ratio (%)	12.49	13.61	13.09	13.71	14.33
Tier 1 capital/total capital (%)	95.03	94.51	95.63	96.82	95.97
Reported regulatory risk-weighted assets/total assets (%)	100.74	102.18	105.64	101.94	104.08
Total debts/total equity (X)	6.89	5.77	5.88	5.97	5.57
Net interest margin (%)	1.60	1.99	2.53	2.53	1.80
Interest income/average interest-generating assets (%)	6.54	6.84	6.57	6.56	6.37
Interest payment/average interest-paying debt (%)	3.70	3.47	2.48	2.33	2.84
Cost-to-income ratio (%)	8.62	9.37	8.63	10.28	12.50
Provisioning/operating income (%)	12.87	16.53	28.74	50.29	62.03
Return on average assets (%)	1.20	1.41	1.16	0.76	0.07
Return on average equity (%)	9.81	11.19	8.67	5.65	0.50
Non-performing financial lease receivable ratio (%)	1.10	1.08	1.13	1.51	1.49
Special mention financial lease receivable ratio (%)	5.22	5.38	4.39	3.13	3.25
Regulatory reserve coverage of non-performing financial lease receivables (%)	231.57	288.79	228.96	176.65	203.90
Reserve coverage of special mention + non-performing financial lease receivables (%)	40.17	48.10	46.74	57.47	63.94
Reserve coverage of financial lease receivables (%)	2.57	3.18	2.63	2.68	3.04
Net write-offs of financial lease receivables/average financial lease receivables (%)	0.04	0.47	0.35	0.19	1.22
Short-term debts/total debts (%)	71.79	61.57	66.46	62.95	65.93
Total debts/profits before tax (X)	55.29	44.00	50.39	86.41	181.58

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 adjustments to its reported financial data.

Note 2: ICBCFL's annual financial reports from 2017 to 2020 were audited by KPMG Huazhen LLP. The 2021 and 2022 annual financial reports were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP. The external auditors have issued standard unqualified opinions for all these annual reports.

Note 3: Operating lease assets and the income generated are included in the calculation of net interest margin and interest income/average interest-generating assets.

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	Credit Rating Report: ICBC Financial Leasing Co., Ltd., July 5, 2022
AAA_{spc}	Stable	2023-6-1	Xiaochen Luan, Xuefei Zou, Yanyu Wang	Current Report

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