CCXAP assigns first-time AA_g rating to Industrial and Commercial Bank of China Limited, with stable outlook

Hong Kong, 1 December 2021 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time AA_g global-scale long-term credit rating to Industrial and Commercial Bank of China Limited ("ICBC" or the "Bank"), with stable outlook.

The AA_g long-term credit rating of ICBC is underpinned by the Bank's (1) leading market position in China; (2) resilient capital position with good internal capital accumulation; and (3) good funding structure and sufficient liquidity resources.

However, the rating is constrained by (1) the economic disruptions caused by the COVID-19 outbreak, which challenges ICBC's profitability; and (2) the decelerating economic recovery and repaid expansion in inclusive finance, putting pressure on the Bank's asset quality.

The rating also incorporates our expectation that ICBC has a high likelihood of receiving extraordinary support from the Chinese government given its (1) significant market position in China's financial system; (2) majority stake owned by the government of around 65.85% in total as of 30 June 2021; and (3) important policy role in some areas such as the participation of inclusive finance and rural revitalization.

Corporate Profile

Founded in 1984 and headquartered in Beijing, ICBC is the largest state-owned commercial bank in China. The Bank was listed dually in the SSE and the HKEX in 2006 (Stock code: 601398.SH & 1398.HK). ICBC has strong banking franchise and serves nearly half of China's population through a vast network of around 16,000 outlets. The Bank is recognized as a global systemically important bank ("G-SIB") by the Financial Stability Board ("FSB"); and is recognized as a domestic systemically important bank ("D-SIB") by the People's Bank of China ("PBOC").

As of 30 June 2021, ICBC is 34.71% owned by Central Huijin Investment Limited ("Huijin") and 31.14% owned by the Ministry of Finance of China ("MOF").

Rating Rationale

Credit Strengths

Well-established market position. ICBC has a strong business position and brand name in China, with a loan market share of around 10.8% and a deposit market share of around 11.7%, ranking the top among Chinese banks.

Resilient capital position. The Bank reported capital adequacy ratio (measured by CET1 capital/risk-weighted assets) of 12.9% as of 30 June 2021, with its proven access to both onshore and offshore capital markets over the past years.

Good funding structure. ICBC has a large deposit base amounting to RMB25.1 trillion as of 30 June 2021. This offered ICBC a more stable funding source, with a low market funding/total asset ratio of around 9.0% as of the same date.

Sufficient liquidity resources. Its liquidity ratio (measured by high liquid assets/total assets) was 22.8% as of 30 June 2021. They were considered high-quality and reliable because most of them were excess fund placed in central banks.

Very high likelihood of government support. As the largest stated-owned bank, we expect that ICBC is very likely to receive strong support from central government in times of need.

Credit Challenges

Profitability is challenged by COVID-19 disruptions. ICBC's net interest margin ("NIM") was narrowed to 2.15% in 2020 from 2.30% in 2019 as the Chinese authorities called for profit concessions on banks to facilitate post-pandemic. Its pre-provision operating profit/average risk-weighted asset ratio decreased to 3.07% in 2020 from 3.19% in 2019.

Asset quality is susceptible to economic rebalancing. The Bank's asset quality is pressured by the slower economic recovery and the increasing exposure in inclusive finance. The inclusive finance business is generally providing loans to the clients with weaker repayment capabilities, which normally bears higher credit risks. As of 30 June 2021, the Bank's total loan book for inclusive finance increased rapidly by 40.4% to RMB1,012 billion, comparing to the beginning of 2021, and this accounted for 5.1% of its total loans.

Rating Outlook

The stable outlook on ICBC's rating reflects our expectation that the willingness and ability of the Chinese government to provide support is unlikely to change, and that the Bank will sustain its leading market position and solid financial profile in the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government support increases; (2) the Bank's macro profile strengthens, such as higher sovereign rating for China, significant improvement in corporate debt leverage, or better credit condition in China; and (3) the Bank's finance profile improves, such as increase in profitability and stability, and better coverage in both problem loans and special-mention loans.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of receiving government support decreases; (2) the Bank's macro profile weakens, such as lower sovereign rating for China, heightened corporate debt level, or worsened credit condition in China; or (3) the Bank's finance profile deteriorates, such as hindered profitability, material deterioration in asset quality, and unexpected decline in liquidity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Banks (November 2021).

Regulatory Disclosures

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/

This rating is unsolicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:
http://www.ccxap.com/en/rating_services/category/9/

The rating has not been disclosed to the rated entity or its related party prior to publication.

The rated entity does not participate in the rating process. CCXAP has no access to the internal information of the rated entity but it believes that there is sufficient public information available that meets its rating methodology.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

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