CCXAP affirms Industrial and Commercial Bank of China Limited's long-term credit rating at AA_g, with stable outlook.

Hong Kong, 28 November 2022 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Industrial and Commercial Bank of China Limited ("ICBC" or the "Bank") at AA_g, 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) compressed interest spread that pressured the Bank's profitability; and (2) decelerating economic growth and lingering pandemic, which challenged the Bank's asset quality.

The rating also incorporates our expectation that ICBC has a very high likelihood of receiving extraordinary support from the Chinese government given its (1) significant systematic importance in China's financial system; (2) majority ownership by the central government of around 65.85% in total as of 30 June 2022; 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 by total assets. The Bank was listed dually in the Shanghai Stock Exchange and the Hong Kong Stock Exchange in 2006 (Stock code: 601398.SH & 1398.HK). As of 30 June 2022, ICBC has a very strong market position in the domestic banking sector, with a loan market share of around 10.8% and a deposit market share of around 11.7%. It has strong banking franchise and serves nearly half of China's population through a vast network of nearly 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 2022, 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 strong banking franchise and serves nearly half of China's population through a vast network of nearly 16,000 outlets. It maintained a strong business position and brand name, with a loan market share of around 10.8% and a deposit market share of around 11.7% in mid-2022, ranking the top among Chinese banks.

Resilient capital position. The Bank reported a good capital adequacy ratio (measured by CET1 capital/risk-weighted assets) of 13.3% as of 30 June 2022, compared to its peers, supporting by its stable profitability. The Bank has also actively issued capital instruments, including Tier 2 capital bonds, preference shares and undated additional Tier 1 capital bonds, in both onshore and offshore markets to strengthen its capital position.

Good funding structure with large deposit base. ICBC has a strong funding structure given its very large deposit base in China. As of 30 June 2022, the market funding/total assets ratio was 12.8%, close to that of end-2021, indicating low reliance on market funding. The large portion of deposit is credit positive to the Bank as it provides a more stable and lower cost source of funds relative to market funding. Deposits represented around 75.6% of the Bank's total assets at mid-2022, around 46.8% of which were retail deposits with higher stability.

Sufficient and high-quality liquidity resources. ICBC has sufficient liquidity resources with a liquidity ratio (measured by high liquid assets/total assets) of 20.7% as of 30 June 2022. The Bank's liquidity resources were considered high-quality and reliable because the majority (around 41.7%) were excess fund placed in central banks. Other liquid assets included deposits in banks and other financial institutions, reverse repurchase assets and financial investments. Among the Bank's financial investments measured at fair value, around 35.9% were debts of government and policy banks, with very good liquidity in the market.

Very high likelihood of government support. As the largest stated-owned bank, we expect that ICBC is highly likely to receive strong support from central government in times of need. As of 30 June 2022, the central government owned approximately 34.71% of the Bank's shares through Huijin and directly owned 31.14% of the Bank's shares. Failure of the Bank may raise questions about the creditability of the Chinese government and the stability of China's banking system, which will produce high reputation risk. We believe that the Bank's important position will continue over the medium to long term.

Credit Challenges

Constrained profitability from the declining net interest margin. ICBC's reported profitability, measured as pre-provision operating profit/average risk weighted assets, was 2.95% in the first half of 2022, 5 basis points lower than that in 2021H1. That mainly resulted from the declining net interest margin ("NIM") amid the declining interest rate environment and highly competitive deposit market in China. Nevertheless, we expect ICBC's profitability to retain stable over the next 12 to 18 months as its high provision coverage could partially mitigate the impact of the declining NIM.

Asset quality challenged by decelerating economic growth and lingering pandemic. Corporates were affected by the slower economic recovery, real estate market correction and the lingering pandemic in China, which pressured ICBC's asset quality. As of 30 June 2022, ICBC reported a problem loan ratio of approximately 1.4%. Corporate loans accounted for 59.6% of ICBC's total loans, with a problem loan ratio of 2.0% as of the same date. Among them, the problem loan ratio for real estate corporates is particularly high of approximately 5.5%. However, we believe the credit risk of real estate industry is still controllable as ICBC's exposure to real estate corporates is relatively low, compared to its peers, of around 3.2% of total loans. Given the Bank's good ability to settle bad loans and prudent client selection, we expected its problem loan ratio will remain stable over the next 12 to 18 months.

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/

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