

Xiamen Bank Co., Ltd.'s 2019-1 Financial Bond

Ratings

Long-term credit rating of the issuer: AA+

Credit rating of the financial bond: AA+

Rating outlook: Stable

Date of rating: May 6, 2019

Key data:

Item	End of 2018	End of 2017	End of 2016
Total assets (CNY 100mn)	2,324.14	2,128.07	1,889.72
Shareholders' equity (CNY)	139.56	122.99	92.55
NPL ratio (%)*	1.37	1.51	1.53
Provision coverage ratio	207.09	191.30	218.98
Loan loss provision coverage ratio (%)*	2.85	2.89	3.36
Liquidity ratio (%)*	82.95	58.50	28.77
Loan-to-deposit ratio for	63.69	49.45	48.64
Shareholders' equity/total assets (%)	6.00	5.78	4.90
Capital adequacy ratio	14.95	14.57	11.75
Tier-1 capital adequacy	10.74	10.28	8.94
Core tier-1 capital adequacy ratio (%)*	10.74	10.28	8.94
Item	2018	2017	2016
Revenue (CNY 100mn)	41.86	36.86	36.18
Total profit before provision (CNY 100mn)	29.55	25.76	24.12
Net profit (CNY 100mn)	14.15	12.23	10.33
Cost/income ratio (%)*	28.02	30.39	28.87
Average rate of return on assets (%)	0.64	0.61	0.61
Average rate of return on net assets (%)	10.78	11.35	11.94

Note: Indicators with * are calculated using the techniques outlined in the 1104 form for regulating single-entity issued by the China Banking and Insurance Regulatory Commission.

Source: Audit reports and data provided by Xiamen Bank, compiled by Lianhe Ratings

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Rationale

Xiamen Bank Co., Ltd. (herein after referred to as "Xiamen Bank") mainly operates its business within Fujian province. In recent years, factors such as the establishment of the Fujian Free Trade Zone, the continued development of the economic zone in the west coast of the Taiwan Straits, and the bank's substantial advantages in conducting Taiwan-related businesses have helped provide a favorable external environment for the business development of Xiamen Bank and substantial room for future growth. In recent years, Xiamen Bank has enhanced its risk management capabilities by improving corporate governance and internal control systems. Its deposit-taking, lending and financial market businesses have grown steadily, with a more diversified product offering. Thanks to its prudent credit extension policy and increased efforts to dispose of non-performing loans, the quality of the bank's credit assets has steadily improved, and it has set aside sufficient provision. In the face of intensified regulation, the bank has shifted its focus toward standardized assets while making investment and adopted prudent investment strategies. The bank has also replenished its capital by launching capital raising and share-offering programs as well as issuing tier-2 capital bonds, thus maintaining an adequate capital strength. However, savings deposits account for only a small portion of its total deposits, due to the impact of the regional economic structure and peer competition. The bank relies heavily on borrowed funds to develop its capital business and needs to keep an eye on the potential impact of its borrowing costs, debt stability and liquidity management. Since it has a substantial amount of investment assets, both fluctuations in the market prices of its investment products and the need to set aside provision for asset impairment will negatively affect its profit, so the bank's profitability remains to be improved.

China Lianhe Credit Rating Co., Ltd. has affirmed Xiamen Bank Co., Ltd.'s long-term credit rating at AA+ and the credit rating of its proposed 2019-1 financial bond of CNY 3 billion at AA+. The Outlook is Stable. The ratings affirmation reflect that the default risk of Xiamen Bank's latest

financial bond is very low.

Strengths

- Headquartered in Xiamen, Xiamen Bank has banking outlets in Chongqing and prefecture-level cities across Fujian province. It has also set up a financial leasing subsidiary while continuing to expand its business scope;
- In recent years, factors such as the establishment of the Fujian Pilot Free Trade Zone, the continued development of Fujian including Xiamen as a core region along the 21st Century Maritime Silk Road, and the bank's substantial advantages in conducting Taiwan-related businesses have helped provide a favorable external environment for the business development of Xiamen Bank and substantial room for future growth;
- The bank's retail business has come into being with a continuous expanding client base. Its business structure has been improved and optimized, and its business targeting at small and micro firms has maintained a strong development momentum, which helps the bank maintain and increase its returns on assets;
- Thanks to its prudent credit extension policy and increased efforts to dispose non-performing loans, the quality of the bank's credit assets has improved steadily, and it has set aside sufficient provision;
- The issuance of its tier-2 capital bonds has helped the bank improve its capital strength and maintain an adequate capital strength. In addition, the bank has further enriched the channels and tools to replenish its capital.

Concerns

- Savings deposits account for only a small portion of the bank's total deposits. Since it relies heavily on borrowed funds, the bank is highly exposed to capital market volatility, and its debt stability remains to be improved;
- Though the bank has continually cut lending to certain industries, loans extended by it are still

concentrated in a few industries, pointing to a concentrated risk on the types of businesses it has engaged in. In addition, since a large amount of loans and quasi-credit assets are extended to sectors such as real estate and construction, the bank is highly exposed to the impact of national policy regulations and volatilities in the real estate market;

- Since it has a substantial amount of investment assets, the bank needs to keep a close watch on credit risks and the possible negative impact of factors such as fluctuations in the market prices of its investment assets and changes in their fair value on its profit;
- Commercial banks may face pressure in terms of operation as macroeconomic growth slows down, economic restructuring continues, and financial regulation tightens.