

Credit Rating Report on Bank of Xi'an Co., Ltd.'s 2019-1 Special Financial Bond for Small- and Micro-Business Loans

Ratings:
Long-term credit rating of the issuer: AAA
Credit rating of the financial bond: AAA
Rating outlook: Stable
Date of rating: April 9, 2019
Key Financial data

Item/Fiscal Year	1H 2018	2017	2016	2015
Total assets (CNY 100mn)	2385.23	2341.21	2179.68	2100.24
Shareholders' equity (CNY 100mn)	187.63	177.15	159.72	144.19
NPL ratio (%)	1.20	1.24	1.27	1.18
Loan loss provision coverage	2.57	2.51	2.58	2.64
Provision coverage ratio (%)	213.94	203.08	202.70	223.31
Liquidity ratio (%)	39.61	39.71	35.17	43.61
Liquidity coverage ratio (%)	194.58	139.05	111.49	228.80
Shareholders' equity/total assets (%)	7.87	7.57	7.33	6.87
Capital adequacy ratio (%)	14.34	13.83	14.18	15.38
Tier-1 capital adequacy ratio (%)	12.00	11.59	11.76	12.56
Core tier-1 capital adequacy ratio (%)	12.00	11.59	11.76	12.56
Item	1H 2018	2017	2016	2015
Revenue (CNY 100mn)	26.76	49.26	45.18	47.08
Total profit before provision (CNY 100mn)	19.48	34.02	30.32	31.11
Net profit (CNY 100mn)	12.03	21.01	20.14	19.94
Cost/income ratio (%)	-	30.09	30.40	28.19
ROA before provision (%)	-	1.50	1.42	1.72
Average rate of return on assets (%)	-	0.93	0.94	1.10
Average rate of return on net assets (%)	-	12.47	13.25	16.45

Source: Audit reports, annual reports and other documents of Bank of Xi'an, organized by Lianhe Ratings; note: financial data for 1H 2018 have not been audited.

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Rationale

The controlling party of Bank of Xi'an Co., Ltd. (hereinafter referred to as "Bank of Xi'an" or "the Bank") is the Xi'an Municipal People's Government. The Bank has established strong relationships with local government agencies, major conglomerates, industry leaders and financial institutions, and it has acquired a substantial and loyal customer base of which they help to lay a solid foundation for business development. Furthermore, its strategic investor, the Bank of Nova Scotia, operating as Scotiabank, provides Bank of Xi'an with strong support on information technology, risk management, internal control and retail and international business operations. The Bank's regional markets have a strong momentum for economic growth. Following the introduction of the "Belt and Road" initiatives and related local policies, Xi'an and the surrounding regions have demonstrated enormous economic growth potential, offering the Bank with plenty of room for sustainable development in the future. In the recent years, Bank of Xi'an has continuously improved its corporate governance, internal control and comprehensive risk management systems, with its core businesses being developed steadily and consistently in terms of growth in assets and liabilities while maintaining the high credit quality of its assets relative to other banking institutions. On the other hand, the Bank's operating income has undergone some minor fluctuations, due to interest rate cuts by the PBOC, the liberalization of interest rate and the replacement of business tax by the value-added tax. In addition, the Bank has a substantial exposure to asset management business and long-term investments in trust beneficiary rights which is subject to liquidity pressure. Bank of Xi'an is currently working on an initial public offering (IPO) with the Shanghai Stock Exchange (SHSE) which involves issuing up to 1.333 billion shares. The net proceeds, after deducting issuance costs,

will be used exclusively for the purpose of capital replenishment. The IPO has already been approved by the Issuance Appraisal Committee. The Bank's capital will be improved significantly after the IPO.

China Lianhe Credit Rating Co., Ltd. has assigned the "AAA" long-term credit rating to Bank of Xi'an Co., Ltd. and give this Special Financial Bond for Small- and Micro-Business Loan (2019)-1 (up to CNY 2 billion in issuance size) a "stable" outlook. The ratings indicate that the default risk associated with this special bond is extremely low.

Strengths

- The Bank's regional markets have strong momentum for economic growth. Following the introduction of the "Belt and Road" initiatives and related local policies, Xi'an and the surrounding regions have demonstrated enormous economic growth potential, offering the Bank with plenty of room for sustainable development in the future.
- The Bank's controlling party is the Xi'an Municipal People's Government. It has established strong relationships with local government agencies, major conglomerates, industry leaders and financial institutions, and it has acquired a substantial and loyal customer base of which they help lay a solid foundation for business development.
- In its capacity as a strategic investor, Scotiabank provides Bank of Xi'an with strong support on information technology, risk management, internal control and retail and international business.
- Bank of Xi'an has established a business network covering Xi'an with a market presence scattered around Shaanxi province outperforming most of its competitors operating in the province in terms of the number of local branches. A multi-regional business layout is conducive to further enhancing the Bank's overall capabilities.

- The Bank has deployed cutting-edge information technologies, and its information system encompasses various aspects of business management ranging from decision-making support, core accounts and channel management to front-office marketing. A preliminary big data analysis and management platform has been developed to cover all key businesses across the Bank which provides strong supports for business development and risk management operations.
- The Bank has maintained an adequate level of capital. It is currently working on an IPO which has already passed the regulatory review. The IPO will considerably improve the Bank's capital and contribute positively to sustain the growth of its core businesses.

Concerns

- The Bank's operating income has undergone some minor fluctuations, due to interest rate cuts by the PBOC, the liberalization of interest rate and the replacement of business tax by the value-added tax.
- Housing loans make up a relatively large portion of the Bank's lending business, and its asset quality is relatively high. However, the assets quality may be affected by changes in state laws, regulations and policies, which are risks merit particular attention.
- The Bank has a substantial exposure to asset management business and long-term investments in trust loans {pls check the translation of trust loans} which is subject liquidity pressure.
- As China's economic growth slows, economic restructuring continues, and market regulation tightens, the business operation of commercial banks will face increased pressure.

Note: This is the English translation

of the Credit Rating Report originally made out in Mandarin, which would prevail if there should be any

discrepancy between the English version and the Mandarin version.