

S&P Global (China) Ratings – PANDA Bond Methodology

English Summary:

SCOPE AND OVERVIEW

This methodology represents S&P Global (China) Ratings' approach to considering the analysis of PANDA bonds. This methodology may apply to ratings where an offshore issuer is issuing renminbi-denominated securities into the Chinese domestic market. Issuers may include offshore entities associated with a group predominantly domiciled in China, and may also be applicable for wholly foreign domiciled entities issuing into China.

This methodology outlines the principles with which we may consider the credit quality of the issuer for the purposes of our S&P Global (China) Ratings credit opinion.

METHODOLOGY

PANDA Bond issuers typically fall into one of two groups of issuers; 1. An offshore entity of a China based group, commonly an offshore financing entity, where the overall Group activities are domiciled in China ("**China Group Issuer**"); and 2. Issuers which are truly a foreign domiciled issuer, who is issuing renminbi-denominated securities into the China domestic capital market, but who's activities are predominantly foreign ("**Foreign Issuer**").

Given the two typical groups of issuers, we have a unique analytical approach for each group as detailed below.

China Group Issuer

Panda Bonds issued by a China Group Issuer, are typically analysed using S&P Global (China) Ratings sector relevant rating methodologies.

For example, if the issuer is a Hong Kong based, financing subsidiary, of a China based Metals and Mining company our analysis would typically be conducted using our Corporate Methodology and the Sector Specific Methodology for Metals and Mining. In addition there may be additional S&P Global (China) Ratings methodologies which may be applicable, such as Rating Modifiers and Relative Ranking Methodology, or S&P Global (China) Ratings Guarantee Methodology, amongst others.

In addition to the application of the relevant China specific methodologies which may be applied, we may also consider the general credit quality of the jurisdiction of domicile of the offshore issuer, if we believe this may have implications for any rating we may assign, and we may also consider the importance of the issuer to its overall group and potentially Government, in terms of any expected support which may be available.

After determining the issuer credit rating, we may then refer to our Rating Modifiers and Relative Ranking Methodology to arrive at the issue-level rating.

Foreign Issuer

Foreign Issuers, are analyzed in an alternative manner to China Group Issuers.

Our analysis of Foreign Issuers, typically considers the credit opinion which S&P Global Ratings may have on that issuer. We typically would use S&P Global Ratings opinion of credit quality as the starting point for our S&P Global (China) Ratings, rating determination. We believe the robustness and standards of the analysis conducted by S&P Global Ratings to be sufficiently robust to be relied upon by S&P Global (China) Ratings.

Once we have an S&P Global Ratings opinion of credit quality, we will consider how this may be transformed into an S&P Global (China) Ratings credit rating. Typically this transformation will be considered as below:

- Where the Foreign Issuer has a relatively low credit quality, typically below investment grade as determined by S&P Global Ratings, S&P Global (China) Ratings may assign a similar view of credit quality as that determined by S&P Global Ratings with adjustments of up to 2 notches; and
- Where the Foreign Issuer has stronger credit quality characteristics, such as investment grade credit quality as determined by S&P Global Ratings, S&P Global (China) Ratings may assign a view of credit quality in the range of 2 to 5 notches higher than the credit quality opinion of S&P Global Ratings.

After determining the issuer credit rating, we may then refer to our Rating Modifiers and Relative Ranking Methodology to arrive at the issue-level rating.

OTHER CONSIDERATIONS

This methodology is not intended to be an exhaustive list of all factors we may consider in our analysis. Where appropriate, we may apply additional and/or different, quantitative and/or qualitative, considerations in our analysis to reflect the circumstances of the analysis for a particular issuer, issue or security type. A rating committee may adjust the application of the methodology to reflect individual circumstances in our analysis.