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S&P Global

China Ratings

Surveillance Credit Rating Report:

HSBC Bank (China) Company Limited

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

Rating Date: July 25, 2024
Date of Expiry: July 24, 2025

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* This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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The above "Date of Expiry" refers to the validity period of this report. The rating presented in this report is effective from the rating date until the date of expiry. Where the date of expiry is left blank, the rating is valid until and unless we make any further updates.

Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
HSBC Bank (China) Company Limited	Issuer Credit Rating	AAA$_{spc}$	July 25, 2024	Stable

Rating Snapshot:

Industry Classification	Commercial Bank
Anchor	a+
— Business Position	+1
— Capital and Earnings	+1
— Risk Position	+1
— Funding and Liquidity	0
— Holistic Adjustment	+1
Stand-alone Credit Profile	aaa$_{spc}$
Group Support	0
Issuer Credit Rating	AAA$_{spc}$
Outlook/CreditWatch	Stable

Anchor: We apply an anchor of "a+" for commercial banks.

Business Position: HSBC (China) is the largest foreign bank subsidiary in China, with the most extensive network relative to its foreign peers nationwide. Its wide coverage gives it a geographic and product diversification better than other mid-sized banks. Its business franchise benefits from the shared brand with its parent. Nevertheless, its absolute market share in China is still limited since the domestic market is dominated by larger domestic players.

Capital and Earnings: It has higher capital adequacy ratios than the industry average and shows very strong capital resilience. Its profitability is robust due to its healthy net interest margin, controllable credit impairment loss, and decent non-interest income.

Risk Position: We view its risk management as prudent and its asset quality metrics as better than the industry average. It targets a client base of multinationals, high-credit-quality Chinese enterprises with an international mindset and affluent retail customers. The superior customer base renders the bank resilient against the economic downward pressure in China.

Funding and Liquidity: It has a funding structure consistent with the banking industry average. Its liquidity metrics outperform the industry average due to its large holding of government bonds and prudent liquidity management.

Holistic Adjustment: It has reinforced its business strengths further following the acquisition of CitiBank (China)'s personal banking and wealth management operations. The bank has strong capital resilience, healthy and stable profitability, adequate reserves, stable funding, and highly liquid assets. We apply a one-notch upward holistic adjustment to the bank's SACP to comprehensively reflect these competitive edges.

External Support: HSBC has extremely strong issuer credit quality. Since Hong Kong and the Chinese mainland are major markets for HSBC, HSBC (China) is extremely likely to receive extraordinary support from its parent in times of need.

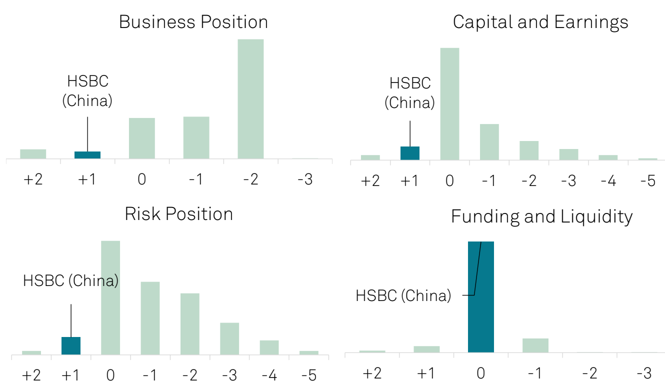
Company Overview: HSBC Bank (China) Company Limited ("HSBC (China)") is a fully owned subsidiary of Hongkong and Shanghai Banking Corp. Ltd. ("HSBC"). HSBC is the largest bank and one of the three note-issuing banks in Hong Kong SAR, with a presence in major markets across Asia-Pacific and access to a diverse global network through HSBC Holdings. Since Hong Kong and the Chinese mainland are HSBC's major markets, we view HSBC (China) as a core subsidiary of HSBC. As of the end of 2023, HSBC (China) reported total assets of 616.68 billion RMB. In 2023, it achieved a net income of 5.1 billion RMB.

Key Metrics:

RMB	2019	2020	2021	2022	2023
Total assets (bil.)	524.8	565.8	574.2	596.8	616.7
Customer loans (bil.)	212.1	216.3	242.4	248.2	230.3
Customer deposits* (bil.)	308.8	328.8	322.2	337.2	357.3
Net income (bil)	4.5	3.6	3.9	6.0	5.1
Reported capital adequacy ratio (%)	16.2	16.8	15.7	16.7	17.8
Return on average equity (%)	8.9	7.0	7.5	10.9	8.6
Non-performing loan ratio (%)	0.4	0.2	0.2	0.2	0.2
Reserve coverage ratio (%)	376.1	800.1	907.5	748.2	1,558.0
Customer deposits/total debt (%)	65.1	64.0	61.8	62.6	64.3

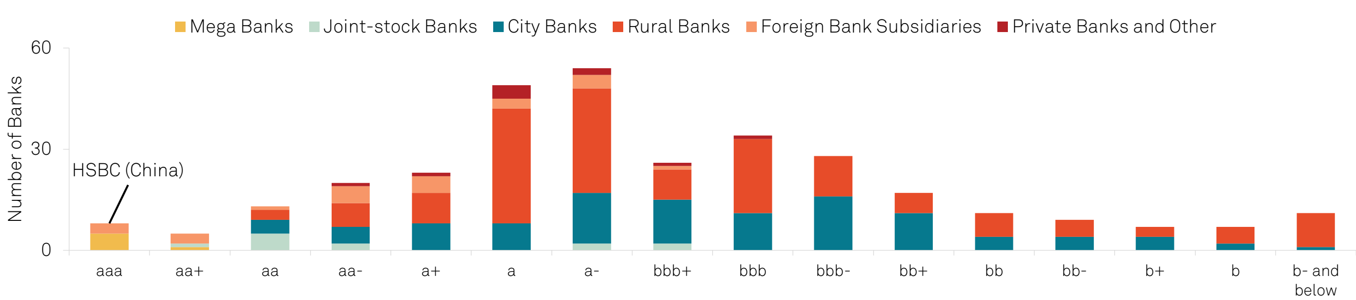
Note 1*: Customer deposits include structured deposits.
Note 2: Any discrepancy between the total value and the sum of each item's value or the value of other public data is due to rounding.
Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Rating Factors of Stand-alone Credit Quality for Major Banks in China



Source: S&P Global (China) Ratings.

Distribution of Stand-alone Credit Quality of Major Banks in China



Note 1: Our assessment on stand-alone credit quality does not consider the likelihood of group or government support in times of stress but takes into account the ongoing group or government support.

Note 2: The indicative stand-alone credit quality distributions expressed in this page are only our indicative views of credit quality derived from a desktop analysis based on public information without interactive review with any particular entity (except for solicited rating projects) or the full credit rating process such as a rating committee. The opinions expressed herein are not and should not be represented as a credit rating and should not be taken as an indication of a final credit rating on any particular entity.

Source: S&P Global (China) Ratings.

Declaration

No association that may affect the independence, objectivity and unbiasedness of the rating process exists between S&P Global (China) Ratings or its analysts and the rated entity, other than the engagement as a result of this credit rating project.

This rating is based on publicly available information or information provided by the rated entity or collected in compliance with regulatory requirements. S&P Global (China) Ratings has conducted prudent analysis on such information but not guarantee the legitimacy, accuracy, adequacy, or completeness of any information used.

S&P Global (China) Ratings and its analysts have conducted on-site investigations and observed their fiduciary duties, thus have confidence to assure that this rating report adheres to principles of truthfulness, objectivity and unbiasedness.

S&P Global (China) Ratings arrived at analytical conclusions presented in this credit rating report based on its own methodologies and procedures and did not change any of its rating opinions as a result of any inappropriate influence from the rated entity or any other organization(s) or individual(s).

This credit rating report is used to support related decision making, and does not constitute a conclusion or recommendation that any particular decision(s) should be made.

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Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
HSBC Bank (China) Company Limited	Issuer Credit Rating	AAA$_{spc}$	July 25, 2024	Stable

Stand-alone Credit Profile (SACP)	aaa$_{spc}$	+	External Support	0 Notching	Issuer Credit Rating (ICR)
Anchor	a+		Supporting Entity	HSBC	AAA$_{spc}$/Stable
Business Position	+1				
Capital & Earnings	+1				
Risk Position	+1		External Support	Extremely Strong	
Funding & Liquidity	0				
Holistic Adjustment	+1				

Credit Highlights

Key Strengths	Key Risks
The largest foreign bank subsidiary in China with extensive network and diversified product mix, demonstrating solid business stability.	Persistent uncertainty over China's real estate sector.
Strong capital base and robust profitability. Prudent risk management and better asset quality than the industry average.	
It is extremely likely to receive parental support in time of stress.	

Surveillance Overview

We monitor the credit quality of HSBC (China) on a periodic and an ongoing basis. This is periodic surveillance of the bank.

During the surveillance period, HSBC (China) scaled up its assets steadily and maintained stable business operation and sound profitability. In June 2024, it completed the deal to acquire personal banking and wealth management operations of CitiBank (China), a move favorable for expanding its wealth management business in China. It has very strong capital base, comfortably protected by its adequate reserves. It follows prudent risk management and enjoys solid asset quality. Thanks to its reduced exposure to real estate sector, it would face controllable negative impact from domestic real estate downswing. Its parent maintains extremely strong issuer credit quality, with its support to the bank unchanged.

We apply a one-notch uplift for its SACP to reflect its enhanced strengths in personal banking and wealth management segment and very strong profitability and capital resilience against domestic economic down cycle. Its ICR remained unchanged during the surveillance period.

Rating Outlook

The stable outlook reflects our expectation that HSBC (China)'s operational and financial strengths will remain stable, and its critical importance to its parent, HSBC, will remain unchanged over the next two years or beyond.

Downside Scenario: We may consider lowering its ICR if its asset quality and capital adequacy materially deteriorate and its importance to its parent declines, or its parent's ICR significantly weakens. We view these circumstances as highly unlikely to occur over the next two years.

Related Methodologies, Models & Research

Methodology Applied:

- S&P Global (China) Ratings Financial Institutions Methodology, March 26, 2024.
- S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking, May 21, 2019

Model Applied: None.

Peer Comparison

	2022			2023		
	HSBC (China)	Commercial Bank Average	Foreign Bank Subsidiary Average	HSBC (China)	Commercial Bank Average	Foreign Bank Subsidiary Average
Total assets (bil.)	596.8	176.8	86.0	616.7	196.1	87.5
Net income (bil.)	6.0	1.3	0.6	5.1	1.3	0.5
Reported regulatory capital adequacy ratio (%)	16.7	15.2	19.3	17.8	15.1	19.6
Return on average assets (%)	1.0	0.8	0.6	0.8	0.7	0.6
Non-performing loan ratio (%)	0.2	1.6	0.7	0.2	1.6	0.9
Reserve coverage ratio (%)	748.2	205.9	302.0	1,558.0	205.1	293.9

Sources: HSBC (China), NAFR, Wind, collected and adjusted by S&P Global (China) Ratings.

Anchor

Macro-Economic and Industry Trends

Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "a+" to commercial banks in China.

We expect China's GDP growth to come under pressure in 2024 in the face of soft property sector and dented confidence among enterprises and consumers, but policy stimulus should act as a positive factor amid such headwinds. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly shifted our focus from economic growth rate to factors such as deleveraging and lowering inequality.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support. China's commercial banking sector continues to report stable capital and asset quality metrics, but we continue to expect pressure on credit cost, net interest margin ("NIM"), and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while small- and medium-sized banks face more pressure. Certain regional banks have weak capital positions, and their asset quality and profitability are sensitive to real estate risks. Meanwhile, China's banking sector maintains stable funding and sound liquidity, which wins time for small- and medium-sized banks facing high risks to mitigate such risks. In our opinion, strong regulatory oversight and ongoing government support should keep overall credit quality stable for the banking sector.

Foreign bank subsidiaries in the Chinese banking sector are small in terms of market share and scale. They are typically fully owned and strictly controlled by their parents, sharing parents' brand, actively engaging in cross-selling activities and enjoying ongoing capital and liquidity support from their parents. Foreign bank subsidiaries are highly likely to receive parental support in times of stress.

International banking groups generally maintain good credit quality. Strong and stable group support continues to play an important role in ensuring foreign bank subsidiaries' overall credit quality.

While Chinese banks have enjoyed rapid growth over the past decade, most foreign bank subsidiaries have seen modest loan book growth compared to their domestic peers. There are 41 foreign bank subsidiaries in total and they only have a market share of 1% in the Chinese commercial banking industry. The mainstream Chinese banks have clear scale and pricing advantages in their loan business. The intense industry competition has led to growth challenges for foreign bank subsidiaries.

Over the past few years, many foreign bank subsidiaries' loan books have shrunk due to their low-risk growth strategies and fierce industry competition. While they are smaller than domestic banks in terms of business scale, foreign bank subsidiaries have unique advantages in cross-border and global banking services and play an indispensable role in China's commercial banking industry.

Foreign bank subsidiaries have the highest capital adequacy ratios in China. As of the end of 2023, their average capital adequacy ratio was 19.58%, up by 0.29 percentage point YoY and 4.53 percentage points higher than the industry average. Decreasing loan business and less capital consumption have improved capital adequacy further for many foreign bank subsidiaries in recent years. For 2024, we expect their loan business growth to remain at a low level and thus their capital adequacy to stay high.

Despite the remarkable decrease in NIM across Chinese domestic banking industry, many foreign bank subsidiaries saw milder NIM shrinkage compared to their Chinese peers because they maintained higher proportion of assets denominated in foreign currencies. In 2023, foreign bank subsidiaries' NIM dropped by 1 basis point YoY to 1.57%, compared to a decrease of 22 basis points for domestic banks' average to 1.69%. In 2024, foreign bank subsidiaries would continue to see milder NIM downtrend than domestic banks.

Foreign bank subsidiaries have maintained solid asset quality and controllable credit cost. As of the end of 2023, their average non-performing loan ratio stood at 0.85%, versus domestic banks' average at 1.59%. They rarely have exposure to LGFVs, and some are exposed to real estate sector. In our view, challenges facing China's real estate sector should pose only a temporary earnings strain on them and have no materially negative impact on their capital adequacy and credit quality.

International banking groups have maintained very good credit quality in recent years. Stable and strong group support plays an important role in ensuring the very good issuer credit quality of these China subsidiaries. The first half of 2023 saw banking turmoil in the US and Europe. Except for SPD Silicon Valley Bank which suffered direct impact, most foreign bank subsidiaries operating in China are not negatively affected by the incidents of Silicon Valley Bank and Credit Suisse.

We see high likelihood of foreign bank subsidiaries receiving parental support in times of stress. Foreign bank subsidiaries are typically fully owned by their parents, sharing parents' brands and receiving effective parental support in terms of cross-selling activities, and capital and liquidity support. Although most of these subsidiaries' contribution to their parents' income and assets is limited, considering China's very important position in the world economy, we believe that the commitment of international banks in the Chinese market is long-term. In addition, the China subsidiaries also recommend overseas business of Chinese customers to their parent banks, and their actual contribution to parents is higher than what is reflected on their balance sheets.

Considering the economic risk and industry risk faced by China's commercial banking industry, we apply an anchor of "a+" for HSBC (China).

Stand-alone Credit Profile

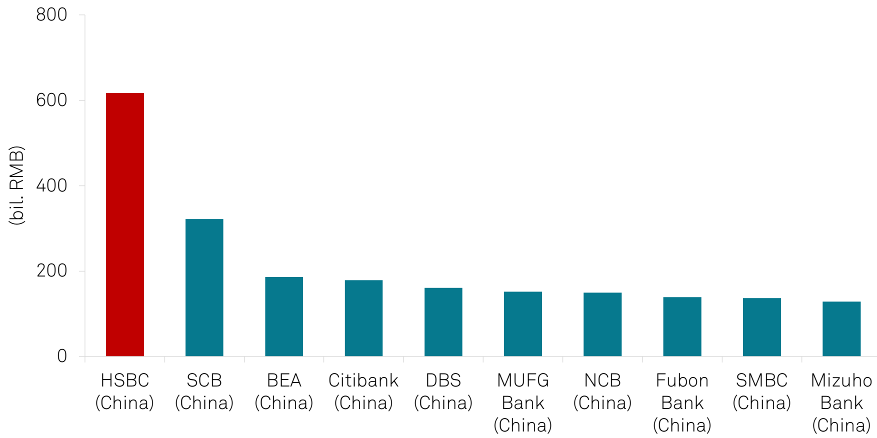
HSBC (China) is a fully owned subsidiary of HSBC. HSBC is the largest bank and one of the three note-issuing banks in Hong Kong SAR, with a presence in major markets across Asia-Pacific and access to a diverse global network through HSBC Holdings. Since Hong Kong and the Chinese mainland are major markets for HSBC, we view HSBC (China) as a core subsidiary of HSBC.

HSBC (China) has grown into the largest foreign bank subsidiary in China, providing a full spectrum of banking services spanning corporate, SME and retail banking services. As of the end of 2023, it reported total assets of 616.68 billion RMB and gross customer loans of 230.3 billion RMB. In 2023, it achieved a net income of 5.1 billion RMB with an ROAE of 8.6%.

Chart 1

HSBC (China) Has the Largest Foreign Bank Operations in China

Peer Comparison: 10 Largest Foreign Bank Subsidiaries by Assets as of End of 2023



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Business Position

The bank is one of the foreign bank subsidiaries seeing more progress in business localization. Compared to other foreign peers, it has the most extensive network in China, with 132 branches and subbranches in over 50 cities as of the end of 2023. The wide coverage gives it a geographic diversification better than other mid-sized banks, domestic or foreign.

The bank is the largest foreign bank subsidiary in China.

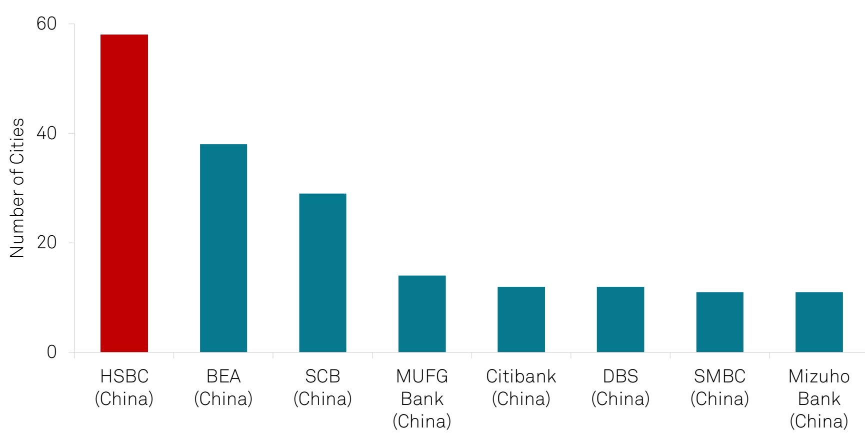
It has geographic and product diversification better than domestic banks with similar sizes.

Therefore, we make one-notch upward adjustment to its business position.

Chart 2

HSBC (China) Has a More Extensive Network in China Relative to its Foreign Peers

Peer Comparison: Geographic Coverage in China as of End of 2023



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank has set out a clear, effective and consistent growth strategy. It has outlined in its 5-year development plan the strategic focus for 2024-2028, i.e., broadening wealth management products and customer base, reinforcing capabilities for serving manufacturing and technological sectors, enhancing operational strengths in emerging industries, stepping up investments across the Great Bay Area, Yangtze River Delta, and Beijing-Tianjin-Hebei region, and encouraging higher level of digitalization.

The bank maintains strong synergy with its parent. Leveraging HSBC Holdings' global network covering over 60 major markets, the bank is able to provide an extensive range of financial services catering to cross-border banking needs from institutional and individual customers, including wealth management, transaction banking, fund custody, investment banking, and insurance. It also focuses on collaboration across its global network to provide services for customers in different markets.

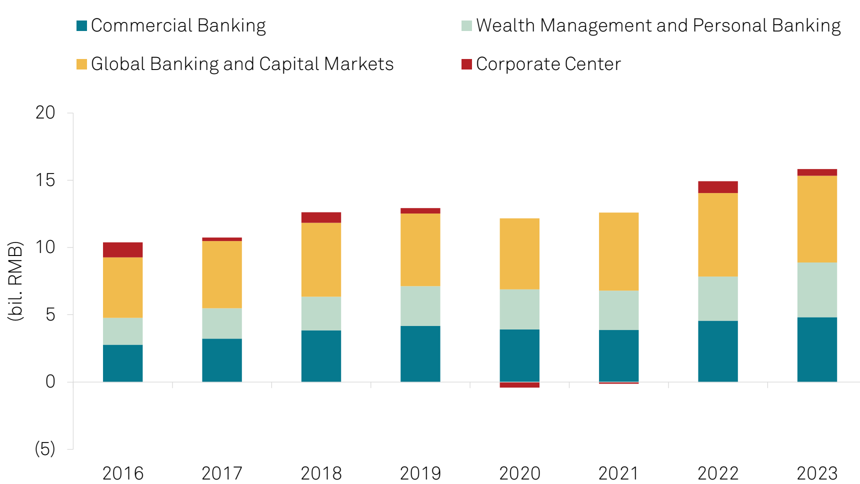
The bank has maintained diversified and stable revenue structure through offering a full range of corporate and retail banking services. It has three major business lines, including global banking and capital markets, commercial banking, wealth management and personal banking. In 2023, these three business lines accounted for 40.7%, 30.4% and 25.7% of its operating income, respectively.

- Global banking and capital markets offers comprehensive services for large corporations and financial institutions and is responsible for the bank's operations related to treasury and capital markets.
- Commercial banking consists of corporate lending, trade financing, deposit services, fund management, foreign exchange, and commissioned sales of insurance.
- Wealth management and personal banking provides financial products and services to individual customers, addressing the complex needs of high-net-worth individuals and families through diversified and tailored portfolios of banking and wealth management products and services.

Chart 3

HSBC (China) Has a Well-Balanced Business Mix

HSBC (China): Operating Income Breakdown



Note: Corporate Center mainly represents revenues and expenses that are not directly attributable to a specific segment or can not be appropriately allocated.

Sources: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Wealth management and personal banking segment experienced the strongest revenue growth among the bank's all business lines in 2023. In 2023, the segment delivered 4.07 billion RMB of operating income, up by 23.8% YoY. Meanwhile, commercial banking segment contributed 4.81 billion RMB of operating income, up by 5.8% YoY, and global banking and capital markets 6.44 billion RMB, up by 3.7% YoY.

Benefitting from its group's global network advantages, the bank ranks as a leading international wealth management institution in China's domestic market. In 2023, the group's wealth management segment saw a YoY growth of 53% in its AUM in China, and the number of wealth management customers increased by over 30%.

Its wealth management network has further expanded following the completion of a deal to acquire CitiBank (China)'s personal wealth management operations in June 2024. The bank took over the investment assets and deposits owned by CitiBank (China)'s personal banking customers across 11 major cities. Over 300 former staff of CitiBank (China) have joined the bank. Through the acquisition, the bank has sharpened its competitive edge in the retail banking segment among its foreign peers and is expected to achieve better economies of scale in this business.

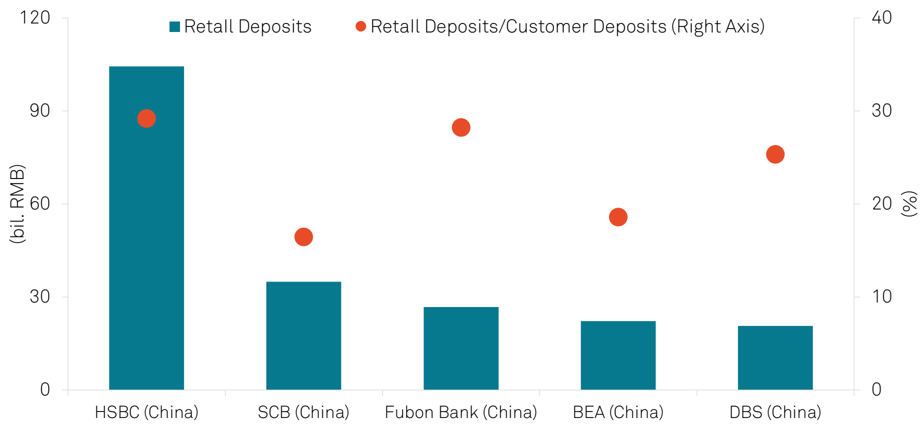
Thanks to its geographically diversified network in China, the bank's retail banking franchise is larger compared to its foreign peers. As of the end of 2023, it had a retail deposit book of 104.29 billion RMB, increasing by 23.7% YoY and accounting for 29.2% of total customer deposits (including structured deposits). The retail deposit growth was primarily driven by an increase in term deposits. In 2023, personal term deposits surged by 54.1% YoY, mainly because the bank's deposit products satisfy customers' desire for both returns and safety in the context of weakening confidence among residents, lower risk appetite of investors, and growing demand for safer term deposit products. We expect its retail deposits to post stronger growth after the acquisition of CitiBank (China)'s personal wealth management franchise in 2024.

Its retail lending is mainly composed of mortgages, supplemented by a small portfolio of credit card lending. As of the end of 2023, its retail loan book declined by 17.0% YoY to 43.91 billion RMB. Mortgages accounted for 95.0% of its retail loans. The substantial decline in retail lending was mainly led by decreasing demand for mortgages and larger prepayment scale amid the sluggish real estate market in China.

Chart 4

HSBC (China) Has the Strongest Retail Deposit Franchise among Its Foreign Peers

Peer Comparison: Retail Deposits and Retail Deposits/Customer Deposits as of End of 2023



Note: We included structured deposits into customer deposits where data is publicly available.
Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank's loan book shrank in 2023, because of inadequate domestic lending demand, intense price competition among banks for lending business, and the bank's stringent approach to internal pricing management. As of the end of 2023, its total loans amounted to 230.3 billion RMB, down by 7.2% YoY. We expect its loan book not to expand significantly over the next 12 months in the absence of a credit market recovery in 2024 compared to last year. Since the bank's profit is not primarily driven by loan growth, we think the decline in its loan book would not have a negative impact on its credit quality.

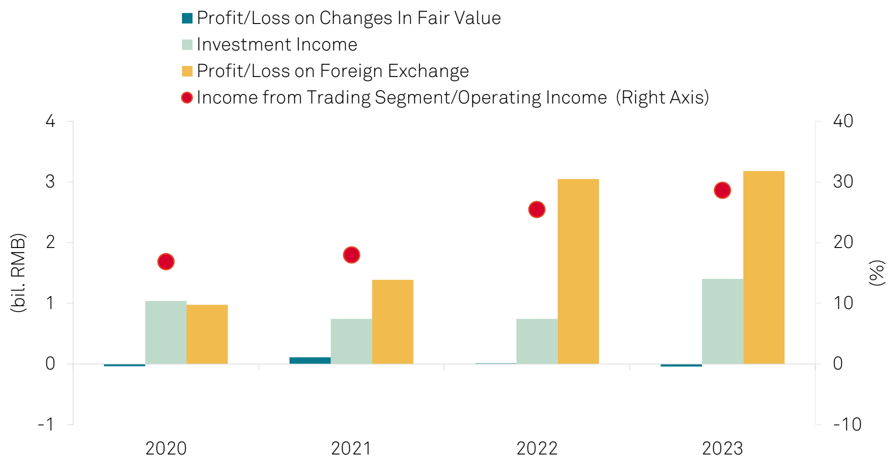
The bank has solid competitiveness in providing cross-border financial solutions and cash management. Its parent HSBC, as the largest bank in Hong Kong, has a very strong presence across Asia-Pacific. Its corporate banking services target a customer base composed of large multinational corporations and high-quality Chinese companies. These competitive strengths have led to high stickiness of corporate deposits and high proportion of demand deposits for the bank. As of the end of 2023, demand deposits accounted for 80.3% of its corporate deposits, far above the industry average of 32.3%.

Income from its trading segment has contributed a prominent share of operating income. Its decent profit on foreign exchange is attributable to its strong foreign exchange operations and trading opportunities emerging amid market volatility in recent years. In 2023, it realized profit on foreign exchange of 3.18 billion RMB, up by 4.3% YoY.

Chart 5

Income from Trading Segment Has Contributed a Significant Share of the Bank's Operating Income

HSBC (China): Changes in Income from Trading Segment



Note: Income from trading segment = investment income + profit/loss on changes in fair value + profit/loss on foreign exchange.
Sources: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

The bank has limited market share in China due to the dominance of large Chinese banks in domestic commercial banking sector. As of the end of 2023, it had a market share of 0.2% for assets and 0.1% for deposits in China. Nonetheless, we think its genuine operational strength is stronger than what's reflected by the market share of its assets given its unique advantages in conducting low-capital-consuming business.

Table 1

HSBC (China) -- Market Share

(%)	2019	2020	2021	2022	2023
Total assets / total assets of China's commercial banking industry	0.2	0.2	0.2	0.2	0.2
Gross customer loans / total loans of China's commercial banking industry	0.2	0.1	0.1	0.1	0.1
Customer deposits / total deposits of China's commercial banking industry	0.2	0.2	0.1	0.1	0.1

Sources: HSBC (China), PBOC, NAFR, collected and adjusted by S&P Global (China) Ratings.

Capital and Earnings

HSBC (China)'s capitalization is stronger than the industry average. As of the end of the first quarter of 2024, its tier 1 capital adequacy ratio was 18.1%, higher than the industry average of 12.4% and far above the minimum regulatory requirement of 8.5%. In recent years, the bank has seen a slowing growth in its high-capital-consuming business such as lending but maintained health profit increase, leading to enhanced capital generation ability and improved capital adequacy. In 2023, its tier 1 capital adequacy ratio picked up by 0.9 percentage point.

We apply a one-notch uplift to its capital and earnings to reflect its stronger capitalization relative to the industry average and healthy profitability.

The bank shows very good capital quality. As of the end of 2023, its CET 1 capital made up 93.9% of its total capital, much higher than the industry average at 70.0%. No hybrid capital instruments have been issued due to its solid CET 1 capital adequacy.

Table 2

HSBC (China) -- Reported Capital Adequacy Ratios and Asset Quality Metrics (As of End of March 2024)

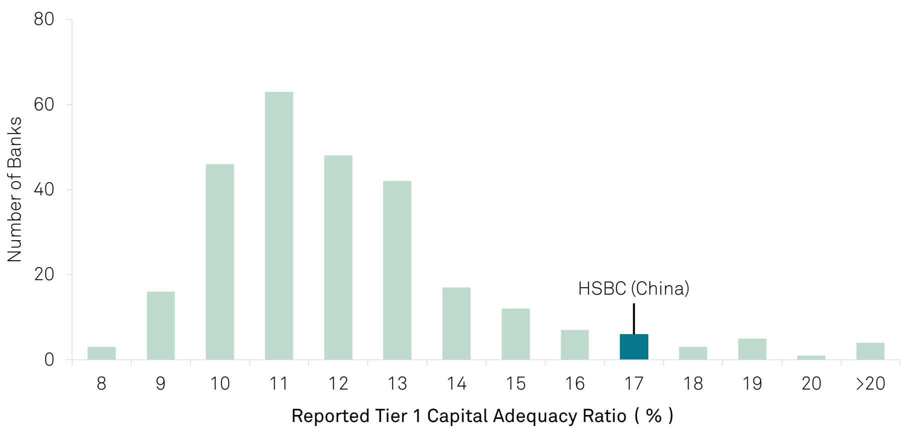
Metrics (%)	Minimum regulatory requirement	HSBC (China)
Capital adequacy ratio	10.5	19.1
Tier 1 capital adequacy ratio	8.5	18.1
CET 1 capital adequacy ratio	7.5	18.1
Leverage ratio	4	8.4
CET 1 capital/net capital	N/A	94.9
Tier 1 capital/net capital	N/A	94.9

Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Chart 6

The Bank Enjoys Better Capital Strength Than the Industry Average

Industry Comparison: Reported Tier 1 Capital Adequacy Ratios of Major Banks in China as of End of 2023



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank has maintained a reasonable balance among dividend, business growth and capital buildup. The bank exhibits strong profitability while consuming modest capital for running its business, which allows it to maintain high capital adequacy and high dividend payout ratio at the same time. Its dividend payout ratio is significantly higher than commercial banks' average. In 2019-2023, its five-year average dividend payout ratio stood at 60.6%, with its tier 1 capital increasing by 19.9% and risk-weighted assets by 11.0% on a cumulative basis. Due to a slower growth in risk-weighted assets compared to that in capital, its tier 1 capital adequacy ratio rose to 16.7% by the end of 2023 from 15.5% by the end of 2019. We project its tier 1 capital adequacy ratio to stay above 17% over the next 24 months.

Table 3

HSBC (China) -- Tier 1 Capital Adequacy Ratio Forecast by S&P Global (China) Ratings

<table>
<tr><th rowspan="2">(bil. RMB)</th><th colspan="2">2024F</th><th colspan="2">2025F</th><th rowspan="2">Base case assumptions and conclusions</th></tr>
<tr><th>Amount</th><th>YoY Change</th><th>Amount</th><th>YoY Change</th></tr>
<tr><td>Risk-weighted assets</td><td>367</td><td>1%</td><td>377</td><td>3%</td><td rowspan="3">1. We assume its risk-weighted assets to grow by about 1% and 3% YoY in 2024 and 2025, respectively. These forecasts have factored in the one-off impact from the implementation of new capital management rules on risk-weighted assets.
2. We assume its loan loss reserve/gross customer loans ratio to drop to 1.5% from 2.5% as of the end of 2023, thus projecting a reversal of loan loss provisioning of about 2 billion RMB in 2024.
3. We assume a NIM of about 1.6%.
4. We estimate its administrative expense to grow by 10%-15% due to the takeover of CitiBank (China)'s personal wealth management business and relevant staff.
5. Considering all these key assumptions, we expect its ROAE to be around 12% in 2024 and about 8% in 2025.
6. We assume an annual dividend payout ratio of 50%-75%.
Based on the above forecasts, its capital generation rate would be about 6%, remarkably higher than the estimated growth for risk-weighted assets. Therefore, we expect its tier 1 capital adequacy ratio to remain very high over the next two years.</td></tr>
<tr><td>Tier 1 capital</td><td>65</td><td>7%</td><td>66</td><td>3%</td></tr>
<tr><td>Tier 1 capital adequacy ratio forecast</td><td colspan="2">>17%</td><td colspan="2">>17%</td></tr>
</table>

Note: F – forecast.
Source: HSBC (China), S&P Global (China) Ratings.

The bank has very strong capital resilience. Our stress testing suggests that its capital adequacy would face limited impact from the current round of real estate downturn, LGFV risk mitigation, and NIM compression among banks (see Appendix 2 for more details). Its resilient capital base is backed by its steady profitability, sound asset quality, and adequate reserves.

It has maintained stable revenue growth in recent years. In 2023, it reported operating income of 15.85 billion RMB, up by 6.1% YoY, compared to a decline of about 3.6% for domestic listed banks during the same period. In 2023, net interest income accounted for 54.6% of operating income, net fees and commission income 16.0%, and investment income, profit/loss on changes in fair value, and profit/loss on foreign exchanges altogether 28.6%. Its revenue growth slowed in 2023 mainly because of a year-on-year dip in its net interest income, which was led by a faster growth in interest expense compared to that in interest income. Since its reliance on net interest income as a source of revenue is much lower than domestic banks, it achieved significantly better revenue growth than the industry average.

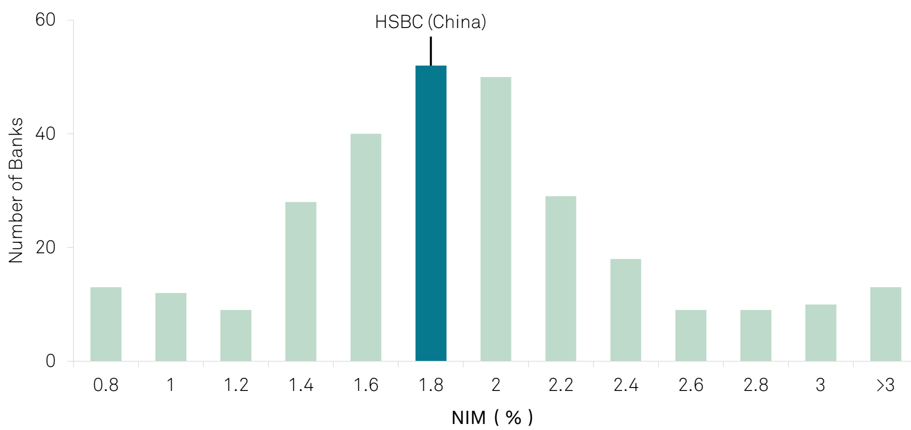
The bank has seen much less downward pressure on NIM compared to the industry average in recent years. In 2023, we estimated its NIM adjusted by S&P Global (China) Ratings to drop by 4 basis points YoY to 1.62%, which was milder than a decrease of

22 basis points for the banking industry average. Amid continued downtrend in market interest rates in China's onshore market, we expect its NIM to continue to see a slight drop in 2024. Similar to other peers, the bank suffered a NIM shrinkage that is caused by the consistent decrease in interest rates for RMB loans. Its milder NIM decline was mainly a result of the high NIM for its USD-denominated business and strict pricing strategy.

Chart 7

The Bank's NIM is Consistent with the Industry Average

Industry Comparison: Distribution of NIMs of Major Banks in China in 2023



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings

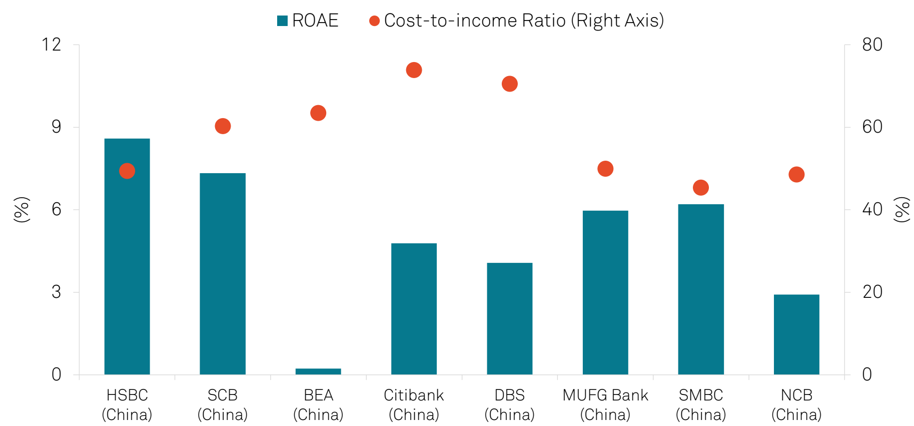
The bank's reserves should meet two minimum regulatory requirements for the reserve coverage ratio and loan loss reserve/gross customer loans ratio. Due to the modest share of its non-performing loans, we view the minimum loan loss reserve/gross customer loans ratio as the metric that has a greater impact on the bank's actual provisioning. The regulatory requirement for the bank's loan loss reserve/gross customer loans ratio rose to 2.5% in 2023 from 1.5% in 2022, leading to a loan loss provisioning of 2.57 billion RMB in 2023, surging by 303.5% YoY. With this minimum requirement lowered to 1.5% in 2024, a large-scale reversal of provisioning would be likely within the year. The changes in regulatory requirement for loan loss reserve/gross customer loans ratio have caused volatility in credit impairment loss/reversal and net income in recent years. Nonetheless, we think its actual profit has increased steadily because of its relatively stable asset quality.

The bank has maintained effective control over operating cost. In 2023, its business administrative expense was 7.83 billion RMB, increasing by 6.8% YoY. Thanks to stable revenue growth and effective cost control, its cost-to-income ratio came to 49.4%, similar as in last year but still above the industry average at 35.3%. We expect a rise in business administrative expense due to the takeover of CitiBank (China)'s personal wealth management franchise in 2024 but anticipate the overall cost-to-income ratio to stay at a reasonable level.

Chart 8

The Bank Maintains Higher Profitability Relative to Its Foreign Peers.

Peer Comparison: Return on Average Equity and Cost-to-income Ratio in 2023



Note: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

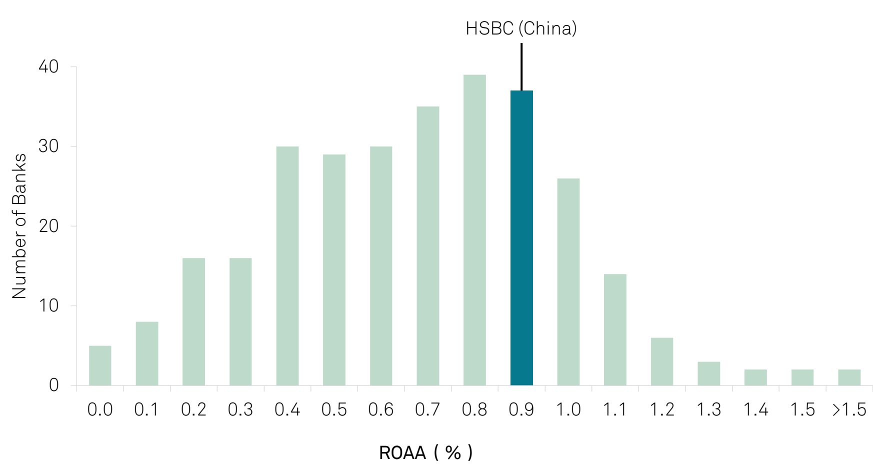
Sources: Public information of banks, NAFR, collected and adjusted by S&P Global (China) Ratings.

The bank has sustained robust profitability. It outperforms many domestic banks in delivering profit, mainly due to its low credit cost, and stand better than its foreign peers, primarily thanks to better economies of scale and stronger operational strengths. In 2023, its return on average assets was 0.84%, 14 basis points higher than the industry average and 28 basis points higher than foreign bank subsidiaries' average.

Chart 9

The Bank Has Strong Profitability

Industry Comparison: Distribution of ROAA of Major Banks in China in 2023



Note: Return on average assets = net income / [(total assets at the beginning of the year + total assets at the end of the year) / 2].

Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings

Risk Position

We believe HSBC has deep expertise in managing risk in Asia-Pacific emerging markets and it has a strong proven track record of managing asset performance through economic cycles. We believe the parent's deep expertise in risk control in Asian markets gives HSBC (China) an edge among its peers in risk management.

In our view, HSBC (China) has prudent and effective risk management, featuring well-defined and well-communicated credit appetite by customer segments and industry sectors which are effectively implemented in its underwriting and post-lending activities. It targets a client base of multinationals, high credit quality Chinese enterprises with an international mindset and affluent retail customers.

HSBC (China)'s asset quality has remained solid thanks to its superior client base and its prudent approach to risk management. In 2023, its non-performing loan (NPL) ratio and special mention loan (SML) ratio both declined, particularly the latter which experienced a sharp fall. As of the end of 2023, its NPL ratio and SML ratio came to 0.16% and 1.16%, down by 0.04 percentage point and 0.36 percentage point, respectively. We expect its loan quality to remain stable in 2024.

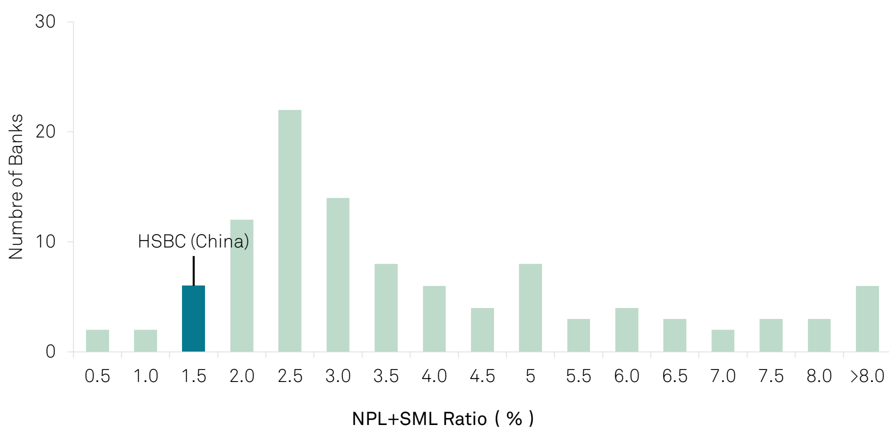
The bank adopts prudent approach to risk management and has better asset quality than the industry average.

Therefore, we apply a one-notch uplift for its risk position.

Chart 10

The Bank's Asset Quality is Better than the Industry Average

Industry Comparison: Distribution of NPL+SML Ratios of Major Banks in China as of End of 2023



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank has a write-off rate significantly lower than the industry average given its very small NPL scale. In 2023, its net write-off rate was 0.2%, versus an industry average of 0.5%. Its average net write-off rate over the past five years was 0.2%.

HSBC (China) has a strong reserve buffer in place against any potential uncertainty over asset quality. As of the end of 2023, it had a reserve coverage ratio of 1558.0%, much higher than the industry average of 205.1%. Its loan loss reserve coverage for NPLs and SMLs was 190.4%. The adjustments to regulatory requirements for loan loss reserve/gross customer loans ratio would bring material changes to the bank's reserve coverage ratio accordingly. In 2022, the bank's reserve coverage ratio was 748.2% when the regulatory requirement for loan loss reserve ratio was 1.5%; in 2023, as such regulatory requirement was lifted to 2.5%, the bank's reserve coverage ratio enhanced to 1558.0%. In our view, given its solid asset quality, the bank has maintained ample reserves even when a loan loss reserve/gross customer loans ratio of 1.5% is regulatorily required.

Its capital base is resilient against real estate risk in China thanks to its very strong capital adequacy and reserves. Despite rising default risk facing domestic real estate developers, the bank sees controllable risks associated with its real estate exposure because of its prudent risk appetite. Its real estate-related loans are concentrated in tier 1 and 2 cities, with most borrowing customers in the sector exhibiting high credit quality and steady operational performance.

The bank has made vigorous efforts to reduce its real estate exposure. As of the end of 2023, its outstanding real estate-related loans decreased by 15.9% YoY to 22.95 billion RMB, accounting for 10.0% of its total loan book, down by 1 percentage point YoY. Our stress testing shows that the bank is able to maintain strong capital adequacy even in the face of substantial downward pressure on real estate sector (see Appendix 2 for details). Its credit quality is not susceptible to the downward risk of the real estate sector.

HSBC (China) has very prudent risk appetite in its investment activities. As of the end of 2023, government bonds represent 82.8% of its investment portfolio, with the remainder being ABS, policy bank bonds, financial bonds, NCDs, and corporate bonds.

The bank's asset quality is not affected by the risks facing domestic small- and mid-sized financial institutions. It sees mega banks, national leading joint-stock banks, and foreign bank subsidiaries as its major counterparties for its interbank business, thus bearing modest counterparty risk.

Funding and Liquidity

HSBC (China)'s use of wholesale funding is consistent with the industry average. It has stable funding, prudent liquidity management, and adequate liquidity.

Therefore, there is no notching adjustment to its funding and liquidity.

As one of the largest foreign bank subsidiaries with best credit quality in China, the bank maintains stable wholesale funding. Its funding structure is generally consistent with the industry average. As of the end of 2023, customer deposits (including structured deposits) made up 64.3% of its total liabilities, and wholesale funding 28.9%.

Its deposit book has seen robust growth, with fund needs from lending business fully supported by its deposit base. As of the end of 2023, its total deposits (including structured deposits) increased by 6.0% YoY to 357.34 billion RMB, of which corporate deposits accounted for 54.8%, retail deposits 29.2%, and structured and other deposits 16.0%. The shrinking loan size and expanding deposit scale together caused its deposit-to-loan ratio to drop to 64.4% as of the end of 2023 from 73.6% as of the end of 2022.

The bank owns abundant liquid assets to fully meet its liquidity needs. As of the end of 2023, its net loans accounted for 36.5% of total assets, financial investments 40.1%, interbank assets 12.0%, and cash and deposits to the central bank 7.0%. Its financial investments consist mainly of government bonds, which are highly liquid.

It follows a prudent approach to liquidity management. As of the end of 2023, its liquidity coverage ratio was 185.3% and net stable funding ratio was 148.0%, both of which were far above the minimum regulatory requirements. In addition, it is designated by the PBOC as a primary dealer in the open market, which should facilitate better management on its short-term liquidity.

Holistic Adjustment

We apply a one-notch upward holistic adjustment to the bank's SACP through peer comparison to comprehensively reflect its strengths in stand-alone credit quality. The one-notch upward holistic adjustment is reflective of its credit strengths listed below that are not fully captured by assessments on the four credit risk factors above:

- Enhanced wealth management capabilities and strengthened competitiveness in retail banking segment following the acquisition of CitiBank (China)'s personal banking and wealth management operations.
- Its stellar asset quality, adequate reserves, and resilient capital base make it less susceptible to the downward pressure on China's economy, particularly to risks from real estate sector, LGFV debt, and small and medium-sized financial institutions. It is able to maintain very strong capital strengths amid the current round of credit downswing in China.
- It sustains solid earnings stability. Over the past five years, the domestic banking industry has confronted a slew of difficulties including the pandemic, real estate downturn, mounting strains on debt repayment for local governments, rapidly shrinking yields on the asset side, and rising costs on the liability side due to increasing migration towards term deposits. Leveraging its prudent operating style and unique business advantages, it has delivered stable profit that shows good resilience against these headwinds, with a five-year return on average assets at 0.8%.
- Its funding structure is stable, supported by high stickiness of corporate deposit customers and decent growth in retail deposits. Meanwhile, it maintains highly liquid assets, leading to excellent liquidity metrics.

We apply a one-notch upward holistic adjustment to the bank. Hence the bank is assigned an SACP of "aaa$_{spc}$", four notches higher than the anchor of "a+". This reflects its competitiveness in business franchise, capital adequacy, profitability, and asset quality.

Issuer Credit Rating

External Support

HSBC (China) is a fully owned subsidiary of HSBC. S&P Global Ratings has assigned an SACP of "a+" and an issuer credit rating of "AA-" to HSBC. Among all foreign banks with locally incorporated subsidiaries in China, HSBC is one of those assigned with highest ratings by S&P Global Ratings. Based on the broad relationship observed between the credit quality opinions of S&P Global Ratings and S&P Global (China) Ratings, S&P Global (China) Ratings views the issuer credit quality of HSBC as extremely strong, equivalent to the issuer credit quality of "AAA_{spc}" on our national rating scale.

In our view, HSBC has extremely high issuer credit quality equivalent to "AAA_{spc}".

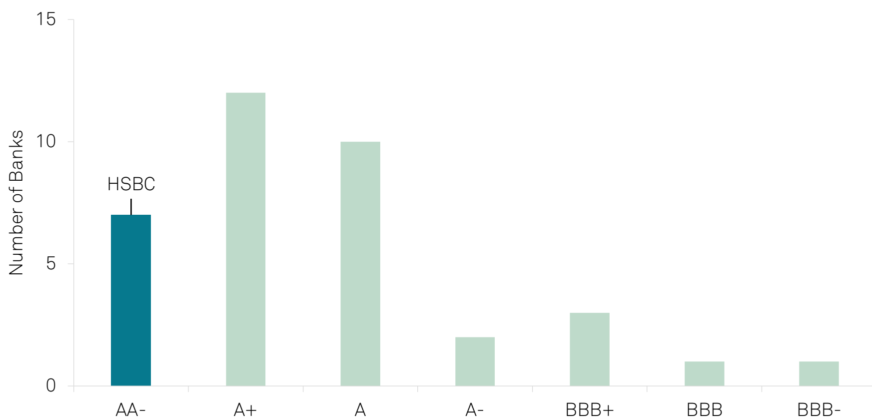
Hong Kong and the Chinese mainland are HSBC's major markets. HSBC (China) is one of its parent's core subsidiaries and highly likely to receive group support.

We assign an ICR of "AAA_{spc}" to HSBC (China), reflecting no upward notching adjustment for group support as it already has the highest SACP of "aaa_{spc}" on our national scale.

Chart 11

HSBC Has the Strongest Credit Strengths Among Foreign Banks

Peer Comparison: Distribution of ICRs of Foreign Banks Assigned by S&P Global Ratings



Note: There are 41 foreign bank subsidiaries operating in China at present, 36 of which have seen their parent banks assigned with public ratings by S&P Global Ratings. The above rating results are as of July 5, 2024.

Source: S&P Global Ratings, collected and adjusted by S&P Global (China) Ratings.

Table 4

Credit Highlights of HSBC by S&P Global Ratings

Key Strengths	Key Risks
Largest bank in Hong Kong, with presence in 19 markets in Asia-Pacific and access to a diverse global network.	Lingering concerns in China's real estate sector despite some policy support.
High systemic importance due to dominant market position in Hong Kong and likelihood of government support.	Uncertain business environment amid geopolitical tensions.
Very strong resilience during market stress.	

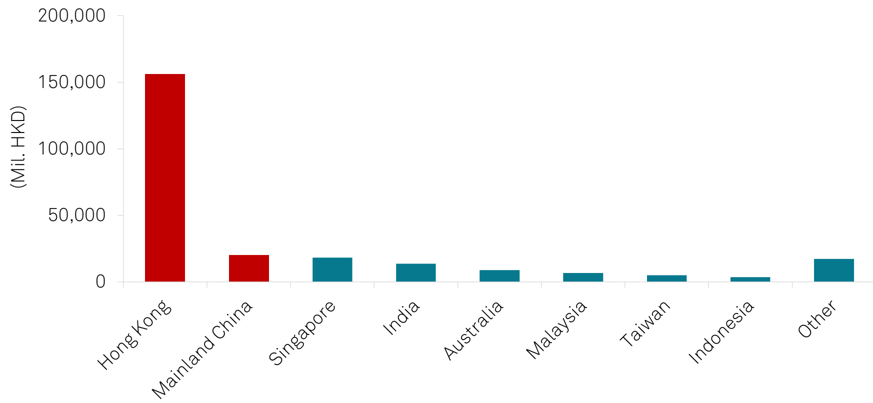
Source: S&P Global Ratings, collected and adjusted by S&P Global (China) Ratings.

HSBC is the largest bank in Hong Kong SAR, with a presence in major markets across Asia-Pacific and a diversified global network. Hong Kong and the Chinese mainland constitute the major markets for HSBC. In 2023, 62.5% of its revenue came from Hong Kong and 8.0% from the Chinese mainland.

Chart 12

Hong Kong and Chinese Mainland Are Major Markets for HSBC

HSBC: Breakdown of Net Operating income by Region in 2023



Note: Net operating income is total pre-tax profit before deducting impairment loss.

Source: Public information of HSBC, collected and adjusted by S&P Global (China) Ratings.

HSBC is part of a larger financial group, HSBC Holdings, which provides HSBC (China) with access to a wider global network beyond Asia-Pacific. HSBC Holdings was established in London in 1991 to serve as the parent company for the expanding group. HSBC Holdings operates in 62 countries and territories around the world.

In summary of the above, we believe that HSBC (China) is of critical importance to its parent and HSBC is extremely likely to provide capital and liquidity support to its China subsidiary when necessary. We assign an ICR of “AAA_{spc}” to HSBC (China), reflecting no upward notching adjustment for group support as it already has the highest SACP of “aaa_{spc}” on our national scale.

Appendix

Appendix 1: Key Financial Data

HSBC (China) -- Key Financial Data	2019	2020	2021	2022	2023
Business Position					
Total assets (bil.)	524.8	565.8	574.2	596.8	616.7
Year-over-year growth of total assets (%)	10.2	7.8	1.5	3.9	3.3
Gross customer loans (bil.)	212.1	216.3	242.4	248.2	230.3
Year-over-year growth of gross customer loans (%)	8.2	2.0	12.0	2.4	(7.2)
Customer deposits (bil.)	308.8	328.8	322.2	337.2	357.3
Year-over-year growth of customer deposits (%)	7.6	6.5	(2.0)	4.7	6.0
Operating income (bil.)	12.9	11.8	12.5	14.9	15.8
Year-over-year growth of operating income (%)	2.5	(9.0)	5.9	19.9	6.1
Net income (bil.)	4.5	3.6	3.9	6.0	5.1
Year-over-year growth of net income (%)	14.4	(19.4)	9.3	53.9	(15.5)
Net fees and commission income/operating income (%)	14.6	16.9	20.0	15.4	16.0
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	16.2	16.8	15.7	16.7	17.8
Reported regulatory Tier 1 capital adequacy ratio (%)	15.5	15.9	14.8	15.8	16.7
Adjusted net interest margin (%)	1.9	1.6	1.5	1.7	1.6
Cost-to-income ratio (%)	58.5	63.5	62.5	49.1	49.4
Asset provisioning/pre-provision operating profits (%)	14.9	23.8	14.2	8.5	32.5
Loan provisioning/average gross customer loans (%)	0.3	0.4	0.3	0.1	1.0
Return on average assets (%)	0.9	0.7	0.7	1.0	0.8
Return on average equity (%)	8.9	7.0	7.5	10.9	8.6
Dividend payout ratio (%)	79.6	49.4	75.2	49.2	49.7
Risk Position					
Non-performing loan ratio (%)	0.4	0.2	0.2	0.2	0.2
(Non-performing loans + special mention loans)/gross customer loans (%)	2.2	1.8	1.5	1.7	1.3
Overdue loans/gross customer loans (%)	0.4	0.2	0.2	0.4	0.2
Loan loss reserves/gross customer loans (%)	1.5	1.5	1.5	1.5	2.5
Reserve coverage ratio (%)	376.1	800.1	907.5	748.2	1,558.0
Loan loss reserves/ (non-performing loans + special mention loans) (%)	70.0	86.7	102.7	89.0	190.4
Net write-offs/average gross customer loans (%)	0.2	0.4	0.1	0.1	0.2
Funding and Liquidity					
Customer loans/customer deposits (%)	68.7	65.8	75.2	73.6	64.4
Customer deposits/total funding (%)	65.1	64.0	61.8	62.6	64.3
Wholesale funding/total funding (%)	28.9	28.6	31.4	30.9	28.9
Retail deposits/customer deposits (%)	22.4	20.8	22.0	25.0	29.2
Liquidity coverage ratio (%)	169.1	210.3	141.4	196.4	185.3
Net stable funding ratio (%)	137.5	136.6	128.9	141.1	148.0

Note 1: We believe that HSBC (China) has a clear business model and strict financial management, and thus we have not made significant adjustments to the bank's financial data.

Note 2: The bank's 2018-2023 financial statements were audited by PwC Zhongtian. All these financial statements were assigned with standard unqualified opinions.

Note 3: Customer deposits include structured deposits.

Note 4: NIM adjusted by S&P Global (China) Ratings = adjusted net interest income/ [(total interest-bearing assets at the beginning of the year + total interest-bearing assets at the end of the year)/2].

Note 5: Return on average assets =net income / [(total assets at the beginning of the year + total assets as of the end of the year)/2].

Note 6: Return on average equity =net income / [(total equity at the beginning of the year + total equity as of the end of the year)/2].

Note 7: Dividend payout ratio = Amount of dividend for the current year/ net income for the previous year.

Note 8: Wholesale funding=borrowing from the central bank + borrowing and deposits from other financial institutions + financial assets sold for repurchase + bonds payable. Its financial liabilities held for trading consist entirely of structured deposits, which have been included in customer deposits. Market financing from its group has been included in wholesale funding.

Note 9: Any discrepancy between the total value and the sum of each item's value or the value of other public data is due to rounding.

Source: HSBC (China), collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Capital Stress Testing Results by S&P Global (China) Ratings

Capital Stress Testing on HSBC (China) by S&P Global (China) Ratings (Data as of End of Q1 2024)

Scenarios	Tier 1 Capital Adequacy Ratio (%)
Reported ratio as of the end of Q1 2024:	18
Key assumptions under mild stress scenario: 1. Problem loan ratio for real estate loans and construction loans is 15%, with a loss give default rate of 50%. 2. Problem loan ratio for mortgages is 1%, with a loss give default rate of 10%. 3. Problem loan ratio for other loans is 7%, with a loss give default rate of 70%. 4. Stage 2 and stage 3 investment assets are problem assets, with a loss give default rate of 70%. 5. Interest rate for weak LGFV borrowers decreases by 100-200 basis points (if applicable). 6. Spreads between LPR and deposit rates remain flat as in 2023. 7. Average mortgage rate drops by 73 basis points in 2024 due to basis-point cuts to interest rates for outstanding mortgages in the second half of 2023. 8. 30% of problem loans and investment assets cease interest payments. 9. Cash recovery rate for repossessed assets (excl. assets assigned with 1250% risk weight as per regulatory capital requirements) uncovered by loss reserves is 30% (if applicable)	18
Key assumptions under moderate stress scenario: 1. Problem loan ratio for real estate loans and construction loans is 30%, with a loss rate give default of 70%. 2. Problem loan ratio for mortgages is 2%, with a loss give default rate of 20%. 3. Interest rate for weak LGFV borrowers decreases by 200-300 basis points. 4. Spreads between LPR and deposit rates narrow by 10 basis points from 2023. 5. Other assumptions are same as mild stress scenario.	18
Key assumptions under severe stress scenario: 1. Problem loan ratio for real estate loans and construction loans is 50%, with a loss rate give default of 70%. 2. Problem loan ratio for mortgages is 3%, with a loss rate give default of 30%. 3. Interest rate for weak LGFV borrowers decreases by 300-400 basis points. 4. Spreads between LPR and deposit rates narrow by 20 basis points from 2023. 5. Other assumptions are same as mild stress scenario.	17
Main conclusion: The bank has a very resilient capital base and could maintain high capital adequacy under severe stress. Thanks to prudent risk management, adequate reserves, and sound profitability, downward risks related to the real estate market and macroeconomy would only have a limited impact on the bank and not pose a challenge to capital.	

Note: This stress testing didn't factor in growth in risk-weighted assets led by business expansion.

Source: S&P Global (China) Ratings.

Appendix 3: Rating History of HSBC (China)by S&P Global (China) Ratings

Issuer Credit Ratings	Outlook	Rating Date	Analysts
AAA_{spc}	Stable	2021-01-12	Yifu Wang, Xiaochen Luan, Xuefei Zou
AAA_{spc}	Stable	2022-01-12	Longtai Chen, Xiaochen Luan, Xuefei Zou
AAA_{spc}	Stable	2022-03-08	Longtai Chen, Xiaochen Luan, Xuefei Zou
AAA_{spc}	Stable	2022-08-17	Ying Li, Xiaochen Luan, Xuefei Zou
AAA_{spc}	Stable	2022-10-31	Xiaochen Luan, Xuefei Zou
AAA_{spc}	Stable	2023-03-07	Xiaochen Luan, Xuefei Zou, Jiancheng Yang
AAA_{spc}	Stable	2023-07-13	Xiaochen Luan, Xuefei Zou, Jiancheng Yang
AAA_{spc}	Stable	2024-07-25	Xiaochen Luan, Yanyu Wang, Jiancheng Yang

Note 1: These ratings are conducted based on S&P Global (China) Ratings Financial Institutions Methodology, and no quantitative model is used. S&P Global (China) Ratings revised its financial institutions methodology in December 2023. While its ICR remains unchanged, the revised methodology leads to an uplift for its SACP, driven by an adjustment to the anchor and enhanced credit strengths of the bank.

Note 2: Please refer to rating reports on our official website (https://www.spgchinaratings.cn/en/ratings/index) for more details.

Appendix 4: Rating Definitions

Category	Definition
AAA_{spc}	The repayment ability is extremely strong, generally not impacted by any adverse economic environment, and the default risk is extremely low.
AA_{spc}	The repayment ability is very strong, not considerably impacted by any adverse economic environment, and the default risk is very low.
A_{spc}	The repayment ability is comparatively strong, comparatively vulnerable to the impact of adverse economic environment, and the default risk is comparatively low.
BBB_{spc}	The repayment ability is average, comparatively impacted by adverse economic environment, and the default risk is average.
BB_{spc}	The repayment ability is comparatively weak, materially impacted by adverse economic environment, and the default risk is comparatively high.
B_{spc}	The repayment ability relies comparatively on fair economic environment and the default risk is very high.
CCC_{spc}	The repayment ability relies extremely on fair economic environment and the default risk is extremely high.
CC_{spc}	Lower protection in situation of bankruptcy or reorganization and the repayment of debt may not be generally guaranteed.
C_{spc}	Unable to repay the debt.

Note: Except for AAA_{spc} and ratings below CCC_{spc}, each rating may be added a "+" or "-" sign for minor adjustment to indicate a slightly higher or lower rating.

Appendix 5: Surveillance Plan

S&P Ratings (China) Co., Ltd. shall monitor the credit quality of the rated issuer on a periodic and an ongoing basis. If any material credit events are likely to change the credit quality of the issuer, we will conduct ad-hoc surveillance, and determine whether the outstanding ratings need to be adjusted.