

The Journey Ahead: A Look At China's RMBS Sector

2021 Edition



Key Takeaways

Residential Mortgage Backed Securities (RMBS)

2020 Real Estate Industry Overview



The market continued to develop at a steady pace, with overall growth slowing under the regulatory framework of “homes are for living in, not speculation” and “one policy for one city.” The second half of 2020 saw moderate tightening of the industry’s financing environment.

2020 Residential Mortgage Market Overview



The residential mortgage loan balance in China has exceeded 30 trillion CNY, with stable growth and low non-performing ratio levels continuing in recent years.

2020 RMBS Overview



RMBS issuance is becoming both increasingly normalized and diversified, and remains the biggest securitized retail asset type by issuance volume.

No significant downturn in RMBS asset credit quality.

Credit performance of RMBS securities remained stable.



2021 Real Estate Industry Outlook

The market is expected to continue developing at a steady pace, with overall credit quality in the industry set to remain stable. Amid a tighter financing environment, we expect competition to intensify between small and medium-sized real estate developers.



2021 Residential Mortgage Market Outlook

Residential mortgage loan growth is expected to remain stable, and the non-performing ratio will continue to remain low and stable.



2021 RMBS Outlook

RMBS issuance is expected to increase from last year, while asset credit quality and securities’ credit performance are set to remain stable.

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Note: Given the desktop nature of this analysis, we have not conducted any interactive review with any particular originator. The indicators listed in the report do not represent a full list of factors assessed by our methodologies.

2021 Outlook: Real Estate Industry Credit Performance

China's Real Estate Industry

Chart 1: Property Sales by Area and by Value: Growth Rate

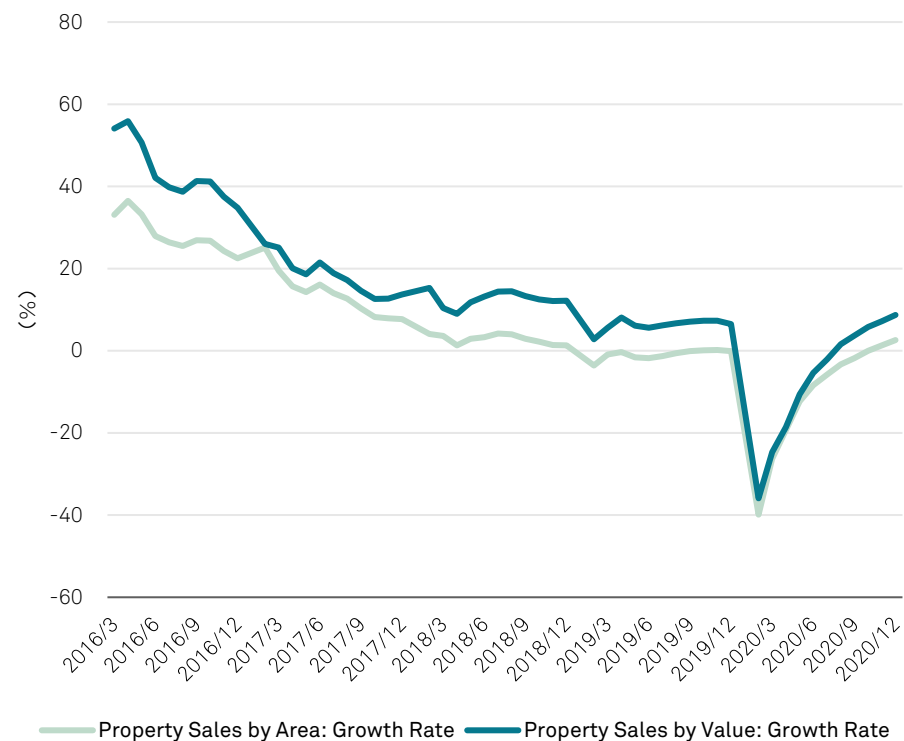
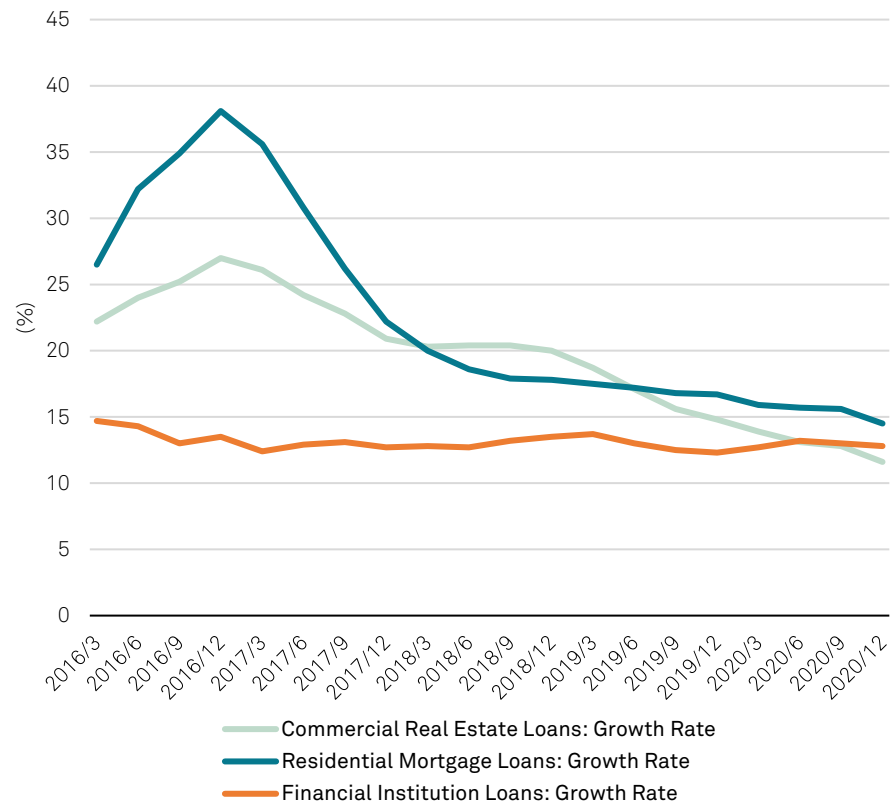


Chart 2: Real Estate Loans: Growth Rate



- Real estate development is expected to maintain steady growth in 2021, with developers' overall credit quality set to remain stable.
- Real estate policy will continue to follow the regulatory framework of "houses are for living in, not speculation" and "one policy for one city," while continuing to adhere to the regulatory objectives of stabilizing house prices, land prices and expectations.
- As an important part of China's economy, real estate development will overall remain stable. The sales area and volume of commercial real estate are expected to be the same as in 2020.
- The industry's financing environment will remain neutral and tight. As the financing environment gradually tightens further, developers with weaker inventories, weaker sales capacity and higher financial leverage may see their credit quality decline.

2021 Outlook: Residential Mortgage Market Credit Performance

China's Residential Mortgage Market

- China's outstanding residential mortgage loan balance has exceeded 30 trillion CNY, with growth remaining stable in recent years. Recent policies have seen some banks slightly moderate their mortgage loan business, but overall impact has been limited. Loan growth is still expected to remain stable in 2021.
- Compared to other retail loan types, residential mortgage loans have consistently had the lowest non-performing ratios in recent years. The NPL ratio is expected to remain low and stable in 2021.
- We believe wider implementation of the loan prime rate (LPR) can provide a more effective and timely reflection of the market's liquidity level, and can better reflect supply and demand in the commercial mortgage market.

Chart 3: Financial Institutions Residential Mortgage Loans Amount and Growth Rate

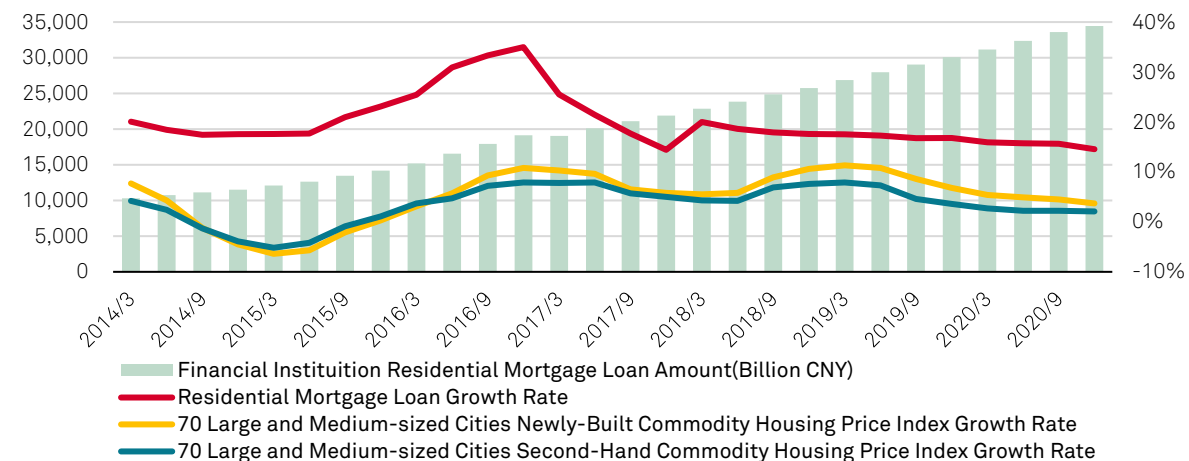


Chart 4: Non-Performing-Loan Ratio of China Retail Loans

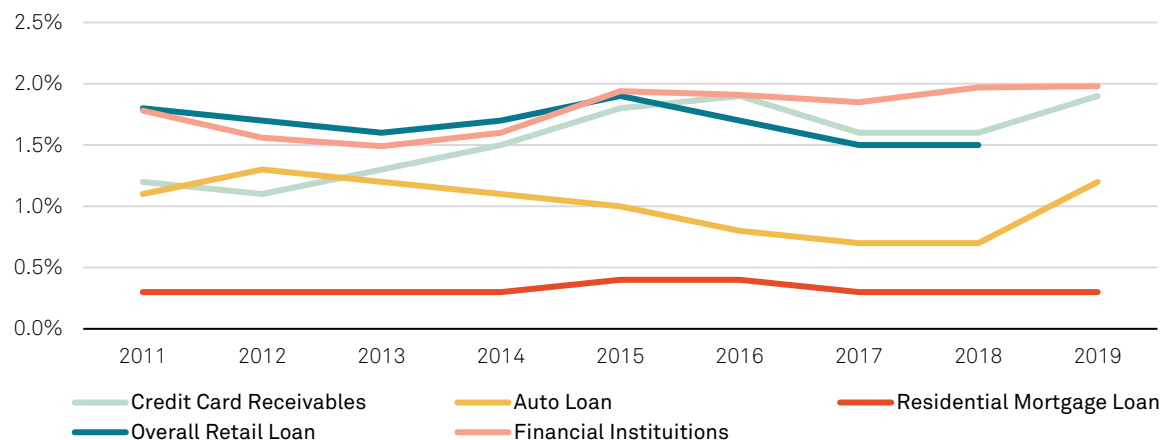
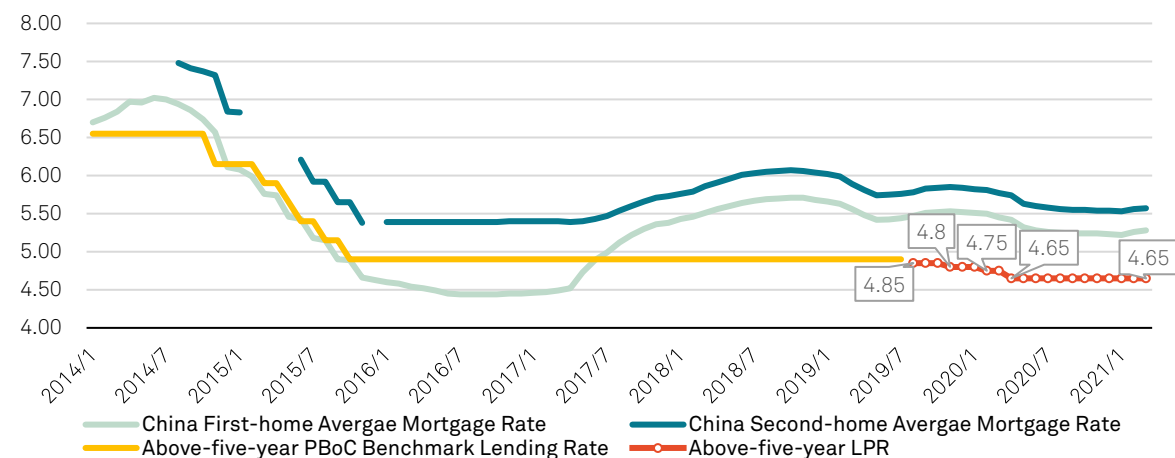


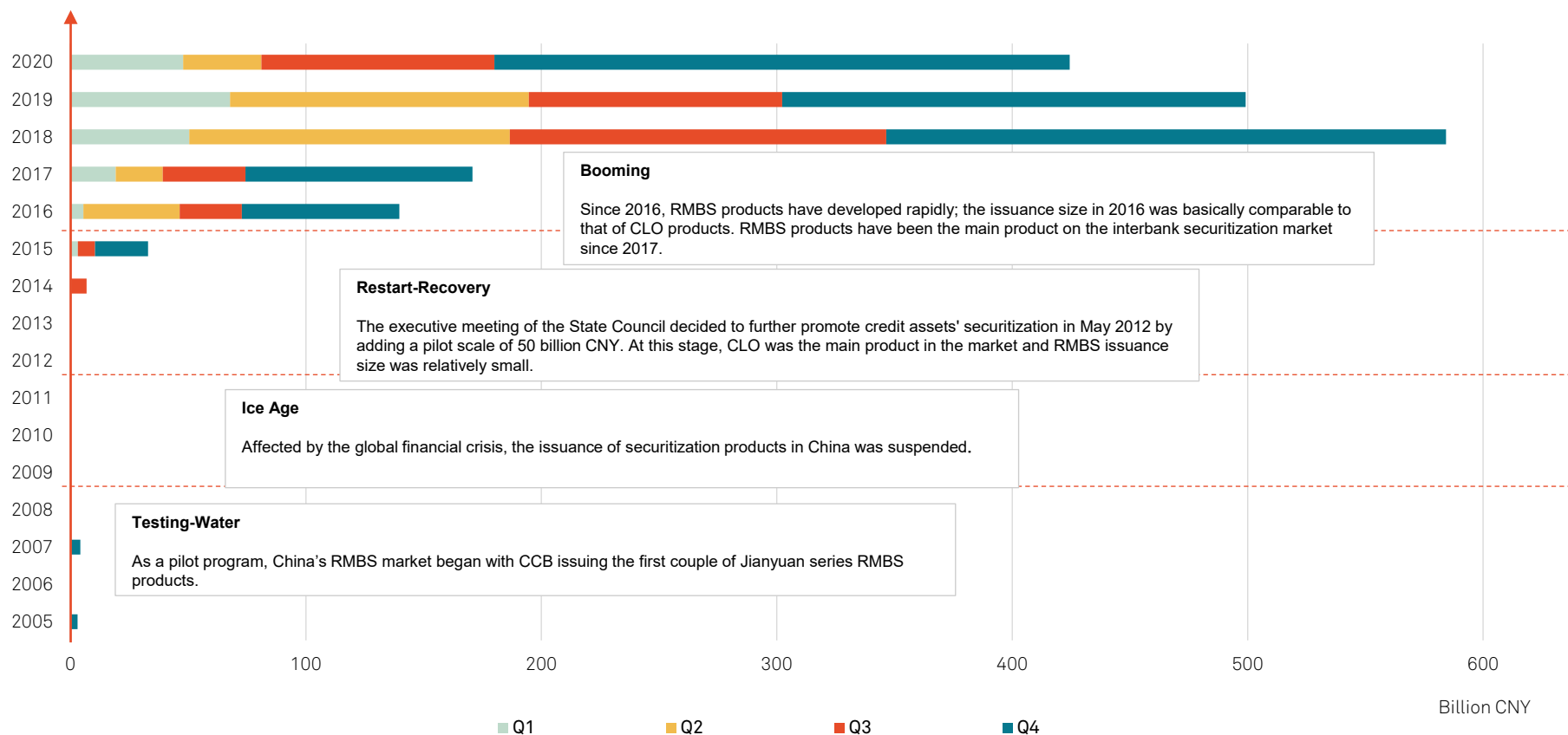
Chart 5: China Mortgage Rate and Base Rate



China's RMBS Industry in 2020

Overview of RMBS Issuance in China①

Chart 6: RMBS Issuance Volume



- In the past four years, RMBS issuance has been highest (by volume) among asset-backed securities products in the inter-bank market.
- COVID saw RMBS issuance decrease significantly in the first half of 2020 compared to the same period in 2018 and 2019. We believe issuance was also affected by regulatory changes in the real estate sector and capital market.
- With COVID largely under control since the second half of 2020, originators resumed business and saw RMBS issuance in 2020 H2 return to basically the same level seen in the previous two years.
- We believe COVID's "black swan" effect will gradually recede in 2021. As the most popular asset securitization product by volume, RMBS issuance in 2021 may exceed that of 2020, maintaining its historically high levels.

China's RMBS Industry in 2020

Overview of RMBS Issuance in China②

Chart 7: RMBS Issuance by Originator

Issuance Size (Billion)	Cumulative			2020		2019		2018		2017		2016		2015		2014		2007		2005	
	Size	Size%	No.	Size	No.	Size	No.	Size	No.	Size	No.	Size	No.	Size	No.	Size	No.	Size	No.	Size	No.
1 CCB	667	36%	66	165	16	123	11	242	22	84	9	36	4	10	2			4	1	3	1
2 ICBC	523	28%	40	137	10	131	10	204	16	40	3	10	1								
3 BOC	164	9%	18	15	2	50	5	38	4	26	3	31	3	4	1						
7 ABC	45	2%	4			34	3	10	1												
8 COMMB	38	2%	5			15	2	23	3												
10 PSBC	35	2%	5	5	1	5	1	14	1			4	1			7	1				
Total State-owned Commercial Bank	1,472	79%	138	323	29	359	32	532	47	149	15	81	9	14	3	7	1	4	1	3	1
4 Merchants Bank	88	5%	17	48	9	19	4	4	1			10	1	7	2						
5 Industrial Bank	71	4%	8	2	1	20	2	36	4	14	1										
6 Citic Bank	55	3%	13			48	12	7	1												
12 Pudong Development Bank	22	1%	4	11	2	11	2														
15 Minsheng Bank	10	1%	2									9	1	1	1						
17 Ping An Bank	6	0%	2			6	2														
18 Guangfa Bank	5	0%	1					5	1												
20 Zhesang Bank	4	0%	2	3	1	1	1														
25 Hua Xia Bank	2	0%	1							2	1										
Total Joint-stock Commercial Bank	264	14%	50	64	13	105	23	52	7	16	2	19	2	8	3	0	0	0	0	0	0
11 Hangzhou Bank	27	1%	8	10	4	12	3			4	1										
13 Huishang Bank	17	1%	4	9	1	7	2					1	1								
14 Jiangsu Bank	10	1%	5	5	2	5	3														
19 Qingdao Bank	4	0%	1	4	1																
22 Hankou Bank	4	0%	1			4	1														
26 Nanjing Bank	2	0%	2	1	1	1	1														
23 Zhengzhou Bank	3	0%	1	3	1																
24 Beijing Bank	3	0%	1											3	1						
28 Dongguan Bank	2	0%	1	2	1																
32 Chengdu Bank	1	0%	1	1	1																
34 Suzhou Bank	1	0%	1									1	1								
Total City Commercial Banks	74	4%	26	36	12	29	10	0	0	4	1	1	2	3	1	0	0	0	0	0	0
9 Shanghai HPF	38	2%	4									31	2	7	2						
27 Wuhan HPF	2	0%	1									2	1								
31 Hangzhou HPF	1	0%	1									1	1								
33 Huzhou HPF	1	0%	1									1	1								
Total HPF	42	2%	7	0	0	0	0	0	0	0	0	35	5	7	2	0	0	0	0	0	0
29 Guangdong Shunde RCB	2	0%	1									2	1								
21 Jiangsu Jiangnan RCB	4	0%	3							2	1	1	1	1	1						
30 Jiangsu Changshu RCB	1	0%	1	1	1																
Total Rural Commercial Banks	7	0%	5	1	1	0	0	0	0	2	1	3	2	1	1	0	0	0	0	0	0
16 Sino-German Bausparkasse	6	0%	1			6	1														
Total	1,865	100%	227	424	55	499	66	584	54	171	19	140	20	33	10	7	1	4	1	3	1

- RMBS products can provide originators with greater flexibility, expand their capacity to manage their existing loan book and also improve their balance sheet structure during periods when the credit quota for the housing sector came under heavy scrutiny. RMBS issuance is becoming increasingly normalized among certain banks, and is gradually turning into a conventional means of financing.
- RMBS issuance remains dominated by state-owned banks. However, financial institutions entering the market are becoming increasingly diversified; issuances by joint-stock banks and city commercial banks have increased in recent years. In 2020, Bank of Chengdu, Bank of Dongguan, Bank of Qingdao, Bank of Zhengzhou and Changshu Rural Commercial Bank all participated in RMBS issuance for the first time.

Note: The color scale in this chart (and all following similar charts) ranks each originator from high to low for each variable.

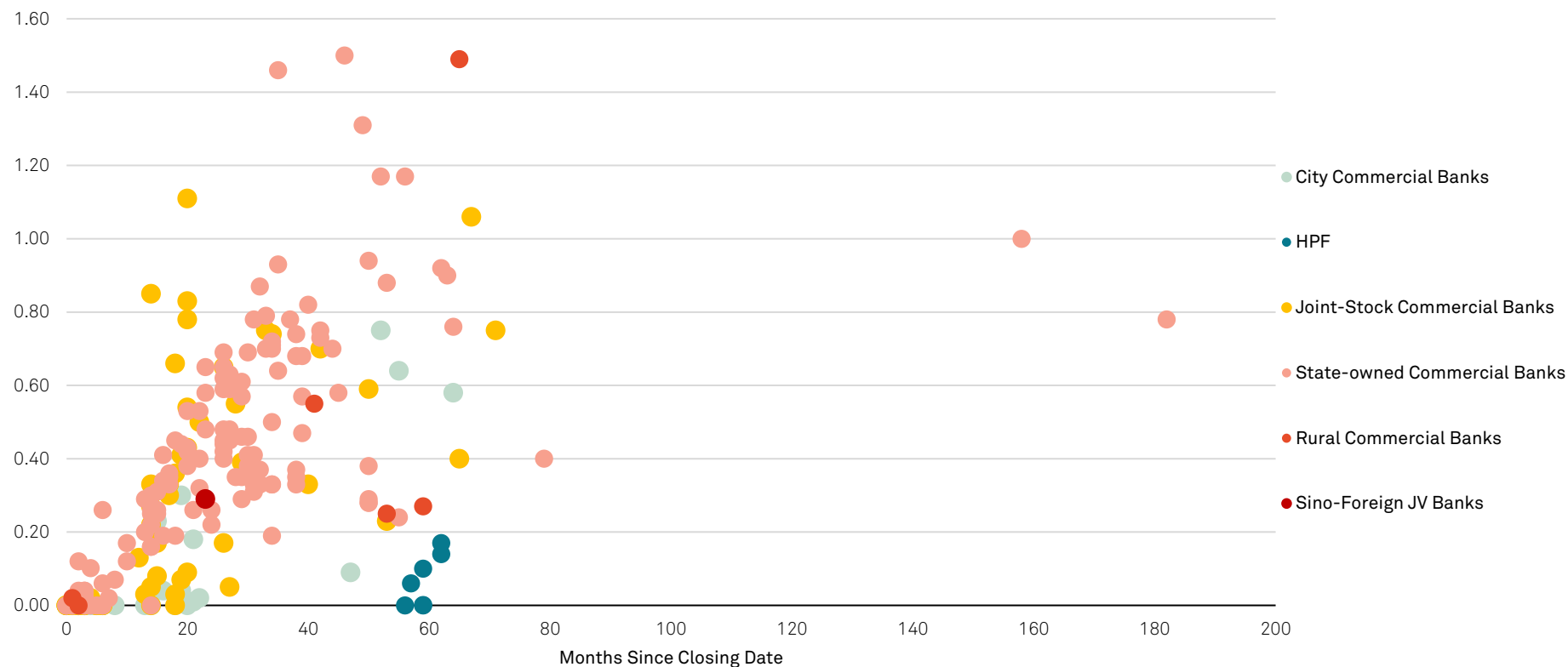
Source: Wind, S&P Global (China) Ratings.

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China's RMBS Industry in 2020

RMBS Market Performance

Chart 8: RMBS Asset Pool Cumulative Default Rate (%)



- Due to excellent asset credit quality, overall cumulative default rates of RMBS products are low, with most transactions' cumulative default rates below 1%.
- In 2020, there was no significant drop in credit quality of underlying assets of RMBS products. Considering current regulatory conditions and policies in the financial sector and real estate, we believe the credit performance of RMBS assets will remain stable in 2021.

China's RMBS Industry in 2020

RMBS Multi-dimensional Overview^①

Chart 9: Overview of RMBS characteristics in past three years^②

	OLTV			CLTV			Seasoning (Year)			Remaining Term (Year)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
CCB	65.18%	64.57%	62.98%	49.47%	50.32%	49.46%	5.04	4.20	3.59	13.12	11.92	11.46
ICBC	61.46%	63.56%	62.20%	47.50%	49.41%	50.42%	4.00	4.23	3.23	11.49	11.63	11.00
ABC	62.72%	61.93%	61.87%	46.42%	48.72%	50.65%	4.90	3.80	3.23	11.86	11.81	11.14
BOC		59.33%	61.71%		43.06%	47.60%		4.11	3.21		9.01	8.99
COMM		60.82%	60.27%		45.46%	44.66%		3.76	3.51		9.99	8.63
PSBC	60.95%	59.67%	58.48%	48.04%	47.18%	48.55%	3.76	3.38	2.46	11.30	10.91	10.16
Total State-owned Commercial Banks	63.42%	63.10%	62.34%	48.47%	48.82%	49.64%	4.57	4.12	3.39	12.34	11.43	11.06
Merchants Bank	67.22%	61.55%	59.36%	50.85%	43.69%	33.52%	6.05	4.44	3.60	16.42	10.26	4.34
Industrial Bank	64.89%	66.00%	62.00%	51.40%	52.54%	50.63%	4.31	3.54	2.27	14.54	12.88	11.53
Citic Bank		62.84%	58.56%		43.83%	43.42%		5.67	3.11		10.13	7.49
Pudong Development Bank	62.19%	64.99%		41.41%	41.12%		6.31	6.86		10.02	10.59	
Ping An Bank		58.86%			46.40%			3.03			10.14	
Guangfa Bank			61.49%			44.99%			4.70			10.12
Zheshang Bank	62.27%	69.27%		53.20%	60.04%		2.25	1.16		15.44	17.24	
Total Joint-stock Commercial Banks	66.03%	63.26%	61.27%	49.34%	45.46%	47.18%	5.86	4.98	2.74	15.20	10.79	10.28
Hangzhou Bank	55.65%	59.30%		50.96%	51.31%		1.97	2.86		20.68	17.14	
Huishang Bank	66.11%	61.13%		55.11%	47.57%		3.70	3.67		14.28	10.03	
Jiangsu Bank	60.23%	56.72%		45.90%	41.73%		3.39	4.07		12.23	10.49	
Qingdao Bank	60.67%			43.89%			4.62			10.51		
Hankou Bank		61.31%			52.65%			2.40			13.88	
Nanjing Bank	58.38%	57.71%		46.95%	48.51%		3.53	2.37		13.56	11.94	
Zhengzhou Bank	62.78%			53.28%			3.09			14.54		
Dongguan Bank	64.51%			46.42%			5.17			10.90		
Chengdu Bank	57.94%			35.04%			5.82			7.30		
Total City Commercial Banks	60.78%	59.51%		49.85%	48.81%		3.34	3.19		15.00	13.65	
Jiangsu Changshu RCB	60.98%			46.16%			4.05			11.52		
Total Rural Commercial Banks	60.98%			46.16%			4.05			11.52		
Sino-German Bausparkasse		67.17%			58.87%			3.29			17.98	
Total Sino-Foreign JV Banks		67.17%			58.87%			3.29			17.98	
Total	63.58%	62.97%	62.24%	48.71%	48.24%	49.46%	4.66	4.23	3.33	13.00	11.50	10.99

- Loan to value (LTV) is an important indicator of the default risk of a single loan and the wider asset pool. In 2020, the weighted-average original LTV (OLTV) and current LTV (CLTV) of RMBS transactions were 63.58% and 48.71% respectively, levels that were basically stable compared with past performance.
- The relatively long loan tenor and shorter remaining term are also credit positive for RMBS assets. The weighted-average loan tenor and weighted-average remaining term of RMBS transactions issued in 2020 were 4.66 years and 13.00 years respectively. Since 2018, overall loan tenor and remaining term of RMBS transactions have gradually increased.

China's RMBS Industry in 2020

RMBS Multi-dimensional Overview②

Chart 10: Overview of RMB characteristics in the past three years②

	Number of Loans			Yields (%)			Priority Notice Loans			Ramp-up Period (Month)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
CCB	35,446	43,022	43,725	4.67	4.77	4.80	25.69%	24.41%	32.91%	2.15	2.61	2.27
ICBC	47,741	50,928	49,548	4.94	4.74	4.85	32.62%	33.16%	46.71%	7.19	5.25	4.68
ABC	25,797	33,132	32,539	4.77	4.86	4.90	77.76%	31.49%	32.78%	2.85	5.41	6.72
BOC		56,972	38,712		4.84	4.82		18.15%	19.97%		5.29	5.87
COMM		34,547	28,840		4.88	4.96		23.67%	10.63%		4.28	1.88
PSBC	25,916	24,704	67,440	4.66	4.69	4.67	15.45%	12.62%	0.00%	23.97	19.07	4.53
Total State-owned Commercial Banks	38,692	44,153	44,203	4.79	4.78	4.83	30.96%	27.80%	36.26%	4.66	4.53	3.63
Merchants Bank	13,389	13,364	19,399	4.35	4.80	4.50	15.34%	16.61%	41.48%	8.20	5.29	6.67
Industrial Bank	3,496	24,750	19,483	4.63	4.87	4.91	57.18%	73.53%	60.27%	3.47	4.73	5.73
Citic Bank		11,396	24,764		4.65	4.98		24.23%	30.10%		3.78	4.67
Pudong Development Bank	16,795	20,333		4.20	4.27		12.87%	9.51%		3.44	3.98	
Ping An Bank		6,514			4.87			33.90%			4.62	
Guangfa Bank			18,097			4.75			23.39%			7.10
Zheshang Bank	4,073	1,228		4.76	4.56		52.15%	82.69%		7.47	13.63	
Total Joint-stock Commercial Banks	12,435	12,810	20,028	4.35	4.69	4.87	17.97%	27.40%	46.30%	7.19	4.40	5.79
Hangzhou Bank	2,414	6,264		5.30	4.86		28.83%	22.13%		4.81	5.62	
Huishang Bank	28,510	16,777		5.00	5.21		0.00%	27.29%		5.10	3.78	
Jiangsu Bank	7,211	5,637		4.79	4.75		22.48%	15.76%		3.58	4.24	
Qingdao Bank	14,826			4.47			27.01%			4.30		
Hankou Bank		9,292			4.95			79.80%			8.30	
Nanjing Bank	1,177	1,887		4.93	4.73		46.60%	62.38%		4.77	25.23	
Zhengzhou Bank	9,606			5.65			71.37%			4.27		
Dongguan Bank	5,728			5.15			2.72%			3.47		
Chengdu Bank	6,133			4.80			1.48%			4.47		
Total City Commercial Banks	7,505	8,023		5.06	4.93		23.05%	30.64%		4.51	5.92	
Jiangsu Changshu RCB	4,694			5.05			11.72%			4.90		
Total Rural Commercial Banks	4,694			5.05			11.72%			4.90		
Sino-German Bausparkasse		17,948			4.63			73.50%			8.30	
Total Sino-Foreign JV Banks		17,948			4.63			73.50%			8.30	
Total	25,063	27,359	41,069	4.75	4.77	4.83	28.26%	28.46%	36.91%	5.03	4.63	3.82

- The average number of underlying RMBS loans in 2020 was 25,063. When the number of loans is very low, such concentration can have a greater negative impact on the final result. Where the number of loans increases to a certain extent, that can significantly reduce the marginal effect on credit enhancement.
- The size and distribution of the yields of underlying assets directly affect deals' cash flows. The weighted average yield for RMBS deals in 2020 was 4.75%. Over that period, there was little yield differentiation between different originators, but the promotion of LPR may lead to differentiation in yields in future.
- Overall, the proportion of RMBS assets registered with only priority notice (i.e. without formal mortgage registration) is between 30% and 40%. The proportion of priority notice loans may vary widely between different institutions, as well as within the same institution over different periods.

China's RMBS Industry in 2020

RMBS Multi-dimensional Overview ③: Coupon Rates

Chart 11: Overview of Class-A Notes' Coupon Rates in Past Three Years

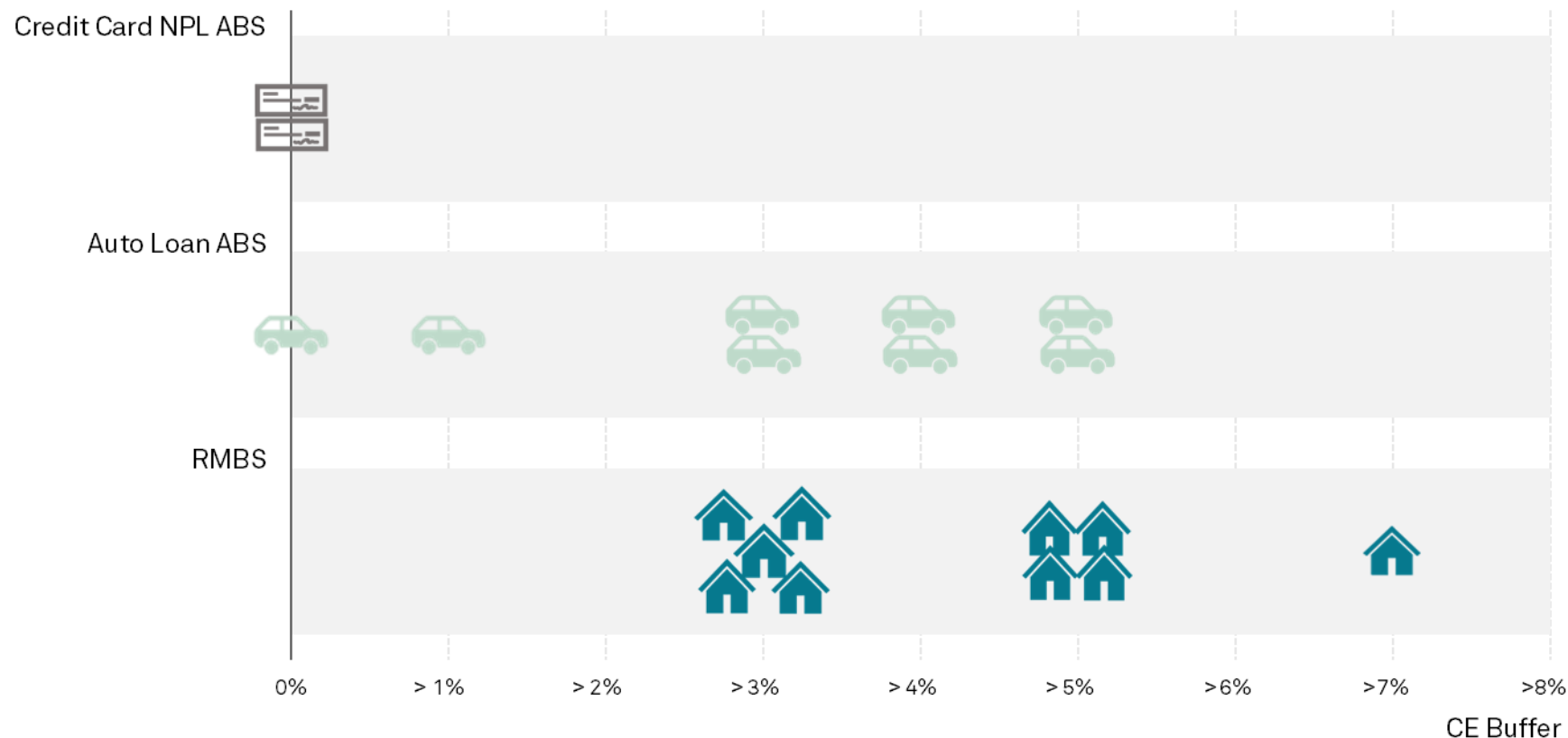
Coupon Rate of Class A (%)	2020				2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
CCB	3.84	3.46	2.97	3.68	3.66	3.64	3.91	3.79	4.20	4.60	4.95	5.35
ICBC	3.72	3.32		3.62	3.67	3.67		3.63	4.10	4.59	5.04	
ABC	3.96				3.58	3.60	3.84	3.86	4.10	4.94		5.22
BOC					3.47		3.96	3.72		4.32		
COMM							3.84		4.14	4.31		
PSBC			2.30		3.46						5.17	
Total State-owned Commercial Banks	3.79	3.40	2.86	3.65	3.63	3.65	3.90	3.71	4.15	4.58	5.01	5.32
Merchants Bank	4.07	3.81		3.53	3.51	4.42	4.07		4.06			
Industrial Bank		3.68				3.80	4.09		4.50	4.74	4.97	
Citic Bank					3.74	3.75	3.76		4.21			
Pudong Development Bank	3.98			3.43	3.69	3.71						
Ping An Bank					3.57	3.44						
Guangfa Bank									4.28			
Zheshang Bank		3.20			3.76							
Total Joint-stock Commercial Banks	4.05	3.69		3.50	3.66	3.76	3.94		4.31	4.74	4.97	
Hangzhou Bank	3.90	3.43	3.13		3.92		4.22					
Huishang Bank	4.09				3.97	4.08						
Jiangsu Bank		3.29		3.62	3.74	3.93	3.97					
Qingdao Bank	3.92											
Hankou Bank							4.56					
Nanjing Bank	3.64					3.63						
Zhengzhou Bank	4.30											
Dongguan Bank	4.16											
Chengdu Bank	3.82											
Total City Commercial Banks	4.04	3.38	3.13	3.62	3.90	3.94	4.29					
Jiangsu Changshu RCB	3.94											
Total Rural Commercial Banks	3.94											
Sino-German Bausparkasse							4.12					
Total Sino-Foreign JV Banks							4.12					
Total	3.85	3.45	2.88	3.61	3.66	3.69	3.95	3.75	4.16	4.59	5.00	5.32

- Among different originators, state-owned commercial banks generally have the lowest coupon rates. We believe this reflects the leading market position of state-owned banks.
- Coupon rates in 2019 and 2020 decreased overall, a trend consistent with the introduction of the LPR mechanism. In 2020 Q1, the coupon rate was relatively high, amid tightening market conditions under COVID. In the second quarter, coupon rates began to fall, before increasing again at the end of the year following normal seasonality trends. Overall performance was in line with our expectations.

China's RMBS Industry in 2020

S&P Global (China) Ratings Credit Enhancement Buffer (CE Buffer)

Chart 12: CE Buffer of transactions rated by S&P Global (China) Ratings



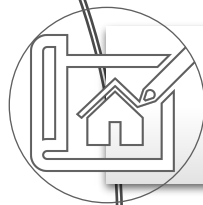
- To provide a more detailed perspective to market participants for transactions rated $AAA_{SPC(SF)}$, S&P Global (China) Ratings launched a new indicator “Credit Enhancement Buffer” (CE Buffer).
- This indicator represents the excess credit enhancement supported by available assets after the senior notes’ timely payment of interest and ultimate payment of principal have been addressed under S&P Global (China) Ratings’ most stressed scenario, according to the assigned ratings. It represents our view on the senior notes’ extra cushion to absorb loss based on the current capital structure and relevant assumptions. It is not equivalent to this transaction’s breakeven CE.

China's RMBS Industry in 2020

Outlook



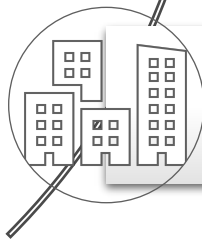
China's residential mortgage loan book has exceeded 30 trillion CNY. While growth has slowed, development remains steady amid the current prudent regulatory environment. Normalization of RMBS issuance is expected to continue as a wider range of originators enters the market.



While the marginal impact of COVID on the real estate sector has diminished, it still casts some uncertainty over the direction of economic development. We don't expect any changes to the regulatory stance of "houses are for living in, not speculation." In 2021, the scale of China's residential mortgage loan market will continue to be tied to expansion and growth in real estate development, amid tightening credit and regulatory conditions. Property sales (new homes and second-hand housing) may continue to see slow growth levels, affecting the issuance scale of the RMBS market.



Overall, RMBS issuance is expected to increase from last year, while asset credit quality and securities' credit performance are set to remain stable in 2021.



However, the RMBS market size accounts for less than 2% of the overall Chinese bond market, and products are relatively similar in terms of structure. The integration and transmission of the first and secondary market, liquidity in the secondary market and the overall bond valuation system are all at a preliminary stage. We believe the development of this market will be a long journey, but the future remains bright.

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Appendix

Timeline of Recent Policies

Time	Issuing Authority	Rules/Guidelines	Main Content and Influence
Mortgage Loan Related			
Dec-2020	PBoC CBIRC	PBoC and CBIRC: establishing the management system of real estate loan concentration of banking financial institutions[2020]No.322	Clarify the institutional coverage, management requirements and adjustment mechanism of the real estate loan concentration management system; Take asset scale, type of banking institutions and other factors into consideration; Set two upper limits for real estate loan balance percentage and mortgage loan balance percentage; Set a transition period for institutions that exceed the upper limit and establish a regional differentiation adjustment mechanism
Securitization Related			
Jan-2019	CBIRC	CBIRC general office :opinion on promoting rural commercial banks to stick to their positioning, strengthen governance and enhance their financial service capacity[2019]No.5	Encourage and support rural commercial banks with clear positioning, good management and outstanding achievements in supporting agriculture and small businesses to start asset securitization prudently and in compliance with regulations
Mar-2019	CBIRC	CBIRC general office :notification on strengthening supervision and guidance to enhance the quality and efficiency of financial services for "small and micro-enterprises" (SMEs)[2019]No.48	Encourage insurance companies to invest in financial products such as CLO of SMEs issued by commercial banks
Jan-2020	CBIRC	CBIRC:the guiding opinions on promoting the high-quality development of the banking and insurance industries[2019]No.52	Encourage banking financial institutions to actively develop green asset backed securitization
Sep-2020	CBIRC	CBIRC general office : Notification on the filling of credit asset backed securitization of banking financial institutions [2020]No.99	Revise transaction registration procedure from filing with the CBIRC on a deal-by-deal basis under an approved program issuance limit to make deal-specific registration with Yindeng Centre from Nov. 13; Shorten the time required to bring new transactions to the market and improve efficiency of credit asset backed securitization issuance
Oct-2020	Yindeng Center	Yindeng Center: Rules for filling of credit asset backed securitization (for Trial Implementation)[2020]No.19	Set detailed rules on registration of credit asset backed securitization including originator registration, initial filling, filling updates in duration, information management and violation management

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