Our Approach to Analyzing Commercial Leasing Companies

Credit Quality of Commercial Leasing Companies Further Differentiates Under Asset Quality and Liquidity Pressure

May 2022

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S&P Global
China Ratings

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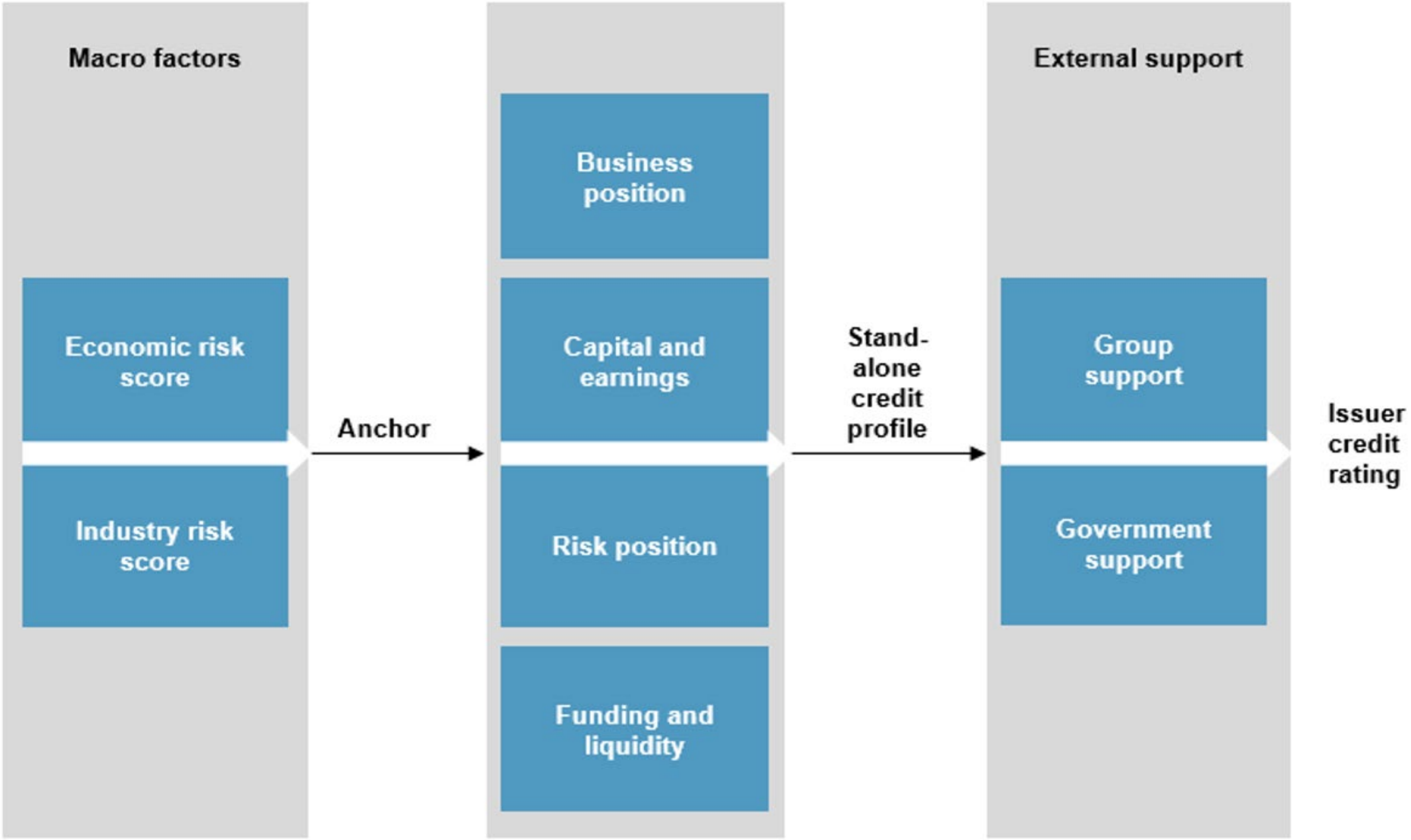

Note: After assessing the issuer's entity-specific factors, a holistic assessment may be applied to evaluate its credit characteristics in aggregate and versus peers before arriving at SACP.
Source: S&P Global (China) Ratings

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Rating Framework

Our Anchor for Commercial Leasing Companies is Typically "BB+”

For our national scale ratings, the anchor is a relative ranking of creditworthiness of different financial subsectors. Typically, we decide on our bank anchor first. For non-bank financial institutions (“NBFI”, including securities firms and finance companies), we adjust the anchor to account for differences between the banking and NBFI sectors as well as for sector- and entity-specific factors. The anchor varies among sectors because NBFIs faces additional funding, economic, or competitive risks, or has a weaker institutional framework.

The anchor for commercial leasing companies is generally three notches lower than the bank anchor:

Our bank anchor is "bbb+", and so the commercial leasing company anchor is “bb+". In our view, the additional industry and economic risks faced by NBFIs usually include:

- Leasing companies are usually unable to absorb public deposits and have to rely on wholesale funding, thus facing higher funding and liquidity risks.
- Most NBFIs don’t have the direct liquidity support of the central bank, and thus face higher funding and liquidity risks.
- Where supervision is less stringent than that for banks, investors may have less confidence in such institutions.
- Banks’ lower financing costs give them a competitive edge over NBFIs.
- Competitive pressure can be higher due to low barriers to entry, more volatile business conditions, or fragmented market competition.

Preliminary Anchors for Different FI Subsectors

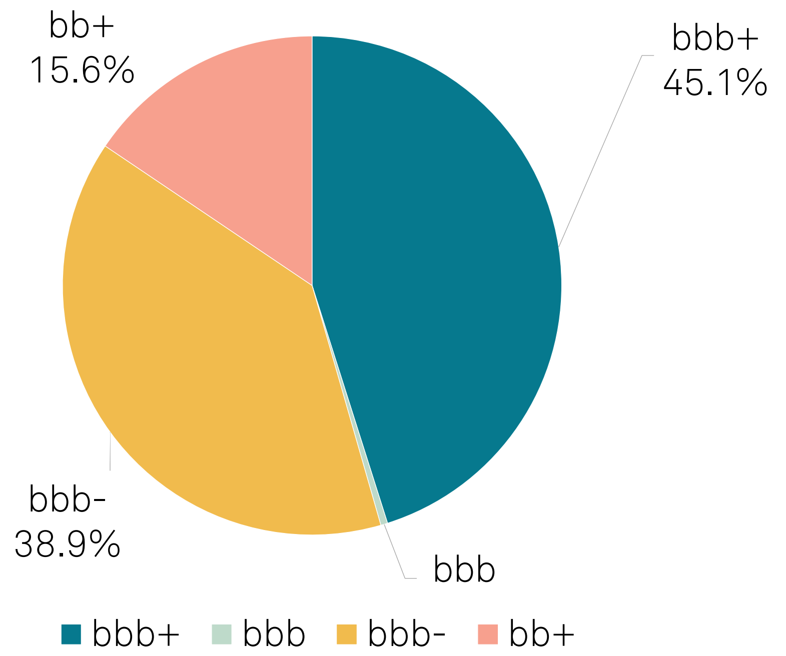
- The anchor for commercial leasing companies is usually "bb+", as they are not licensed financial companies under the strict supervision of the CBIRC and don’t have access to short-term interbank borrowing.
- For financial leasing companies, our anchor is generally "bbb-", reflecting their status as licensed NBFIs under the supervision of the CBIRC, their access to lending on the interbank market and more stringent regulatory frameworks.

Initial Anchor	Typical FI Subsector
bbb+	Commercial banks
bbb-	Securities companies, auto finance companies, financial leasing companies, licensed non-performing asset management companies, corporate group finance companies, consumer finance companies, licensed asset management companies and other NBFIs licensed by the CBIRC or CSRC and subject to strict financial supervision
bb+	Commercial leasing companies, microfinance companies, financial guarantee companies, factoring companies, and other unlicensed financial companies

Note: this table shows the preliminary rating benchmark. The final rating benchmark we use for individual institutions may be different from the initial rating benchmark due to some special circumstances.

Source: S&P Global (China) Ratings.

Benchmark distribution of 450 financial institutions tested



Source: S&P Global (China) Ratings.

Adjustments for Entity-Specific Factors

With the anchor as a starting point, we combine our analysis of entity-specific factors and make adjustments from the anchor, arriving at the rated entity's stand-alone credit profile (SACP). Entity-specific factors include: business position, capital and earnings, risk position and funding and liquidity. The SACP reflects the entity's unique advantages and challenges. Our analysis of these four entity-specific factors may lead to an upward or downward adjustment from the anchor

Business position		Capital & earnings		Risk position	
Score	Notching adjustment	Score	Notching adjustment	Score	Notching adjustment
1	+2	1	+2	1	+2
2	+1	2	+1	2	+1
3	0	3	0	3	0
4	-1	4	-1	4	-1
5	-2	5	-2	5	-2
6	-3	6	-3	6	-3

Funding & liquidity (notching adjustment)

Funding	Liquidity				
	1	2	3	4	5
Above average	+2/+1	+1/0	-1	-2	-3
Average	0	0	-1	-2	-3
Below average	-1	-1	-1	-2	-3

Source: S&P Global (China) Ratings.

External Support

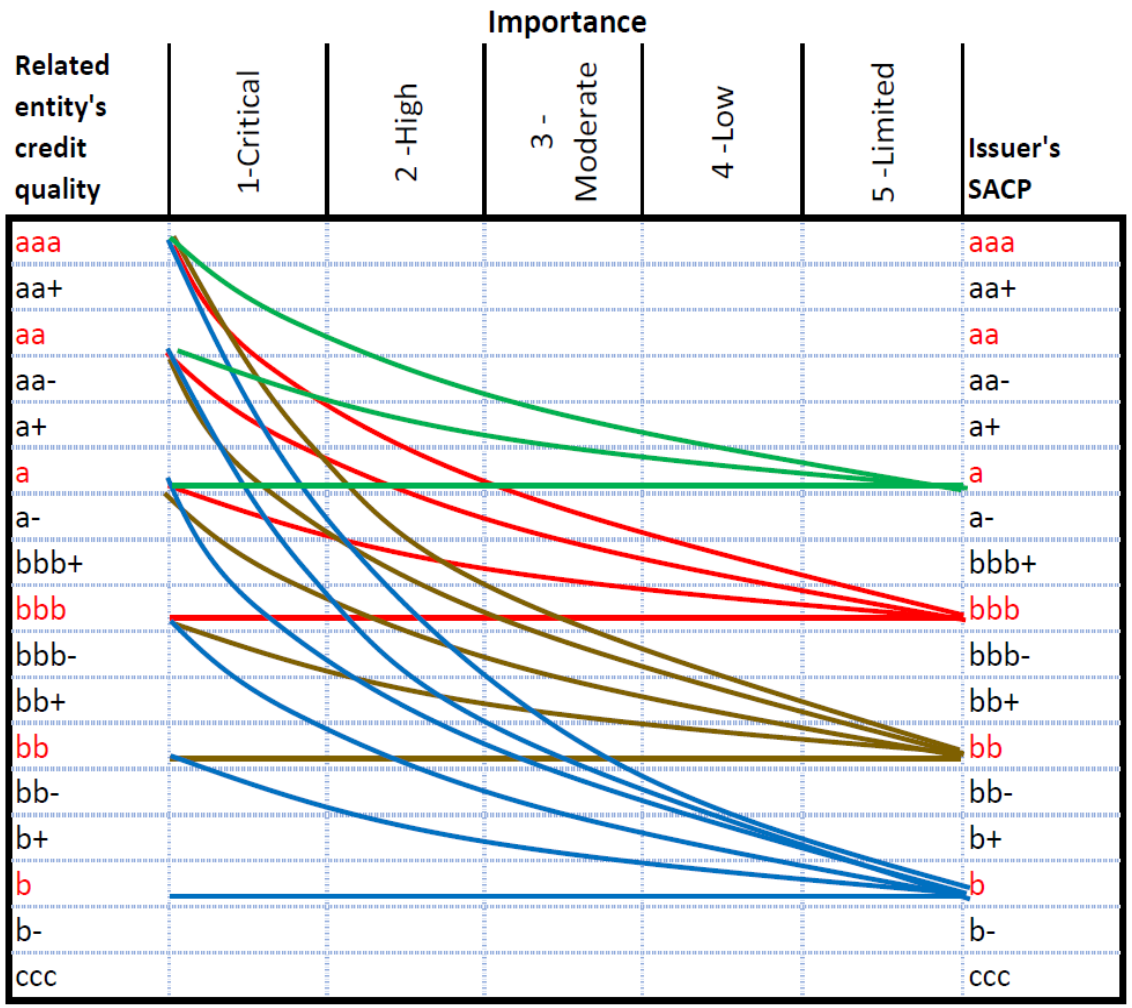
Our framework for analyzing external support for regulated financial leasing companies is consistent with the framework we use for analyzing group or government support for other financial institutions and corporates. In general, we consider these three key elements when analyzing external support:

1) The stand-alone credit quality of the issuer;

2) The support provider's credit quality; and

3) The importance level of the issuer to its support provider.

We typically consider group support for regulated financial leasing companies given their close ties with their car-making parents.



Note: All of the above credit quality views are those of S&P Global (China) Ratings.

Source: S&P Global (China) Ratings.

Our approach to analyzing commercial leasing companies is consistent with our general approach to assessing FIs to ensure cross-sector comparability

Rating Factor	How it is Analyzed
Anchor	The anchor for commercial leasing companies is the same as that for other unregulated NBFIs, which is three notches lower than the bank anchor to reflect the credit quality differences between the banking sector and unregulated NBFIs.
Business Position	Business position assessment for commercial leasing companies focuses on comparison among NBFIs with the same ‘bb+’ anchor, particularly the peer comparison among commercial leasing companies .
Capital & Earnings	For NBFIs (including commercial leasing companies) that don’t have regulatory capital adequacy requirements, we usually use leverage ratio (adjusted total debt/owner's equity) to measure capital.
Risk Position	Risk position assessment is to reflect risk not fully captured by the capital & earning assessment. Since the abovementioned leverage ratio indicator doesn’t reflect risk, commercial leasing companies’ risk position evaluation primarily happens in this phase of our analysis. We usually compare NBFIs’ risk positions with the banking industry average.
Funding & Liquidity	Funding & liquidity assessment for commercial leasing companies is consistent with that for other unlicensed NBFIs. We compare commercial leasing companies’ funding stability with other fincos with the ‘bb+’ anchor. Liquidity is analyzed in absolute terms to see how well the company can sustain liquidity stress.
Group Influence	Our approach to assessing financial leasing companies’ group influence is the same as for other entities.

Source: S&P Global (China) Ratings.

Business Position

Business Position Assessment Framework

Business position measures the strength of a financial institution's business operations, which typically considers business stability, concentration or diversity, and management and corporate strategy. It has a six-point scale, with ‘1’ indicating the lowest risk and ‘6’ the highest. We take business stability as the primary driver to reach a preliminary assessment on business position. We then consider diversity and management as a supplemental driver, allowing for flexibility to further adjust our assessment.

Step 1: Primary driver – business stability

Business stability is usually measured by the entity’s market share, revenue stability, and customer base compared with domestic peers in a similar industry.

Step 2: Supplemental drivers - diversity, management and other adjustments

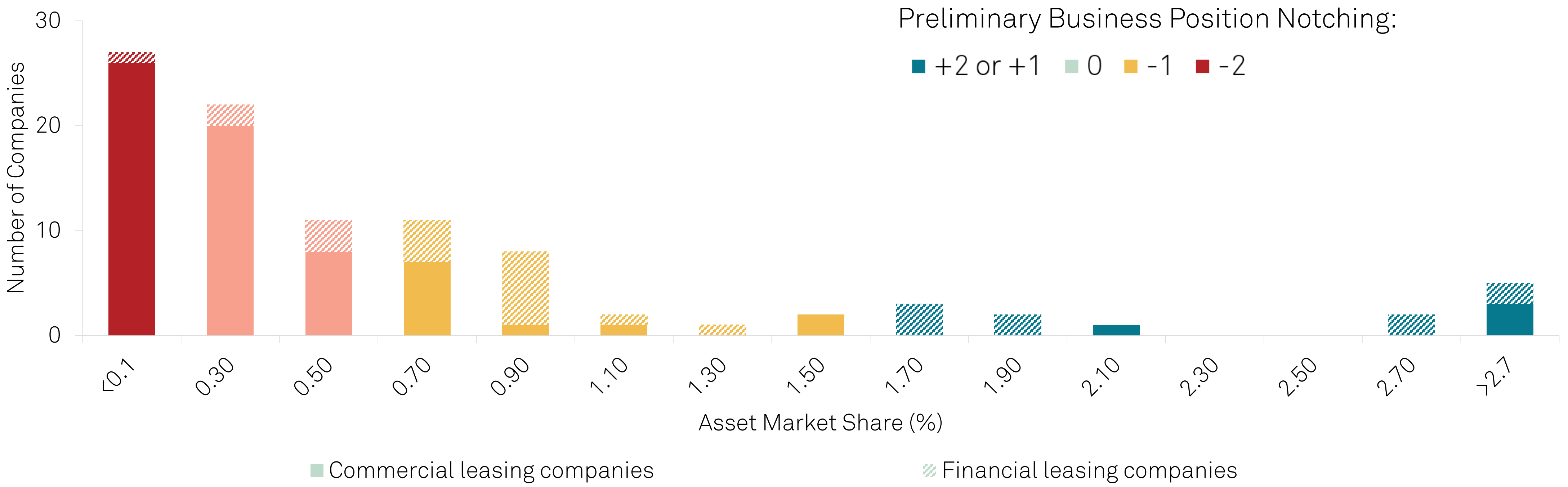
- Diversity of business activities typically consider the contributions of different business lines and geographies to a financial institution’s revenues.
- Management and strategy typically considers management's ability to execute operational plans in a consistent manner, strategic direction, management's risk appetite, and ownership and governance.

Factors that are typically considered	Positive	Negative
Market share	Higher than peers	Lower than peers
Entrance barriers	High	Low
Revenue volatility	Lower than peers	Higher than peers
Recurring income as a percentage of revenue	Higher than peers	Lower than peers
Diversified business lines and geographic coverage	More diversified than peers	Higher concentration than peers
Matching between strategies and actual execution capability	Nearly always consistent with enterprise’s capabilities	Limited evidence that strategic plans exist or are meaningful
Track record of achieving financial/operational goals	Better than peers	Weaker than peers
Risk tolerances of management	More conservative	More aggressive

The Commercial Leasing Market is Highly Fragmented

- By the end of 2020, there were about 12,000 leasing companies in China. 71 of these were financial leasing companies, and the rest commercial leasing companies.
- By the end of 2020, 57% of total assets in the leasing industry belonged to commercial leasing companies, with the remainder under financial leasing companies.
- Commercial leasing companies' total assets were 4.35 trillion RMB, slightly down by 0.4% from 2019.

Market share distribution of major leasing companies, end of 2020

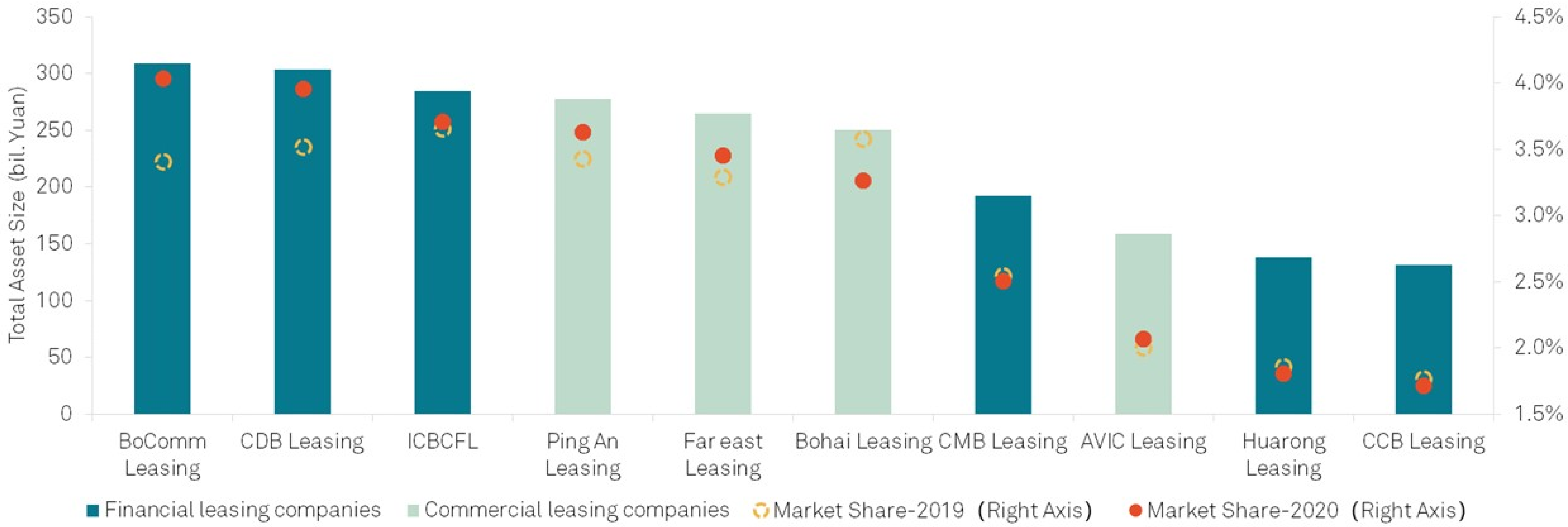


Note: The preliminary business position assessment is based on market share in the leasing industry. Our final business position assessment result may be different from the preliminary assessment after we considering other important factors which affect business stability.

Source: Leasing company's public information, collected and adjusted by S&P Global (China) Ratings.

Compared to similar-sized bank-owned financial leasing companies, commercial leasing companies are often less stable

Total assets and market share of top 10 leasing companies, end of 2020



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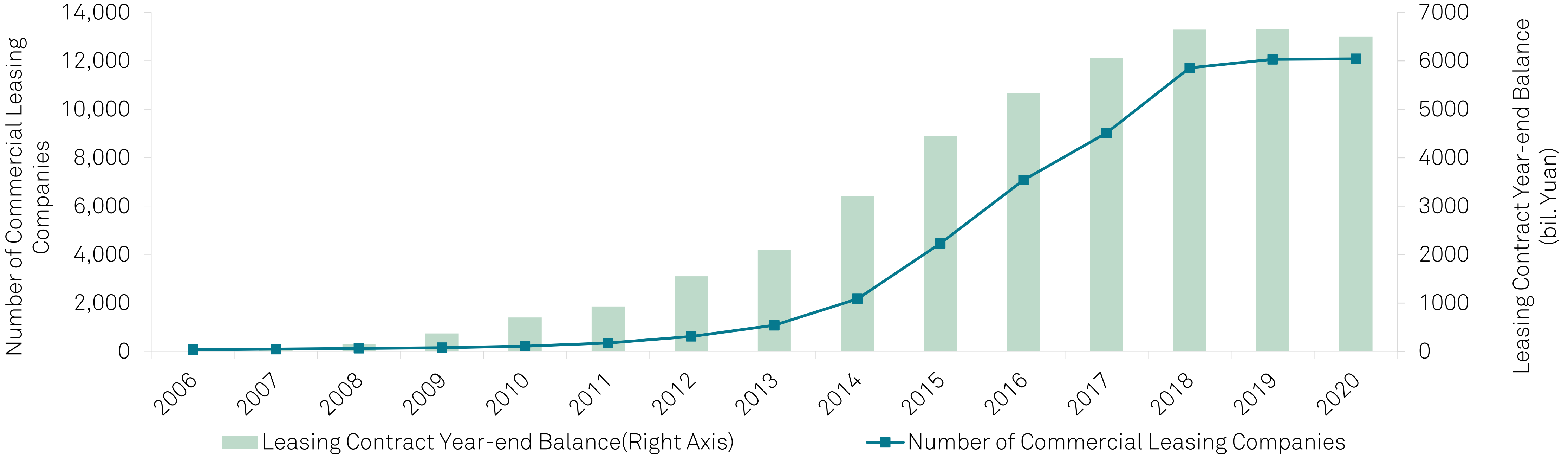
Note: market share of total assets = total assets of the company / total assets of leasing industry.
Source: Public information of the company, CBIRC, collected and adjusted by S&P Global (China) Ratings.

Tightened supervision saw rapid growth in new commercial leasing companies end in 2018

- Commercial leasing industry growth has slowed. Headwinds have included a gradual saturation of demand, steady tightening of regulations and COVID. By the end of 2020, the lease balance of the leasing industry had decreased by 2.3% YoY.
- The CBIRC has said around 72% of commercial leasing companies are "shell companies" or "zombie companies". Local governments are being pushed to reduce such companies and strive to improve the overall credit quality of the commercial leasing industry.
- Regulatory guidance has looked to discourage commercial leasing companies from carrying out cross-province business, increasing uncertainty over future business development.

Number of financial leasing companies and lease balance of leasing industry



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

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Indicative Business Position Notching of FIs with Anchor of 'bb+'

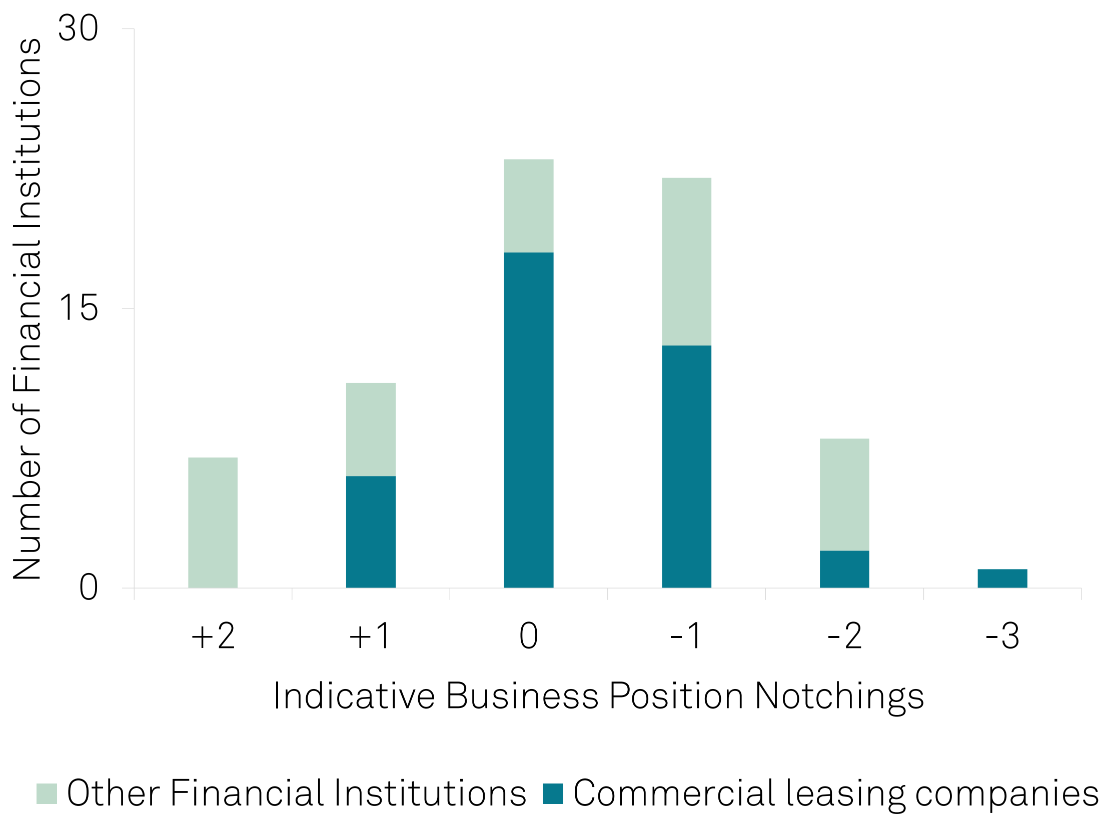
Preliminary Notching Guidance for Business Position Testing

Notching	Score	Typical features
+2	**1**	Leading in scale, with good geographic and business diversification, it usually achieves good equilibrium between its operating leasing and financial leasing businesses, and has strong advantages in operating leasing. Strong synergy with its parent stabilizes its business. Typically has an asset market share greater than 1.5%.
+1	**2**	Large in scale with good geographic and business diversification. Typically has an asset market share above 1.5%, with business stability above the industry average.
0	**3**	Mid-sized with business stability in line with the industry average. Asset market share typically between 0.5% and 1.5%.
-1	**4**	Smaller in scale, with relatively high regional or business concentration. Asset market share is typically between 0.1% and 0.5%. Business stability is slightly weaker than the industry average.
-2	**5**	Very small in scale with high regional or business concentration. Asset market share is typically below 0.1%. Business stability is weaker than the industry average.
-3	**6**	Business risk much higher than industry peers. This typically only applies to businesses in crisis.

Note: The threshold used in our testing is only the starting point of scoring. We also consider other qualitative and quantitative factors, so our final notching conclusion may differ from the conclusion drawn from the preliminary threshold analysis.

Source: S&P Global (China) Ratings.

Distribution of Indicative Capital & Earnings Notching of FIs with Anchor of 'bb+'



Note 1: The indicative notching expressed in this report are S&P China's indicative views of risk factors derived from a desktop analysis based on public information without interactive review with any particular institution or the full credit rating process such as a rating committee (except for some institutions for which we have assigned ratings on). The opinions expressed herein are not and should not be represented as part of a credit rating.

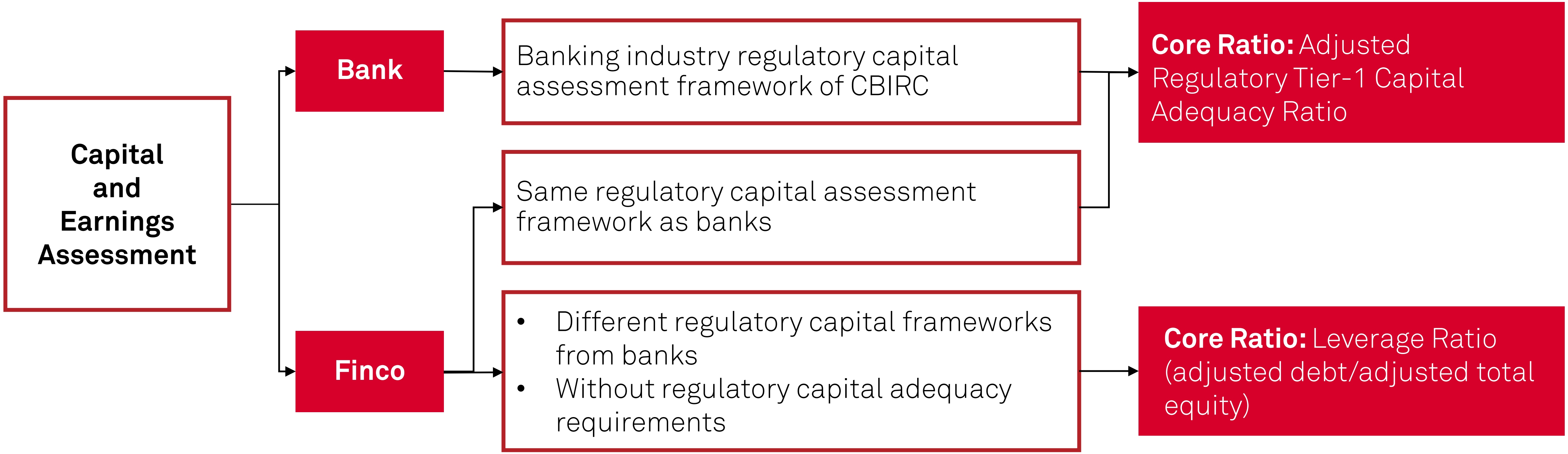
Note 2: this distribution chart includes notching adjustments for 40 major commercial leasing companies.

Source: S&P Global (China) Ratings.

Capital and Earnings

Two Different Approaches For Assessing Fincos' Capital And Earnings

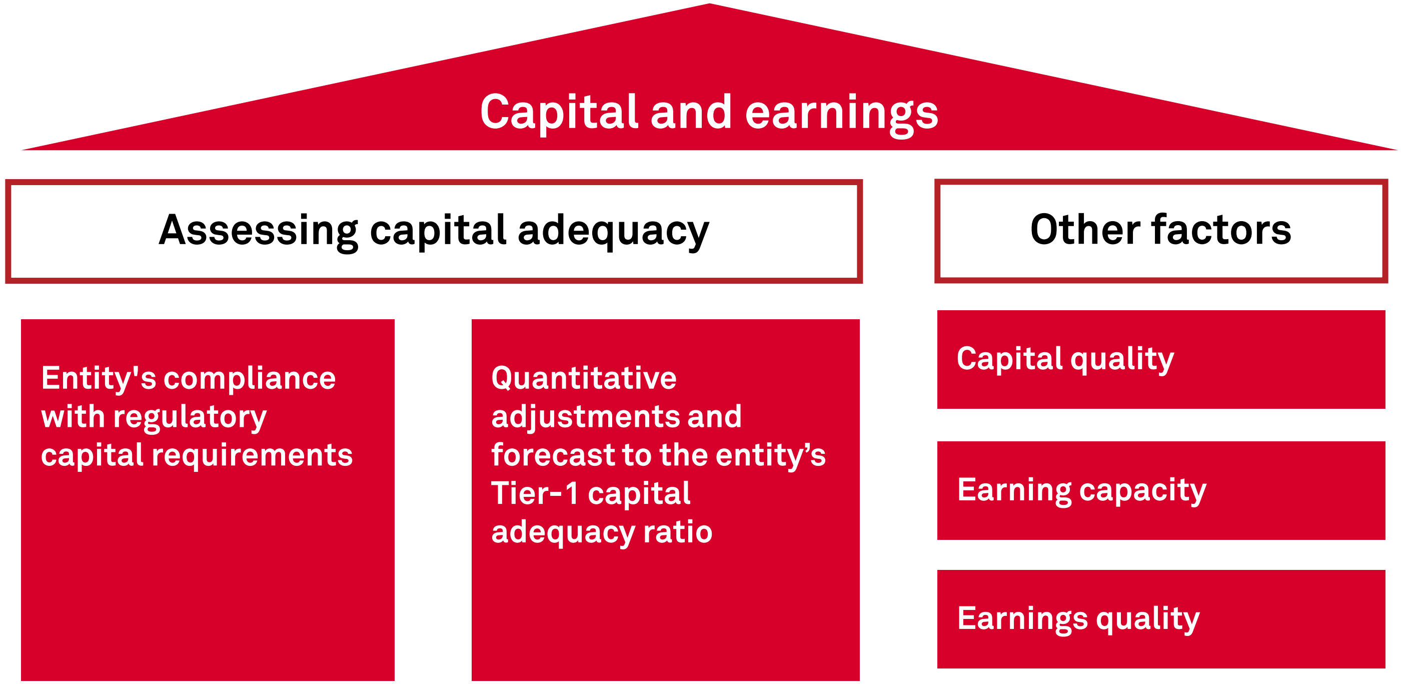
- For fincos which are subject to the same regulatory capital assessment framework as banks (including regulated leasing companies), we apply the same approach used for banks. In such cases, the core capital metric we use is adjusted regulatory tier-1 capital adequacy ratio.
- For fincos subject to regulatory capital frameworks different from banks and those that don't have regulatory capital adequacy requirements, we typically use their leverage ratio as our core capital metric.



Source: S&P Global (China) Ratings.

There are three steps in our capital and earnings assessment

- Capital and earnings is the second factor in our assessment of a financial institution' SACP. It covers an entity's ability to absorb losses under stress.
- We usually take an institution's capital adequacy as a starting point of our analysis which forms its initial capital and earnings score. We then consider additional factors like capital quality, earning capacity and earning quality, which help determine whether we need to adjust our initial score.
- Our capital and earnings assessment is forward-looking.



Source: S&P Global (China) Ratings.

Summary of Commercial Leasing Companies' Capital and Earnings Assessment

Step	Description	Key Considerations
Step 1	Can regulatory requirements for capital/leverage be met?	Determine whether the FI has violated or is likely to violate the regulatory minimum requirements for capital, which may affect its continued operation and development (if applicable). When an institution's regulatory capital indicator is very close to the regulatory minimum requirement, it may affect the flexibility of its management of capital and business growth. Therefore, NBFIs that have violated or may violate regulatory requirements are likely to receive a negative score for capital and earnings.
Step 2	Evaluate core capital indicators to arrive at preliminary capital and earnings evaluation	
2.1	Identify core capital indicators	There are two different approaches to assessing NBFIs' capital and earnings. NBFIs under the same regulatory capital assessment frameworks as banks follow the same approach used for banks. In such cases, the core capital ratio we use is adjusted tier-1 capital adequacy ratio. For NBFIs that use different frameworks or have no regulatory capital adequacy requirements, we usually use their leverage ratio as the main indicator of capital.
2.2	Calculate leverage	We may adjust debt or net assets to ensure the leverage ratio reasonably reflects the entity's actual capital situation. Adjusted debt may include on-balance sheet debt and off-balance sheet liabilities (such as financial guarantees). If appropriate, other financial debt may be included to reflect liabilities that we believe the FI has converted to maintain market confidence, such as asset-backed securities not included on the balance sheet. If we believe disclosed capital is too high, actual capital may be eroded due to insufficient provisioning.We may also make negative adjustments to capital and deduct insufficient provisioning from the owner's equity.
2.3	Initial evaluation of capital and earnings	For NBFIs with different risk appetites, we can choose from two sets of leverage thresholds. When the NBFI's asset risk is significantly higher than the banking average, we may adopt more stringent thresholds to reflect the more fragile internal capital situation. When the NBFI's asset risk is similar to or lower than the banking average, we may adopt a more relaxed threshold to reflect its more solid internal capital situation.

Summary of Commercial Leasing Companies' Capital and Earnings Assessment

Step	Content	Key points
Step 3	Assess capital quality, earnings quality and profitability, make any necessary adjustments to the preliminary evaluation in step two and obtain the final assessment results	
3.1	Assessing capital quality	When we analyze capital quality, capital management and financial flexibility, we may include the following: (1) proportion of hybrid instruments in total capital; (2) level of provisioning and whether reserves can significantly enhance or reduce the entity's loss absorption capacity; (3) the capital management methods adopted by management and shareholders; (4) financial flexibility; (5) double leverage; (6) Whether capital can flow freely among group affiliates.
3.2	Assessing profitability	We consider a series of indicators, including quantitative and qualitative indicators reflecting the FI's capacity to generate capital, to offer clarity on whether the company's profitability can both support business development and absorb losses. We mainly consider earnings performance over the past 3-5 years (or longer), and make forward-looking assessments using key indicators such as ROAA, NIM, provisioning for interest-bearing assets and proportion of net interest income to operating income.
3.3	Assessing earnings quality	We consider factors such as proportion of revenues from stable recurring sources, earnings volatility, frequency of non recurring revenues and expenditures, etc. We also consider the ability of earnings to cover standardized losses. Standardized loss is our estimate of the average credit loss of an institution over the entire credit cycle.
3.4	Adjustments to preliminary capital and earnings assessment	When the NBFI's leverage ratio approaches the threshold for the preliminary capital and earnings assessment, our evaluation of its capital quality, profitability and earnings quality may then have a greater impact on our ultimate assessment of capital and earnings. We focus on the following: (1) earning capacity & stability, which may enhance or weaken the institution's ability to absorb losses in the credit cycle; (2) whether the FI can generate enough profits to support balance sheet growth without significantly increasing leverage; (3) the ability and willingness of the entity to accumulate capital through retained earnings.

Note: considering that leverage is not a risk sensitive indicator, we will adjust our view on the actual specific risk of the institution in our SACP analysis' "Risk Position" assessment, where we further refine comparison of average credit access criteria between NBFIs and banks.

Source: S&P Global (China) Ratings.

Most Commercial Leasing Companies can Meet Regulatory Requirements for Leverage

- The CBIRC stipulates that companies' total risk assets to net assets ratio shall not be more than 8 times.
- Some commercial leasing companies that exceed the regulatory requirements are large and medium-sized players with strong credit quality and easy access to bank and capital market financing channels.

Distribution of total risk assets/total equity ratio of major commercial leasing companies, end of 2020

S&P Global China Ratings

Source: public information of the company, collected and adjusted by S&P Global (China) Ratings.

We Apply One of Two Sets of Leverage Thresholds to NBFIs to Account for Different Risk Appetites

Preliminary Capital & Earnings Score	Leverage (adjusted debt/adjusted net assets, times)	
	Asset quality is significantly lower than the banking industry average loan quality, or there is no comparability	Asset quality is roughly equal to or better than the banking industry average loan quality
1 / strong	<= 1	<= 1
2 / strong	>1 and < = 3	> 1 and < = 3
3 / sufficient	> 3 and < = 5	> 3 and < = 7
4 / general	> 5 and < = 7	> 7 and < = 12
5 / Limited	> 7 and < = 12	>12. No significant risk of bad debts eroding capital
6 / weak	>12	> 12, there may be significant risk of bad debts eroding capital

Note: the thresholds used in testing are just the starting point for ouranalysis. We also considered other qualitative and quantitative factors, so the final conclusion may be different from the results of our preliminary analysis.

Source: S&P Global (China) Ratings.

Debt or net assets may be adjusted to ensure the leverage ratio reasonably reflects the company's actual capital situation

- Adjusted debt
  - On-balance sheet debts
  - Off-balance sheet debts e.g. external guarantees
  - Asset-backed security products not consolidated into balance sheet
  - Other adjustments made at our discretion

- Adjusted net assets
  - Net assets
  - Gaps in provisioning
  - Other adjustments made at our discretion

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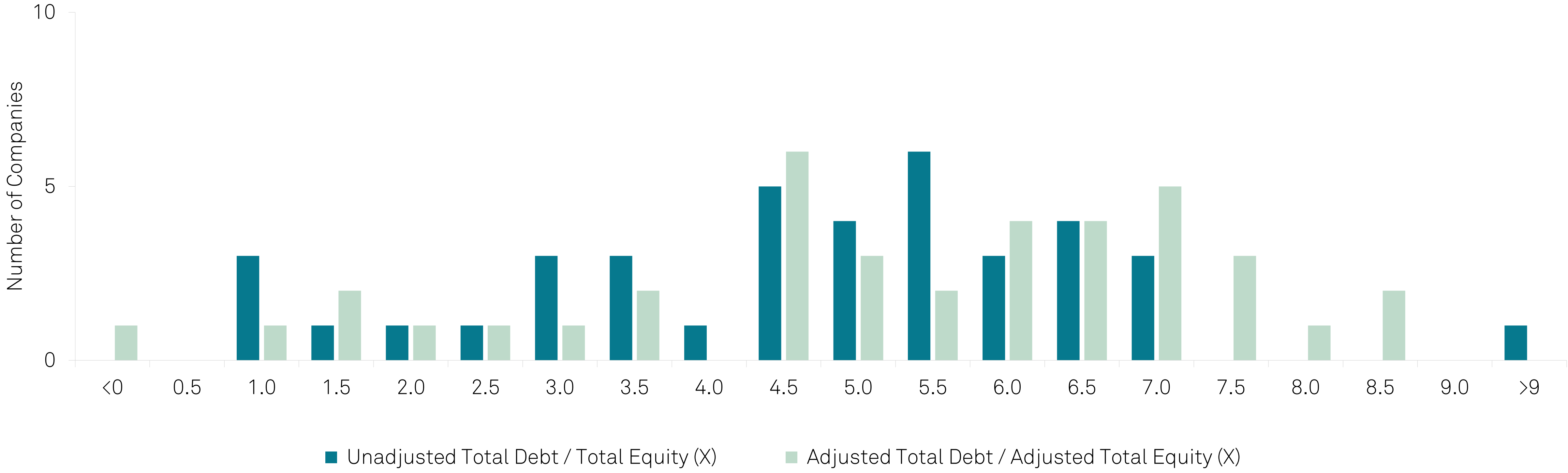
Source: S&P Global (China) Ratings.

Adjusted leverage may increase after adjustments for provisioning or liabilities such as off-balance sheet asset-backed securities

Total debt/net assets ratio and distribution of adjustments made for major commercial leasing companies, end of 2020



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Note 1: Adjusted total debt = on-balance sheet total debts + adjusted debts and off-balance sheet liabilities e.g. asset-backed security products

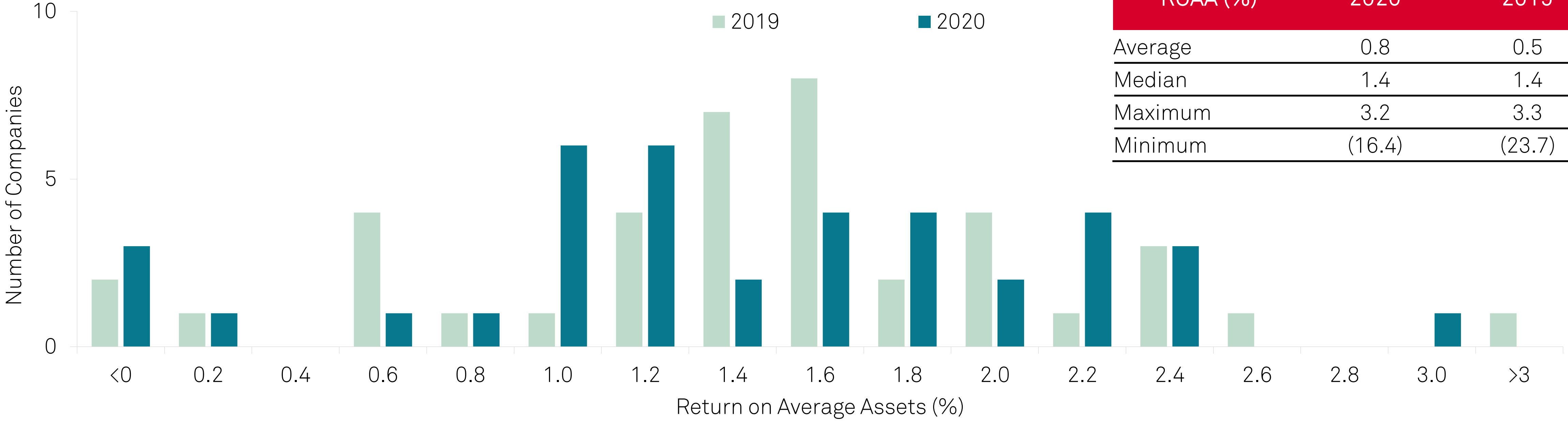
Note 2: If we believe a company has seriously insufficient provisioning, we deduct the amount of insufficient provisions from the owner's equity to arrive at adjusted net assets.

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

Commercial leasing companies vary widely in terms of profitability

- In 2020, the return on average assets (ROAA) of major commercial leasing companies remained stable.
- Due to increased pressure on asset quality, we expect further downward pressure on credit cost and profitability in 2022.

ROAA of major commercial leasing companies



ROAA (%)	2020	2019
Average	0.8	0.5
Median	1.4	1.4
Maximum	3.2	3.3
Minimum	(16.4)	(23.7)

Note: Average ROA = net profit/[(total assets at the beginning of the year + total assets at the end of the year)/2].
Source: Public information of the company, collected and adjusted by S&P Global (China) Ratings.

Indicative Capital & Earnings Notching of FIs with Anchor of 'bb+'

Preliminary Notching Guidance for Capital & Earnings Testing

Notching Adjustment	Typical Features
+2	We expect leverage adjusted by S&P Global (China) Ratings to be very low for at least the next 12 months. Earnings are at a level where current leverage can be maintained.
+1	We expect leverage adjusted by S&P Global (China) Ratings to be low for at least the next 12 months. Earnings are at a level where current leverage can be maintained.
0	We expect leverage adjusted by S&P Global (China) Ratings to be at an intermediate level for at least the next 12 months, meeting regulatory requirements. Earnings are at a level where current leverage can be maintained.
-1	We expect leverage adjusted by S&P Global (China) Ratings to be relatively high for at least the next 12 months. Earnings are not at a level where a negative impact from high leverage can be offset.
-2	We expect leverage adjusted by S&P Global (China) Ratings to remain at a high level for at least the next 12 months. Earnings are not at a high enough level to offset any negative impact from high leverage.
-3	After considering capital erosion from bad debts, the company faces significant capital shortage. Without a timely capital injection operations may be unsustainable.

Note: leverage adjusted by S&P Global (China) Ratings = adjusted total debt/adjusted total equity. Adjustments to total equity consider capital quality and possible capital erosion from insufficient provisioning. If we believe asset-backed securities may have an indirect impact on leverage and capital, adjustments to debt usually consider any off-balance sheet asset-backed securities issued by the leasing company.
Source: Public information, collected and adjusted by S & P Global (China) Ratings.

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Distribution of Indicative Capital & Earnings Notching of FIs with Anchor of 'bb+'

Note 1: The indicative notching expressed in this report are S&P China's indicative views of risk factors derived from a desktop analysis based on public information without interactive review with any particular institution or the full credit rating process such as a rating committee (except for some institutions for which we have assigned ratings on). The opinions expressed herein are not and should not be represented as part of a credit rating.
Note 2: this distribution chart includes notching adjustments for 40 major commercial leasing companies.
Source: S&P Global (China) Ratings.

Risk Position

Risk position assessment framework

- Risk position is the third factor we assess to determine SACP. This assessment refines our views on an entity's risks beyond those captured in the capital and earnings analysis.
- We assess factors other than those reflected in the capital and earnings analysis, such as asset quality and risks related to other exposures.
- We do not have any set weighting on these factors, which are listed below, and instead take a holistic approach depending on the exposures. These factors are:

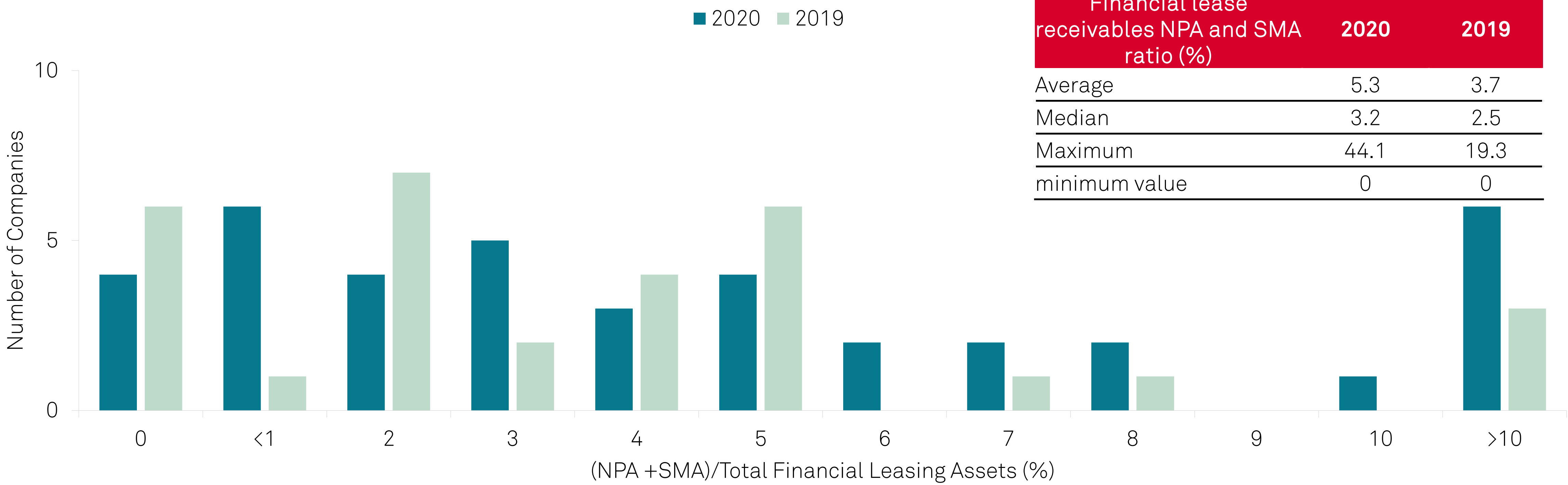
Key factors	Major considerations
Risk appetite	This covers growth and changes in exposures. We typically use this factor as the primary driver for our risk position assessment
Loss experience and expectations	A comparison of past and expected losses on the current mix of business with those of peers and the loss experiences during past economic downturns. Greater-than-average losses may indicate a weaker risk position
Concentrations	The impact of risk concentrations or risk diversification
Complexity	How increased complexity adds risk
Other material risks	Risk that are not captured in our capital and earnings assessment

Source: S&P Global (China) Ratings.

Asset performance varies significantly in the commercial leasing industry

- There is significant differentiation in how commercial leasing companies apply the five-level classification framework on their assets.
- Commercial leasing companies have unstable asset quality. Bad debt pressure in the industry has increased since the emergence of COVID.

Distribution of NPL + SML assets of major commercial leasing companies



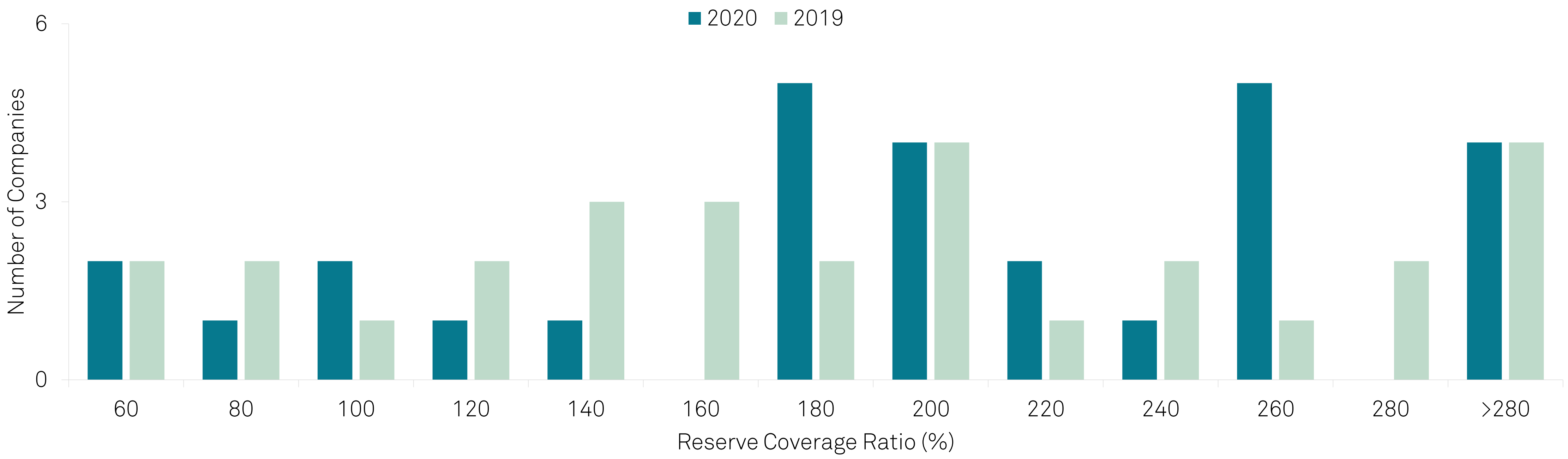
Financial lease receivables NPA and SMA ratio (%)	2020	2019
Average	5.3	3.7
Median	3.2	2.5
Maximum	44.1	19.3
minimum value	0	0

Source: public information of the company, collected and adjusted by S&P Global (China) Ratings.

Commercial leasing companies' provisioning varies significantly

- Low provisioning coverage suggests players have weaker capital quality and earnings quality.
- In response to downward pressure on asset quality, commercial leasing companies are increasingly active in provisioning. By the end of 2020, the median reserve coverage ratio of non-performing lease assets of 40 major commercial leasing companies had increased to 197.9% from 174.3% at the end of 2019.

Distribution of NPL reserve coverage ratios of major commercial leasing companies



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

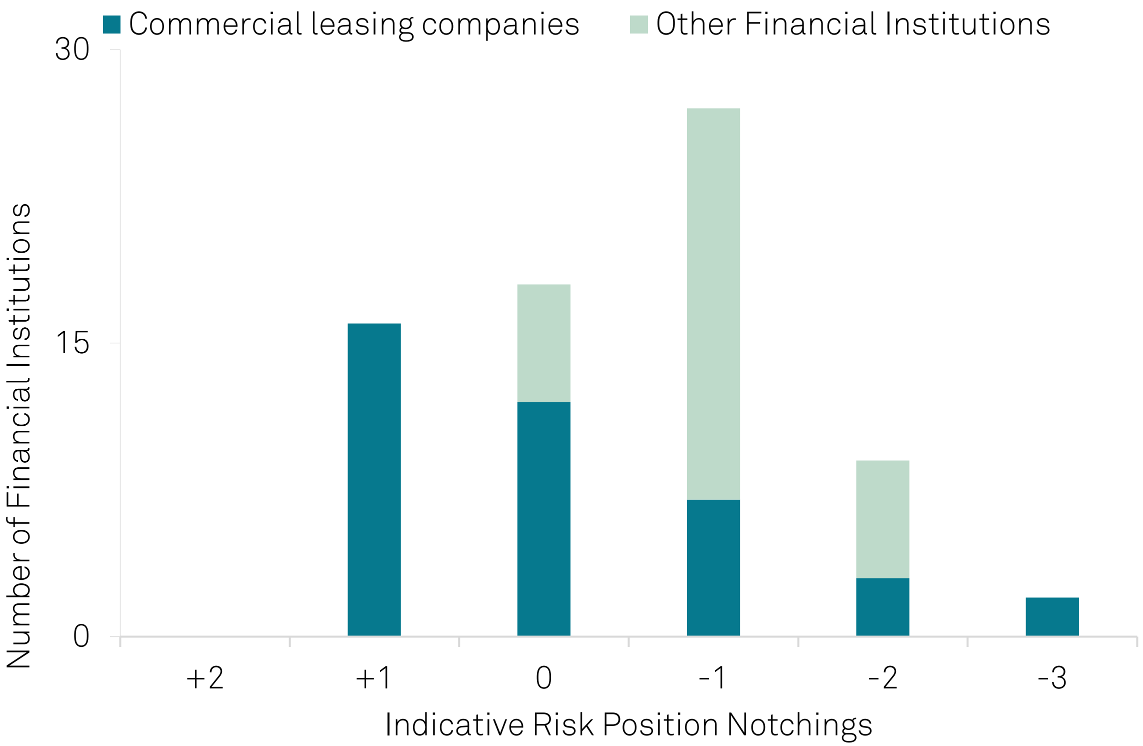
Indicative Risk Position Notching of FIs with Anchor of ‘bb+’

Preliminary Notching Guidance for Risk Position Testing

Notching	Typical Features
+2	Risk appetite is much lower than the banking industry average, or business concentrates in sectors with low risk; asset quality is generally insensitive to the economic cycle in China.
+1	Risk appetite is lower than the banking industry average, and lending/underwriting standards are more prudent than average banks, or business is concentrated in low-risk sectors; asset quality performance is better than the banking industry average through the economic cycle.
0	Risk management capability, lending/underwriting standards and asset quality performance are consistent with the banking industry average.
-1	Risk management capability and asset quality performance are somewhat worse than the banking industry average; or lending/underwriting standards are somewhat less stringent compared to average banks, or business concentrates in high-risk or highly cyclical sectors.
-2	Risk management capability and asset quality performance are worse than the banking industry average, or lending/underwriting standards are much more radical compared to average banks.
-3	Risk management capability and asset quality performance are far worse than the banking industry average, there may be serious flaws with its overall internal control. Our basic assumptions in the capital and earnings assessment may no longer apply because of the significantly higher risk profile.

Source: S&P Global (China) Ratings.

Distribution of Indicative Risk Position Notching of FIs with Anchor of ‘bb+’



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Note 2: this distribution chart includes notching adjustments for 40 major commercial leasing companies.
Source: S&P Global (China) Ratings.

Funding and Liquidity

Qualitative Assessment of Funding

Our funding analysis considers the strength and stability of a financial institution's funding mix compared with the domestic industry average. It can be assessed as 'above average', 'average', or 'below average'.

Funding Descriptor	What it typically means
Above Average	Reflects our view that there is strong excess capacity of stable long-term funding sources relative to needs given the firm's assets, businesses, and markets. Funding is well-matched with asset maturities and well-diversified by type (secured and unsecured) and lender. The entity has demonstrated regular access to unsecured debt markets, and unsecured maturities are well-staggered.
Average	Reflects our view that there is adequate capacity of stable, long-term funding sources relative to needs given the firm's assets, businesses, and markets. Funding is well-matched with asset maturities and is well-diversified by type and lender. Typically, the entity has good access to unsecured debt markets or has deep and stable secured funding with diverse facilities and providers. Unsecured maturities are well-staggered. We expect the company could easily access multiple sources of secured and unsecured funding.
Below Average	Reflects our view that funding risk is high because the entity funds a large portion of long-term illiquid assets with less stable sources, which raises the potential for funding gaps. Funding may be significantly shorter than asset maturities or concentrated by type and lender. The entity may have limited access to unsecured debt markets, or we believe it may have difficulty retaining funding over the next year.

Source: S&P Global (China) Ratings.

Qualitative Assessment of Funding

Key qualitative factors we consider for fincos' funding assessment

- Mix of unsecured debt versus secured debt;
- Access to secured and unsecured funding;
- Currency mismatches or reliance on foreign creditors;
- Maturity or single-creditor concentrations (debt maturity profile);
- How the funding strategy takes into account potential exposure to margin calls;
- Reliance on funding sources that have proven unstable in the past;
- Risk of a sharp increase in cost of funding that could substantially impair earnings capacity; and
- Ability to retain funding over the next year.

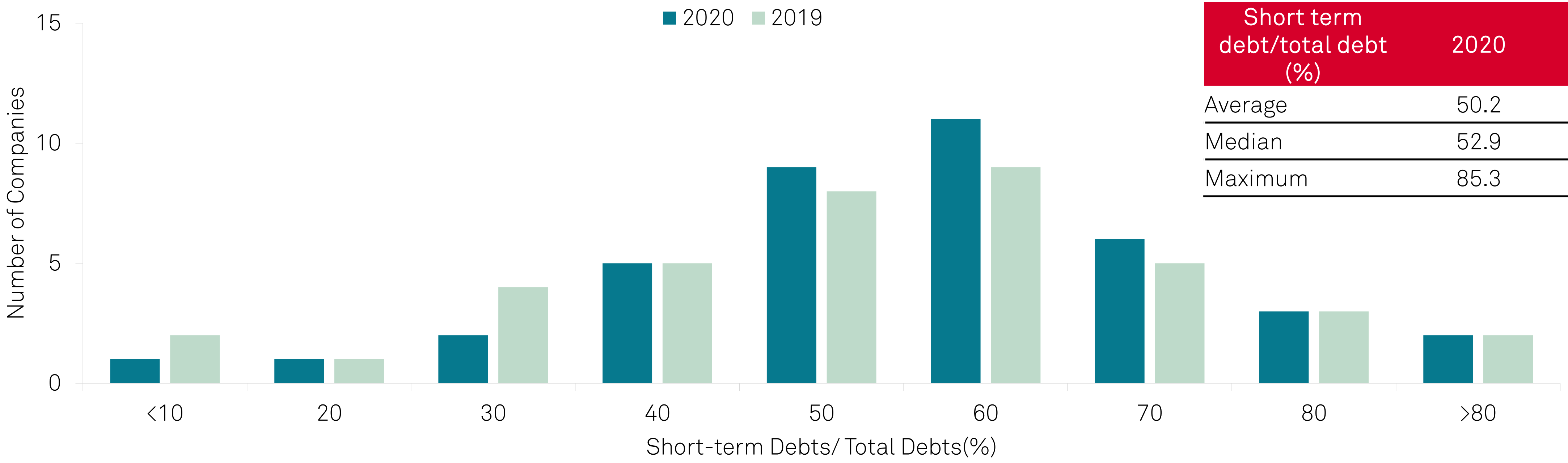
Key Factors	Typical Characteristics of Stable Funding
Term structure	The majority of funding consists of a reasonable mix of long-term or medium-term unsecured debts, without over-reliance on unstable short-term debt financing
Funding source	The institution has easy access to a variety of stable debt funding, including interbank markets, securitization market and bond markets
Currency risk	If the institution holds a large amount of assets in different currencies, it has reliable hedging strategies to manage and hedge the associated market risk, and in addition, the institution does not rely heavily on funding from foreign creditors
Maturity concentration	For institutions with any significant debt maturity or single obligator concentration, we believe that such concentration would not trigger serious refinancing risk
Market confidence	The institution will not lose access to funding as a result of investors/counterparties losing confidence in it
Funding cost	The institution's funding costs will not increase significantly due to weakening market confidence and will not put significant pressure on its profitability

Source: S&P Global (China) Ratings.

Commercial leasing companies generally rely heavily on short-term wholesale funding, have clear asset liability mismatches and access to financing is exposed to changes in market confidence

By the end of 2020, the median proportion of short-term debt in total debt for major commercial leasing companies increased to 52.9% from 47.5% at the end of 2019.

Distribution of short term debt/total debt of major commercial leasing companies



Short term debt/total debt (%)	2020	2019
Average	50.2	47.8
Median	52.9	47.5
Maximum	85.3	82.3

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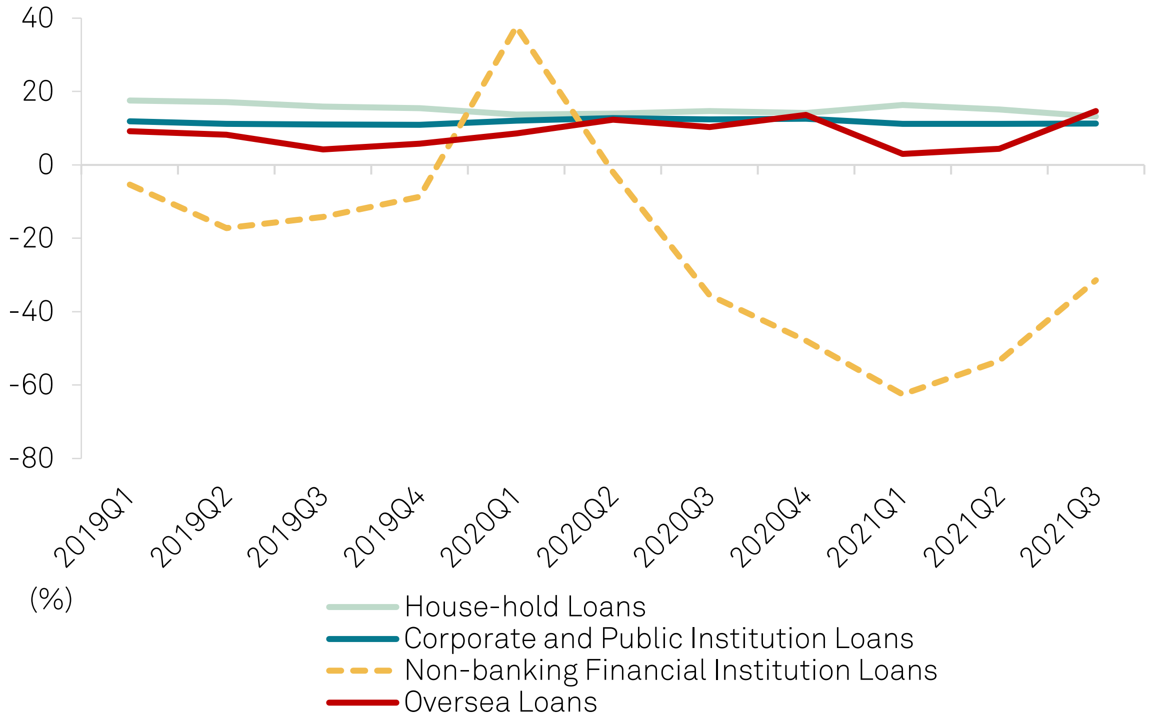
Source: Public information of the company, collected and adjusted by S&P Global (China) Ratings.

NBFI loans have declined in recent years, leading to potential increases in refinancing risk for commercial leasing companies

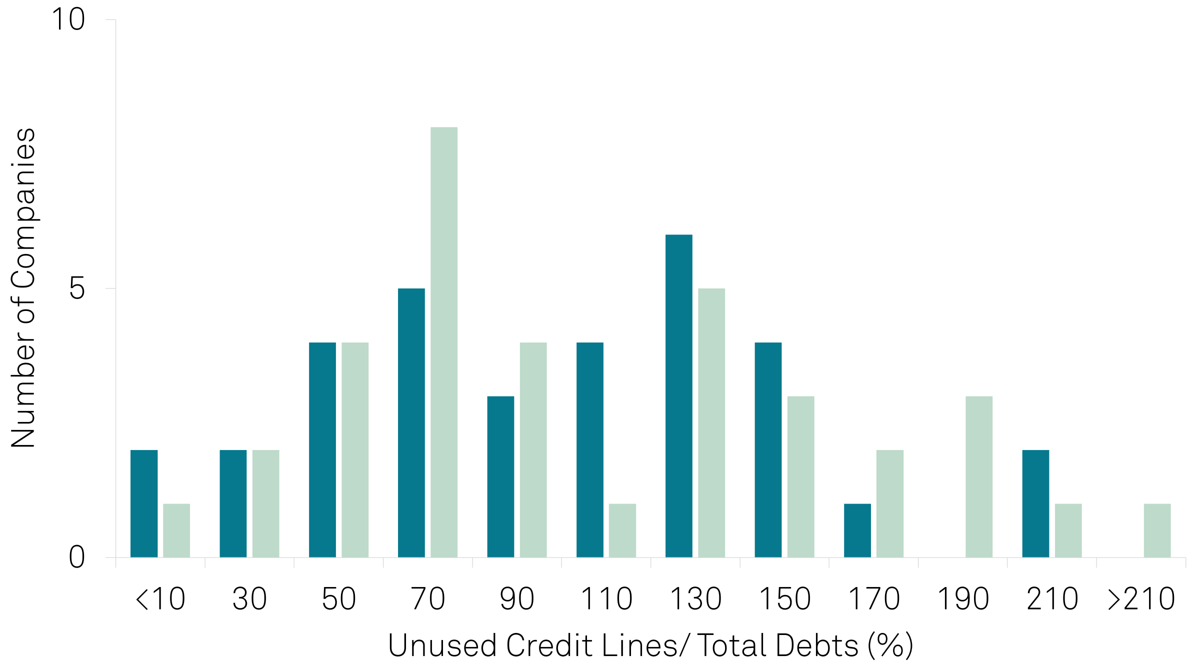
Commercial leasing companies operating as part of high-credit-quality groups would have much more stable access to financing than those without such group support.

Changes in year-on-year growth of RMB loans



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

Unused credit lines/total debt distribution of major commercial leasing companies



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

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Liquidity assessment framework

Liquidity assessment has a five-point scale, with '1' indicating the strongest liquidity and '5' the weakest.

Liquidity Descriptor	What it typically means
1/Strong	In our view, the entity will withstand a stressed outflow of liquidity completely or largely by utilizing on-balance-sheet liquidity sources.
2/Adequate	In our view, the entity is highly likely to withstand a stressed outflow of liquidity, but our confidence in that assessment is somewhat lower than for an entity with "1/strong" liquidity. The entity may also need to utilize secondary sources of liquidity under some plausible stress scenarios.
3/Moderate	In our view, the entity has a lower likelihood than an entity with "2/adequate" liquidity of withstanding a stressed outflow of liquidity and a higher likelihood of having to access secondary or emergency liquidity sources.
4/Constrained	In our view, the entity has a lower likelihood than an entity with "3/moderate" liquidity of withstanding a stressed outflow of liquidity and a much higher likelihood of having to access secondary or emergency liquidity sources.
5/Weak	We have limited confidence that the entity could withstand a stressed outflow of liquidity without significantly utilizing emergency sources of liquidity. Its liquidity profile becomes unpredictable or weak.

Source: S&P Global (China) Ratings.

Qualitative Assessment of Liquidity

Our liquidity assessment focuses largely on an FI's ability to withstand liquidity outflows that could occur typically under stress over the coming 12 months by considering the entity's: (1) Potential liquidity sources--on- and off-balance-sheet; (2) Potential liquidity uses--on- and off-balance-sheet; and (3) Liquidity sources compared with liquidity uses.

Typical Characteristics of Sound Liquidity
The liquidity management system provides good tracking of cash inflows and outflows.
The entity has an effective liquidity stress scenario management plan.
There are no significant concentrations of assets or liabilities that could affect the company's liquidity in the next 12 months.
There is no possibility of large unexpected outflows of funds that would strain liquidity resources.
There is no significant liquidity trigger event in the next 12 months.
Even in a stressed scenario, overall funding will not deteriorate significantly.
Market signals are stable, and it has easy access to unsecured funding from counterparties in the interbank market.
Liquidity on the asset side is expected to remain stable over the next 12 months.
We don't expect any other significant liquidity stress over the next 12 months.

Source: S&P Global (China) Ratings.

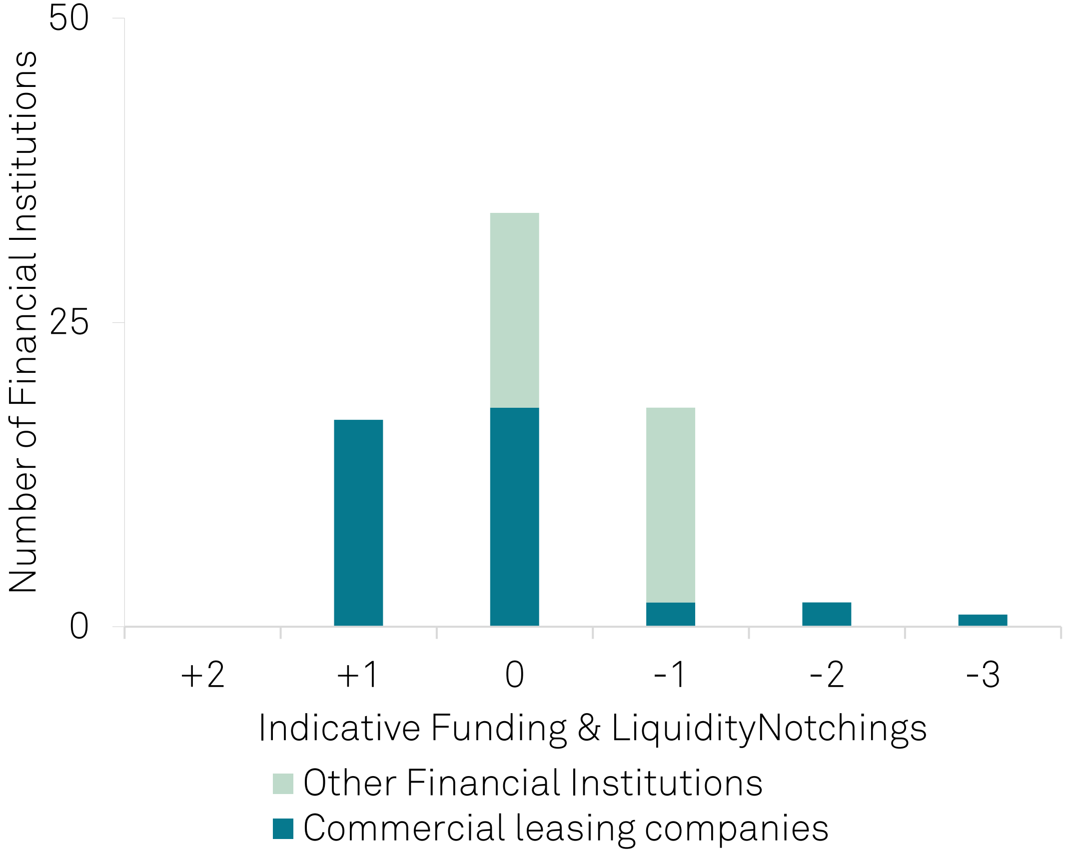
Indicative Funding & Liquidity Notching of FIs with Anchor of ‘bb+’

Preliminary Notching Guidance for Funding & Liquidity Testing

Notch-ing	Typical Features
+2	The company has very stable funding structure, and it will withstand a stressed outflow of liquidity completely or largely by utilizing on-balance-sheet sources of liquidity. We believe its funding & liquidity risk will remain very low even without considering on-going group/government support.
+1	The company has very stable funding structure, and it is highly likely to withstand a stressed outflow of liquidity, but it may also need to utilize secondary sources of liquidity under some stress scenarios. We believe its funding & liquidity risk will remain very low after considering on-going group/government support.
0	The company has stable funding structure, consistent with the average for unlicensed fincos, and it is likely to withstand a stressed outflow of liquidity.
-1	The company’s funding stability is worse than the unlicensed finco average. The entity has a somewhat low likelihood of withstanding a stressed outflow of liquidity and a somewhat high likelihood of having to access secondary or emergency liquidity sources.
-2	The company’s funding stability is much worse than the unlicensed finco average, and the entity has a low likelihood of withstanding a stressed outflow of liquidity and a high likelihood of having to access secondary or emergency liquidity sources.
-3	The company’s funding structure is unstable, and its liquidity is unpredictable or weak.

Source: S&P Global (China) Ratings.

Distribution of Indicative Funding & Liquidity Notching of FIs with Anchor of ‘bb+’



Note 1: The indicative notching expressed in this report are S&P China’s indicative views of risk factors derived from a desktop analysis based on public information without interactive review with any particular institution or the full credit rating process such as a rating committee (except for some institutions for which we have assigned ratings on). The opinions expressed herein are not and should not be represented as part of a credit rating.
Note 2: this distribution chart includes notching adjustments for 40 major commercial leasing companies.
Source: S&P Global (China) Ratings.

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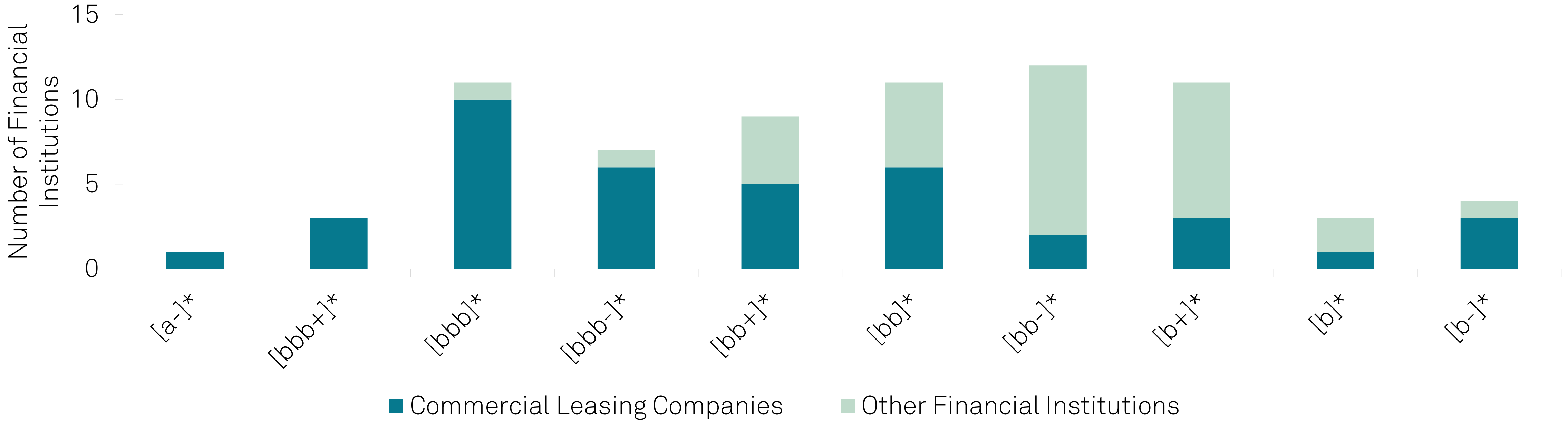
Stand-alone Credit Quality

Compared to other unlicensed fincos, commercial leasing companies have higher stand-alone credit quality

- We tested 72 FIs with a "bb+" anchor, including 40 commercial leasing companies.
- In our view, the average stand-alone credit quality of commercial leasing companies is above average compared with other unlicensed fincos. Our desktop analysis found the SACPs of 40 major commercial leasing companies ranges from [b_{spc}] to [a_{spc}] categories, with a median of [bb_{spc}+].

Distribution of indicative stand-alone credit quality of FIs with anchor of 'bb+'



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Note 1: Our indicative SACP scores do not incorporate the likelihood of extraordinary group or government support in times of stress.
Note 2: The indicative notching expressed in this report are S&P China's indicative views of risk factors derived from a desktop analysis based on public information without interactive review with any particular institution or the full credit rating process such as a rating committee (except for some institutions for which we have assigned ratings on). The opinions expressed herein are not and should not be represented as part of a credit rating.
Source: Public information of companies, collected and adjusted by S&P Global (China) Ratings.

Differences in credit quality among commercial leasing companies are mainly reflected in asset scale and proportion of problem assets

Commercial leasing companies with weaker stand-alone credit quality have weaker financing capability.

2020 medians of key metrics of 40 commercial leasing companies

Indicative SACP (based on 2020 data)	Total assets (RMB, billions)	Asset market share (%)	Adjusted total debt/adjusted equity (x)	Average ROA (%)	Financial lease receivables NPL ratio (%)	Financial lease receivables NPL+SML ratio (%)	Short term debt/total debt (%)
[BBB]*	38.4	0.5	5.5	1.4	0.6	1.3	54.8
[BB] *	27.6	0.4	5.3	1.5	1.2	5.4	56.9
[b]*	14.2	0.2	4.5	-1.4	1.4	5.9	40.2

Note 1: Our indicative SACP scores do not incorporate the likelihood of extraordinary group or government support in times of stress.

Note 2: Adjusted total debt = on-balance sheet total debts + adjusted debts and off-balance sheet liabilities e.g. asset-backed security products. If we believe a company has seriously insufficient provisioning, we deduct the amount of insufficient provisions from the owner's equity to arrive at adjusted net assets.

Note 3: The indicative notching expressed in this report are S&P China's indicative views of risk factors derived from a desktop analysis based on public information without interactive review with any particular institution or the full credit rating process such as a rating committee (except for some institutions for which we have assigned ratings on). The opinions expressed herein are not and should not be represented as part of a credit rating.

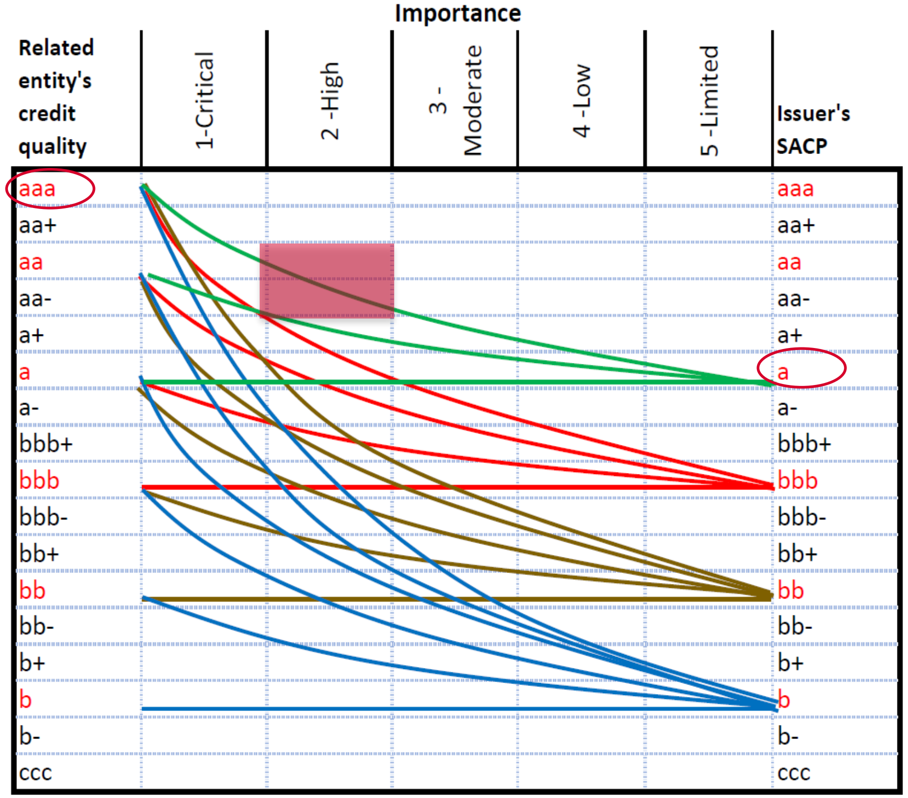
Note 4: all indicative SACP scores in the table can be adjusted with “+” and "-".

Source: Public information of the company, S&P Global (China) Ratings.

Group Influence

Our support notching decisions are guided by a support curve framework

Support Analysis Framework



Source: S&P Global (China) Ratings.

- We determine notching for group support by first considering the following factors:
  - the parent's creditworthiness,
  - the subsidiary's stand-alone credit profile ("SACP"), and
  - our assessment of the importance level of the subsidiary to the parent on a scale of 1 to 5.
- We use the support curve chart on the left to help us arrive at a reasonable decision on support notching. For example, where the parent has creditworthiness equivalent to "AAA$_{spc}$", and the subsidiary has an SACP of "a$_{spc}$" and its importance level is "2/high", the corresponding section on the support curve would give us a possible issuer credit rating ranging from "AA$_{spc}$-" to "AA$_{spc}$". The analyst would typically choose from these options through applying more nuanced considerations, such as peer comparison. Our starting point is usually the mid-point of the corresponding section on the curve, with the flexibility to adjust up or down within that category; however, the starting point may be higher when the importance level is assessed as critical.
- It is worth mentioning that the support curve framework is not intended to be used in a rigid manner. It is a tool to help us make reasonable and consistent analytical decisions. In rare cases, we may determine an outcome that does not fall on the curve when we deem it appropriate.

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A subsidiary's importance to the government determines whether indirect government support is included in group support

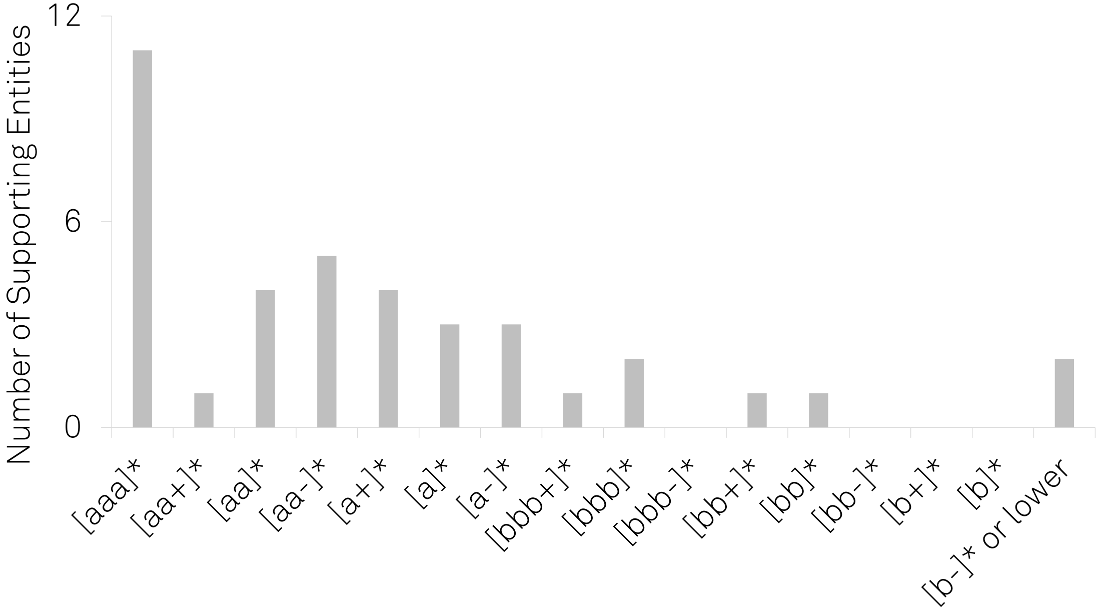
External support is divided into group support and government support. If the credit quality of the group providing support includes government support, then that group support may or may not include indirect government support. Therefore, we need to judge whether the subsidiary itself is important to the government.

- If the subsidiary is of importance to the government, we usually take the parent's issuer credit rating (which included adjustments made to reflect government support) as the starting point of our support analysis;
- If the subsidiary's importance to the government is limited or uncertain, we usually take the parent'y SACP (which excludes adjustments for government support) as the starting point of our support analysis.
- Commercial leasing companies do not come under the strong supervision of the CBIRC, nor do they act as conduits for the government to implement financial or economic policies, meaning they have a relatively small impact on financial stability. However, some commercial leasing companies may focus on providing leasing services to group members. If they are closely related to the core business of the parent company, they may also be considered as receiving indirect government support.

Group support for commercial leasing companies varies greatly, with companies operating under high-credit-quality central SOEs more likely to receive foreseeable group support

Due to the low entry threshold of financial leasing companies, the default risk of some financial leasing companies' parent companies is high, which is likely to have a negative group impact.

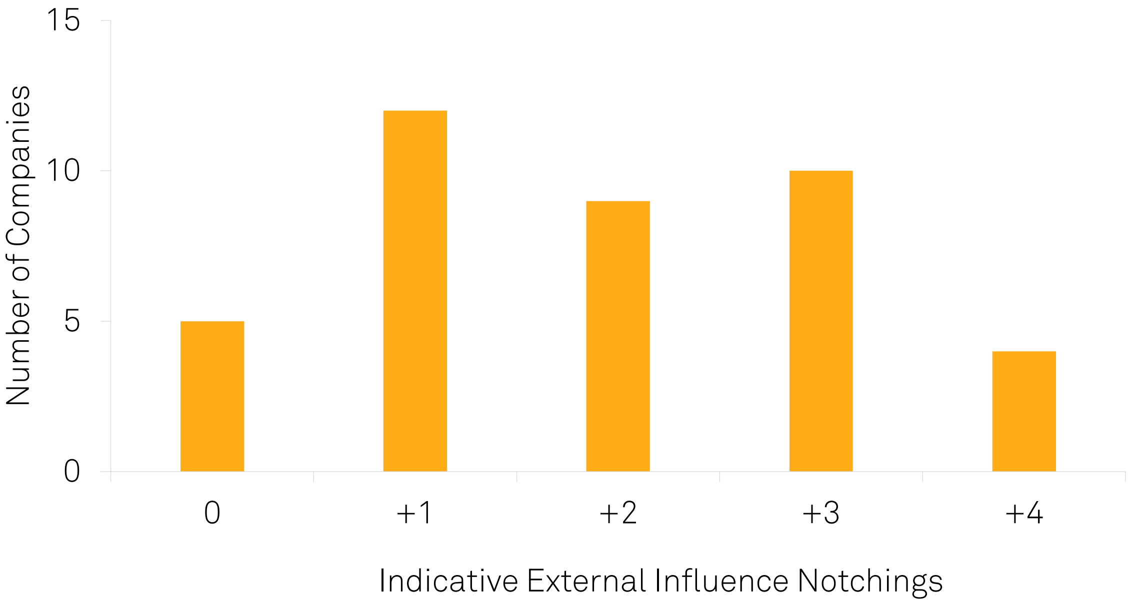
Distribution of 40 major commercial leasing companies' groups' credit quality



Note *: The indicative credit quality distributions expressed in this report are only S&P China's indicative views of credit quality derived from a desktop analysis based on public information without interactive review with any particular institution 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 of any particular institution.

Source: S&P Global (China) Ratings.

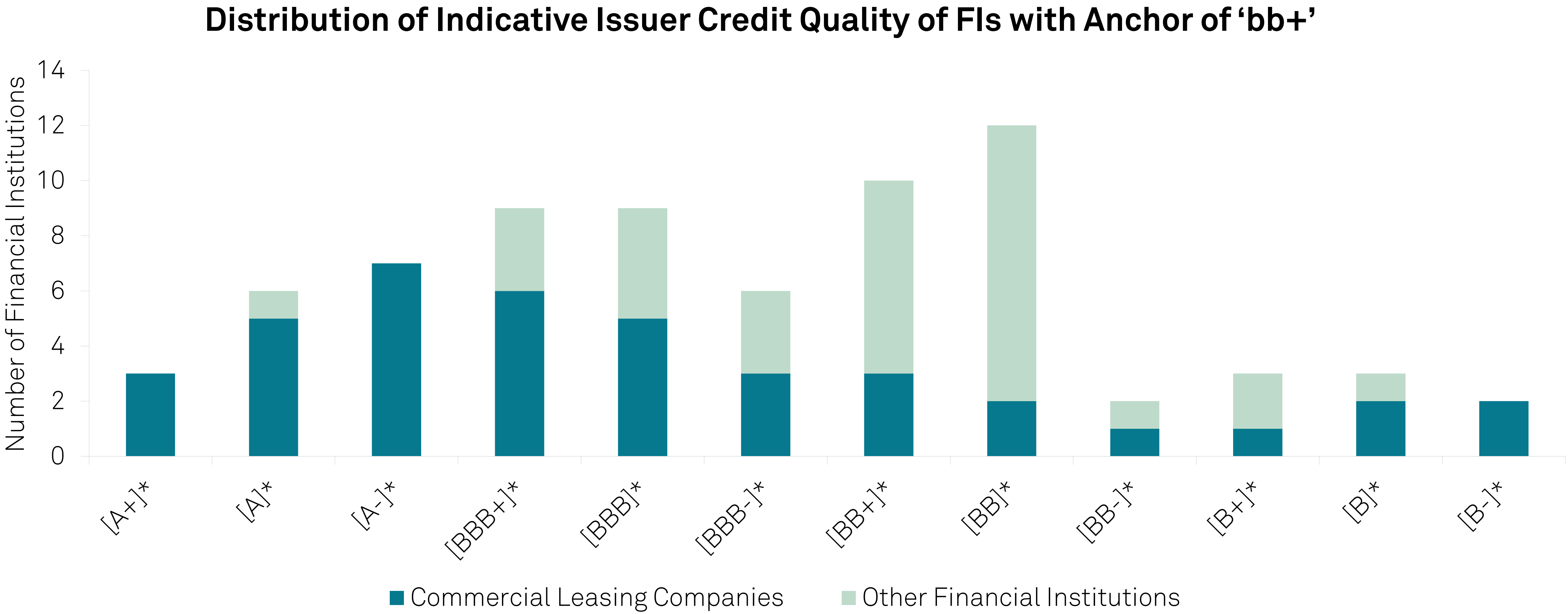
Indicative group influence notching applied on indicative stand-alone credit quality of 40 major commercial leasing companies



Note: The notching adjustments to reflect external support are applied to indicative stand-alone credit quality, allowing us to arrive at entities' indicative issuer credit quality.
Source: S&P Global (China) Ratings.

Issuer Credit Quality

The indicative issuer credit quality of 40 major commercial leasing companies ranges from [A_{spc}] to [B_{spc}]



Note 1: Our assessment of indicative issuer credit quality considers the possibility of group or government support in times of stress.
Note 2*: The indicative credit quality distributions expressed in this report are only S&P China's indicative views of credit quality derived from a desktop analysis based on public information without interactive review with any particular institution 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 of any particular institution.
Source: S&P Global (China) Ratings.

Typical profile of major commercial leasing companies

Issuer Credit Quality	Rating Factors				
	Business Position	Capital & Earnings	Risk Position	Funding & liquidity	Group Influence
[A_{spc}]	Average or above-average scale, with very stable business sources. May have strong group synergy benefits re. business development	Moderate leverage and healthy profitability	Risk appetite below banking average, or similar	Financing channels are abundant and stable; liquidity is abundant considering ongoing group support	Close ties to group in terms of business and equity; group has high credit quality and commercial leasing company is highly important to group
[BBB_{spc}]	Medium scale, with stable business sources. May benefit from synergy with group re. business development	Moderate leverage and healthy profitability	Risk appetite similar to banking average	Stable financing channels and abundant liquidity	Close ties to group in terms of business and equity; group has high credit quality and commercial leasing company is highly important to group
[BB_{spc}]	Small scale or weak business stability	Moderate leverage, capital may be eroded by bad performance	Significant asset quality fluctuations due to narrower range of businesses	Weaker financing stability and potentially tight liquidity under stress scenarios	While group credit quality may be adequate, the company's small size makes it of low importance to its group
[B_{spc}]	Small scale or highly unstable business	Significant bad debt pressure leading to significant capital erosion. Profitability is very weak	High risk appetite, high bad debt levels	Financing unstable and liquidity uncertain	Group is unable to provide support or its influence is negative

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Source: S&P Global (China) Ratings.

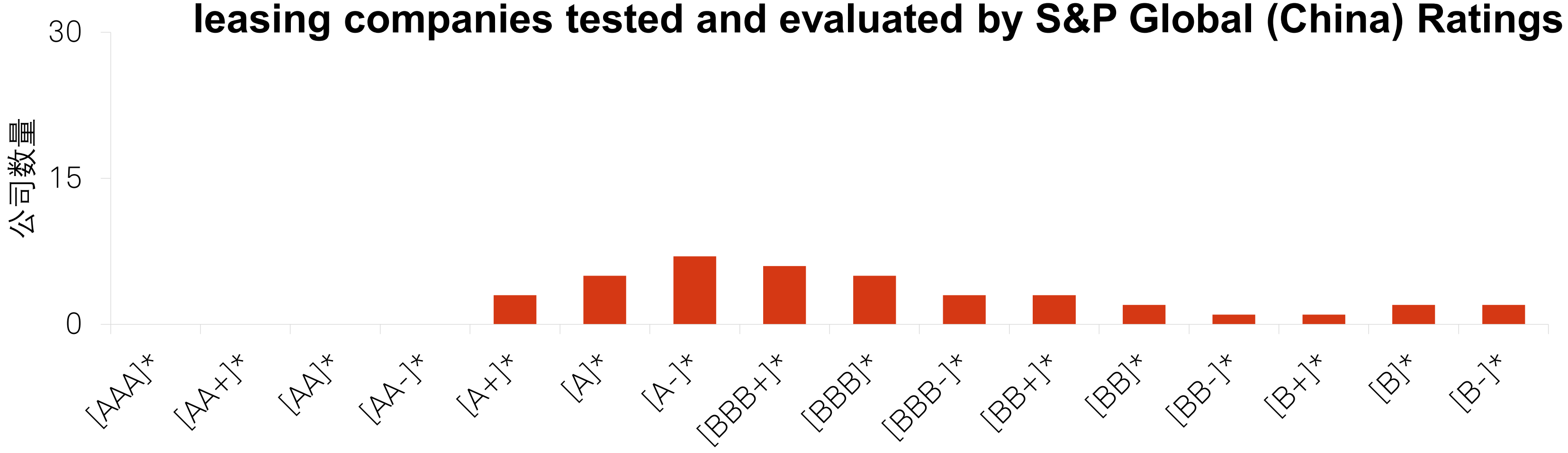
Credit Profile of Major Commercial Leasing Companies

Rating Factor	Median of 40 major commercial leasing companies' testing results	Key Characteristics
Anchor	bb+	We typically apply an anchor of 'bb+' for commercial leasing companies and other unlicensed NBFIs.
Business Position	0	Commercial leasing companies face competition from banks and other FIs. Overall business stability is consistent with the average for unlicensed NBFIs.
Capital & Earnings	0	Most commercial leasing companies have moderate leverage levels.
Risk Position	0	Risk management ability, barriers to entry and asset quality of large and medium-sized commercial leasing companies is similar to the commercial bank average.
Funding & Liquidity	0	Commercial leasing companies cannot absorb deposits and generally cannot access the interbank lending market. Financing channels are mainly through wholesale funding, making their financing structures similar to other unlicensed NBFIs, Liquidity risk of large and medium-sized financial leasing companies is controllable.
Stand-alone Credit Quality	bb+	
Group Support	+2	For groups with higher credit quality, we may consider group support in our analysis if they are closely related to their commercial leasing subsidiaries in terms of business development, management and equity. Many large and medium-sized commercial leasing companies belong to high credit quality groups.
Issuer Credit Quality	BBB	Considering the high likelihood of extraordinary group support, commercial leasing companies generally have higher issuer credit quality than stand-alone credit quality.

S&P Global (China) Ratings' credit ratings on FIs show clear differentiation

Distribution of ratings on 40 major commercial leasing companies by domestic credit rating agencies

Distribution of indicative issuer credit quality of 40 major commercial leasing companies tested and evaluated by S&P Global (China) Ratings



40 major Financial leasing companies		Median rating results of local CRAs (as of December 31, 2021)
Results of S&P Global (China) Ratings' desktop analysis	[A+]*	AAA
	[A]*	AAA
	[A-]*	AAA
	[BBB+]*	AAA
	[BBB]*	AAA
	[BBB-]*	AAA
	[BB+]*	AA+
	[BB]*	AA+
	[BB-]*	AA+
	[B+]*	-
	[B]*	-
	[B-]*	AA

Note *: The indicative credit quality distributions expressed in this report are only S&P China's indicative views of credit quality derived from a desktop analysis based on public information without interactive review with any particular institution 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 of any particular institution.

Source: S&P Global (China) Ratings.

Credit Outlook for Commercial Leasing Companies in the Next 12 Months

Analysis factors	Outlook	Key Points
Business Position	Stable but downward pressure	Business growth set to slow in the short term. Regulations continue to discourage cross-regional operations, requiring players to focus on serving their respective regions. For those already established on a national level, some time may be needed to adapt to the regulator's stance. Structural changes may be required in the short term, but we expect large and medium-sized commercial leasing companies with core competitiveness to maintain medium- and long-term business stability.
Capital & Earnings	Stable	Most should continue meeting regulatory requirements for leverage. In addition, as business growth slows overall leverage across the industry should stay stable. However, some commercial leasing companies continue to lack sufficient provisions and may encounter erosion of actual capital.
Risk Position	Stable but downward pressure	In the epidemic environment, the difference of asset quality of financial leasing companies is further prominent, and some companies are seriously short of provisions. The asset quality of financial leasing companies mainly engaged in group related businesses is usually good and stable; the deterioration pressure of asset quality of financial leasing companies mainly engaged in non group related businesses is significantly increased. In addition to the stock risk before the epidemic, the coverage degree of some companies' provisions for problem leasing assets is deteriorated.
Financing & Liquidity	Stable	In 2021, the pace of bond market financing in the financial leasing industry slowed down, and the overall credit of the banking industry to non-bank financial institutions was shrinking. Financing and liquidity continue the previous two levels of differentiation. The financing of financial leasing companies with strong group support and high credit quality will remain stable in 2022. At the same time, due to the common mismatching characteristics of long-term assets and short-term liabilities in financial leasing companies, it is more difficult for financial leasing companies with low credit quality to refinance.
Stand-alone Credit Quality	Stable but downward pressure	The differentiation of business development, asset quality and financing ability will lead to further differentiation of individual credit quality of financial leasing companies.
Group Support	Stable	
Issuer Credit Quality	Stable	We expect that the overall credit quality differentiation of financial leasing companies will increase, and the strength of the group is the main influencing factor.

Source: S&P Global (China) Ratings.

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Commercial Leasing Company Testing Template of S&P Global (China) Ratings

Analysis Factors	Notching Scale
Anchor	bb+
Business position	
Business stability	+ 2 to - 3 notches
Business/geographic diversification	Positive/Neutral/Negative
Management and strategy	Positive/Neutral/Negative
Final business position notching	+ 2 to - 3 notches
Capital & Earnings	
Preliminary capital and earnings notching	+ 2 to - 3 notches
Quality of capital and earnings	Positive/Neutral/Negative
Earning capacity	Positive/Neutral/Negative
Final capital and earnings notching	+ 2 to - 3 notches
Risk Position	
Risk management	+ 2 to - 3 notches
Loss records	Positive/Neutral/Negative
Final risk position notching	+ 2 to - 3 notches

Commercial Leasing Company Testing Template of S&P Global (China) Ratings

Analysis Factors	Notching Scale
Funding & Liquidity	
Funding stability	Above average / Average / Below average
Liquidity	Score 1 to 5 ('1' indicates the strongest and '5' the weakest)
Final funding and liquidity notching	+2 to -3 notches
Holistic Adjustment	Typically +1, 0 or -1 notch
Stand-alone Credit Profile	**Anchor + business position + capital & earnings + risk position + funding & liquidity + holistic adjustment**
External Support	
Support type	Group support
Importance level	1 to 5 ('1' indicates critical importance and '5' indicates limited importance)
Credit quality of supporting entity	Based on separate credit analysis on the support provider
Supporting notching	Positive or negative notching adjustment, or no adjustment
Issuer Credit Rating	**Stand-alone Credit Profile + external support**

Source: S&P Global (China) Ratings.

Appendix: Related Methodology and Research

S&P Global (China) Ratings – Financial Institutions Methodology

Commentary: Understanding S&P Global (China) Ratings Financial Institutions Methodology

Commentary: Understanding S&P Global (China) Ratings Approach To Support

Reliable Group Support Sustains Credit Quality of CBIRC-Regulated Leasing Companies

Credit Quality of Commercial Leasing Companies Underpinned by Group Supports

How We Assess the Likelihood of Indirect Government Support for Financial Subsidiaries Through Group Support Analysis

Government Support Underpins Financial Stability in China but Doesn't Equal Implicit Government Guarantee for Individual Institutions

Financial Leasing Companies Have Maintained Good Credit Quality Despite COVID

Analysts

- **Zheng Li, FRM**
- Beijing
- +86-10-6516-6067
- Zheng.Li@spgchinaratings.cn

- **Xuefei Zou, CPA**
- Beijing
- +86-10-6516-6071
- Eric.Zou@spgchinaratings.cn

- **Ying Li, CFA, FRM**
- Beijing
- +86-10-6516-6061
- Ying.Li@spgchinaratings.cn

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