标普信评

S&P Global China Ratings

S&P Global (China) Ratings — Multilateral Lending Institutions Methodology

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Overview and Scope

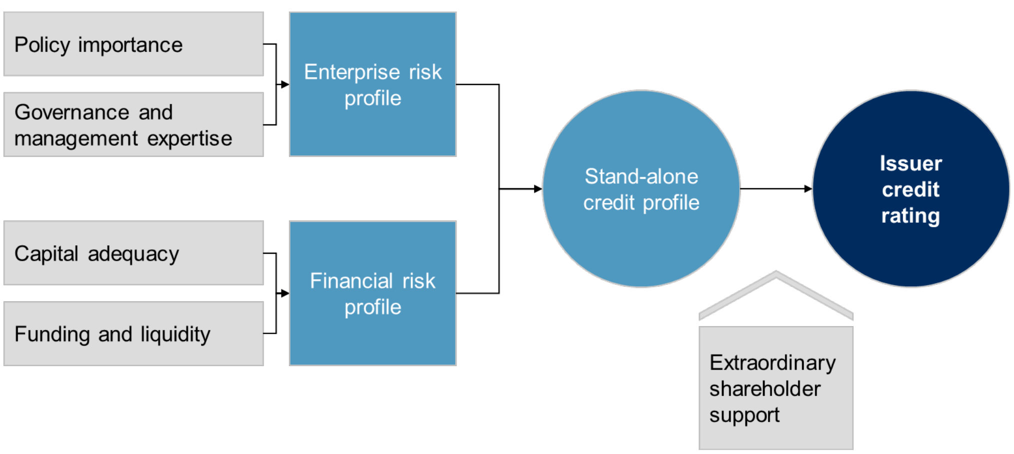
This article presents S&P Global (China) Ratings' criteria for rating multilateral lending institutions (MLIs) and other supranational institutions globally. We define supranational institutions as institutions owned or established by the governments of two or more countries. Most have a mandate to pursue specified policy objectives under international treaties, for example, to promote the economic development of their less-developed or regional member countries, encourage regional integration, or facilitate the expansion of cross-border trade.

The criteria use a framework that evaluates the enterprise and financial risk of a MLI as the starting point for determining its Stand-Alone Credit Profile (SACP). Chart 1 depicts how we combine the characteristics of the enterprise risk profile (ERP) and financial risk profile (FRP) to derive the SACP. The issuer credit rating (ICR) is reached after incorporating any extraordinary support and considering the holistic analysis.

Once we have determined the ERP and FRP assessments, we combine them to arrive at the SACP (see table 2), which indicates our view of the MLI's intrinsic creditworthiness, our assessment of extraordinary shareholder support, and the holistic analysis.

Chart 1

Multilateral Lending Institutions Criteria Framework



Note 1: When the issuer's liquidity is very weak, we may put its ICR in b category.
Note 2: The extraordinary shareholder support assessment includes the benefit of any eligible callable capital or guarantee.
Note 3: We may conduct holistic adjustment after extraordinary shareholder support analysis to reflect any credit features not fully reflected in previous analysis, typically through peer comparison with other MLIs.
Source: S&P Global (China) Ratings.

Our analysis begins with an assessment of a MLI's ERP and FRP. Our methodology is based on the assessment of four key credit factors (policy importance, governance & management expertise, capital adequacy, and funding & liquidity) that underlie the assessment of the ERP and FRP, as shown in Table 1. Table 1 shows the different scales we use to assess these factors. We use matrices to combine our assessments of the relevant credit factors to determine the enterprise and financial risk assessments.

Table 1

Scale of Assessment for Each Rating Factor

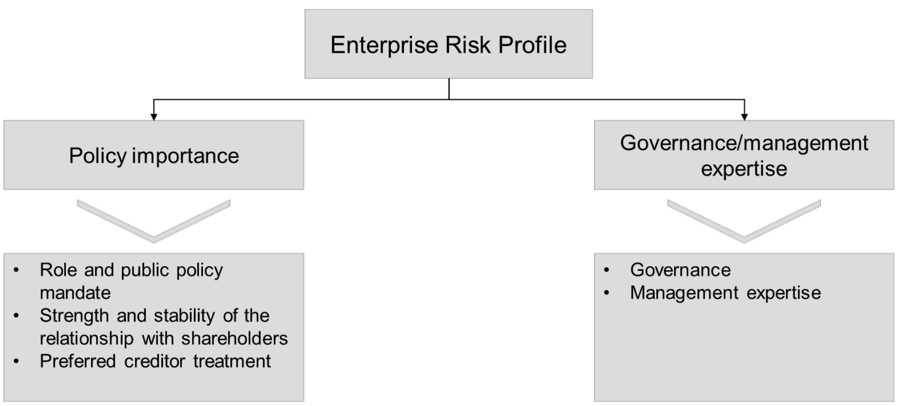
Assessment scales, strongest (1) to weakest (6)	Enterprise Risk Profile		Financial Risk Profile	
	Policy importance	Governance and management expertise	Capital adequacy	Funding and liquidity
1	Very Strong	Strong	Very Strong	Very Strong
2	Strong	Adequate	Strong	Strong
3	Adequate	Weak	Adequate	Adequate
4	Moderate		Moderate	Moderate
5	Weak		Weak	Weak
6			Very weak	Very weak

Source: S&P Global (China) Ratings.

The ERP measures the strength of an MLI's operations in relation to the rest of the global MLI sector. We assess an MLI's ERP by evaluating its policy importance and its governance and management expertise (see chart 2).

Chart 2

Analytical Framework for the Enterprise Risk Profile

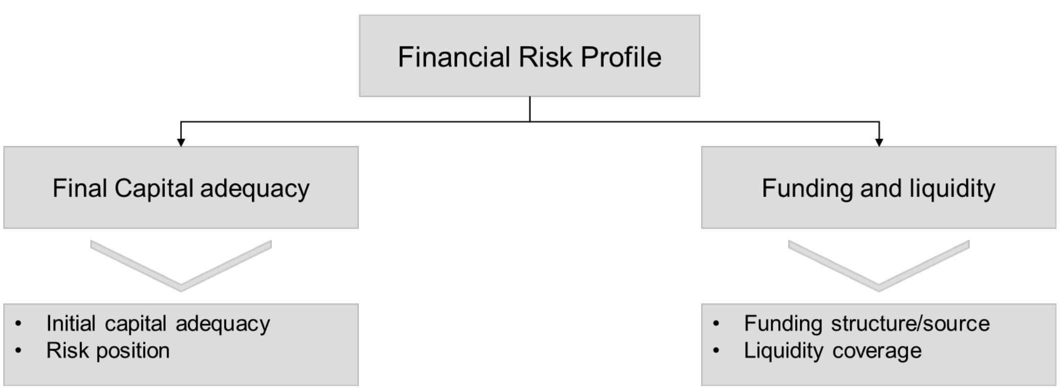


Source: S&P Global (China) Ratings.

The FRP reflects our view of an MLI's capital adequacy, relative to the rest of the MLI sector, as well as its funding and liquidity profile (see chart 3).

Chart 3

Analytical Framework for the Financial Risk Profile



Source: S&P Global (China) Ratings.

Once we have determined the ERP and FRP assessments, we combine them to arrive at the SACP (see table 2), which indicates our view of the MLI's intrinsic creditworthiness.

Table 2

Determining Stand-Alone Credit Profile

-- Enterprise Risk Profile --	-- Financial Risk Profile --					
	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak	6/Very weak
1/Very Strong	aaa	aaa/aa+	aa+	aa/aa-	a+/a	bbb+
2/Strong	aaa/aa+	aa+	aa/aa-	a+/a	a-/bbb+	bbb
3/Adequate	aa	aa/aa-	a+/a	a/a-	bbb+/bbb	bbb-/bb+
4/Moderate	a+	a	a/a-	bbb+/bbb	bbb-/bb+	bb/bb-
5/Weak	a-/bbb+	bbb/bbb-	bbb-	bb+/bb	bb/bb-	b+/b
6/Very weak	bbb	bbb-/bb	bb/bb-	b+	b	b-

Source: S&P Global (China) Ratings.

If the outcome of table 2 is a split cell, we determine which SACP to choose based on:

- Our longer-term view of some of the factors that support the ERP and FRP over a three- to five-year rating horizon; and
- Our view of the MLI's credit standing, relative to that of its peers.

Certain conditions, particularly liquidity shortage, may lead to a cap of SACP to “b” category or lower.

SACP may include ongoing support but typically does not include extraordinary support.

After deriving the SACP, which may incorporate external ongoing support in the ERP, we analyze the extraordinary support that an MLI might receive from its shareholders if it were in financial distress. Callable capital forms the primary component of our assessment of extraordinary support. Callable capital is a common but not universal characteristic of MLIs that refers to the portion of the MLI's capital subscriptions that is not "paid-in" but that each shareholder has committed to provide in certain circumstances (generally, only to prevent a default on an MLI's debt). Some MLIs benefit from other extraordinary forms of external support, such as guarantees, which we may factor into the ICR.

Typically, an MLI may use callable capital only to prevent a default on its obligations. We only count callable capital as a form of extraordinary support for an MLI if we consider that its shareholders have sufficient ability and willingness to pay in such capital on a reasonably timely basis.

When notching up from the SACP, we take into consideration our view of the shareholders' capacity and willingness to proceed with capital call payments.

To derive the ICR, we also assess whether the MLI is a subsidiary of a group, in which case we reflect parent-subsidiary links.

To derive the final ICR, we perform our holistic analysis, which helps us capture a more comprehensive analysis of creditworthiness. It also recognizes our forward-looking view of sustained, predictable operating and financial underperformance or outperformance. We may complement our holistic analysis through competitive analysis in quantitative and/or qualitative terms.

Methodology – key credit factors for rating multilateral lending institutions

1. Enterprise Risk Profile

Table 3 shows how we combine our assessment of an MLI's policy importance and its governance and management expertise to derive its ERP.

Table 3

Enterprise Risk Profile (ERP is measured on a scale from 1/very strong to 6/very weak)

--Governance/management expertise --	-- Policy Importance --				
	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak
1/Strong	1/Very strong	1/Very strong	2/Strong	3/Adequate	4/Moderate
2/Adequate	1/Very strong	2/Strong	3/Adequate	4/Moderate	5/Weak
3/Weak	3/Adequate	4/Moderate	5/Weak	6/Very weak	6/Very weak

Source: S&P Global (China) Ratings.

1.1 Policy importance

This factor considers the importance of an MLI's mandate and of its public policy role for the institution's shareholders and members.

Under these criteria, three main factors inform our view of an MLI's policy importance:

- The role and public policy mandate;
- The strength and stability of the relationship with the shareholders (including the MLI's status); and
- The PCT (when relevant).

Role and public policy mandate. We start by analyzing an MLI's role and public policy mandate, as well as the extent to which this role can be or is performed by other institutions. In addition, we analyze the MLI's track record of implementing its public policy mandate throughout the credit cycle.

Strength and stability of the relationships with the shareholders. We assess the strength and stability of the relationship between the institution and its shareholders by looking at membership support over time. Supportive members are those that show that they are willing and able to provide additional resources. If membership is expanding and the MLI is gaining new, supportive shareholders, this demonstrates strengthening policy importance. Conversely, previously supportive shareholders leaving or reducing their support demonstrates weakening policy importance.

When an MLI can command regular capital increases when needed, timely payment of new capital subscriptions, and, to a lesser extent, other forms of ongoing support such as guarantees, we view this as another sign of shareholder support.

We generally view institutions established by treaty or equivalent more favorably than those established by less-formal intergovernmental agreements.

Preferred creditor treatment. Finally, we evaluate the MLI's track record with regard to PCT and other forms of preferential treatment. MLIs generally benefit from PCT, which has been vital in enabling them to experience lower default rates and higher recovery rates than commercial lenders, when lending to sovereigns.

PCT status means that:

- MLIs have historically been exempt from participating in sovereign debt rescheduling coordinated by the Paris Club of bilateral creditors, while commercial lenders have generally not been exempt; and
- When sovereigns do default to MLIs, these defaults are usually cured before commercial debt arrears because such clearance is usually a condition of resumed access to funding from the International Monetary Fund (IMF) and other MLIs.

PCT--which applies to sovereign exposures--cannot be legally enforced; it is a discretional status that borrowing member countries afford to each MLI. In our opinion, an MLI g ains PCT status through its perceived role and policy importance. We observe that MLI debt is typically repaid ahead of commercial lenders because borrowers greatly value the MLI's role as a countercyclical lender. In a distressed scenario, sovereigns expect MLIs to offer additional financing, even when commercial markets have closed. In addition, as noted above, the IMF usually makes curing arrears to MLIs a condition of restoring access to IMF funding.

We assess a MLI's PCT status by considering arrears and based on our forward-looking view, whether a country will likely be in arrears in the near future.

Table 4 contains the characteristics that we generally expect to see at different levels for each component of the policy importance assessment.

Table 4

Assessment Of The Components Of Policy Importance

	Very Strong	Strong	Adequate	Moderate	Weak
Role and public policy mandate	Role is not or cannot be readily fulfilled by another private or domestic public institution, and we expect this role to be maintained. Relatively long track record of fulfilling its public policy mandate.	Role is or can be partially fulfilled by a private or another domestic public institution, or strong role is diminishing. Shorter track record of fulfilling its public policy mandate. Its policy mandate is less important.	Diminishing role that is or can be partially fulfilled by another private or domestic public institution. Shorter track record of fulfilling its public policy mandate. Its policy mandate is less important than peers in the strong category.	Weakening ability to fulfill its public policy mandate.	A large part of the MLI's activity is fulfilled by private entities. The MLI is expected not to be able in the future to fulfill its public policy mandate through the credit cycle.
Strength and stability of the relationships with shareholders	The MLI was established by treaty or equivalent. No supportive shareholder has withdrawn from the MLI in the recent past or is expected to do so in the medium term. The MLI's earnings are exempt from corporate income tax. Track record of increases and timely payments of capital subscriptions by shareholders when needed to support its public policy mandate, and we expect this to continue.	The MLI was established by treaty or equivalent. No major shareholder has withdrawn from the MLI in the recent past or is expected to do so in the medium term. The MLI's earnings are exempt from corporate income tax. Shorter track record (than for a very strong assessment) of increases and timely payments of capital subscriptions by shareholders when needed to support its public policy mandate, and we expect this to continue.	The MLI was established by treaty or equivalent. The MLI’s earnings are exempt from corporate income tax. Shareholders’ support is weakening (for example, a supportive shareholder recently withdrew from the MLI) or the track record of timely payment of capital subscription is weaker or shorter than for the strong assessment.	The MLI was not established by treaty or equivalent. The MLI's earnings are exempt from corporate income tax. Shareholders' support is uneven or has a limited track record.	The MLI was not established by treaty or equivalent. The MLI's earnings are not exempt from corporate income tax. Shareholders' support is weak and uncertain.
Preferred creditor treatment (PCT)	The MLI has benefitted from PCT from almost all sovereign borrowers and the calculated arrears ratio is typically low.	The MLI has benefitted from PCT from most sovereign borrowers and the calculated arrears ratio is typically moderate.	The MLI has benefitted less from PCT from one or several sovereign borrowers and the calculated arrears ratio is relatively high.	The MLI has benefitted less from PCT from one or several sovereign borrowers and the calculated arrears ratio is typically high.	The MLI has benefitted less from PCT from one or several sovereign borrowers and the calculated arrears ratio is very high.

Source: S&P Global (China) Ratings.

1.2 Governance and management expertise

Our analysis of governance and management expertise is mostly qualitative. Most MLIs are not regulated, nationally or internationally, and are not governed by a national law. Therefore, we consider the institution's bylaws, internal governance rules, strategy, and risk management policies as vital to our analysis. We analyze an MLI's governance and strategy in the context of its public mission, which is typically to foster economic development and integration.

The breadth of the MLI's ownership, the structure of its audit and control, and its dividend policy also affect our evaluation of its governance under these criteria.

We will assess whether the participation of private shareholders in an MLI's capital structure would dilute its public policy role and affect its governance because the goals of private and public shareholders may conflict, particularly in periods of stress.

We classify MLIs' governance and management expertise in three categories: 1/strong, 2/adequate, and 3/weak. Table 5 contains the characteristics that we generally expect to see for both the strong and weak assessment of each component of the Governance and Management Expertise assessment.

Table 5

Governance And Management Expertise Assessment

	1/Strong	2/Adequate	3/Weak
Governance			
Shareholding structure	Diverse and balanced composition of government shareholders. No material private sector shareholding. Shareholders allow most MLI earnings to be retained.	--MLIs other than strong and weak	Major shareholders have inappropriate influence or control over the MLI. Earnings distribution (grants and transfers) leads to base capital erosion.
Governance standards	Well-established governance standards.	--MLIs other than strong and weak	Risks to governance standards.
Management expertise			
Strategy	Ability to implement strategic plans and achieve financial and operational goals.	--MLIs other than strong and weak	The strategic planning process is limited, or plans are superficial. Management is often unable to convert strategic decisions into constructive action or often fails to reach operational or financial goals.
Risk management	The institution employs superior financial and risk management policies.	--MLIs other than strong and weak	The institution employs inferior financial and risk management policies.
Personnel	Ability to withstand the loss of key personnel without significant disruption to operations in each of its business units.	--MLIs other than strong and weak	The MLI relies on one or a small number of managers. The loss of key personnel would seriously affect the organization's operation.
Track record of management	Management has considerable expertise experience and a track record of success in operating all major lines.	--MLIs other than strong and weak	The management lacks the expertise and experience and the MLI often deviates significantly from its plan.

Source: S&P Global (China) Ratings.

2. Financial Risk Profile

Table 6 shows how we combine our view of a MLI's capital adequacy and its funding and liquidity to derive our FRP assessment.

Table 6

Financial Risk Profile(FRP is measured on a scale from 1/very strong to 6/very weak)

-- Funding and Liquidity --	-- Capital Adequacy --					
	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak	6/Very weak
1/Very Strong	1/Very Strong	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak
2/Strong	1/Very Strong	2/Strong	2/Strong or 3/Adequate	3/Adequate or 4/Moderate	4/Moderate	5/Weak
3/Adequate	2/Strong	2/Strong or 3/Adequate	3/Adequate	4/Moderate	5/Weak	6/Very weak

4/Moderate	3/Adequate	3/Adequate or 4/Moderate	4/Moderate	4/Moderate or 5/Weak	5/Weak	6/Very weak
5/Weak	4/Moderate	4/Moderate	5/Weak	5/Weak	6/Very weak	6/Very weak
6/Very weak	5/Weak	5/Weak	6/Very weak	6/Very weak	6/Very weak	6/Very weak

Note: Where two options exist, we focus on the actual levels of leverage, problem loans, and liquidity ratios of the MLIs to determine the final score.
Source: S&P Global (China) Ratings.

2.1 Capital adequacy

To determine an MLI's final capital adequacy requires two steps (see Table 7).

Table 7

Capital Adequacy Assessment

-- Risk Position --	-- Initial Capital Adequacy --					
	1/Very Strong	**2/Strong**	**3/Adequate**	**4/Moderate**	**5/Weak**	**6/Very weak**
1/Very Positive	1/Very Strong	1/Very Strong	1/Very Strong	2/Strong	3/Adequate	4/Moderate
2/Positive	1/Very Strong	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak
3/Neutral	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak	6/Very weak
4/Negative	2/Strong	3/Adequate	4/Moderate	5/Weak	6/Very weak	6/Very weak
5/Very Negative	3/Adequate	4/Moderate	5/Weak	6/Very weak	6/Very weak	6/Very weak
6/Extremely Negative	4/Moderate	5/Weak	6/Very weak	6/Very weak	6/Very weak	6/Very weak

Note: Capital adequacy is measured on a scale from 1/very strong to 6/very weak.
Source: S&P Global (China) Ratings.

The first step of our capital adequacy analysis consists of determining the initial capital adequacy assessment (see Table 7). As MLIs do not have to comply with regulatory capital levels, this is based on our own measure of capital, typically the leverage ratio (such as adjusted total debts/equity).

In the second step, our risk position assessment takes into account qualitative aspects such as asset credit quality, loan performance and risk management, and other risks that the leverage ratio either does not cover or overstates. The risk position adjustment ranges from 1/very strong to 6/very weak. The risk profile assessment may lead to final capital adequacy assessment conclusion lower, higher or equal to the initial assessment.

2.1.1 Initial Capital adequacy assessment

We typically consider the MLI's leverage ratios (e.g. adjusted total debt/equity) first to arrive at an initial capital adequacy assessment. We may make adjustments to leverage ratios to better reflect the MLI's actual capital situation and improve comparability with peers.

We also consider whether an MLI can strike a balance between developing its business and accumulating capital. Business growth may diminish capital while retaining earnings may lead to capital accumulation.

Our view on the leverage is forward-looking. We may use scenario analysis or stress testing when uncertainty mounts.

We may also adjust the capital assessment to reflect the impact of retained earnings or future losses on leverage. Material loss may affect leverage level and weaken the institution's capital adequacy. If the institution can sustain high level of retained earnings over long term, and the high profitability contributes significantly to its capital adequacy, it may be viewed positive in our capital assessment. Typically, upward adjustment based on profitability is limited because of the non-profit nature of MLI.

Capital projections may also include the planned disbursements of paid-in capital and the planned disbursement of loans. We may also assess the growth speed of assets. Excessive growth may lead to weakened capital position if there is no mitigating factors.

Overall, our forward-looking analysis focuses on earnings growth, the pace of expansion, potential changes in the institution's strategy and risk appetite, and estimated credit losses. Failure to grow capital through retained earnings at the same pace as business growth indicates that leverage ratios will deteriorate, unless the MLI has access to external sources to make up for the deficiency.

2.1.2 Risk Position

The second step of our capital adequacy assessment centers on the risk position assessment, which refines our view of an institution's actual and specific risks beyond the initial capital adequacy analysis. Our risk position assessment is forward-looking. And we may conduct scenario analysis or stress testing if uncertainty is high.

The main components of risk position are:

- Risk management and governance, including risk mitigation;
- Portfolio credit risk assessment and loan performance;
- Loss experience and expectations;
- Risk concentration; and
- Other risks that the leverage ratio either does not capture or overstates.

Although we consider that an MLI's historical and expected PCT and preferential treatment generally support its loss experience, we take a positive view of an MLI that can further mitigate its credit risk losses using third-party guarantees or physical collateral, provided that we consider that it has high-quality, liquid, and enforceable collateral.

We still differentiate between private-sector and sovereign lenders in risk assessment. For private-sector lenders, our assessment focuses on the current stock of past due and impaired exposures. For sovereign lenders, our analysis focuses more on the resolution outcome of exposures previously in arrears, in terms of both timing and recovery of principal and interest. Even if they can suffer arrears on payments, sovereign lenders' MLIs have historically posted very low write-offs. As a consequence, our analysis of loan performance mostly applies to private-sector lenders.

As loan performance, this assessment is mostly qualitative and based on peer analysis. We will assess risk management as positive if an MLI:

- Boasts stronger conservative risk tolerances and underwriting standards during periods of growth or changes in exposure (notably while fulfilling its countercyclical lending role), and
- Stays more focused on core activities than peers, or more prudently approaches new business, if any.

In contrast, we would expect an MLI with a negative risk management to typically display one or more of the following characteristics:

- Aggressive risk tolerance policies;
- Weaker loan conditionality relative to peers;
- More aggressive recent organic growth and more significant prospects for future growth than in the past, compared with other MLIs in similar regions; or
- Material movement into new countries or product lines outside the traditional area of expertise.

We also assess the credit quality of its assets, taking into account the principal sectors, geographies and concentrations in the loan portfolio. The credit quality of guarantee and other risk mitigation measures is also considered.

We also assess exposure to equity investments. Equities typically carry higher risk than lending. If an MLI has an overly large exposure to equity investments, we may have a negative assessment on its risk position. Problem assets include not only non-performing loans, but also equity investments which suffers material impairment. We also assess the effectiveness of guarantee as credit protection.

Finally, in the risk position analysis under our criteria, we also seek to adjust for the risks not covered in the leverage ratio, such as the interest rate risk and currency risk in the MLI's operations, the market risk of derivatives positions, and single-name concentration in private-sector exposures. In particular, an analysis of interest rate risk and currency would include a review of relevant stress scenario testing that the MLI performs, as well as its hedging policy.

Multilateral lending institutions' efforts to maximize the utility of capital will periodically result in the transfer of risk to other entities. Such risk transfer mechanism is also part of our risk position assessment. When considering different types of risk transfer mechanisms, typically in the form of securitizations of a pool of an MLI's loans, we would first determine whether the transaction has the necessary elements that would allow the MLI to benefit from capital relief.

2.2 Funding and liquidity

Another factor we use to assess an MLI's FRP is based on our view of its funding and liquidity, measured on a scale from 1/very strong to 6/very weak (see table 8). How an MLI funds its business and the confidence-sensitive nature of its debts directly affects its ability to maintain lending volumes and to meet obligations.

Table 8

Funding And Liquidity Assessment Risk Profile

-- Funding --	-- Liquidity --					
	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak	6/very weak
1/Positive	1/Very Strong	2/Strong	3/Adequate	4/Moderate	5/Weak	6/very weak
2/Neutral	2/Strong	2/Strong	3/Adequate	4/Moderate	5/Weak	6/very weak
3/Negative	3/Adequate	3/Adequate	4/Moderate	5/Weak	6/Very weak	6/very weak

Source: S&P Global (China) Ratings.

2.2.1 Funding

We assess the strength and potential volatility of an MLI's funding by reviewing its funding mix and funding profile, using qualitative and quantitative measures. Unlike commercial banks, MLIs do not usually take deposits and generally have no access to central bank funding and liquidity mechanisms. They primarily fund themselves through unsecured borrowings in the capital markets, although some smaller institutions have loans from other MLIs, bilateral development banks, or commercial banks.

In assessing an MLI's funding mix, we chiefly consider the diversity of its funding sources and its access to capital markets. Indicators that inform our view of an MLI's access to capital markets include the investor composition (type and diversification), access to multiple currencies and different tenors, frequency and size of issuance, and composition of the MLI's yield curve.

We also observe credit spreads on MLI's bonds, to the extent that these indicate a shift in MLI's credit fundamentals.

We would also analyze the structural match between the duration of an MLI's assets and liabilities, looking at the schedule of its assets and liabilities in the current year and the next five years.

Table 9

Assessing A Multilateral Lending Institutions' Financial Risk Profile: Funding

Funding assessment	Characteristics
Positive	The MLI has established and substantial market access that significantly exceeds its liquidity needs, as informed by factors such as: --An MLI is a regular benchmark issuer as needed to fund its activities; --No overreliance on a single market; --No expected material deterioration in the MLI's funding conditions, which could result from factors such as a significant lowering of its shareholders' ratings or a questioning of its policy role; and --The MLI has a conservative funding profile, with cumulative assets exceeding consistently cumulative debt for maturities up to one year and no significant gap for five years.
Neutral	Other MLIs

Negative	The MLI meets at least one of the three factors below: 1) Expected material deterioration in the MLI's funding conditions. 2) Limited access to external sources of liquidity or inadequate available market access relative to current or future funding needs as reflected by any of the following factors: --The MLI is an infrequent issuer, --Its issues are of limited size, or --It relies excessively on bank funding. or 3) A vulnerable funding profile, as reflected by any of the following factors: --Significant reliance on short-term liabilities, --Large funding gap, or --A marginal cost of funds in excess of marginal yield on earning assets.

Source: S&P Global (China) Ratings.

2.2.2 Liquidity

Our liquidity analysis centers on an MLI's ability to manage its liquidity needs in adverse market and economic conditions and its likelihood of normal functioning over an extended period in such conditions.

We may calculate liquidity ratios at different time horizons under different assumptions. Essentially, we calculate the sum of the discounted liquid assets for each period (the next 12 months, probably other shorter terms) as a proportion of the liabilities. The denominator for each ratio is the sum of all liabilities maturing by or on the horizon date, while the numerator is the sum of the assets discounted for either credit risk or liquidity risk. This gives us the potential "liquidity gap" between sources and uses of cash on a forward-looking basis.

The liquidity gap analysis centers onto ratios that include loan disbursements. Should an entity show a particularly low 12-month liquidity ratio, we would expand our analysis to cover shorter periods and consider ratios that do not include loan disbursements, to assess the effect of halting disbursements on liquidity. Should the shorter time ratios fall below 1x, we would typically assess liquidity at moderate or weak.

Positive adjustment factors may include:

- Ability to smoothly execute disbursements on a 12-month horizon under extremely stressed conditions;
- Ability to access a lender of last resort.

Negative adjustment factors may include:

- Presence of covenants or triggers that could materially affect an MLI’s liquidity;
- An expected increase in liquidity needs in the next 12-24 months, which would worsen our liquidity ratios materially;
- Elevated counterparty risk;
- A high concentration of securities held at a single counterparty.

3. Assessing The Likelihood Of Extraordinary Shareholder Support and Holistic Support

3.1 Assessing The Likelihood Of Extraordinary Shareholder Support

Once we have assessed an MLI's SACP under our criteria, we incorporate the likelihood that an institution would receive extraordinary shareholder support to service its debt obligations if needed. In the case of MLIs, extraordinary shareholder support usually comes in the form of an injection of callable capital, and less often in the form of guarantees or other types of support.

Callable capital is a characteristic of most MLIs. It corresponds to a commitment by each shareholder to make additional capital available, but generally, only to prevent a default on an MLI's debt or a call of a guarantee. The size of capital subscriptions generally varies among members, in proportion to their ownership shares. However, the ratio of paid-in to callable capital is generally the same for each shareholder. An MLI's callable capital is typically a multiple of its paid-in capital and often exceeds not only paid-in capital, but also shareholders' equity. If an MLI were to make a capital call, each shareholder would be responsible for providing the percentage of the capital called to which it has subscribed. Moreover, a shareholder's responsibility for meeting a call on capital, up the amount to which it has subscribed, does not depend on whether other shareholders have paid up.

To show the extent to which callable capital and guarantees would support the MLI's creditworthiness, we may recalculate the leverage ratios to include in the denominator the callable capital from all shareholders that have credit quality equal to or higher than MLI's SACP. If capital were called, it may improve the MLI's capital adequacy. This enables us to quantify the potential financial benefit of callable capital.

We only include the callable capital from the shareholders whose credit quality is at or above the SACP of the MLI. We make this distinction in the level of support, because in the sort of market conditions that would lead to an MLI being on the verge of default, and thus resorting to a capital call, we anticipate that its own shareholders may be under similar stress. Their capacity to provide support would therefore be diminished, which might be reflected in our credit quality assessment on the shareholders.

In our view, calling capital is an uncertain process. The shareholders' willingness and ability to make a payment on callable capital are informed by the following considerations:

- The adequacy of the legal and administrative process in place to ensure that a capital call will be made if management believes that a call is necessary to avoid a default;
- The shareholders' ability to pay in the additional capital when called;
- The shareholders' willingness to make the payment of capital when called; and
- An MLI's policy importance.

3.2 Holistic Adjustment

We may apply a holistic adjustment to our assessments on SACP and extraordinary shareholder support to capture other critical credit characteristics not fully reflected in our previous analysis. The holistic adjustment typically reflects the specific creditworthiness of the MLI relative to peers, before arriving at its ICR.

The holistic adjustment may cover other credit factors not included in the previous analysis, which may be either temporary factors or structural factors. In addition, the holistic adjustment may also include credit factors not fully reflected in the assessments of other SACP factors. The holistic adjustment is generally applied after conducting a peer comparison, which can be positive or negative. We may apply the holistic adjustment in either direction to arrive at the ICR, capturing a more holistic view of the creditworthiness of the MLI.

An example of a holistic adjustment based on credit factors not fully reflected in the assessment of other SACP factors would be an MLI for which the assessments of several credit factors are close to a higher assessment, without material offsetting negative factors. Such cumulative positive effect may be reflected in the holistic adjustment.

ISSUE CREDIT RATING

We may refer to S&P Global (China) Ratings – General Considerations on Rating Modifiers and Relative Ranking when determining issue credit rating. Issue-level rating may be equal to or different from the ICR depending on case-by-case assessment. The issue rating for senior unsecured bonds is typically the same as ICR. The issue rating for subordinated bonds may be lower than or equal to the ICR.

OTHER CONSIDERATIONS

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