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S&P Global
China Ratings

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

May 14, 2025

SCOPE AND OVERVIEW

This methodology outlines S&P Global (China) Ratings' criteria for rating financial institutions (FIs). The definition of an FI is broad, which typically includes retail, commercial, and corporate and investment banks, and may also include securities companies and finance companies. The criteria may also apply to financial or other similar institutions where we deem the criteria appropriate for that analysis.

This methodology articulates the key factors to be considered in developing the stand-alone credit profile (SACP) and issuer credit rating (ICR) for a financial or similar institution, including a consideration of the potential for additional support from the FI's parent group or government.

This methodology places emphasis on an entity's operating environment, which includes economic risk and industry risk in setting the starting point or "anchor" in rating an FI. The anchor reflects the hypothetical potential SACP of an "average" FI in China given its current and expected operating environment.

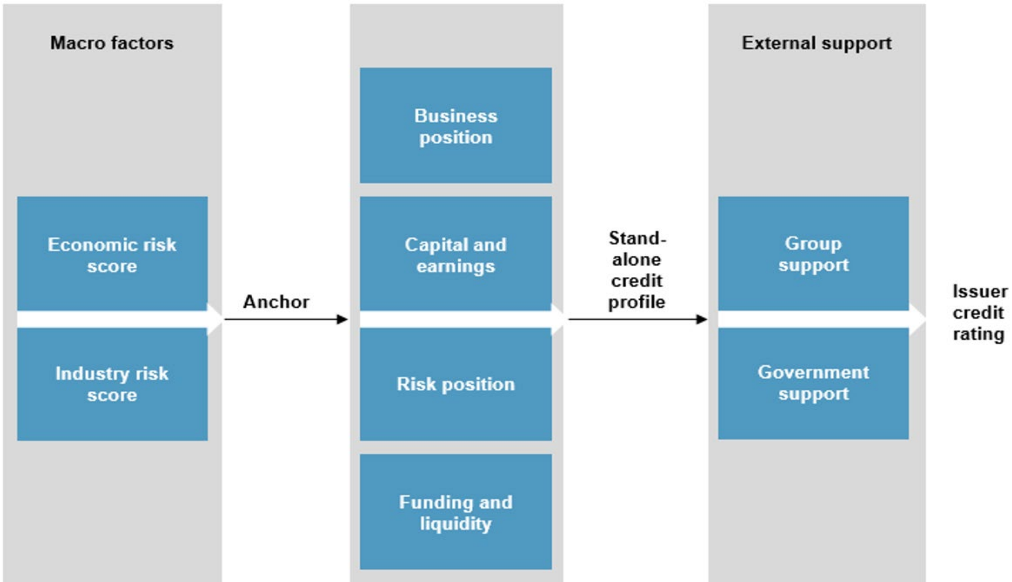
We then assess entity-specific factors, such as business position, capital and earnings, risk position, and funding and liquidity. By incorporating the entity's specific characteristics compared with the anchor, we arrive at the SACP. Lastly, we consider the potential benefit of extraordinary support, which may include either or both potential government support and group support.

An FI's ICR may also benefit from extraordinary group or government support. In some cases, the ICR may be weaker than the SACP when we believe the FI will extend rather than receive support. The ICR may incorporate an analysis of external support, which considers both the relationship between an FI and its parent group or government, and how this relationship alters an FI's overall creditworthiness. The ICR, after having incorporated any extraordinary support, may then be adjusted higher or lower where we deem appropriate. This final adjustment, if applied, reflects our view of creditworthiness, refined by considering its relative credit standing among relevant peer FIs. Such adjustment typically reflects our view that one or more strengths or weaknesses are not fully reflected in the SACP or the analysis of external support.

We typically incorporate comparative analysis and peer comparison in our assessment for FIs, the main purpose of which is to provide context for assessing the rating factors and to set the ICR. Comparative analysis, which can apply differently for different SACP rating factors, helps develop the financial institution's specific analysis. The analyses for business position, risk position, and funding are typically relative while the analyses for capital and earnings and liquidity are typically absolute. Once the impact of any extraordinary support is determined, we may also conduct a final peer review to set the ICR. The peer group is typically comparable FIs.

Chart 1

Financial Institutions Methodology Framework



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 the final SACP.

Where we believe external factors may influence the ICR or issue-level rating, we would also refer to S&P Global (China) Ratings - General Considerations on Rating Modifiers and Relative Ranking.

METHODOLOGY: SETTING THE ISSUER CREDIT RATING

1. Anchor

The analysis of two macro factors, economic risk and industry risk, collectively represent the strengths and weaknesses of the broader operating environment that situate, or anchor, the SACP. The SACP may be further modified by an analysis of other factors that affect an FI's individual strengths and weaknesses. Based on the analysis of these factors, the SACP may be raised or lowered relative to the anchor. The SACP, after having incorporated the FI's specific considerations, may be adjusted higher or lower where we deem appropriate.

The anchor considers the operating environment, whose macro factors we identify as economic risk and industry risk and reflects the hypothetical potential rating of an average FI in China given its current and expected operating environment. Our consideration of an average FI may be influenced by the level of dominance or fragmentation within the industry. The anchor is the starting point in rating a FI. Industry risk captures our view of the stability of the industry's institutional guidelines and oversight in China. Economic risk captures our view of the lending environment and market dynamics in China.

We typically set the anchor for banks at "a+", for securities companies "a-" and for fincos (all nonbank financial institutions excluding securities companies) "bbb+". We apply different anchors for the three types of FIs because that: banks benefit from strict regulatory oversight and have good access to low-cost funding; securities companies and fincos usually don't operate deposit-taking business, which limits their funding channels; fincos face intense market competition given lower entry barriers, and that the extent to which each subsector is regulated may also differentiate.

We may also make entity-specific adjustment to the preliminary anchor. We typically take into account the following factors when considering the adjustment: the FI's access to central bank or interbank market funding; its ability to obtain liquidity at a relatively low cost; whether it has the exclusive franchise granted by the government; the extent to which it is regulated. An example of where we may make a positive adjustment could be a licensed finco for which the anchor of "a-" is assigned to reflect its status as being strictly regulated and its better funding channels compared to its unlicensed peers.

2. Stand-Alone Credit Profile

Economic risk and industry risk represent macro analysis of the creditworthiness of an FI while business position, capital and earnings, risk position, and funding and liquidity represent microanalysis. The SACP may be adjusted up or down the rating scale after taking into account a FI's specific strengths and weaknesses in the following factors: business position, capital and earnings, risk position, and funding and liquidity.

Anchors can be notched up and down based on the above entity-specific factors to arrive at SACP. For business position, capital and earnings, and risk position, we use the following table to determine the number of notches.

Table 1

Business Position		Capital and Earnings		Risk Position	
Score	**Notching**	**Score**	**Notching**	**Score**	**Notching**
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
		7	-4	7	-4
		8	-5	8	-5

Note 1: When business position is scored as "1", we generally apply "+2", and may consider "+3" when the issuer shows a big advantage over its peers.

Source: S&P Global (China) Ratings.

For funding and liquidity, we use the following table to determine the number of notches.

Table 2

Funding and Liquidity (# Notches)					
	Liquidity				
Funding	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

Note: We may consider adjusting down by more notches in extreme cases where we think a notching adjustment of "-3" will not fully reflect the FI's very significant liquidity risk.
Source: S&P Global (China) Ratings.

The result of the analysis of the four entity-specific factors above (business position, capital and earnings, risk position, and funding and liquidity) is typically a FI's preliminary SACP. After having incorporated the SACP factors, we may consider a holistic adjustment to the preliminary SACP to arrive at the final SACP. This holistic adjustment, if applied, typically reflects our view of a FI's specific creditworthiness relative to peers.

We typically determine an FI's SACP through assessing its entity-specific strengths and weaknesses. This SACP may include ongoing support but typically does not include extraordinary support.

Institution risk management is an integral part of our rating analysis and incorporates our consideration of whether an FI's policy, process and tools for risk control are consistent with its risk profile, and whether such risk control mechanism could serve its strategic goals and facilitate business expansion. The impact of stronger- or weaker-than-peer risk management on an FI in terms of its risk control policy, process and tools is reflected in our analysis of management and strategy, risk position, and funding and liquidity.

Business Position

Business position measures the strength of an FI's business operations. Business position is the combination of specific features of the FI's business operations that add to, or mitigate, its industry risk. The analysis of business position typically considers business stability, concentration or diversity, and management and corporate strategy. Business position is assessed on a six-point scale, where "1" indicates a very strong business position and "6" a weak position.

Table 3

Score	Guidance for Business Position Assessment of FIs
1	The FI's business operations make it materially better placed to withstand adverse operating conditions than the anchor indicates.
2	The FI's business operations make it better placed to withstand adverse operating conditions than the anchor indicates.
3	The FI's business operations are representative of the anchor.
4	The FI's business operations make it more vulnerable to adverse operating conditions than the anchor indicates.
5	The FI's business operations make it significantly more vulnerable to adverse operating conditions than the anchor indicates.
6	The anchor is not representative of the FI's high vulnerability to adverse operating conditions.

Source: S&P Global (China) Ratings.

We typically first consider business stability, arriving at a preliminary assessment of the business position. We then evaluate additional factors such as diversification, management and strategy and judge whether an adjustment to the preliminary assessment is necessary or not.

Table 4

Subfactors for Business Position Assessment of FIs		
Subfactors	**Explanation**	**Examples of Indicators**
Business stability	The stability or fragility of an FI's business. We use this subfactor as the primary driver for our business position assessment	Market share, revenue stability, and customer base
Diversification	The concentration or diversification of business activities	Contributions of different business lines and geographies
Management and strategy	The quality of corporate governance, management, and strategy	Governance and transparency, ownership structure, quality of management, strategic positioning, operational effectiveness, financial management, and policies

Source: S&P Global (China) Ratings.

Business Stability

Business stability measures the stability of an FI's continuing business volumes in the face of economic and market fluctuations.

Diversification

Concentration and diversity of business activities typically consider the contributions of different business lines and geographies to an FI's revenues, compared with FIs with similar industry risk.

An FI may have a diverse scope of activities that it engages in (e.g. retail, commercial, derivatives, wealth management) as well as markets in which it participates (e.g. local, national or international presence). We typically consider the overall product and market exposures of the FI in our analysis.

Management and Strategy

Management and strategy typically considers management's ability to execute operational plans in a consistent manner, an FI’s strategic direction, management's risk appetite, and ownership and governance. This assessment is typically qualitative.

Factors that may have a positive impact on business position include:

- Higher market share than peers.
- Higher entrance barriers.
- Lower revenue volatility than peers.
- Higher recurring income as a percentage of revenue than peers.
- More diversified business lines and geographic coverage.
- Matching between strategies and actual execution capability consistent with bank’s capabilities.
- Stronger track record of achieving financial/operational goals than peers.

Factors that may have a negative impact on business position include:

- Lower market share than peers.
- A need to compete through pricing to attract and retain customers.
- Greater revenue volatility than peers.
- Regulatory changes or the emergence of alternative products or services may seriously affect their operations.
- Higher concentration of business lines and geographic coverage than peers.
- Lack of effective strategic planning.
- More aggressive risk tolerance at the management level.

Capital and Earnings

Capital and earnings typically measures an FI's ability to absorb losses amid substantial economic stress. This ability provides protection to senior creditors while the FI remains a going concern. The analysis of capital and earnings typically is comprised of an analysis of regulatory capital requirements, our view of capital adequacy, quality of capital and earnings, and earnings capacity. Our analysis of capital and earnings considers our forward view of their sufficiency to meet expected and potential losses.

Capital and earnings generally consider the degree to which an FI’s capital and earnings would cover estimated losses that may arise following a substantial economic stress. We may incorporate earnings based on their capacity to absorb losses and build capital. Our capital and earnings analysis may consider whether regulatory capital requirements are being, or will be, met and whether product pricing includes a margin that we expect to be stable and sufficient to cover the expected losses on its assets, and which leaves capital to protect against unexpected losses.

Capital and earnings are measured on an eight-point scale. A score of “1” represents strong capitalization while a score of “8” represents extremely constrained capitalization.

Table 5

Score	Guidance for Capital and Earnings Assessment of FIs
1	The FI’s capital and earnings have a significantly positive impact on its SACP
2	The FI’s capital and earnings have a positive impact on its SACP
3	The FI’s capital and earnings have a neutral impact on its SACP
4	The FI’s capital and earnings have a marginally negative impact on its SACP
5	The FI’s capital and earnings have a moderately negative impact on its SACP
6	The FI’s capital and earnings have a significantly negative impact on its SACP
7	The FI’s capital and earnings have a highly negative impact on its SACP.
8	The FI’s capital and earnings have an extremely negative impact on its SACP.

Source: S&P Global (China) Ratings.

We typically consider an issuer's capital adequacy ratios and/or leverage ratios first to arrive at a preliminary assessment of capital and earnings. For banks and fincos subject to banking capital regulatory requirements, we usually take regulatory capital adequacy ratios as the starting point for assessing capital. For other FIs, we may consider their leverage ratios (e.g. adjusted total debt/equity).

Capital Adequacy

We typically analyze capital and earnings and incorporate our view into the risk adjustment to capital adequacy metrics.

Table 6

Guidance for Preliminary Capital Adequacy Assessment of FIs (Mainly for commercial banks and fincos subject to banking capital regulatory requirements)	
Ratio	**Assessment Guide**
Tier 1 capital adequacy ratio	The Tier 1 capital adequacy ratio adjusted by S&P Global (China) Ratings over the next 12-24 months is the core metrics deriving our initial score of commercial banks' capital and earnings.
Overall capital adequacy ratio	If an FI's Tier 2 capital buffer is much higher than the industry average which leads to a higher-than-industry average protection to the FI's creditors, we may apply a positive notching adjustment.
CET 1 capital adequacy ratio	If additional Tier 1 capital instruments (e.g. perpetual bonds) account for a high proportion of Tier 1 capital, leading to pressure on CET 1 capital adequacy despite Tier 1 capital adequacy ratio still fully meeting regulatory requirements or our criteria, we may apply a negative notching adjustment.

Source: S&P Global (China) Ratings.

We may make adjustments to capital adequacy ratios or leverage ratios to better reflect the issuer's actual capital situation and improve comparability with peers. We also consider whether an issuer can strike a balance between developing its business and accumulating capital. Business growth may diminish capital while retaining earnings may lead to capital accumulation.

After conducting a preliminary capital assessment, we then evaluate additional factors such as capital quality, earnings quality and earnings capacity, which help determine whether we need to adjust our preliminary assessment.

Quality of Capital and Earnings

In addition to adjustments to and projections and assessment of total capital where appropriate, we also conduct an analysis on the quality of capital and earnings, which help determine whether an FI has additional strengths or weaknesses in earnings or the capital base.

When analyzing the quality of capital and earnings, we look at the proportion of CET 1 capital in total capital as required by regulatory requirements. In general, the higher the proportion, the higher the capital quality. Another factor we consider for earnings quality is whether core sources of revenue are diversified and stable. Where the proportion of CET 1 capital in total capital as required by regulators is lower compared to peers, or revenue is highly dependent on non-recurring income or one-off revenue, we may apply a negative notching adjustment.

Earnings Capacity

An assessment of earnings capacity measures the capacity for earnings to cover normalized losses. We usually take into account return on average assets, net interest margin, cost-to-income ratio, credit cost and other related metrics for assessing earnings capacity.

Risk Position

Risk position serves to refine the view of an FI's actual and specific risks beyond the conclusion arising from the standard assumptions in the capital and earnings analysis. Risk position assessment may include risk factors not fully captured in the analysis of capital and earnings. Our view of an overall risk position is assessed on an eight-point scale, "1" indicating a very strong risk position and "8" a very weak position.

Table 7

Score	Risk Position Assessment of FIs

1	The FI’s ability to withstand economic stress is much stronger than the capital and earnings assessment indicates.
2	The FI’s ability to withstand economic stress is stronger than the capital and earnings assessment indicates.
3	The FI’s ability to withstand economic stress is in line with the capital and earnings assessment.
4	The FI’s ability to withstand economic stress is slightly weaker than the capital and earnings assessment indicates.
5	The FI’s ability to withstand economic stress is weaker than the capital and earnings assessment indicates.
6	The FI’s ability to withstand economic stress is significantly weaker than the capital and earnings assessment indicates.
7	The FI’s ability to withstand economic stress is highly weaker than the capital and earnings assessment indicates.
8	The FI’s ability to withstand economic stress is extremely weaker than the capital and earnings assessment indicates.

Source: S&P Global (China) Ratings.

When analyzing the risk position, factors that we typically consider include: an FI’s capacity to manage additional or changing risks presented by business expansion; the impact of risk concentration or risk diversification on creditworthiness; potential additional risks derived from increased business complexity; other material risks that are not addressed within our capital and earnings assessment.

To differentiate an FI’s unique risk position, we may analyze:

- How the FI manages growth and changes in its risk positions amid business expansion.
- The impact of risk concentrations or risk diversification on its creditworthiness.
- How increased complexity adds additional risk.
- Whether material risks are adequately captured in our analysis of risk adjusted capital.
- Comparing past and expected losses on the current mix of business with those of peers.

We may first consider an FI’s risk management level to arrive at our preliminary risk position assessment. Additional factors such as past losses are then taken into account for determining any necessary adjustment to the preliminary assessment.

Factors that may have a positive impact on risk position include:

- Management is able to manage growth or changes in risks derived from business expansion.
- Highly diversified risks, and the ability to offset negative impact from economic stress in a more effective way compared to peers.
- Less losses suffered in the previous economic stress compared to peers.
- Stronger asset quality metrics (such as indicators relating to credit-risk-based loan classification) than peers.

Factors that may have a negative impact on risk position include:

- Management is unable to manage growth and changes in risks associated with business expansion.
- Risks are highly concentrated.
- More severe losses suffered in the previous economic stress compared to peers, with no remarkable improvement in management’s risk appetite and approach to risk control thereafter.
- Existence of other material risks, such as money laundering risk, foreign exchange rate risk or interest rates risk.

Funding and Liquidity

Funding and liquidity is the fourth factor we assess to determine SACP. We assess funding and liquidity separately and then combine them to determine their aggregate impact on the SACP. The analysis of funding compares the strength and stability of an FI's funding mix with the domestic industry average. In assessing funding, we mainly consider the stability of an entity's funding sources and the likelihood they will be available to fund existing and new assets over an extended period. The liquidity analysis typically considers an FI's ability to manage its liquidity needs in adverse market and economic conditions and its ability to survive over an extended period in such conditions.

Funding

The relative strength and potential volatility of funding are typically considered by reviewing an FI's liabilities, including mixture of retail and wholesale deposits, interbank loans, and secured and unsecured borrowing in capital markets. We assess funding stability of an FI as "above average", "average" and "below average".

Table 8

Funding Assessment for FIs

Descriptor	Typical Features of Commercial Banks	Typical Features of Securities Companies	Typical Features of Fincos
Above average	In our view, the bank has strong and materially better-than-peers access to stable funding sources. This typically means that the bank has good funding diversity with sources that have a low likelihood of run-off, consistent availability, and costs that have very limited volatility.	Considering the securities company's assets, business and market conditions, it has very stable access to long-term funding sources. Its funding capability exceeds its funding needs.	Given the finco's assets, business and market environment, we believe the finco has considerably ample and stable access to long-term funding sources, which satisfactorily meets its funding needs. The maturities of its borrowed funds and assets are well matched, with diversified types of funding (secured and unsecured financing) and creditors. The finco is able to obtain stable funds in the unsecured bond market and the maturities of its unsecured debt are well distributed.
Average	In our view, the bank has access to stable funding sources that is roughly in line with that of peers. This typically means that the bank has relatively good funding diversity with sources that have limited likelihood of run-off, consistent availability, and costs that have limited volatility.	Given the securities company's assets, business and market conditions, it has stable access to long-term funding sources, with its funding capability comfortably meeting its funding needs.	Considering its assets, business and market environment, the finco has ample and stable access to long-term funding, which meets its funding needs. The maturities of borrowed funds and assets are reasonably matched, with adequately diversified types of funding and creditors. The finco typically has stable access to funding through unsecured bond market or to secured funding via various lending instruments from multiple lenders. The maturities of its unsecured debt are reasonably distributed. We expect it to maintain various secured and unsecured funding channels.
Below average	In our view, the bank has access to stable funding sources that is weaker than that of peers. This means that the bank may lack funding diversity or rely meaningfully on some sources with significant run-off risk, have proven to lack availability during times of stress, or have shown significant volatility of cost.	The securities company relies on unstable funding sources for buying long-term non-current assets in bulk, significantly widening the potential funding gap; it faces challenge of securing stable access to long-term funding and its funding capability may not meet its funding needs.	The finco faces high funding risk as its large amount of low-liquid non-current assets are purchased using unstable funding sources, increasing the likelihood of a funding gap. The maturity of borrowed funds may be remarkably shorter than that of assets, or the types of funding and creditors are highly concentrated. The finco has limited access to unsecured bond market or is unlikely to maintain funding stability in the next year.

Source: S&P Global (China) Ratings.

Factors that may have a positive impact on funding include:

– Presence of personal deposit business that is mature, stable and diversified.

– Funding channels that are less market confidence sensitive than those of peers.

Factors that may have a negative impact on funding include：

– Less stable and diversified funding channels compared to the industry average, or high concentration of wholesale deposits.

– Reliance on price-sensitive funding channels, such as wealth management products, interbank borrowing and structural deposits.

Liquidity

Our liquidity assessment focuses largely on an FI's relative dependence on central bank funding and its ability to access other liquidity sources. We assess an FI's liquidity on a five-point scale, "1" indicating a strong liquidity position and "5" a very weak position.

Table 9

Liquidity Assessment for FIs	
Score	**What it typically means**
1	In our view, the FI has very strong ability to withstand a stressed outflow of liquidity.
2	In our view, the FI is highly likely to withstand a stressed outflow of liquidity, but our confidence in that assessment is somewhat lower than for an FI with a liquidity score of "1". The FI may also need to utilize secondary sources of liquidity under some plausible stress scenarios.
3	In our view, the FI has a lower likelihood than an entity with a liquidity score of "2" of withstanding a stressed outflow of liquidity and a higher likelihood of having to access secondary or emergency liquidity sources.
4	We have limited confidence that the FI could withstand a stressed outflow of liquidity without significantly utilizing emergency sources of liquidity.
5	Eroded market confidence in the FI leads to a very weak liquidity position.

Source: S&P Global (China) Ratings.

When analyzing liquidity, we typically consider whether an FI has reliable sources for liquidity and determine the degree of coverage of its liquidity sources to its short-term debt. For a bank, we may also evaluate its reliance on central bank funding.

Factors that may have a positive impact on liquidity include:

– A satisfactory match between funding structure and asset structure in terms of maturity, currency type and so on.

– Absence of considerable refinancing risk in the foreseeable future.

– Higher liquidity coverage ratio compared to peers, with current liabilities comfortably cushioned by current assets.

Factors that may have a negative impact on liquidity include:

– Severe risk of asset and liability mismatch due to funding structure.

– Refinancing risk, which may arise from potential massive debt maturity at some point in the future, or high proportion of debt owed to a sole creditor.

– Likelihood of being unable to meet temporary demand for large amount of liquidity that serves special purposes.

Our liquidity assessment typically includes comparing the uses and sources of liquidity. The analysis usually seeks to find the balance between an FI's expected and contingent uses for liquidity and its sources of reliable liquidity during adverse market and economic conditions.

Holistic Adjustment

The holistic adjustment may cover other credit factors not included in 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 other parts of our SACP analysis. The holistic adjustment is generally applied after conducting a peer comparison. We may apply the holistic adjustment in either direction to arrive at the SACP, capturing a more holistic view of creditworthiness.

An example of a holistic adjustment based on credit factors not fully captured in the assessments of the other SACP factors could be an FI for which we decide to apply a one-notch positive adjustment because we believe that several SACP factors are close to a higher assessment, without material offsetting negative factors, such that the cumulative effect is representative of a higher SACP.

We don't make an adjustment to the SACP for potential external support or negative intervention if it is extraordinary, but we can make an adjustment when such support or negative intervention is ongoing--if it has not already been reflected in the SACP factors.

3. Issuer Credit Rating

Support Framework

The analysis of group or government support considers the likelihood of support from a group or government into the ratings on an FI by assessing the relationship between the parties. When we believe the support from either or both is ongoing and expected to remain ongoing, we may factor it into our SACP. We may also consider the potential of extraordinary external support in times of stress when establishing the ICR.

We arrive at an FI's ICR through combining its SACP and support framework. If we expect the FI to receive external support and the support provider has stronger credit quality than the FI, such support would then have a positive impact. In contrast, where we expect a negative effect or interference from the group or government, there may be an impact on the FI's credit quality. In most cases, the group or government usually has stronger capital and stronger credit quality than the FI, and thus the likelihood of the FI receiving external support is higher.

The importance of FIs, especially banks, to the financial and social stability has led to tight regulation of the industry. Effective regulation in capital, liquidity, reporting and risk management is very important to the sustainability of the industry. However, beyond ongoing regulatory oversight, occasionally, the banking sector may need some level of systemic public support (such as an accommodative monetary environment to help liquidity), and some banks may need more targeted public aid in stress scenarios. There are various types of government support and we may incorporate our view on that support at different stages of our analysis, depending on the type of government support:

Table 10

Type of Government Support	How it is reflected in the ratings
Systemic support for FIs in general	Systemic support (including supervision) provided by the government to the FI is generally incorporated into our anchor as part of our assessment of industry risk.
Targeted support for specific FI' daily operations	Such support is reflected in the FI's SACP analysis where we look at entity-specific factors or as a holistic adjustment, but not in the anchor.
Extraordinary support for specific banks in times of stress	The likelihood of extraordinary government support for the FI in crisis scenarios. Such support is not covered in our analysis of the anchor or SACP, but forms an integral part of the ICR.

Source: S&P Global (China) Ratings.

Group influence is integral to the credit quality of many FIs. Group influence can either be positive support or negative intervention.

Group influence can come in two forms – ongoing influence or extraordinary influence. An FI's SACP typically incorporates a group's ongoing positive or negative influence. However, the SACP does not reflect the positive or negative impact a group may have during an extraordinary crisis scenario. Ongoing support generally refers to group activities that impact the entity's daily operations. Ongoing support is generally captured by the entity's SACP and may be reflected in our assessments of business position, capital and earnings, risk position, or funding and liquidity. In certain cases, ongoing group support may be incorporated into the holistic adjustment during our SACP analysis.

Table 11

	Positive Group Support	Negative Group Influence
Ongoing group influence on daily operations	Positive impact on entity's SACP	Negative impact on entity's SACP
Group influence in extraordinary crisis scenario	Positive impact on entity's ICR that is not incorporated into its SACP	Negative impact on entity's ICR that is not incorporated into its SACP

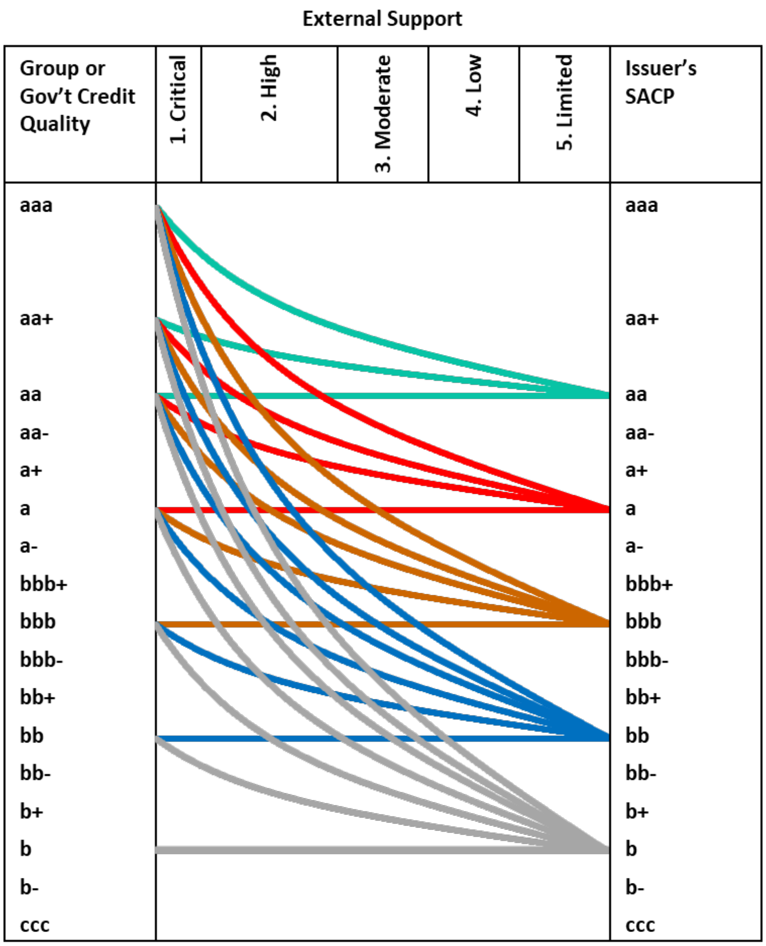
Source: S&P Global (China) Ratings.

We believe the strength of support correlates with the level of importance an issuer has to the support provider. The level of importance may be “1/critical”, ”2/high”, “3/moderate”, “4/low”, or “5/limited”. As the level of importance increases, so does the potential for an uplift to the ICR.

Each importance level on the support curve below indicates the range of rating increases that can be applied on the FI. Due to the continuity of the support curve, it is possible for the ICR to be the same at adjacent levels among the five external support categories. When the importance level is determined, we usually start from the midpoint on the curve in the framework (if the importance is "1/critical", we may select a higher starting point), and consider whether further increases or decreases are needed based on the specific characteristics of the FI, before arriving at its ICR.

Chart 2

Support Analysis Framework



Source: S&P Global (China) Ratings.

When assessing the likelihood of external support, we may consider the rated FI’s importance to the support provider. The assessment may typically include the following factors: ownership relationships between the rated entity and the supporting entity; the rated entity’s revenue contribution to the supporting entity; whether the supporting entity has the right to appoint senior management and board members for the rated entity; whether the rated entity plays a critical role on behalf of the government in implementing policies; the rated entity’s systematic importance to the overall financial system.

Structural Subordination

The ratings of financial holding companies (“FHC”) reflect any possible difference in their creditworthiness relative to the group's operating entities, since holding companies are not directly involved in operating activities. The rating differential is mainly due to the increased credit risk caused by structural subordination that arises from possible regulatory constraints to upstream financial resources and potentially different treatment under a default scenario. Holding companies are typically reliant on dividends and other distributions from the group's operating entities to meet their obligations, which causes the structural subordination.

We combine the group's SACP and external influence to arrive at the unadjusted group credit quality, which doesn't include the structural subordination factor at the holding company level. The ICR of the holding company incorporates unadjusted group credit quality and any downward notching adjustment related to structural subordination.

We may apply a downward notching adjustment from the unadjusted group credit quality on the FHCs to reflect the structural subordination of debts at the holding company level. We also factor in risk mitigating factors at the holding company level, which may fully or partly offset the risks arising from structural subordination. In this case, credit risk differentials at the holding company level may be narrowed or even eliminated, and the final ICR of the FHC may be lower than or equal to the unadjusted group credit quality.

Table 12

Rating Components of Financial Services Groups and Their Holding Companies	
Rating Factor	**Description**
Group SACP	We analyze the group's SACP on a consolidated basis.
Unadjusted Group Credit Quality	After we combine group or government support to the group SACP, we arrive at the unadjusted group credit quality, which doesn't include any adjustments related to structural subordination at the holding company level.
ICR of FHC	The possibility of increased credit risk due to structural subordination may lead to lower ICR of the holding company compared to the unadjusted group credit quality. Therefore, the ICR of the holding company may be lower than or equal to the unadjusted group credit quality.

Source: S&P Global (China) Ratings.

Bank Branch Rating

We typically view a bank's branch and the bank as forming a single legal entity.

For a branch of a Chinese bank located in China, the ICR on the branch is the same as that on the bank.

For a branch of a Chinese bank located in a foreign country, the ICR on the branch may be impacted by the host sovereign's creditworthiness. Therefore, a foreign bank branch typically has an ICR equal to or lower than that on the bank.

For a branch of a foreign bank located in China, the ICR on the branch is typically the same as that on the bank. Since China has, in our view, an extremely high sovereign credit quality, we typically consider the creditworthiness of the branch not to be capped by China's sovereign rating. As such, the ICR on the branch is equal to that on the bank. ICRs on foreign banks are determined based on S&P Global (China) Ratings - Panda Bond Methodology.

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. Nonetheless, if an issuer has also issued senior secured bonds in large amount, the issue rating for its senior unsecured bonds may be lower than its ICR. The issue rating for subordinated bonds may be lower than the ICR given the low relative ranking for subordinated bonds in the issuer's capital structure.

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.