

RatingsDirect®

As China's Financial Leasing Sector Grows, So Will Risks

Primary Credit Analyst:

Chris M Lee, Hong Kong (852) 2533-3557; chris.lee@standardandpoors.com

Secondary Contacts:

Terry Sham, CFA, FRM, Hong Kong (852) 2533-3590; terry.sham@standardandpoors.com

Qiang Liao, PhD, Beijing (86) 10-6569-2915; qiang.liao@standardandpoors.com

Harry Hu, CFA, Hong Kong (852) 2533-3571; harry.hu@standardandpoors.com

HONG KONG (Standard & Poor's) Oct. 26, 2015--China's burgeoning financial leasing sector is likely to become a significant contributor to the nation's economy. Standard & Poor's Ratings Services answers some questions about the possible hazards of such rapid growth in a report, titled "Booming Business For China's Financial Leasing Companies Brings Rising Risks," that it published today.

"We expect China's financial leasing sector to continue to grow strongly over the next few years," said Standard & Poor's credit analyst Chris Lee. "But unbridled growth could increase credit risks in the financial system, particularly because China's economy is slowing and already-high private debt has amplified asset quality risks."

According to the report, the number of financial leasing companies in China surged to 2,202 in 2014, from 80 in 2007, and total leasing assets increased to Chinese renminbi (RMB) 3.2 trillion from RMB24 billion. Much of this growth was a result of market demand and a supportive regulatory environment. The China Banking Regulatory Commission has been granting financial leasing licenses to some large local banks since 2007. Also, the Ministry of Commerce has lowered the entry barrier for foreign players and granted over 2,000 licenses to smaller players in the past decade.

"In our view, the regulatory framework for China's financial leasing industry

is still evolving," said Mr. Lee. "Nevertheless, recent regulatory changes have signaled increasing openness to this industry by widening the business scope and lowering entry barriers."

Standard & Poor's believes China's financial leasing sector encounters higher industry risk than banks. This sector typically lacks funding access to the central bank and heavily relies on wholesale funding. Supervision and regulation for this industry are also generally less comprehensive than that for banks. In addition, financial leasing companies are also susceptible to business cycles, which may lead to volatile revenues in general.

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.