



**大公欧洲资信评估有限公司**  
**DAGONG EUROPE CREDIT RATING**

# **Panda bond development and rating rationality between NSR and GSR**

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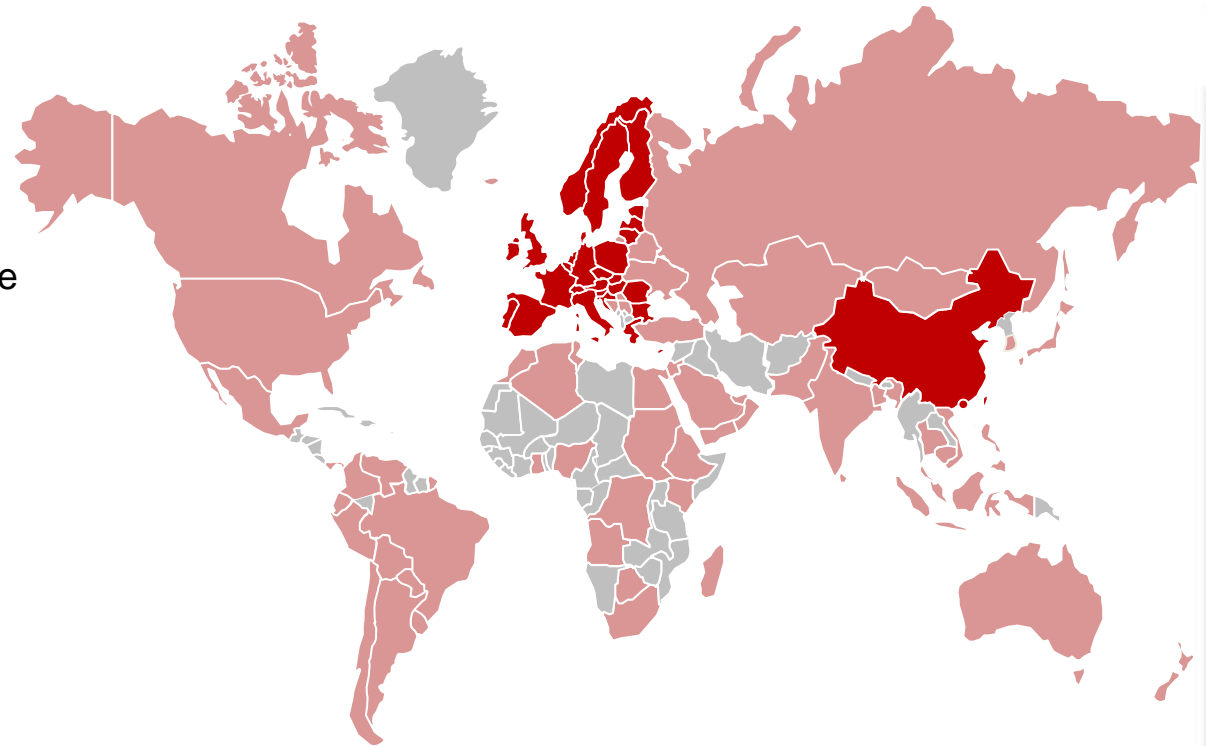


# 1. Dagong Global Credit Rating



# Dagong's Global Presence

- ◆ Founded in **1994** in Beijing, China
- ◆ Leader in China with **32** offices
- ◆ Published credit ratings on more than **1 trillion RMB** bonds
- ◆ Sovereign credit ratings for more than **100 countries**
- ◆ Asia Pacific and Europe are serviced by two fully **licensed overseas subsidiaries** in **Milan** and **Hong Kong**
- ◆ **1<sup>st</sup>** and **only global** rating agency with *Chinese origin*



■ CRA Licence

■ Sovereign Rating

# License and Recognition

## CRA in EU



Registered and authorised by European Securities & Markets Authority (ESMA) as Credit Rating Agency (CRA) in the European Union

## ECAI in EU



Recognised by the Joint Committee of the three European Supervisory Authorities (EBA, ESMA and EIOPA – ESAs) as External Credit Assessment Institutions (ECAI) in the European Union

## CRA in Hong Kong



Authorised by Securities and Futures Commission of Hong Kong (SFC) with a Type 10 License to provide credit rating services in Hong Kong

## CRA in China



Approved and recognised by People's Bank of China (PBoC), National Development and Reform Commission (NDRC), China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (CIRC) and The National Association of Financial Market Institutional Investors (NAFMII) to provide credit rating services in China

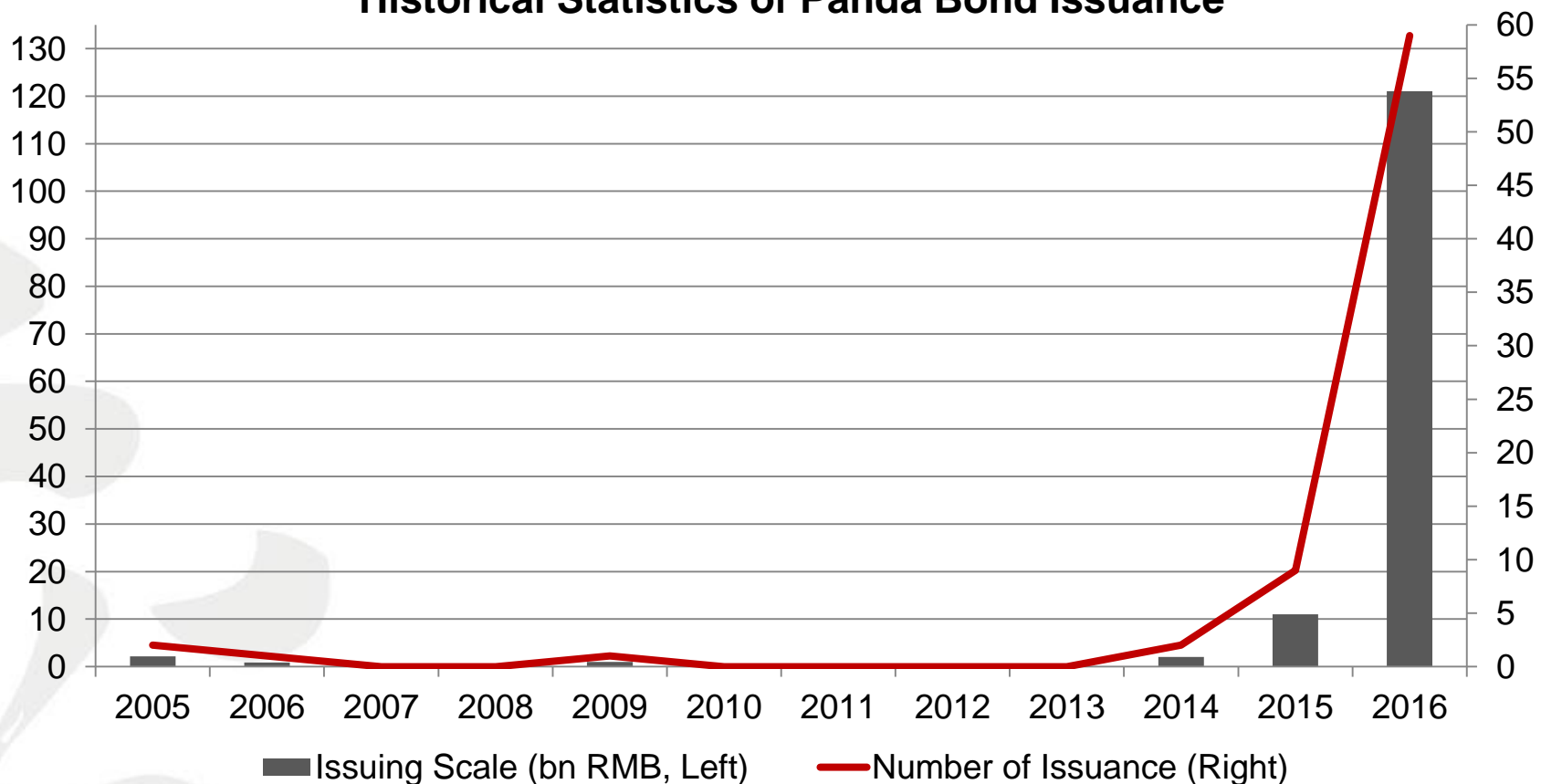


## 2. Panda bond development



## Panda bond – issuance statistics

Historical Statistics of Panda Bond Issuance





# Panda bond – Issuers

## Real Panda v.s. Fake Panda

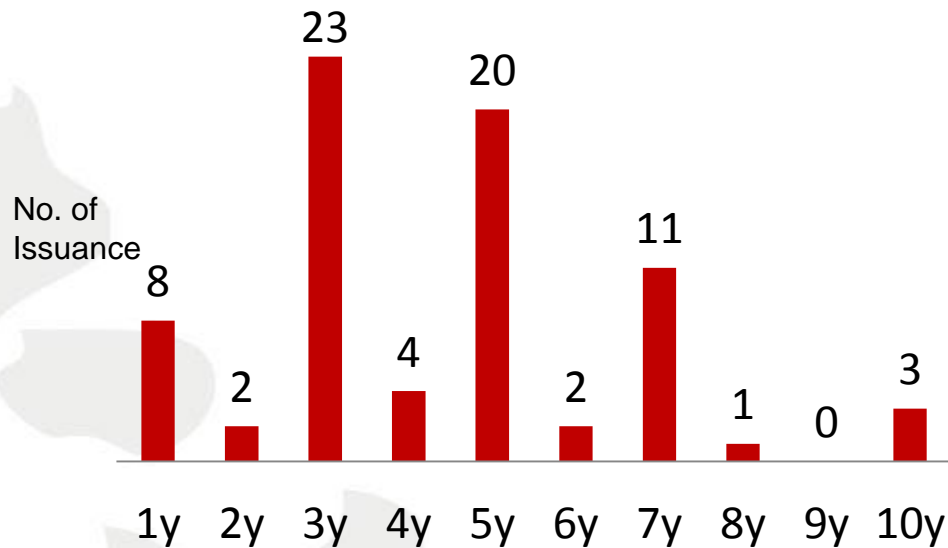
Bank of China Hong Kong Ltd	Bank
Hongkong & Shanghai Banking Corp Ltd	Bank
Standard Chartered Bank Hong Kong Ltd	Bank
Chong Hing Bank Ltd	Bank
National Bank of Canada	Bank
Republic of Korea	Government
Republic of Poland	Government
Province of British Columbia Canada	Region
Iowa China Offshore Holdings Hong Kong Ltd	Region
International Finance Corporation	Supra
Asian Development Bank	Supra
New Development Bank BRICS	Supra
Daimler AG	Corporate
Veolia Environnement SA	Corporate

Powerlong Real Estate Holdings Ltd	Corporate
Country Garden Holdings Co Ltd	Corporate
China Gas Holdings Ltd	Corporate
Shimao Property Holdings Ltd	Corporate
Yuexiu Transport Infrastructure Ltd	Corporate
HNA Group International Co Ltd	Corporate
China Huiyuan Juice Group Ltd	Corporate
China Resources Land Ltd	Corporate
Semiconductor Manufacturing International Corp	Corporate
Hopson Development Holdings Ltd	Corporate
KWG Property Holding Ltd	Corporate
China Everbright Ltd	Corporate
Beijing Enterprises Water Group Ltd	Corporate
Agile Group Holdings Ltd	Corporate
China Resources Cement Holdings Ltd	Corporate
Hengan International Group Co Ltd	Corporate
Wharf Holdings Ltd	Corporate
China Power International Development Ltd	Corporate
China Traditional Chinese Medicine Holdings Co Ltd	Corporate
China Merchants Port Holdings Co Ltd	Corporate



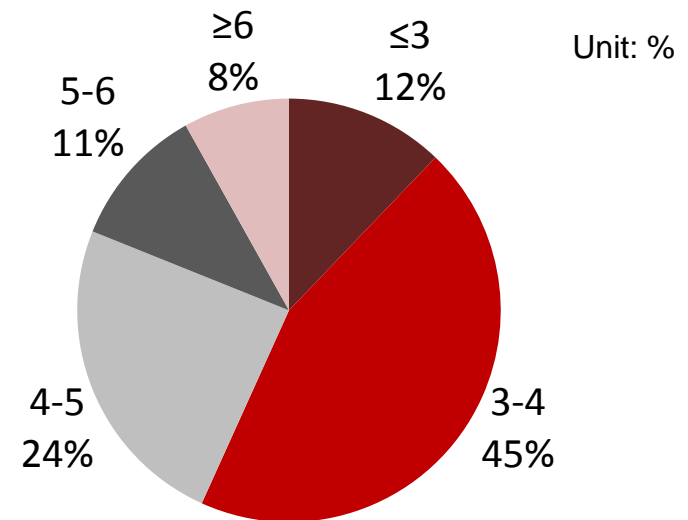
## Panda bond – Characteristics

Tenor is ranged from 1 year to 10 years



Most of which are 3, 5 and 7 years

Coupon rate is ranged from 2.8%-7.6%



More than 79% are concentrated from 3%-5%

Source: Bloomberg, data collected 15/12/2016



## Panda bond - Checklist for application

1. Issuance Application Form
2. Prospectus
3. **Audited Financial Statement** for last 3 years
4. Credit Rating Reports & surveillance rating arrangement
5. Statement of loans & capital stock provision to companies or projects within Chinese territory
6. Project list of the loans & capital stock the issuers plan to provide, including relative legal documents and documentary evidence
7. Legal Opinion
8. Other important materials related to this bond issuance



### 3. The rating of Panda Bond

An opportunity to systematic increase the transparency China's domestic bond market

## National Scale Rating v.s. Global Scale Rating

- As at end March 2017, onshore RMB market stood at total number of issuances of **31,880**, of a total value of **RMB66 Trillion**, of which 18% are central government bond
- 20% of all outstanding bonds are rated AAA at National Scale Rating (NSR)
- Chinese regulator demands all Panda bonds to be rated at NSR, which could be problematic from Dagong's perspective



# China National Scale Ratings Performance - Average Default Rate

Average Default Rate of Dagong's China National Scale Ratings (Left) Compare to the Market Average in China(Right) (2010-2016)

Issuer Ratings	2016	2015	2014	2013	2012	2011	2010
AAA	0.00%/0.39%	0.00%/0.39%	0.00%/0.39%	0.00%/0.39%	0.00%/0.39%	0.00%/0.00%	0.00%/0.00%
AA+	0.00%/0.76%	0.00%/0.49%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%
AA	0.00%/0.59%	0.00%/0.32%	0.00%/0.08%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%
AA-	2.52%/1.37%	0.00%/0.43%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%	0.00%/0.00%
A+	0.00%/1.24%	0.00%/1.24%	0.00%/1.24%	0.00%/1.24%	0.00%/1.24%	0.00%/0.00%	0.00%/0.00%
Total	0.65%/1.01%	0.00%/0.50%	0.00%/0.19%	0.00%/0.12%	0.00%/0.12%	0.00%/0.00%	0.00%/0.00%

Data Source: Dagong, Wind

Measured by the Average Default Rate from 2010 - 2016, Dagong's credit rating profile is significantly more conservative than the market average in China.



# China National Scale Ratings Performance - Transition Matrix in 2016

Transition Matrix of Dagong's China National Scale Rating (Left) Compare to Market Average (Right) in 2016

End of Period	AAA	AA+	AA	AA-	A+	A	A- or Below
Beginning of Period							
AAA	96.81%/98.10%	3.19%/1.90%					
AA+	5.04%/6.72%	90.65%/90.75%	2.16%/1.79%	2.16%/0.60%			
AA		3.72%/5.16%	95.05%/93.63%	1.24%/1.00%			
AA-			8.51%/15.69%	86.17%/80.33%	2.13%/1.87%	1.06%/0.47%	2.13%/1.64%
A+					60.00%/60.78%	40.00%/7.84%	
A							100.00%/44.45%

Data Source: Dagong, Wind

Measured by the Retention Ratio, Dagong's NSR reached 92.28%, compare the China market average of 91.46%. This indicates Dagong's better rating performance in the sense of more "correct rating" is produced, given the long term nature of the subject credit ratings.



# One-way mapping from GSRs to NSRs. The future of the NSRs?

Long-term Issuer GSRs

AAA
AA+
AA
AA-
A+
A
A-
BBB+
BBB
BBB-
BB+
BB
BB-
B+
B
B-
CCC
CC
C

Long-term Issuer NSRs

AAA(cn)
AA+(cn)
AA(cn)
AA-(cn)
A+(cn) and below

# Panda Bond Rating as a start to introduce GRS to Chinese domestic market

Dagong Panda Bond rating process mainly includes 2 steps:

## Step 1. Assigning a Global Scale Rating

At this step, Dagong will assign a Global Scale Rating to the issuer with Dagong's global credit rating approach and methodologies.

## Step 2. Assigning a China National Scale Rating through one-way mapping of the former

Once the Global Scale Rating of the issuer is assigned, Dagong's Credit Rating Committee will determine the China National Scale Rating by referring to Dagong's mapping table.

A crucial step to internationalise onshore RMB market is to systematically rate domestic instruments at Global Rating Scale. Panda Bond rating should start the practice