Criteria | Financial Institutions | Banks:

Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity

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ANALYTICAL CONTACTS

Gavin J Gunning
Melbourne
(61) 3-9631-2092
gavin.gunning
@spglobal.com

Giles Edwards
London
(44) 20-7176-7014
giles.edwards
@spglobal.com

Devi Aurora
New York
(1) 212-438-3055
devi.aurora
@spglobal.com

Ivan Tan
Singapore
(65) 6239-6335
ivan.tan
@spglobal.com

CRITERIA CONTACTS

Michelle M Brennan
London
+ 44 20 7176 7205
michelle.brennan
@spglobal.com

Matthew B Albrecht, CFA
Centennial
+ 1 (303) 721 4670
matthew.albrecht
@spglobal.com

See complete contact list at end of article.

(***Editor's Note:*** *This article has been superseded by "Financial Institutions Rating Methodology," published Dec. 9, 2021, except in jurisdictions that require local registration.)*

1. S&P Global Ratings is adding a new component to its framework for rating banks globally. This update follows our "Request For Comment: Incorporating Additional Loss-Absorbing Capacity Into Bank Rating Methodology," published Nov. 24, 2014. The new component is additional loss-absorbing capacity (ALAC), which can provide extraordinary external support for banks. As such, we consider ALAC in the external support assessment of our bank rating framework, set out in "Banks: Rating Methodology And Assumptions" (the "bank criteria"), published Nov. 9, 2011. ALAC can come in the form of certain hybrid capital instruments and other liabilities. This article is related to our criteria article "Principles Of Credit Ratings," published Feb. 16, 2011.

2. Under these criteria, we assess:

   - Whether, based on legislative and regulatory features, we expect that ALAC will reduce default risk on a bank's senior unsecured obligations, supporting its issuer credit rating (ICR);
   - The features of instruments that are eligible for inclusion in ALAC;
   - The quality and quantity of ALAC liabilities as a proportion of risk-weighted assets (RWA) that will uplift a bank ICR above its stand-alone credit profile (SACP); and
   - How support based on ALAC interacts with other forms of positive and negative external intervention recognized in our criteria, including other forms of external support, such as government support, group support, guarantees, and additional short-term support.

3. These criteria partly supersede "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011, by adding ALAC as a new form of extraordinary support alongside government or group support in chart 1, "Setting The Credit Ratings," and ALAC support as a third form of external support in chart 2, "Bank Ratings Framework." These criteria also add clarity to the section of the bank criteria titled "Additional short-term support for banks with high or moderate systemic importance."

4. In addition, these criteria describe ALAC, which is identified in "Group Rating Methodology" (GRM), published July 1, 2019, as another form of extraordinary external support for entities and groups within scope of the ALAC criteria, such that the term "group SACP" designates our opinion of a group's or subgroup's creditworthiness excluding the likelihood of extraordinary support or negative intervention from a government or a wider group or from ALAC. The group credit profile

(GCP), therefore, incorporates the likelihood of such extraordinary support or negative intervention from a government or a wider group or from ALAC.

SCOPE OF THE CRITERIA

5. These criteria have the same scope as the bank criteria--i.e., they apply to ratings on retail, commercial, and corporate and investment banks. The definition of a bank is broad and includes the larger broker-dealers, mortgage lenders, trust banks, credit unions, building societies, and custody banks. These criteria are applicable to banking groups that are headed either by an operating company or by a nonoperating holding company (NOHC). These criteria do not apply to ratings on finance companies, asset managers, financial market infrastructure entities, and regional securities brokers.

SUMMARY OF THE CRITERIA

6. These criteria address how ALAC may lift a bank ICR above the bank's SACP. We consider ALAC a form of extraordinary external support that may be included in a bank's GCP, but not in its group SACP. These criteria address the treatment of bank liabilities that contribute to the recapitalization of a bank approaching nonviability, under a bail-in resolution. For the most part, we expect these criteria will be mainly relevant to systemically important banks that are the primary focus of resolution policy frameworks.

7. ALAC consists of certain bank hybrid capital instruments and, in specified circumstances, other liabilities (such as NOHC debt in some jurisdictions) that can absorb losses of a bank at or near nonviability--for example, in the event of a bank resolution, in a way that reduces the risk of the bank defaulting, according to our definitions, on its senior unsecured obligations. (See "Hybrid Capital: Methodology And Assumptions," published July 1, 2019, for our definition of a hybrid capital instrument, which can include instruments not recognized as regulatory capital.) Hybrids and common equity that are already counted in total adjusted capital (TAC) are also included in ALAC up to the amount by which, combined, they exceed (referred to as the "excess amount") the minimum threshold needed to maintain an S&P Global Ratings risk-adjusted capital (RAC) ratio consistent with our assessment of that institution's capital and earnings (see section "F. Capital And Earnings" of the bank criteria).

8. Our core measure of bank capital remains TAC (see "Risk-Adjusted Capital Framework Methodology," published July 20, 2017), a part of our capital and earnings analysis, which contributes to a bank's SACP. Beyond the "excess amount," ALAC consists of instruments that we expect will absorb losses through equity conversion or write-down within a resolution process.

9. In certain circumstances, instruments issued by an NOHC are eligible for inclusion in ALAC alongside qualifying instruments issued by the operating bank. The ICR on an NOHC can also benefit from uplift due to ALAC in specific circumstances.

10. This paragraph has been deleted.

11. This paragraph has been deleted.

12. This paragraph has been deleted.

METHODOLOGY

13. This methodology is a framework for determining the uplift we incorporate into a bank ICR--relative to its SACP--for ALAC (see section I). The methodology also describes, in section II,

how this uplift interacts with uplift for government and group support, the criteria for which remain otherwise unchanged, as outlined in the bank criteria and the GRM criteria. We consider ALAC a form of extraordinary external support (see section "II. Factoring Support Into The ICR" for more details on sources of extraordinary support).

I. Potential ICR Uplift Due To Additional Loss-Absorbing Capacity

14. ALAC is a source of incremental credit strength for a bank's senior unsecured obligations in some jurisdictions. A bank's ALAC is the sum of: (a) its hybrid capital instruments not included in TAC that have the capacity to generate common equity, through conversion into common equity or a principal write-down, at the initiative of the authorities when the bank is failing; (b) in some jurisdictions, senior and subordinated obligations of its NOHC; and (c) the "excess amount," defined as the amounts of TAC in excess of those required to bring the projected RAC ratio within the ranges corresponding to the existing capital and earnings (C&E) assessment as per table 7 of the bank criteria. (For more details, see paragraph 18.)

15. ALAC raises the ICR above the SACP only if we believe the resolution framework that governs the issuing entity is sufficiently effective (see section A) and the ALAC amount, as defined in section B, meets one of the thresholds specified in section C. Banks that regulators consider systemically important and that are subject to a well-defined bail-in resolution process are the most likely to meet the conditions established in section A.

16. ALAC uplifts a bank ICR, and not the bank's SACP. This is because the conversion into common equity or the write-down of ALAC instruments occurs as a result of external regulatory intervention and, like other types of support that we view as "extraordinary intervention," are excluded from the SACP (see "Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010). In the same way, ALAC uplifts a GCP but not a group SACP.

A) Assessing the effectiveness of ALAC under a resolution framework

17. We assess a resolution framework as sufficiently effective for ALAC uplift if all four of the following conditions are met:

- Authorities identify certain banks as subject to a well-defined bail-in resolution process.
- We assess the banking authorities as having the ability and intent to permit a bank that is near or at the point of nonviability to continue its operations as a going-concern after absorption of losses by junior creditors and/or NOHC financial obligations in a manner that avoids a default, as per our definition, on its senior unsecured debt.
- The relevant authorities have the ability and intent to provide the relevant operating company access to the necessary funding and liquidity mechanism to cope with the likely loss of access to market funding within the resolution process, provided that the bank has sufficient instruments that can be bailed in to recapitalize the bank and that the bank has sufficient assets to pledge as collateral.
- The relevant banking authorities require designated banks to comply, in effect, with minimum ratios for the amount of instruments that can be bailed in at the point of nonviability, constituting a significant buffer absorbing losses ahead of senior unsecured obligations of the operating company. These instruments could be various types of hybrid capital instruments and, in some situations, NOHC financial obligations that are subject to resolution authority requirements. Thus, we expect redemption of such an instrument is subject to banking authorities' oversight and approval, taking into account applicable bail-in requirements and

whether the bank is replacing the instrument with other eligible securities.

B) Characteristics of instruments that are eligible for inclusion in ALAC

18. ALAC includes instruments that have the capacity to absorb losses as a bank enters a resolution process (and before the bank is insolvent). The following types of instruments are included in ALAC if they meet the features in paragraphs 19-21:

- Various types of instruments that we identify as hybrid capital instruments, as per our "Hybrid Capital: Methodology And Assumptions" (the "hybrid capital criteria"), published July 1, 2019, but that are not included in TAC for that entity, as well as liabilities that an NOHC issues, provided that they meet the characteristics listed in paragraphs 19-21. Because these criteria concentrate on the loss-absorption capacity of an instrument when a bank enters resolution, rather than on the financial flexibility that it provides on a going-concern basis, ALAC may include hybrids with minimal equity content and NOHC financial obligations. A senior unsecured instrument is not a hybrid capital instrument, even if it could be bailed in as part of the resolution of a distressed entity (see the hybrid capital criteria), unless, although labelled as "senior" in liquidation, it is part of a class that is different from other senior unsecured obligations in the event of a resolution and would be converted to equity or written down without triggering a default on the latter.
- Outstanding common equity and hybrid capital amounts counted in TAC that are in excess of the amount already incorporated in the SACP (the "excess amount"; except for banks with "very weak" C&E assessments, for which the excess amount is zero). For example, if we assess a bank's C&E as "adequate" and expect it to maintain its RAC ratio at 8% (which is 1% above the lower threshold for "adequate"), we include the 1% additional TAC in ALAC. Common equity automatically has the necessary characteristics, unless we expect it to be redeemed.

19. When assessing whether to include an instrument in ALAC, we consider not only the instrument's mandatory clauses, but also discretionary clauses that we expect regulators to enforce. However, we exclude an instrument from ALAC if both the contractual clause is discretionary and we do not expect regulators to enforce it. To be included in ALAC, an instrument must either (i) have a mandatory contingent capital clause leading to common-equity conversion or a principal write-down, or both, that meets conditions a to c below, or (ii) be subject to a regulatory or legal framework that creates the equivalent of such a clause (including, for example, the regulatory authority to put an NOHC into receivership). The contingent capital principal write-down or common-equity feature must meet all of the following conditions:

- a) The instrument must be subject to conversion or write-down at or before a regulatory determination of a bank's "nonviability," or at the bank's entry into resolution (if the instrument allows for a temporary write-down on a going-concern basis, supervisors should also have the ability to impose a permanent write-down at the point of nonviability or in resolution);
- b) Not cause a default of the operating bank or trigger a revision of the operating bank ICR to 'SD' (selective default) or 'D' (and not have cross-default or guarantee provisions relating to the operating bank and its senior unsecured debt obligations); and
- c) Be exercised at the discretion of the supervisors or responsible authorities under a resolution regime.

By contrast, we exclude certain hybrid instruments from ALAC if a bank operates in a regulatory environment where, upon distress, it is likely to receive extraordinary government support in a preemptive manner at a relatively early stage of its deterioration and, based on relevant regulator announcements, such preemptive government support would not constitute a nonviability event for these certain classes of hybrids in that jurisdiction. As such, the provision of that support would not lead such instruments to be written down or converted into common equity.

20. When the loss absorption of an instrument cannot exceed a portion of the principal (for instance, 25%), ALAC only includes this amount. The amount of ALAC is not tax-adjusted unless we expect the conversion or write-down to have a tax impact that would alter materially the amount of common equity generated.

21. To support the sustainability of ALAC, for an ALAC instrument that is subject to specific regulatory requirements governing aggregate outstandings and redemptions (as per the fourth bullet of paragraph 17), we set the following three conditions: (i) remaining life must be at least 12 months for inclusion in ALAC; (ii) if a bank has the option to redeem an instrument earlier than the maturity date, that instrument can be included in ALAC only if the regulator would have to approve any redemption; and (iii) in aggregate for a bank, ALAC excludes amounts of instruments maturing within 12-24 months that exceed 0.5% of projected S&P Global Ratings RWA. (See "Risk-Adjusted Capital Framework Methodology," published July 20, 2017, for details of the derivation of S&P Global Ratings RWA.) If a bank has issued an instrument that meets the requirements of paragraph 19 based on contractual conversion or write-down provisions (to be activated by regulators no later than the point of nonviability), but that instrument is not subject to specific regulatory requirements (as per the fourth bullet of paragraph 17) governing aggregate outstandings or redemptions, we apply the residual maturity standards as outlined in our hybrid capital criteria.

C) Determining the ICR uplift above the SACP

22. ALAC uplift does not apply to a bank with an SACP in the 'aa' category because of the uncertainty regarding how the resolution would be handled in an extreme or severe stress scenario given that such a bank is so far from potential distress, and that the incremental benefit to senior unsecured obligations is not commensurate with a notch of uplift at this point in the rating scale.

23. For a bank with an SACP in the 'a' category, the maximum ALAC uplift is one notch, except if both the SACP is 'a-' and the bank already has a ratio of ALAC to S&P Global Ratings RWA of at least 8%, in which case the maximum uplift is two notches. This 8% ratio is not subject to the potential downward adjustments described in paragraph 29 but is subject to upward adjustments described in paragraphs 28 and 29.

24. The maximum ALAC uplift for a bank with an SACP in the 'bbb' category and below is two notches, except when the ICR benefits from uplift above the SACP due to additional short-term support reflecting the sum of ALAC and additional short-term government support we expect to be provided in accordance with paragraph 34.

25. When assessing the sufficiency of ALAC, we take into account a bank's public commitment to maintaining a certain buffer of eligible ALAC instruments outstanding by assessing the credibility of these targets. Subject to all other conditions in this section C, for a bank with an anchor of 'bbb-' or higher, we set a core operating bank ICR one notch above its SACP if, over approximately the next two years, we expect the bank to maintain, or reach and thereafter maintain, ALAC of at least 5% of S&P Global Ratings RWA before diversification; and two notches above if our expectation is for at least 8% (collectively, the "ALAC thresholds"). The ALAC thresholds are lower for a bank with an anchor of 'bb+' or lower, given the 'A' stress level calibration of our S&P Global Ratings RWA within our RAC framework (the denominator for the ALAC threshold calculation). For a bank with an anchor in the 'bb' category, the ALAC thresholds are 4% of S&P Global Ratings RWA for a one-notch ALAC uplift above the SACP, and 7% for two notches. For a bank with an anchor in

the 'b' category, the applicable ALAC thresholds are 3% of S&P Global Ratings RWA for a one-notch ALAC uplift above the SACP, and 5% for two notches (see table).

ALAC Headline Quantitative Thresholds

	--Cumulative thresholds for ICR uplift*--	
Uplift thresholds expressed as percent of Standard & Poor's RWA	**One notch (%)**	**Two notches (%)**
Anchor of 'bbb-' or higher	5.0	8.0
Anchor in 'bb' category	4.0	7.0
Anchor of 'b+' or lower	3.0	5.0

*The headline thresholds can be adjusted up or down due to qualitative factors as addressed in paragraphs 27-29. If the SACP is 'a-' or higher, then uplift is subject to limits in paragraphs 22 and 23. ICR--Issuer credit rating. RWA--Risk-weighted assets.

26. For a bank whose ramp-up of ALAC in response to regulatory requirements will continue beyond our two-year projection period, our analysis may consider the potential for extraordinary government support to make up for a shortfall in ALAC, relative to the level required for the first notch of uplift in paragraph 25, in the early years of the regulatory transition period. In this situation, the potential for extraordinary government support provides a maximum of one notch of uplift over the SACP and may be considered over a projection period of only three to four years (i.e., from year five, the potential for extraordinary government support does not offset the ALAC shortfall). The uplift is expressed as ALAC uplift. In our projections, we only include future issuance up to levels consistent with explicit regulatory requirements during the phase-in period. We remove this uplift if, during the transition period, either the bank does not meet its regulatory requirements for ALAC issuance, or increasing S&P Global Ratings RWA weaken prospects for meeting the ALAC thresholds.

27. For a given bank, by assessing qualitative factors, we may also adjust the ALAC thresholds (as per paragraphs 28 and 29) when we consider the bank's ALAC to be materially different from that indicated by the ALAC-to-S&P Global Ratings RWA measure. This adjustment reflects the potential for qualitative considerations to limit the quantity or potential efficacy of ALAC, and the ability of ALAC to absorb losses when the bank is under economic stress. The qualitative adjustments therefore assess the degree to which the headline quantitative metrics may over- or under-estimate the specific loss-absorbing capacity of that bank.

28. If, for a given bank, we believe that there is a factor that, in isolation, potentially affects the availability or efficacy of ALAC in a meaningful way, we raise the ALAC thresholds by up to 100 basis points (bps) for the first uplift notch and up to 200 bps for the second uplift notch in paragraph 25. Such factors include the following, of which a combination of two or more could affect the amount or efficacy of ALAC so severely as to remove any ALAC uplift:

- Any concentration of maturities of ALAC instruments, with particular emphasis on maturities within five years. For example, at the time of the calculation, if the sum of (i) ALAC maturing between one and two years (i.e., subject to the 0.5% cap referenced in paragraph 21) and (ii) ALAC instruments maturing in the third to fifth years out is more than 75% of ALAC, we typically raise the threshold for the first notch in paragraph 25 by 100 bps, and for the second notch by 200 bps.
- If an instrument's loss-absorbing efficacy has limitations because of prepositioning requirements set by host regulators of material subsidiaries, and any other material obstacles to deploying ALAC flexibly within a group in a stress scenario. For example, we typically consider raising the ALAC thresholds by up to 100 bps for the first notch and by up to 200 bps for two notches if the ALAC we would consider in determining a certain GCP (and, thus, the

parent operating bank ICR) significantly overstates the loss-absorption capacity of the group. This could be the case if there is a significant concentration of the group's ALAC in a subsidiary, whose ALAC is subject to restrictions limiting its use to cover losses in other parts of the group, and if that subsidiary has significantly stronger creditworthiness (as indicated by its SACP) than the group (as indicated by the group SACP) or the parent operating bank.

- If we believe there is a potential significant constraint to ALAC efficacy as a result of the form in which a parent entity downstreams external loss-absorbing capacity internally. For example, it could be a negative factor if a parent entity downstreams external ALAC to operating subsidiaries in the form of senior liabilities. If double leverage is created because an NOHC downstreams external ALAC to operating subsidiaries in a more subordinated or equity-like form, the external ALAC benefits the GCP and, thus, the ICRs on the operating subsidiaries, but the ICR on the NOHC may be a greater number of notches below the GCP than the minimum standard to reflect the double leverage, in line with section "Holding companies of prudentially regulated financial services groups" of the GRM criteria.

29. We may adjust the ALAC thresholds to reflect other qualitative factors that could affect the magnitude of loss-absorption capacity needs incorporated in our analysis, which can differ from expected regulatory requirements. Depending on our overall assessment of the impact of one or several of these factors, we could make an adjustment of up to plus/minus 100 bps for the first uplift notch and plus/minus 200 bps for the second uplift notch. The following are examples of the factors that we could consider in making such adjustment:

- Additional loss-absorbing capacity is sufficiently different from that suggested by the use of the ALAC-to-S&P Global Ratings RWA metric because of the extent to which our standard risk assumptions overstate or understate the potential for losses in a stressful environment given the risk characteristics of a particular bank (similar to the SACP adjustment we make in the risk position analysis). For example, we typically consider raising or lowering the ALAC threshold by 100 bps for the first notch and by 200 bps for two notches if our view of the past and expected losses on the current mix of business, as well as the risk concentration and diversification, of a given bank materially deviates from our systemwide calibrated risk assumptions embedded in the ALAC thresholds through S&P Global Ratings RWA.
- We could lower the ALAC threshold for a bank if it has business operations outside the scope of required bail-in capitalization, including an insurance subsidiary that is subject to independent prudential capital adequacy oversight, that materially raise the bank's S&P Global Ratings RWA.
- We could lower the ALAC threshold for a bank if a prefunded resolution fund has the potential to increase the effective loss-absorbing capacity of banks in a given jurisdiction, and if the fund ensures full and timely payment of banks' senior unsecured obligations (rather than, for example, being for use in liquidation, or being conditional on partial bail-in of senior unsecured obligations). In certain jurisdictions, if at least 8% of a failed bank's liabilities (including capital) at the time of resolution must be bailed in before such a resolution fund can contribute, the potential ICR benefit of such a fund is relevant only for a bank that we believe is likely to meet this threshold without defaulting on a senior unsecured obligation.

30. Even if ALAC includes financial obligations raised by an NOHC, ALAC uplift only applies to the ICR on the operating bank--and not to the ICR on the NOHC, except if we specifically believe ALAC instruments reduce the likelihood of default on NOHC senior unsecured obligations. ALAC-related uplift to NOHC ratings requires (i) that the NOHC has enough junior liabilities to absorb losses at the operating bank and act as a cushion reducing the risk of default on senior unsecured bonds issued at the NOHC level, and (ii) that the resolution approach the authorities follow would not

lead to a default on any NOHC senior unsecured debt at or around the time the NOHC subordinated obligations default.

31. If a bank has ALAC and we expect it to receive extraordinary government support, we do not factor in rating uplift (above the SACP) for both factors. Rather, the uplift applied to the ICR is whichever one results in the highest ICR (see paragraph 36).

32. ALAC uplift raises a bank ICR or associated GCP above the relevant sovereign local or foreign currency ratings only if the bank meets the conditions to be rated above the sovereign (see the GRM criteria and "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" [the "RAS criteria"], Nov. 19, 2013), including that ALAC would enable the bank to survive the sovereign stress scenario without defaulting (see paragraph 42). For this, the stress event would need to trigger a resolution that would lead to the conversion or write-down of the ALAC resources. Stress testing under the RAS criteria takes into account any ALAC instruments already issued, but not expected future issuance.

33. A prudentially regulated subsidiary is eligible to be rated higher than the GCP because of ALAC issued by the subsidiary if all of the following features are met: (i) the subsidiary clearly is subject to a separate resolution process, (ii) we believe the subsidiary will be able to continue operating without defaulting on its senior unsecured obligations in the event of a resolution of the parent, and (iii) the ALAC of the subsidiary is not usable to recapitalize another part of the group and, therefore, is not included in the measure of ALAC for the group (as such, the subsidiary's ALAC does not support the GCP). In line with the GRM criteria, if group ALAC is available to support a subsidiary, the subsidiary ICR is based on the "supported" GCP including the benefit of ALAC; otherwise, it is based on the group SACP. The benefit of ALAC is taken into account in our GCP assessment but is not part of the group SACP, which reflects group creditworthiness absent extraordinary external support or intervention.

34. When failure becomes a less remote prospect, uplift may be more significant. Temporary uplift factored into the ICR reflects the expectation of additional short-term support, in accordance with paragraphs 197-203 of the bank criteria. To establish the number of notches of temporary uplift for near-term support, we estimate the combined impact of the support that will be made available, without differentiating whether support is from the government or junior creditors. In applying these paragraphs of the bank criteria, the assessment of potential uplift above the SACP due to available additional short-term government support (which is based on the SACP that would be achieved post-recapitalization and other support has been received) reflects the sum of ALAC and government support we expect to be provided--this additive approach reflects the visibility regarding the recapitalization of the bank. For example, if we expect ALAC to generate US$2 billion of capital for a bank and the government to provide US$1 billion of a capital injection following the ALAC activation, then we set the ICR at the level that we estimate the SACP would be if the bank were recapitalized to the extent of US$3 billion.

II. Factoring Support Into The ICR

35. An ICR reflects S&P Global Ratings' view of a bank's general creditworthiness. We first determine the indicative ICR through six steps (see paragraph 36) and then make two final adjustments (see paragraphs 41-42). For an ICR of 'B-' and higher, we rate senior secured (except covered bonds), senior unsecured, and general counterparty obligations at the ICR level. In most cases, a bank ICR is at the same level as its SACP. There are certain situations, however, in which the ICR on a bank may be set above or below its SACP. Such adjustment may be applied when the following factors raise or lower default risk:

- The potential for extraordinary group support or negative intervention from a larger group (the

ICR is determined as per the GRM criteria);

- The potential for government influence (see paragraphs 184-203 of the bank criteria);
- The existence of a credit-substitution debt guarantee covering all senior unsecured obligations of the bank (see "General Criteria: Guarantee Criteria," published Oct. 21, 2016); and
- ALAC (see section I in this article).

36. The indicative ICR results from adding or subtracting notches to the SACP. The support framework consists of six steps:

- First, apply the criteria for additional short-term support (see paragraphs 197-203 of the bank criteria and paragraph 34 of this criteria article), where applicable;
- Second, assess the impact of future extraordinary government influence;
- Third, assess the impact of future extraordinary group influence (see "Group Rating Methodology");
- Fourth, determine the uplift for a credit-substitution guarantee (see "General Criteria: Guarantee Criteria," published Oct. 21, 2016);
- Fifth, assess the uplift for ALAC (see section I); and
- Sixth, take the highest of the results from the last four steps: this uplift is added to the SACP to produce the indicative ICR.

37. A bank's status as part of a larger corporate, financial institution, or insurance group may lead us to set the ICR above or below its SACP, depending on whether its group status is a support to the rating or is a constraining factor on the bank's creditworthiness. To assess this, we apply "Group Rating Methodology."

38. For foreign bank branches, that is, those located in a different country than that of the parent bank, our foreign currency rating on the host sovereign caps our view of the creditworthiness of the branch. Other caps apply for foreign branches located in certain offshore banking centers, as well as branches of EU banks based in another EU member state. Bank branches are rated as per the criteria "Assessing Bank Branch Creditworthiness," published Oct. 14, 2013.

39. A bank usually receives credit support from either its parent group or government--not both. (In the case of a subsidiary, we determine the indicative ICR by applying criteria for both potential extraordinary government support and group support.) The indicative ICR is the highest rating resulting from ALAC or potential government or group support, or due to a credit-substitution guarantee. When assessing the uplift for group support, the criteria use either the GCP or the group SACP (see the GRM criteria for more information on how these are defined), depending on whether extraordinary support reflected in the GCP is likely to be extended indirectly, via the group, to the subsidiary. The ICR can be higher than the foreign currency rating on the sovereign where the bank is domiciled only if the bank meets the conditions listed in paragraph 42.

40. Once the indicative ICR is determined, it is then subject to two potential final adjustments.

41. First, we assess a bank's overall credit standing relative to its peers (see paragraphs 19-24 of the bank criteria). The ICR is set at the same level as the indicative ICR, or one notch higher or lower in some cases, by considering any aspects of an issuer's credit profile not directly addressed by these and the bank criteria, and its relative credit standing in a final peer comparison, comprising mostly banks with similar SACPs. A similar SACP means an SACP that is the same or one notch higher or lower; for example, if a bank has an SACP of 'a-', it is mostly compared with banks with SACPs of 'a', 'a-', and 'bbb+'.

42. Second, we apply criteria that determine whether a bank rating can be higher than the rating on the sovereign where the bank is domiciled (see the RAS criteria). The criteria may result in an SACP or an ICR on a bank being higher than the foreign currency rating on the sovereign. Such cases are rare because the criteria acknowledge that banks are leveraged institutions that depend on the sovereign government or its central bank for liquidity and other forms of system support. A bank local currency ICR is, therefore, subject to a final adjustment, which, for a domestic bank, is based on the relative levels of the indicative ICR and the sovereign rating on the country it is domiciled in. If applicable, the foreign currency rating on a bank is subject to the constraint related to the transfer and convertibility (T&C) assessment.

REVISIONS AND UPDATES

This article was originally published on April 27, 2015. These criteria became effective on April 27, 2015.

Changes introduced after original publication:

- Following our periodic review completed on Feb. 9, 2016, we updated the contact information and deleted paragraphs 10 and 11 (which were related to the initial publication of our criteria and no longer relevant). We also moved the details on the effective date (previously in paragraph 12) to the new revision history section.
- Following our periodic review completed on Feb. 2, 2017, we updated references to related criteria articles and the contact information.
- Following our periodic review completed on Jan. 31, 2018, we updated the contact information and criteria references.
- On Oct. 26, 2018, we republished this article to make nonmaterial changes. We updated the contact list and made several nonmaterial clarifications in paragraph 23. These clarified that while the 8% ratio is not subject to the potential downward adjustments described in paragraph 29, it is subject to the potential upward adjustments described in both paragraphs 28 and 29. In paragraph 23, we also changed the phrase "the maximum uplift it is two notches" to "the maximum uplift is two notches" to make it read more clearly.
- On March 18, 2019, we republished this criteria article to make nonmaterial changes to the contact information.
- On July 1, 2019, we republished this criteria article to make nonmaterial changes. In paragraphs 4 and 33, we deleted references to specific sections of the superseded GRM published in 2013, and we clarified that these criteria no longer partially supersede our revised GRM published on July 1, 2019. We also aligned terminology throughout the article with the terminology we use in the revised GRM, and we updated the "Related Criteria And Research" section.
- On Feb. 3, 2020, we republished this criteria article to make nonmaterial changes. We updated cross-references throughout the article and aligned language to match our revised versions of the GRM and hybrid criteria published on July 1, 2019. We also updated the "Related Criteria And Research" section.

RELATED CRITERIA AND RESEARCH

Partly Superseded Criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

Related Criteria

- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Group Rating Methodology, July 1, 2019
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
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These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

Contact List

ANALYTICAL CONTACTS

Gavin J Gunning
Melbourne
(61) 3-9631-2092
gavin.gunning@spglobal.com

ANALYTICAL CONTACTS

Giles Edwards
London
(44) 20-7176-7014
giles.edwards@spglobal.com

ANALYTICAL CONTACTS

Devi Aurora
New York
(1) 212-438-3055
devi.aurora@spglobal.com

ANALYTICAL CONTACTS

Ivan Tan
Singapore
(65) 6239-6335
ivan.tan@spglobal.com

CRITERIA CONTACTS

Michelle M Brennan
London
+ 44 20 7176 7205
michelle.brennan@spglobal.com

CRITERIA CONTACTS

Matthew B Albrecht, CFA
Centennial
+ 1 (303) 721 4670
matthew.albrecht@spglobal.com

CRITERIA CONTACTS

Nik Khakee
New York
(1) 212-438-2473
nik.khakee@spglobal.com

CRITERIA CONTACTS

Steven Ader
New York
(1) 212-438-1447
steven.ader@spglobal.com