

Criteria | Financial Institutions | Banks:

Assessing Bank Branch Creditworthiness

October 14, 2013

(Editor's Note: This article has been superseded by "Financial Institutions Rating Methodology," published Dec. 9, 2021, except in jurisdictions that require local registration.)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. These criteria are used for assessing the creditworthiness of bank branches, including their debt issues, which are not guaranteed through a guarantee meeting our rating-substitution criteria. This article also addresses branches of European Union (EU) banks that are located in another EU member state, and foreign branches located in certain offshore banking centers. For guidance on how to apply these criteria, see "Guidance: Assessing Bank Branch Creditworthiness," published March 18, 2019.
2. This criteria article supersedes paragraph 212 of "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011. This article is related to our criteria article "Principles Of Credit Ratings," published on Feb. 16, 2011.

SCOPE OF THE CRITERIA

3. The criteria apply to bank branches (including their debt issues) that are not guaranteed through a guarantee meeting our rating-substitution criteria (see "General Criteria: Guarantee Criteria," published on Oct. 21, 2016). These include branches based in the same country as the "parent" bank, and in a country other than the parent bank.

SUMMARY OF THE CRITERIA

4. A bank branch located in the same country as its parent bank has, in our view, the same creditworthiness as the primary operating bank from which the branch emanates. 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, and branches of EU banks based in another EU member state.
5. This paragraph has been deleted.
6. This paragraph has been deleted.
7. This paragraph has been deleted.
8. This paragraph has been deleted. See the "Revisions And Updates" section.

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METHODOLOGY

9. A bank branch located in the same country as its parent bank has the same creditworthiness as that parent. "Parent bank" is defined as the primary operating bank from which the branch emanates. We typically do not assign ratings to those branches since the branch and its parent bank form a single legal entity. But if rated, the branch has an issuer credit rating (ICR) equal to that on the parent.

Branches Located In A Different Jurisdiction Than The Parent Bank's

10. The analysis of bank's branch located in a country different from its parent bank necessitates consideration of the potential for adverse "host sovereign" actions. For that reason, in most cases, our foreign currency rating on the host sovereign caps our view of the creditworthiness of a branch.

1. Jurisdictions whose sovereign foreign currency rating is 'CCC+' or lower

11. The criteria assess the creditworthiness of a branch located in a jurisdiction whose sovereign is rated 'CCC+' or below as the lower of 'B-' or the ICR on the parent bank, unless sovereign intervention risk implies a lower rating as per "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012. This is because, at such low levels, sovereign ratings may not sufficiently factor in interference risk.

2. Jurisdictions whose sovereign foreign currency rating is 'B-' or higher

12. Our view of the creditworthiness of a foreign bank's branch and, if rated, of its ICR, is reflected as the lower of the ICR on the parent bank and the foreign currency rating on the sovereign where the branch is located. Paragraphs 13-15 address the case of foreign bank branches located in offshore banking centers. Paragraphs 16 and 17 address the case of branches of EU banks that are located in another EU member state.

3. Branches located in offshore banking centers

13. Branches located in offshore banking centers are unique, in our view, in that the sovereign has very high incentives not to interfere in the branch meeting its financial obligations, even in a stress situation for the host sovereign. Such branches are typically a local branch of an international bank that (1) is neither allowed to take deposits nor lend to local companies or persons, and (2) operates under a restricted special category offshore license.
14. For branches meeting both conditions above, we view the creditworthiness as the same as the parent bank's creditworthiness; if rated, the ICR on the branch is the same as that on the parent bank. For a branch that does not meet the two conditions, paragraphs 11 and 12 apply.
15. The criteria define offshore banking centers as jurisdictions where the activities of international bank branches are restricted through a special category offshore banking license that prohibits taking local deposits or making local loans. One example of an offshore banking center with these characteristics is The Cayman Islands.

4. Branches of EU banks that are located in another EU member state

16. The criteria recognize that EU branches of EU banks are not subject to "host" country supervision and can avail themselves of the so-called "passport approach." This allows them to operate in other EU countries without a separate banking license or full host country supervision. The institutional and legal arrangements that create the single EU market reduce member states' ability to unilaterally impose restrictions on the flows of resources across borders within the EU, and ensure a single insolvency proceeding of an EU bank rather than multiple proceedings in the various EU jurisdictions where the bank operates. However, we don't believe that these branches are immune to sovereign risk. Events in Cyprus in 2013, when bank branches of EU banks were subject to the same restrictions as local banks, supports this view.
17. Our view of the creditworthiness of, or ICR on, a branch of a EU bank based in another EU jurisdiction is reflected as the lower of:
- The bank's ICR; and
 - A level four notches above our foreign currency rating on the host sovereign if that rating is 'BBB-' or higher, or two notches above if not.
- Additionally, if the host sovereign is a member of the eurozone (European Economic and Monetary Union) and S&P Global Ratings considers an exit from the eurozone to be a material likelihood, our view of the branch's creditworthiness is reflected as the lower of the ICR on the bank and our foreign currency rating on the host sovereign. This is unless paragraph 11 or 12 points to a lower level of creditworthiness.
18. This paragraph has been deleted.
19. This paragraph has been deleted.

REVISIONS AND UPDATES

This article was originally published on Oct. 14, 2013. These criteria became effective on Oct. 14, 2013.

Changes introduced after original publication:

- Following our periodic review completed on Feb. 9, 2016, we updated the contact information and deleted paragraphs 5, 6, and 7, which were related to the initial publication of our criteria and no longer relevant. We also moved the information from paragraph 8 to the newly added revision history section. Additionally, we updated the references to related criteria to show their most recent publication dates.
- Following our periodic review completed on Feb. 2, 2017, we added the "Frequently Asked Questions" section. We also deleted text that was no longer relevant, such as the section "Impact On Outstanding Ratings."
- Following our periodic review completed on Jan. 31, 2018, we updated the article contacts and related criteria references.
- On March 18, 2019, we republished this article to add references to "Guidance: Assessing Bank Branch Creditworthiness," which was published March 18, 2019, to paragraph 1 and to the Related Research list. We also deleted the section entitled "Frequently Asked Questions" (paragraphs 18-19) because the text has been moved to the guidance article as it was non-criteria content. We also updated the contact list.

- On March 24, 2020, we republished this criteria article to make nonmaterial changes to update references to related criteria.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Group Rating Methodology, July 1, 2019
- Guarantee Criteria, Oct. 21, 2016
- Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Guidance: Assessing Bank Branch Creditworthiness, March 18, 2019

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