

How We Distinguish Between Ongoing and Extraordinary Group Support When Rating Financial Institutions

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Group influence is integral to the credit quality of many financial institutions. Group influence can either be positive support or negative intervention, and it can come in two forms – ongoing influence or extraordinary influence. An entity’s stand-alone credit profile (“SACP”) typically incorporates a group’s ongoing positive or negative influence on the rated entity. However, SACP does not reflect the positive or negative impact a group may have during an extraordinary crisis scenario. From our desktop analysis of 500 major financial institutions in China, we found most group influence is positive. However, there are some cases where group influence has a negative impact.

ANALYSTS

Ying Li, CFA, FRM

Beijing

Ying.Li@spgchinaratings.cn

	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

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.

Many bank-owned financial leasing companies are a good example of how ongoing group support works in practice. Where branches of a parent bank introduce customers to the financial leasing subsidiary, this can be considered as ongoing group support for its business position. Should the parent bank inject capital into the financial leasing subsidiary to help expand its business, this would be ongoing group support for its capital and earnings. Ongoing support for risk position could be where the parent bank shares its risk management frameworks and procedures with its leasing subsidiary, and where the parent bank and leasing subsidiary collaborate on bad debt recovery. Parent bank’s liquidity support for the leasing company’s day-to-day operations would be considered ongoing support under our funding and liquidity assessment. Any positive impact from the abovementioned ongoing support scenarios would generally be incorporated into our assessment of the entity’s SACP.

Extraordinary group support refers to the likelihood of the parent company providing support to the entity in an extraordinary crisis scenario. Such support would usually not be reflected in the entity’s SACP, but would be incorporated into the final issuer credit rating (“ICR”).

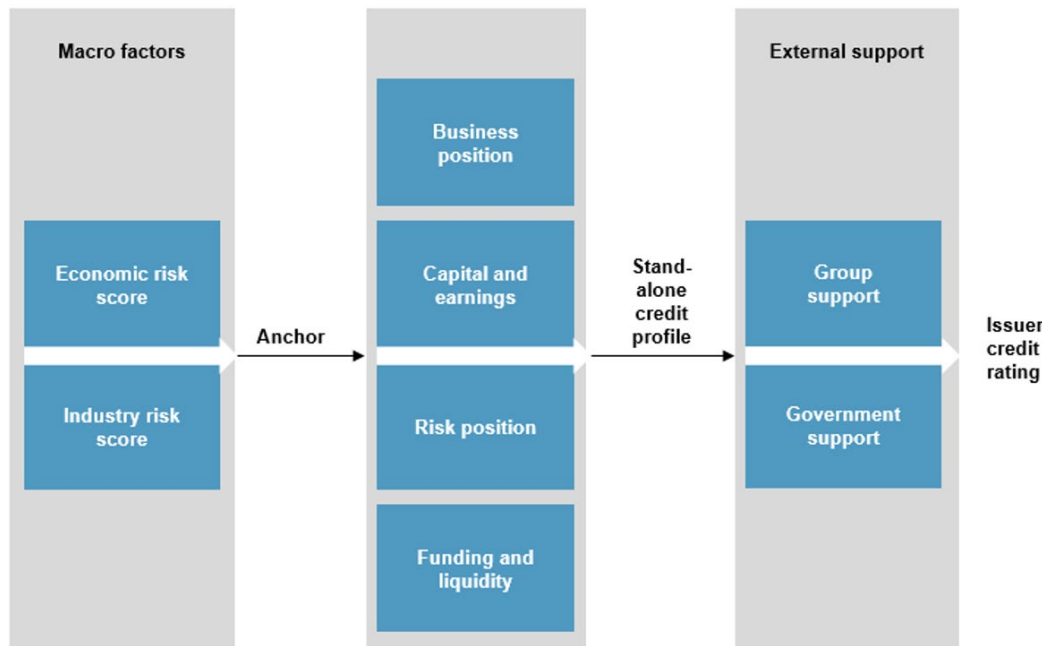
Appendix: S&P Global (China) Ratings’ Financial Institutions Methodology Framework

According to our financial institution (“FI”) rating criteria, we typically determine the stand-alone credit profile (“SACP”) based on our assessment of an institution’s anchor, a starting point, and then incorporate its own characteristics compared with the anchor. The entity-specific factors that we may use to adjust from the anchor include business position, capital & earnings, risk position, and funding & liquidity.

The result of the analysis of the four entity-specific factors typically forms a financial institution’s preliminary SACP. We may then adjust the preliminary SACP to arrive at the entity’s final SACP through a step called “holistic adjustment”, which typically involves peer comparison in a holistic manner.

We then determine the issuer credit rating (“ICR”) based on the SACP and our assessment of potential group or government influence in times of stress.

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 SACP.

Source: S&P Global (China) Ratings

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