

# Bank Ex-Government Support Ratings Criteria

## Sector-Specific

### Scope

In this Criteria Report, Fitch Ratings describes its approach to assigning and maintaining 'ex-government support', or 'xgs', ratings to certain bank (and some non-bank financial institution) issuers, and certain of their financial obligations. These ratings are assigned in addition to ratings assigned under the Bank and Non-Bank Financial Institutions Master Criteria.

Ex-government support ratings are only typically assigned to, and maintained on, issuers for which both of the following conditions apply: i) they are not rated as policy banks; and ii) their international ratings incorporate assumptions of government support, as reflected in Fitch's Government Support Ratings (GSRs) and, for subsidiaries of government-supported banks and banks supported by sub-national authorities, Shareholder Support Ratings (SSRs).

This Criteria Report applies to new and existing ratings and is applied in conjunction with the Bank and Non-Bank Financial Institutions Master Criteria reports.

### Key Rating Drivers

**Corresponding Underlying Rating:** Each ex-government support rating corresponds to an existing underlying rating on the international scale. The underlying rating can be a Short- or Long-Term Issuer Default Rating (IDR), a Derivative Counterparty Rating, or a Short- or Long-Term Issue Rating. An 'xgs' suffix is added to the corresponding existing rating, e.g. 'AAA(xgs)'.

**Relative Importance:** A parent issuer's standalone risk profile, as reflected in a Viability Rating (VR) for banks and some NBFIs, is likely to be the most important driver of ex-government support ratings of parent issuers and, unless their own standalone risk profiles result in a higher rating, of rated subsidiaries.

**VR Linkage for LT IDRs:** In most cases, Long-Term (LT) IDR (xgs) ratings are mapped to a bank's existing VR, which is an issuer-level rating that excludes assumptions of extraordinary government or shareholder support.

**Subsidiary Ratings:** A subsidiary issuer's ex-government support IDRs are determined by the higher of its VR or the level achieved based on shareholder support. Where the shareholder's rating incorporates government support, its LT IDR (xgs) rating is used as the anchor rating for notching subsidiary ratings.

**Consistent Notching and IDR Reference Liabilities:** The same notching approach is applied for ex-government support obligation ratings, DCRs and IDRs as applied in relevant Master Criteria.

We apply the same default threshold as in relevant Master Criteria. Consistent with this, a bank may have failed under our Bank Rating Criteria and have a VR of 'f', but its ex-government support IDRs will only be at 'RD' or 'D' if it has also defaulted on a senior obligation to a third-party, non-government creditor. It will not be at 'RD' or 'D' if it has avoided default due to government support.

**Short-Term Ratings:** We apply the same Correspondence Table and cusp point approach for ex-government support Short-term Ratings as under relevant Master Criteria.

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### Related Criteria

[Bank Rating Criteria \(September 2022\)](#)  
[Exposure Draft: Non-Bank Financial Institutions Rating Criteria \(February 2023\)](#)

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## Determination of Ex-Government Support Ratings

| Rating                                | How the rating is determined  | Examples  |
|---------------------------------------|---|---|
| Long-Term IDR (xgs)                   | <p>For non-subsidiary banks with a VR, the LT IDR (xgs) is assigned at the level of the VR. For non-subsidiary banks without a VR, a LT IDR (xgs) is not assigned.</p> <p>For subsidiary banks (for example, an international subsidiary of a government-supported bank), the starting point for assigning a LT IDR (xgs) will be the parent bank's LT IDR (xgs), if available, from which the subsidiary's rating will be notched (or equalised) by considering shareholder support notching considerations as set out in the relevant Master Criteria. If a subsidiary bank has a VR, the LT IDR (xgs) will be assigned as the higher of the VR and the rating obtained by notching from the parent bank's LT IDR (xgs), if the latter is available, and at the level of the VR otherwise. Where the subsidiary is not assigned a VR and the parent is not assigned a LT IDR (xgs), Fitch will not assign LT IDR (xgs) to the subsidiary.</p> <p>Where relevant, Fitch will notch up the LT IDR (xgs) above the VR using the framework set out in the 'Assigning IDRs above VRs' section of the relevant Master Criteria.</p> <p>If a bank has failed and its VR is 'f', but has not defaulted on senior obligations to third-party, non-government creditors, its LT IDR (xgs) will not go to 'RD', even if it has avoided default only because it received extraordinary government support.</p> <p>Fitch may assign separate LT Foreign-Currency (FC) IDRs (xgs) and Local-Currency (LC) IDRs (xgs) using the same considerations for LT FC and LT LC IDRs that are set out in the relevant Master Criteria.</p> <p>Outlooks are not assigned to LT IDR (xgs) ratings.</p> | <p>a. A bank has the following ratings: VR: bbb; GSR: a; LT IDR: A. The LT IDR (xgs) is assigned at BBB(xgs) – i.e. the same level as the VR.</p> <p>b. A foreign subsidiary of a government-supported bank has the following ratings: VR: <i>not assigned</i>; SSR: bbb-; LT IDR: BBB-. The bank's parent has the following ratings: VR: bb-; GSR: bbb-; LT IDR: BBB-.</p> <p>Although the subsidiary does not have a GSR, it is rated based on shareholder support from its parent, whose LT IDR and other ratings incorporate assumptions of government support and the subsidiary's LT IDR has been equalised with that of its parent. In this case, the parent bank is assigned a LT IDR (xgs) of BB-(xgs) in line with its VR, and the subsidiary's LT IDR (xgs) is assigned based on the relevant Master Criteria shareholder support notching and is equalised with the parent's LT IDR (xgs) rating at BB-(xgs).</p> |
| Derivative Counterparty Ratings (xgs) | The anchor rating for Derivative Counterparty Ratings (DCR) (xgs) will be a LT IDR (xgs) and the same notching will apply, as set out in the relevant Master Criteria.  | c. A bank has the following ratings: LT IDR: A; DCR: A(dcr); LT IDR(xgs): BBB (xgs). Its DCR(xgs) is assigned at BBB(xgs)(dcr).   |
| Short-Term IDR (xgs)                  | <p>For parent banks with a VR, the ST IDR (xgs) is assigned by applying the ST Rating Correspondence Table and the approach for 'Banks Whose IDRs Are Driven by VRs' in the Bank Rating Criteria to the bank's LT IDR (xgs). Consequently, a bank's Funding &amp; Liquidity Key Rating Driver (KRD) score – which forms part of the overall VR assessment – will typically inform the choice between the higher or lower rating at cusp points.</p> <p>For subsidiary banks without a VR, the ST IDR (xgs) is assigned by first assigning a LT IDR (xgs) to the subsidiary, and then by applying the Rating Correspondence table to the bank's LT IDR (xgs) following the approach set out in the 'Banks with Support-Driven IDRs' section of the <a href="#">Bank Rating Criteria</a>.</p>   | <p>d. A bank has the following ratings: VR: bbb; GSR: bbb+; LT IDR: BBB+; ST IDR: F2.</p> <p>Based on the VR of bbb, this bank is assigned a LT IDR (xgs) of BBB(xgs). Under the Rating Correspondence Table in the Bank Rating Criteria, a LT IDR (xgs) of BBB(xgs) could map to either F3(xgs) or F2(xgs). The choice of ST IDR (xgs) would be informed by the issuer's Funding &amp; Liquidity KRD score, as set out in the relevant Master Criteria. A minimum score of bbb+ would be needed for a ST IDR (xgs) of F2(xgs).</p>   |
| Long-Term Rating (xgs)                | The anchor rating for assigning Long-Term Ratings (xgs) to obligations will be a LT IDR (xgs). The same notching approach will apply as set out in the relevant Master Criteria.  | e. A bank has a LT IDR of A, senior debt ratings of A and a LT IDR (xgs) of BBB. Its senior debt ratings are assigned Long-Term Ratings (xgs) of BBB(xgs).  |
| Short-Term Rating (xgs)               | As above, but mapped from the Long-Term Rating (xgs) of the corresponding obligation ratings.   | f. A bank has a Long-Term Rating (xgs) of BBB-(xgs). Using the correspondence table, this maps to a Short-Term Rating (xgs) of F3(xgs).   |
| Branch ratings                        | An 'xgs' suffix may be applied to a branch rating. In these cases, it would reflect the main or "head office" bank's equivalent 'xgs' rating subject to any country risk constraints, as set out in the relevant Master Criteria.   | g. A bank has a branch rating (LT IDR) of BBB in a jurisdiction with a Country Ceiling of AA. The main bank's VR is bb, its GSR is BBB and its LT IDR is BBB. The branch's LT IDR (xgs) is assigned at BB(xgs), in line with the main or 'head office' bank's LT IDR (xgs) of BB(xgs).  |

Source: Fitch Ratings

## Rating Definitions

Each ex-government support rating corresponds to an existing underlying rating on the international scale, which can be a Short- or Long-Term Issuer Default Rating (IDR), a Derivative Counterparty Rating, or a Short- or Long-Term Issue Rating. Ex-government support ratings exclude assumptions of extraordinary government support from the underlying rating on the international scale. An 'xgs' suffix is added as a modifier to the corresponding existing rating, e.g. 'A(xgs)'.

## Information Used to Analyse Banks

We use the same public (e.g. financial statements, transaction documents, presentations, regulatory filings) and non-public information to assign ex-government support ratings to banks and NBFIs as we use to assign the ratings under relevant master criteria. See relevant master criteria for more details.

## Criteria Disclosure

Fitch discloses information related to the extent and impact on ratings of government support on its website. Specifically, Fitch discloses whether a bank's Long-Term IDR and certain other bank ratings incorporate assumptions of extraordinary government support.

Where ratings are based on such support and Fitch has assigned a VR (i.e. which reflects a bank's standalone strength and does not reflect assumptions of extraordinary government support), this will also be disclosed. Fitch also discloses which banks are rated as policy banks under its Bank Rating Criteria.

Fitch includes VRs in its published [Transition & Default Studies](#). These disclosures are intended, among other things, to help users with their preparations for the new Basel rules.

## Surveillance

Analysts perform surveillance of information received or requested. Where a factor or trend could have an impact on the rating, Fitch will determine the appropriate course of action, which may be one of the following:

- The bank is taken to rating committee;
- The bank is issued with a request for additional specific information (Fitch may also place the entity on Rating Watch at this point); or
- Fitch may also conclude that no action is necessary.

There is no difference between new rating analysis and surveillance analysis.

## Criteria Variations

Fitch's criteria are designed to be used in conjunction with experienced analytical judgement exercised through a committee process. The combination of transparent criteria, analytical judgement applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind Fitch's ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a rating committee where the risk, feature, or other factors relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

## Limitations

Ratings, including Rating Watches, assigned by Fitch are subject to the limitations specified in Fitch's Rating Definitions.

They are available at <https://www.fitchratings.com/site/definitions>.

Ex-government support ratings are limited with respect to unforeseen events, which are excluded from ratings until they become explicit or defined. Event risks can be externally triggered – such as a change in law, a natural disaster, a political shock, an ownership change or a cyber-attack – or internally triggered, such as a change in policy on capitalisation, a major acquisition, fraud or other material operational/regulatory/litigation risk event, or a management or strategic restructuring.

### Information Used to Derive Criteria

The key rating assumptions for the criteria are informed by discussions with external parties, such as issuers, institutional owners, supervisors and governments, and Fitch's analysis of financial and non-financial information, such as issuer financial statements and annual reports, bond documentation and financial market, industry, academic and economic data, research and history.

## Rating Assumption Sensitivity

Fitch's opinions are forward-looking and include Fitch's views of likely performance. Bank and non-bank financial institution ratings, which influence ex-government support ratings, are subject to positive or negative adjustment based on actual or projected financial and operational performance. The list below includes a non-exhaustive list of the primary assumption sensitivities, or shifts in KRDs, that can influence the ratings. Further detail can be found in relevant master criteria.

**Risks to an Entity's Standalone Strength:** Including operating environment risk, business risk, financial risk, event risk.

**Support Change Risk:** A change in extraordinary support likely to be available to an issuer, for example due to a change in ownership or developments in bank resolution frameworks. In the event bank resolution frameworks result in extraordinary government support no longer being factored into ratings, an issuer's ex-government support ratings would likely be withdrawn.

**Instrument-Specific Risks:** Issue-level ratings may be sensitive to changes in a bank's issuer-level ratings, performance risk relative to the risk captured in issuer-level ratings, and changes in default risk or recovery prospects for the instrument, for example as a function of its seniority, volume (or expected volume) of pari passu liabilities or the volume (or expected volume) and relative ranking of other liability layers.

Event risk and changes in support can often have more material implications for bank ratings than other risks outlined above.

## Annex 1 – Basel Rules

Under the ‘External Credit Risk Assessment’ (ECRA) approach, banks assign to their rated bank exposures the “base” risk weights determined by the external ratings according to the table below. Such ratings must not incorporate assumptions of implicit government support, unless the rating refers to a public bank owned by its government. Banks are also expected to perform due diligence on the external ratings and to assign a higher risk if warranted.

### Risk Weight Table for Bank Exposures External Credit Risk Assessment Approach

| External rating of counterparty      | AAA to AA– | A+ to A– | BBB+ to BBB– | BB+ to B– | Below B– |
|--------------------------------------|------------|----------|--------------|-----------|----------|
| “Base” risk weight                   | 20         | 30       | 50           | 100       | 150      |
| Risk weight for short-term exposures | 20         | 20       | 20           | 50        | 150      |

Source: Fitch Ratings, [Basel Committee, ‘Calculation of RWA for credit risk \(CRE20\)’](#), effective 1 January 2023

Banks operating in jurisdictions that do not allow the use of ratings are expected to use the Standardised Credit Risk Assessment (SCRA) approach, which also applies to unrated bank exposures in jurisdictions that apply the ECRA.

### Risk Weight Table for Bank Exposures Standardised Credit Risk Assessment Approach

| Credit risk assessment of counterparty (%) | Grade A | Grade B | Grade C |
|--|---------|---------|---------|
| “Base” risk weight                         | 40      | 75      | 150     |
| Risk weight for short-term exposures       | 20      | 50      | 150     |

Source: Fitch Ratings [Basel Committee, ‘Calculation of RWA for credit risk \(CRE20\)’](#), effective 1 January 2023

Implementation timing and details will vary in different jurisdictions, including the scope of application of the Basel rules and the scope of external ratings recognised in each jurisdiction.

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