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Addendum 5 to the CRI Technical Report (Version: 2021, Update 1)

This document updates the Technical Report (Version: 2021, Update 1) and details the introduction of an additional ratio treatment for the current liabilities and long-term debt calculation of China-domiciled banks due to differences in the details of disclosures between quarterly and (semi-)annual statements. The changes have been implemented for the computation of the Distance-to-Default (DTD) starting September 14, 2022.

It was observed that some China-domiciled banks exhibited periodic fluctuations in current liabilities and long-term debt. The fluctuations were linked to additional information provided by China-domiciled banks on the maturity schedule of debt in the (semi-)annual statements as compared to the quarterly statements. This influences how the long-term debt and current liabilities are calculated, eventually leading to unwarranted DTD fluctuations.

The revised treatment extrapolates the long-term debt for a newly released quarterly statement using the detailed maturity schedule available in the preceding (semi-)annual statement. Under the new treatment, we first calculate the ratio of the reported current portion of long-term debt to total long-term debt for Q2 and Q4 periods, i.e., using (semi-)annual statements which contain additional disclosure. The calculated ratio will then be applied to infer the long-term debt for the subsequent quarter, i.e., Q3 or Q1, to arrive at the adjusted current portion of long-term debt. This treatment effectively reduces unwarranted fluctuations in current liabilities and long-term debt.

Industrial and Commercial Bank of China Limited (ICBC) is used to illustrate the impact of the new treatment in Figure 1. After the new treatment, the fluctuations in long-term debt and current liabilities are reduced and their impacts on DTD and PD are shown.

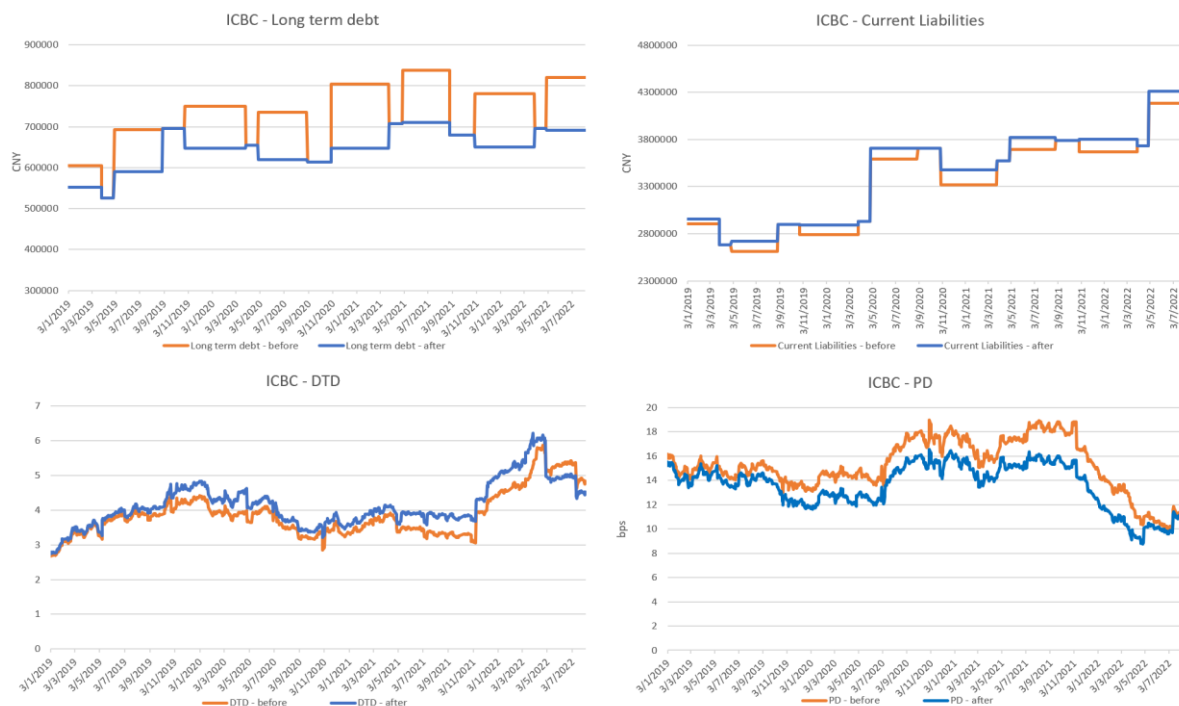


Figure 1: Comparison between long term debt, current liabilities, DTD and PD of Industrial and Commercial Bank of China Limited (ICBC) before and after treatment