Article Title: ARCHIVE | Criteria | Insurance | General: Notching Criteria On Canadian Insurance Operating Companies Revised For Global Consistency Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by the article titled "Group Rating Methodology," published on May 7, 2013.) On Oct. 17, 2006, Standard & Poor's Ratings Services revised its notching criteria for Canadian insurance operating companies to achieve greater global consistency of its ratings on subordinated debt, hybrids, and preferred share instruments. With this change, the ratings on the above-cited instruments will be raised by one notch for the issuers referenced in the ratings list below. This change will apply only to Canadian operating insurance companies. The ratings on Canadian insurance holding companies and the Canadian banks will not be affected by this change. This rating action will affect approximately C$7.6 billion in debt, hybrids, and preferred share instruments outstanding. Generally, insurers' policyholder obligations remain the most senior and most significant obligation on a company's balance sheet. This means that the financial strength rating (FSR), which evaluates the capacity to pay on policy obligations, will continue to be rated the same as the corporate credit rating (CCR), given that policyholders rank as the senior most creditors. Indeed, in rating corporate entities, the very best-positioned unsecured creditors will generally receive the same rating as the CCR. Policyholders represent a material class of senior creditors; therefore, other classes of creditors would be considered together as a subordinated class. When a debt issue is judged to be junior to other obligations of the company, and therefore as having relatively worse recovery prospects, that issue is notched down from the CCR. Therefore, both senior debt and subordinated debt will be rated one notch lower than the CCR, since Standard & Poor's rating convention is to never rate the lowest ranking issues (other than those that have incremental payment risk) lower than one notch from the CCR for investment-grade issuers (these issues will be rated two notches lower than the CCR for noninvestment-grade issuers). Similarly, since hybrid instruments are both subordinate to senior creditors and have incremental risk of payment deferral, they will be rated no higher than two notches lower than the CCR for investment-grade issuers (these issuers will be rated a minimum of three notches lower than the CCR for noninvestment-grade issuers). Current Standard & Poor's methodology is to notch down ratings for preferred stock and equity hybrids from the CCR on the issuer, based on subordination and on interest or dividend deferral characteristics. Given that Canadian law explicitly subordinates debt obligations to the policy obligations of Canadian insurers, it has been Standard & Poor's historical practice to rate senior debt obligations one notch lower than the CCR or FSR on the issuer. As investment-grade insurance issuers in the Canadian market issued subordinated debt obligations, these were then rated one notch below the senior debt rating and hybrid and preferred stock instruments were rated two notches below the senior debt rating. Ratings List Ratings Raised To From Co-operators General Insurance Co. Preferred stock Canadian national scale P-2(Low) P-3(High) Global scale BBB- BB+ Great-West Life Assurance Co. Preferred shares Canadian national scale P-1 P-1(Low) Global scale A+ A Great-West Life Capital Trust C$350 million GREATs Preferred shares Canadian national scale P-1 P-1(Low) Global scale A+ A Canada Life Assurance Co. (The) Subordinated debt AA- A+ Canada Life Capital Trust Canada Life Capital Securities series A and B (CLiCS) Preferred stock Canadian national scale P-1 P-1(Low) Global scale A+ A Manufacturers Life Insurance Co. (The) Subordinate debt AA AA- Preferred stock Global scale AA- A+ Capital Trust Pass-through Securities (TRUPS Units) Manufacturers Investment Corp. (The) Preferred stock Global scale AA- A+ Manulife Financial Capital Trust C$1.0 billion Manulife Financial Capital Securities series A and B (MaCS) Preferred stock Global scale AA- A+ Sun Life Assurance Co. of Canada Subordinated debt AA AA- Deferrable sub. debt AA- A+ Preferred stock Global scale AA- A+ Sun Life Capital Trust Sun Life Exchangeable Capital Securities (SLEECS) Preferred stock Global scale AA- A+ Sun Life of Canada (U.S.) Capital Trust I Cumulative Capital Securities Preferred stock Global scale AA- A+ US$600 million cum cap securities Industrial Alliance Capital Trust Canadian national scale P-1(Low) P-2(High) Global scale A- BBB+ Industrial Alliance Insurance and Financial Services Inc. Sub. debt rating A A- Preferred stock Canadian scale P-1(Low) P-2(High) Global scale A- BBB+