Article Title: ARCHIVE | General Criteria: Group Rating Methodology Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by the article titled "Group Rating Methodology," published on Nov. 19, 2013. In the original version of this article published on May 7, 2013, due to a proofreading oversight, paragraph 39 made reference to the SACP (stand-alone credit profile) instead of the GCP (group credit profile). This correction has no impact on our ratings or the effective date of the criteria. A corrected version follows as of July 23, 2013. This criteria article supersedes or partly supersedes the articles listed in Appendix B.) 1. Standard & Poor's Ratings Services is updating its methodology for rating members of financial institutions and insurance groups. This update follows the publication of our request for comment (RFC) "Insurers: Rating Methodology," published July 9, 2012, with specific reference to section "F1. Rating Insurance Subsidiaries Of Insurance Groups: 1. Section applicable to all members of insurance groups." 2. This criteria article supersedes several criteria articles, including "Financial Institutions: Group Rating Methodology And Assumptions," published Nov. 9, 2011, "Insurance: Group Methodology," published April 22, 2009, and "Analytical Approach To Assessing Nonoperating Holding Companies," March 17, 2009 (see Appendix B for the complete list of superseded articles). 3. The changes aim to improve transparency about the rating methodology for financial services groups, including how group support interacts with extraordinary government support for government-related entities and systemically important financial institutions. 4. The criteria articulate the steps in determining an issuer credit rating (ICR) or financial strength rating (FSR) on a member of a financial services group. This involves assessing the group's overall creditworthiness, the stand-alone credit profile of group members, and the status of an entity relative to other group members and the parent company. (Watch the related CreditMatters TV segment titled "What Impact Does Group Membership Have On Insurance Ratings?," dated May 28, 2013.) 5. One of the main rating considerations is the potential for support (or negative intervention) from the parent company or group. 6. These criteria therefore address the key area of "external support" as described in paragraphs 31 to 35 of "Principles Of Credit Ratings," published Feb. 16, 2011. I. SCOPE OF THE CRITERIA 7. These criteria apply to all regulated and nonregulated members of a financial services group, including holding companies and those subsidiaries that are not financial services companies. 8. A financial services group is predominantly (1) a financial institutions group or (2) an insurance group (see the Glossary in Appendix A for definitions of both). 9. The group rating methodology also sets out our approach for rating nonoperating and operating holding companies at the top of a group structure, as well as intermediate holding companies. It also applies to mutual or cooperative groups, even though group members may not be linked by ownership but by a variety of ties, including mutual-support mechanisms. 10. The criteria assess the group status of a group member to determine a potential long-term ICR or FSR on the entity. For criteria on incorporating government support, see "Rating Government-Related Entities: Methodology And Assumptions," Dec. 9, 2010, and "Banks: Rating Methodology And Assumptions," Nov. 9, 2011. For criteria on credit-substitution debt guarantees, see "European Legal Criteria For Structured Finance Transactions," Aug. 28, 2008, "Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria," Oct. 1, 2006, and "Guarantee Criteria--Structured Finance," May 7, 2013. For constraints posed by the sovereign rating and/or transfer and convertibility risk assessments, see "Criteria For Determining Transfer And Convertibility Assessments," May 18, 2009, "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," June 14, 2011, "Banks: Rating Methodology And Assumptions," Nov. 9, 2011, and "Insurers: Rating Methodology," published May 7, 2013. Standard & Poor's published the RFC "Request For Comment: Ratings Above The Sovereign--Corporate And Government Ratings," on April 12, 2013. II. SUMMARY OF THE CRITERIA 11. The group rating methodology explains how our assessment of likely extraordinary group support (or conversely, negative group intervention) factors into the ICR on an entity that is a member of a group. 12. The methodology consists of six steps (see chart): Identifying the group's members; Determining a group credit profile (GCP); Assessing the status of an entity within the group and the resulting likelihood of group support; Assessing a stand-alone credit profile (SACP) for an entity if required; Combining the SACP and support conclusions to determine a potential ICR for a group entity, by notching up or down from the SACP or GCP; and Applying constraints if any to the potential ICR, depending on the relevant sovereign rating and/or transfer and convertibility (T&C;) risk assessments. 13. The criteria define five categories of group status: "core," "highly strategic," "strategically important," "moderately strategic," and "nonstrategic." These categories indicate our view of the likelihood that an entity will receive support from the group and determine the potential long-term ICR, with reference to the GCP and SACP (see table 1). Table 1 Summary Of Associating An Entity's Group Status With A Potential Long-Term ICR GROUP STATUS BRIEF DEFINITION POTENTIAL LONG-TERM ICR* Core Integral to the group's current identity and future strategy. The rest of the group is likely to support these entities under any foreseeable circumstances. (see ¶¶54-55) Generally at GCP (see ¶73)§ Highly strategic Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these subsidiaries under almost all foreseeable circumstances. (see ¶56) Generally one notch below GCP (but see ¶73)§ Strategically important Less integral to the group than highly strategic subsidiaries. The rest of the group is likely to provide additional liquidity, capital, or risk transfer in most foreseeable circumstances. However, some factors raise doubts about the extent of group support. (see ¶¶57-58) Generally three notches above SACP (but see ¶73)§ Moderately strategic Not important enough to warrant additional liquidity, capital, or risk transfer support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some support from the group. (see ¶¶59-60) Generally one notch above SACP (but see ¶73)§ Nonstrategic No strategic importance to the group. These subsidiaries could be sold in the near to medium term. (see ¶61) Generally at SACP (but see ¶73)§ *Paragraph 28 prevails when the GCP is 'ccc+' or lower. §The potential issuer credit rating (ICR) is subject to sovereign rating constraints (see ¶76) and the government support criteria (see ¶27). An insurance company may receive an ICR and/or an FSR (financial strength rating). GCP--Group credit profile (see ¶33). SACP--Stand-alone credit profile (see also the Glossary in Appendix A). 14. A modified approach applies when a member is assessed as insulated from the rest of the group (see paragraphs 74 and 75), and when determining the interaction of group and government support. 15. For group members classified as government-related entities (GREs), the criteria for considering government support are found in "Rating Government-Related Entities: Methodology And Assumptions," published Dec. 9, 2010. 16. For banks not classified as GREs, the criteria for assessing government support are in "Banks: Rating Methodology And Assumptions," Nov. 9, 2011. III. CHANGES FROM THE RFC AND PREVIOUS METHODOLOGY 17. The main changes from previous methodology for rating members of financial institutions groups include clarifications regarding: The treatment of entities owned by a financial sponsor. The treatment of start-up entities. The treatment of subgroups within a larger group. The assessment of insulated subsidiaries, and the interaction of group and government support for subsidiaries in foreign countries. Situations in which potential extraordinary government support may accrue to some members of a group. The definition of the GCP and the unsupported GCP. Situations in which a rating on a group member can be higher than the sovereign rating on that entity's country of domicile. 18. For members of insurance groups, the main changes from the RFC are to clarify the: Items listed in paragraph 17. Group status classifications for captive insurers. Treatment of insurance policy guarantees and other support agreements. Approach for assigning an ICR or FSR to a nonoperating holding company or operating holding company. IV. IMPACT ON OUTSTANDING RATINGS 19. The expected effect on our ratings on insurance group members must also be considered in the context of the new criteria in "Insurers: Rating Methodology". Overall, we expect that a significant majority of our ratings on insurance group members will not change. Where rating changes occur, the new rating is most likely to be one notch lower or higher than the current rating, and in a very few cases the difference may be more than one notch. Preliminary results suggest that positive rating actions will likely slightly outweigh negative rating actions. During our testing, we have not identified any sectors or regions where the distribution of ratings is likely to change significantly. Given that the criteria for members of financial institutions groups have been clarified rather than changed, we do not expect rating changes for such group members on the basis of this criteria article. V. EFFECTIVE DATE AND TRANSITION 20. The criteria are effective immediately. We expect to update our ratings over a period of six months. To the extent that elements of these criteria apply to Lloyd's Syndicate Assessments, the effective date is Nov. 1, 2013. VI. METHODOLOGY 21. The likelihood of financial support from a group to a group member, and vice versa, affects that group member's overall creditworthiness. 22. These criteria enable the ICR to reflect our view that a group member may receive or extend such support in the future, beyond what is already factored into its

SACP. Ongoing support from the group forms part of the SACP assessment, as explained in "Stand-Alone Credit Profiles: One Component Of A Rating," published Oct. 1, 2010. 23. The potential for extraordinary support is factored into the ICR, even when the need for such support appears remote. 24. For financial institutions and insurers, the criteria for the SACP assessment are in paragraph 71. 25. A potential long-term ICR higher than a group entity's SACP reflects the likelihood of that entity, in a credit-stress scenario, receiving timely and sufficient group support (beyond that already factored into the SACP), thereby lowering the likelihood of its default. 26. A potential long-term ICR lower than a group entity's SACP reflects the risk that, if the group were in a credit-stress scenario, the group would draw support from the group member. 27. The criteria set out a six-step process for assessing group members, including the likelihood of either group and government support or negative intervention in a stress scenario (see preceding chart). The steps are: A. Identify which entities are group members. B. Assess the creditworthiness of the group as a whole and assign a GCP. The GCP assessment may factor in potential support from government if such support would extend to the entire group (see "Rating Government-Related Entities: Methodology And Assumptions," and "Banks: Rating Methodology And Assumptions"). C. Assess the group status (that is, the strategic importance to the group) of each group member to be rated. D. Determine the SACP of group members to be rated, unless an entity is exempt in accordance with paragraph 51. E. Assign a potential long-term ICR using, where applicable, criteria for GREs or other government support (see "Rating Government-Related Entities: Methodology And Assumptions," and "Banks: Rating Methodology And Assumptions") and credit-substitution criteria (see the guarantee criteria sections of "European Legal Criteria For Structured Finance Transactions" and "Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria" dealing with debt guarantees; see also paragraph 47). F. Assign the final ICR after considering any constraints to the potential long-term ICR posed by the relevant sovereign rating and/or T&C; risk assessments (see paragraph 76). 28. In all cases, when an ICR is 'CCC+' or lower, the criteria in "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012, apply. If a GCP is 'ccc+' or lower, but a subsidiary has an SACP of 'b-' or higher (which incorporates the ongoing effect of being part of the group), the rating on the subsidiary could result from a downward adjustment to the SACP for the possibility of extraordinary negative intervention from the group. 29. The final ICR would be the highest of the three potential long-term ICRs resulting from the group support, government support, or credit-substitution guarantee methodologies. For financial services groups, the final ICR may be subject to the caps described in paragraphs 94-96, under section VII.C, titled "Rating Financial Services Group Entities Above The Sovereign." The case of extraordinary government support flowing through the group to a subsidiary or subgroup is addressed in paragraph 48. For financial services groups, the case of a strong subsidiary of a relatively weaker parent group is addressed in paragraphs 97 to 102 ("Insulated Subsidiaries Of A Financial Services Group"). In most cases, we do not view a foreign bank subsidiary that is highly or moderately systemically important in the country where it is domiciled as an insulated subsidiary, however. Governments can have strong incentives to maintain financial stability in the local market through a combination of local regulatory intervention and government support. This means that support from a "host" government can sometimes be more likely than the potential for extraordinary support from a parent group. A. Identifying Group Members 30. For the purposes of these criteria, the terms "group" and "group members" refer to the parent or ultimate parent, and all the entities over which a parent or ultimate parent has direct or indirect control. Often, the scope of consolidation is the same as that in the parent's or ultimate parent's consolidated audited accounts, plus proportionate stakes in joint ventures exclusively or jointly controlled, but not included in such accounts. 31. "Control" refers to the ability to dictate a group member's strategy and cash flow. Control may be present even if ownership is less than 50% plus one share/unit (for an example see paragraph 82). B. The Group Credit Profile (GCP) 32. In assessing the overall credit profile of a group, the relevant methodologies for assessing corporates, financial institutions, insurance companies, or other entity types apply. For conglomerates (including holding companies), the specific rating methodology is the one relevant for the operations that most strongly influence the group's profile. This could be based on the size of capital (such as when financial services dominate the activities), or earnings and dividends to the holding company (for groups with substantial corporate activities). B.1 Defining the GCP 33. The GCP is not a rating, but a component of the ICR on a group member. Consequently, GCPs do not have outlooks. The GCP is Standard & Poor's opinion of a group's or subgroup's creditworthiness as if it were a single legal entity. The term "unsupported GCP" designates our opinion of a group's or subgroup's creditworthiness excluding the likelihood of extraordinary support or negative intervention from a government or a wider group. A GCP does not indicate the credit quality of any specific obligation. 34. A complex group can receive more than one GCP to reflect subgroups (see paragraphs 65 to 67 for the treatment of subgroups within a group). 35. GCPs range from 'aaa' (the highest level) to 'd', on a scale that parallels the ICR ('AAA' to 'D'). The lowercase letters for GCPs indicate their status as a component of a rating rather than as a rating. Like an ICR, a GCP can carry the modifier "+" or "-". Typically, a GCP is 'd' only in the case of a generalized group default. The ICR on a legal entity within a group is lowered to 'D' or 'SD' only in accordance with "Standard & Poor's Ratings Definitions," published June 22, 2012. 36. The criteria assess the consolidated group as though it were a single legal entity (for an exception see paragraph 38). a) Noncontrolling interests 37. In general, for the purpose of determining a GCP, equity minority interests (also called "noncontrolling interests") in fully consolidated group members count as shareholders' equity (correspondingly, common dividends to these minority interests are treated as part of common dividends for income-statement, cash-flow statement, and balance-sheet purposes). b) Insulated subsidiaries 38. An insulated subsidiary would typically count as an equity affiliate, rather than be consolidated, if assigned a potential ICR that is two or more notches higher than the GCP. If a higher-rated insulated entity's resources are unavailable to the rest of the group, the GCP could be lower, which may in turn further restrict the potential for a higher rating on a group member. Although such an insulated subsidiary is treated as an equity affiliate in the assessment of the GCP, the GCP takes account of projected income flows from the subsidiary. 39. If the potential ICR on an insulated subsidiary is one notch higher than the GCP, it is consolidated with the group for the purposes of determining the GCP. However, the GCP assessment will take account of potential restrictions on resource flows within the group, as is also the case when considering a foreign bank subsidiary that is rated above the GCP because it is highly or moderately systemically important in the country where it is domiciled. In this latter case, the subsidiary is typically not classified as insulated, but the GCP will take account of the impact of any local restrictions on the flow of capital, funding, and liquidity. c) Entities owned by a financial sponsor 40. If the owner of a group entity is a "financial sponsor" (a company with no long-term or strategic interest in the group entity), the GCP assessment excludes the financial sponsor. This means the potential ICR on that group entity does not factor in the likelihood of support from the financial sponsor, nor is it directly constrained by our view of the sponsor's creditworthiness. 41. However, an entity's ownership by a financial sponsor may lead us to view the entity's financial policy and/or overall management as affected by the financial sponsor's exit strategy, its need for cash, or its policy regarding the upstreaming of cash from its holdings. This different treatment, relative to that for strategic corporate owners, reflects our view that, regardless of the degree of control it exerts, a financial sponsor has a lower incentive to support the entity under stress. Also, financial sponsors typically have diverse interests and may not be willing or able to bail out individual entities. The investment time frame is usually short, and as such the direction and management of the investment will be a function of the financial sponsor's exit strategy. 42. The GCP relevant for an entity owned by a financial sponsor typically includes one or more intermediate holding companies of the group, but excludes the financial sponsor's other holdings (that is, other operating companies it controls, as well as its own intermediate holding companies). The group often uses its intermediate holding companies to control operating companies, even those fully or partly owned by a financial sponsor. 43. This definition of the GCP reflects the view that the primary influence on an intermediate holding company's creditworthiness is the operating companies it owns. The intermediate holding company's purpose is to acquire, control, fund, or secure financing for its operating companies, and it generally depends on those companies' cash flow to service its financial obligations. d) Holding companies 44. For a holding company that heads a group, subparts VII.F and VII.G apply for insurance groups and financial institutions groups, respectively. For a holding company of a corporate group that contains insurance or financial institution subsidiaries, the corporate rating criteria apply. e) Multiple ownership and joint ventures 45. If a group entity is under the joint control of at least two parents--for example, a joint venture--the insolvency or financial difficulty of a particular parent may weigh less on the subsidiary's credit quality than if the subsidiary were fully owned by that particular parent. There are different analytical approaches for a group's affiliated business operations, such as joint ventures and their debt, depending on the perceived relationship between the parents and the operations: Investment holding. This is when the group has little or no control over the operating entity. In this case, the approach is to treat the entity as an equity affiliate, which is not consolidated into the GCP. The value, volatility, and liquidity of the investment in the entity, if material, are analyzed on a case-specific basis. Partly controlled subsidiary. This is when the group has partial control over a material operating entity. The GCP assessment would involve a partial consolidation--for example pro rata--of the operating entity and, where appropriate, any forecast additional investment in that entity. Integrated subsidiary. This is when the group has dominant control over an operating entity and has effectively integrated it into the group (for a full definition see the Glossary in Appendix A). The GCP assessment therefore fully consolidates the operating entity. f) Extraordinary government support in the GCP 46. In some instances, the potential for extraordinary government support (beyond that already factored into the SACP) is a component of the ICRs on certain group members or the GCP (see "Rating Government-Related Entities: Methodology And Assumptions," subsequently referred to as the "GRE criteria," and "Banks: Rating Methodology And Assumptions"). 47. In this case, the criteria assess whether such government support would likely accrue to all members of the group (for GREs see table 2). 48. To determine the ICR for a particular group subsidiary, where the assessment indicates that the government: Is likely to extend such extraordinary support directly to that subsidiary (bypassing the group), any rating uplift for such support is added to the SACP of that subsidiary in determining the ICR. For a "core" subsidiary, or a "highly strategic" subsidiary whose creditworthiness is at the level of the GCP, the uplift is to the GCP. However, if the subsidiary is a GRE with an "almost certain" or "extremely high" likelihood of support, the rating approach is in paragraph 31 of the GRE criteria. If there is an SACP for the subsidiary and paragraphs 42-46 of the GRE criteria apply (the section titled "Rating a GRE above the rating on its government"), the rating approach is in Table 4 of the GRE criteria. Is likely to extend such extraordinary support indirectly, via the group, to the subsidiary, the GCP (which would include an uplift for such support) is the reference point in determining the ICR for that subsidiary. The same approach applies if government support is likely for a subsidiary within a subgroup via the head entity of that subgroup; the GCP for the subgroup would be the same as the GCP for the head entity. Is unlikely to extend such support, the criteria use the unsupported GCP in determining the ICR for that subsidiary. Table 2 Rating Government-Related Entities--Likelihood Of Government Support Versus Group Support* SACP OR GCP LEVELS IF THE SUBSIDIARY IS LIKELY TO BENEFIT DIRECTLY FROM EXTRAORDINARY GOVERNMENT SUPPORT IF THE SUBSIDIARY IS LIKELY TO GET EXTRAORDINARY GOVERNMENT SUPPORT INDIRECTLY THROUGH THE GROUP IF THE GOVERNMENT IS UNLIKELY TO SUPPORT THE SUBSIDIARY EITHER DIRECTLY OR INDIRECTLY SACP is lower than an unsupported GCP ICR = Higher of the SACP + uplift for potential government support, or SACP + uplift for group status uplift (subject to a cap at the level of the GCP unless the subsidiary is insulated). ICR = SACP + uplift for group status uplift. If the group status is "strategically important" or lower, the ICR is capped at one notch below the GCP. ICR = SACP + uplift for group status (with reference to the unsupported GCP). SACP is higher than or equal to an unsupported GCP ICR = SACP + uplift for potential government support (subject to a cap at the level of the GCP unless the subsidiary is insulated). ICR = SACP + uplift for group status (with reference to the GCP). If the group status is "strategically important" or lower, the ICR is capped at one notch below the GCP (unless the subsidiary's SACP>= the GCP). If the SACP>= the GCP, the ICR is capped at the level of the GCP (unless the subsidiary is insulated). ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated). *This table does not apply to a GRE with an “almost certain” or “extremely high” likelihood of government support. See section VI. E.1 for the definition of an insulated subsidiary. Subject to paragraph 76, the rating assigned to a subsidiary that does not have an SACP is at the level of the GCP if the subsidiary is "core", or one notch lower than the GCP if the subsidiary is classified as "highly strategic". SACP--Stand-alone credit profile. ICR--Issuer credit rating (also FSR--Financial strength rating for insurance companies). GRE--Government-related entity. C. Group Status Of Individual Members 49. The assessment of the strategic importance (or "group status") of group members takes into account the group's organization and degree of cohesiveness. C.1 Subsidiaries 50. A subsidiary's group status will often influence the amount and timeliness of credit support it would receive under stress. This section describes the framework that classifies a subsidiary's group status into one of five categories (for financial services holding companies see subparts VII.F and VII.G): Core, Highly strategic, Strategically important, Moderately strategic, or Nonstrategic. 51. An SACP for a subsidiary categorized as "core" or "highly strategic" to a group is not necessary unless otherwise required under other Standard & Poor's criteria. An example of such criteria is listed in paragraph 84. 52. If a group fails to support a group member in financial distress or puts a group member up for sale when that entity was previously assessed as at least "strategically important," the approach is to reassess the group status of all rated group members. 53. A subsidiary's group status indicates differing degrees of enhancement, or uplift, above its stand-alone creditworthiness that contribute to the potential long-term ICR (see subsections a to e below). The ICR on a subsidiary could be at the GCP level if its SACP reaches or exceeds the GCP level. For criteria on incorporating the likelihood of government support, see paragraph 27; for a credit-substitution debt guarantee, see paragraph 68; and for treatment of insulated subsidiaries, see paragraphs 74 and 75. As described in paragraph 76 and, for financial services groups, paragraphs 94 to 96, the final ICR is determined after considering any constraints to the potential long-term ICR posed by the sovereign rating and/or T&C; assessments. a) "Core" entities 54. A "core" entity meets all of the following characteristics (see table 1 for a summary) and at least one of those in paragraph 55: Is highly unlikely to be sold; Operates in lines of business or functions (which may include group risk management and financing) integral to the overall group strategy. The activities it undertakes or the products and services it sells are very closely aligned with the group's mainstream business and customer base. The entity also often operates in the same target market; Has a strong, long-term commitment of support from senior group management in good times and under stressful conditions, or incentives exist to induce such support (for example, cross-default clauses in financing documents). A decision to integrate the operations of a subsidiary or affiliate fully into those of the group or, for an insurer, to reinsure at least 90% of the subsidiary's risks within the group, indicates such commitment; Is reasonably successful at what it does or does not have ongoing performance problems that could result in underperformance against the group management's specific targets and group earnings norms over the medium to long term. In addition, the subsidiary's business risk should not be substantially worse than the group's. A newly acquired subsidiary has heightened potential for unanticipated risks to emerge, particularly during the first two years after the acquisition, and may not yet be deemed reasonably successful; Either constitutes a significant proportion of the consolidated group (see paragraph 86) or is fully integrated with the group (see the Glossary in Appendix A); Is closely linked to the group's reputation, name, brand, or risk management; Has been operating for more than five years (unless it meets the conditions in paragraph 64); and If it is a captive reinsurer of an insurance group, shows all of the previous features, and at least 90% of the subsidiary's business comes from other group companies on behalf of the group. 55. A "core" entity must also have at least one of the following characteristics: Shares the same name or brand with the main group; or Is incorporated separately for legal, regulatory, or tax purposes, but operates more as a division or profit center within the group. Its business, customer, and regional orientations are usually similar to those of other principal operations of the group. A "core" subsidiary often uses the group's distribution networks and shares administrative functions with other major operating units; or Demonstrates capitalization or leverage commensurate with the GCP. A captive insurance subsidiary can however achieve "core" status, despite not posting commensurate capitalization, if its links with its parent are sufficiently strong. b) "Highly strategic" subsidiaries 56. A subsidiary is "highly strategic" (that is, nearly "core") when it meets all of the characteristics listed below (see table 1 for a summary): The first three characteristics listed in paragraph 54; All but one of the remaining five characteristics in paragraph 54; and At least one characteristic listed in paragraph 55. c) "Strategically important" subsidiaries 57. When a subsidiary does not meet the conditions for "core" or "highly strategic", it is categorized as "strategically important" if it meets all of the following characteristics (see table 1 for a summary): Is unlikely to be sold; Is important to the group's long-term strategy; Has the long-term commitment of senior group management, or incentives exist to induce such commitment (for example, cross-default clauses in financing documents); and Is reasonably successful at what it does or has realistic medium-term prospects of success relative to group management's specific expectations or group earnings norms, unless paragraph 58 applies. 58. For regulated groups, subsidiaries may occasionally be regarded as "strategically important" if the regulator holds the group responsible for supporting the subsidiary, even though the subsidiary does not meet the characteristics in paragraph 57. However, the criteria would assess such a subsidiary as "strategically important" only if the additional features described in paragraph 88 also apply. d) "Moderately strategic" subsidiaries 59. When a subsidiary does not meet the conditions for "core", "highly strategic," or "strategically important" group status, it is categorized as "moderately strategic" if it meets all of the following characteristics (see table 1 for a summary): Is unlikely to be sold in the near term; Meets one of the remaining three characteristics for "strategically important" in paragraph 57; and Is likely to receive support from the group should it fall into financial difficulty. 60. For regulated groups, subsidiaries may occasionally be regarded as "moderately strategic" if the regulator holds the group responsible for supporting the subsidiary, even though the subsidiary does not meet the requirements in paragraph 59. However, the criteria assess a subsidiary as "moderately strategic" only if the features described in paragraph 89 also apply. e) "Nonstrategic" subsidiaries 61. When a subsidiary does not meet the conditions for "core", "highly strategic," "strategically important," or "moderately strategic," it is categorized as "nonstrategic" (see table 1 for a summary). C.2 Branches 62. A branch is part of a legal entity that is typically at another location. A branch therefore has the same creditworthiness as the legal entity, unless the branch is in another country and the actions of that sovereign could affect the branch's ability to service its obligations (see paragraphs 95 and 96). For more details on the criteria for bank branches see paragraph 212 of "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011. C.3 Start-ups 63. A start-up operation may fit into any of the five group status categories, although it must show all the characteristics in paragraph 54 to be in the "core" category. 64. A start-up (see the Glossary for a definition) subsidiary is generally not regarded as "core" (see paragraph 54) or "highly strategic" (see paragraph 56) because of the lack of an operating history. For a start-up, the potential for volatile earnings is likely to be higher than for long-standing operations. However, a start-up may be assessed as "core" to the group if it meets all the other characteristics listed in paragraph 54; or "highly strategic" to the group in line with paragraph 56. This means it meets all but one of the other characteristics listed in paragraph 54, apart from "has been operating for more than five years," and if it is set up to serve important existing customers, or has been created as a separate legal entity due to regulatory requirements or tax considerations, such that the group otherwise has the requisite operating history. C.4 Subgroups 65. A subgroup can be headed by a nonoperating holding company or an operating entity of the wider group (for a definition of "subgroup", see the Glossary). 66. A subgroup can have a GCP separate from that of the wider group. 67. In instances when the potential for extraordinary government support (beyond that already factored into the SACP) is a component of the ICRs on certain members of a subgroup or the subgroup's GCP, the criteria assess whether such government support would accrue to all members of the subgroup in accordance with paragraph 48. C.5 Credit-substitution debt guarantee of group entities 68. When a group member's debt carries a credit-substitution guarantee, this means the guarantor will pay that group member's guaranteed obligations if it defaults. The evaluation of creditworthiness is therefore not on that group member (the primary obligor), but on the guarantor. 69. The criteria for credit-substitution guarantees are in the relevant sections of "Guarantee Criteria--Structured Finance," May 7, 2013, "European Legal Criteria For Structured Finance Transactions," Aug. 28, 2008, and "Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria," Oct. 1, 2006. 70. For insurance group subsidiaries that are beneficiaries of policy guarantees and other support agreements, see paragraphs 103 to 108 below. D. Determining The SACP Of Group Members 71. The criteria for assessing the SACP of group members are: For financial institutions groups, in "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011, "Rating Securities Companies," published June 9, 2004, "Rating Finance Companies," published March 18, 2004, "Counterparty And Debt Rating Methodology For Alternative Investment Organizations: Hedge Funds," published Sept. 12, 2006, "Rating Private Equity Companies' Debt And Counterparty Obligations," published March 11, 2008, "Rating Asset Management Companies," published March 18, 2004, "Standard & Poor's Updated Methodology For Rating Exchanges And Clearinghouses," published July 10, 2006, and "Rating Network Payment Providers," published June 1, 2005; and For insurance groups, in "Insurers: Rating Methodology," published on May 7, 2013. E. Assigning The Issuer Credit Rating (ICR) 72. The ICR on a member of a group reflects its SACP, group status, and the potential for external support (or negative intervention), in line with relevant criteria (see also chart and table 1). 73. The methodology is to add or subtract notches to the SACP or GCP, subject to the criteria in paragraph 76. The potential long-term ICR for a: "Core" group entity is generally equal with the GCP. "Highly strategic" subsidiary is generally one notch lower than the GCP, unless the SACP on that subsidiary is equal to, or higher than, the GCP. In such a case, the potential long-term ICR could be at the same level as the GCP. "Strategically important" subsidiary is generally three notches higher than its SACP. This is subject to a cap of one notch below the GCP, unless the SACP is already equal to or higher than the GCP, in which case, the potential long-term ICR can be at the GCP level. "Moderately strategic" subsidiary is generally one notch higher than that subsidiary's SACP. This is subject to a cap of one notch below the GCP, unless the SACP is already equal to or higher than the GCP, in which case, the potential long-term ICR can be at the GCP level. "Nonstrategic" subsidiary is at the level of the subsidiary's SACP, subject to a cap of the GCP. E.1 Insulated subsidiaries 74. Financial stress at the parent level will likely affect a subsidiary's SACP, particularly if there are close business or funding ties between the two. Excluding the conditions described in paragraph 29, a subsidiary with an SACP higher than the GCP does not generally receive an ICR that is higher than the GCP. This is notably because: The relatively weaker parent could potentially divert assets from the subsidiary or burden it with liabilities during financial stress, and the subsidiary could have much less debt- and capital-raising flexibility; and In some jurisdictions, a bankruptcy petition by the parent could include the subsidiary or cause the subsidiary to go into administration. 75. However, in some instances an entity may be partly insulated, segmented, or ring-fenced from its group, from a credit perspective. Such insulation may lead to a rating on a subsidiary being higher than the GCP. For members of a financial services group, this rating approach is explained in paragraphs 97 to 102. F. Rating Group Entities Above The Sovereign 76. The general criteria for assigning higher foreign currency ratings to nonsovereign entities than those on the sovereign are in "Criteria For Determining Transfer And Convertibility Assessments," published May 18, 2009, and "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," June 14, 2011. Additional criteria are described in paragraphs 94 to 96 of this article for members of financial services groups. VII. METHODOLOGY: FINANCIAL SERVICES GROUPS 77. The term financial services group covers bank groups, other financial institutions groups, and insurance groups. This part of the article explains factors specific to both types of groups. 78. For the purposes of these criteria, a member of a financial services group need not itself be a bank, financial institution, or insurance entity. For example, a bank or insurance company may have a subsidiary that does not offer financial services. These criteria would apply to such an entity. 79. The criteria for considering government support for banks not classified as GREs are in "Banks: Rating Methodology And Assumptions," published Nov. 9, 2011. 80. The following subparts supplement paragraph 44, which describes the approach for holding companies: Nonoperating and operating holding companies (see paragraphs 109 to 120 for insurance holding companies and paragraphs 121 to 127 for financial institution nonoperating holding companies). Financial institution operating holding companies. The approach is to treat such companies like any other operating entity. A. Identifying Members Of A Financial Services Group 81. This subpart supplements the definitions in paragraphs 30 and 31 (and the Glossary in Appendix A). 82. An example of "control" is when a bank is a shareholder in a 50-50 joint venture financial institution, but the regulator of both the bank and joint venture holds the bank responsible for the joint venture. This indicates that the bank controls the joint venture. 83. "Prudentially regulated": Banking and insurance are regarded as prudentially regulated sectors. B. Group Status Of Members Of A Financial Services Group 1. Subsidiaries 84. Supplementing paragraph 51, an example of criteria that require a "core" or "highly strategic" subsidiary to have an SACP assessment are those in "Bank Hybrid Capital Methodology And Assumptions," published Nov. 1, 2011. 85. Supplementing paragraph 55, for "core" and "highly strategic" insurance subsidiaries of insurance groups, other than captive reinsurers, "commensurate capitalization" refers to capitalization that is: In line with group policies and practices for subsidiaries with similar group status, and Significantly above the regulatory minima. a) "Core" entities 86. In determining whether a member of a financial services group is "core," a "significant proportion of the consolidated group" in paragraph 54 means that the entity represents, or shows the ability to reach, the following level of capital, on the basis of projections for the next two to three years: At least 5% of consolidated group capital; and For a subsidiary (not a captive reinsurer) of an insurance group, a "significant proportion" of group earnings refers to at least 5% of consolidated operating earnings before internal retrocession. For this analysis, the assessment of "operating earnings" involves evaluating EBIT (see the Glossary of "Insurers: Rating Methodology," published May 7, 2013). A captive reinsurer that does not represent a "significant proportion" of the group, may be assessed as "core" if its third-party business does not exceed 10% of net premium written, and as "highly strategic" if third-party business does not exceed 30% of net premium written. For a complex global group with 20 or more significant operating subsidiaries, an entity may still be "core," although its capital and earnings are below those stated above, if it is a bank or insurance company with a top tier market position. 87. An insurance group's subsidiary is not considered "core," "highly strategic," or "strategically important" if there is any possibility of it being placed into run-off. However, this does not apply to subsidiaries whose operations could be transferred to other "core," "highly strategic," or "strategically important" subsidiaries, as long as there is no measurable credit impact on policyholder and nonpolicyholder financial obligations. In addition, this does not apply to subsidiaries of groups that for reputation reasons will likely support a subsidiary even in run-off, or which continue to consider the subsidiary's line of business as strategic. b) "Strategically important" subsidiaries 88. This subsection supplements paragraph 58. The following additional conditions apply in order for a regulated subsidiary of a financial services group to be assessed as "strategically important": A divestment of the subsidiary is only possible with the regulator's prior approval; and In periods of distress, the rest of the group is likely to provide additional liquidity, capital, or risk transfers in most foreseeable circumstances (see also table 1). The group's track record in supporting such subsidiaries is an indicator. c) "Moderately strategic" subsidiaries 89. Supplementing paragraph 60, for a regulated subsidiary of a financial services group to be assessed as "moderately strategic," the following additional conditions apply: A divestment of the subsidiary is only possible with the regulator's prior approval; and In periods of distress, there is the potential for minimal support from the group, even if the subsidiary may not be important enough to warrant additional liquidity, capital, or risk transfer from the rest of the group in some foreseeable circumstances (see table 1). The group's track record in supporting such subsidiaries could indicate such potential. Examples of when there is the potential for minimal support are (1) when minority ownership of a subsidiary implies a dilution of the group's responsibility, or (2) when the fragile financial position of the parent or group constrains either's ability to provide support. 2. Subgroups 90. The group status of members of a subgroup can be associated with that subgroup. The approach depends on the subgroup's status within the wider group, subject to the sovereign-related constraints indicated in paragraph 76. 91. If a subgroup is "core" to the wider group: The ICR on a "core" subsidiary of the subgroup is at the level of the wider group's GCP. The ICR on a "highly strategic" subsidiary of the subgroup is one notch lower than the wider group's GCP (unless its SACP equals that GCP). The ICR on a "strategically important" subsidiary of the subgroup is three notches higher than its SACP (capped at one notch below the GCP of the wider group, unless its SACP equals that GCP). The ICR on a "moderately strategic" subsidiary of the subgroup is one notch above its SACP (capped at one notch below the GCP of the wider group). The ICR on a "nonstrategic" subsidiary of the subgroup is equal to that entity's SACP. 92. If a subgroup is "highly strategic", "strategically important," or "moderately strategic" to the wider group, the assessment of its members reflects the following five factors to the extent they are relevant: The subsidiary's importance to the subgroup; The subgroup's importance to the wider group; The subgroup's GCP, or its unsupported GCP if we do not expect the wider group to contribute to the subgroup's support to the subsidiary; The subsidiary's SACP; and Our view as to which members of the group would provide support in case of stress. 93. The ICR on a subsidiary of a "nonstrategic" subgroup is based on that subsidiary's status relative to the subgroup and the subgroup's GCP. In the rare cases that a "nonstrategic" subgroup's subsidiary is "core" or "highly strategic" to the wider group, and we expect the wider group to support the subsidiary directly, rather than via the subgroup, the ICR on that subsidiary is based on the subsidiary's status relative to the wider group and the wider group's GCP. C. Rating Financial Services Group Entities Above The Sovereign 94. Implicit group support can result in the ICR on a group member being higher than the relevant sovereign rating if the sovereign is rated 'B-' or lower, or in the following situations: 1. Members of financial institutions groups 95. Supplementing paragraph 76, group support does not result in an ICR on a subsidiary being higher than the relevant foreign currency sovereign credit rating, if we do not consider the parent group able and willing to sufficiently support the subsidiary during stress associated with a sovereign default. If we do: And the subsidiary is "core" to the group, the ICR on that subsidiary is one notch above the sovereign rating applicable in the host jurisdiction (see also paragraph 62). Uplift for the potential for group support cannot lift the ICR on a subsidiary, that is not "core", higher than the sovereign rating on the host country. This is unless the subsidiary's exposure to that jurisdiction is less than 10%, and risks associated with that jurisdiction (such as a deposit freeze or monetary-union exit) are considered immaterial. The ICR on a financial institution subsidiary should be consistent with paragraphs 211 and 212 of "Banks: Rating Methodology And Assumptions" (which refer to subsidiaries and branches). 2. Members of insurance groups 96. Supplementing paragraph 76, group support does not result in an ICR on a foreign subsidiary or branch of an insurance group being higher than the local currency sovereign credit rating on the country where the subsidiary is domiciled, if we do not consider the parent group able and willing to sufficiently support the subsidiary during stress associated with a sovereign default. If we do, and: The subsidiary is an insurer benefiting from a policyholder guarantee according to the criteria in paragraph 103, or is a foreign branch of an insurance company, the rating is the lower of: (1) the ICR on the guarantor, (2) the result from adding six notches to the local currency sovereign credit rating if it is 'BBB-' or higher, and (3) the result from adding four notches to a local currency sovereign credit rating that is 'BB+' or lower. The subsidiary has less than 10% exposure to the local jurisdiction and faces immaterial risk of a deposit freeze and the sovereign's exit from a monetary union, the sovereign's creditworthiness does not constrain the rating assigned to the subsidiary. For example, such a foreign subsidiary is rated 'A+' if it is a "highly strategic" member of a group with a GCP of 'aa-', even though the rating on the host sovereign is 'BBB'. The 'A+' rating is one notch lower than the GCP in line with the approach for "highly strategic" subsidiaries (see paragraph 73). The subsidiary is in neither of the two preceding situations, the rating is the lower of: (1) the local currency sovereign credit rating (plus three notches if a "core" subsidiary), and (2) the potential rating otherwise derived from these criteria. An example is a potential long-term ICR of 'A-' for a "strategically important" subsidiary of a group in a 'AAA' rated jurisdiction. The subsidiary has an SACP of 'bbb' and all its operations are in a country that has a sovereign local currency rating of 'A-'; the rating would be three notches above the SACP, based on the "strategically important" status, but limited to 'A-'. D. Insulated Subsidiaries Of A Financial Services Group 97. Supplementing paragraph 75, a nonregulated entity is rated higher than the GCP if there is multiple ownership as described in paragraph 45 or, alternatively, two or more of the following restrictions are in place (see "Legal: Ring-Fencing a Subsidiary," Oct. 19, 1999): Limited-purpose entity structure; Covenants; or Collateral. 98. Although subsidiaries are generally not rated higher than the GCP, they may receive a higher rating as an insulated subsidiary if all of the following conditions are met: The subsidiary's SACP is higher than the GCP, or the potential ICR is higher than the GCP owing to notches of uplift for potential government support; The subsidiary's prospects in terms of financial performance and funding are highly independent from those of the group, so that even if other "core" entities encounter severe setbacks, the relative strength of the subsidiary would remain nearly intact; Regulatory restrictions (such as regarding liquidity, capital, or funding) would prevent the subsidiary from supporting the group to an extent that would impair the subsidiary's stand-alone creditworthiness; It is unlikely that proceedings that could lead to a default at the group level, under our criteria, would directly lead to a default of the subsidiary; and The parent's strategy with respect to the subsidiary is clear and, in particular, the parent has a compelling economic incentive to preserve the subsidiary's credit strength. Alternatively, the subsidiary is a bank that has high or moderate systemic importance or, based on public statements, we expect the host regulatory authority to intervene to protect a regulated subsidiary in the interest of broader financial stability. 99. The potential long-term ICR for an insulated subsidiary is one notch above the GCP if the following characteristic is met as well as the features in the previous paragraph: The subsidiary has an SACP that is at least one notch higher than the GCP, or the SACP plus the uplift for potential government support is one notch higher than the GCP. 100. The potential long-term ICR for an insulated subsidiary is two notches above the GCP if the entity fulfils the characteristics listed in paragraph 98, and its SACP (or its SACP plus the uplift for potential government support) stands at least two notches above the GCP, and one of the following situations applies: The holding company or group's weaker credit quality results from its ownership of smaller, nonregulated business activities that are largely unrelated to the business line of the regulated entity's operations, and management has taken affirmative steps to distance the rest of the group from such unrelated subsidiaries, as shown by actual behavior, beyond the usual verbal assurances that management will not imperil the creditworthiness of the rated subsidiary by supporting weaker operations; or The subsidiary is a bank with high or moderate systemic importance that benefits from the potential for extraordinary government support, and the regulator does not allow the subsidiary to rely on the group to meet liquidity standards or to fall below a capitalization level that is set above minimum regulatory capital requirements; or The subsidiary is a clearinghouse, exchange, or central securities depository that would likely benefit from any necessary protective actions by the host authorities in the interest of financial stability, if the wider group came under stress; or The subsidiary is a regulated entity and the host regulator has made public statements indicating its willingness and capacity to intervene to protect the position of the subsidiary. 101. The potential long-term ICR on an insulated subsidiary is three notches above the GCP if the entity meets the conditions for assigning ratings that are one and two notches above the SACP in paragraphs 98 and 100, and all the following characteristics apply: The subsidiary's SACP (or the SACP plus the uplift for potential government support) stands at least three notches above the GCP; The subsidiary is assessed to be severable from the group and able to stand on its own or subcontract certain functions previously provided by the parent. This includes receiving immaterial funding, if any, from the group; Standard & Poor's concludes that it is unlikely that the assets and liabilities of the subsidiary would be substantively consolidated into those of the parent company in the event of the insolvency of the parent company; The group and subsidiary's public statements on dividend policy are consistent with the independent integrity of the subsidiary. There is an independent trustee or equivalent party with the ability to enforce the protection of the rights of third parties; or significant minority interests that have sufficient power to block dividend payments (This will typically correspond to ownership of at least 20%, and such minority shareholders would have independent directors on the board of the subsidiary that can influence decision-making effectively.); or the government has the right to change ownership of the subsidiary via existing legislation for the resolution of a troubled bank or other legal powers enabling it to change the ownership of a subsidiary in order to separate it from a troubled parent, and we expect that it could use this right; and There is a strong economic basis for the parent, regulator, or government's commitment to maintain the capital to support the higher rating on the subsidiary. 102. The potential long-term ICR for an insulated entity is delinked from the GCP if all the following characteristics are met: The GCP relating to that insulated entity has been revised downward, within a six-month period, by three notches or more, either into or passing through the 'b' category; and The regulator for that entity is expected to act (or has acted) to prevent the subsidiary from supporting the group to an extent that would impair the subsidiary's stand-alone creditworthiness. E. Subsidiaries Of An Insurance Group As Beneficiaries Of Policy Guarantees And Other Support Agreements 103. Where a policy guarantee agreement meets the following conditions, the FSR on the beneficiary is that of the guarantor (unless the beneficiary's SACP is higher). These conditions mirror those for our rating-substitution criteria for debt guarantees (see "Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating," published May 11, 2012). However, the last two conditions are specific to these criteria, as is the absence of a reference to timeliness (which FSRs do not address). Also, policyholders, not debtholders, are the beneficiaries of policy guarantees. The guarantee covers all policyholder obligations and explicitly ranks them as pari passu with the guarantor's own policyholder obligations. (A guarantee that does not cover all the guaranteed entity's policyholder obligations may not enhance the FSR on that entity at all.) The guarantee is of payment and not collection. The guarantee is unconditional, irrespective of value, genuineness, validity, or enforceability of the supported obligations. The guarantee provides that the guarantor waives any other circumstance or condition that would normally release a support provider from its obligations. The guarantor should also waive the right of set-off and counterclaim. The guarantor's right to terminate the agreement is appropriately restricted, that is, the support agreement does not terminate before the supported obligations are paid in full. In cases where the agreement can be terminated before all supported obligations are paid in full, all obligations incurred up to the termination date will remain supported. In addition, the support agreement must be binding on successors of the support provider or, if it can be revoked, this only applies to policies written after the revocation date. The guarantee provides that it reinstates if any supported payment is recaptured as a result of the primary obligor's or the guarantor's bankruptcy or insolvency. Policyholders are third-party beneficiaries of the guarantee. In the case of cross-border transactions, the guarantee appropriately addresses the risk of withholding tax with respect to payments by the guarantor, where such a potential tax is relevant. To strengthen the guarantee's enforceability by policyholders, if it is not referenced in insurance policies, the beneficiary insurer or guarantor provides sufficient public disclosure of its existence and key features. 104. Additionally, with respect to guarantees provided to Lloyd's Corporate Members: The guarantee explicitly specifies a method through which valid claims continue to be paid to policyholders should the central Lloyd's claims payment process be inoperable for any reason, including regulatory action affecting Lloyd's. The guarantee is triggered when the Corporate Member fails to make timely payment of any amount, once determined to be due and payable, from Premium Trust Funds and Funds at Lloyd's. There should be no reliance upon payments from the Lloyd's Central Fund. 105. For the purpose of these criteria, for a subsidiary of an insurance group, "support agreements" may include net-worth maintenance agreements or any other agreement intended to provide support to subsidiary policyholders. These can lead to an enhancement (or uplift) of the ICR or FSR assigned to an entity. When an indirect support agreement does not meet all of the conditions for ratings substitution with those of the guarantor, then to qualify for any rating enhancement, the support agreement must meet all of the following conditions. It: Gives policyholders, financial creditors, or other third-party interests, such as regulators, the ability to enforce the agreement against the support provider, if the provider fails to perform its obligations; Cannot be modified or terminated to the detriment of the existing beneficiary policyholders, or creditors at the time of termination without their agreement, unless the beneficiary subsidiary's creditworthiness becomes at least as strong as the supported rating; or the beneficiary can be sold only to an insurer with the same or higher creditworthiness as the support provider; Stipulates that the subsidiary will be prudently capitalized, for example, relative to the regulatory capital requirement; and Provides that the support provider will cause the beneficiary entity to have sufficient cash and liquid assets for the timely payment of all of its debt if the agreement is to provide corporate debt support, and policyholder obligations if the agreement is to provide policyholder support. 106. When, in addition to the conditions in the previous paragraph, the beneficiary subsidiary is at least "strategically important" to the group, and the support agreement meets all of the following four conditions, the rating on the beneficiary (unless it has an SACP at or above the GCP) is one notch below the rating on the support provider: The agreement states definitively that the provider will support the beneficiary, and sets no material cap on the support; The agreement is provided by a regulated bank or insurer that is a "core" group or subgroup member; The agreement is binding on successors and agents of the support provider; and The beneficiary subsidiary does not demonstrate adverse performance and is unlikely to be part of a corporate restructuring. 107. When the conditions in paragraph 106 apply, but a subsidiary is not "core," "highly strategic," or "strategically important," and a net-worth maintenance agreement meets both of the following conditions, the rating on the beneficiary is three notches above its SACP, subject to a cap at one notch below the rating on the support provider: The agreement demonstrates an intention to support the beneficiary in the medium to long term; and The agreement is provided by an affiliated regulated bank or insurer. 108. For an insurance subsidiary with explicit support from a qualifying guarantee, the FSR on a subsidiary insurer would generally be six notches higher than the local currency sovereign credit rating in countries rated 'BBB-' or higher, and four notches higher than the local currency sovereign credit rating in countries rated 'BB+' or lower, limited by the rating on the guarantor. F. Insurance Holding Companies 109. The criteria do not assign a group status to holding companies at the head of an insurance group. The ratings on holding companies reflect the difference in their creditworthiness relative to the operating entities. 110. Holding companies are nonoperating holding companies (NOHCs) if they do not carry out insurance business, or operating holding companies (OHCs) if they do. A holding company that carries out an immaterial amount of insurance business is still classified as an NOHC, however. The criteria assign only ICRs to NOHCs, while OHCs may receive both ICRs and FSRs. 111. The ICR on a NOHC reflects (1) the GCP and (2) the number of notches that differentiate the NOHC from the operating entities. The rating differential takes account of the ongoing subordination of the creditors of the holding company to those of the operating insurance subsidiaries (typically their policyholders). 112. The difference (in notches) between the ICR on a NOHC and the GCP reflects the degree of structural subordination within insurance groups. Structural subordination is considered very high in jurisdictions such as the U.S., where even strong companies have to obtain prior regulatory approval before transferring significant amounts of solvency capital from an operating company to its holding company. Structural subordination is somewhat less onerous in regions other than the U.S. We define an NOHC as either a U.S. or non-U.S. NOHC, based on the geographic split of estimated dividends that the NOHC could receive, or in the absence of data on dividends, on the geographic split of earnings. 113. Usually, a NOHC receives an ICR that is two notches below that on the "core" operating companies (three notches below in the case of U.S. NOHCs whose classification is based on the geographic breakdown of the group's premiums). In rare instances, a different notching approach applies as follows; the ICR on an NOHC is: One notch lower than that on the "core" operating companies, if (1) banking operations are expected to contribute at least 25% of the group's operating income on a forward-looking basis based on projections over the next two to three years, and (2) the holding company is domiciled in a jurisdiction with a common regulator for banks and insurers that is supportive of capital fungibility among the holding company and the banking and insurance subsidiaries. If there is an increased likelihood of regulatory intervention detrimental to the NOHC's creditors, however, the notching differential can in such circumstances exceed one notch. One notch lower, if a holding company of insurance and noninsurance businesses has nonregulated activities that consistently provide at least one-third of the group's operating income (for example, based on EBITDA as defined in "2008 Corporate Criteria: Ratios And Adjustments," published April 15, 2008), and the noninsurance business is not regulated, and their cashflows to the holding company are not subject to regulatory intervention. This also applies if nonregulated activities provide the majority of the group's operating income. The same as the GCP, that is, the notching is zero, if nonregulated businesses provide a clear majority of the group's operating income. This assumes that the nonregulated businesses are either (1) not owned by an insurance company or bank, or (2) owned by an insurance company or bank whose transfer of dividends to its owners is prudentially regulated, but any limits on the payment of dividends are unlikely to prevent the passthrough of dividends from the noninsurance business to the holding company. More than two notches below that on the "core" operating companies (or more than three notches in the case of U.S. NOHCs), depending on our assessment of factors restricting the ability of the group's nonregulated businesses to upstream dividends to the holding company. For the purpose of the criteria, "nonregulated" refers to entities whose flow of dividends to the owners is not prudentially regulated (as defined in the Glossary below). Two notches below the GCP, for a holding company of a U.S.-based insurance group, instead of the usual three, based on our assessment of: (1) the group's diversity among regulated subsidiaries in different domiciles, (2) the group's fixed-charge coverage, (3) the operating companies' aggregate ordinary dividend capacity relative to the sum of the holding company's ongoing cash requirements and principal maturities over the next twelve months, and (4) the holding company's unencumbered cash and liquid investments relative to the sum of its ongoing cash requirements and principal maturities over the next 12 months. One notch lower than the GCP, if an intermediate insurance holding company that (1) is part of a broader bank group, (2) contains at least one operating company that is "strategically important," "highly strategic," or "core" to the bank group, and (3) has sufficient access to funding or support from the parent bank group operations and to dividend flows from its insurance operations. Assigned in accordance with the situations described in "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012, if the company is a holding company of an insurance group with a GCP of 'b-' or lower. The same approach applies for a holding company if the notching in this section would otherwise result in a rating of 'CCC+' or lower. 114. The notching from the GCP to derive the ICR on a NOHC is also increased in the following situations: If the holding company's liquidity is assessed as "less than adequate" or "weak," the ratings are capped at 'BB+' or 'B-', respectively; or When the holding company itself carries very significant asset or liability risks that are otherwise diluted within the overall GCP. 115. The liquidity assessment for a NOHC is a function of the first three subfactors defined in Section D2 of "Insurers:

Rating Methodology," and of the ratio subfactor described in paragraph 118 below, all analyzed at the level of the unconsolidated holding company, which, in most cases, carries most of the group's financial obligations. 116. A NOHC's liquidity is "adequate" if the ratio is greater than or equal to 1.2x, "less than adequate" when greater than or equal to 1.0x but less than 1.2x, or "weak" when less than 1.0x. The criteria never assess an NOHC's liquidity as "exceptional." 117. Liquidity is assessed as "less than adequate" when one or two of the subfactors are negative, and "weak" when three of the subfactors are negative. In all other cases, liquidity is assessed as "adequate." 118. The ratio subfactor is positive when both ratios exceed 1.5x, negative if the first one is under 1.2x and the second one under 1.0x, and neutral otherwise: Liquid assets to noncontingent short-term financial liabilities, where the numerator excludes stakes in subsidiaries but includes undrawn committed backup facilities (see paragraph 181 of "Insurers: Rating Methodology"), and the denominator includes liabilities with structured settlements, with no optional features The holding company's ability to pay its total liquidity requirements (excluding principal servicing) out of its cash inflows: [Dividends from operating entities + net investment revenues from holding assets] / [overhead expenses + interest charges + other ongoing financial charges + shareholder distributions, if any]. 119. The FSR and ICR for an operating holding company result from notching down from the GCP by up to two notches (or by up to three notches in the case of U.S. OHCs, where the classification is based on the group's geographic breakdown of premiums) to reflect the ongoing cash flow subordination consistent with our approach for NOHCs. The number of notches from the GCP predominantly reflects a function of: The group's financial leverage and the holding company's role as a debt financing vehicle; The holding company's dependence on income streams from operating subsidiaries versus the diversity of such income streams from operating subsidiaries and the holding company's ability to generate revenues from own activities to service its debt obligations; and The availability of excess capital held at the holding company. 120. The following are examples of how ratings on OHCs are derived with respect to the GCP: If the group's financial leverage is immaterial and an OHC's activities are integral to those of the group, the rating on the OHC is typically equal to the GCP. For OHCs that operate with financial leverage of less than 30%, the ICR is typically equal to the GCP if a combination of diverse income streams from operating subsidiaries, revenues from own activities, and/or sizable excess capital, in our view, enables the OHC to meet its ongoing payment obligations under essentially all foreseeable circumstances. Again, this applies if the OHC's activities are integral to those of the group. For OHCs that operate with financial leverage of less than 30%, the ICR is typically one notch lower than the GCP if a combination of offsetting factors (related to the factors in the second and third bullet points of paragraph 119) in our view enables the OHC to meet its ongoing payment obligations under most foreseeable circumstances. For OHCs that operate with financial leverage of more than 30%, the ICR is typically two notches lower than the GCP. This differential typically also applies if an OHC operates with financial leverage lower than 30%, but is dependent on income streams from a few operating subsidiaries, has limited capacity to generate revenues from own activities, and/or does not hold sizable excess capital. G. Financial Institution Nonoperating Holding Companies 121. For NOHCs at the head of financial institutions groups: The ICR is generally one notch lower than the GCP. The rating differential between a NOHC and the "core" operating entities is mainly due to the NOHC's reliance on dividends and other distributions from operating companies to meet obligations. Certain factors lead to higher relative credit risk at an NOHC and result in wider notching from the GCP (see paragraphs 124 and 125 for examples). In certain circumstances, a weak financial profile at the NOHC, as shown by high double leverage and/or weak liquidity, reflects poorly on the group's financial profile and the creditworthiness of the consolidated financial entity. 122. The creditworthiness of an NOHC is closely tied to that of the consolidated group, but is marginally weaker than the "core" operating entities'. 123. The ICR on a NOHC is usually one notch lower than those on the group's "core" operating entities. The differential reflects our perception of marginally greater credit risk at the NOHC relative to the group operating entities. This risk arises from the NOHC's reliance on distributions from the operating companies to meet its obligations, possible supervisory barriers to payments and potentially different treatment in a default situation, and the structural subordination of holding company obligations to those at the operating company level. 124. Factors that may widen the ratings gap between the NOHC and the "core" operating entities include increasing stress at the holding company or group level, the potential imposition of supervisory barriers to payments from operating companies to the NOHC, and the possibility that a government may rescue the operating company (in most cases, the bank), but not the NOHC, in a default situation. The greater the potential for these actions, the wider the differential between the rating on the NOHC and the "core" operating entities. 125. We reflect these factors by assigning a credit rating to the NOHC that is usually one notch lower than the credit ratings on the "core" operating entities of the group. The gap may be wider than one notch when: The group is under stress; The GCP includes an uplift for potential extraordinary government support, but the same degree of support is not expected to accrue to the NOHC (in certain cases, some support may be expected to accrue to the NOHC); The likelihood of regulatory intervention that would be detrimental to the NOHC's creditors increases; There are severe liquidity mismatches at the NOHC level, or a ratio of NOHC liquid assets--cash, money market funds, and marketable securities--to short-term debt (debts falling due within 12 months) that indicates the NOHC's weaker capacity to meet maturities of short-term obligations. The ratio indicates the amount of time the entity could survive without access to any debt financing; or Double leverage creates heightened sensitivity for an NOHC's creditors that is not offset by greater liquidity at the NOHC level (see the box below for more details). Double Leverage For Financial Institutions Groups We define double leverage (DL) as holding company investment in subsidiaries divided by holding company (unconsolidated) shareholders' equity. DL renders the NOHC dependent in part on dividends to meet interest payments on external debt. The calculation of DL from public data is often unreliable and complicated by the existence of multiple holding companies in some organizational structures. If DL exists at each holding company level, a single group measure of DL is not meaningful. Holding company accounts are often only available annually, and detailed breakdowns of balance-sheet items are rare. In particular, NOHC-only disclosure frequently does not distinguish between equity investments in subsidiaries and advances to subsidiaries. Some groups employ different accounting standards for holding company and consolidated accounts. For all of these reasons, published measures of DL are often not comparable, but DL remains an important analytical tool to measure creditworthiness of financial institutions. Regulators often have the authority to prevent dividend payments by a subsidiary to its parent. If interest received from operating companies is insufficient to meet an NOHC's external interest and principal repayment obligations, the NOHC may suffer a strain on liquidity. We do not link specific thresholds for double leverage to the rating differential between the ICRs on the NOHC and core operating entities of a regulated financial group. Rather, we take DL into account in our analysis of the creditworthiness of the consolidated group. High DL may strain the liquidity needs of the NOHC and is a sign that the liquidity management of the group may be aggressive. We consider a high DL ratio as an indicator of potential for stress on the NOHC's liquidity and a signal that the group's liquidity could be strained if not offset by compensating factors. We would generally view the threshold of 120% double leverage as sufficiently high to expect offsetting liquidity at the NOHC parent to compensate. Similarly, if the absolute amount of double leverage of a financial group with a NOHC exceeds two years' net income of the consolidated group, we would look for offsetting liquidity at the NOHC parent to compensate. NOHCs often issue hybrid capital securities that build regulatory capital. They invest the proceeds in operating subsidiaries as equity or as similarly structured hybrid securities. We calculate DL in two ways: (1) with a common equity double -leverage measure that treats hybrid capital as debt, and (2) with a total equity double leverage measure that treats hybrid capital as equity. When a financial institutions group's common equity DL is higher than its total equity DL, the NOHC has issued hybrid capital securities and invested the proceeds as equity in an operating subsidiary. 126. When a regulated financial institutions group with a bank holding company has a GCP lower than 'bbb-', the gap between the ICR on a NOHC and its "core" operating company (typically a bank) is at least two notches. 1. Factors leading to equalized ratings 127. For nonregulated non-bank financial institutions groups, the ICR assigned to a NOHC may be equalized with the GCP when the "core" operating entity or entities' activities display dependability or diversity (geographically or by business line), sufficient to support the NOHC's debt servicing. In such groups, we may equalize the rating on the NOHC with that on the nonregulated operating companies if there are no potential material restrictions (such as covenants) on the operating entities' ability to directly support the NOHC's creditworthiness. VIII. APPENDICES Appendix A: Glossary 128. All financial metrics used to apply these criteria, including geographic or business-line breakdowns of a group's activities, include projections over the next two to three years. 129. Captive reinsurer: A subsidiary that mainly provides reinsurance services for group members. Captive reinsurers typically show a very high degree of integration with group strategy. 130. Financial institution:The term "financial institution" includes retail banks, commercial banks, corporate and investment banks, large broker-dealers, mortgage lenders, trust banks, credit unions, building societies, custody banks, finance companies, asset managers, exchanges, clearinghouses, regional securities brokers, and similar financial institutions. 131. Financial services sector: Consists of banks, non-bank financial institutions, and insurers. 132. Financial sponsor:This is an entity that does not have a long-term, strategic investment in a company. Rather, the financial sponsor is a financial investment firm, trying to increase the value of its investment by improving management, capital, or both, typically with the ultimate goal of liquidating the investment. Financial sponsors include private-equity firms, hedge funds, venture capital, public and private investment companies, and mutual funds. 133. Financial strength rating (FSR):A Standard & Poor's insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurer with respect to its ability to pay under its insurance policies and contracts in accordance with their terms (see "Standard & Poor's Ratings Definitions," published June 22, 2012). 134. Fully integrated: This refers to a subsidiary that depends on the rest of the group for its administrative and operational activities, and infrastructure. These ties render it highly improbable to sever the subsidiary from the group. Examples of such subsidiaries include booking or cost centers, or captive finance operations (as defined in "Captive Finance Operations," April 17, 2007). 135. Group credit profile (GCP). The GCP is Standard & Poor's opinion of a group's creditworthiness as if the group were a single legal entity, and is conceptually equivalent to an ICR. A GCP does not address any specific obligation. 136. Insurance company or insurers. Entities that carry insurance risk, excluding for example, insurance brokers and companies servicing an insurance sector. In these criteria, unless otherwise stated, these terms include reinsurance companies and reinsurers. 137. Insurance group. A group of companies that has insurance as its predominant activity. 138. Intermediate holding company: A legal entity that is a subsidiary within a group that does not carry out its own business activities, but is the legal owner of at least one subsidiary that conducts business activities. 139. Investment holding company: A corporate entity that invests in, but does not intend to support, other companies (which are usually operating entities). 140. Issuer credit rating (ICR): Also called "counterparty credit rating", a Standard & Poor's issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due (see "Standard & Poor's Ratings Definitions," published June 22, 2012). 141. Local currency issuer credit rating: A nonsovereign entity's local currency ICR reflects Standard & Poor's opinion of that entity's willingness and ability to service its financial obligations, regardless of currency and in the absence of restrictions on its access to foreign exchange needed to service debt. 142. Nonoperating holding company (NOHC): A legal entity that does not carry out its own business activities, but is the legal owner of at least one subsidiary that conducts business activities. 143. Operating holding company (OHC): A legal entity that conducts business activities and also is the legal owner of at least one subsidiary that conducts business activities. If a holding company has a banking license, it is an OHC. 144. Parent: An entity with controlling or joint-control interest in another incorporated entity (a subsidiary) or a joint venture. 145. Prudentially regulated: This refers to the regulation of an entity by one or more regulatory authority for "prudential" purposes. Such regulation involves setting standards for capitalization and potential restrictions on distributions. For examples see paragraph 83. 146. Stand-alone credit profile (SACP): See "Stand-Alone Credit Profiles: One Component Of A Rating," Oct. 1, 2010. 147. Start-up: An entity operating for five years or less. 148. Subgroup: A group of legal entities within a wider group that are either controlled by a single legal entity, or collectively by several entities. 149. Transfer and convertibility (T&C;):Defined in "Criteria For Determining Transfer And Convertibility Assessments," published May 18, 2009, a T&C; assessment is associated with the likelihood of the sovereign restricting access to foreign exchange needed for debt service. 150. Ultimate parent: The legal entity at the top of a group structure, in which the control chain may include several successive layers and exclusive controlling or joint-control interest in another incorporated entity ("subsidiary") or joint venture. Under the criteria, a natural person, family firm, foundation, investment holding company, managed fund, or private equity firm would not generally be treated as an ultimate parent. In general, "family firm" refers to one that is family-controlled, and "private equity firm" to a natural person or fund-controlled entity primarily investing in a private capacity in operating entities. Appendix B: Superseded And Partly Superseded Criteria 151. This criteria article fully supersedes: Financial Institutions: Group Rating Methodology And Assumptions, Nov. 9, 2011, Holding Company Analysis, June 11, 2009, Insurance: Group Methodology, April 22, 2009, Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009, Notching Criteria On Canadian Insurance Operating Companies Revised For Global Consistency, Oct. 17, 2006, Flexible Gapping Of Ratings Reflects Regional Variations In Structural Subordination As Well As Differing Debt-Servicing Capacities, May 25, 2005, Standard & Poor's Guarantee Criteria As Applied to Lloyd's Corporate Capital Providers, Dec. 13, 2004, and Rating Interaffiliated Pools, April 15, 2004. 152. The subpart titled "Rating Group Entities Above The Sovereign" in this criteria article partly supersedes: Criteria Update: Factoring Country Risk Into Insurer Financial Strength Ratings, Feb. 11, 2003. RELATED CRITERIA AND RESEARCH Insurers: Rating Methodology, May 7, 2013 Guarantee Criteria--Structured Finance, May 7, 2013 Request For Comment: Ratings Above The Sovereign--Corporate And Government Ratings, April 12, 2013 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012 Standard & Poor's Ratings Definitions, June 22, 2012 Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating, May 11, 2012 Banks: Rating Methodology And Assumptions, Nov. 9, 2011 Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011 Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011 Principles Of Credit Ratings, Feb. 16, 2011 Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010 Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010 Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010 Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009 European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008 Recovery Ratings For U.S. Finance Companies, June 19, 2008 Rating Private Equity Companies' Debt And Counterparty Obligations, March 11, 2008 Captive Finance Operations, April 17, 2007 Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria, Oct. 1, 2006 Counterparty And Debt Rating Methodology For Alternative Investment Organizations: Hedge Funds, Sept. 12, 2006 Standard & Poor's Updated Methodology For Rating Exchanges And Clearinghouses, July 10, 2006 Rating Network Payment Providers, June 1, 2005 Rating Securities Companies, June 9, 2004 Rating Captive Insurers, April 13, 2004 Rating Finance Companies, March 18, 2004 Rating Asset Management Companies, March 18, 2004 Ring-Fencing a Subsidiary, Oct. 19, 1999 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.