

Criteria | Financial Institutions | General:

Group Rating Methodology And Assumptions

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Table Of Contents

- I. SCOPE OF THE CRITERIA
- II. SUMMARY OF THE CRITERIA
- III. METHODOLOGY
 - A. Definition Of Group Credit Profile (GCP)
 - B. Definition Of Group
 - C. Group Rating Methodology
 - D. Rating Group Entities Above The Sovereign Rating
 - E. Insulated Subsidiaries
- IV. APPENDIX I: GROUP RATING METHODOLOGY FOR BANK GROUPS
 - A. Scope Of The Criteria
 - B. Methodology
 - C. Related Criteria And Research

Table Of Contents (cont.)

V. RELATED CRITERIA AND RESEARCH

Group Rating Methodology And Assumptions

1. Standard & Poor's Ratings Services is updating its group rating methodologies and assumptions for the entities described in ¶5.
2. These criteria address the key area of "external support" as described in ¶¶31 to 35 of "Principles of Credit Ratings," published Feb. 16, 2011.
3. The changes in criteria aim to improve transparency about the group rating methodology. This article should be read in conjunction with the relevant criteria listed in Part V: "Related Criteria and Research".
4. The criteria articulate the steps in developing the issuer credit rating (ICR) after consideration of the potential for support (or negative intervention) from an issuer's parent group. The criteria framework involves notching up or down from an issuer's stand-alone credit profile (SACP; see "Stand-Alone Credit Profiles: One Component Of A Rating," Oct. 1, 2010) to set the ICR (see chart 1).

I. SCOPE OF THE CRITERIA

5. The criteria apply to ratings on entities which are members of a:
 - Bank group (see ¶46 of Appendix I for elaboration).
6. The criteria assess the group status of a group member (see ¶13 for definitions) to determine an indicative long-term ICR on the entity. For criteria on factoring in 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 guarantees, see "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. For criteria on insulated subsidiaries, see ¶¶44 to 45. 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, and "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," June 14, 2011.

II. SUMMARY OF THE CRITERIA

7. The group rating methodology criteria explain how the assessment of likely group support (conversely, negative group intervention) is factored into the issuer credit rating (ICR) on an entity that is a member of a group. The methodology consists of six steps (see chart 1 and table 1):
 - Identifying the group's members;
 - Assigning a group credit profile (GCP);
 - Assessing the member's status within the group and consequently group-support expectations;
 - Assigning a stand-alone credit profile (SACP) to the member where required;
 - Combining the SACP and support conclusions to determine an indicative ICR for the member; and
 - Subjecting the indicative ICR to the constraints, if any, posed by the relevant sovereign rating and/or transfer and

convertibility risk (T&C) assessments.

There are five group-status categories (core, highly strategic, strategically important, moderately strategic, and nonstrategic) that determine instances in which the indicative long-term ICR is set within the bounds of the GCP and SACP, inclusive. A modified approach applies when a member is assessed as insulated from the rest of the group (see Subpart E). The criteria for considering government support are found in "Rating Government-Related Entities: Methodology And Assumptions" for those entities classified as government-related entities, and in "Banks: Rating Methodology And Assumptions" for banks not classified as government-related entities.

Chart 1
Building Blocks For Determining A Rating After Considering
Group Ratings Methodology

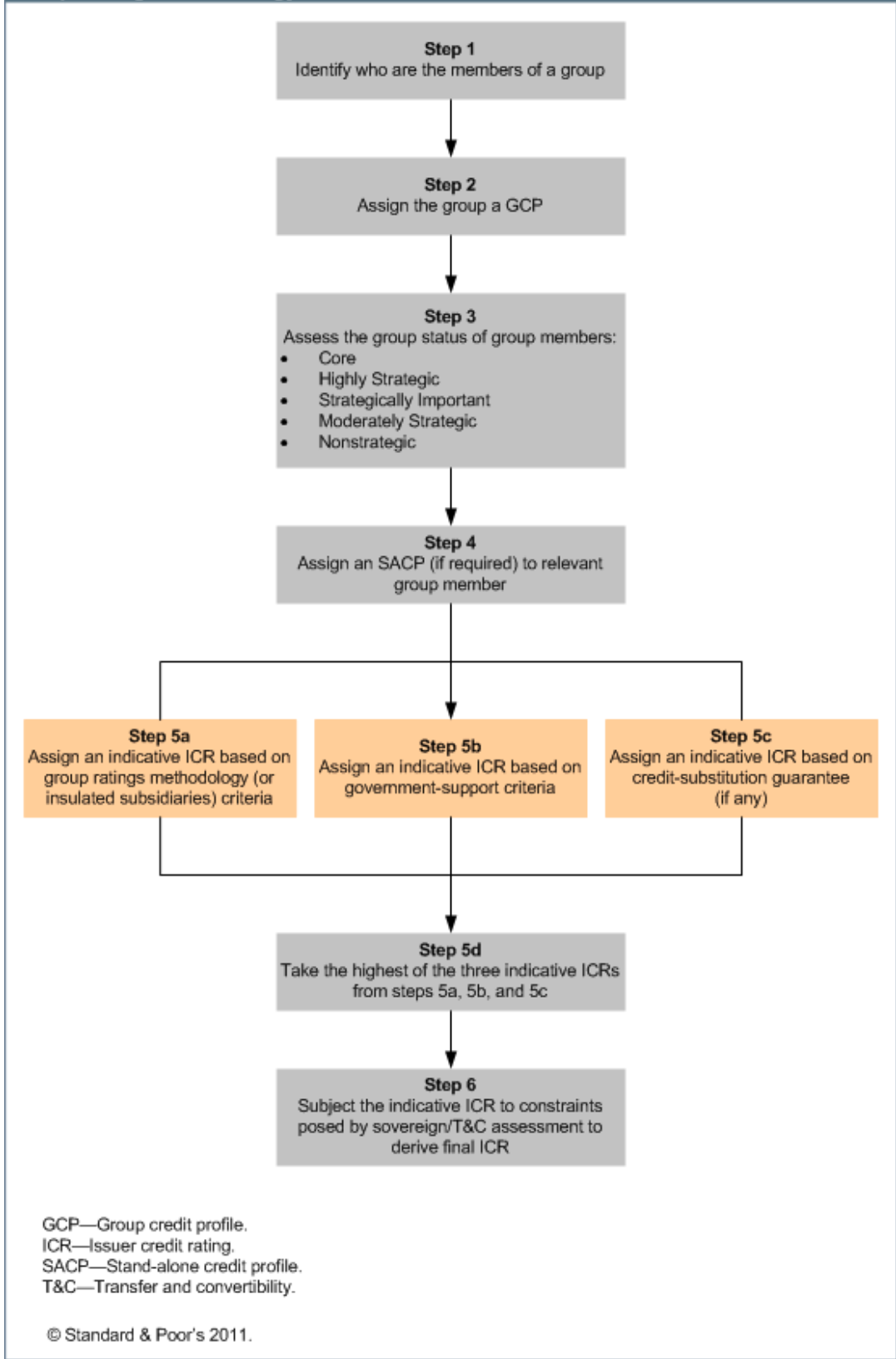


Table 1

Summary Table Of Associating An Entity's Group Status With An Indicative Long-Term ICR		
Group status	Brief definition	Indicative 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 ¶¶27-28)§	Generally at GCP (see ¶29)§
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 ¶30)§	Generally one notch below GCP (but see ¶31)§
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 ¶¶32-33)§	Generally three notches above SACP (but see ¶34)§
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 minimal support from the group. (see ¶¶35-36)§	Generally one notch above SACP (but see ¶37)§
Nonstrategic	No strategic importance to the group. These subsidiaries could be sold in the near to medium term. (see ¶38)§	Generally at SACP (but see ¶39)§

*ICR—Issuer credit rating. It is subject to sovereign rating constraints (see ¶43) and application of government support criteria (see ¶21). GCP—Group credit profile (see ¶11). SACP—Stand-alone credit profile (see ¶13).

III. METHODOLOGY

8. The likelihood of financial support extended by an issuer's group to the issuer and vice versa affects the issuer's overall creditworthiness. An indicative long-term ICR higher than an issuer's SACP reflects the likelihood that the issuer in a credit-stress scenario would receive sufficient group support (beyond that already factored into the SACP) in a timely manner, lowering the likelihood of the issuer defaulting. An indicative long-term ICR lower than an issuer's SACP reflects the risk, in a credit-stress scenario for the group, that the group would draw support from the group member. Ongoing support or negative intervention affecting an issuer's credit quality coming from its group or government is factored into the SACP.
9. The criteria set out a six-step process in rating group members that includes our expectation of either group and government support or negative intervention (as shown in chart 1). The steps are:
 - I. Identify which entities are group members.
 - II. Assess the creditworthiness of the group as a whole and assign a GCP. The GCP may include factoring 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").
 - III. Assess the group status (strategic importance to the group) of each group member to be rated.
 - IV. Assign SACPs, unless exempted in accordance with ¶25, for group members to be rated.
 - V. Where applicable, assign indicative long-term ICRs based on: these criteria; government-related entity or other government support criteria (see "Rating Government-Related Entities: Methodology And Assumptions" and "Banks: Rating Methodology And Assumptions,"); and credit-substitution criteria (see guarantee criteria sections of "European Legal Criteria For Structured Finance Transactions" and "Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria") (also see ¶10).
 - VI. Assign the final ICR after subjecting the indicative long-term ICR in step (v) to the constraints, if any, posed by the relevant sovereign rating and/or transfer and convertibility risk (T&C) assessments (see ¶43).

10. An issuer would be assigned the highest of the three indicative long-term ICRs resulting from the group support, government support, or credit-substitution guarantee methodologies. The case of government support flowing through the group to a subsidiary is addressed in ¶21. The case of a strong subsidiary owned by a weak parent or group is addressed in Subpart E ("Insulated Subsidiaries").

A. Definition Of Group Credit Profile (GCP)

11. The GCP is not a rating, but a component of a group member's ICR. Consequently, no outlooks are assigned on GCPs, nor are they placed on CreditWatch. The GCP is Standard & Poor's opinion of a group's creditworthiness (see definition of "Group" in ¶13) as if the group were a single legal entity, and is conceptually equivalent to an ICR. A GCP does not address any specific obligation. A GCP is assigned to a given group. More than one GCP can be assigned to a complex group.
12. The GCPs are assigned on a scale ranging from 'aaa' to 'd'/'sd'; this parallels the ICR scale, 'AAA' to 'D'/'SD'. Standard & Poor's uses lowercase letters for GCPs to indicate their status as a component of a rating rather than as a rating. A GCP can be refined using "+" and "-" to graduate the scale, like with ICRs. A GCP is 'd'/'sd' only if one or more core group members is rated 'D'/'SD' (or is currently unrated, but has defaulted or selectively defaulted on its financial obligations).

B. Definition Of Group

13. For the purposes of these criteria:
- "Control" refers to the ability to dictate the group member's strategy and cash flow. Control may be present despite ownership being less than 50% plus one share/unit. A specific example is given in ¶47 of Appendix I.
 - "Fully integrated" is taken to mean that the subsidiary is dependent from an administrative, operational, and infrastructure perspective on the rest of the group so fully as to render it impossible in practice to sever the subsidiary from the group. Examples of such subsidiaries include those effectively serving as booking or cost centers, typical captive finance operations (as defined in "Captive Finance Operations", Apr. 17, 2007), and pure captive insurers (as defined in "Rating Captive Insurers", Apr. 13, 2004).
 - "Group" and "group members" refers to the parent or ultimate parent and all the entities over which a parent or ultimate parent has direct or indirect control. Often, this scope of consolidation is the same as that in the parent or ultimate parent's consolidated audited accounts, plus proportionate stakes in joint ventures exclusively or jointly controlled but not included in such accounts.
 - "Group status" refers to the strategic importance of a group member to the group as discussed in ¶22.
 - "Parent" refers to the next higher-layer entity, excluding intermediate shell companies, with controlling or joint-control interest in another incorporated entity ("subsidiary") or joint venture.
 - "Regulated" refers to the entity coming under the regulation and oversight of one or more regulators. A specific sector is named in ¶47 of Appendix I.
 - "Stand-alone credit profile" is as defined in "Stand-Alone Credit Profiles: One Component Of A Rating."
 - "Start-up" refers to entities with operations five years old or less.
 - "Ultimate parent" refers to the highest-layer/level entity, where 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. "Investment holding company" refers to a corporate entity investing in, but without intending to support other, usually operating, entities.

C. Group Rating Methodology

14. These criteria reflect our expectation that a group member will receive future support from, or alternately extend future support to, its group (beyond that already factored into the SACP on the group member). In the former case, the ICR on the subsidiary is likely to be rated higher than its stand-alone creditworthiness and in the latter, the ICR is constrained at the level of the GCP (excluding the effect of government support, and the specific situations described in Subpart E). Such support is factored into the ICR, even when the need for support appears remote. Ongoing support from the group for an issuer is already incorporated into the SACP, as explained in "Stand-Alone Credit Profiles: One Component Of A Rating."
15. This group rating methodology also applies to mutual or cooperative groups, even though group members may not be linked by ownership but instead by a variety of ties, including mutual-support mechanisms. The assessment of the strategic importance of the group members takes into account the group's organization and degree of cohesiveness.

1. Group credit profile

16. In assessing the overall credit profile of a group, the relevant methodologies for assessing corporate, financial institution, insurance, or other entity types apply. For conglomerates, the specific ratings methodology applied is that relevant to the group operations that dominate the group's profile, based on capital or earnings. The entire consolidated group (an exception is given in ¶18) is then assessed as though it were a single legal entity.
17. In general, for the purpose of assigning a GCP, equity minority interests (also called "non-controlling 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, cashflow-statement, and balance-sheet purposes).
18. For groups with members considered as insulated subsidiaries (see Subpart E), the typical analysis would see those members factored in as equity affiliates. If the resources held at the higher-rated member are unavailable to the rest of its group, the GCP could be lower, which may in turn further restrict the potential for a higher rating on the subsidiary.

a) Holding companies.

19. For holding companies, the relevant criteria cited in ¶48 in Appendix I apply.

b) Multiple ownership and joint ventures.

20. In circumstances in which the subsidiary is jointly controlled by at least two parents--for example, joint ventures--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. Affiliated business operations of a group, such as joint ventures and their debt, may be treated analytically in different ways, depending on the perceived relationship between the parents and the operations, as discussed below:
 - Investment. This situation arises where the group has little or no control over the operating unit. The operating

unit would be assessed as if it is an equity affiliate. The value, volatility, and liquidity of the investment in the unit, if material, are analyzed on a case-specific basis.

- Partially controlled. This situation arises when the group has partial control over a material operating unit. The assessment of the group would involve partial--for example pro rata--analytical consolidation of the operating unit and, where appropriate, applying the forecast additional investment into the unit.
- Integrated. This situation arises when the group has dominant control over and has effectively integrated (see definition in ¶13) the operating unit. The assessment of the group would involve full analytical consolidation of the operation.

c) Government support in the GCP

21. In instances when government support is factored into the ICRs (beyond that already factored into the SACP) of certain group members or the GCP (see "Rating Government-Related Entities: Methodology And Assumptions" and "Banks: Ratings Methodology"), the criteria would assess whether such government support would accrue to all members. In determining the ICR for a particular group subsidiary, where the assessment indicates that the government:
- Is likely to extend such support directly to that subsidiary (bypassing the group), any uplift for such support is applied directly against the SACP in determining the ICR for that subsidiary.
 - Is likely to extend such support indirectly via the group to the subsidiary, the GCP including uplift for such support, is applied, per this Subpart's Section 2, in determining the ICR for that subsidiary.
 - Is unlikely to permit such support at all, the GCP excluding uplift for such support is applied, per this Subpart's Section 2, in determining the ICR for that subsidiary.

2. Group status

22. A subsidiary's group status (see ¶13 for definition) 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 (holding companies are discussed in ¶19):
- Core
 - Highly strategic
 - Strategically important
 - Moderately strategic
 - Nonstrategic
23. A start-up (see ¶13 for definition) may be categorized in any of the above five group status categories, although for the "core" category, the characteristics discussed in ¶41 apply.
24. A group either failing to support a group member falling into financial distress or putting a group member up for sale when such entity had been previously assessed as at least "strategically important" would prompt a reassessment of the group status of all rated group members.
25. For a subsidiary categorized as "core" (see ¶27) or "highly strategic" (see ¶30) to a group, assignment of an SACP on the subsidiary is not necessary unless otherwise required under other Standard & Poor's criteria. An example of such criteria is listed in ¶49 of Appendix I.
26. The subsidiary group status is associated with differing degrees of enhancement above its stand-alone creditworthiness in deriving the indicative long-term ICR as explained in the Subsections (a) to (e), below. A

subsidiary could be rated at the GCP level if its SACP reaches or exceeds the GCP level. For criteria on factoring in expectations of government support, see ¶21; for credit-substitution guarantee, see ¶42; and for treatment of insulated subsidiaries, see ¶¶44 to 45. As described in ¶43, the final ICR is determined after subjecting the indicative long-term ICR to the constraints, if any, posed by the sovereign rating and/or transfer and convertibility risk (T&C) assessments.

a) Core entities.

27. A "core" entity that meets all of the characteristics listed below (also see table 1) and at least one listed in ¶28:
- 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 it sells are very closely aligned with the group's mainstream business, and it often operates in the same target market.
 - Has a strong, long-term commitment of support from senior group management in good times and in bad, 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 indicates such commitment.
 - Is reasonably successful at what it does or does not have ongoing performance problems that could result in the entity underperforming against the group management's specific expectations 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.
 - Either constitutes a significant proportion of the consolidated group (see ¶50 of Appendix I) or is fully integrated with the group (see ¶13).
 - Is closely linked to the group's reputation, name, brand, or risk management.
 - Is an entity with operations of more than five years (unless the entity meets the conditions described in ¶41).
 - If a newly acquired subsidiary, meets the requirements of ¶51 of Appendix I.
28. A "core" entity must also have at least one of the following characteristics:
- Shares the same name or brand with the main group.
 - 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 share administrative functions with other major operating units.
 - Demonstrates capitalization commensurate with the GCP.
29. The indicative long-term ICR for a "core" entity is generally set at the GCP level (also see ¶26).

b) Highly strategic subsidiaries.

30. A subsidiary is categorized as "highly strategic" (near-"core") when it meets all of the characteristics listed below (also see table 1):
- The first three characteristics listed in ¶27.
 - All but one of the remaining five characteristics listed in ¶27.
 - At least one characteristic listed in ¶28.
31. The indicative long-term ICR for a "highly strategic" subsidiary is generally set at one notch lower than the GCP level unless its SACP is either at or above the GCP level (in such a case, the indicative long-term ICR could be at the

GCP level) (also see ¶26).

c) Strategically important subsidiaries.

32. When a subsidiary does not meet the conditions for "core" or "highly strategic", a subsidiary is categorized as "strategically important" when it meets all of the following characteristics (also see table 1):
- Is unlikely to be sold.
 - Is important to the group's long-term strategy.
 - Has the long-term commitment from senior group management (also see ¶52 of Appendix I), or incentives exist to induce commitment (for example, cross-default clauses in financing documents).
 - 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 (but see ¶33).
33. For regulated groups, subsidiaries may occasionally be regarded as "strategically important" if the group's regulator holds the group responsible for supporting the subsidiary, even though the subsidiary does not meet the requirement cited in ¶32. However, meeting additional conditions may be required, as described in ¶53 of Appendix I.
34. The indicative long-term ICR for a strategically important subsidiary is generally set at three rating notches above its SACP, subject to a cap of one rating notch below the GCP level unless the SACP is already at or above the GCP level (in such a case, the indicative long-term ICR can be at the GCP level) (also see ¶26).

d) Moderately strategic subsidiaries.

35. When a subsidiary does not meet the conditions for "core", "highly strategic" nor "strategically important", the subsidiary would be categorized as "moderately strategic" when it meets all of the following characteristics (also see table 1):
- Is unlikely to be sold in the near term.
 - Meets one of the remaining three characteristics for "strategically important" (i.e. excluding "Is unlikely to be sold") in ¶32.
 - Is likely to receive support from the group should it fall into financial difficulty.
36. For regulated groups, subsidiaries may occasionally be regarded as "moderately strategic" if the group's regulator holds the group responsible for supporting the subsidiary, even though the subsidiary does not meet the requirement cited in ¶35. However, meeting additional conditions may be required, as described in ¶54 of Appendix I.
37. The indicative long-term ICR for a "moderately strategic" subsidiary is generally set at one notch above the subsidiary's SACP, subject to a cap of one rating notch below the GCP level unless the SACP is already at or above the GCP level (in such a case, the indicative long-term ICR can be at the GCP level) (also see ¶26).

e) Nonstrategic subsidiaries.

38. When a subsidiary does not meet the conditions for "core", "highly strategic", "strategically important", nor "moderately strategic", the subsidiary would be categorized as "nonstrategic" (also see table 1).
39. The indicative long-term ICR for a "nonstrategic" subsidiary is determined by generally setting it at the subsidiary's SACP level, subject to a cap of the GCP level (also see ¶26).

3. Branches

40. A branch, as part of the same legal entity, is generally rated at the same level as the entity itself, unless the branch is in another country, where actions of the "host" sovereign could affect the branch's ability to service its obligations, as discussed in ¶43.

4. Start-ups

41. A start-up (see ¶13 for definition) subsidiary is generally not regarded as "core" (see ¶27) or "highly strategic" (see ¶30) 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 ¶27, or "highly strategic" to the group if it meets all the other characteristics listed in ¶30, except for the "is an entity with operations of more than five years" characteristic, and if it is set up in a tax haven to serve important existing customers, or has been created as a separate legal entity due to regulatory requirements.

5. Credit-substitution guarantee of group entities

42. For issuers that are credit-substituted guaranteed, the evaluation of the creditworthiness of the issuer (primary obligor) shifts to an evaluation of the creditworthiness of the guarantor. The guarantee criteria sections of "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, as they pertain to issuers then apply.

D. Rating Group Entities Above The Sovereign Rating

43. The general criteria for assigning foreign currency ratings on nonsovereign entities above the foreign currency rating on the sovereign are explained in "Criteria For Determining Transfer And Convertibility Assessments" and "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions." Additional criteria are described in ¶55 of Appendix I.

E. Insulated Subsidiaries

44. Financial stress at the parent level will likely affect the subsidiary's SACP, particularly if there are close business or funding ties between the two. Excluding the conditions described in ¶45, a subsidiary with an SACP above the GCP is generally not rated higher than the GCP level. This is notably because:
- The weaker parent could take 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 would include the subsidiary or cause the subsidiary to go into administration.
45. 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 higher than the GCP being assigned where the SACP is higher than the GCP (also see ¶18). This rating approach is elaborated in ¶¶56 to 61 of Appendix I.

IV. APPENDIX I: GROUP RATING METHODOLOGY FOR BANK GROUPS

A. Scope Of The Criteria

46. The criteria in the main body and this appendix apply to ratings on entities that are members of a bank group. The definition of bank or financial institution for purposes of these criteria 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. For purposes of these criteria, a member of a bank group need not itself be a bank – for example, a bank may have an insurance subsidiary. The criteria for considering government support for banks not classified as government-related entities are found in "Banks: Rating Methodology And Assumptions," Nov. 9, 2011.

B. Methodology

1. Definition of Group

47. Supplementing the definitions in ¶13 of:
- "Control". An example of control is where a bank is a shareholder in a 50-50 joint venture financial institution but the regulator of both the bank and joint venture hold the bank responsible for the joint venture, which is indicative that the joint venture is controlled by the bank.
 - "Regulated". Banking is regarded as a regulated sector.

2. Group Rating Methodology

a) Group credit profile.

48. Supplementing ¶19, supplemental criteria for holding companies are as described below:
- Nonoperating holding companies. The criteria described in "Analytical Approach To Assessing Nonoperating Holding Companies," March 17, 2009, continue to apply.
 - Operating holding companies. Operating holding companies are assessed in the same manner as any other operating entity.

b) Group status (strategic importance).

49. Supplementing ¶25, an example of Standard & Poor's criteria that require the assignment of an SACP on a "core" or "highly strategic" subsidiary are "Bank Hybrid Capital Methodology And Assumptions," Nov. 1, 2011.
50. Supplementing ¶27, "significant proportion of the consolidated group" means that the entity represents, or shows the ability to reach the said level over the next three to five years:
- At least 5% of consolidated group capital; and
 - For an insurance subsidiary, also at least 5% of consolidated group operating earnings capacity; but
 - For a complex global financial services group with 20 or more significant operating subsidiaries, an entity may still be considered core despite being below the above thresholds where such subsidiaries are bank or insurance entities with market-leading positions.

51. Supplementing ¶27, a newly acquired subsidiary is not usually designated as "core" during the first two years after the acquisition because of integration risks and the potential for new, unanticipated risks to emerge. These entities will often be designated as "core" to the group if and once they are fully integrated. However, significant and sustained operating deterioration or earnings underperformance could also cause a reclassification of its group status to a lower category than "highly strategic".
52. Supplementing ¶32, the "long-term commitment from senior group management" is illustrated for insurance entities by adequate capitalization (see "Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model," June 7, 2010).
53. Supplementing ¶33, for a regulated subsidiary of a bank group to continue to be assessed as "strategically important", the following additional conditions must be met:
 - Any divestment of the subsidiary is subject to prior authorization by the regulator; and
 - In periods of distress, the rest of the group is likely to provide additional liquidity, capital, or risk transfer in most foreseeable circumstances (see table 1), which may be evidenced by the group's track-record in supporting such subsidiaries.
54. Supplementing ¶36, for a regulated subsidiary of a bank group to continue to be assessed as "moderately strategic", the following additional conditions must be met:
 - Any divestment of the subsidiary is subject to prior authorization by the regulator; and
 - In periods of distress, while the subsidiary may not be important enough to warrant additional liquidity, capital, or risk transfer support from the rest of the group in some foreseeable circumstances, there nevertheless is potential for some minimal support from the group (see table 1), which may be evidenced by the group's track record in supporting such subsidiaries. An example of potential for some minimal support is when minority ownership in the subsidiary implies some dilution of responsibility or when the fragile financial position of the parent or group constrains either's ability to provide support.

3. Rating group entities above the sovereign rating

55. Supplementing ¶43 is the criteria described in Part VIII Subpart C of "Banks: Rating Methodology And Assumptions".

4. Insulated subsidiaries

56. Supplementing ¶45, for regulated entities, there must be regulatory supervision; for unregulated entities, there must be multiple ownership as described in ¶20, or alternatively, two or more of the following restrictions in place:
 - Limited-purpose entity structure (see "Legal: Ring-Fencing a Subsidiary," Oct. 19, 1999);
 - Covenants (see "Legal: Ring-Fencing a Subsidiary"); or
 - Collateral (see "Legal: Ring-Fencing a Subsidiary").
57. Although subsidiaries are generally not rated above the level of the GCP, they may achieve a higher rating (also see ¶¶58 to 61) if all of the following conditions (or those in ¶42) are met:
 - The subsidiary's SACP is higher than the GCP;
 - 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 would prevent the subsidiary from supporting the group to an extent that would impair the subsidiary's stand-alone creditworthiness;
 - The subsidiary would not be drawn into the group's bankruptcy or reorganization proceedings (this could be supported by a nonconsolidation opinion from an independent expert to confirm the separateness of the parent and 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.
58. Following on from ¶¶56 to 57, the indicative long-term ICR for an insulated subsidiary is one notch above the GCP if the following characteristic is met:
- The subsidiary is assessed to have an SACP at least one notch above the GCP.
59. Following on from ¶¶56 to 57, the indicative long-term ICR for an insulated subsidiary is two notches above the GCP if all the following characteristics are met:
- The subsidiary's SACP stands at least two notches above the GCP; and
 - The holding company or group's weaker credit quality results from its ownership of smaller, unregulated business activities that are largely unrelated to the business line of the regulated entity operations and management has taken affirmative steps to distance the rest of the group from such unrelated subsidiaries, as evidenced by actual behavior, beyond the usual verbal assurances that management will not imperil the creditworthiness of the rated subsidiary by supporting weaker operations.
60. Following on from ¶¶56 to 57, the indicative long-term ICR for an insulated subsidiary is three notches above the GCP if all the following characteristics are met:
- The subsidiary's SACP 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;
 - An outside counsel of the group provides an opinion to Standard & Poor's concluding that the subsidiary would not be taken into administration (or equivalent) in the event of insolvency of the parent company;
 - The parent provides Standard & Poor's with a letter covering the dividend policy of the subsidiary and certifying the independent integrity of the subsidiary;
 - There exists either an independent trustee with the ability to enforce the protection of the rights of third parties, or outside ownership of at least 20% with some independent membership on the board of directors of the subsidiary; and
 - There is a strong economic basis for the parent's commitment to maintain the capital to support the higher rating on the subsidiary.
61. Following on from ¶¶56 to 57, the indicative 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 down, within a six-month period, by three notches or more either to 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.

C. Related Criteria And Research

62. The following criteria is superseded:

- Group Methodology, April 22, 2009

V. RELATED CRITERIA AND RESEARCH

- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009
- Applying Group Methodology To Independent U.S. Investment Banks, June 2, 2008
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Captive Finance Operations, April 17, 2007
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria, Oct. 1, 2006
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles of Credit Ratings, Feb. 16, 2011
- Rating Captive Insurers, April 13, 2004
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Rating Japan's Bank Holding Companies, March 27, 2006
- 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
- Ring-Fencing a Subsidiary, Oct. 19, 1999

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