

General Criteria:

Group Rating Methodology

July 1, 2019

OVERVIEW AND SCOPE

1. This article describes S&P Global Ratings' methodology for rating entities that are part of corporate, financial institutions, insurance, and international public finance groups, as well as U.S. public finance obligated groups. For the related guidance article, see "Guidance: General Criteria: Group Rating Methodology."
2. These criteria articulate the steps in determining an issuer credit rating (ICR) on group members and their holding companies. This involves assessing the group credit profile (GCP; i.e. the group's overall creditworthiness), the stand-alone credit profiles (SACP) of group members, and the status of an entity relative to other group entities.
3. The criteria also describe how we assess the potential for support (or negative intervention) from group entities, or from other external sources such as a government.
4. These criteria apply to corporate, financial institution, insurance, and international public finance entities that we consider part of a group and U.S. public finance entities that we consider part of an obligated group. For these entities, we believe that their ownership, control, influence, or support by or to another entity could have a material bearing on their credit quality. Examples of entities that are outside the scope of these criteria include project finance and corporate securitizations.
5. These criteria may complement other criteria that address sector-specific support considerations.
6. This methodology follows our request for comment, "Request for Comment: Group Rating Methodology," published Dec. 12, 2018.

Key Publication Dates

- Original publication date: July 1, 2019
- Effective date: Immediately, except in those markets that require prior notification to and/or registration by the local regulator, where the criteria will become effective when so notified by S&P Global Ratings and/or registered by the regulator.
- These criteria address the fundamentals set out in "Principles Of Credit Ratings."

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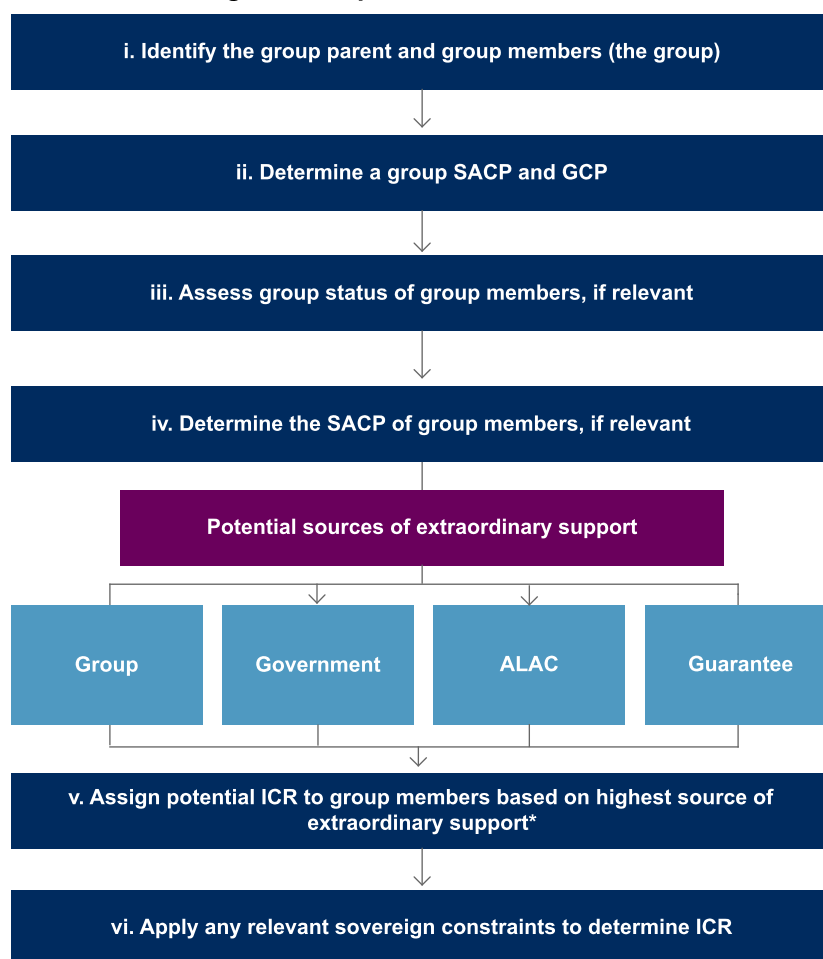
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METHODOLOGY

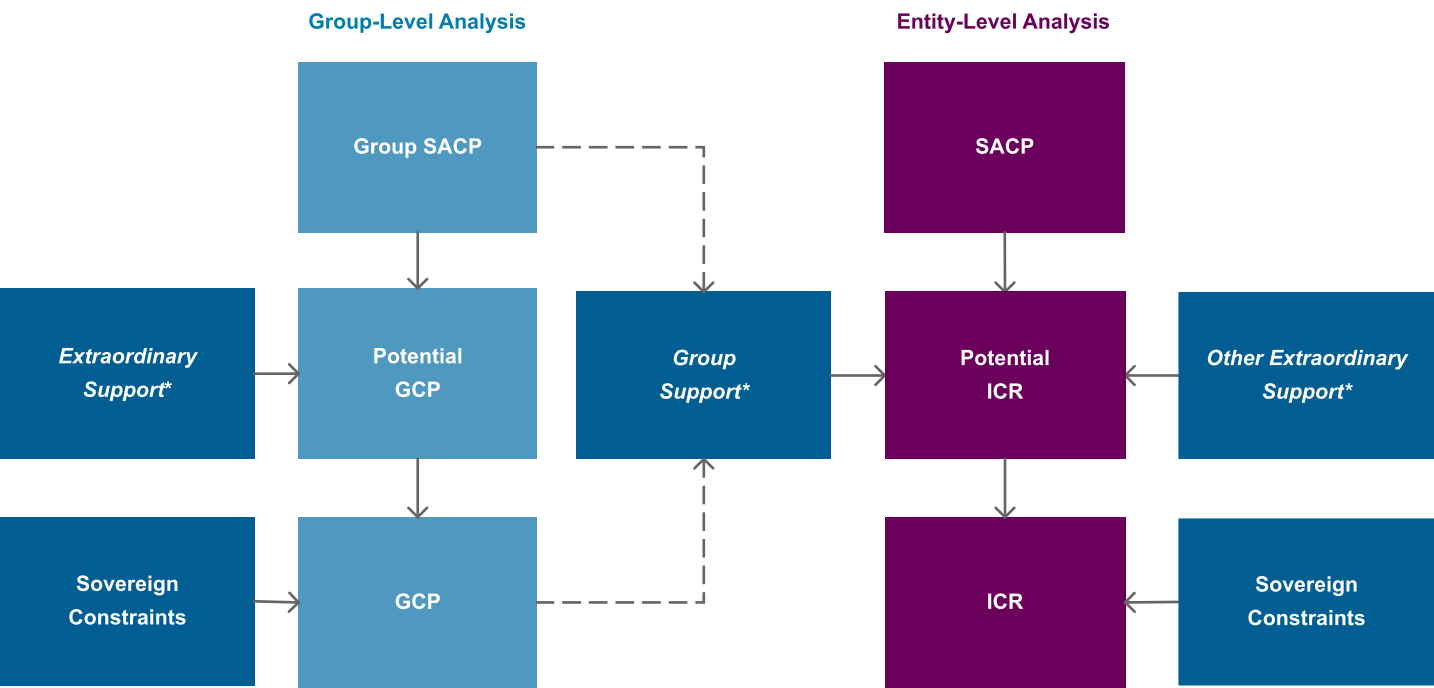
7. These criteria explain how we factor the potential for extraordinary support (or extraordinary negative intervention) into the ICR of an entity that is a member of a group. Such extraordinary support (or negative intervention) is beyond that which we already factor into the entity's SACP, as explained in "Stand-Alone Credit Profiles: One Component Of A Rating."
8. We factor the potential for extraordinary support or extraordinary negative intervention into the ICR even when the need for such support or the possibility for such negative intervention may appear remote.
9. We apply a six-step process for determining the ICR of group members (see chart 1), as follows:
 - (i) Identify the group parent and the group members (together called the group).
 - (ii) Assess the creditworthiness of the group (or subgroup) to determine a group SACP and GCP. The potential GCP is based on the group SACP, adjusted for potential external sources of extraordinary support if we believe such support will be extended to the group, or potential extraordinary negative intervention. Finally, we apply any relevant sovereign constraints to determine the GCP (see chart 2). See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions."
 - (iii) Assess the group status of each group member to be rated, if relevant.
 - (iv) Determine the SACP of group members to be rated, if relevant.
 - (v) Assign a potential (indicative) ICR to group members. The potential ICR is based on the entity's SACP, if relevant, and the potential for extraordinary support (or extraordinary negative intervention). Extraordinary support is the higher of any group or government influence, or other external support factors (such as additional loss-absorbing capacity (ALAC) support or a guarantee). This step also factors in the degree of insulation, if any, that a group member has from potential negative influence by other weaker group entities.
 - (vi) Assign the final ICR after taking into consideration any relevant sovereign constraints (see "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions").

Chart 1
Determining The Issuer Credit Rating On Group Members



*Subject to any insulation. GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity (applies to certain prudentially regulated entities or groups). ICR—Issuer credit rating.
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Chart 2--Group Rating Methodology Framework



GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ICR--Issuer credit rating. *Or negative intervention.
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10. These 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 a group member will receive extraordinary support from the group (see table 1).

Table 1

Summary Of Associating An Entity's Group Status With A Potential ICR

Group status	Brief definition	Potential 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.	GCP
Highly strategic	Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these group members under almost all foreseeable circumstances.	One notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP.
Strategically important	Less integral to the group than "highly strategic" group members. The rest of the group is likely to provide support in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.	Three notches above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP.

Table 1

Summary Of Associating An Entity's Group Status With A Potential ICR (cont.)

Group status	Brief definition	Potential ICR*
Moderately strategic	Not important enough to warrant support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some support from the group.	One notch above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP.
Nonstrategic	No strategic importance to the group.	SACP, subject to a cap defined by the GCP.

* The above conventions do not apply where: potential ICRs exceed the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); and when paragraph 42 applies.

11. A potential ICR on a group member that exceeds its SACP reflects our view of the likelihood of that entity, in a credit-stress scenario, receiving timely and sufficient group or government support (beyond that already factored into the SACP), thereby strengthening its creditworthiness. Examples of support include additional liquidity or capital to the group member, or one-off transfers of risk from the group member.
12. A potential ICR on a group member that is lower than its SACP reflects our view that if the group or relevant government were in a credit-stress scenario, the group or government would draw resources from the group member (an example of extraordinary negative intervention), thereby weakening its creditworthiness.
13. If the GCP is 'ccc+' or lower, the potential ICR on a group member cannot be lower than 'b-' unless the conditions for a potential ICR of 'ccc+' or lower are met (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," henceforth referred to as "CCC criteria"). The potential ICR would include the potential for extraordinary negative intervention from the group or government.

Identifying The Group And Its Members

14. For the purposes of these criteria, the term "group" refers to the group parent and all the entities (also referred to as group members) over which the group parent has direct or indirect control.
15. The group parent is not necessarily the ultimate holding company in the group structure but is the top entity in the structure that we believe is relevant to the group's credit quality. Accordingly, additional holding companies may exist above the group parent, but be excluded from our group assessment if we believe they have no material liabilities or operating assets and therefore no bearing on the group's overall credit quality. The control chain may include several successive layers of controlling or joint-control interest in other entities. We would generally not consider a natural person, or entities such as family firms, foundations, managed fund, or financial sponsors, to be a group parent. Where we determine that an entity (for instance, an investment holding company) does not have control of an investee company, we do not consider that entity to be the group parent.
16. "Control" refers to the ability to direct a group member's strategy and the disposition of its cash flow. Control may be present even if the group owns 50% or less of the group member's shareholder capital.
17. We generally apply this methodology to an entire group, but may also apply it to a distinct subgroup. A subgroup focus may be appropriate when the subgroup and its components have a distinct credit profile that is separate from that of the broader group. This could be due to factors

such as jurisdictional location, regulatory oversight, or support factors that apply only to the subgroup. References to the term "group" in this methodology can apply to either a subgroup or a group viewed in its entirety.

The Group SACP And Group Credit Profile (GCP)

18. The group SACP and GCP are our opinions of a group's creditworthiness as if it were a single legal entity (subject to any potential restrictions on cash flows associated with insulated entities).
19. The group SACP and GCP are not ratings. They are components contributing to the determination of the ICRs on group members. The group SACP does not take into account sources of potential extraordinary support or negative intervention that we consider external to the assessed group. However, the potential GCP incorporates extraordinary external support that we believe is available to the group, or conversely, extraordinary negative intervention. Finally, the GCP takes into consideration any relevant sovereign constraints. See "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions."
20. Group SACPs and GCPs range from 'aaa' (the highest assessment) to 'd' (the lowest assessment), on a scale that parallels the ICR ('AAA' to 'D'). The lowercase letters indicate their status as a component of a rating rather than as a rating. Like ICRs, group SACPs and GCPs can carry the modifier "+" or "-". Typically, a group SACP or GCP is 'd' only in the case of a generalized group default. In the case of a legal entity within a group, we lower the ICR on that entity to 'D' or 'SD' (selective default) only if we determine the entity is in default (see "S&P Global Ratings Definitions").
21. To determine the group SACP and GCP, we assess the consolidated group using the relevant sector methodologies. The assessed group includes all group entities that we believe have a bearing on the group's credit quality (as per the explanation detailed in the section "Identifying The Group And Its Members"), and may potentially deconsolidate insulated entities as per the "Insulated Entities" section. We typically conduct the assessment of the group SACP and GCP as though the group were a single legal entity.
22. For cross-sector groups (including their holding companies), the specific rating methodology applied to assess the group SACP is the one relevant for the operations that most strongly influence the group's credit profile. This influence can reflect the amount of capital employed, level of earnings, cash flow, dividend contribution, or other relevant metric. However, where the analysis of consolidated financial statements using a single sector's criteria framework may not produce a meaningful picture of credit quality, we may apply a combination of rating methodologies to assess the group SACP. This may be done by applying the relevant methodologies to determine SACPs for the different group members. We would then aggregate these SACPs to derive the overall group SACP. The group SACP would also include adjustments to account for any benefits or risks not captured in the aggregation of the component SACPs.

a) Multiple ownership and joint ventures

23. If a group member is under the joint control of at least two parents--for example, a joint venture (JV)--the insolvency or financial difficulty of one parent may have less impact than if the entity had a single parent.
24. For JVs, we may attribute support from one of its owners (JV partner) even if the JV partner does not have majority ownership in the JV. We typically attribute support from the JV partner that would result in the highest potential ICR on the JV. This would apply where we believe the JV partner would support the JV, regardless of the actions of the other owners. This could include

General Criteria: Group Rating Methodology

situations where that JV partner makes day-to-day business decisions, or the JV is of critical importance to the supporting JV partner's operations or strategy. In such cases, however, the group status of the JV to the JV partner would typically not exceed strategically important. In addition, we would also take the potential resource demands of the JV on the JV partner into consideration when determining the JV partner's credit profile.

25. The analytical approach for a group's jointly owned business operations, such as whether to fully consolidate, partially consolidate, or equity account the operations when assessing the group SACP, is determined by the relevant methodologies for assessing corporates, financial institutions, insurance companies, or other entity types.
26. In cases where a shareholder agreement or similar arrangement exists that we believe would prevent an otherwise controlling parent from directing the strategy and cash flows of a group member, we may assess that control is not present. When we determine control is not present, we would typically treat the member as an equity affiliate and consider only the projected dividend flows from that member in our group SACP assessment.

b) Insulated entities

27. Where we determine that consolidating an insulated group member does not adequately capture the impact on the group SACP of any material restrictions on cash flows or financial resources within the group, we either:
 - Adjust the group SACP down (typically by one or two notches); or
 - Treat an insulated group member as an equity affiliate, and reflect this deconsolidated approach in determining the group SACP.
28. When assessing a group that has a bank subsidiary with a potential ICR that is above the GCP either because it is of high systemic or moderate systemic importance (as per "Banks: Rating Methodology And Assumptions"), in the country where it is domiciled, or because of ALAC support, the group SACP will take into account the impact of any local restrictions on the flow of capital, funding, and liquidity, and any implications for the business and risk positions of the parent.

c) Entities owned by a financial sponsor

29. If the owner of a group entity is a "financial sponsor" (see Glossary), the potential ICR on that group entity does not directly factor in the likelihood of support from the financial sponsor, nor is it directly constrained by our view of the financial sponsor's creditworthiness. However, the financial sponsor's ownership may still affect the potential ICR through the application of the relevant sector-specific criteria.
30. The group SACP for a group owned by a financial sponsor may, however, include one or more intermediate holding companies of the operating entity, but would exclude the financial sponsor's own financials and its other holdings. This approach reflects our view that an intermediate holding company's primary purpose is to acquire, control, fund, or secure financing for its operating companies, and is generally reliant on those companies' cash flow to service its financial obligations.

d) U.S. public finance obligated groups

31. U.S. public finance obligated groups typically consist of a group of entities that are cross-obligated as security for specific debt. Obligated group structures are most commonly used

by not-for-profit hospitals, health systems, and senior living organizations.

32. Obligated groups are created for purposes of securing debt, and do not have operating or governance independence from the larger group. While debt covenants may contain some restrictions, for example limitations on the transfer of assets out of the obligated group, covenants are generally not strong enough to insulate the obligated group from the strategic and operating influence of the group. An obligated group, therefore, is typically not rated higher than the GCP.
33. Individual obligated group members may have separate legal incorporation and varying strategic value to the group. However, since the purpose of the obligated group is to secure debt on a joint and several basis, group status will be determined for the obligated group as a whole, not for its individual members. In applying these criteria, we consider obligated groups a single entity.
34. Most U.S. public finance ratings are issue ratings, although we sometimes assign ICRs. The issue rating could differ from the ICR based on the specific security package for the rated bonds. We expect that, barring subordination or structural enhancement, U.S. public finance issue ratings will generally be the same as the ICR.

e) External support factors in the GCP

35. **Government support.** The potential for extraordinary government support can be factored into either the ICRs of certain group members or the GCP, depending on the nature of this support (see Rating Government-Related Entities: Methodology And Assumptions [GRE criteria], and Banks: Rating Methodology And Assumptions). We use the group SACP as a basis from which to determine the GCP when using the government support tables in the GRE criteria or bank criteria.
36. The assessment considers whether government support, driven by GRE status or systemic importance, would likely accrue to all or only some members of the group (see table 2).
37. To determine the potential ICR for a particular group member, where the assessment indicates that the government:
 - Is likely to extend such extraordinary support directly to that entity (bypassing the group), any uplift for such support is added to the SACP of that entity in determining the potential ICR;
 - Is likely to extend such extraordinary support indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP (which would include uplift, if any, for extraordinary government support); or
 - Is unlikely to extend such extraordinary support to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Table 2

Rating Government-Supported Entities--Likelihood Of Government Support Versus Group Support

SACP level	If the subsidiary is likely to benefit directly from extraordinary government support *	If the subsidiary is likely to benefit from extraordinary government support indirectly through the group	If the subsidiary is unlikely to benefit from extraordinary government support either directly or indirectly
SACP is lower than the group SACP	Potential ICR = Higher of (i) the SACP plus uplift for government support, or (ii) SACP plus uplift for group support. The outcome is subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP plus uplift for group support (with reference to the GCP)	Potential ICR = SACP plus uplift for group support (with reference to the lower of the group SACP or the GCP)
SACP is higher than or equal to the group SACP	Potential ICR = SACP plus uplift for government support, subject to a cap at the level of the GCP (unless the subsidiary is insulated)	If SACP < GCP, potential ICR = SACP plus uplift for group support (with reference to the GCP). If SACP ≥ GCP, potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated)
No SACP	SACP required, unless subsidiary is a GRE with almost certain likelihood of government support*	If core, potential ICR = GCP. If highly strategic, potential ICR = GCP - 1.	If core, potential ICR = lower of the GCP or group SACP. If highly strategic, potential ICR = lower of the GCP - 1 or group SACP - 1.

* See GRE criteria for further details, including when an SACP is not required for entities with almost certain likelihood of government support. SACP--Stand-alone credit profile. ICR--Issuer credit rating.

38. **ALAC support.** The potential for extraordinary external ALAC support can be factored into either the ICRs on certain group members or the GCP, depending on the nature of this support (see "Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity"). To determine the potential ICR on a particular group member, where the assessment indicates that ALAC support in the GCP:
- Is likely to extend indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP; or
 - Is unlikely to extend to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Assigning The Issuer Credit Rating

39. A potential ICR on a group member reflects its SACP (if relevant) and the potential for external extraordinary support (or negative intervention). We then determine the final ICR by applying any relevant sovereign constraints to the potential ICR.
40. We determine the potential ICR as follows, unless paragraph 41 applies:
- Core group entity is equal to the GCP;
 - Highly strategic entity is one notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP;
 - Strategically important entity is rated three notches higher than its SACP. This is subject to a

General Criteria: Group Rating Methodology

cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP;

- Moderately strategic entity is rated one notch higher than that entity's SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP; or
- Nonstrategic entity is rated the same as that entity's SACP, subject to a cap defined by the GCP.

41. The above conventions do not apply where: the potential ICR exceeds the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); or when paragraph 42 applies.
42. We may apply a one-notch adjustment to determine the potential ICR (as described in paragraph 40) to better reflect our holistic view of potential extraordinary group support. This adjustment is only applicable if we have determined an SACP and the gap between the potential ICRs, based on group status assessments of highly strategic and strategically important, is at least three notches. The adjustment, if applicable, is as follows:
- When the group status is highly strategic, we may apply a negative one-notch adjustment. The potential ICR could, therefore, be two notches lower than the GCP rather than one notch; or
 - When the group status is strategically important, we may apply a positive one-notch adjustment. The potential ICR could, therefore, be four notches higher than its SACP rather than three notches.
 - For example, if we determine an entity exhibits characteristics consistent with a highly strategic entity, while a change in group status to strategically important could lead to a potential ICR change of three notches, the potential ICR could be two notches below GCP while the group status remains highly strategic; alternatively, if we determine the entity now exhibits characteristics consistent with a strategically important entity, we will revise the group status to strategically important and the potential ICR could be four notches above the SACP.

Group Status Of Individual Members

43. A group member's group status reflects the extent and timeliness of extraordinary support we expect it will receive from the rest of the group when that entity is under credit stress. We may also assess a group member's group status to a subgroup and the group status of a subgroup to a broader group. This section describes the framework that supports the classification of a member's group status into one of five categories:
- Core;
 - Highly strategic;
 - Strategically important;
 - Moderately strategic; or
 - Nonstrategic.
44. The determination of an SACP for a group member categorized as core or highly strategic is not necessary unless otherwise required or analytically relevant. A group status is not necessary for insulated entities, unless otherwise required or analytically relevant.

a) Core entities

45. A core entity exhibits features highly consistent with the group's franchise, supports the realization of group strategic objectives, and is expected to attract extraordinary support, if required, under any foreseeable circumstance. A core entity would also generally be expected to exhibit all the following characteristics:
- Is highly unlikely to be sold;
 - Operates in lines of business or functions (which may include group risk management and financing) that are very closely aligned with the group's mainstream business and customer base. The entity also often operates in the same target markets;
 - Has a strong, long-term commitment of support from the group in benign and under stressful conditions, or incentives exist to induce such support (e.g., cross-default clauses in financing documents, or the entity plays an integral role in group risk management or financing);
 - Is reasonably successful at what it does or does not have ongoing performance problems that could result in underperformance against the group's specific targets and group earnings norms over the medium to long term;
 - Either constitutes a significant proportion of the consolidated group or is fully integrated with the group;
 - Is closely linked to the group's reputation, name, brand, or risk management;
 - Has typically been operating for about five years or more; and
 - Has been established as a separate entity for legal, regulatory or tax reasons, but otherwise operates more as part of a profit center or division integral to the group.

b) Highly strategic entities

46. A highly strategic group entity generally exhibits almost all of the characteristics of a core entity, and differs only narrowly regarding the extent of expected extraordinary support from the group. An entity assessed as highly strategic is generally expected to have a long-term commitment from the group. There may be situations in which support for the highly strategic entity will be limited, for instance, to preserve the viability of core entities of the group.

c) Strategically important entities

47. We assess an entity as strategically important when we expect it to receive extraordinary support from the group in most foreseeable circumstances; however, there are some doubts about the extent of group support that precludes it from a higher support category. Strategically important subsidiaries would however typically exhibit all the following characteristics:
- Is unlikely to be sold;
 - Is important to the group's long-term strategy;
 - Has the long-term commitment of the group, or incentives exist to induce such support (e.g., cross-default clauses in financing documents); and
 - Is reasonably successful at what it does or has realistic medium-term prospects of success relative to the group's specific expectations or group earnings norms.

d) Moderately strategic entities

48. When an entity does not exhibit the characteristics for a higher level of group support, but we expect it to receive extraordinary support in some foreseeable circumstances, it is typically considered moderately strategic. Moderately strategic entities are also typically important to the group's long-term strategy or are (or are expected to become) reasonably successful at what they do.

e) Nonstrategic entities

49. When an entity does not exhibit the characteristics of core, highly strategic, strategically important, or moderately strategic, it is categorized as nonstrategic.

Captive (re)insurer

50. A captive (re)insurer may also be assessed as core if it sources its (re)insurance business from companies within the group and writes no, or an immaterial amount, of third-party business. A captive (re)insurer may also be assessed as highly strategic if third-party business is a modest portion of its overall business operations.

Captive finance

51. When assessing group status for captive finance subsidiaries, the attributes we examine to determine group status should be considered within the context of all the following unique factors that captive finance subsidiaries typically provide to their group's marketing efforts:
- The percentage of the group's products sold via the subsidiary (penetration rate). For diversified groups, the percentage of total sales may be less important than the percentage of certain specific product lines. In turn, we consider the importance of these products to the overall performance of the group;
 - The alternatives available to sell the group's products; and
 - The costs and challenges in conducting its own financing. For some entities, funding costs may outweigh the benefits--or it may become difficult to gain access to capital.

Branches

52. For financial services entities, a branch is part of a legal entity that is typically at another geographic 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 "Ratings Above The Sovereign--Corporate And Government Ratings." With respect to financial institutions, see also "Assessing Bank Branch Creditworthiness."

U.S. public finance obligated groups

53. U.S. public finance obligated groups could be considered core if they contain the majority of the organization's primary operating facilities, such as its hospitals or senior living facilities.

Financing subsidiaries

- 54. A financing subsidiary of a financial institution or corporate group may be assessed as core when it plays an integral role in group financing, its sole activity is to raise debt on behalf of the group, and it is wholly owned. Such subsidiaries often share a related corporate name with their parents.
- 55. A financing subsidiary of an insurance group, while generally not assessed as core, is typically assigned a rating as if it is a holding company.

Credit-substitution guarantee of group entities

- 56. When all of a group member's present and future financial obligations are guaranteed, and the guarantor is obliged to pay that group member's obligations even if the group member defaults, we assign a rating to the group member that reflects the higher of two outcomes:
 - A rating reflecting the creditworthiness of the group member absent the benefit of the guarantee; or
 - A rating reflecting the creditworthiness of the guarantor (see "Guarantee Criteria").
- 57. Our assessment of the terms of any intragroup guarantees determines whether a payment default on the part of a group entity is viewed as a default by the guarantor (see "General Criteria: Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating").

Loan participation notes (LPNs)

- 58. We rate LPNs and equivalent securities (such as trust preferred) issued by a special-purpose vehicle (SPV) on behalf of a corporate, financial institution, or insurance entity (including their holding companies) at the same level as we would rate an equivalent-ranking debt of its underlying borrower (the LPN sponsor) (and treat the contractual obligations of the SPV as financial obligations of the LPN sponsor) provided that all the following conditions are met:
 - All of the SPV's debt obligations are backed by equivalent-ranking obligations with equivalent payment terms issued by the LPN sponsor;
 - The SPV is a strategic financing entity for the LPN sponsor set up solely to raise debt on behalf of the LPN sponsor's group; and
 - We believe the LPN sponsor is willing and able to support the SPV to ensure full and timely payment of interest and principal when due on the debt issued by the SPV, including payment of any expenses of the SPV.
- 59. As a consequence, we assign a 'D' or 'SD' ICR to the LPN sponsor if the SPV fails to make payments on the debt when due, as we would typically do in case of default on a similarly ranking debt issuance of the LPN sponsor (see also "Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings").
- 60. For multiple LPN sponsor SPVs, or SPVs that do not meet all the conditions above, the relevant structured finance criteria apply, which may include "Asset Isolation And Special-Purpose Entity Criteria—Structured Finance" and "Global Methodology For Rating Repackaged Securities."

Dedicated supplier/purchaser relationships

61. Group members are typically owned or controlled by the group parent. However, a dedicated supplier/purchaser relationship can create an economic incentive for the supplier to support the purchaser, despite having only a minority ownership interest or none at all. We define the group in this instance as the supplier and the purchaser. A supplier may provide support sufficient for the purchaser to be considered moderately strategic to the supplier when the purchaser comprises a meaningful portion of the supplier's sales, cash flow, volume, or other measure. Such relationships typically have all the following characteristics:
- The term of the supplier/purchaser agreement is either perpetual or long term;
 - There is evidence of the supplier's willingness and ability to provide financial support to the purchaser. We determine this by looking at prior loans, capital investments, or marketing support given to the purchaser; and
 - The purchaser is closely linked to the supplier's reputation, name, or brand.

Entities with interlocking business relations

62. We can apply this methodology to groups of entities with interlocking business relations even in the absence of control, as defined in the criteria. Group membership will be based on meeting at least four of the following conditions:
- Name affiliation;
 - Common management;
 - Common board composition or common board control;
 - Shared corporate history;
 - Common business ties;
 - Common financing of group entities;
 - Shared corporate support functions; or
 - Cross ownership holdings.

In such cases, we determine the GCP by considering the group members' SACPs. Members of this type of group can only be assigned a group status of strategically important, moderately strategic, or nonstrategic.

Insulated Entities

63. Financial stress within the group can negatively affect the creditworthiness of group entities. Accordingly, in such cases a potential ICR on an entity is typically limited by the GCP. This is notably because:
- The group could potentially transfer assets from one group entity to another during financial stress, contributing to credit stress at other group entities;
 - The distress at the group could trigger business or financial difficulties at the group member. For instance, the group's problems could cause reputational damage of the group member and

General Criteria: Group Rating Methodology

a loss of business;

- The group member might rely on operational support from the group on an ongoing basis; and
- In some jurisdictions, a bankruptcy petition by one group entity could include or cause other group entities to go into bankruptcy or similar measures.

64. Some entities (which for the purposes of this section, could also apply to a subgroup) may be insulated, segmented, or ring-fenced from their group, from a credit risk perspective. Such insulation may lead to the rating on the entity being higher than the GCP. The lower the likelihood that the creditworthiness of the entity would be impaired by a credit stress scenario for the group, the greater the potential difference between the potential ICR on the entity and the GCP.
65. The potential ICR of an insulated entity is one notch higher than the GCP in cases where the entity is operationally separated from the group and the entity's SACP (or the SACP plus the potential for government support or ALAC) is at least one notch higher than the GCP. Key characteristics of an operationally separated entity would generally include all of the following:
- The entity holds itself out as a separate entity, its financial performance and funding are highly independent from the group, it has no significant operational dependence on other group entities, and it maintains its own records and funding arrangements and does not commingle funds, assets, or cash flows with them;
 - There is a strong economic basis for the group to preserve the entity's credit strength; and
 - We do not expect a default of other group entities to directly lead to a default of the insulated entity.
66. The potential ICR of an insulated entity is two notches above the GCP if, in addition to being eligible for one notch of insulation, the group's control of the entity is limited by independent parties, and the entity's SACP (or the SACP plus the potential for government support or ALAC) is at least two notches above the GCP. Limited control would generally be characterized by at least one of the following:
- There are significant minority shareholders with an active economic interest;
 - Independent directors have effective influence on decision making, including dividend policy and bankruptcy filings; or
 - There are strong legislative, regulatory or similar restrictions that would inhibit the entity from supporting the group to an extent that would unduly impair the entity's stand-alone creditworthiness.
67. The potential ICR on an insulated entity is three notches above the GCP if, in addition to the entity being eligible for two notches of insulation, there are material structural safeguards to protect the entity from group influence, and the entity's SACP (or the SACP plus the potential for government support or ALAC) is at least three notches above the GCP. Structural safeguards that protect the entity from group influence would generally include at least one of the following:
- The regulator or appropriate legislative body is expected to act, or has acted, to protect the credit quality of the entity, for example to prevent the entity from supporting the group to an extent that would in turn impair its stand-alone creditworthiness;
 - There are both: protective governance arrangements (such as independent directors with an effective influence on decision making); and either significant minority shareholders or joint venture partners, with an active economic interest;

General Criteria: Group Rating Methodology

- There is an independent trustee or equivalent governance arrangement that can enforce the rights of third parties, and we expect the trustee (or equivalent) to act upon that right; or
- The government or other governmental agency (i) has the authority to change ownership of the entity via existing legislation or other legal powers to separate it from a troubled group; and (ii) we expect it to act upon that right, based, for example, on a statement of intent to do so, or a track record of proactive stress management under similar circumstances.

68. The potential ICR of an insulated entity could be de-linked and therefore not constrained by the creditworthiness of the group if the conditions in either (a) or (b) are met:

(a) In addition to being eligible for three notches of insulation as described in the preceding paragraph:

- We believe that the parent company doesn't exert control due to substantial creditor protections and as a result is unable to adversely impact the entity's credit quality; and
- The entity benefits from governance constraints that severely limit the influence of the parent, preventing it from determining matters such as strategy, material change of business, dividend payments and other material cash flows, and bankruptcy filings. These may arise, for example, due to statutory powers or contractual constraints.

(b) We determine that there is sufficient evidence that significant group credit stress has had minimal impact on the entity's credit profile, and that we do not expect it to have a material negative influence going forward.

69. With respect to our assessment of insulation of captive finance subsidiaries, we could view a captive finance entity as operationally separated from the group when it is able to stand on its own by taking over or subcontracting certain functions previously provided by other group entities. Given the nature of a captive finance entity's business model, we would expect it to retain commercial ties with its group.

70. The potential ICR of a bank subsidiary is typically not subject to a cap linked to the GCP where either: (i) the entity's SACP plus the potential for government support is above the GCP because it is of high systemic or moderate systemic importance (according to "Banks: Rating Methodology and Assumptions"), in the country where it is domiciled; or (ii) the entity's SACP plus the potential for ALAC support is above the GCP (see ALAC criteria). However, where we expect the nature and extent of extraordinary negative group intervention could impact the entity's creditworthiness, although to an extent sufficiently limited that a cap linked to the GCP would not apply, we may apply a one-notch negative adjustment when determining the potential ICR. This adjustment is to better capture our holistic view of potential extraordinary negative group intervention.

Holding Companies

71. For holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the GCP. For intermediate holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the rating on its core operating entities.

Holding companies of prudentially regulated financial services groups

72. Holding companies are typically reliant on dividends and other distributions from operating companies to meet their obligations. The rating of holding companies of prudentially regulated

General Criteria: Group Rating Methodology

financial services groups reflects the difference in their creditworthiness relative to the group's operating entities. The rating differential is mainly due to the increased credit risk that arises from possible regulatory constraints to upstream resources and potentially different treatment under a default scenario.

73. For holding companies of prudentially regulated financial institution groups, the ICR is generally:
- One notch lower than the GCP if the GCP is 'bbb-' or higher; or
 - At least two notches lower than the GCP if the GCP is 'bb+' or lower.
74. For holding companies of insurance groups, the ICR is generally:
- Two notches lower than the GCP if potential regulatory restrictions to payments are considered low in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company; or
 - Three notches lower than the GCP if potential regulatory restrictions to payments are considered high in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company.
75. The notching from the GCP to derive the ICR of a holding company of a financial services group may be narrower than the standard notching in paragraphs 73 or 74, or potentially eliminated, if:
- The holding company directly controls multiple material operating units that are sufficiently diverse and independent such that the suspension of cash flows from any of its operating entities would not substantially weaken the holding company's financial position;
 - The potential for regulatory restrictions to payments is significantly lower than we typically observe for prudentially regulated entities and is not adequately reflected in the standard notching;
 - The holding company generates sufficient cash flows from its own business activities or from unregulated operating subsidiaries to meet its obligations; or
 - The potential for regulatory restrictions on distributions from operating entities is mitigated by our expectation that the holding company will regularly maintain significant unencumbered cash or high quality liquid fixed income investments to meet its obligations.
76. The notching from the GCP to derive the ICR on a holding company of a financial services group may be wider than the standard notching in paragraphs 73 or 74 if:
- The holding company itself carries significant asset or liability risks that are not fully captured in our standard notching;
 - There are elevated liquidity risks at the holding company, most notably when it has significant debt maturities and other financial obligations relative to its unencumbered cash and liquid assets held or to which it has ready access. For example, high double leverage for a financial institution can reflect elevated liquidity risks;
 - There are heightened risks of regulatory constraints or other material restrictions to payments that are not adequately captured in the standard notching; or
 - The GCP is higher than the group SACP owing to external extraordinary support that is not expected to accrue to the holding company. In this case, we apply the typical notching from the group SACP rather than the GCP.

General Criteria: Group Rating Methodology

77. If the GCP is 'b-' or lower, or if notching would otherwise result in a rating of 'CCC+' or lower, the ICR on a holding company is no lower than 'B-' unless the conditions for an ICR of 'CCC+' or lower are met (see "CCC criteria").
78. We typically notch down the ICR on an intermediate holding company of a financial services group or subgroup from the rating assigned to its core operating entities by applying the same notching we would to a holding company of the group. We may, however, narrow the notching or potentially eliminate the notching if we expect the group to provide extraordinary support for the subsidiaries of the intermediate holding company by investing in the intermediate holding company. We may widen the notching if there are additional risks relating to cash flows from its operating entities or risk relating to the expected extraordinary support from the group.

Rating Group Entities Above The Sovereign

79. The general criteria for rating a group member above the relevant sovereign rating, which is usually the country of domicile of the group member, are in ratings above the sovereign criteria (see Related Criteria).
80. The ICR on a group member is the lower of the potential ICR derived from these criteria or the relevant foreign currency sovereign rating. This would not be the case, however, in the situations outlined below, where we determine the group member's ICR as the highest of a, b, or c:
- (a) If the group member passes the appropriate sovereign stress test (without considering group or government support), the result from the combination of the potential ICR derived from these criteria (excluding uplift for group or government support) and the provisions in our ratings above the sovereign criteria;
- (b) For a group member where the relevant foreign currency sovereign rating is lower than 'B-', the ICR is no lower than 'B-' (unless T&C restrictions in Ratings Above the Sovereign criteria are applicable) if the conditions for an ICR of 'CCC+' or lower are not met (see "CCC criteria"); or
- (c) If we believe the group is willing and able to sufficiently support the group member during the stress associated with a sovereign default, the highest of (i) to (v) below:
- (i) For a group member that has a potential ICR based on a guarantee that meets our credit substitution criteria, the potential ICR;
 - (ii) For a financial institution or insurance group member that has less than 10% exposure to the jurisdiction of domicile and we consider the risks (e.g. a deposit freeze or monetary-union exit) associated with that jurisdiction are immaterial, the potential ICR;
 - (iii) For core group members of financial institution groups, the lower of the potential ICR derived from these criteria, or up to two notches above the relevant foreign currency sovereign rating;
 - (iv) For core group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or three notches above the relevant foreign currency sovereign rating; or
 - (v) For highly strategic group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or two notches above the relevant foreign currency sovereign rating.

GLOSSARY

- 81. ALAC: Additional loss-absorbing capacity. These are securities issued by certain prudentially regulated entities (see Related Criteria) that can absorb losses at or near non-viability--for example, in the event of a bank resolution, in a way that reduces the risk of the bank defaulting, according to our definitions, on its senior unsecured obligations.
- 82. Captive finance subsidiary: A captive finance subsidiary (as opposed to a financing subsidiary) provides financing for the purchase of the group's products. (For a full definition, see "The Impact of Captive Finance Operations On Nonfinancial Corporate Issuers").
- 83. Captive (re)insurer: A member of an insurance, corporate, or financial institutions (FI) group that mainly insures risks of other group entities. Captive (re)insurers typically show a very high degree of integration with a group's financial and risk management strategy.
- 84. Double leverage (for financial institutions only): We define double leverage (DL) for FI groups as holding company investment in subsidiaries divided by holding company (unconsolidated) shareholder equity. Holding companies 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.
- 85. Equity affiliate: Also defined in our corporate criteria as "unconsolidated equity affiliates." These are entities that are not consolidated in an issuer's financial statements. Therefore, the earnings and cash flows of the affiliate are not typically included in our primary metrics (see "Corporate Methodology").
- 86. Extraordinary negative intervention: Potential extraordinary negative intervention by one or more members of a group. Examples include the extraction of unexpected extraordinary dividends or asset or cash stripping the issuer at the behest of the group to service other obligations of the group.
- 87. Extraordinary support: We consider support as extraordinary when it is entity specific, nonrecurring, and typically related to financial stress at the entity. Examples include but are not limited to recapitalization with common equity or hybrids, liquidity injections to the group member, or one-off transfers of risk from the group member.
- 88. Financial institution: Entities that are in-scope for our bank and nonbank FI methodologies.
- 89. Financial services sector: Consists of financial institutions and insurance companies.
- 90. Financial sponsor: We define a financial sponsor as an owner that does not have a long-term strategic interest in a company. Rather, the financial sponsor is a financial investment firm primarily motivated to increase the value of its investment by improving its management, capital, or both, typically with the ultimate goal of liquidating the investment. Financial sponsors include, but are not limited to, private-equity firms, hedge funds, and venture capital firms.
- 91. Holding company (may also be referred to as a group parent): A legal entity that is the owner of at least one group member that conducts business activities, though it may not carry out its own business activities (e.g. a non-operating holding company). A holding company may also provide services to subsidiaries such as investment and treasury management.
- 92. Insurance company (or insurers): Entities that are in scope for our insurance ratings methodologies.
- 93. Intermediate holding company: A legal entity that is a group member and legal owner of at least

General Criteria: Group Rating Methodology

one other group member that conducts business activities, though it may not carry out its own business activities.

- 94. Parent: An entity with controlling or joint-control interest in another entity or a joint venture.
- 95. Prudentially regulated: This refers to the regulation of a financial services entity by one or more regulatory authorities who set standards for, among other things, capital adequacy and potential restrictions on distributions. We generally regard banks and insurers as prudentially regulated sectors.

IMPACT ON OUTSTANDING RATINGS

- 96. We are revising our group rating methodology to provide greater clarity and transparency, and enhance cross-sector consistency. While the underlying fundamentals remain the same, the new criteria also increases scope for analytical adjustments.
- 97. The new criteria includes the following analytical changes:
 - a greater scope for analytical adjustments in how we determine the group SACP, particularly for cross-sector groups and those with insulated group members;
 - a greater scope for analytical adjustments in how we determine the group status of group members;
 - the ability to apply a one-notch adjustment for highly strategic and for strategically important entities for a modest sub-set of issuers where the gap between the GCP and the SACP is at least seven notches;
 - greater alignment in our treatment of insulated entities across sectors;
 - a clarifying change to the term "Unsupported GCP" (under the former criteria), which is now broadly equivalent to "group SACP" in the new criteria;
 - for a group member where the relevant foreign currency sovereign rating is lower than 'B-', we have established that the ICR can be no lower than 'B-' (unless transfer and convertibility restrictions are applicable) if the conditions for an ICR of 'CCC+' or lower are not met;
 - for insurers, we have changed the reference point for rating above the sovereign (from local currency to foreign currency sovereign rating) and we now allow highly strategic entities to be rated up to two notches above the relevant sovereign rating, to bring greater alignment across sectors;
 - for insurers, we have removed explicit sovereign limitations for branches and guaranteed entities to enhance cross-sector consistency;
 - we have provided greater scope for analytical adjustments to widen or narrow notching of holding companies of prudentially regulated financial services groups;
 - we now allow a one-notch negative adjustment when determining the potential ICR of certain bank subsidiaries that we rate above the GCP; and
 - we have widened the scope of analytical adjustments to rate a core group member of an FI group up to two notches above the relevant foreign currency sovereign rating based on uplift for group support.
- 98. The potential rating impact of the new criteria on issuer credit ratings differs by sector.
- 99. The criteria could lead to modest credit rating actions on no more than about 2% of ratings in the insurance sector, with more upgrades than downgrades. The potential rating actions are mostly

General Criteria: Group Rating Methodology

due to changes relating to rating issuers above the sovereign rating. Other, mostly single-notch rating actions, will mostly result from greater scope for analytical adjustments in the criteria.

100. The criteria could lead to modest issuer credit rating actions in the corporate and infrastructure sector, where we anticipate rating actions for about 1% of the rated universe. We expect a more pronounced rating impact in the infrastructure sector in particular, where we anticipate rating actions for up to about 4% of those entities. The clear majority of anticipated rating actions in the corporate and infrastructure sectors will be limited to an upgrade of one notch and primarily in the regulated utilities sector, where we have changed how we assess insulation that is sufficient for a potential ICR that is one notch higher than the GCP.
101. The criteria could lead to extremely modest (under 1%), and mostly positive rating actions in the financial institutions sector. Where rating actions will occur, we anticipate that they will be mostly limited to upgrades and downgrades of one notch as a result of greater scope for analytical adjustments in the criteria.
102. We do not expect the criteria to affect the ratings on U.S. public finance and international public finance entities.

RELATED PUBLICATIONS

Superseded Criteria

- Group Rating Methodology, Nov. 19, 2013.

Related Criteria

- Insurers Rating Methodology, July 1, 2019
- Guarantee Criteria, Oct. 21, 2016
- The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Methodology: Investment Holding Companies, Dec. 1, 2015
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Corporate Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Guarantee Default: Assessing The Impact On The Guarantor's Issuer Credit Rating, May 11, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

General Criteria: Group Rating Methodology

- Principles Of Credit Ratings, Feb. 16, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Guidance

- Guidance: General Criteria: Group Rating Methodology, July 1, 2019

This report does not constitute a rating action.

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 S&P Global Ratings 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.

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