

Article Title: ARCHIVE | Criteria | Insurance | Bond: Methodology And Assumptions: Industry And Country Risk Assessment For Bond Insurers Data: (EDITOR'S NOTE: —This criteria article is no longer current. It has been superseded by "Insurers Rating Methodology " and "Methodology And Assumptions For Analyzing Bond Insurance Capital Adequacy," published on July 1, 2019.) 1. Standard & Poor's Ratings Services is updating its methodology and assumptions for assessing industry and country risk for bond insurers rated globally. We are publishing this article to help market participants better understand our approach to reviewing bond insurance companies. The criteria constitute specific methodologies and assumptions under "Principles Of Credit Ratings," published Feb. 16, 2011. 2. This article supersedes paragraphs 110-113 of "Bond Insurance: Rating Methodology And Assumptions" (the BI framework), published Aug. 25, 2011. SCOPE OF THE CRITERIA 3. These criteria apply to ratings globally on all bond insurers or companies with similar strategies or product offerings, such as some derivative products companies (collectively, "bond insurers"). SUMMARY OF THE CRITERIA 4. Similar to how we assess other insurers, we assess industry and country risk for bond insurers by applying section B2 of "Insurers: Rating Methodology," published May 7, 2013 (the insurance framework), except as stated below. 5. This paragraph has been deleted. 6. This paragraph has been deleted. METHODOLOGY AND ASSUMPTIONS 7. We apply section B2, "Insurance Industry And Country Risk Assessment," of the insurance framework to assess a bond insurer's industry and country risk. 8. We continue to use the BI framework, but the words "industry and country risk" replace "industry risk" wherever this expression appears in the article (see paragraphs 2, 5, 22, 23, 31, and 34; and table 6). 9. We're aligning our treatment of bond insurers with our treatment of other insurance sectors. This is because, like industry risk in the BI framework, the insurance industry and country risk assessments (IICRA) we derive by applying our insurance framework address the risks insurers operating in specific industries and countries typically face, and are generally determined at a country or regional level. The alignment enhances our treatment of country risk for bond insurers in a way that is consistent with a number of other insurance and corporate sectors. The IICRA provides the context for our analysis of an insurer's business risk profile, since industry and country risks are closely linked with the analysis of competitive position, as is the case for most corporate sectors. 10. In each country, the IICRA is the equally weighted average of the industry and country risk assessments except if one of the next two paragraphs applies. The country risk assessment is the average of our four assessments of: economic, political, and financial-system risk, as well as of payment culture and rule of law. The industry risk assessment is the average of five assessments: return on equity (see paragraph 14 herein for bond insurers), product risk (see paragraph 15 herein for bond insurers), barriers to entry, market growth prospects, and institutional framework. Each of the country and industry risk assessments is on a scale (from weakest to strongest) of "very high risk," "high risk," "moderate risk," "intermediate risk," "low risk," and "very low risk." 11. If either of the country and industry risk assessments is "moderate risk" or "high risk" while the other is stronger, the former receives a 70% weight in deriving the IICRA. If one is "very high risk" while the other is stronger, the former receives a 90% weight. 12. In the insurance framework, we may assess a life, health, or property/insurance (P/C) insurance market as less developed, and consequently cap the IICRA at "moderate," if premiums are less than 1.5% of GDP (see paragraph 31 of the framework). Such a metric is not reflective of bond insurance markets, in our view. We replace the specific market assessment with our overall assessment of debt capital markets (as defined under paragraph 111 of "Banking Industry Country Risk Assessment Methodology And Assumptions," published Nov. 9, 2011), which caps the bond insurance IICRA at "moderate" if the debt markets are narrow and shallow. 13. We do not expect to treat the bond insurance industry as a global industry (see paragraphs 38-40 and 59 of the insurance framework) since a bond insurer's domicile has a significant impact on the aggregate industry and country risks it faces. 14. We will continue to use the BI framework's definition of operating return on equity: the ratio of operating income (net income excluding aftertax realized gains or losses on investments; aftertax unrealized gains or losses on credit derivatives, with the exception of credit impairments on those derivatives; and fair-value adjustments related to the company's credit risk) divided by equity. Equity excludes the accumulation of other comprehensive income and aftertax unrealized gains or losses on credit derivatives, with the exception of credit impairments on those derivatives, and fair-value adjustments related to the company's own credit risk. 15. With regard to how we assess product risk, bond insurance underwriting results are

materially affected by credit risk, in the normal course of business, and unpredictable settlements related to bankruptcy filings and proceedings entered into by the insured issuer. REVISIONS AND UPDATES This article was originally published on Sept. 16, 2014. The criteria outlined in this article became effective upon publication. Changes introduced after original publication: Following our periodic review completed on Sept. 16, 2015, we updated the contact information. Following our periodic review completed on Sept. 15, 2016, we updated the contact information and deleted outdated sections that appeared in paragraphs 5 and 6, which were related to the initial publication of our criteria and no longer relevant. Following our periodic review completed on Sept. 15, 2017, we updated the contact information. Following our periodic review completed on Sept. 13, 2018, we updated the contact information. RELATED CRITERIA AND RESEARCH Related Criteria Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013 Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013 Insurers: Rating Methodology, May 7, 2013 Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011 Bond Insurance: Rating Methodology And Assumptions, Aug. 25, 2011 Principles Of Credit Ratings, Feb. 16, 2011 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.